



**dr.jsmlm**  
Dr J.S Moroka Local Municipality

**RISK MANAGEMENT POLICY**  
**2021/2022**

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## 1. Introduction and background

**1.1** The risk management concept in the Public Sector is founded on the principles of "Batho Pele". The "Batho Pele" principles link directly with section 195 of the Constitution of the Republic of South Africa Act 108 of 1996, both of which are aimed at improving performance on service delivery.

**1.2** Fundamental to "Batho Pele" principles and the aforesaid section of Constitution of the Republic of South Africa is that they are based on the values of efficient, effective and economical utilisation of resources, all of which relates to the importance of competent human resource to ensure that Dr. JS Moroka Local Municipality is having a prudent approach to risk management.

## 2. Legal mandate, guiding frameworks and best practices

- Section 195 of the Constitution of the Republic of South Africa Act 108 of 1996
- Sections 62 (1) (c) (i) and 95 (c) (i) of the MFMA
- Section 55 of the MSA
- Public Sector Risk Management Framework
- Mpumalanga Provincial Risk Management Methodology
- Batho Pele Principles as per the White Paper of 1997 on the Transformation of Service Delivery
- COSO Framework

## 3. Abbreviations and definitions of general terms

In this policy unless otherwise indicated or stated the following terms and abbreviations have the meanings assigned to them as follows.

**3.1** "MFMA" shall mean Municipal Finance Management Act 56 of 2003.

**3.2** "MSA" shall mean Municipal Systems Act 32 of 2000.

**3.3** "RMC" shall mean the Risk Management Committee.

**3.4** "CRO" shall mean the Chief Risk Officer.

**3.5** "Accounting Officer" shall mean the Municipal Manager.

**3.6** "Municipality" or "dr.jsmlm" shall mean Dr. JS Moroka Local Municipality.

**3.7** "Accounting Authority" shall mean Council.

**3.8** "COSO Framework" refers to the framework by Committee of Sponsoring Organisations of the Treadway Commission.

#### **4. Objectives of Risk Management Concept**

- 4.1** Embed the culture of risk awareness and management thereof throughout the Municipality.
- 4.2** Safeguard Dr. JS Moroka Local Municipality's resources by ensuring that there is efficient, reliable and cost-effective delivery of services and optimal utilisation of resources.
- 4.3** Support the effective functioning of core business processes and allow more reliable decision making.
- 4.4** Allow appropriate and timely responses to abnormal operating circumstances and conditions.
- 4.5** And to protect the interests of all stakeholders who belong to Dr. JS Moroka Local Municipality.

#### **5. Policy statement**

- 5.1** Dr. JS Moroka Local Municipality is committed and determined to adequately manage risks in a proper, proactive, on-going and positive manner.
- 5.2** The aforesaid scenario will be made possible by providing a framework for the effective identification, evaluation, management and reporting lines of Municipality's risks, and by inculcating the culture of corporate governance, excellence, creativity, team work and adaption to changes in the discipline of risk management.

#### **6. Purpose and scope of application**

- 6.1** The purpose of this policy is to outline the Municipality's position and approach to risk management. This is done by clearly defining the basis for risk management framework and the manner in which to identify and address potential risks, and the role to be played by different role players.
- 6.2** To ensure that there is an understanding of risk management framework. Therefore this policy applies to the institution as a whole.

## **7. Definition of Risk and Risk Management and other related terms**

### **7.1 Risk**

The uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

### **7.2 Risk Management**

It is a systematic process which is applied to identify, evaluate and address risks on a continuous basis before such risks can impact negatively on the service delivery capacity of the Municipality, and that monitoring is key to the process itself because it is aimed at checking the progress in carrying out mitigating strategies to reduce the magnitude of risks. It forms part of management's core responsibilities and is an integral part of internal processes of the Municipality.

### **7.3 Control**

This is the deliberate action taken to eliminate or minimise risk.

### **7.4 Impact**

This is the effect (consequence) of the risk.

### **7.5 Inherent risk**

This is the intrinsic (natural) risk, which in concise is referred to as the level of risk before any controls are put in place.

### **7.6 Likelihood**

This is the probability used to measure a potential risk that could occur in the Municipality.

