METSIMAHOLO LOCAL MUNICIPALITY

RISK MANAGEMENT STRATEGY

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1. OVERVIEW

Risk Management is a tool used in support of planning and decision making processes for service delivery with the Legislative imperatives set out in Sections 62 and 78 of the MFMA. The legal framework governing financial management in the local government Sector, places the following responsibilities on the municipality:

- **Section 62 (1) (c) (i) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA)**

  Section 62 (1) (c) (i) of the MFMA requires that:
  "(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all responsible steps to ensure -

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

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

- **Management, Other Personnel, Chief Risk Officer, Risk Champions**
  Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA)

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

  The Accounting Officer must also ensure that a risk assessment is conducted regularly to identify emerging risks of the municipality.

In view of the above, the purpose of the Risk Management Strategy therefore, is to meet these legal requirements and to formalize a number of existing procedures. By following an ongoing structured approach, risks must be managed by developing a prioritized action plan aimed at reducing risks to the lowest level practicable. Mechanisms will be put in place to ensure the viability of the municipality's business. Risk Management is an integral part of all areas of business practice and also the responsibility of everyone.

2. BACKGROUND

Risk Management acknowledges that all activities of the municipality, irrespective of what they are, involve some element of risk. There are various types of risks, but for the purpose of this document, the focus is on risks that may prevent or impede the achievement of departmental objectives. The purpose of risk management is not to remove all risk, but to ensure that risks are recognized and their potential to cause loss for the municipality is fully understood. Based on this information, action will be taken to direct appropriate levels of resources at controlling the risk or minimizing the effect of potential loss and threat to non-achievement of departmental objectives.

In view of the foregoing, Risk Management could be defined as:

"***The continuous, pro-active and systematic process of identifying the potential risks from internal or external sources that may prevent or impede the achievement of municipality's objectives and to take the necessary actions to control these risks at levels which are acceptable to provide a reasonable assurance regarding the achievement of those objectives".***

Elements of Risk Management will therefore include:

- Addressing the operations and activities of the municipality;
- Identification of risks;
- Assessing the nature and extent of risks associated with the municipality's operations and activities and their potential frequency and severity;
- Determine the impact should a specific risk manifest itself;
- Elimination of risks that can be eliminated;
- Reducing the effect of those risks that cannot be eliminated and deciding on an acceptable level of loss or degree of failure;
- Priorities risk elements;

- Putting mechanisms into place to absorb the consequences of the risk that remain;
- Ongoing monitoring and reporting and from time to time, reassessing the level and implications of the risk exposure.

By adopting such an approach, the municipality will benefit in the sense that it will:

- Provide better services to its clients, which will lead to a more positive outlook towards their lives and self-development;
- Reduce fraud and risks incidences.
- Effectively communicate internally and externally;
- Be compliant with Legislation;
- Have effective contingency plans; and
- Improve morale of employees within the municipality and instill trust amongst citizens served by the municipality.

3. OBJECTIVES

Risk Management Strategy is an integrated business process that incorporates all of the Risk Management processes, activities, methodologies and policies adopted and carried out in an organization.

Within the context of Risk Management, the municipality's strategic objectives will be to:

3.1. Identify, control and eliminate or reduce risks to an acceptable level, risks which may adversely affect:

- the ability of the municipality to eradicate poverty, provision of service delivery to the poor; vulnerable individuals, families and the communities of Metsimaholo;
- fraud, corruption, maladministration, loss of assets and theft;
- the quality of the municipality's work on children, women, youth, orphans and children in distress, living and working in streets;
- the ability of the municipality to reduce welfare dependence and increase self-reliance and development; and

- the ability of the municipality to manage resources and deliver services to the citizens of Metsimaholo.

3.2. Minimize the chance of ever being exposed to an unidentified risk.

3.3. Understand the risks which the municipality faces, know the causes and control measures as well as the cost of risks.

3.4. Create an environment of honesty, openness where adverse incidents are identified quickly and dealt with in a positive and responsive way.

3.5. Separate the complaints process from disciplinary procedures and act to ensure that causes of complaints are minimized.

3.6. Reduce risk to employees and stakeholders, manage and control them where acceptable, transfer risk where unacceptable or unavoidable.

4. ROLES AND RESPONSIBILITIES

The following roles and responsibilities exist for the implementation of effective risk management:

- The **Accounting Officer** is accountable for the municipality's overall governance of risk.

- The **Audit Committee** is an independent committee responsible for oversight of the municipality's control, governance and risk management.

- The **Risk Management Committee** has an overall responsibility for overseeing risk management processes within the municipality.

