



MADIBENG LOCAL MUNICIPALITY

Risk Management Policy 2016/2017



3 January 2017

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MADIBENG LOCAL MUNICIPALITY
RISK MANAGEMENT POLICY

Document Ref. No.:	ERM/p1001
Resolution no.:	A0089
Authors / developed by:	Chief Risk Officer: MAM Myeza Acting Risk Manager: Y Mothibi
Revision / Last Updated:	2016/2017
Applicability	Madibeng Local Municipality main offices and its satellite offices
Effective Date	
Approved by	Council



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.

“MFMA” shall mean Municipal Finance Management Act 56 of 2003.

“MSA” shall mean Municipal Systems Act 32 of 2000.

“RMC” shall mean the Risk Management Committee.

“CRO” shall mean the Chief Risk Officer.

“Accounting Officer” shall mean the Municipal Manager.

“Municipality” or **“MLM”** shall mean Madibeng Local Municipality.

“Accounting Authority” shall mean Council.

“COSO Framework” refers to the framework by Committee of Sponsoring Organisations of the Treadway Commission.



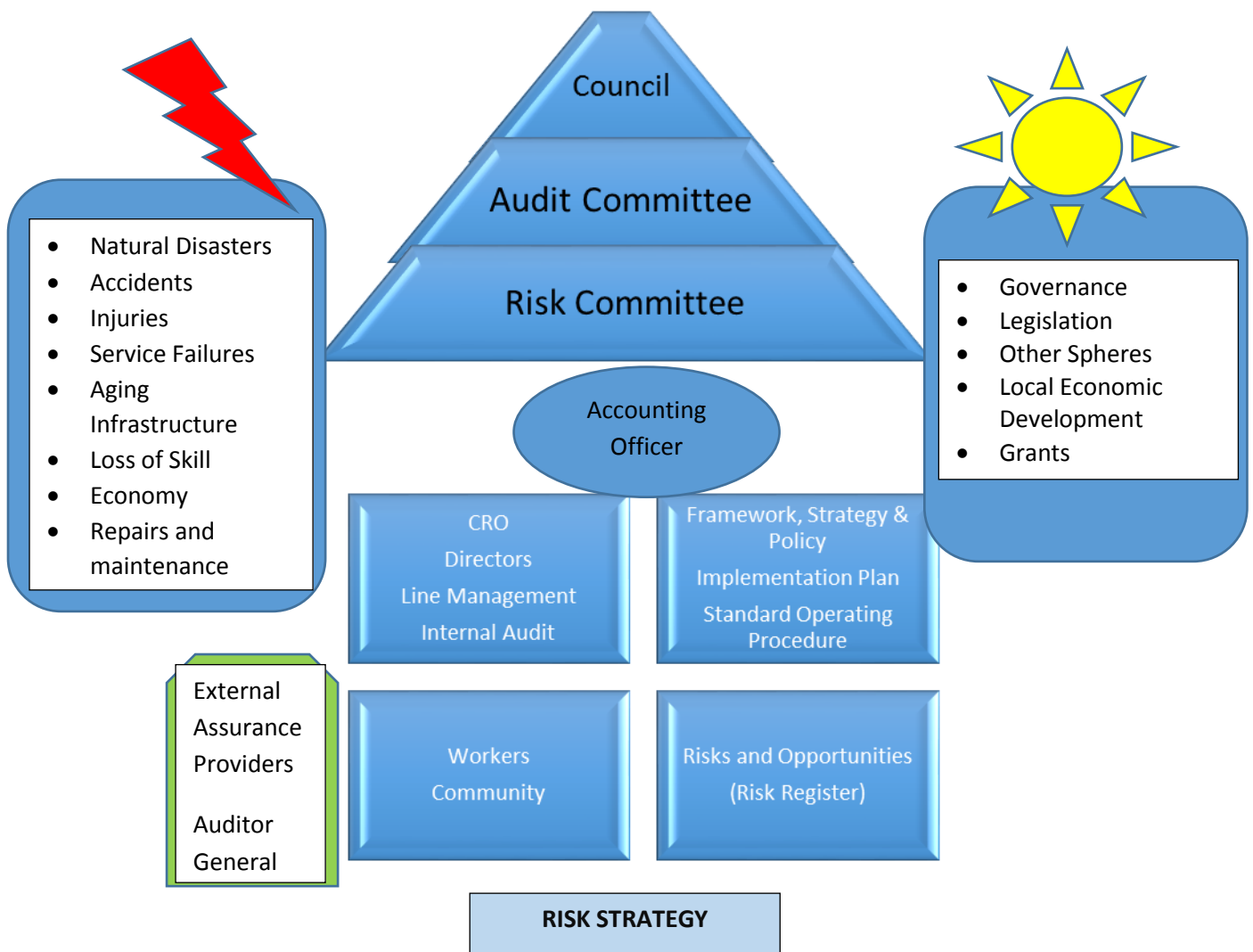
RISK MANAGEMENT FRAMEWORK



Enterprise Risk Management Environment

In order to ensure the inclusion of all factors impacting on Risk Management within the Municipality, it is important to identify the environment within which the municipality operates. As with most municipal disciplines, the risk management environment has altered substantially and requires a complete review of the current policies, practices and assumptions.

Risk Environment





Factors within the municipal environment that impact directly on how the municipality will address risk management are:

1. Legislation and guidelines
2. Unfunded Mandates
3. The entire community including residents, businesses, farmers, government, visitors, ward committees, staff, etc.
4. National Government, North West Provincial Government and Bojanala District Municipality
5. Service Providers e.g. Eskom
6. Global and local economy
7. Assets (infrastructure, land and buildings)
8. Affordability (Budget)
9. Skill Levels (Staff & Service Providers)
10. Systems (Enterprise Risk Management architecture such as information Technology, Fleet Management, debt Collection, Procurement, etc)
11. King Code

Some of these factors are compulsory, others meet good governance or best practice principles and some are inherent to Madibeng Municipality. Although Municipalities are of a similar nature and are responsible to deliver the same basic services they vary due to unique geographical, social and political nuances and cannot be addressed in the same manner across the whole of South Africa.

