

“ The City of Heritage ”



**ULUNDI MUNICIPALITY
RISK MANAGEMENT POLICY**

Risk Management Policy

1. Introduction

The primary aim of this policy is to effectively entrench risk management at Ulundi Local Municipality.

"National Treasury 2010,.....It is important that the Accounting Officer / Authority sets the right tone for risk management in the Institution. Although all staff will be aware of the need to prevent loss and to safeguard stakeholders' interests, they may not be quite so clear about the Institution's standpoint on risk.

The Institution should operate within the terms of a risk management policy approved by the Accounting Officer / Authority. This is a statement that declares the Institution's commitment to risk management.

It is therefore common for the Accounting Officer / Authority to publish a risk management policy. The risk management policy should be communicated to all incumbent officials and arrangements should be made for communicating the policy to all new recruits.

The risk management policy outlines the Institution's commitment to protecting the Institution against adverse outcomes, which may impact negatively on service delivery. It will also confirm the Institution's commitment to legal and regulatory compliance. (National Treasury, 2010)"

Risk is inherent in all functions undertaken by or on behalf of Ulundi 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 outcomes for the municipality and its stakeholders.

Ulundi Local Municipality functions in an open, high risk environment where not only its own actions but those of all role-players and stakeholders (e.g. the community, Ulundi Tourism, Service Providers, Consultants, Eskom, Auditor General, media, etc) 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 the municipality's reputation.

Risk management must be an integral proactive component of the corporate management process comprising of risk identification, prevention, minimisation, avoidance and cure.

Risk management is a systematic process to identify risks to the municipality in achieving its strategic objectives as determined in the integrated development plan. It is an integral part of the approach to decision making and accountability, comprising the organization culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects within the municipal environment.

The intention of this policy cannot be to eliminate all risk to the municipality. *It is to assist personnel to manage the risks involved in all activities to maximize opportunities and minimize adverse consequences.*

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Effective risk management requires:

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

2. Objectives

The Risk Management Policy aims to address multiple objectives.

Inform and Facilitate

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

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.

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 is disproportionate to the expected benefits. The Council will commit the necessary resources to implement risk management consistent with the above principles.

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 organization.

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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.

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 . 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.

3. Stakeholders: Powers and Accountability

Council

The role and function of Council is to ensure that appropriate risk strategies, policies and processes are adopted, that powers and functions are clearly defined, assigned and performed, and that those made responsible are empowered and enabled in accordance with their responsibilities.

It also ensures that all other strategies and policies are aligned with risk management strategies, plans, requirements and standards. It oversees risk management progress and performance.

Risk Management Committee

The committee is appointed and chaired by the Accounting Officer. Accounting Officer shall appoint and delegate powers of the chairperson to a designated official. Its responsibility is to review and assess the effectiveness and control processes of risk management within the municipality and present its findings to the Audit Committee.

Risk Management Unit (RMU)

The RMU shall act as the division at which the corporate risk management plan is developed and reviewed on an annual basis for adoption by Council. Such a body shall also oversee the annual risk management process and copies of all Directorial and Departmental Risk Management Plans must be submitted for quality assurance purposes to the RMU.

Audit Committee

The Corporate Risk Management Policy and Plan and/or any amendment thereof must be submitted for scrutiny and comments to the audit committee. King III tasks the audit committee with the responsibility of monitoring the appropriateness of the municipality's combined assurance model and ensuring that significant risks facing the municipality are adequately addressed.

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Municipal Employees

This policy requires all employees to take responsibility for the cost effective management of risk in all aspects. Employees are accountable to management for implementing and monitoring the process of risk management and integrating it into their day-to-day activities.

Responsibilities include:

- Familiarity with the overall risk vision of the municipality, Risk Management Strategy, Risk Management Policy and the Anti Fraud and Corruption Strategy and Fraud Response Plan;
- Acting according to the above framework;
- Acting within the risk appetite and tolerance levels set by the risk management committee;
- Adhering to the code of conduct for the municipality (Code of Conduct for municipal staff members, Schedule 2 MSA No 32 of 2000);
- Maintaining the functioning of the control environment (risk register), information and communication as well as the monitoring systems within their delegated responsibility;
- Providing information and cooperation with other role players;
- Participation in risk identification and risk assessment within their section, department and directorate;
- Implementation of risk responses to address the identified risks.

Implementing Accountability

The powers and functions of each level of management, the accounting officer and those responsible for the implementation of and compliance with the Policy are to be clearly defined in the Risk Management Framework that has been developed in line with the Risk Management Policy.

4. Stakeholders Placing the Municipality at Risk

Stakeholders that could through their action or lack of action put the Council at risk should in every management plan and performance assessment be identified and defined and provided for in risk management assessments and strategies.

5. Specialized Support and Operational Coordination

The Performance, Internal Audit and Risk Management Unit shall act as the internal specialized 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, Risk Management Committee and to the Audit Committee.

6. Risk Functions and Activities

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, Executive Management Team or that of a single department.

