

**NTABANKULU LOCAL MUNICIPALITY**



**RISK MANAGEMENT POLICY 2023/2024**

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## 1. DEFINITIONS

In this policy, unless the context indicates otherwise:

<b>NLM</b>	Ntabankulu Local Municipality
<b>Accounting Officer</b>	The Municipal Manager
<b>Risk</b>	An event with a negative impact which can prevent the achievement of the Municipality's service delivery and other performance objectives, caused by the presence of risk factor(s).
<b>Audit Committee</b>	An independent committee constituted to review the control, governance and risk management within the Municipality, established in terms of Section 166 of the MFMA.
<b>Chief Risk Officer</b>	A senior official who is the Head of the Risk Management Unit or a Risk Manager or a person acting in the capacity of Chief Risk Officer within the Municipality who has the primary responsibility for advising on, formulating, overseeing and managing all aspects of the Municipality's enterprise risk management system and monitors the municipality's entire risk profile, ensuring that risks are identified and reported upwards.
<b>Executive Authority</b>	The Municipal Council.
<b>Framework</b>	The Public Sector Risk Management Framework
<b>Enterprise Risk Management (ERM)</b>	Is the process of planning, organizing, leading, and controlling the activities of an organization in order to minimize the effects of risk on an organization's capital and earnings.
<b>Inherent Risk</b>	The exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors
<b>Internal Auditing</b>	An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the

	effectiveness of risk management, control, and governance processes
<b>King III</b>	The King Code of Corporate Governance for South Africa 2009
<b>Residual Risk</b>	The remaining risk after Management has put in place measures to control the inherent risk
<b>Risk Appetite</b>	The level of risk Executive Management and the Municipality's Council are willing to accept on an aggregate basis in relation to strategic and business objectives ( <i>IDP / Strategic Scorecard</i> ). The risk appetite is set in alignment with the impact and likelihood ratings to determine how significant a risk the organization is able or willing to accept.
<b>Risk Assessment</b>	The process of determining the probability as well as the impact of the identified risk as a basis of determining how they should be managed
<b>Risk Champion</b>	A person who by virtue of his/her expertise or authority champions a particular aspect of the risk management process, but who is not the risk owner
<b>Risk Factor</b>	Any threat or event which creates, or has the potential to create risk
<b>Risk Management</b>	A systematic and formalized process to identify, assess, manage and monitor risks
<b>Risk Management Committee</b>	A committee appointed by the Accounting Officer / Authority to review the Municipality's system of risk management
<b>Risk Management Unit</b>	A business unit responsible for coordinating and supporting the overall Municipality risk management process, but which does not assume the responsibilities of Management for identifying, assessing and managing risk
<b>Risk Owner</b>	The person accountable for managing a particular risk

<b><i>Risk Profile</i></b>	The company and its regions and functional areas, has an inherent and residual risk profile. These are all the risks faced by the company, ranked according to a risk matrix and indicated graphically on a matrix. The Risk Score may be determined by multiplying the frequency and severity of the risks, where these are indicated
<b><i>Risk Register</i></b>	A formal listing of risks identified, together with the results of the risk analysis, risk evaluation procedures together with details of risk treatment, risk control, risk reduction plans
<b><i>Risk Response</i></b>	Process of selection and implementation of measures to mitigate risk. Risk response measures can include <i>reducing, avoiding, transferring, or accepting</i> risk.
<b><i>Risk Tolerance</i></b>	The level of risk the Executive Management and Municipality's Council are willing to accept relative to variation or variability around specific business objectives ( <i>SDBIP / Operational Scorecard</i> ). It relates to the degree to which performance can deviate from the expected outcome for a specific goal or objective and still be considered within an acceptable range from a risk perspective. Risk tolerance level must be set in consideration of risk appetite to determine boundaries of acceptable risk management performance

## 2. PREAMBLE

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

## 3. LEGISLATIVE FRAMEWORK

Since 2003 this practice has been further supported by the Municipal Finance Management Act which stipulates in Section 62 that:

*"The Municipal Manager...has and maintains effective, efficient and transparent systems:*

*i) of financial and risk management and internal control; and*

*ii) of internal audit operating in accordance with any prescribed norms and standards"*

The extension of the general responsibilities, in terms of Section 79 of the MFMA, to all Top Management is a cornerstone in the institutionalisation of risk management in the public service. It establishes responsibility for risk management at all levels of management, extending it beyond the roles of the Accounting Officer, the internal audit units or the Audit Committee in this regard.