- The **Chief Risk Officer** is to bring to bear his or her specialist expertise to assist the municipality to embed risk management and leverage its benefits to enhance performance.

- **Management** is responsible for executing their responsibilities outlined in the risk management framework and for integrating risk management into the operational routines.

- **Other employees** are responsible for integrating risk management into their day-to-day activities.

- **Risk Champion** is a person with the skills, knowledge, leadership qualities and power of office required to champion a particular aspect of risk management.

- The role of **Internal Audit** and the **Auditor General** in risk management is to provide an independent, objective assurance on the effectiveness of the municipality's system of risk management.

5. RISK MANAGEMENT PROCESS

5.1. Identify and describe the risk

The first step in identifying risks will be to consider the objectives to be achieved. The objectives concerned would be the function of each Directorate and the level of management involved. By formulating the objectives first, this will provide a reference framework for identifying what can go wrong – identifying the risks/threats to the objectives. Additionally, it will also be important to remember that risks are associated with specific actions/tasks which are normally performed in a logical sequence in order to achieve the stated objectives. So, a proper understanding of what is happening – a logical flow of activities or tasks would assist in identifying risks, i.e. what can go wrong. The end product here would be a detailed list of all risks.

5.2. Measure the risks identified

After identifying and describing the relevant risks, the risks would be measured in order to determine priorities in respect of controlling them. The measurement of these risks would largely be subjective in nature, relying on rough estimates and judgement. As a result the term assessment will often be preferred and used as opposed to measurement. The end product here would be a prioritized list of risks.

5.3. Consider risk management alternatives and select the apparent best alternative

This step-in essence, requires decision making with regard to how to deal with the identified risks and their possible consequences. The decision making will take into account the priorities set by the risk measurement exercise. Resources will be directed at the high priority risks first. The risk management techniques relevant to the individual risks identified, decisions with regard to which techniques to implement would be decided in this step. This will principally involve a cost-benefit analysis. The cost of implementing a technique would be weighed against the potential loss if the particular technique is not implemented. The end product here would be a risk management report.

5.4. Implementation of chosen risk management techniques

After treatment approaches have been chosen for the prioritized risks and specific techniques are to be applied, then the implementation of these risk management techniques would require a combination of technical decisions and management decisions. The suggested key steps of the implementation process will include:

- Drawing up specifications or specifying what is required;
- Determining who should be involved in the implementation process and specifying tasks;
- Drawing up financial and time budgets;
- Obtaining approvals as required by regulation or policy;
- Preparing facilities for implementation as required;
- Preparing personnel for implementation as required;
- Integrating into existing organizational structure and operations as appropriate;
- Following-up immediately after implementation.

Depending on the nature of the risk management techniques being implemented, the aforementioned stages will display unique characteristics that will affect application.

The end product of this step would be an implementation plan.

5.5. Continuous Monitoring

In this step all Directors/Managers in the municipality will monitor and compare actual results to expectation on a regular basis. Expectations would directly relate to the risk being managed and therefore the objectives the municipality planned to achieve. Comparing actual results to the expectation will facilitate the decisions in improving controls to achieve departmental objectives.

The methods used to assess risks in the municipality may change from time to time in order to make it more effective and efficient.

On completion of the municipality's risk assessment, the Risk Management Committee would approve:

- prioritization of the risks in order to determine the top risks that require urgent attention and possibly resources;
- possible ways of addressing the risks; and
- officials responsible for addressing the high priority risks.

6. RISK MANAGEMENT COMMITTEE

In order to assist the Accounting Officer to fulfill his legal responsibilities as far as the management of risks including the prevention of fraud and corruption, are concerned, the Risk Management Committee has been established and would compose of the following:

- Independent: External Chairperson
- Chief Financial Officer;
- Director: Corporate Services;
- Director: Local Economic Development;
- Director: Technical Services;
- Director: Social Services;
- Risk Officer (Ex Officio).

Standing invitees to the Committee shall be:

- Municipal Manager (as and when necessary);
- Internal Auditor(s);
- Representative(s) of the Auditor-General;
- Representative(s) of Provincial Government;
- Any other person who may be co-opted to provide specialist skills, advice and counsel.

The responsibilities of the Risk Management Committee are formally defined in the Risk Management Committee Charter.

7. REPORTING

The Risk Management Committee shall through the Chairperson, report to the Accounting Officer and Audit Committee on its activities quarterly and more frequently on request.

8. IMPLEMENTATION OF THE RISK MANAGEMENT STRATEGY

The Risk Management Implementation Plan for the municipality is prepared to give effect to the implementation of the risk management policy and strategy and sets out all risk management activities planned for each financial year. The primary objective of risk management implementation plan is to facilitate the execution of risk management.