Risk 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 annual risk planning review process will include;

- The review of the Risk Management Policy
- Appraisal of the Risk Management Committees;
 - o Effectiveness
 - o Performance
 - o Structure
 - o Reporting
- Review of Risk Management Structures
- Risk workshops to review the Risk Register
- Assurance that the Internal Audit Plan is aligned with the Risk Register
- Review of Risk Management Systems

Uniform and Consistent Approach To derive optimal benefits, risk management should to be conducted in a systematic manner throughout the municipality.

Development of Managerial Capacity Risk Management requires specialized skill and management shall be trained and supported accordingly.

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Value for Money and Effort Approach

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

Exploit, Prevent, Avoid, Minimize, Remedy, Eliminate Risk

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

Risk Appetite

It is the responsibility of Council 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 wasteful or fruitless expenditure. Senior management with the assistance of the Performance, Internal Audit and Risk Management Unit will endeavor to determine the risk appetite of each department under their control.

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.

Individual risks are to be assessed in terms of the Heat Map/Risk Matrix below, which takes the Likelihood and Impact of a risk into consideration to determine the severity of the risk. This is a subjective process and is therefore not a mathematical process with predetermined criteria, processes and predictable outcomes. Sound judgment, reasoning and discretion is required when deciding whether or not one risk is more critical than another; whether or not a risk requires further attention or not; and to what an extent effort and resources should be invested in managing a particular risk.

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Likelihood	High	Certain	10	20	30	40	50	60	70	80	90	100
		'9 - 10	9	18	27	36	45	54	63	72	81	90
	Likely	'7 - 8	8	16	24	32	40	48	56	64	72	80
		'5 - 6	7	14	21	28	35	42	49	56	64	70
	Possible	'3 - 4	6	12	18	24	30	36	42	48	54	60
		'1 - 2	5	10	15	20	25	30	35	40	45	50
	Unlikely	'9 - 10	4	8	12	16	20	24	28	32	36	40
		'7 - 8	3	6	9	12	15	18	21	24	27	30
	Rare	'5 - 6	2	4	6	8	10	12	14	16	18	20
		'3 - 4	1	2	3	4	5	6	7	8	9	10
			Insignificant	Minor	Moderate	Major	Extreme					
			'1 - 2	'3 - 4	'5 - 6	'7 - 8	'9 - 10					
			Low				Impact		High			

Figure 1: Heat Map/Risk Matrix

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Risk Rating	Escalation
Serious	These are serious risks and should receive the highest priority in the organisation, its efforts and in the way resources are deployed in order to minimise or resolve the impact of a risk or to avoid or prevent the risk. In these instances the likeliness and impact of the risk are both high i.e. 75 or above. (Minimum monitoring: weekly review)
High	High rated risks fall between 50 and 75. This means although the probability of the risk eventuating is high it not as likely to happen as a risk rated Serious. The risk needs to be monitored and managed accordingly. (Minimum monitoring: monthly review)
Medium	Medium risks are rated between 25 and 50. Although a risk could materialize the impact is low and effort and resources invested should be managed accordingly. (Minimum monitoring: quarterly review)
Low	These risks have low impact and low likeliness i.e. both rated below 25 out of 100. It is a low risk that requires little if any attention, effort or resource investment. (Minimum monitoring: annual review)

Figure 2: Heat Map/Risk Matrix Key

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 Serious and High risk types. At this stage of the municipality's risk maturity level it is determined that no attention will be given to risks with a combined value less than 50/100. A cause underpinning a risk may be any of the following or a combination thereof:

- A legislative nature
- A political nature
- Management capacity, skill, structure, mechanism or lack thereof
- Employee capacity or skill or lack thereof
- Financial capacity or viability
- The communities expectation, perception, action or lack of action
- Social change

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- Economic change or development
- Environmental factors
- A third parties action (such as Eskom tariff increases)
- A partners/entity/ public private partnership /shared service action or lack of action
- A competitors action
- A deteriorating relationship
- Changing technology or methodology
- A product or current service level
- Technological capacity of the municipality
- Ageing, inappropriate or insufficient infrastructure
- Outdated or absent process, policy or systems and methodology/approaches
- Material availability, quality or quantity
- Plant, fleet or equipment capacity of the organization

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.

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 (Serious 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
 - How it should be done
 - When it should begin and end (timeframe)
 - Who should be responsible for the respective components of the strategy and who should take overall accountability
 - What capacity and resources are required to successfully undertake the action
 - 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 or institution
 - What obstacles and uncertainties can impact on the successful outcome of the strategy and what are the contingencies if any.
- A project management and costing, Activity Based Costing (ABC) approach should be followed wherever necessary and possible.

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- 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.

Monitor and Review

The Performance Management, Internal Audit and Risk Management Unit in consultation with the Accounting Officer will coordinate an annual review of the effectiveness of the Risk Management Policy as well as all organizational risks, uninsured and uninsurable risks together with the Risk 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 business. 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, Senior Manager : Risk and Compliance and approved by the Audit Committee.

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