

KGATELOPELE LOCAL MUNICIPALITY



RISK MANAGEMENT POLICY 2024-2026 FY

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1. PURPOSE

The purpose of this Policy is to provide guidance and direction as to the management of risk within Kgatelopele Local Municipality (KLM). This policy provides guidance in relation to a transparent and consistent consideration of risk and uncertainty when these opportunities are pursued and decisions are made.

2. SCOPE OF THE POLICY

This policy shall apply throughout the municipality as far as Enterprise Risk Management (ERM) is concerned.

3. THE POLICY OBJECTIVES

The Risk Management Policy aims to address multiple objectives.

3.1 Inform and Facilitate

Effective risk management affects everyone in the Municipality. To ensure a widespread understanding, senior management and all senior officers should be familiar with, and all staff and councillors aware of, the principles set out in this policy.

3.2 Strategic Alignment

Risk management activities will be aligned to the integrated development plan projects, plans, objectives and priorities. It will encompass all strategic and operational risks that may prevent the municipality from fulfilling its objectives.

3.3 Mitigate

The Council will anticipate and take preventative action to avoid risks rather than dealing with the consequences.

A consistent approach to the identification, assessment and management of risks will be embedded throughout the Council.

Risk control and mitigation measures will be effective, appropriate, proportionate, affordable and flexible. Risk controls will not be implemented where the cost and effort are disproportionate to the expected benefits. The Council will commit the necessary resources to implement risk management consistent with the above principles.

3.4 Sets Risk Management Standards

The policy sets the standard at which Council intends and expects risk to be managed and accordingly ensures that such a required standard is known and set for the organisation.

3.5 Monitor and Review

The policy sets standards, processes and responsibilities to make it is possible to monitor the extent that risk management responsibility is met. This includes assessment of whether the risk management strategy is producing the sustainable outcomes as originally envisaged.

3.6 Compliance

This policy aims to achieve compliance and to implement best practices in support of Section 62 (1) (c) (i) of the Municipal Finance Management Act. The Act stipulates that: "The Municipal Manager has and maintains effective, efficient and transparent systems: i) of financial and risk management and internal control. In terms of Section 79 of the MFMA, to all Top Management is a cornerstone in the institutionalisation of risk management in the Local Government.

It establishes responsibility for the risk management at all levels of management, extending it beyond the roles of the Accounting Officer, the internal units or the Audit Committee in this regard. To avoid future audit findings risk management must be performed to at minimum a compliance level which includes the adoption and implementation of a Risk Management Policy.

4. APPLICABLE LEGISLATIVE FRAMEWORK

4.1. Accounting Officer

Section 62 (1)(c)(i) of the MFMA requires that:

"(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all responsible steps to ensure-

(c) that the municipality has and maintains effective, efficient and transparent systems –

(i) of financial and risk management and internal control."

4.2. Management, Other Personnel, Chief Risk Officer, Risk Champions

The extension of general responsibilities in terms of Section 78 of the MFMA to all senior managers and other officials of municipalities implies that responsibility for risk management vests at all levels of management and that it is not limited to only the accounting officer and internal audit.

4.3. Internal Auditors

Section 165 (2) (a), (b)(iv) of the MFMA requires that:

"(2) 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 financial year;

(b) advise the accounting officer and report to the audit committee on the implementation on the internal audit plan and matters relating to:

(iv) risk and risk management."

Section 2110 - Risk Management of the International standards for the Professional Practice of Internal Auditing states:

"The internal audit activity should assist the organisation by identifying and evaluating significant exposures to risk and contributing to the improvements of risk management and control systems. 2110. A1 - The internal audit activity should monitor and evaluate the effectiveness of the organisation's risk management system.

2110. A2 - The internal audit activity should evaluate risk exposures relating to the organisation's governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets;
- Compliance with laws, regulations, and contracts.

2110. C1 - During consulting engagements, internal auditors should address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2110. C2 - Internal Auditors should incorporate knowledge of risks gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organisation."