Enterprise Risk Management Architecture

Any successful implementation of Enterprise Risk Management is dependent on a structure that considers various interrelated and inter-dependent components. The National Treasury Public Sector Framework (National Treasury, 2010) adopts the following architecture, consisting of;

- Process framework
- Drivers
- Enablers
- Implementers
- Support
- Tools and Technology
- Assurance Providers
- Oversight framework

Differences to National Treasury Model

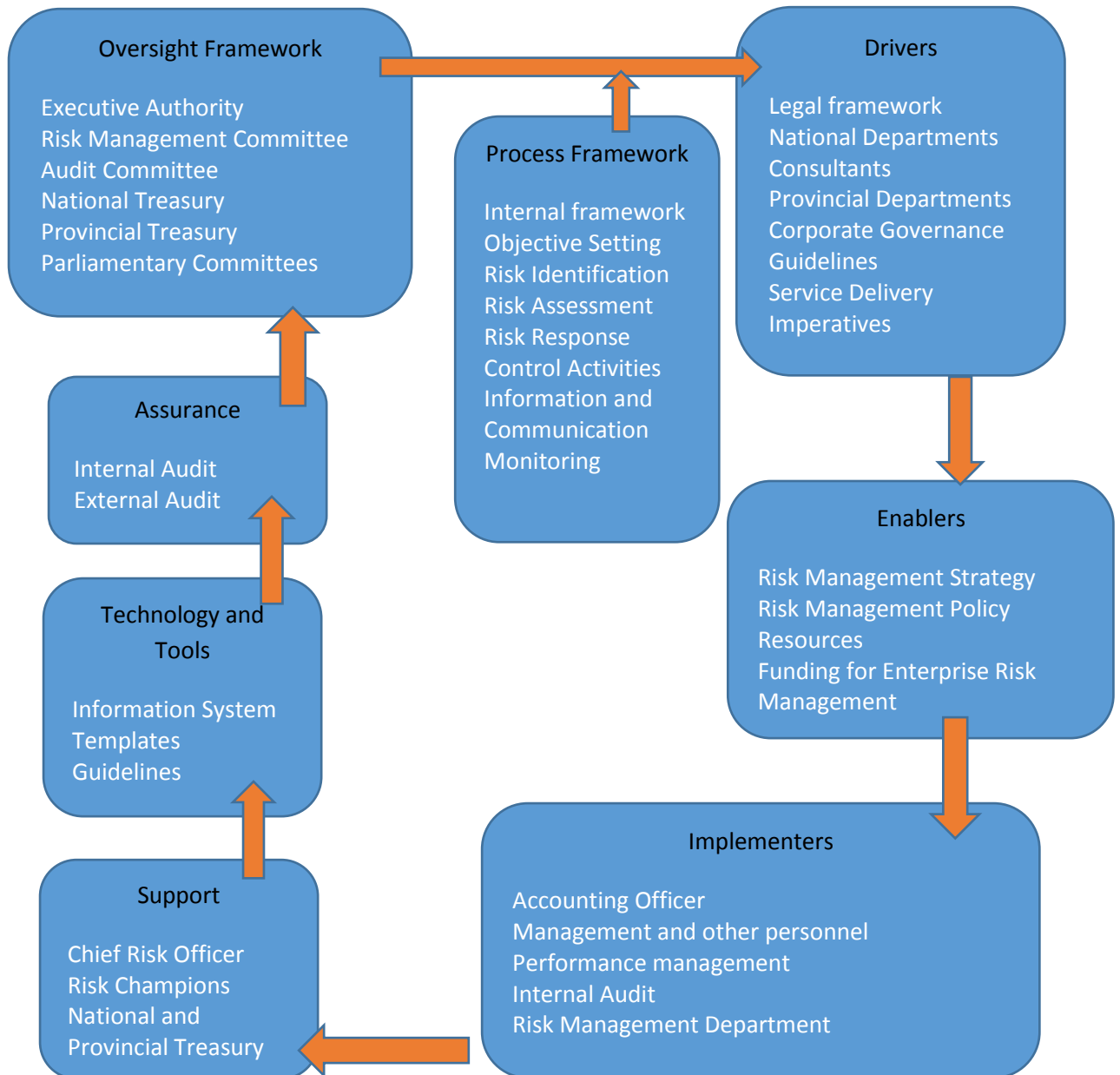
To bring it in line with Madibeng Municipality's current practice and structure, the Enterprise Risk Management has been amended slightly to accommodate the following changes:

Removing provincial public entity from the "Drivers"

Adding PMS, IA and ERM under "Implementers"



ENTERPRISE RISK MANAGEMENT ARCHITECTURE





Legislative Environment

The Municipal Finance Management Act no.56 of 2003 (MFMA) defines the Municipal Manager as the Accounting Officer. Section 62 of the MFMA requires the Accounting Officer to take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent system of financial and risk management and internal control and of internal audit, as well as the effective, efficient and economical use of the resources of the municipality. The purpose of the risk management policy is to enable the municipality to comply with the requirements as set out in the legislation.

Other guidelines considered:

1. National Development Plan
2. The North West Provincial 5 concretes adopted to manage risk:
 - i. Agriculture, Culture and Tourism (ACT)
 - ii. Villages, Townships and Small Dorpies (VTSD)
 - iii. Reconciliation, Healing and Renewal (RHR)
 - iv. Repositioning, Rebranding and Renewal (RRR)
 - v. Setsokotsane

General Financial Management Functions

62. (1) The Accounting Officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take reasonable steps to ensure –

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

(i) Of financial and risk management and internal control

The Constitution confers to the following areas of responsibility on local municipalities:

152. Objects of local government

- a) To provide democratic and accountable government for local communities;
- b) To ensure the provision of services to communities in a sustainable manner;
- c) To promote social and economic development;
- d) To promote a safe and healthy environment;
- e) To encourage the involvement of communities and community organisations in the matters of local government.



