

## GEORGE MUNICIPALITY

# RISK MANAGEMENT POLICY 2023/2024

# INDEX

1.	RISK MANAGEMENT PHILOSOPHY .....	4
2.	ACRONYMS .....	4
3.	DEFINITIONS .....	5
4.	OVERVIEW.....	7
4.1	INTRODUCTION.....	7
4.2	PURPOSE .....	7
4.3	SCOPE .....	7
4.4	BACKGROUND .....	7
4.4.1	Legislative Mandate .....	7
4.4.2	Objectives of Risk Management.....	7
4.4.3	Benefits of Risk Management .....	7
4.4.4	Risk, Risk Management and Enterprise Risk Management .....	8
4.4.5	Risk Management Approach.....	8
5.	ROLES AND RESPONSIBILITIES.....	8
5.1	RISK MANAGEMENT OVERSIGHT .....	8
5.1.1	Executive Authority (Council) .....	8
5.1.2	Audit Committee.....	8
5.1.3	Risk Management Committee .....	9
5.2	RISK MANAGEMENT IMPLEMENTERS.....	9
5.2.1	Accounting Officer.....	9
5.2.2	Management .....	9
5.2.3	Other Officials .....	9
5.3	RISK MANAGEMENT SUPPORT .....	9
5.3.1	Chief Risk Officer .....	9
5.3.2	Risk Champions .....	9
5.4	RISK MANAGEMENT ASSURANCE PROVIDERS.....	9
5.4.1	Internal Audit.....	9
5.4.2	External Audit.....	10
5.4.3	Risk Audience .....	10
6.	RISK MANAGEMENT PROCESS.....	10
6.1	INTERNAL ENVIRONMENT .....	11
6.2	OBJECTIVE SETTING.....	11
6.3	EVENT IDENTIFICATION.....	11
6.4	RISK ASSESSMENT .....	11
6.5	RISK RESPONSE.....	11

6.6 CONTROL ACTIVITIES ..... 11

6.6.1 Risk Appetite ..... 11

6.7 INFORMATION AND COMMUNICATION ..... 11

6.8 MONITORING..... 12

7. REPORTING..... 12

8. PROFICIENCY AND DUE PROFESSIONAL CARE ..... 12

9. POLICY REVIEW ..... 12

10. APPROVAL..... 13

## 1. RISK MANAGEMENT PHILOSOPHY

George Municipality is committed to the optimal management of risks to achieve our vision, deliver on our core business and key objectives and protect our values as “*George – The City for all Reasons*”.

During conducting our day-to-day business operations, we are exposed to a variety of risks. These risks include operational and other risks that are material and require comprehensive controls and on-going oversight.

To ensure business success we have adopted an enterprise-wide integrated approach to the management of risks. By embedding risk management processes into key business processes such as planning, operations and new projects, we will be better equipped to identify events affecting our objectives and to manage risks in ways that are consistent with the approved risk appetite.

To further implement the enterprise-wide approach, we have taken several steps to reinforce a culture of disciplined risk-taking.

Council is responsible for oversight of the risk management process and has delegated its day-to-day implementation to the Accounting Officer. The Accounting Officer, who is accountable for the overall governance of the municipality’s risks, has delegated this role to the Chief Risk Officer (CRO) and management. The CRO ensures that the framework is implemented and that Council and the Risk Management Committee (RMC) receive appropriate reporting on the municipality’s risk profile and risk management process. Management execute their responsibilities outlined in the Risk Management Policy. All other officials are responsible for incorporating risk management into their day-to-day activities.

## 2. ACRONYMS

<b>CRO</b>	- Chief Risk Officer
<b>ERM</b>	- Enterprise Risk Management
<b>IDP</b>	- Integrated Development Plan
<b>IT</b>	- Information Technology
<b>MFMA</b>	- Municipal Finance Management Act, no 56 of 2003
<b>RMC</b>	- Risk Management Committee
<b>SDBIP</b>	- Service Delivery and Budget Implementation Plan

### 3. DEFINITIONS

In this document, unless the context indicates otherwise –

**Combined Assurance** - A process that seeks to optimise the scope of assurance to the municipality by harmonising the work of various providers of assurance through eliminating fragmentation and duplication of efforts.

**Event** - An incident or occurrence from internal or external sources that affects the achievement of the municipality's objectives.

**Impact** - A result or effect of an event. The impact of an event can be positive or negative. A negative event is termed a "risk".

**Incident** - A risk that has actualised.

**Inherent** - The risks to the municipality in the absence of any deliberate management interventions / actions management might take to alter either the risk's impact or likelihood. In other words, the impact that the risk will have on the achievement of objectives if the current controls that are in place, are not considered.

**Likelihood / Probability** - The probability of the event occurring.

**Operational Risk** - Risks that affect the achievement of the SDBIP, mainly resulting from inadequate or failed internal processes, actions of internal staff, loss of key personnel, failure of Information Technology (IT) systems and the actions of customers, suppliers and the public.

**Operations** - Used with "objectives", having to do with the effectiveness and efficiency of the municipality's activities, including performance and safeguarding resources against loss.

