



RISK MANAGEMENT POLICY

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1. INTRODUCTION

Risk is inherent in all business activities and every official and Councillor of the Municipality must continuously manage risks within their respective area of responsibility. The Merafong City Local Municipality (MCLM) recognizes that the aim of Risk Management is not to eliminate the risk totally, but rather to provide the structural means to identify, assess, manage and monitor the risks involved in all municipal activities. It requires a balance between the cost of managing risks and the anticipated benefits that will be derived.

The Municipality acknowledges that Risk Management is an essential element in the framework of good corporate governance and is an integral part of good Management practice. The intent is to embed Risk Management in a very practical way into business processes and functions and not to impose Risk Management as an extra requirement.

2. POLICY OBJECTIVES

The Risk Management Policy has been developed to:

- Support the achievement of objectives and ensure service delivery to all stakeholders
- Protect the Municipality from those risks of significant likelihood and impact in the pursuit of the Municipality's stated strategic goals and objectives;
- Provide a consistent Risk Management framework in which the risks concerning business processes and functions of the Municipality will be identified, considered and addressed in a structured manner;
- Encourage pro-active rather than re-active Management
- Provide assistance to and improve the quality of decision making throughout the Municipality;
- Meet legal or statutory requirements; and
- Assist in safeguarding the Municipality's assets, people, finance and reputation.



3. POLICY STATEMENT

Management acknowledges and accepts its responsibility for maintaining a sound system of Risk Management and internal control. Management are fully committed to the implementation of effective, efficient and transparent Risk Management processes in ensuring that strategic objectives are met and that risks are managed to an acceptable level as we create value for all stakeholders.

Merafong' s Departments and Sections operations are governed by a Risk Management framework through which risks are identified and pro-actively managed in accordance with our risk tolerance. Risk Management is more than an exercise in risk avoidance. It is as much about identifying opportunities as avoiding or mitigating losses. We will ensure that such a risk framework exists, outlining identification, assessment, management, monitoring, monitoring and reporting of risks.

Awareness and understanding of the risk framework will be established at all of the appropriate levels within Merafong City Local Municipality (MCLM), with the aim of establishing a culture of Risk Management across all Departments and Sections as every employee's responsibility.

4. POLICY SCOPE

This policy applies through all departments of the Municipality as far as Risk Management is concerned. To ensure a widespread understanding, Executive Management, Councillors, all operational/business units' managers and all staff should be familiar with the principles set out in this document.

5. LEGAL MANDATE

In terms of Section (62(1) of the Municipal Finance Management Act 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 maintains effective, efficient and transparent systems of financial and Risk Management and internal control.

Section 3.2.1 of the Treasury Regulations states the following:

“The Accounting Officer must ensure that a risk assessment is conducted regularly so as to identify emerging risks of the institution. A Risk Management strategy, which must include a fraud prevention plan, must be used to direct the internal audit effort and priority.”

The King IV Report on Corporate Governance

The Council should appreciate that the Municipality’s core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are inseparable elements of the value creation process.

The Council should also govern risk in a way that supports the Municipality in setting and achieving its strategic objectives.

6. RISK MANAGEMENT APPROACH

An organization wide approach to Risk Management will be adopted by Merafong City Local Municipality (MCLM), which means that every key risk in each part of the Municipality will be considered and reviewed in a structured and systematic process of Risk Management.

The Accounting Officer commits the Merafong City Local Municipality to a process of Risk Management that is aligned to the principles of good governance, the Municipal Finance Management Act and the Risk Management Framework prescribed by the Provincial Treasury.

In implementing our Risk Management policy, we will consider the following risk areas:

i) Business Processes/Operational Risks/ Business Continuity Planning;



- ii) Communication/Public Relations/Reputational Management;
- iii) Finance/Procurement/Budgeting/Funding/Project Management;
- iv) Human Resource/Organisational Structure/Change Management
- v) Information Technology Management;
- vi) Legal/Regulatory/Statutory Compliance;
- vii) Strategic Management
- viii) Governance /Service Delivery/Fraud.

7. ROLES AND RESPONSIBILITIES

7.1. Council

The executive 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 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;
- Insisting on the achievement of objectives, effective performance management and value for money;
- Approves the Risk Management policy, framework and risk appetite;
- Approves the Fraud Prevention Policy and Plan.



7.2. Accounting Officer (Municipal Manager)

The Accounting Officer is the ultimate Chief Risk Officer (CRO) of the Municipality and is accountable for the Municipality's risks.