156. Powers and functions of municipalities

1. A municipality has executive authority in respect of, and has the right to administer.

- a) Local government matters listed in part B of schedule 4 and part B of schedule 5; and
- b) Any other matter assigned to it by national and provincial legislation

Schedule 4 Part B	Schedule 5 Part B
Air pollution • Building regulations • Child care facilities • Electricity and gas reticulation • Firefighting services • Local tourism • Municipal airports • Municipal planning • Municipal health services • Municipal public transport • Municipal public works • Pontoons, ferries, jetties, piers and harbours, • Storm water management systems in built-up areas • Trading regulations • Water and sanitation services	Beaches and amusement facilities • Billboards and the display of advertisements in public places • Cemeteries, funeral parlours and crematoria • Cleansing • Control of public nuisances • Control of undertakings that sell liquor to the public • Facilities for the accommodation, care and burial of animals • Fencing and fences • Licensing of dogs • Licensing and control of undertakings that sell food to the public • Local amenities • Local sport facilities • Markets • Municipal abattoirs • Municipal parks and recreation • Municipal roads • Noise pollution • Pounds • Public places • Refuse removal, refuse dumps and solid waste disposal • Street trading • Street lighting • Traffic and parking

Unfunded Mandates

An unfunded (or underfunded) mandate is when a sphere of government performs certain functions or activities for which it has no (or inadequate) funds. Municipalities carry out functions that are not included in the powers and functions allocated to them by the Constitution or Legislation, while policy decisions made at national level result in provinces and municipalities facing underfunded or unfunded mandates.



The reasons for such situations include:

Historical roles assumed in the past (for example by certain municipalities), which have continued into new constitutional era.

Weak, incomplete or confused allocation of functions, the result of poor policy making and oversight.

Implicit or explicit choice by a sphere of government to perform a function.

Unfunded or underfunded mandates have implication for the equitable sharing of national revenue and delivery of services. (Financial and Fiscal Commission 2011)

Physical Environment

Madibeng municipality functions within a physical environment which covers a total surface area of 3839 km². Madibeng is demarcated into 36 wards which consists of several urban areas, rural areas, villages, farm portions, as well as a properly established and serviced industrial area. With the ever growing population, the physical environment is bound to change which is to be considered for risk management purposes.

Internal and external Organisational Environment

Madibeng Municipality does not operate in a vacuum, it affects and is affected by decisions made by itself and a multitude of external organisations such as:

- a) The Council
- b) Provincial Government
- c) District Municipality
- d) National Treasury
- e) Eskom
- f) Media
- g) Auditor General, Internal Audit and Audit Committees
- h) Business Community, etc.

Uncertainty of the Future

It is becoming increasingly difficult for the management of a municipality to accurately predict the future, to anticipate future threats and weaknesses and the negative impact these can have on the municipality and all of its stakeholders.

It has become necessary to adopt a firm position on how the uncertainty of the future and the adverse implication that it may hold can be managed in the most effective, efficient and proactive way possible and to protect the municipality and its stakeholders against any possible future adverse and unforeseen occurrence.



Prevention, minimisation, and avoidance are often simpler, less painful, less costly and more successful than cure.



RISK MANAGEMENT STRATEGY & POLICY



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 Madibeng Local Municipality is having a prudent approach to risk management.
- 1.3** Risk is inherent in all functions undertaken by or on behalf of Madibeng Local Municipality. All personnel are responsible for managing the risks that relate to their particular area of work. Risks should be managed in a way that derives the best outcome for the municipality and its stakeholders.
- 1.4** Madibeng Local Municipality functions in an open high risk environment where not only its own actions but those of all role players and stakeholders can negatively impact on the manner in which it operates. How this function is managed can significantly affect the community, district, provincial and national interests as well as municipal reputation.
- 1.5** Risk management must be an integral proactive component of the corporate management process comprising of risk identification, prevention, minimisation, avoidance and cure.
- 1.6** Risk management is a systematic process to identify risks to the municipality in achieving its strategic objectives as determined in the integral development plan. It is an integral part of the approach to decision making and accountability, comprising the organisational culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects within the municipal environment.
- 1.7** The intention of this policy cannot be to eliminate all risks to the municipality. It is to assist personnel to manage the risks involved in all



activities to maximise opportunities and minimise adverse consequences. Effective risk management requires:

- a) A systematic process that should be used when making decisions to improve the effectiveness and efficiency of managing risks
- b) Taking action to minimise risks
- c) Identifying and exploiting opportunities identified during the risk management processes
- d) Risk management planning
- e) Effective communication
- f) Balance between the cost of managing risk and the anticipated benefits.
- g) Systems (structures, Risk Register, Risk Management Standard Operating Procedure, Information Technology), etc.

Uncertainty

- Municipalities operate in environments where factors such as technology, regulation, restructuring, changing service requirements and political influence create uncertainty.
- Uncertainty emanates from an inability to precisely determine the likelihood that potential events will occur and the associated outcomes.

Objectives of Risk Management

Risk management aims to address multiple objectives:

1.1 Inform and facilitate

- 1.1.1 Effective risk management affects everyone in the municipality. To ensure a widespread understanding, executive management and all departmental managers, staff and councillors should be familiar with the principles set out in this policy.

1.2 Strategic Alignment

- 1.2.1 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 achieving its objectives.



1.3 Mitigate

- 1.3.1 The municipality will anticipate and take preventative action to avoid risks rather than dealing with consequences.
- 1.3.2 A consistent approach to the identification, assessment and management of risks will be embedded throughout the municipality.
- 1.3.3 Risk control and mitigating measures will be effective, appropriate, proportionate, affordable and flexible.
- 1.3.4 Risk controls will not be implemented where the cost and effort is disproportionate to the expected benefits.
- 1.3.5 The municipality will commit the necessary resources to implement risk management consistent with the above principles.

1.4 Set Risk Management Standards

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

1.5 Monitor and Review

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

1.6 Compliance

- 1.6.1 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.
- 1.6.2 To avoid future audit findings, risk management must be performed to its maximum level which includes adoption and implementation of the Risk Management Policy.

1.7 Risk Awareness

- 1.7.1 The municipality will conduct workshops at least twice per year and parallel to the budget and SDBIP review, in order to spread the necessary level of understanding by the Executive Mayor, the Councillors, the Municipal Manager, the directors and all other relevant officials.
- 1.7.2 The executive management will embrace a culture of risk awareness at the top level.



