

SOL PLAATJE MUNICIPALITY



RISK MANAGEMENT AND INTERNAL CONTROL

Approved
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1. INTRODUCTION

The management of risk is the process by which the Accounting Officer, Chief Financial Officer and the other senior management of a Municipality will pro-actively, purposefully and regularly, but at least annually, identify and define current as well as emerging business, financial and operational risks and identify appropriate, business and cost effective methods of managing these risks within the Municipality, as well as the risk to the stakeholders.

2. PURPOSE AND SCOPE

This Policy addresses key elements of the risk management framework to be implemented and maintained by the Municipality, which will allow for the management of risks within defined risk/return parameters, risk appetite and tolerances as well as risk management standards. As such, it provides a framework for the effective identification, evaluation, management, measurement and reporting of the Municipality's risks.

The risk management framework and this Policy adopt a broad definition of risk as:

The chance of an event occurring that will have an impact (threat or opportunity) upon the achievement of the Municipality's business objectives.

Risk is often created by:

- Changes that takes place within the Municipality (i.e. people, systems, processes, technology, legislation and regulations);
- External influences (i.e. economics, availability of human resources and damages);
- Operations and complexity of processes;
- Volume of activities within a Municipality; and
- The nature of the control environment.

By defining risk in terms of an impact upon the achievement of those business objectives, the Municipality's risk management framework should recognise the need to manage risk so that the Municipality is sustainable as well as able to timeously meet its obligations to its broader stakeholders (i.e. the community, financiers, and service providers).

This concept of risk includes risk events in all of the following categories:

- Operational;
- Strategic;
- External;
- Physical; and
- Financial.

The primary goals of the Municipality's Risk Management Program are to support the overall mission of the Municipality by:

- Supporting balance sheet protection.
- Supporting business continuity.
- Supporting reputation risk.
- Defining risk management roles and responsibilities within the Municipality and outlining procedures to mitigate risks so as to ensure a dynamic and demonstratable process in which responsibility rests with line management with overall responsibility vested in the Accounting Officer. The Accounting Officer may however delegate to the next level of authority in terms of the management structure of Sol Plaatje Municipality.
- Ensuring pro-active, consistent, integrated and acceptable management of risk throughout the Municipality.
- Defining a reporting framework to ensure regular communication of pre-define risk management information to Council, Audit Committee and Executive Mayor, Accounting Officer, senior management and officials engaged in risk management activities.

- Remaining flexible to accommodate the changing risk profile and management needs of the Municipality while maintaining control of the overall risk position.
- Document the approved methodology for risk measurement.
- Providing a system or process to accommodate the central accumulation of risk data such as the development and maintenance of a risk register, which must form part of operational support and procedures.

3. OBJECTIVE OF THE RISK POLICY

The objective of the risk policy is to ensure that a strategic plan is developed that should address the following:

- An effective risk management architecture which will include inter alia-
- Promotion of a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefit the organization is encouraged;
- Provision of a sound basis for Integrated Risk Management and Internal Control as components of good Corporate Governance;
- A reporting system to facilitate risk reporting; and
- An effective culture of risk assessment.

This plan should include the process to identify current as well as emerging risks and the related response strategy to manage and mitigate against or minimise these risks. Risks must be identified per business function within the Municipality but also taking the other activities into account to ensure optimal management and results. Each of these risks must be assessed and the likelihood and the frequency of the cause of the risk occurring and the resulting impact severity of the risk on the functions and sustainability of the Municipality must be documented and considered by the Accounting Officer and Chief Financial Officer.

4. RISK MANAGEMENT FRAMEWORK

This Policy is the starting point in the risk management framework and must be prepared to ensure that risk management becomes the concern of line management and everyone in the Municipality and that risk management practices

are consistent across the whole of Municipality. The risk management framework adopted by this Policy is comprised of four key elements as illustrated below.



