

UBUNTU MUNICIPALITY

RISK MANAGEMENT POLICY

1. Introduction

The management of risk is the process by which the Accounting officer and the other senior management of a Municipality will identify and define business and operational risks and identify appropriate methods of minimizing risk 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 tolerances and risk management standards. As such, it provides a framework for the effective identification, measurement, management and reporting of the Municipality's risks.

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

It is 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);
- 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 able to meet its obligations to their broader stakeholders (i.e. the community).

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

- Operational
- Strategic
- External; and
- Financial.

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

- Defining risk management roles and responsibilities within the Municipality and outlining procedures to mitigate risks.
- Ensuring consistent and acceptable management of risk throughout the Municipality.
- Defining a reporting framework to ensure communication of necessary risk management information to senior management and personnel engaged in risk management activities.
- Remaining flexible to accommodate the changing risk management needs of the Municipality while maintaining control of the overall risk position.
- Detailing the approved methods for risk measurement.
- Providing a system to accommodate the central accumulation of risk data, which must form part of operational procedures.

3. Objective

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

- An effective risk management architecture;
- A reporting system is in place to report risk; and
- An effective culture of risk assessment.

This plan should include all identified risks and the related strategy to mitigated these risks. Risks must be identified per business function within the municipality. Each of these risks must be assessed and the likelihood of the cause of the risk occurring and the resulting impact of the risk on the functions of the Municipality.

4. Risk Management Framework

This Policy is the starting point in the risk management framework and has been prepared to ensure that risk management becomes the concern of 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

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material risks, which threaten the achievement of objectives or may cause loss or damage the Municipality's reputation

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 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 maximise opportunities
- the identification and monitoring of risk is the responsibility of the Accounting Officer
- the Accounting Officer will co-ordinate the risk management system 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

Reporting

- all new risks with a potential financial exposure greater than an agreed amount as set between the Accounting Officer and the Chief Financial Officer or with a high or greater qualitative rating, and any material changes to the existing risk profile must be reported to the Accounting Officer on a regular basis
- risks should be reported using the following key categories:

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

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5. Accountability for 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, analysis, and treatment and reporting of the Municipality's risks are attributed to the Accounting Officer and the Chief Financial Officer

The Chief Financial Officer is responsible for ultimate sign off of all risk information to the Council 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 those risks, and who is accountable for them. Risk identification is a line management responsibility.

6.2 Maximum risk exposure / risk tolerance

A Municipality will accept a commercial level of risk such that the long term profitability and survival of the Municipality is reasonably assured.

Where new risks arise which exceed the stipulated measures set by the Accounting officer and the Chief Financial Officer, they will be:

- evaluated as stipulated in this policy;;
- immediately reported to the Accounting Officer;
- monitored through the risk management process; and
- promptly reported to the Chief Financial Officer together with a control strategy to manage the identified risk.

The proposed management strategy could fall into one of the following categories:

- v accept the risk
- v reduce the risk

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- v spread the risk
- v transfer the risk
- v avoid the risk
- v monitor the risk

7. Risk measurement

Risk is to be assessed by considering estimates of both likelihood 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.

This should be calculated as illustrated in the following example:

- Gross risk cost R100 [maximum cost of a risk event to the Municipality]
- Likelihood factor 0.5 [the frequency with which the risk is likely to be realised, in this case, once every two years]
- Annual gross risk cost R50
- Control effectiveness 50% [the effect that insurance or other control procedures have in reducing either gross risk cost or likelihood]
- Net annual risk cost R25

Where quantitative measures are not possible, risks will be measured using the following qualitative criteria:

Impact		Likelihood	
Measure	Definition	Measure	Definition
Extreme	Municipality cannot continue	Frequent	[once per month plus]
High	<ul style="list-style-type: none">• 5 or more fatalities• Municipality reputation	Annual	[one per year]

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	significantly damaged for 5 or more years		
Medium	<ul style="list-style-type: none">• 1 to 5 fatalities• Municipality reputation significantly damaged for 1 to 5 years	Periodic	[two to five years]
Low	<ul style="list-style-type: none">• Injury• Minor reputation damage	Infrequent	[five years plus]

8. Reporting

7.1 Frequency and format

All new risks and changes to existing risks will be input into the risk management system in the month they are identified.

The Accounting Officer will collect and aggregate the information and will report to the Chief Financial Officer, monthly, regarding the risk profile of the Municipality.

The Chief Financial Offer will report to the Council on a regular basis, both the current risk profile of the Municipality and a summary of any major changes since the last report.

7.2 Reporting categories

The categories of risk to be reported to the Chief Financial Officer and to the Council are as follows:

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

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9. Management / treatment

Risk treatment involves identifying the range of options for treating risk, assessing those options, preparing risk treatment plans and implementing those plans.

The selection and implementation of appropriate options for dealing with risk is the responsibility of the Senior Management of the Municipality, subject to the Council ratifying or amending the strategy proposed by management as required for material risks that have been reported to them.

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 and action dates for the implementation of the control improvement plan.

The management of individual risks is somewhat subjective, however the following guidelines should be followed:

- the annual cost of risk control should not exceed the gross annual risk cost;
- the Municipality does not seek to eliminate risk nor be a high risk taker - moderate levels of risk are acceptable; and
- the resources allocated to risk treatment should be given priority in the areas of safety, customer service and financial.

10. Monitoring / review

The Chief Financial Officer will coordinate an annual review of the effectiveness of this policy as well as all organisational risks together with the key managers in the Municipality. This annual review will take place immediately prior to the development of the annual business plan so that it can have due regard to the 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 and approved by the Audit Committee.

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The Municipality will review the risk profile in developing their recommendations to the Council regarding the Municipality's insurance strategy.

Date and signed at Victoria West on this 27th day of May 2021

By SS NGWENYI for Council

(Meeting held 27 May 2021)

 27/05/2021/