1.8 Safeguarding of Municipal Resources

1.8.1 Safeguard MLM's resources by assessing risk of ineffective controls to encourage efficient, reliable and cost-effective delivery of services and optimal utilisation of resources.

1.9 Advice in decision making processes

1.9.1 Support the effective functioning of core business processes and allow more reliable decision making through assessing risk in key management agenda items.

Policy Statement

It is the policy of Madibeng Local Municipality to adopt a common approach to the management of risk. This approach involves a clearly stipulated strategy defining the risks that the municipality is exposed to and the manner in which the risks shall be managed. The municipality will identify and manage its risk in support of its vision, mission, goals and aims as set out in the Integrated Development Plan (IDP), Service Delivery and Budget Implementation Plan (SDBIP) and its operations.

The risk policy guide the development of a strategic plan that should address the following:

- An effective risk management architecture,
- A reporting system to facilitate risk reporting and
- An effective culture of risk management.

The municipality will promote the risk management language and culture in all sections of the municipality and aim to demonstrate quality improvement resulting from effective risk management.

Madibeng Local Municipality is committed and determined to adequately manage risks in a proper, proactive, on-going and positive manner.

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.



Purpose and Scope of Application

- 1.1** 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.
- 1.2** To ensure that there is an understanding of risk management framework. Therefore this policy applies to the institution as a whole.

Risk Function and Activities

1.1 Risk defined

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.

1.2 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.

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 twice a year to reflect the current state of risk management within the municipality. The risk planning review process will include;

- a) The review of the risk management policy
- b) Appraisal of the risk management committees
 - i. Effectiveness
 - ii. Performance
 - iii. Structure



- iv. Reporting
 - c) Review of risk management structures
 - d) Risk workshop to review the risk register
 - e) Assurance that the internal audit plan is aligned with the risk register
 - f) Review of the risk management systems

1.3 Control

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

1.4 Impact

This is the effect (consequence) of the risk.

1.5 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.

1.6 Likelihood

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

1.7 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 ($RI \times RL = TRR$).

1.8 Risk ranking

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

1.9 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.



1.10 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 a portfolio of evidence as a basis of providing reasonable assurance that indeed progress is made with regard to identified risks.

1.11 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.

Risk profile, risk tolerance and risk appetite

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

1.2 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:

- 1.2.1 a risk should be briefly described;
- 1.2.2 determine the contributing factors to the risk;
- 1.2.3 rating of risks in terms of likelihood and impact before consideration of current controls (in its inherent nature);
- 1.2.4 consideration of current controls;
- 1.2.5 guidelines on the rating of perceived control effectiveness;
- 1.2.6 rating of risks after consideration of current controls (residual risk rating); and
- 1.2.7 to provide a list of mitigating plans of risks with timelines and risk owners and the frequency of reporting to the Risk Management Committee.

1.3 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 hinders the Municipality in achieving its set objectives.



1.4 It is the council's responsibility to determine the risk appetite in its various areas of operation. The risk appetite should be clearly stated and articulated so that it informs management decisions. As a principle, and in support of the Municipal Finance Management Act, the municipality shall have a low risk appetite for all forms of loss resulting from negligence and fruitless or wasteful expenditure. Senior management with the assistance of Performance Management Systems, Internal Audit and Risk Management departments will endeavour to determine the risk appetite of each department under their control.

Risk appetite can be defined as the amount of risk that the municipality is willing to accept in pursuit of its vision and mission. The risk appetite guide the allocation of resources. Management allocates resources across functional areas with consideration of the municipal risk appetite and unit plans for ensuring that objectives are met whilst containing expenditure within the budget. Management considers its risk appetite as it aligns the municipality, its people and processes and designs the infrastructure to effectively respond to and monitor risks.

Risk appetite enables an improved consistency of decision making at all levels through improving risk understanding and also provides a framework for knowingly taking risks within boundaries. The risk appetite derives real value from the assessment of risk over and above compliance purposes. The risk appetite decided upon should be formally considered as part of setting the strategy, with capital expenditure and other strategic decisions reviewed against it as they arise.

The key determinants of risk appetite are as follows:

1. Expected performance
2. The capital needed to support risk taking
3. The culture of the municipality
4. Management experience along with risk and control management skills
5. Longer term strategic priorities

The formulation of the risk appetite is typically closely aligned to the strategic planning process and is also inclusive of budgeting, and as such, it should be reviewed by management and the accounting officer on an annual basis.



Risk Assessment

The risk assessment is a systematic process to quantify or qualify the level of risk associated with a specific threat or event. The main purpose of risk assessment is to help management to prioritise the identified risks. This enables management to spend more time, effort and resources to manage risks of higher priority than risks of lower priority. The output of the risk assessment is a risk register enriched by the addition ratings for each risk.

Risk should be assessed on the basis of the likelihood of the risk occurring and the impact of its occurrence on the particular objective it is likely to affect. The risk assessment is performed using a 3 step process.

Step 1: Develop the scoring system for Impact and Likelihood before the actual assessment.

The following is a rating table that is utilised to assess the impact of risk:

Rating	Impact	Definition
5	Critical	Negative outcomes or missed opportunities that are of critical importance to the achievement of the objective. It is very unlikely that this objective will be achieved 1-29%
4	Major	Negative outcomes or missed opportunities that are likely to have a relatively substantial impact on the ability to meet objectives. It is very unlikely that this objective will be achieved 30-49%
3	Moderate	Negative outcomes or missed opportunities that are likely a relatively moderate impact on the ability to meet objectives. The objective may be achieved 50-69%
2	Minor	Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet the objectives. It is likely that this objective will be achieved 70-89%
1	Insignificant	Negative outcomes or missed opportunities that are likely to have a negligible impact on the ability to meet objectives. The objective will certainly be achieved 90-100%



The following is a rating table that is utilised to assess the likelihood of risks:

Rating	Impact	Definition
5	Almost certain	The risk is already occurring, or is likely to occur more than once within the next 12 months. There's a 90-100% chance that this risk will definitely occur.
4	Likely	The risk could easily occur, and is likely to occur at least once within the next 12 months. There's a 70-89% chance that this risk will occur.
3	Moderate	There is an above average chance that the risk will occur at least once in the next three years. There is a 50-69% chance that this risk may occur.
2	Unlikely	The risk occurs infrequently and is unlikely to occur within the next 3 years. There's a 30-49% chance that this risk will not occur.
1	Rare	The risk is conceivable but is only likely to occur in extreme circumstances. There's a 1-29% chance that the risk will not occur.