Identification

- all activities associated with the Municipality's business, both existing and new should be assessed in order to identify material current as well as emerging risks, which threaten the achievement of objectives or may cause material loss or damage or business continuity implications for the stakeholders or reputation risks for the Municipality



Measurement

- the risks associated with any new activities will be evaluated in order to determine the potential exposure to the Municipality
- all material existing risks will be re-evaluated on at least an annual basis
- all risks will be evaluated on a quantitative basis and if this is not appropriate, qualitative factors will be adopted



Management

- appropriate risk management will enable the Municipality to both minimise loss and optimise opportunities
- the identification and monitoring of risk is the responsibility of the Accounting Officer but the Chief Financial Officer and other echelons accept joint responsibility
- the Accounting Officer will co-ordinate the risk management system, monitoring of results and the reporting of risks to the Chief Financial Officer
- the operation of risk mitigation procedures is the responsibility of the Accounting Officer and the Chief Financial Officer with support from the Heads of Departments

Reporting

- all new risks must be reported in terms of the following key categories and should also be inclusive of categories identified in Annexure 1 of this document which reflect the potential risk profile of Sol Plaatje Municipality.

- ◆ safety/security
- ◆ service delivery/operational
- ◆ human resources
- ◆ strategic
- ◆ environmental
- ◆ financial
- ◆ reputation
- ◆ legal compliance
- ◆ political
- ◆ health

5. ACCOUNTABILITY AND 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 Municipality's risks are attributed to the Accounting Officer.

The Accounting Officer is responsible for ultimate sign off of all risk information to the Council and Audit Committee, and review prior to any sign-off.

6. RISK IDENTIFICATION AND TOLERANCE

6.1 Risk identification

A Municipality will consider and assess the risk implications of all actions it undertakes in relation to both existing and proposed activities, systems and procedures.

All risks identified will be evaluated and documented, together with the processes which mitigate against/manage those risks, and who is accountable for them. Risk identification is everyone's' responsibility and should be consistent with reporting measures set out under Section 8 of the policy.

6.2 Maximum risk exposure

A Municipality will accept a level of risk such that the long-term sustainability of the Municipality is reasonably assured. The risk management strategy could fall into one or more of the following categories:

- v accept the risk;
- v reduce the risk
- v spread the risk
- v transfer the risk
- v avoid the risk
- v monitor the risk
- v control the risk

7. RISK MEASUREMENT

Risk is to be assessed by considering estimates of likelihood, severity and consequence. Risk analysis may be undertaken using both quantitative and qualitative measures. Where possible all risk exposures should be measured using a quantitative or financial outcome and/or human resource implications.

8. REPORTING LINES

The risk management line of reporting shall be as follows:

- o The Employees
- o Line Managers
- o Heads of Departments
- o Directors (Including the Chief Financial Officer)
- o Accounting Officer

The Chief-Risk Manager will be responsible for overseeing the coordination, facilitation of the implementation of the risk management policy and will in fulfilling this role act in an advisory capacity.

9. MANAGEMENT CONTROLS

Risk treatment involves identifying the range of options for treating risk, assessing those options, preparing risk treatment plans and implementing those plans in the most business as well as cost effective manner.

Where current risk mitigation controls are deemed ineffective and therefore warrant action, management will prepare appropriate control improvement and action plans. Included in each control plan will be the allocation of accountabilities, expected outcomes and action dates for the implementation and measurement of the control improvement plan.

10. MONITORING AND REVIEW

The Risk Manager in consultation with the Accounting Officer will coordinate an annual review of the effectiveness of this policy 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, Risk Manager 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 profile, policy and strategy.

11. LIABILITIES AND RISKS PAYABLE IN FOREIGN CURRENCY

The Municipal Management Finance Act No 56 of 2003 determines that no municipality may incur a liability or risk payable in a foreign currency. This however does not apply to debt regulated in Section 47 of the Municipal Management Finance Act or to the procurement of goods or services denominated in a foreign currency, but the Rand value of which is determined at the time of the procurement, or where this is not possible and risk is low, at the time of payment.