4.4. Audit Committee

Section 166 (2) of the MFMA states:

"(2) An audit committee is an independent advisory body which must –
(a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and management staff of the municipal entity, on matters relating to -
(ii) risk management."

5. KEY DEFINITIONS

For the purpose of this policy, the following words will be defined as follows:

Term	Explanation
Risk Management	Risk Management can be defined as the identification and evaluation of actual and potential risk areas as they pertain to the municipality as a whole, followed by a process of either termination, transfer, acceptance (tolerance) or mitigation of each risk.
Risk	A risk is something which could: <ul style="list-style-type: none">• Have an impact by not taking opportunities or not capitalizing on corporate strengths• Prevent, influence the achievement of the set objectives,• Cause financial disadvantage, i.e. additional costs or loss of money or assets, or• Result in damage to or loss of an opportunity to enhance the municipality's reputation.
Risk Assessment	The overall process of risk analysis and evaluation.
Risk Management Process	The systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysing, treating, monitoring and communicating risks.
Controls	These are the existing processes, devices, practice or other actions that act to minimize negative risks or enhance opportunities.

Term	Explanation
Risk Register	This is a document record of each risk identified. It specifies a description of the risk, its causes and its impacts; 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; a risk rating and an overall priority for the risk.
Impact	This may be defined as the effect to a business process resulting in potential loss or service delivery failure should risk arise.
Likelihood	This may be defined as the probability that an adverse event, which could cause risk to arise, may occur.
Types of Risk:	
Financial/Budget Risk	Overspend, run out of money, failure to pay, etc.
Performance Risk	Lack of skills and delivery leads to termination.
Political Risk	
Legal Risk	Stakeholder unhappiness e.g. Communities.
Audit Risk	Moneys not utilized according to regulations. Qualified audit reports reflect 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.
Information technology risk, or IT risk, IT related risk	Is any risk related to information technology.
Risk Appetite	Risk appetite looks at how much risk the municipality is willing to accept. There can still be deviations that are within a risk appetite.
Risk Tolerance	Risk tolerance is the willingness of some person or some organization to accept or avoid risk. Risk tolerance looks at acceptable/unacceptable deviations from what is expected.

6. POLICY STATEMENT

Kgatelopele Local Municipality regards risk management as a critical cornerstone of good corporate governance and essential for the achievement of its business objectives. The starting point of the municipality's Risk Management Policy implementation is to acknowledge that our strategic planning depends on us being able to take calculated risks in a way that does not jeopardise the direct interest of stakeholders.

To ensure that the Municipality's strategy and, subsequently, its mandate as outlined in the Constitution of the Republic of South Africa are fulfilled, the municipality's ERM programme arms the municipality's employees with tools and capabilities to overcome barriers that arise in striving to exceed customer and stakeholder expectations. By realising that risk and control is everyone's responsibility, the municipality's employees will proactively identify risk in

delivering products, services and projects to its customers in an efficient and effective manner. Focus shall be given to the management of risks associated with the business strategies, financial management, compliance, operations, programmes and projects of the Kgatelopele Local Municipality. Effective responsibility mechanisms will be provided to enable internal information flow, reporting stakeholders.

7. ACCOUNTABILITY, ROLES AND RESPONSIBILITIES

This policy requires all employees to take responsibility for the cost effective management of risk in all aspects. Every employee is responsible for executing risk management processes and adhering to risk management procedures laid down by the Municipality's management in their areas of responsibilities. Employees are accountable to management for implementing and monitoring the process of risk management and integrating it into their day-to-day activities.

7.1 Risk Management Oversight

7.1.1 Council

The Council takes 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 Executive Authority include:

- Ensuring that the institutional strategies are aligned to the Government mandate;
- Obtaining assurance that the municipality's strategic choices were based on a rigorous assessment of risk;
- Obtaining assurance from management that key risks inherent in the municipality's strategies were identified and assessed and are being properly managed;
- Assisting the accounting officer to deal with fiscal, intergovernmental, political and other risks beyond their direct control and influence; and
- Insisting on the achievement of objectives, effective performance management and value for money.
- Approves the risk management policy, Strategy and implementation plan.
- Approve the Anti-Fraud and Corruption Policy and Implementation Plan.