### **7.7 Total residual risk**

This is the risk that remains after all possible mitigations (controls) have been implemented. The calculation of total residual risk equals to residual impact multiply by residual likelihood (RI X RL= TRR).

### **7.8 Risk assessment**

This is the process of identifying and evaluating the seriousness of risks by assessing their likelihood and impact.

### **7.9 Risk ranking**

This is the process of prioritising risks in terms of their importance.

### **7.10 Risk register**

It is a template containing in it all relevant information of the identified risks such as: key performance areas of the Municipality, risk number, description of risk and etcetera. **See Annexure B** for more information.

### **7.11 Risk evaluation template or register for updating risks**

It is a template utilised to monitor progress made on identified risks. It is important that this tool should be accompanied by portfolio of evidence as a basis of providing reasonable assurance that indeed progress is made with regard to identified risks.

### **7.12 Risk response**

This is the specific course of action to reduce the likelihood or impact of a risk, such as risk avoidance, risk transfer, risks treatment (retention), risk acceptance and risk exploitation.

## **8. Risk profile, risk appetite and risk tolerance**

**8.1** Risk profile refers to unique characteristics of risks in the Municipality.

**8.2** It is imperative on the Municipality to understand the ways and means of profiling risks and these are the areas to be looked at for effective profiling of risks:

- 8.2.1 a risk should be briefly described;
- 8.2.2 determine the contributing factors to the risk;
- 8.2.3 rating of risks in terms of likelihood and impact before consideration of current controls (in its inherent nature);
- 8.2.4 consideration of current controls;

- 8.2.5 guidelines on the rating of perceived control effectiveness;
- 8.2.6 rating of risks after consideration of current controls (residual risk rating); and
- 8.2.7 to provide a list of mitigating plans of risks with timelines and risk owners and the frequency of reporting to the Risk Management Committee.

**8.3** Risk tolerance refers to the level of risk exposure that is acceptable. When a certain level of risk is tolerable a conscious decision is made not to control that portion of risk. This will mean that anything above the tolerance level will have to receive urgent action by management, hence it may result to negative outcomes and as a result unable the Municipality to achieve its set objectives.

**8.4** Risk appetite refers to types of risks that an organisation is required to take in order to maximise service delivery capacity. It looks into new sources of funding, sustainability of results and delivery of large projects. It can also be defined in terms of risk bearing capacity which consists of cost to capital, revenue and expenditure.

## **9. Risk Management approach**

**9.1** Risk identification process is one of the important aspects in Risk Management approach, but central to a successful risk identification process is a well-defined *control environment* and *objective setting*.

**9.2** The two terms namely, *control environment* and *objective setting* are important, because the former is the basis or a foundation for Risk Management, and that it consists in it, the culture, image, discipline and ethics which will then influence the manner in which objectives and strategies are established. This is about the image that the Municipality need to uphold to both internal and external stakeholders.

**9.3** Risk Management as a management tool with which management measures whether the institution is still in line with the set objectives, and that Risk Management should be part of the planning process during the strategic planning sessions of the Municipality.

**9.4** Risk Management function represented by the Chief Risk Officer and the entire management team, should be able to advice during inception of

strategic objectives of the Municipality with regard to risks that will be associated with the strategic objectives.

**9.5 Risk Identification** - is a critical area of risk management as mentioned in paragraph 9.1, because it deals with the actual identification of risks for the Municipality both existing, emerging and potential risks that may threaten the achievement of the Municipality's objectives.

**9.6** The identification of risks should be inclusive of all management team or reasonable number of staff members and relevant stakeholders in order to cover all areas of concern depending on the nature of risks the Municipality is anticipating or faced with. A technique or tool should be developed for effective identification of risks and that as soon as risks are identified should then be well documented or recorded and managed accordingly.

**9.7** Focus areas of risk identification may be divided into strategic, operational, project and other risk areas depending on the environment within which the Municipality operates. Hereunder are the focus areas:

- a) **Strategic risks**- these are the risks that emanate from the strategic objectives of the entire Municipality. These risks should be reviewed at least once a year in order to consider new and emerging risks. In case there are limitations with regard strategic objectives the Municipality may rely on the category of risks such as compliance /regulatory risks, financial risks, reputational risks and etcetera in line with Public Sector Risk Management Framework.
- b) **Operational risks**- these are the risks that are associated with the Municipality's operations and these are the risks that relates to vulnerabilities introduced by employees, internal processes and systems, regulatory imperatives and external events or factors.
- c) **Project risks**- these are the risks that relates to projects and their identification and assessment should cover; life cycle of those projects; that is long term projects should be reviewed once a year to identify new and emerging risks.