Illustrated quantitative and qualitative measurement criteria:

Impact is the potential loss to the organisation or the service delivery failure should be risk materialise. The following impact criteria will be used:

Details	Insignificant	Minor	Moderate	Major	Critical
Value "R"	0 – 5,000	5,001–20 000	20,001–100,000	100,001-500,000	500,000+
Reputation	Internal	Local Press	Provincial Press	National Press	International Press
Time	1-2 days	1-4 weeks	1-3 months	3-6 months	6 months+

Likelihood is the probability that an event, which could have an impact on the organisation achieving its objectives, may occur. The following likelihood criterion will be used:

Details	Minimum	Low	Medium	High	Maximum
Percentage	≤ 10%	10-25%	26-50%	50-90%	≥90%



Step 2: Apply the scores to the risk matrix to indicate what areas of the matrix would be regarded as high, medium or low risk.

Risk index = impact X likelihood

IMPACT	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
LIKELIHOOD						
↓						
			Risk Index	Risk Magnitude		
			13-25	High		
			6-12	Medium		
			1-5	Low		

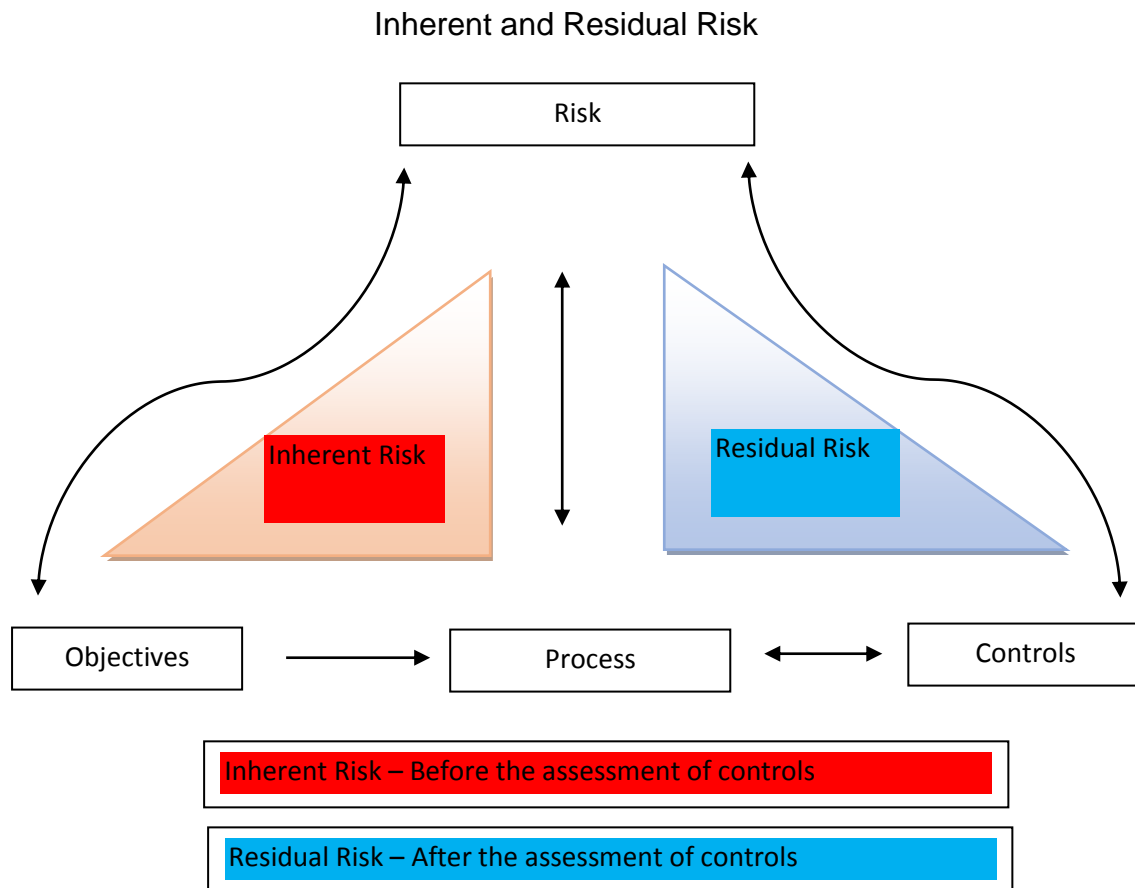
Step 3: Determine the acceptability of the risk and what action will be proposed to reduce the risk.

Risk index	Risk Magnitude	Risk Acceptability	Proposed Actions
13-25	High Risk	Unacceptable	High Level of control intervention required to achieve an acceptable level of residual risk.
6-12	Medium Risk	Unacceptable	Unacceptable except under unique circumstances or conditions. Moderate level of control intervention required to achieve an acceptable level of residual risk.
1-5	Low Risk	Acceptable	Low level of control intervention required, if any.

Risk assessment is applied first to inherent risk – the risk to the municipality in the absence of any action management might take to alter either the risk's likelihood or impact. Then the residual risk is established to determine the actual level of risk after the mitigating effects of management actions to influence the risk.



The following diagram differentiates between inherent and residual risk.



Risk Response

Risk response is concerned with developing strategies to reduce or eliminate the threats and events that create risks. Risk response involves identifying and evaluating the range of possible options to address and implementing the chosen option.

Management should develop response strategies for all material risks, prioritising the risks exceeding or nearing the risk appetite level. Response strategies should be documented together with the responsibilities and timelines.



