

EMAKHAZENI LOCAL MUNICIPALITY

DRAFT RISK



MANAGEMENT POLICY

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ABBREVIATIONS

"MFMA"	Municipal Finance Management Act no 56 of 2003
"COSO"	Committee of Sponsoring Organisations of the Treadway Commission
"SWOT ANALYSIS"	Strength, Weakness, Opportunities and Threats
"CSA"	Control Self Assessment

DEFINITIONS

RISK	:	Risk is a threat that an event or action will adversely affect an organisation's ability to achieve its business objectives and to execute its strategies successfully.
INHERENT RISK	:	Level of risk faced by the Municipality before taking into account the perceived control effectiveness of the existing controls
RESIDUAL RISK	:	Level of risk faced by the Municipality after taking into account the existing controls and their effectiveness
CONTROLS	:	Are the existing processes, devices, practices or other actions that act to minimise negative risks or enhance positive opportunities
SWOT ANALYSIS	:	Is a planning tool used to evaluate the Strengths, Weaknesses, Opportunities and the Threats that the organisation is faced with.
CONTROL SELF ASSESSMENT:		Is a process through which internal controls effectiveness is examined and assessed and the objective is to provide reasonable assurance that all business objectives will be met
RISK MANAGEMENT	:	Is a continuously, proactive and systematic process, effected by the Municipal Council, Accounting Officer, Management and other personnel, applied in strategic planning and across the municipality, designed to identify potential events that may affect the municipality, and manage risks to be within its tolerance, to provide reasonable assurance regarding the achievement of the municipal's objective.

- RISK REGISTER : Is a documented record of each risk identified, it specifies a description of the risk, its causes and their impact, an outline of the existing controls: an assessment of the consequences of the risk should it occur and the likelihood of the consequence occurring, given the controls: ma risk rating and an overall priority for the risk
- IMPACT : Impact may be defined as the effect to a business process resulting in potential loss or service delivery failure should risk arise
- LIKELIHOOD : Likelihood may be defined as the probability that an adverse event, which could cause a risk to arise may occur.

LEGISLATIVE MANADATE

- MFMA : Municipal finance management Act no 56 of 2003 stipulate that the Accounting Officer of the municipality is responsible for managing financial administration of the municipality and must for this purposes take all reasonable steps to ensure that the municipality has and maintains:
- (i) Effective ,efficiency and transparent systems of financial and risk management and internal controls
 - (ii) Internal audit operating in accordance with any prescribed standards and norm

CODES OF GOOD CORPORATE GOVERNANCE PRACTICES

- COSO : Committee of Sponsoring Organisation of the Tradeway Commissions identifies the fundamental and essential objectives of the organisation. The purpose describes an approach for the evaluation of internal control systems that managers have designed.

THE KING REPORT ON CORPOTARE GOVERNANCE:

Reflects on risk management as an integral part of strategic and operational activities.

NATIONAL TREASURY PUBLIC SECTOR RISK MANAGEMENT FRAMEWORK:

Is a risk management guideline document designed to provide a robust methodology for risk assessment together with practical strategies to assist Municipalities to apply change.

POLICY STATEMENTS

Emakhazeni Local Municipality recognises that it is obliged to systematically manage and regular review its risk profile at a strategic, operational and management level. The municipality has developed this policy that determined the process and identifies tools for realising its objectives. Not only does it wish to minimize its risk but also to optimize opportunities.

The policy is managed by the Municipal Manager with content input from those with accountability in specific areas. A risk register has been developed that will be regularly reviewed at portfolio level and subsequently ranked, debated and reported to relevant committees.

The management of the municipality has also identified the following as important factors to the proper management of risks

- Internal controls policies and procedures around each section of the municipality
- Continuous monitoring and updating of risk within the municipality
- Internal control reviews to be performed by the internal audit unit as indicated on the internal audit plan for identified risk areas
- Fully functioning internal audit with sufficient capacity to reached Internal Audit objective

RISKS

Risk is a threat that an event or action will adversely affect an organisation's ability to achieve its business objectives and to execute its strategies successfully. Risk is often created by changes that takes place within the Municipality (i.e. people, systems, processes, technology, legislation and regulations), external influences (i.e. economics, availability of human resources and damages), operations and complexity of processes, volume of activities within the municipality and the nature of the control environment

Type of risks:

- Financial risk (Overspending, run out of money, failure to pay etc.)
- Performance risk(Lack of skills and delivery leads to termination)
- Political risks(Stakeholders unhappiness e.g. voters)
- Legal risk(Money not utilised according to regulations)
- Audit risk (Qualified audit reports reflects very badly on management's performance)
- Organisational risk (Lack of skill, succession ,capacity, training)
- Reputation risk (Branding of the municipality, external image to the community)

RISK MANAGEMENT

Risk management is a continuous serious of actions that permeate the municipality and these actions are effected by executive authority, management and other personnel. Risk management must be applied across the municipality to ensure that all units are linked to its strategic objectives and how they could fail the process of achieving municipal

objectives. Risk management entails ongoing and regular re-evaluation of the risk events and risks treatment options-therby the most effective and well thought out plans are implemented.

Risk management/treatment involves indentifying the range of options for treating risk, assessing those options, preparing risk treatment plan and implementing those plans in the most business as well as cost effective manner.

The selection and implementation of appropriate options for dealing with risk is the responsibility of all senior management of the Municipality. Where current risk mitigation controls are deemed to be ineffective and therefore warrant action, management will prepare appropriate control improvement and action plans, including each control plan will be the allocation of accountabilities, expected outcome and action dates for the implementations and measurement of control improvement plans

The management of individual risks is somewhat subjective: however the following guidelines should be followed:

- The annual cost of risk control should not exceed the gross annual risk cost
- The municipality does not to seek to eliminate all risks nor to be a high risk taker - moderate levels of risks are acceptable; and
- The resources allocated to risk treatment should be given priority in the areas of safety, health, environmental, customer services, operational and financial.

KEY PREREQUISITES FOR EFFECTIVE RISK MANAGEMENT INCLUDE:

- Clear roles and responsibilities
- Constructive relationships and accountabilities: Executive vs Non Executive
- Effective governing body: Council
- Effective communication with all stakeholders all the time
- Good external reporting
- Sound risk management practices

STEPS OF RISK MANAGEMENT PROCESS

1. Risk identification based on the objectives

Risk identification involves the identification of uncertainty of events or viability of outcomes which have the potential to determine the achievement of set objectives in the most effective, efficient and economical manner and also missing out on opportunities to optimise effectiveness, efficiency and economy when pursuing set objective

2. Risk assessment based on impact and likelihood(Inherent risk)

Risk assessment refers to the process of estimating the impact (the effect should the risk occur) of the occurrence of specific risks. The estimation is based on available information (i.e. information based on the inputs on the actual knowledge and

experience of the organisation's operations and environment in order to ensure effective risk assessment) to determine how often an event may occur and severity of the event's consequence. This process will result in a documented list of risks where each risk has been assigned a risk score based on the combination of value estimated in relation to its impact and likelihood of occurrence. This means that the higher the inherent risk value the greater the need for good quality and effective controls

3. Identification of current controls designed to mitigate the identified risks

Actions that are taken by management to advance the achievement of set organisational objectives should be viewed as control measures. In understanding what control is, the actions that are taken by management to mitigate the risk to an acceptable level must be identified. There may be more than one control measure for each identified risk

4. Assessment of current controls, their adequacy and effectiveness in mitigating risks, that is bringing risks to an acceptable level.

Controls are assessed to provide reasonable assurance that relevant business objectives will be achieved and also improve on the current controls in order to ensure an effective and adequacy control system. In order to establish or apply new control systems, existing or current controls should be evaluated and necessary changes to the system must be introduced. Controls are assessed or evaluated to determine the level of residual risk. Control Self Assessment could also be utilised in the identification and assessment of current internal controls.

5. Development of Risk Treatment Plan/Risk Management Strategy which details necessary future actions to be taken to future reduces the identified risks to an acceptable level, if it is within the risk tolerance on an institution.

The risk treatment plan /management strategy are the plans or strategy to deal with the identified and assessed risks and current controls shortcoming. It refers to the process of selecting appropriate options for dealing with risks. It should be noted that, before considering which risk treatment to persuade, the current controls in place should be evaluated and the cost of the risk and the cost of benefit should be determined.