**9.8 Risk assessment or risk measurement** - this is the systematic process during which risks should be reviewed either on quantitative or qualitative basis at least once on an annual basis. Risks should be assessed on the basis of impact and likelihood. The risks must be updated on quarterly basis, but the top ten strategic risks will be updated on monthly basis.

**9.9** The following areas should be looked into when evaluating the risks, such as the evaluation of risks in their inherent nature and the evaluation of risks in their residual form, of which the latter is the risk that remains after consideration of perceived controls effectiveness.

### **9.10 Risk response strategies**

It is a process through which the Municipality put in place the risk strategies that are aimed at addressing the risks and the following are risk response strategies that can be applied on the next page:

- 9.10.1 Risk avoidance-is a strategy through which the Municipality may avoid the risk through an alternative approach e.g. instead of electrifying the villages, the Municipality in conjunction with other stakeholder departments and government agencies may opt for the installation of solar panel system.
- 9.10.2 Risk acceptance-this is a condition within which the Municipality given the importance of a particular service delivery imperative is without a choice but to render such a service, but there is a need to deal with such a risk if it is outside the limits as per the tolerance levels.
- 9.10.3 Risk treatment-this is a strategy that is applied mainly when already the risk is inherent in our activities and as a result the Municipality has to introduce internal controls to help reduce the risk magnitude to acceptable levels such as development of plans and procedure manuals or the flow charts.
- 9.10.4 Risk transfer-this is a type of strategy that the Municipality can take to transfer some of the risks to a consultant or service provider e.g. the provisioning of security services by the credible security service provider with a valid insurance liability cover to protect the people, information and property or assets.
- 9.10.5 Risk exploitation-this is a risk that can be converted into an opportunity e.g. if a Municipality is experiencing a large volume of re-usable items at a dumping-site next to a community, a project can be coordinated by the Municipality to establish a project by encouraging those communities to collect and convert them into art items such as formation of sculptures out papers among others for business purpose.

## **9.11 Control activities, information and communication**

- 9.11.1 The Chief Risk Officer's responsibility is to coordinate the Risk Management processes and the management and all staff members are responsible for the designing, implementing and monitoring both the current controls and mitigating plans.
- 9.11.2 Implementation of controls should be in compliance with policies, procedures, set objectives and applicable rules and regulations.
- 9.11.3 Controls should ensure that utilisation of resources is optimal and that the methods that used are economical, effective and efficient otherwise that control will no longer be a control rather a hiccup.
- 9.11.4 Central to controls is that the information that is provided is credible for reporting purpose i.e. if there is no progress to be reported on with regard to future actions or mitigating strategies, it should be reported as such so that an intervention will be developed particularly to address the challenge that led to a stalemate.
- 9.11.5 It is important for the Chief Risk Officer to continue conveying the roles and responsibilities to every role player as a way and means of inculcating the culture of risk management in the Municipality i.e. awareness programmes, workshops and trainings to all stakeholders.

## **10. Roles and responsibilities over Risk Management**

### **10.1 Council**

The Accounting Authority should take an interest in risk management to the extent necessary to obtain comfort that properly established and functioning systems of risk management are in place to protect the municipality against significant risks.

Responsibilities of the Council with respect to risk management include:

- 10.1.1 Ensuring that the institution's strategies are aligned to the government's mandate;
- 10.1.2 obtain assurance from management that the municipality's strategies were based on a rigorous assessment of risk;
- 10.1.3 obtain assurance that key risks inherent in the institution's strategies were identified and assessed, and that they are properly managed;
- 10.1.4 assist the Accounting Officer to deal with fiscal, intergovernmental, political and other risks beyond his direct control and influence;
- 10.1.5 insisting on the achievement of the objectives; and

10.1.6 approve the risk management policy, strategy, risk management committee charter, strategic risk assessment reports; and other risk management enabling documents.

