



**RISK MANAGEMENT POLICY FOR THE JOHN TAOLO GAETSEWE DISTRICT  
MUNICIPALITY**

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SIGNATURE OF THE MUNICIPAL MANAGER

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**Ms P Q Mogatle**

**Speaker**

# JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY



## Risk Management Policy

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## 1. Purpose

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

## 2. Definitions used in this Policy

<b>Risk</b>	Risks are uncertain future events (threats and opportunities) that could influence the achievement of the goals and objectives of the Municipality.
<b>Risk Management</b>	Risk management is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk issues and opportunities.
<b>Risk Assessment</b>	<p>The overall process of identifying, analyzing and evaluating risk.</p> <p>The risk assessment process should consider risks that are significant to the achievement of the Municipality's objectives.</p> <p>This is a continuous process, requiring regular reviews, as and when internal and external changes influence the Municipality's strategies and objectives.</p>
<b>Enterprise Risk Management (ERM)</b>	<p>Enterprise risk management is a structured and consistent approach across the Municipality that aligns strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the risks (threats and opportunities) that the Municipality faces to create stakeholder value</p> <p>or</p> <p>Choices made under conditions of uncertainty, bound by acceptable levels of risk, designed to sustain / maximize stakeholder value.</p>

<b>Residual Risk</b>	Risk exposure after considering the effectiveness of management's risk responses.
<b>Risk Mitigation</b>	The process of selecting and implementing measures to modify risk (encompasses risk avoidance, risk reduction, risk retention and risk transfer).
<b>Risk Profile</b>	Identification and listing of risks, typically in order of highest to lowest based on a qualitative or quantitative measurement.
<b>Risk Strategy</b>	The approach adopted for associating and managing risks based on the Municipality's objectives and strategies.
<b>Risk Appetite</b>	The amount of risk taken in pursuit of value.
<b>Inherent risk</b>	This is the product of the probability of occurrence and the severity of outcome, prior to control measures.

### 3. Scope of the Policy

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

### 4. Risk and Risk Management

Risk refers to the effect of uncertainty on objectives (ISO 31000:2009). The effect may be positive, negative or a deviation from the expected. It is often described by an event, a change in circumstances or a consequence.

Risk management is as much about identifying opportunities as avoiding or mitigating losses. It is a logical and systematic process of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process, in a way that enables an organisation to minimise losses and maximise opportunities.

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## **5. The Policy Objectives**

The Risk Management Policy aims to address multiple objectives.

### **5.1 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.

### **5.2 Strategic Alignment**

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

### **5.3 Mitigate**

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

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

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

### **5.4 Sets Risk Management Standards**

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

### **5.5 Monitor and Review**

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

## 5.6 Compliance

This policy aims to achieve compliance and to implement best practices in support of Section 62 (1) (c) (i) of the Municipal Finance Management Act. The Act stipulates that: "The Municipal Manager has and maintains effective, efficient and transparent systems : i) of financial and risk management and internal control. In terms of Section 79 of the MFMA, to all Top Management is a cornerstone in the institutionalisation of risk management in the Local Government. It establishes responsibility for the risk management at all levels of management, extending it beyond the roles of the Accounting Officer, the internal units or the Audit Committee in this regard. To avoid future audit findings risk management must be performed to at minimum a compliance level which includes the adoption and implementation of a Risk Management Policy.

## 6. Policy Statement

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

To ensure that the Municipality's strategy and, subsequently, its mandate as outlined in the Constitution of the Republic of South Africa are fulfilled, the municipality's ERM programme arms the municipality' employees with tools and capabilities to overcome barriers that arise in striving to exceed customer and stakeholder expectations. By realising that risk and control is everyone's responsibility, the municipality's employees will proactively identify risk in delivering products, services and projects to its customers in an efficient and effective manner. Focus shall be given to the management of risks associated

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with the business strategies, financial management, compliance, operations, programmes and projects of the JTDGM. Effective responsibility mechanisms will be provided to enable internal information flow, reporting stakeholders.

## **7. The Role players**

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

### **7.1 Risk Management Oversight**

#### **7.1.1 Council**

The Council takes an interest in risk management to the extent necessary to obtain comfort that properly established and functioning systems of risk management are in place to protect the Municipality against significant risks.