There are four ways in which risk could be managed or treated:

- Risk avoidance
One method of dealing with risk is to avoid the risk by not proceeding with the activity likely to generate the risk. Risk avoidance should occur when control measures do not exist or not reduce the risks to an acceptable level
- Risk control
Risk control involves identifying options for treating or controlling risk, in order to either reduce or eliminate negative consequences or to reduce the likelihood of an adverse occurrence

- Risk transfer
Part or most of a risk may be transferred to another party so that the responsibility is shared. Mechanism for risk transferred includes contracts, insurance, partnership and business alliance
- Risk retention
Low or tolerable risks may be accepted. Acceptance means the institution chooses to accept that the risk exists, either because the risk is at a lower level or the cost of treating the risk will outweigh the benefit

6. Risk owners and targets date must also be determine

In order to ensure the effective implementation of a risk management strategy /implementation plan risk owners must be identified. Due dates and treatment actions that are going to be implemented to ensure that the institution is going to effectively manage risks must be determined in order to ensure objectives are achieved.

Risk management is an integral part of management which includes developing the executive risk profile, establishing an integrated risk management functions, practicing intergrated risk management and ensuring continuous risk management learning. Risk management is not replacement of management.

As part of monitoring risk register need to be developed and continuously be monitored to ensure that agreed actions and target dates are met.

BENEFIT OF PROPER RISK MANAGEMENT

Key benefits of risk management are:

- To provide effective and efficient service delivery
- To bring rigour to strategic management
- Risk and risk tolerance are quantified
- Risk are formally and openly considered across all functions and processes
- Cost effective solution are put in place
- Nasty surprises are reduced-foresight is improved
- Transparency and good governance are promoted

ROLES AND RESPONSIBILITIES OF STAKEHOLDERS

Council

The Council, as representative of the community, must ensure that appropriate corporate governance framework are established and operating

The establishment of an Audit Committee is appropriate to review and endorse Risk Management Policies and strategies, and provide the municipality with a clear focus on the management of risk.

Audit committee

An audit committee is an independent advisory body and each municipality must have an audit committee (Section 166 of the MFMA)

The audit committee is responsible for the following:

(a) Advising the Council, Municipal Manager and Management staff on the following:

- Internal financial controls and Internal audits
- Risk management
- Accounting policies
- The adequacy, reliability and accuracy of financial reporting and information
- Performance management
- Effective governance
- Compliance with the MFMA, Annual Division of Revenue Act
- Performance evaluation
- And any other issues referred to it by the municipality or municipal entity

Role of Accounting Officer

In terms of section 62(1)(c) of the Municipal Finance Management Act no 56 of 2003, The Accounting Officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that the municipality has and maintain effective, efficient and transparent systems:

- (i) Of financial and risk management and internal control, and
- (ii) Of internal audit operating in accordance with any prescribed norms and standards

Head of department

Managers are responsible for ensuring achievement of objectives in their areas of responsibility and should for those purposes identify issues that could make them not to achieve their objectives and manage them. Management is responsible for implementing risk management systems within their areas of responsibility by:

Ensuring that risks are identified and managed on a daily basis within their line functions

Designing and implementing, controls to mitigate risks identified and ensure that controls are executed on a daily basis

Ensuring that risk is assessed within a formal risk management methodology, to be approved by Council

Ensuring that inherent risks or business risk profiles associated with individual business functions and process under their control are adequate and regularly assessed

Ensuring that risk reports on status of corrective actions are completed

Ensuring that controls currently in place over a business unit are operating effectively

Role of Internal Audit

In terms of section 165 (2)(a)(b) of the Municipal Finance Management Act no 56 of 2003, the internal audit unit of a municipality or municipal entity must :

- (a) Prepare a risk based audit plan and an internal audit program for each year
- (b) Advise the accounting officer and report to the audit committee on the implementation of the internal audit plan

Operating staff

Be aware of and raise risks or concern with Head of Department, or other appropriate personnel on a daily basis

Ensure that information systems and municipal assets under their controls are adequately safeguarded

Get updated risk management methodology on a regular basis

Ensure that controls currently in place are operating effectively

Reports on status of corrective actions completed

Conclusion

The success of this policy is reliant upon gaining commitment from Council and Senior Management, establishing business processes, including assigning responsibilities for change, resourcing, communication, training and reinforcing a risk culture throughout the municipality

Management of risk in order to raise the likelihood of success while reducing the likelihood of failure and decrease the uncertainty of overall financial performance.

Risk management policy will assist the municipality to better allocate risk management resources, provide better performance indicators and monitoring opportunities and improve risk reporting throughout the municipality