## **10.2 Accounting Officer**

The following areas are the responsibilities of the Municipal Manager:

- 10.2.1 Setting a tone at the top by supporting and being seen to be supporting the institution's aspirations for effective management of risks;
- 10.2.2 delegating responsibilities for risk management to management and internal oversight structure such as the Risk Management Committee;
- 10.2.3 holding management accountable for designing, implementing, monitoring and integrating risk management into their day-to-day activities;
- 10.2.4 providing leadership and guidance to enable management and internal structures responsible for various aspects of risk management to properly perform their functions;
- 10.2.5 ensuring that the control environment is conducive for effective functioning of risk management;
- 10.2.6 approving the municipality's risk tolerance and appetite;
- 10.2.7 devote personal attention to overseeing management of significant risks;
- 10.2.8 ensuring appropriate action in respect of recommendations by the Audit Committee, internal and external audits and Risk Management Committee to improve risk management; and
- 10.2.9 providing assurance to relevant stakeholders that key risks are properly identified, assessed and mitigated.

## **10.3. Audit Committee**

The Audit Committee is an independent body given responsibilities to advice over municipality's controls, governance and risk management. The following are the detailed areas which the Committee is responsible for:

- 10.3.1 Provide an independent and objective view of the municipality's risk management effectiveness;
- 10.3.2 review and recommend disclosures on matters of risk in the annual financial statements;
- 10.3.3 review and recommend disclosures on matters of risk and risk management in the annual report;

- 10.3.4 providing a regular feedback to the Accounting Officer on the adequacy and effectiveness of risk management in the municipality, including recommendations for improvement;
- 10.3.5 ensuring that the internal audit plans are aligned to dr.jsmlm's risk profile;
- 10.3.6 satisfy itself that it has appropriately addressed the following areas
- i) financial reporting risks, including the risks that relates to fraud;
  - ii) internal financial controls; and
  - iii) IT risks as they relate to financial reporting.

#### **10.4. Internal Audit**

10.4.1 The Internal Audit will adhere to section 165 (2) (a) of the MFMA by designing a risk based audit plan and an internal audit program for each financial year through the use of the municipality's risk register and other sources. The Risk Management Division shall develop a risk register to be submitted to Internal Audit Division.

The Municipality's risk register will be used to identify extremely risky areas and thereafter review the identified areas to verify whether there are internal controls in place and whether they are effective and working as intended; and

10.4.2 after reviewing the different functional areas, the Internal Audit will collaborate with Risk Management Division to resolve the identified internal control deficiencies. The Risk Management Division will thereafter assist management in designing controls that are aimed at ensuring that the identified weaknesses are properly addressed.

Once the abovementioned process has been completed and implemented, the Internal Audit will perform a follow-up audit to verify whether the designed internal controls are working as intended. The Risk Management Division will evaluate reports from Internal Audit to assess the effectiveness of the designed controls.

#### **10.5. Risk Management Committee**

10.5.1 The Risk Management Committee should be appointed by the Accounting Officer to assist the Municipality in discharging its responsibilities over risk management. The membership of the committee should comprise both management and external members with the necessary blend of skills, competencies and attributes.

The chairperson of the Risk Management Committee should be an independent external person appointed by the Accounting Officer; and

10.5.2 the following are the areas to be under the control of the above Committee:

- a) Review and recommend for the approval of the following enablers:
  - i) risk management policy;
  - ii) risk management strategy;
  - iii) risk management implementation plan;
  - iv) municipality's risk appetite, ensuring that limits are:
    - supported by rigorous analysis;
    - set for all significant risks individually as well as in aggregate for particular categorisation of risks; and
    - consistent with the materiality and significance framework.
  - v) municipality's risk tolerance level that it is supported by rigorous analysis of:
    - the municipality's ability to withstand significant risks; and
    - the municipality's ability to recover financially and operationally from significant risks.
  - vi) the municipality's risk identification and assessment methodologies, after satisfying itself of their effectiveness in timeous and accurate mechanism of identifying and assessing the municipality's risks.
- b) evaluate the extend and effectiveness risk management's integration within the municipality;
- c) assess implementation of risk management policy and strategy (including the plan);
- d) evaluate the effectiveness of the mitigation strategies implemented to address the Municipality's significant risks;
- e) review the material findings and recommendations by the assurance providers on the system of risk management and monitor the implementation of such recommendations,
- f) develop its own performance indicators for approval by the Accounting Officer;
- g) Interact with the Audit Committee to share information relating to the municipality's significant risks; and
- h) provide timely and useful reports to the Accounting Officer on the state of risk management together with recommendations to address any deficiencies identified by the committee.