The King report on Corporate Governance also reflects on risk management as an integral part of strategic and operational activities. King 11 Code states *"The Board is responsible for the total process of risk management, as well as for forming its own opinion on the effectiveness of the process."*

The Institute of Internal Auditors defines risk as *"...the uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is measured in terms of consequences and likelihood."*

Risk management is defined as:

*"A continuous, proactive and systematic process, effected by an entity's executive authority, accounting officer, management and other personnel, applied in strategic planning and across the entity, designed to identify potential events that may affect the department, and manage risks to be within its risk tolerance, to provide reasonable assurance regarding the achievement of entity's objectives."*

Risk management is more than an exercise in risk avoidance. It is as much about identifying and utilizing opportunities as avoiding or mitigating losses.

## 4. POLICY OBJECTIVES

The objectives of this policy are:

4.1 To promote a risk management culture in all levels of the Municipality and improve risk transparency to various stakeholders.

- 4.2 To maximize value by managing risks that may impact the financial and performance drivers.
- 4.3 To assist the Municipality in enhancing and protecting those opportunities that represents the greatest service delivery benefits.
- 4.4 To define and assign risk management roles and responsibilities within the Municipality; and
- 4.5 To define a reporting framework which ensures regular communication of risk management information to the Council, portfolio committees, the Audit Committee and senior management and officials engaged in risk management activities.

## **5. RISK MANAGEMENT POLICY STATEMENT**

The Municipal Manager has committed to a process of risk management that is aligned to the principles of good corporate governance, as supported by the Municipal Finance Management Act (MFMA), Act No 56 of 2003.

Risk management is recognized as an integral part of responsible Management and the Municipality therefore adopts a comprehensive approach to the management of risk. It is expected that all Directorates will be subject to the risk management policy and strategy. It is the intention that these Directorates will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable.

Effective risk management is imperative to the Municipality to fulfill its mandate, the service delivery expectations of the public and the performance expectations within the Municipality.

Sound management of risk will enable the municipality to anticipate and respond to changes in service delivery environment, as well as to take informed decisions under conditions of uncertainty.

All risk management efforts will be focused on supporting the Municipality's objectives. Equally, to ensure compliance with relevant legislation, and fulfill the expectations of employees, communities and other stakeholders in terms of corporate governance.

The effectiveness of the municipality's efforts to entrench a culture of risk management entity-wide rests entirely on the commitment of all the Municipality's employees.

## **6. RISK MANAGEMENT POLICY**

Ntabankulu Local Municipality is committed to the optimal management of risk in order to achieve its vision, mission, objectives, strategies and plans and to protect its core values.

The Municipal Manager has committed the NLM to a process of risk management that is aligned to the principles of good corporate governance, as supported by the Municipal Finance Management Act (MFMA), Act no 56 of 2003 and the King II Report on Corporate Governance (King II).

Risk management is recognised as an integral part of responsible management and the NLM therefore adopts a comprehensive approach to the management of risk. It is expected that all directorates will be subject to the risk management strategy. It is the intention that these directorates will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable.

Effective risk management is imperative to the NLM to fulfill its mandate, the service delivery expectations of the public and the performance expectations within the NLM.

Sound management of risk will enable the municipality to anticipate and respond to changes in service delivery environment, as well as make informed decisions under conditions of uncertainty.

Managers and staff at all levels will have a responsibility to identify, evaluate and manage or report risks.

The aim is to anticipate, and where possible, prevent risks resulting in unwanted events rather than dealing with their consequences. However, for some risks where the likelihood of a risk occurring is remote, but the consequence on the entity is high, the municipality will ensure that business continuity plans are developed and authorized by the Municipal Manager. This will allow the municipality to contain the negative effect of unlikely events, which might occur.

In determining appropriate risk management controls, the cost of control / risk management, and the impact of risks occurring will be balanced with the benefits of reducing risk. The municipality also recognizes that some risks can be managed by transferring them to a third party, for example by insurance.

## **7. RISK MANAGEMENT COMPONENTS (RISK MANAGEMENT CYCLE)**

Risk management consists of eight interrelated components. These are derived from way management runs organization and are integrated with the management process. These components are:

**7.1 Internal environment** – Management sets a philosophy regarding risk and establishes a risk appetite. The internal environment sets the foundation for how risk and control are viewed and addressed by entity's people. The core of any business is its people, their individual attributes, including ethical values, competence, and the environment in which

they operate. They are the engine that drives the entity and the foundation on which everything rests.

**7.2 Objective setting** – Objectives must exist before management can identify events potentially affecting their achievement. Risk management ensures that management has a process in place to set objectives that the chosen objectives support and align with the entity's mission/vision and are consistent with entity's risk appetite.

