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RISK MANAGEMENT POLICY

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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.

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 mitigate 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 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

Management

- all risks will be evaluated on a quantitative basis and if this is not appropriate, qualitative factors will be adopted
- 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 and 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 | |

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
- 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 significantly damaged for 5 or more years 	Annual	[one per year]
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

8.1 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 Officer 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.

8.2 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

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.

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

FRAUD PREVENTION POLICY

INTRODUCTION

Management is responsible for fraud defalcation, misappropriation, and other irregularities. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility and be alert for any indication of irregularity.

Any irregularity detected or suspected must be reported immediately to the Municipal Manager who will refer it to the Chief Internal Auditor.

SCOPE OF POLICY

The conditions of this policy apply to any irregularity, or suspected irregularity, involving not only employees, councillors, other stakeholders, suppliers and unknown parties.

Any investigative activity will be conducted without regard to the suspected wrong-doer's length of service, position/title, or relationship.

ACTIONS CONSTITUTING FRAUD

The terms fraud and other fiscal irregularities refer to, but are not limited to:

- Any dishonest or fraudulent act,
- Forgery or alteration of any document, or account belonging to a customer,
- Forgery or alteration of a cheque, bank draft, or any other financial document,
- Misappropriation of funds, securities, supplies, or other assets,
- Impropriety in the handling or reporting of money of financial transactions,

- Accepting or seeking anything of (material) value from vendors or persons providing services/materials to the council (exception: perishable gift less than R..... in value intended for a group of employees, such as, (candy, flowers), and which are disclosed.
- Destruction or disappearance of records, furniture, fixtures, or equipment,
- Disclosing to outside persons security arrangement and procedures.
- Irregularities with procurement.

NON-FRAUD IRREGULARITIES

Identification or allegations of personal improprieties or irregularities whether moral, ethical, or behavioral, should be resolved by the Municipal Manager and the Director: Human Resources. Contact the Chief Legal Advisor. for guidance if you have any question of whether an action constitutes fraud.

INVESTIGATION RESPONSIBILITIES

The Chief Internal Auditor has the primary responsibility for investigations. If an investigation reveals that fraudulent activities have occurred, the Chief Internal Auditor will issue reports to the Municipal Manager and, if appropriate, to the Council through its Audit Committee.

Decisions to prosecute or turn matters over to appropriate law enforcement and/or regulatory agencies for independent investigation will be made by Council in conjunction with legal counsel and Senior Management, as will final decisions on disposition of cases.

CONFIDENTIALITY

The Chief Internal Auditor will accept relevant information on a confidential basis from an employee who suspects dishonest or fraudulent activity. Employees should contact the Chief Internal Auditor immediately, and should not attempt personally to conduct investigations or interview/interrogations related to suspected frauds.

The results of investigations conducted by the Chief Internal Auditor will not be disclosed or discussed with anyone other than those persons associated with the Council who have a legitimate need to know in order to perform their duties and responsibilities. This is important in order to avoid damaging the reputations of persons suspected, but subsequently found innocent of wrongful conduct, and to protect the Council from potential civil liability.

AUTHORIZATION FOR INVESTIGATION OF SUSPECTED FRAUD

In those instances in which the Chief Internal Auditor of the Internal Audit Department believes it to be in the best interests, members of the Internal Audit Department have the authority and duty, after consulting with the Municipal Manager, to:

- Take control of, and/or gain full access to, all Council premises, whether owned or rented,
- Examine, copy, and/or remove all or any portion of the contents of files, desks, cabinets, and other storage facilities on the premises without prior knowledge or consent of any individual who may use or have custody of any such items or facilities.

REPORTING PROCEDURE

Great care must be taken in the investigation of suspected improprieties or irregularities to avoid mistaken accusations or alerting suspected individuals that an investigation is under way.

An employee who discovers or suspects fraudulent activity should contact the Municipal Manager immediately. All inquiries from the suspected individual and his or her attorney or representative should be directed to the Chief Internal Auditor or Legal Council. Proper response to such an inquiry is : "I am not at liberty to discuss this matter." Under no circumstances should any reference be made to "what you did," "the crime," "the fraud," "the forgery," "the misappropriation," or any other specific reference. The SA Police Service and the Council's Insurer must be informed immediately.

The reporting individual must adhere to the following restrictions:

- Do not contact the suspected individual in an effort to determine facts or demand restitution.
- Do not discuss the case, facts, suspicions, or allegations with anyone outside unless specifically asked to do so by the Chief Legal Advisor.
- Do not discuss the case with anyone inside other than the Chief Internal Auditors, or individuals within the department who have a legitimate need to know.

TERMINATION

If an investigation results in a recommendation to suspend an individual, the recommendation will be reviewed for approval by the Manager of Human Resources and, if necessary, by outside counsel before any such action is taken.

The services of an individual will be terminated by the Council on a recommendation from the Disciplinary Committee.

ADMINISTRATION

The Municipal Manager is responsible for the administration, interpretation, and application of this policy.

ANNEXURE: A

COMMUNICATING THE FRAUD POLICY

It obviously does little good to have a fraud or ethics policy if it is not communicated to the employees. The involvement of the trade union is essential. This communication can be accomplished in several ways. The communication of the policy should be presented in a positive, non-accusatory manner.

ORIENTATION

During initial employee orientation, the fraud policy should be discussed. This is the first opportunity the Council has to make its point, and it should be made thoroughly.

MEMORANDA

An interoffice memorandum from the Municipal Manager detailing the fraud policy is a good idea. Once again, the policy should concentrate on the positive aspects of working for an ethical institution.