## 10.6. Chief Risk Officer/Assistant Manager: Risk Management

10.6.1 The role of the Chief Risk Officer is to manage the Risk Management Division and ensure that risk inputs from departments are assimilated and passed through to the Municipal Manager through the Risk Management Committee and the Audit Committee. The role of this function is to set policies and standards for risk management, risk reporting and the integrity of the risk management processes.

10.6.2 In addition, the key responsibilities of the CRO include:

- a) working with senior management to develop the municipality's vision for risk management;
- b) developing, in consultation with management the municipality's risk management framework incorporating , *inter alia*, the:
  - i) risk management policy;
  - ii) risk management strategy;
  - iii) risk management implementation plan;
  - iv) risk identification and assessment methodology;
  - v) risk appetite and tolerance; and
  - vi) risk classification.

10.6.3 communicating the municipality's risk framework to all stakeholders in the institution and monitoring its implementation;

10.6.4 facilitate orientation and training for the Risk Management Committee;

10.6.5 training all stakeholders in their risk management functions;

10.6.6 continuously driving risk management to higher levels of maturity;

10.6.7 assisting management with risk identification, assessment and developing of response strategies;

10.6.8 monitoring the implementation of the response strategies; collating, aggregating, interpreting and analysing the results of the risk assessments to produce a risk register;

10.6.9 reporting the risk register to the Accounting Officer, Management and Risk Management Committee; and participating with Internal Audit, Management and Auditor-General South Africa in developing the combined assurance plan for the municipality; and

10.6.10 shall convene a meeting with risk champions on monthly basis to obtain monthly departmental risks mitigating reports in order to check progress made and that the CRO shall ensure capacity building of the risk champions.

## **10.7. Management**

- 10.7.1 Managers are responsible for ensuring the achievement of objectives in the areas of their responsibility and should for these purposes identify issues that could prevent them from achieving their goals, thus in short managers are responsible for managing the risks within their areas of responsibility. They should ensure that other officials carry out their duties;
- 10.7.2 management is responsible for implementing risk management systems within their areas of responsibilities by identifying risks that are within their line functions;
- 10.7.3 empowering officials to effectively perform risk management responsibilities through proper communication of the responsibilities, comprehensive orientation and on-going opportunities for skills development;
- 10.7.4 aligning the functional risk management methodologies and processes with dr.jsmlm's processes;
- 10.7.5 devoting personal attention to overseeing the management of key risks within their area of responsibility;
- 10.7.6 maintain a co-operative relationship with the Risk Management Division and Risk Champions;
- 10.7.7 providing risk management reports on the status of the identified risk;
- 10.7.8 presenting to the Risk Management and Audit Committees when requested to do so;
- 10.7.9 maintaining a proper functioning of the control environment within their area of responsibility; and
- 10.7.10 monitoring risk management within their area of responsibility, and holding officials responsible for their specific risk management responsibilities.

## **10.8 Other Officials**

- 10.8.1 Must ensure compliance with section 78 (1) (a) of the MFMA which requires that each official of the municipality exercising financial management responsibilities must take all reasonable steps within that official area of responsibility to ensure that the systems of financial management and internal controls established for the Municipality is carried out diligently; and
- 10.8.2 the other responsibilities for other officials include the following:
  - a) apply the risk management processes in their respective functions;
  - b) implement the delegated mitigating plans to address the identified

- risks;
- c) inform their superiors and Risk Management Division of new risks and significant changes in known risks;
  - d) cooperate with other role players in risk management process and providing information as required; and
  - e) must integrate risk management in their day-to-day operations.

### **10.9. Risk Champions/Coordinators**

- 10.9.1 A Risk Champion is a person with skills, knowledge, and leadership qualities and power of the office required to champion a particular aspect of risk management;
- 10.9.2 Intervene in instances where the Risk Management Division's efforts are being hampered, for example , by the lack of co-operation by management and other officials;
- 10.9.3 Add value to the risk management process by providing support to manage "problematic" risks and risks of transversal nature that requires a multiple participant approach;
- 10.9.4 Assist the Risk Owner to resolve the problems; and
- 10.9.5 Shall provide the CRO with the monthly mitigating reports.