**7.3 Event identification** – Potential events that might have an impact on the entity must be identified. Event identification includes identifying factors internal and external that influence how potential events may affect strategy implementation and achievement of objectives. It includes distinguishing between potential events that represent risks, those representing opportunities and those that may be both. Management identifies interrelationships between potential events and may categorise events in order to create and reinforce a common risk language across the entity and form a basis for considering events from portfolio perspective.

**7.4 Risk assessment** – Identified risks are analysed in order to form a basis for determining how they should be managed. Risks are associated with relevant objectives that may be affected. Risks are assessed on both an inherent and residual basis, and the assessment considers both risk likelihood and impact. A range of possible results may be associated with potential event and management needs to consider them together.

**7.5 Risk response** – Management selects an approach or set of actions to align assessed risks with the entity's risk appetite, in the context of the strategy and objectives. Personnel identify and evaluate possible responses to the risks, including avoiding, accepting, reducing and sharing.

**7.6 Control activities** – Policies and procedures are established and executed to help ensure that the risk responses management selected are effectively carried out.

**7.7 Information and communication** – Relevant information is identified, captured, and communicated in a form and timeframe that enable people to carry their responsibilities. Information is needed at all levels of an entity for identifying, assessing, and responding to the risk. Effective communication also must occur in a broader sense, flowing down, across and up the entity. Personnel need to receive clear communications regarding their role and responsibilities.

**7.8 Monitoring** – The entire risk management process must be monitored, and modifications made as necessary. In this way, the system can react dynamically, changing as conditions warrant. Monitoring is accomplished through on-going management activities.

## **8. BENEFITS OF RISK MANAGEMENT**

The benefits of the successful implementation of risk management in the NLM encompass:

- 8.1 Aligning risk appetite and strategy** – Management considers their risk appetite in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks.
- 8.2 Enhancing risk response decisions** - ERM provides the rigor for management to identify alternative risk responses – risk avoidance, reduction, sharing, and acceptance.
- 8.3 Reducing operational surprises and losses** – NLM gains enhanced capability to identify potential events and establish responses by reducing surprises and associated costs or losses.
- 8.4 Identifying and managing multiple and cross-enterprise risks** – NLM faces a myriad of risks affecting different parts of the organization and risk management facilitates effective responses to the interrelated impacts and enhances an integrated response to multiple risks.
- 8.5 Seizing opportunities** - By considering a full range of potential events, Management is positioned to identify and proactively realize opportunities.
- 8.6 Improving deployment of capital** - Obtaining robust risk information allows Management to effectively assess overall funding requirements and enhance funding allocation.
- 8.7 Ensuring compliance with laws and regulations** – Risk management contributes to effective reporting and monitoring of compliance with laws and regulations and assists with the limitation of damage to NLM’s reputation and associated consequences.
- 8.8 Increasing probability of achieving objectives** – Risk management helps management achieve NLM’s performance and financial targets and assists with the prevention of loss of resources. Controls and risk interventions will be chosen on the basis that they increase the likelihood that NLM will fulfill its intentions / commitments to its stakeholders.

## **9. Risk Management Accountability, roles, and responsibilities**

All personnel have a responsibility for maintaining good internal control and managing risk in order to achieve personal, workgroup and corporate objectives. Collectively, staff at operating units needs the appropriate knowledge, skills, information, and authority to establish, operate and monitor the system of risk control. This requires a good understanding

of the entity, its objectives, and the risks it faces. The structures through which risk management will be reported are set out below.

***9.1 The Council, Municipal Manager and Top Management are accountable for risk management***

- 9.1.1 The Council together with the Municipal Manager and Heads of Directorates are responsible for the identification of major risks, the total process of risk management, as well as for forming its own opinion on the effectiveness of the process. Management is accountable to the Council for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the entity;
- 9.1.2 The Council, Municipal Manager and Heads of Directorates should identify and fully appreciate the business risk issues and key performance indicators affecting the ability of the entity to achieve its strategic purpose and objectives; and
- 9.1.3 The Council, Municipal Manager and Heads of Directorates should ensure that appropriate systems are in place to manage the identified risks, measure the impact and to proactively manage it, so that the municipality's assets and reputation are suitably protected.

***9.2 The Council and Municipal Manager will provide stakeholders with assurance that key risks are properly identified, assessed, mitigated and monitored***

The Council together with the Municipal Manager should receive credible and accurate information regarding the risk management processes of the municipality in order to give the necessary assurance to stakeholders. The reports from the Audit Committee and Management Committees must provide an evaluation of the performance of risk management and internal control. The Council together with the Municipal Manager should ensure that the various processes of risk management cover the entire spectrum of corporate risk.