POSTERS

Some Municipalities may wish to use posters displayed in common areas. However, this should be carefully considered as some employees may object to such tactics.

EMPLOYEE MORALE

If an employee is properly instructed, communication of a fraud policy can have a positive impact on morale. Honest workers want to work for an honest institution. A fraud policy helps set the proper tone.

INTERNAL CONTROL STATEMENT

COUNCIL'S POLICY ON INTERNAL CONTROL

NEED FOR A POLICY

In view of the importance of internal control in the orderly and efficient conduct of the Council's business and, in view of the emphasis on internal control by law and by accounting Standards, a statement has been issued to focus the Council's traditional requirements for adequate internal control.

STATEMENT OF POLICY

It is the policy of the Company that the management of the Council and all departments maintain systems of internal control which are designed to ensure, as far as it is practice, that the objectives of the Council are achieved and to comply with applicable law. Within the perspective of internal control, in the broad sense, management is expected to maintain adequate internal accounting control over all aspects of the Council's operations.

DEFINITIONS

Internal control is the composite total of all organisational and operating plans, systems, policies, procedures and practices, as well as the attitudes and behaviour of executive management and other employees, occurring within the Council, established by executive management with the approval of the Audit Committee of the Council, to achieve the basic objective of ensuring the disciplined and efficient conduct of the Council's business in general, and specifically:

- a) To assure the Council's assets are accounted for and safeguarded from losses of all kinds'
- b) To assure the accuracy and reliability of accounting and financial information generated within the Council and to assure the fiscal integrity of resulting financial reports released to the public and other media,
- c) To promote operating efficiency of all Councils departments, and
- d) To inform and encourage adherence by all Council employees to prescribed managerial policies.

There is a distinction between the exercise of internal control and the determination of business policies. Even though internal control includes all the controls established by management to achieve its objectives, it does not encompass all management activities. For example, determining a tariff policy is a business decision; monitoring and recording the results achieved by such a decision is a function of internal control.

An accounting system is an important element of internal control but is not in itself an internal control system. An internal control system includes comparisons, determination of discrepancies and decisions as to corrective action, as well as controls over the accounting system.

APPLICATION OF POLICY

As guidance to management in the evaluation of internal accounting control, the Council considers the following components to be essential to an adequate system of internal accounting control:

1. Compliance with ethical standards in all of the Council's affairs as set forth in Corporate Directive Policy no. 2.
2. Trustworthy personnel with the ability, training and experience required to perform satisfactorily the responsibilities assigned to them.
3. Enforcement of Corporate Directive Policies on Conflict of Interest.
4. A plan of organisation including delegation and co-ordination of assigned responsibilities with proper regard to the segregation of incompatible functions.
5. An adequate accounting structure at each operation entity including budgetary and cost accounting techniques, a chart and text of accounts, procedural manuals and, where applicable, charts depicting the flow of transactions.
6. Proper procedures for authorisation of transactions.
7. Recording of transactions in reasonable detail and with promptness and accuracy.
8. Thorough review in the preparation of financial statements and other financial information for internal use and external reporting.
9. Adequate physical facilities and safeguards to prevent improper movement of property and to protect the accounting records of the Council.
10. Regular monitoring by senior management.
11. Review of the Council's systems and controls by an extensive program of audits by the Company's internal auditing staff and independent auditors.
12. Close co-ordination of the internal audit and independent audit effort by a member of Internal Audit under the oversight of the Audit Committee of the Council.
13. Continuous evaluation of the costs of controls in relation to the expected benefits of those controls. Management is authorised to forego specific controls where the magnitude of risk incurred by the absence of individual controls, or combinations of controls, does not justify the cost of maintaining such controls. Magnitude of risk shall be a subjective judgement gauged to the total operations and assets of the Council.
14. Prohibition against management override of any control designed to prevent or detect transactions that are illegal, improper, unethical, or against the social conventions of the Republic of South Africa.
15. All other management overrides of internal control systems must be authorised in writing by the responsible executive and filed with the Municipal Manager and Chief Internal Auditor.

RESPONSIBILITY AND AUTHORITY

The Municipal Manager, acting with the approval of and under the surveillance of the Audit Committee, has the prima authority and responsibility for the Council's internal control systems. The Chief Financial Officer, as the chief accounting officer for the Council, has the authority and responsibility for the internal accounting controls and systems of the Council. Each manager and executive of the Council and its divisions and subsidiaries is responsible for maintaining internal controls which establish accountability and safeguard against misuse of Council assets under his or her charge. Such internal controls are to at least reflect the standards set forth by the Council and, in the case of internal accounting controls, by the Chief Financial Officer.

Specifically with regard to internal accounting controls, each Departmental Manager **is directly responsible to the Chief Financial Officer** Controller for the accounting and accounting systems and controls of the department. Such lines of responsibility and authority are to be communicated in writing to those involved with a copy to the Chief Financial Officer.

INDIGENT POLICY
LOAN POLICY
RATES POLICY
RISK MANAGEMENT POLICY
FRAUD PREVENTION STATEMENT
FRAUD PREVENTION PLAN
INTERNAL CONTROL STATEMENT
TRAVEL & SUBSISTENCE
CASHIER'S CODE
FINANCIAL STANDING ORDERS

MANAGER: TECHNICAL SERVICES

WATER SERVICES PLAN
MAINTENANCE PLAN

MANAGER: COMMUNITY SERVICES

LOCAL ECONOMIC DEVELOPMENT PLAN
ENVIRONMENTAL MANAGEMENT PLAN
COMMUNITY SERVICES
TOWN PLANNING SCHEMES
WASTE MANAGEMENT PLAN
DISASTER MANAGEMENT PLAN