#### **7.1.2 Audit and Performance Committee**

The Audit Committee is an independent committee responsible for oversight of the Municipality control, governance and risk management. The responsibility of Audit Committee with regard to risk management are formally defined in its charter. The Audit Committee provides an independent and objective view of the municipality's risk management effectiveness.

#### **7.1.3 Risk Management Committee**

The Risk Management Committee is appointed by the Municipal Manager to assist them to discharge their responsibilities for risk management. It is chaired by an external independent chairperson. The committee's role is to review the risk management progress and maturity of the Municipality, the effectiveness of management activities, the key risks facing the Municipality, and the responses to address the key risks. The responsibilities of the Risk Management Committee are formally defined in its charter.



## **8. Specialised Support and Operational Coordination**

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

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

## **9. Risk Functions and Activities**

### **9.1 Internal and External Risks**

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

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

### **9.2 Management is a Formal Annual Process**

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

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

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### 9.3 Uniform and Consistent Approach

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

### 9.4 Development of Managerial Capacity

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

### 9.5 Value for Money and Effort Approach

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

### 9.6 Exploit, Prevent, Avoid, Minimise, Remedy, Eliminate Risk

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

### 9.7 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 department will endeavour to determine the risk appetite of each department under their control.

### 9.8 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.

## 9.9 Determine Cause of Risk

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

- 9.9.1 A legislative nature
- 9.9.2 A political nature
- 9.9.3 Management capacity, skill, structure, mechanism or lack thereof
- 9.9.4 Employee capacity or skill or lack thereof
- 9.9.5 Financial capacity or viability
- 9.9.6 The communities expectation, perception, action or lack of action
- 9.9.7 Social change
- 9.9.8 Economic change or development
- 9.9.9 Environmental factors
- 9.9.10 A third parties action (such as Eskom tariff increases)
- 9.9.11 A partners/entity/ public private partnership /shared service action or lack of action
- 9.9.12 A competitors action
- 9.9.13 A deteriorating relationship
- 9.9.14 Changing technology or methodology
- 9.9.15 A product or current service level
- 9.9.16 Technological capacity of the municipality
- 9.9.17 Ageing, inappropriate or insufficient infrastructure
- 9.9.18 Outdated or absent process, policy or systems and methodology/approaches
- 9.9.19 Material availability, quality or quantity
- 9.9.20 Plant, fleet or equipment capacity of the organisation

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

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## 9.10 Risk Response

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

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

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

9.10.1 Who should be responsible for the respective components of the strategy and who should take overall accountability

9.10.2 What capacity and resources are required to successfully undertake the action

9.10.3 What the ultimate goal of the action is and what the desired outcome and deliverable entail. For example, is the strategy focused on avoidance, minimisation, prevention, remedy, elimination or even the transferring of the risk to another body or institution

9.10.4 What obstacles and uncertainties can impact on the successful outcome of the strategy and what are the contingencies if any.

9.10.5 A project management and costing, Activity Based Costing (ABC) approach should be followed wherever necessary and possible.

9.10.6 Remedial action should address the cause and could therefore be aligned with, for example, the causes listed under the Determine Cause of Risk section above.

## 9.11 Monitor and Review

The Performance, Internal Audit and Risk Management department in consultation with the Accounting Officer will coordinate an annual review of the effectiveness of the Risk Management Policy as well as all organisational risks, uninsured and uninsurable risks together with the Risk 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, Risk Manager 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 Profile, Risk Management Policy and Risk Management Strategy.

#### 9.12 Risk Management cycles

Responsible Person	Description	Timelines
Risk Management Committee	Risk Management Committee meetings.	Quarterly
All Senior Management	Strategic Risk Assessment Workshop.	Once in the Last quarter.
Head of Department	Operational Risk Assessment Workshop for each department.	Once in the Last quarter.
All Senior Management	Strategic Risk Review/updates.	Once from the first to the last quarter
Head of Department	Operational Risk Review/updates.	Once from the first to the last quarter

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## 10 Policy Review

This policy shall be reviewed as and when deficiencies are identified, to reflect the current stance on risk management.