



VICTOR KHANYE

LOCAL MUNICIPALITY – PLAASLIKE MUNISIPALITEIT

RISK MANAGEMENT POLICY 2016/2017

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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 the 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 Victor Khanye Local Municipality is having a prudent approach to risk management.

2. 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.

- 2.1 "**Accounting Authority**" shall mean Council.
- 2.2 "**Accounting Officer**" shall mean the Municipal Manager.
- 2.3 "**MFMA**" shall mean Municipal Finance Management Act 56 of 2003.
- 2.4 "**Municipality**" or "**VKLM**" shall mean Victor Khanye Local Municipality.
- 2.5 "**MSA**" shall mean Municipal Systems Act 32 of 2000.
- 2.6 "**PMC**" shall mean the Risk Management Committee.
- 2.7 "**CRO**" shall mean the Chief Risk Officer.

3. Purpose and scope of application

- 3.1 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.
- 3.2 To ensure that there is an understanding of risk management framework. Therefore this policy applies to all employees and councillors of the Municipality.

4. Objectives of Risk Management Concept

- 4.1 Embed the culture of risk awareness and management thereof throughout the Municipality.
- 4.2 Safeguard Victor Khanye 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 Victor Khanye Local Municipality.

5. Policy statement

- 5.1 Victor Khanye 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. Definition of Risk and Risk Management and other related terms

6.1 Risk Management

Is a systematic process to identify, evaluate and address risks on a continuous basis before such risks can impact negatively on the service delivery capacity of the Municipality. It forms part of management's core responsibilities and is an integral part of internal processes of the Municipality.

6.2 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.

6.3 Control

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

6.4 Perceived Control Effectiveness

This is the degree to which the control system will produce the desired results.

6.5 Impact

This is the effect (consequence) of the risk.

6.6 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.

6.7 Likelihood

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

6.8 Residual risk

This is the risk that remains after all possible mitigations (controls) have been implemented.

6.9 Risk assessment

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

6.10 Risk ranking

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

6.11 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 on the Risk Management strategy page 16.

6.12 Risk evaluation template

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.

6.13 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, risk acceptance and risk exploitation.

7. 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

8. Risk profile 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

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 measure if whether or not they are deviating from the set objectives, should be able play a pivotal role during the strategic planning sessions of the Municipality.
- 9.4 Risk Management function represented by the 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 and new 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.

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 or emerging risks.
- d) ICT and Fraud Risks

9.8 *Risk assessment or risk measurement* - this is the systematic process during which risks should be evaluated or re-evaluated either on quantitative or qualitative basis at least once on an annual basis. Risks should be assessed on the basis of impact and likelihood.

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* - is a process through which the Municipality put in place the risk strategies that are aimed at addressing the risk and the following are risk strategies that can be applied:

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 re-sell those items.

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.

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.

10. Review of the policy

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

11. Conclusion

The strict implementation and the compliance to this risk management policy will assist Victor Khanye 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.