7.1.2 Risk, Audit and Performance Management Committee

The Risk, Audit and Performance Management Committee is an independent advisory body with no executive status and works in an advisory capacity to municipal Council and the Accounting officer. It is primarily responsible for oversight over the municipal's governance, legislative compliance, control and risk management processes.

The committee's role is to review the risk management progress and maturity of the Municipality, the effectiveness of risk management process, the key risks facing the Municipality, and the responses to address the key risks. The responsibilities of the Risk, Audit and Performance Management Committee are formally defined in its charter.

7.2 Municipal Manager

The Municipal Manager as the Accounting Officer is required in terms of the Municipal Finance Management Act (MFMA), Sec 62(1) (c) to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

The Accounting Officer is ultimately responsible for and should assume ownership of risk management.

7.3 Senior Management

Senior management plays a key role in ensuring that risk management is an ongoing process.

They must ensure that the Municipality:

- Integrates risk management into the planning, monitoring and reporting processes and the daily management of programmes and activities.
- Determines the acceptable risks levels based upon ongoing risk assessments.
- Has a risk management culture where every official is encouraged to practice risk management on daily activities.
- Implement policies on risk management and internal control.
- Maintain a co-operation relationship with the Risk Management unit

7.4 Chief Risk Officer

- The primary responsibility of the Chief Risk Officer is to bring to bear his/her specialist expertise to assist the institution to embed risk management and leverage its benefits to enhance performance
- Developing risk maps and formulating strategic action plans to help minimize, manage, and mitigate primary risks and then monitor the progress of these efforts.
- Creating and disseminating risk analysis reports and progress reports to different stakeholders, including employees, Senior Management, APRC and board members.
- Communicating the institution's risk management framework to all stakeholders in the institution and monitoring its implementation
- Train all stakeholders in their risk management functions;
- Ensuring that risk management priorities are reflected in the company's strategic plans.
- Formulating and implementing risk assurance strategies that are related to the transmission, storage, and use of information and data systems.
- Evaluating possible operational risks that may arise from human error or system failures, which might disrupt or affect business processes.
- The CRO also develops different strategies to minimize risk exposure and designates appropriate responses for when human errors or system failures occur.
- Measuring the organization's risk appetite, and setting the amount of risk that the organization is able – and willing – to take on.
- Developing budgets for risk-related projects and supervising their funding
- Conducting risk and due diligence on behalf of the organization in the events of mergers, acquisitions, and business deals.
- Facilitates and co-ordinates all the Municipal risk management processes.

- Assist management with risk identification, assessment and development of response strategies

7.5 The Risk Officer:

- Facilitates and co-ordinates all the Municipal risk management processes.
- Works with other managers in establishing and maintaining effective risk management in their areas of responsibility.
- Has the responsibility for monitoring progress and for assisting other managers in reporting relevant risk information up, down and across Municipality, and is a member of an internal risk management committee.
- Report to the Audit Committee with regard to effective implementation of risk management activities as well as compliance with the public sector risk management framework and related prescripts.

7.6 Internal Auditors

Internal Auditors play an important role in the monitoring of risk management and the quality of performance as part of their regular duties or upon special request of senior management, which is approved by the audit committee.

They may assist both management and executive authority or audit committee by monitoring, examining, evaluating, reporting and recommending improvements to the adequacy and effectiveness of risk management processes.

7.7 Other Personnel

All other Officials within Municipality are vital for the ongoing risk management processes within the Municipality

They play an important role in the following:

- Identifying and controlling risks appropriate to their positions.
- Report risks to management on a timely basis.
- Communicating risks such as problems in operations, noncompliance with code of conduct, other policy violations or illegal actions

7.8 SPECIALISED SUPPORT AND OPERATIONAL COORDINATION

The Performance, Internal Audit and Risk Management department shall act as the internal specialised support unit that will assist all levels of management during the risk management process.