Risk responses fall within the following categories:

Category	Description
Avoid	Refrain from engaging in activities that may result in loss exposure.
Treat	Manage the risk. Management undertakes to implement actions that are designed to reduce the likelihood, impact or both.
Transfer	Steps taken to shift the loss of liability to third parties such as insuring and outsourcing
Terminate	Management takes action to remove activities that gave rise to the risks
Tolerate	Management accepts the risk. Informed decision to accept both the impact and likelihood of risk events

The residual risk exposure (inherent risk X control effectiveness)

Risk Rating	Residual Risk Magnitude	Response
13-25	High	Unacceptable level of residual risk. Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation). Controls require substantial redesign or a greater emphasis on proper implementation.
6-12	Medium	Unacceptable level of residual risk. Implies that the controls are either inadequate (poor design) or ineffective (poor implementation). Controls require some redesign or a more emphasis on proper implementation.
1-5	Low	Mostly acceptable level of residual risk. Requires minimal control improvements



Control Activities

Risk responses serve to focus attention on control activities needed to help ensure that the risk responses are carried out properly and in a timely manner. Control activities are part of the process by which a municipality strives to achieve its objectives.

Control activities are the policies and procedures that help ensure that management responses are properly executed. They occur throughout the municipality, at all levels and in all functions.

Management is responsible for designing, implementing and monitoring the effective functioning of the system of internal controls. Without derogating from the above, everyone in the municipality should also have responsibilities for maintaining effective system of internal controls, consistent with their delegated authority.

Management should develop the internal control architecture through:

- Preventative controls to prevent errors or irregularities from occurring e.g. physical security of assets to prevent theft;
- Detective controls to find errors or irregularities after they have occurred e.g. performance of reconciliation procedure to identify errors; and
- Corrective controls that operate together with detective controls to control errors and irregularities.

The internal controls architecture should include:

- Management controls to ensure that the municipality's structure and systems support its policies, plans and objectives, and that it operates within laws and regulations;
- Administrative controls to ensure that policies and objectives are implemented in an efficient and effective manner;
- Accounting controls to ensure that resources are accounted for fully and transparently and are properly documented; and
- Information technology controls to ensure security, integrity and availability of information



Perceived control effectiveness

Effectiveness category	Category definition	factor
Very good	Risk exposure is effectively controlled and managed	20%
Good	Majority of risk exposure is effectively controlled and managed	40%
Satisfactory	There is room for some improvements	65%
Weak	Some of the risk exposure appears to be controlled, but there are major deficiencies	80%
Unsatisfactory	Control measures are inherent	90%

Monitoring

Risk Management should be regularly monitored – a process that assesses both the presence and functioning of its components and the quality of their performance over time. Monitoring can be done in two ways: through ongoing activities or separate evaluations. This will ensure that risk management will be applied at all levels across the municipality.

Monitoring activities should focus on:

- Monitoring of risk action plans – risk plans need to be monitored on an ongoing basis to ensure the necessary actions are implemented on schedule and as intended.
- Monitoring of new and emerging risks – the risk profile of any organisation will change over time. Thus there is a need to monitor and review the risk profile of the municipality to ensure that it remains relevant and complete. Changes in strategy, the legal and regulatory environment, restructuring, loss of key personnel, significant control deficiencies, fraud, changes in business objectives will require an immediate review of the municipal risk profile.
- Monitoring of the effectiveness of the risk management process – the efficiency of the entire risk management process should be monitored periodically. A positive correlation should exist between improvements in the system of risk management as well as institutional performance.



Incident reporting

Incident reporting is another means of risk monitoring and reviewing the effectiveness of controls. Certain disciplines such as Safety, Health Environment and Quality may already have in place incident reporting systems. Such reporting systems should be integrated into the broader risk management incident reporting system in order to avoid duplication of effort.

Performance measurement

Management's performance with the processes of risk management will be measured and monitored through the following performance management activities:

1. Monitoring of progress made by management with the implementation of risk management frame work;
2. Monitoring of loss and incident data;
3. Management's progress made with risk mitigating action plans; and
4. An annual quality assurance review of risk management performance.

Accountability for Risk Management

The detailed line accountability for risk management is fully aligned with the Municipality's management structure. Accordingly, the approvals, responsibilities and accountabilities applicable to the identification, evaluation/analysis, treatment and results and reporting of the Municipal risks are attributed to the Accounting Officer and the Risk Management Unit.

The Accounting Officer and the Chief Risk Officer are responsible for the ultimate signing of all risk information to the Council and Audit Committee for review.

Reporting

New risks and changes to existing risks will be captured into risk management system in the month they are identified. The information relating to new risks and/or changes to the existing risks should be communicated by the Risk Owner to the Risk Management Department.



The Risk Management Department will collect and aggregate the information and will report to the Accounting Officer, monthly, regarding the risk profile of the Municipality.

The Accounting Officer, assisted by the respective Heads of Departments will report to the Council as and when required, both the current risk profile and a summary of any major changes since the last report.

Review

The Risk Management Department led by the Chief Risk Officer will coordinate an annual review of the effectiveness of this framework as well as all organisational risks, uninsured and uninsurable risks together with the key managers in the Municipality. This annual review will take place immediately prior to the development of the annual business and integrated development plans so that it can have due regard to the current as well as the emerging risk profile of the business.

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 and approved by the Audit Committee.