**Priority / Key Risks** - Risks that are rated high on an inherent level. Risks that need to be acted upon. Risks that possess a serious threat to the municipality.

**Project Risks** - Risks that are identified for all major projects, covering the whole lifecycle and include long-term projects.

**Reputational Risk** - A type of risk related to the trustworthiness of an entity. Damage to the entity's reputation can result in lost revenue or destruction of value, even if the entity is not found guilty of a crime. Reputational risk can be a matter of corporate trust but serves also as a tool in crisis prevention.

**Residual Risk** - The remaining exposure after the mitigating effects of deliberate management interventions to control such exposure. (The remaining risk after management has put in place measures to control the inherent risk).

**Risk** - An unwanted outcome, actual or potential, to the municipality's service delivery and other performance objectives, caused by the presence of risk factors. Some risk factors also present upside potential, which management must be aware of and be prepared to exploit. This definition of "risk" also encompasses such opportunities.

**Risk Appetite** - The amount of residual risk that the municipality is willing to accept.

**Risk Factor** - Any threat or event which creates or has the potential to create a risk.

**Risk Intelligence** - Information that is purposively identified, collected, analysed, presented and communicated for use in risk management decisions.

**Risk Owner** - The person responsible for managing a risk.

**Risk Management** - A systematic and formalised process to identify, assess, manage and monitor risks.

**Risk Maturity** - The sophistication and capability of the municipality to manage risks. Maturity is exhibited by the level of: risk culture, risk governance, risk management processes and municipal competence [skills, knowledge, experience].

**Risk Profile / Register** - Also known as the risk register. The risk profile will outline the number of risks, type of risk and potential effects of the risk. This outline will allow the municipality to anticipate additional costs or disruptions to operations. Also describes the willingness of a municipality to take risks and how those risks will affect the operational strategy of the municipality.

**Risk Response** - Management develop strategies to reduce or eliminate the threats and events that create risks.

**Risk Tolerance** - The amount of risk the municipality is capable of bearing (as opposed to the amount of risk it is willing to bear).

**Service Delivery and Budget Implementation Plan (SDBIP)** - A detailed plan approved by the mayor of a municipality in terms of section 53(l)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget.

**Stakeholders** - Parties that are affected by the municipality, such as the communities in which the municipality operates, employees, suppliers etc.

**Strategic risk** – used with “objectives”, it has to do with high-level goals that are aligned with and support the municipality's mission or vision. Risks connected with strategy selection, implementation or revision which affects the achievement of the Integrated Development Plan (IDP). Strategic risks occur both from poor business decisions as well as the failure to effectively implement good decisions.

**Mitigation / Treatment** - After comparing the risk score (severity rating = impact X likelihood) with the risk tolerance, risks with unacceptable levels of risk will require treatment plans (additional action to be taken by management and/or Council).



## **4. OVERVIEW**

### **4.1 INTRODUCTION**

The Accounting Officer has committed George Municipality to implementing and maintaining an effective, efficient and transparent system of risk management. The process of risk management is aligned to the principles as set out in the King IV Report on Corporate Governance for South Africa, 2016 (herein referred to as “King IV Report”) and as supported by the Municipal Finance Management Act (MFMA), Act no 56 of 2003.

### **4.2 PURPOSE**

Through this policy George Municipality puts into practice its commitment to implement risk management and embed a culture of risk management within the municipality. This policy forms the basis for the accompanying Risk Management Strategy which is designed to help achieve the objective of implementing an effective Enterprise Risk Management (ERM) process.

### **4.3 SCOPE**

The scope of this policy applies throughout George Municipality in as far as risk management is concerned.

### **4.4 BACKGROUND**

#### **4.4.1 Legislative Mandate**

Section 62(1)(c)(i) and 95(c)(i) of the MFMA states that:

*“The accounting officer of the municipality and municipal entity is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.”*

#### **4.4.2 Objectives of Risk Management**

The objectives of risk management are to assist management in making more informed decisions which:

- provide a level of assurance that current significant risks are effectively managed;
- improve operational performance by assisting and improving decision making and planning;
- promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities, to benefit the municipality is encouraged; and
- provide a sound basis for integrated risk management and internal control as components of good corporate governance.

#### **4.4.3 Benefits of Risk Management**

The risk management process can make major contributions towards helping the municipality achieve its objectives. The benefits include:

- more sustainable and reliable delivery of services;
- enhance decision making underpinned by appropriate rigor and analysis;
- reduced waste;
- prevention of fraud and corruption;
- fewer surprises and crises;
- help avoid damage to the municipality’s reputation and image;

- helps ensure effective reporting and compliance with laws and regulations;
- better value for money through more efficient use of resources; and
- better outputs and outcomes through improved project and programme management.

#### **4.4.4 Risk, Risk Management and Enterprise Risk Management**

**Risk** is an uncertain future event that could influence the achievement of the municipality's strategic and business objectives.

**Risk Management** is a systematic and formalized process instituted by the municipality to identify, assess, manage, monitor and report risks ensuring the achievement of objectives.

**Enterprise Risk Management** is a process, effected by the municipality's Accounting Officer, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the municipality, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of the municipality's objectives.