It will also coordinate a structured approach in terms of the policy and monitor compliance with the policy by all levels of management and report on its finding to the Municipal Manager as the Accounting Officer and Risk, Audit and Performance Management Committee.

8. RISK FUNCTIONS AND ACTIVITIES

8.1 Internal and External Risks

Internal and external risks are monitored and managed continuously i.e. external threats and internal weaknesses that may in the future have an adverse effect on the municipality and/or its beneficiaries.

Accountability is accepted for the risks faced by the Municipality at every level of management and is not left as the responsibility and/or function of only the Accounting Officer, Senior Management Team or that of a single department.

8.2 Management is a Formal Annual Process

Risk Management is not an ad hoc, once off, reactive or crisis management process and will be performed in a structured and formal manner at least once a year, every year to reflect the current state of risk management within the municipality. The risk planning review process will include;

- 8.2.1 The review of the Risk Management Policy
- 8.2.2 Review of Risk Management Structures
- 8.2.3 Risk workshops to review the Risk Register
- 8.2.4 Assurance that the Internal Audit Plan is aligned with the Risk Register;
- 8.2.5 Review of Risk Management Systems.

8.3 Uniform and Consistent Approach

To derive optimal benefits, risk management should be conducted in a systematic manner throughout the municipality.

8.4 Development of Managerial Capacity

Risk Management requires specialised skill and management shall be trained and supported accordingly.

8.5 Value for Money and Effort Approach

Risk shall be managed in accordance with the combined “impact and likeliness” value of a risk in order to ensure appropriate and economical investment of time, effort and resources.

8.6 Exploit, Prevent, Avoid, Minimise, Remedy, Eliminate Risk

Risks should be investigated to identify opportunities, manage or minimise the impact or likeliness of a risk, to prevent it, avoid it or to eliminate it.

8.7 Rate Importance of Risk

The different management levels must assess individual risks and their severity. Only the most severe risks will be taken to the next management level and will be integrated with other risks that emerged from other departments. This will take place within a workshop structure.

8.8 Determine Cause of Risk

In order to mitigate any risk, it is imperative that the cause be determined. The focus at this point is on Extreme and High-risk types. A cause underpinning a risk may be any of the following or a combination thereof:

- 8.8.1 Legislative nature
- 8.8.2 A political nature
- 8.8.3 Management capacity, skill, structure, mechanism or lack thereof
- 8.8.4 Employee capacity or skill or lack thereof
- 8.8.5 Financial capacity or viability
- 8.8.6 The community's expectation, perception, action or lack of action
- 8.8.7 Social change
- 8.8.8 Economic change or development
- 8.8.9 Environmental factors
- 8.8.10 A third parties' action (such as Eskom tariff increases)
- 8.8.11 A partner's/entity/ public private partnership /shared service action or lack of action
- 8.8.12 A competitors action
- 8.8.13 A deteriorating relationship
- 8.8.14 Changing technology or methodology
- 8.8.15 A product or current service level
- 8.8.16 Technological capacity of the municipality
- 8.8.17 Ageing, inappropriate or insufficient infrastructure
- 8.8.18 Outdated or absent process, policy or systems and methodology/approaches
- 8.8.19 Material availability, quality or quantity
- 8.8.20 Plant, fleet or equipment capacity of the organisation.

Unless the real cause of the risk is understood, suitable and appropriate avoidance, preventative, and remedial action cannot be taken. Failing correct identification of the cause, the result would be of a symptomatic remedial approach and the actual cause of the risk will remain unattended.

8.9 Risk Response

A risk response must be developed to ensure that an appropriate preventative, avoidance, minimisation and/or remedial strategy/action plan is developed for each of the identified critical (Extreme and High) risks.

The main purpose is to reduce the impact and or likelihood.