More specifically, the high-level responsibilities of the Accounting Officer include:

- Setting an appropriate tone at the top by supporting the Municipality's aspirations for effective Risk Management and allocating resources towards the implementation thereof;
- Delegating responsibilities for Risk Management to management and internal formations such as the Risk Management committee;
- Holding management accountable for designing, implementing, and monitoring and integrating Risk Management into their day to day activities;
- Holding the Risk Management committee accountable for performance in terms of its Risk Management responsibilities;
- Providing leadership and guidance to enable management and the Risk Management committee to properly perform their functions;
- Ensuring the control environment supports the effective functioning of Risk Management;
- Place the key risks at the forefront of the management agenda and devote personal attention to overseeing their effective management;
- Leveraging the audit committee, internal audit, external audit and the Risk Management committee for assurance on the effectiveness of Risk Management;
- Ensuring that appropriate action in respect of the recommendations of the audit committee, internal audit, external audit and the Risk Management committee to improve Risk Management;
- Establishing the necessary structures and reporting lines within the Municipality to support Risk Management;



- Consider and act on the recommendations from the audit committee, internal audit, external audit and the Risk Management committee for improving overall state of Risk Management;
- Providing assurance to relevant stakeholders that key risks are properly identified, assessed and mitigated.

7.3. Risk Management Committee

The Risk Management committee is responsible for assisting the Accounting Officer in addressing the oversight requirements of Risk Management and evaluating and monitoring the Municipality's performance with regards to Risk Management.

- Review the Risk Management policy, framework, Risk Management implementation plan and recommend for approval by the executive authority;
- Review the fraud prevention policy, strategy and implementation plan and recommend for approval by the Accounting Officer;
- Review the risk appetite and tolerance and recommend for approval by the Accounting Officer;
- Review the Municipality's risk identification and assessment methodologies to evaluate their effectiveness in timeously and accurately identifying the Municipality's risks;
- Monitor and assess the implementation of the Risk Management policy, framework and implementation plan;
- Monitoring the reporting of risk by management with particular emphasis on significant risks or exposures and appropriates of the steps management has taken to reduce the risks to an acceptable level;
- Review the material findings and recommendations by assurance providers on the system of Risk Management and monitor the implementation of such recommendations;
- Develop its key performance indicators for approval by the Accounting Officer;



- Interact with audit committee to share information relating to material risks of the Municipality;
- 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;
- Reviewing the impact of any changes in the Municipality on the Risk Management process and response to these changes including the update of the risk profile.

7.4. Audit Committee

The audit committee is an independent committee responsible for oversight of the Municipality's control, governance and Risk Management. The responsibilities of the audit committee should be clearly defined in its charter.

The responsibilities of the audit committee include:

- The audit committee should provide an independent and objective view of the Municipality's Risk Management effectiveness;
- Reviewing and recommending disclosures on matters of risk and Risk Management in the annual report;
- Providing feedback to the Accounting Officer on the adequacy and effectiveness of Risk Management in the Municipality, including recommendations for improvement;
- Review the risk profile and management action plans to address the risks;
- Monitor the progress made with the implementation of action plans for significant risks
- Ensure the acceptability of the risk profile in conjunction with the overall risk appetite of the Municipality, taking into account all risk mitigation factors including but not limited to internal controls, business continuity and disaster recovery planning;
- Ensuring that the internal and external audit plans are aligned to the risk profile of the Municipality;



- Satisfying itself that it has appropriately addressed:
 - i Financial reporting risks, including the risk of fraud;
 - ii Internal financial controls;
 - iii IT risks as they relate to financial reporting.
- The audit committee should evaluate the effectiveness of internal audit in its responsibilities for Risk Management;

7.5. Chief Risk Officer (Manager Risk Management)

The Chief Risk Officer provides specialist expertise in providing a comprehensive support service to ensure systematic, uniform and effective Risk Management in the Municipality.

The specific roles and responsibilities include:

- Working with senior management to develop the Municipality's vision for Risk Management;
- Developing, in consultation with management, the Municipality's Risk Management framework, Risk Management policy, Risk Management implementation plan as well as risk appetite and tolerance levels for approval by the executive authority;
- Communicating the Risk Management policy, Risk Management framework and Risk Management implementation plan to all stakeholders in the Municipality and monitoring its implementation;
- Continuously driving the Risk Management process towards higher levels of maturity;
- Developing a common risk assessment methodology that is aligned with the Municipality's objectives at strategic, tactical and operational levels for approval by the Accounting Authority / Officer;
- Assisting management with risk identification, assessment and the development of response strategies;
- Monitoring the implementation of response strategies;



- Collating, aggregating, interpreting and analysing the results of risk assessments to extract risk intelligence;
- Reporting risk intelligence to the Accounting Officer, management and the Risk Management committee;
- Participating with internal audit, management and the auditor - general in the development of the assurance plan;
- Ensuring effective information systems exist to facilitate overall Risk Management improvement within the Municipality;
- Continuously transferring Risk Management principles and practices, through training interventions, to all stakeholders within the Municipality;
- Coordinate reporting on actual non-compliance incidents and losses incurred;
- Communicates with the audit committee and the Risk Management committee on the status of Risk Management;
- Providing input into the development and subsequent review of the fraud prevention strategy, business continuity plans occupational health, safety and environmental policies and practices and disaster management plans.