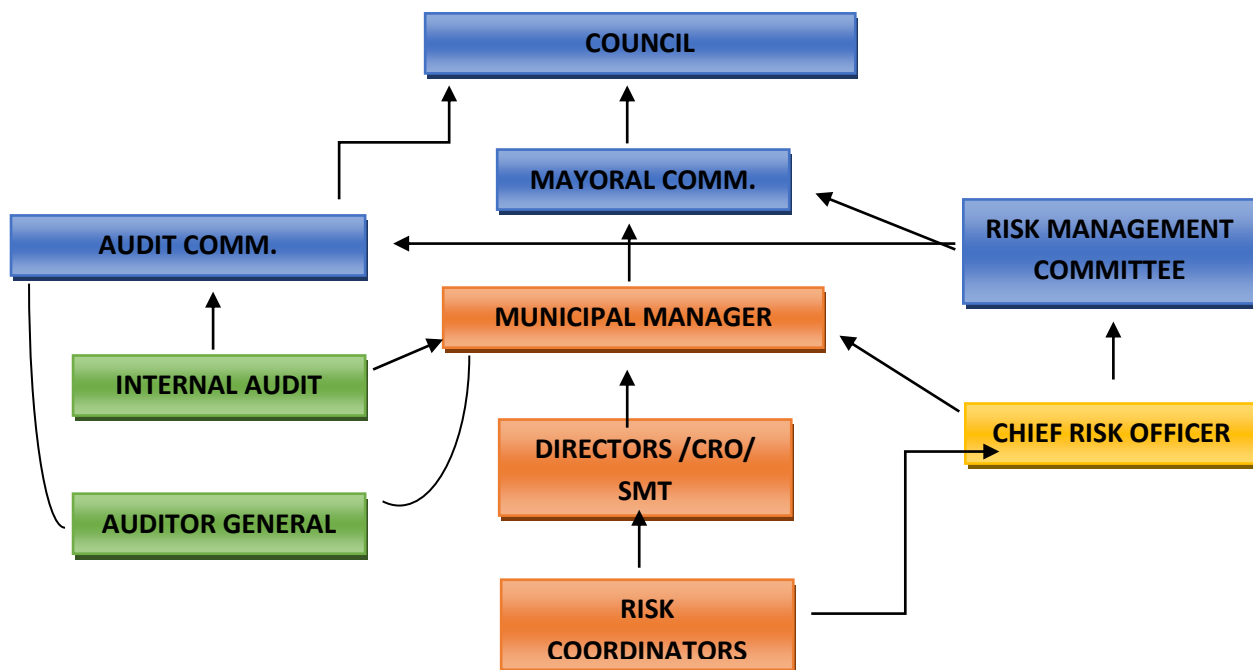
The Municipality will review the risk profile in developing their recommendations to the Council regarding the Municipality's risk financing policy and strategy.



Roles and Responsibilities

Every employee is responsible for executing the risk management process and adhering to the risk management procedures laid down by Management in their areas of responsibility.

The parties that have a significant role to play in the process of risk management are set out below:



Legends



10.1. Audit Committee

No.	Responsibilities	Accountability	Frequency
1	To meet at least 4 times a year with risk as a standard agenda item	Chairperson	Quarterly
2	Monitor the municipality's risk management process	Chairperson	Annually



3	Assessment on the effectiveness of risk management for inclusion in the annual report MFMA, section 166 (2)(a)(ii)	Chairperson	Continuous
4	Ensuring that the internal audit plans are aligned to MLM's risk profile	Chairperson	Annually
5	Satisfy itself that it has appropriately addressed the following areas - financial reporting risks, including the risks that relates to fraud; - internal financial controls; and - IT risks as they relate to financial reporting.	Chairperson	Continuous
6	Review and recommend disclosures on matters of risk in the annual financial statements;	Chairperson	Annually
7	Providing a regular feedback to the Accounting Officer on the adequacy and effectiveness of risk management in the municipality, including recommendations for improvement;	Chairperson	Quarterly

10.2. Accounting Officer

No.	Responsibilities	Accountability	Frequency
1	Setting a tone at the top by supporting and being seen to be supporting the institution's aspirations for effective management of risks;	MM	Continuous
2	Delegating responsibilities for risk management to management and internal oversight structure such as the Risk Management Committee;	MM & Executive Management	Quarterly



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3	Holding management accountable for designing, implementing, monitoring and integrating risk management into their day-to-day activities;	MM & Executive Management	Continuous
4	Providing leadership and guidance to enable management and internal structures responsible for various aspects of risk management to properly perform their functions;	MM	Continuous
5	Ensuring that the control environment is conducive for effective functioning of risk management;	MM	Continuous
6	Approving the municipality's risk tolerance and appetite;	MM	Continuous
7	Devote personal attention to overseeing management of significant risks;	MM	Continuous
8	Ensuring appropriate action in respect of recommendations by the Audit Committee, internal and external audits and Risk Management Committee to improve risk management;	MM & Executive Management	Continuous
9	Providing assurance to relevant stakeholders that key risks are properly identified, assessed and mitigated.	MM & Executive Management	Continuous
10	Ensure that risk management is a standing item in all management meetings and that Heads of Departments report on their risks within their departments	MM & Executive Management	Continuous



10.3. Chief Financial Officer

No.	Responsibilities	Accountability	Frequency
1	Annual review of the disaster recovery and business continuity plans	CFO & Executive Management	Annual
2	Same duties and/or responsibilities which are assigned to management as mentioned below.	CFO	Continuous

10.4. Executive Management / Directors

No.	Responsibilities	Accountability	Frequency
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;	Executive Management / Directors	Continuous
2	Management is responsible for implementing risk management systems within their areas of responsibility by identifying risks that are within their line functions;	Executive Management / Directors	Continuous
3	Empowering officials to effectively perform risk management	Executive Management /	Continuous



	responsibilities through proper communication of their responsibilities,	Directors	
4	Aligning the functional risk management methodologies and processes with MLM's processes;	Executive Management / Directors	Bi-annual
5	Devoting personal attention to overseeing the management of key risks within their areas of responsibility;	Executive Management / Directors	Continuous
6	Monitoring risk management within their area of responsibility, and holding officials responsible for their specific risk management responsibilities.	Executive Management / Directors	Continuous
7	Maintaining a proper functioning of the control environment within their areas of responsibility;	Executive Management / Directors	Continuous
8	Providing risk management reports on the status of the identified risks;	Executive Management / Directors	Continuous
9	Presenting to the Risk Management and Audit Committees when requested to do so;	Executive Management / Directors	Continuous
10	Maintain a co-operative relationship with the Risk Management Division and Risk Champions;	Executive Management / Directors	Continuous

10.5. Chief Risk Officer

No.	Responsibilities	Accountability	Frequency
1	9.6.1 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	CRO	Continuous