***9.3 The Council and Municipal Manager will maintain a formal risk policy for the municipality.***

Stakeholders need to understand the Council and Municipal Manager's standpoint on risk. The Council together with the Municipal Manager should therefore maintain the Municipality's formal risk policy, which decrees the Municipality's approach to risk. The risk policy statement underpins the development of the municipality's risk management process. The policy can be used as a reference point in matters of dispute and uncertainty such as risk tolerance and appetite for risk.

***9.4 The Council and Municipal Manager will formally evaluate the effectiveness of entity's risk management process once a year***

The Council together with the Municipal Manager will make up its own mind regarding the effectiveness of the Municipality's risk management processes. Success with risk management will be evaluated from risk management committee reports, variance reports, and speed of progress, organisational risk culture, unexpected losses, internal control

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effectiveness and business success. The Council evaluations will be formally recorded in the minutes of Council meetings.

It is recognised that risk management has evolved into a complex management discipline. **The Council's** evaluation of risk management, therefore, will be supplemented by an independent review to be performed by the Municipality's Internal Audit function.

Management must ensure that sufficient independence is maintained in conducting the annual review. Assurance of the processes surrounding key risks must be given. This implies some knowledge of the processes of risk management and assumes that they have been witnessed to some degree.

***9.5 The Council and Municipal Manager will confirm that the risk management process is accurately aligned to the strategy and performance objectives of the entity***

The Council together with the Municipal Manager will ensure that the risk management processes address risk in a balanced way, giving due attention to all types of risk. The Council together with the Municipal Manager will evaluate whether appropriate resources are being applied to the management of strategic risks, reputation, customer risk, and financial risk, operational, regulatory, and technical risks.

***9.6 The Audit Committee will monitor the municipality's risk management processes***

The Audit Committee will be responsible for addressing the corporate governance requirements of risk management and monitoring the Municipality's performance with risk management. The Audit Committee will advise the Council on matters related to Risk Management as stipulated in Section 166 of the Municipal Finance Management Act.

**9.7 Roles and responsibilities of the Risk Management Committee,**

9.7.1 The risk management committee will be responsible for addressing the corporate governance requirements of risk management and monitoring the Municipality's performance with risk management. The committee has a defined mandate and terms of reference, which covers the following aspects:

- 9.7.1.1 Constitution;
- 9.7.1.2 Membership
- 9.7.1.3 Authority;
- 9.7.1.4 Terms of reference; and
- 9.7.1.5 Meetings

9.7.2 The risk management committee will meet on at least a quarterly basis. Functions and responsibilities of the risk management committee include:

- 9.7.2.1 Establishment and monitoring of the implementation of the risk management policy and strategy;

- 9.7.2.2 Ensuring that the responsibilities and co-ordination of risk management are clear;
- 9.7.2.3 Advising the Municipal Manager and the Audit Committee on urgent risk management issues and required initiatives as part of its quarterly reporting process;
- 9.7.2.4 Overseeing the implementation and maintenance of the ongoing process of risk identification, quantification, analysis and monitoring throughout the Municipality;
- 9.7.2.5 Ensuring that the risk management workshops are targeted appropriately for all levels of personnel and that it is established and implemented;
- 9.7.2.6 Reviewing and recommending actions for improvement regarding outstanding actions on risk management plans;
- 9.7.2.7 Reviewing issues for consideration as identified by the Audit Committee;
- 9.7.2.8 Assist with the development of an integrated approach to financing and managing risk to minimize cost;
- 9.7.2.9 Facilitating the sharing of post loss analysis information and thereby improving prevention and control measures;
- 9.7.2.10 Reviewing the risk assessments on a quarterly basis to take note of the material risks to which the Municipality may be exposed and consider, notes and if necessary, comments on the strategy for managing those risks;
- 9.7.2.11 Keeping abreast of all changes to the risk management and control system and ensures that the risk profile and common understanding is updated, as appropriate.

## 9.8 Roles and responsibilities of Management

9.8.1 Management is accountable to the Municipal Manager for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the Municipality.