7.6. Internal Audit

Internal audit provides independent, objective assurance on the effectiveness of the Risk Management process.

The specific roles and responsibilities include:

- Internal audit must evaluate the effectiveness of the entire system of Risk Management and provide recommendations for improvement where necessary;
- In terms of the International Standards for the Professional practice of internal audit, determining whether Risk Management processes are effective is a judgement resulting from the internal auditor's assessment that:
 - i Municipality objectives support and align with the Municipality's mission;
 - ii Significant risks are identified and assessed;



- iii Risk responses are appropriate to limit risk to an acceptable level; and
 - iv Relevant risk information is captured and communicated in a timely manner to enable the Accounting Officer, management and the Risk Management Committee and other officials to carry out their responsibilities.
- Internal Audit must develop its internal audit plan on the basis of the key risk areas.

7.7. External Audit

The external auditor (Auditor - General) provides an independent opinion on the effectiveness of Risk Management.

In providing an opinion the auditor - general focuses on:

- Determining whether the Risk Management policy, framework and implementation plan are in place and appropriate;
- Assessing the implementation of the Risk Management policy, framework and the implementation plan;
- Reviewing the risk assessment process to determine if it is sufficiently robust to facilitate timely and accurate risk rating and prioritisation;
- Determining whether management action plans to mitigate the key risks are appropriate and are being effectively implemented.

7.8. Management

Management is accountable to the Accounting Officer for designing, implementing and monitoring Risk Management, and integrating it into the day-to-day activities of the Municipality. This needs to be done in such a manner as to ensure that Risk Management becomes a valuable strategic management tool for underpinning the efficacy of service delivery and value for money.



High level responsibilities of management include:

- Empowering officials to perform adequately in terms of Risk Management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- Acknowledge the ownership of risks within their functional areas and all responsibilities associated with managing such risks;
- Aligning the functional Risk Management methodologies and processes with the Municipality's processes;
- Providing Risk Management reports;
- Presenting to the Risk Management and audit committees as requested;
- Maintaining the proper functioning of the control environment within their area of responsibility;
- Holding officials accountable for their specific Risk Management responsibilities;
- Maintains a harmonious working relationship with the CRO and supports the CRO in matters concerning the functions of Risk Management;
- Keeps key functional risks at the forefront of the management agenda and devotes personal attention in overseeing the management of these risks.

7.9. Other Officials

All other officials are responsible for integrating Risk Management into their day to day activities to enhance the achievement of their departmental objectives.

Responsibilities include:

- Maintaining the functioning of the Risk Management process within their area of responsibilities;
- Participate in risk identification and assessment activities within their area of responsibilities
- Implementing the delegated action plans to manage the identified risks;



- Informing their supervisors and/ or the Chief Risk Officer of the new risks and significant changes in known risks;
- Cooperating with other role players in the Risk Management process and providing information as required.

7.10. Risk Champion

A Risk Champion is usually an existing member of the senior management within the Municipality. Each department will have a designated Risk Champion to assist the departmental executive director in executing his/her Risk Management responsibilities. A Risk Champion must have sufficient authority to drive implementation of the Risk Management process as required by the Municipality Risk Management policy and framework.

Responsibilities include:

- Escalating instances where the Risk Management effort are stifled such as when individuals try to block Risk Management initiatives;
- Coordinate departmental Risk Management activities;
- Assist in collating and reporting on departmental risk information;
- Act as the first point of contact for departmental Risk Management enquiries;
- To monitor action plans to reduce the departmental risks.

8. POLICY DOCUMENTATION

This Risk Management policy should be read in conjunction with the Risk Management framework and the Risk Management strategy of the Municipality.



9. POLICY COMMUNICATION

The policy will be communicated through the Municipality's website and any other internal and external communication methods. Copies of the policy will be made available on request from the Risk Management Office.

10. POLICY REVIEW

This policy will be reviewed every three years or as and when there are changes in legislation or circumstances to reflect the current position of Risk Management in the Municipality.

11. POLICY APPROVAL

The approval of this policy rests with the Municipal Council with recommendations of the Accounting Officer and the Risk Management.

1. L.J MAKORO

RISK MANAGEMENT COMMITTEE CHAIRPERSON

Signature_____

Date_____

2. M.N MOKOENA

MUNICIPAL MANAGER

Signature_____

Date_____



3. CLLR S. M MOGALE LETSIE

EXECUTIVE MAYOR

Signature _____

Date _____