	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.		
2	<p>In addition, the key responsibilities of the CRO include:</p> <p>(a) working with senior management to develop the municipality's vision for risk management;</p> <p>(b) developing, in consultation with management the municipality's risk management framework incorporating , <i>inter alia</i>, the:</p> <ul style="list-style-type: none"> 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. 	CRO	Continuous
3	Communicating the municipality's risk framework to all stakeholders in the institution and monitoring its implementation;	CRO	Continuous
4	Facilitate orientation and training for	CRO	Bi-annual



	the Risk Management Committee;		
5	Training all stakeholders in their risk management functions;	CRO	Continuous
6	Continuously driving risk management to higher levels of maturity;	CRO	Continuous
7	Assisting management with risk identification, assessment and developing of response strategies;	CRO	Continuous
8	Monitoring the implementation of the response strategies; collating, aggregating, interpreting and analysing the results of the risk assessments to produce a risk register;	CRO	Continuous
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	CRO	Continuous
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.	CRO	Continuous

10.6 Internal Audit

No.	Responsibilities	Accountability	Frequency
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	CAE	Continuous



	<p>municipality's risk register and other sources. The Risk Management Division shall develop a risk register to be used as basis for developing Internal Audit Plans.</p> <p>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</p> <p><i>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.</i></p> <p>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.</p>		
2	Utilise risk assessment report to compile its strategic and operational	CAE	Annually



	audit plans;		
3	Provide inputs to the risk manager for the annual risk assessment;	CAE	Bi Annual
4	Formally review the effectiveness of risk management processes.	CAE	Annually

10.7. Risk Management Committee

No.	Responsibilities	Accountability	Frequency
1	The Risk Management Committee (RMC) 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.	Chairperson & RMC members	Once off
2	<p>The Chairperson of the Risk Management Committee should be an independent external person appointed by the Accounting Officer; and the following are the areas to be under the control of the above Committee:</p> <p>a) Review and recommend for the approval of the following enablers:</p> <ul style="list-style-type: none"> i) risk management policy; ii) risk management strategy; iii) risk management implementation plan; iv) municipality's risk appetite, ensuring that limits are: <ul style="list-style-type: none"> • supported by rigorous analysis; 	Chairperson & RMC members	Annually



	<ul style="list-style-type: none"> • set for all significant risks individually as well as in aggregate for particular categorisation of risks; and • Consistent with the materiality and significance framework. <p>v) municipality's risk tolerance level that it is supported by rigorous analysis of:</p> <ul style="list-style-type: none"> • the municipality's ability to withstand significant risks; and • The municipality's ability to recover financially and operationally from significant risks. <p>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.</p>		
3	Evaluate the extent and effectiveness of risk management's integration within the municipality;	Chairperson & RMC members	Monthly/ Adhoc
4	Assess implementation of risk management policy and strategy (including the plan);	Chairperson & RMC members	Monthly/ Adhoc
5	Evaluate the effectiveness of the mitigation strategies implemented to address the	Chairperson & RMC members	Monthly/



	Municipality's significant risks;		Adhoc
6	Review the material findings and recommendations by the assurance providers on the system of risk management and monitor the implementation of such recommendations,	Chairperson & RMC members	Monthly/ Adhoc
7	Develop its own performance indicators for approval by the Accounting Officer;	Chairperson & RMC members	Monthly/ Adhoc
8	Interact with the Audit Committee to share information relating to the municipality's significant risks; and	Chairperson & RMC members	Monthly/ Adhoc
9	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.	Chairperson & RMC members	Monthly/ Adhoc

10.8. Director Corporate Support Services – ICT

No.	Responsibilities	Accountability	Frequency
1	Develop and implement the disaster recovery and business continuity plans	Director CSS & ICT Manager	Continuous
2	Development of an integrated operating systems	Director CSS & ICT Manager	Continuous
3	Same duties and/or responsibilities which are assigned to management as mentioned below.	Director CSS	Continuous
4	Annual review of the disaster recovery and business continuity plans	Director CSS & ICT Manager	Annual



10.9. Council

No.	Responsibilities	Accountability	Frequency
1	Ensuring that the institution's strategies are aligned to the government's mandate;	Council	Quarterly / Adhoc
2	Obtain assurance from management that the municipality's strategies were based on a rigorous assessment of risk;	Council	Quarterly / Adhoc
3	Obtain assurance that key risks inherent in the institution's strategies were identified and assessed, and that they are properly managed;	Council	Quarterly / Adhoc
4	Assist the Accounting Officer to deal with fiscal, intergovernmental, political and other risks beyond his direct control and influence;	Council	Quarterly / Adhoc
5	Insisting on the achievement of the objectives; and	Council	Quarterly / Adhoc
6	Approve the risk management policy, strategy, risk management committee charter, strategic risk assessment reports; and other risk management enabling documents.	Council	Quarterly / Adhoc

10.10 Risk Champions

No.	Responsibilities	Accountability	Frequency
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;	Executive Managers & Risk Champions	Continuous
2	Intervene in instances where the Risk Management Division's efforts are being hampered, for example , by the	Executive Managers & Risk	Continuous



	lack of co-operation by management and other officials;	Champions	
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;	Executive Managers & Risk Champions	Continuous
4	Shall provide the CRO with the monthly mitigating reports.	Executive Managers & Risk Champions	Monthly

Other Assurance Providers

Assurance provider such as the Auditor-General South Africa will review different aspects of MLM’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.

Safety, Health and Environment

A formal safety management programme is essential for the municipality. The scope of the safety management programme should include administrative aspects, safety awareness and training, health, hygiene, electrical safety, physical safety, micro environmental exposures and legislative requirements.

Compliance

Compliance is a key element of the risk management process. All statutory compliance obligations must be managed to an acceptable level.

Business Continuity Management

It is expected that Madibeng Local Municipality will have a Business Continuity Management Plan in place, which will be revised and tested at least annually.



The results of such testing and simulations should be reported to the Risk Management Committee.

Fraud Plan

Madibeng Local Municipality is responsible for the establishment of its own fraud prevention policy and plan. Confidential reporting of potential breaches and actual investigations should be reported to the Risk Management Committee.

Review of the policy

The policy will be reviewed annually or whenever a need arises.

Conclusion

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



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ANNEXURE A
Risk register template for risk profiling

Risk Ref.	Key Performance Areas	Strategic Objectives	Key Performance Indicator	Unit of measurement / output indicator	Risk Categories	Risks Description	Root Cause/ Contributing Factor	Consequence	Risk Assessment		Inherent risk	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				



ANNEXURE B
Monitoring and reporting tool (Risk evaluation template)

Risk Ref. 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								