### **10.10. Other assurance providers**

Assurance provider such as the Auditor-General South Africa will review different aspects of dr.jsmlm's operations and activities. These reviews by nature will address risk management's effectiveness. It should be noted that the scope and mandates of the activities of assurance providers are established separately from the risk management policy.

## **11. Review of the policy**

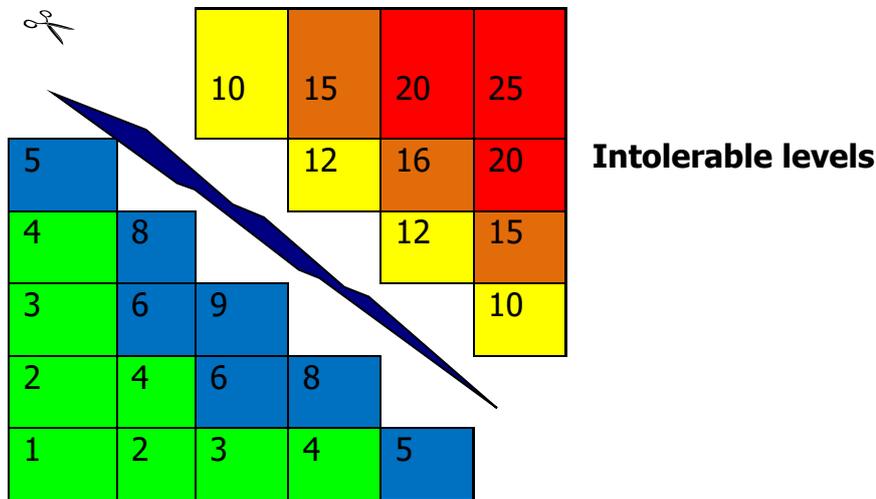
The policy will be reviewed annually or whenever the need arise.

## **12. Conclusion**

The strict implementation and the compliance to this risk management policy will assist Dr. JS Moroka Local Municipality to adequately reduce consequences of risks. This policy seeks to outline how the Council should go about in dealing with specific types of risks and also improve our partnership working arrangements and corporate governance principles.

**ANNEXURE A OF RISK MANAGEMENT POLICY**

1. Schematic representation of tolerable and intolerable risk rating levels



**Tolerable levels**

- 1.1 The above-shown schematic representation serves to inform the Municipality about the range of risks rating from 1 up-to 9 as risk ratings Which are tolerable or acceptable to the Municipality and those that range from 10 up-to 25 as unacceptable or intolerable and the definitions of risk magnitudes will be explained hereunder.
- 1.2 Hereunder is a table showing both intolerable and tolerable levels indicating what to be done and what not to be done under which circumstances. (risk matrix table)

Risk Index	Risk Magnitude	Risk acceptability	Proposed mitigating steps
20-25	Maximum risk	Unacceptable risk	Take action to reduce risk with highest priority
15-19	High risk	Unacceptable risk	Take action to reduce risk with highest priority
10-14	Medium risk	Unacceptable risk	Take action to reduce risk, inform management.
5-9	Low risk	Acceptable risk	No risk reduction - control, monitor, inform management.
1-4	Minimum risk	Acceptable risk	No risk reduction - control, monitor, inform management

**2. ANNEXURE B OF RISK MANAGEMENT POLICY**

**Risk register template for risk profiling**

Key Performance Areas	Strategic Objectives	Risk Categories	Risk No	Risks Description	Root Cause/ Contributing Factor	Risk Assessment			Current Controls	Risk Assessment After consideration of current controls			Future Action	Risk Owner	Due Date	Frequency of Reporting
						Impact	Likelihood	Total		Residual Impact	Residual likelihood	Total Residual Risk				

**Monitoring and reporting tool (Risk evaluation template)**

Risks and Risk Numbers	Contributing factors	Risk assessment			Current controls	Residual Risk rating (RIXRL) & movement of risks	Future/ Mitigating plans	Time frames on future plans	Progress up-to date	Reasons for missed timelines	Intervention	Comments by Risk Management Unit
		Inherent Impact	Inherent Likelihood	Total inherent risk rating								