9.8.2 The Municipal Manager is responsible for appointing a Chief Risk Officer to assist management in discharging its responsibilities. **This could however be a delegated function.** More specifically Management is responsible for:

9.8.2.1 Deciding on the manner in which risk mitigation will be embedded into management processes;

- 9.8.2.2 Instilling a culture of risk management in the Municipality;
- 9.8.2.3 Providing risk registers and risk management reports to the Chief Risk Officer pertaining to risk and control;
- 9.8.2.4 Identifying positive aspects of risk that could evolve into potential opportunities for the Municipality;
- 9.8.2.5 Assigning a manager to every key risk for appropriate mitigating action and to determine an action date;
- 9.8.2.6 Viewing risk as an opportunity by applying the risk / reward principle in all decisions impacting upon the Municipality;
- 9.8.2.7 Utilizing available resources to compile, develop and implement plans, procedures and controls within the Municipality's ERM Policy to effectively manage the risks within the Municipality;
- 9.8.2.8 Ensuring that adequate and cost-effective risk management structures are in place;
- 9.8.2.9 Identifying, evaluating and measuring risks and where possible quantifying and linking each identified risk to key performance measurement indicators;
- 9.8.2.10 Developing and implementing risk management plans including:
- 9.8.2.11 9.2.10.1 Actions to optimise a risk / reward profile to maximise reward with risk contained within the Council and Municipal Manager's approved risk tolerance;
- 9.8.2.12 Implementation of cost-effective preventative and contingent control measures; and
- 9.8.2.13 Implementation of procedures to ensure adherence to legal and regulatory requirements.
- 9.8.2.14 Monitoring of the ERM processes on both a detailed and macro basis by evaluating changes, or potential changes to risk profiles;
- 9.8.2.15 Implementing and maintaining adequate internal controls and monitor their continued effectiveness;
- 9.8.2.16 Implementing those measures as recommended by the internal / external auditors, which, in their opinion, will enhance control at reasonable cost; and
- 9.8.2.17 Reporting to the Audit / Risk Committee on the risk process and resultant risk / reward profiles.

## **9.9 Risk Champions**

Responsibilities of the Risk Champions include amongst others:

- 9.9.1 The Risk Champions will assist the Internal Audit with updating of risk reporting information; and

9.9.2 The Risk Champions will be the key contact of the Internal Audit at each directorate / department.

### 9.10 Internal Audit

The Internal Auditor's role in risk management includes –

9.10.1 Focusing on the significant risks, as identified by management, and Review the adequacy and effectiveness of risk management process;

9.10.2 Providing assurance on the management of risk;

9.10.3 Providing active support and involvement in the risk management process;

9.10.4 Co-ordinating risk reporting to the Audit Committee.

## 10. RISK MANAGEMENT AND IDP CLUSTERS

10.1 The enterprise risk management policy is geared to ensure efficient and effective identification and mitigation of inherent risks in the following IDP Clusters:

10.1.1 Basic Service Delivery

10.1.2 Institutional Development

10.1.3 Financial Viability.

10.1.4 Local Economic Development

10.1.5 Good Governance.

10.2 The high-level focus of risk management in relation to the Municipality's IDP Clusters ensuring that risk management practices are entrenched in the following areas:

10.2.1 **Strategic** – the IDP high-level goals (objectives), aligned with and supporting the Municipality's service delivery mandate. The Risk Management Unit shall facilitate identification and mitigation of risks inherent in the IDP strategic objectives in relation to each IDP Cluster.

10.2.2 **Operations** – effective and efficient use of its resources in relation to the Municipality's Service Delivery and Budget Implementation Plan. The Risk Management Unit shall facilitate identification and mitigation of risks inherent in the Municipality's Service Delivery and Budget Implementation

Plan as well as the Division and Section functions in relation to each IDP Cluster.

10.2.3 **Compliance** – compliance with applicable laws and regulations. The Risk Management Unit shall review and create awareness of and compliance with various legislations that prescribe the specific treatment of risk within their ambit, for example, Occupational Health and Safety Act, Disaster Management Act, Prevention of Fraud and Corruption Act and others.

10.2.4 **Monitoring** – effectiveness and efficiency of performance management systems (PMS) and operational reporting. The Risk Management Unit shall facilitate determination of risk appetite and tolerance levels to ensure that performance is within the established risk and tolerance levels.

10.2.5 **Reporting** - reliability and efficiency financial and operational reporting. The Risk Management Unit shall facilitate and ensure that timely reporting of risk governance is done.

## 11. LEARNING AND BENCHMARKING

Internal Audit shall ensure that the Municipality keeps abreast with best practices in risk management. Awareness campaigns shall in this regard be conducted in order to enhance the risk management capacity of the Municipality.

## 12. POLICY REVIEW

This Risk Management Policy shall be reviewed annually to reflect the current stance on risk management.


## 13. ADOPTION OF THE POLICY

Policy adopted by Council of Ntabankulu Local Municipality on the **30 May 2023**

**Council resolution no: OCM/8/23/007.2.4**



**M. PINYANA**  
**ACTING MUNICIPAL MANAGER**



**P.T. SOBUTHONGO**  
**HONORABLE MAYOR**