The risk response plan shall consist of the following: What should be done or how it should be done or when it should begin and end (timeframe)

- 8.9.1 Who should be responsible for the respective components of the strategy and who should take overall accountability
- 8.9.2 What capacity and resources are required to successfully undertake the action
- 8.9.3 What the ultimate goal of the action is and what the desired outcome and deliverable entail. For example, is the strategy focused on avoidance, minimisation, prevention, remedy, elimination or even the transferring of the risk to another body/ institution.
- 8.9.4 What obstacles and uncertainties can impact on the successful outcome of the strategy and what are the contingencies if any.
- 8.9.5 A project management and costing, Activity Based Costing (ABC) approach should be followed wherever necessary and possible.
- 8.9.6 Remedial action should address the cause and could therefore be aligned with, for example, the causes listed under the Determine Cause of Risk section above.

8.10 Monitor and Review

The Performance, Internal Audit and Risk Management department in consultation with the Accounting Officer will coordinate an annual review of the effectiveness of the Risk Management Policy as well as all organisational risks, uninsured and uninsurable risks together with the Risk, Audit and Performance Management Committee. This annual review will take place immediately prior to the development and review of the Integrated Development Plan and Medium Term Revenue and Expenditure Framework so that it can have due regard to the current as well as the emerging risk profile of the municipality. This will assist management in its decisions upon which risks to focus and on the quantum of resources and effort to invest in the prevention, minimisation, avoidance and/or remedy of a particular risk. It will also assist with the prioritization of risks.

Internal Audit will monitor key controls identified in the risk management system as part of the annual audit plan developed in conjunction with the Accounting Officer, Risk Officer and approved by the Risk, Audit and Performance Management Committee.

Risk, Audit and Performance Management Committee will review the risk profile in developing their recommendations to the Council regarding the Municipality's Risk Profile, Risk Management Policy and Risk Management Strategy.

8.11 Risk Management cycles

Responsible Person	Description	Timelines
Risk, Audit and Performance Management Committee.	Risk, Audit and Performance Management Committee meetings.	Quarterly
All Senior Management	Strategic Risk and Fraud Risk Assessment Workshop Review/updates.	Quarterly
Head of Department	Operational Risk Assessment Workshop Review/updates.	Quarterly

9. CRISIS MANAGEMENT

During the Crisis:

- Monitor and assess the organization's response to an event and be an active participant on the crisis management team.
- Monitor outage details for subsequent audits.
- Serve on a crisis management committee to ensure that risks associated with a crisis are understood and provide recommendations on alternate courses of action to management, as appropriate.
- Participate in the wider crisis management and recovery process for the organization, as agreed upon and authorized. The Standards allow for these types of involvement provided that the details of any potential impairment to internal audit independence are disclosed to appropriate parties (e.g., audit committee and BCM leadership). Involvement by internal audit may be greater during the initial stages of a crisis when support of the organization's limited available resources is in high demand.

After the Crisis:

- Evaluate and report on the effectiveness of the organization's recovery efforts.
- Continue to assess risk, provide guidance, and help develop business improvement efforts.
- Perform post-crisis reviews to identify opportunities for business continuity management (BCM) activities and, specifically, for crisis management plan (CMP) evolution.
- Perform assurance engagements to evaluate whether management performed and appropriately considered the results of root-cause analysis to update the BCP and CMP, as needed. Participate in the organization wide recovery process, as agreed upon and authorized per the BCP and CMP.

10. REPORTING

A formal report must be given to the municipal manager within **15 days** after each quarter. Management must put in place control to prevent/mitigate the occurrence of potential risks and report within **90 days** (Once per quarter) on progress made to mitigate said risk, pertaining to their unit/department, to the risk management unit.

Risk unit shall present an overall/summary report to the Audit, Risk and Performance Committee **after each quarter** on progress made to mitigate risks.

11. POLICY REVIEW

This policy shall be reviewed every 2 years or when need arise to reflect the current stance on risk management.

12. APPROVAL BY:

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Accounting Officer

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Date

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Council Resolution no.

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Date