#### **4.4.5 Risk Management Approach**

The risk management approach determines the processes (Section 6), techniques (refer to detailed techniques in Section 6), tools, and roles and responsibilities (refer to Section 5).

The Municipality considers and uses the most suitable risk management approach depending on the needs of the stakeholders. The most common approach is to manage individual risks recorded and assessed in a risk register. This approach is relatively simple and value-adding when implemented competently. Other approaches may be implemented depending on *inter alia* the objectives and scope of the project, decisions required, resource availability and the stakeholders' requirements.

The techniques and tools must contribute to the efficiencies and effectiveness of risk management on a cost-benefit basis. Various risk management tools include consideration of, for example, electronic risk management systems or MS Excel-based risk management toolkits.

### **5. ROLES AND RESPONSIBILITIES**

All personnel within George Municipality have a role to play in the risk management process. The primary responsibility for identifying and managing risks is vested in management.

#### **5.1 RISK MANAGEMENT OVERSIGHT**

##### **5.1.1 Executive Authority (Council)**

Council takes an interest in risk management to the extent necessary to obtain comfort that properly established and functioning systems of risk management are in place to protect George Municipality against significant risks.

##### **5.1.2 Audit Committee**

The Audit Committee is an independent committee responsible for oversight of the municipality's control, governance and risk management. The responsibilities of the Audit Committee regarding risk management are formally defined in its charter. Their primary responsibility is to provide an independent and objective view of the effectiveness of the municipality's risk management process.



### **5.1.3 Risk Management Committee**

The RMC is appointed by the Accounting Officer to assist in the discharge of his/her risk management responsibilities. The RMC's role is to review the risk management progress and maturity of the municipality, the effectiveness of risk management activities, the key risks facing the municipality and the responses to address these key risks. The responsibilities of the RMC are formally defined in its charter.

## **5.2 RISK MANAGEMENT IMPLEMENTERS**

### **5.2.1 Accounting Officer**

The Accounting Officer is ultimately responsible for risk management within the municipality. By setting the tone at the top, the Accounting Officer promotes accountability, integrity and other factors that will create a positive control environment.

### **5.2.2 Management**

Management at all levels within the municipality's risk management philosophy, promote compliance with the risk appetite and manage risks within their areas of responsibility.

### **5.2.3 Other Officials**

Other officials are responsible for integrating risk management into their day-to-day activities i.e. by ensuring conformance with controls.

## **5.3 RISK MANAGEMENT SUPPORT**

### **5.3.1 Chief Risk Officer**

The Chief Risk Officer (CRO) is the custodian of the Risk Management Strategy and the coordinator of ERM activities throughout George Municipality. The primary responsibility of the CRO is to use his/her specialist expertise to assist the municipality to embed ERM and leverage its benefits to enhance performance.

### **5.3.2 Risk Champions**

Risk Champions generally hold senior positions within the municipality and possess skills, knowledge and leadership qualities required to champion a particular aspect of risk management. The Risk Champions' primary responsibility is to advise on, formulating, overseeing and managing all aspects of a municipality's risk management system. The Risk Champions monitor the municipality's entire risk profile, ensuring that major risks are identified and reported upwards.

## **5.4 RISK MANAGEMENT ASSURANCE PROVIDERS**

### **5.4.1 Internal Audit**

The core role of Internal Audit in risk management is to provide an independent, objective assurance to Council and the Audit Committee on the effectiveness of risk management. Internal Audit also assists in bringing about a systematic, disciplined approach to evaluate and improve the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.

### 5.4.2 External Audit

During audits the Auditor-General of South Africa (AG) highlights weaknesses and deficiencies with regards to control weaknesses, providing independent assurance on the effectiveness of the risk management activities.

### 5.4.3 Risk Audience

Except for members of the risk audience which have roles and duties assigned to them in paragraph 5.1 to 5.4 the following external interest groups also form part of the municipality's risk audience, e.g.

- Citizens
- Commerce and Business
- Investors
- Other spheres of Government (Provincial and National)
- Interest groups
- Community forums e.g. Rate-payers association
- Other authorities
- Visitors

External audiences' involvement is largely addressed in the municipality's Annual Report and therefore the integrity, reliability and timeliness of information reported is essential.

## 6. RISK MANAGEMENT PROCESS

The risk management process consists of eight (8) components.



Figure 1: Risk Management Process

## **6.1 INTERNAL ENVIRONMENT**

The internal environment encompasses the tone of George Municipality, influencing the risk consciousness of its people. It is the foundation for all other components of risk management, providing discipline and structure.

## **6.2 OBJECTIVE SETTING**

Objectives are set at the strategic level, establishing a basis for operations, reporting, and compliance objectives. Objectives are to be aligned with the municipality's risk appetite.

## **6.3 EVENT IDENTIFICATION**

Event identification is the process of identifying potential events affecting George Municipality's ability to successfully implement strategy and achieve objectives.

## **6.4 RISK ASSESSMENT**

Risk assessments allow the municipality to consider the extent to which potential events might have an impact on the achievement of objectives. Management should assess events from two perspectives, impact and likelihood, and normally uses the quantitative method i.e. risk rating scales for both the inherent and residual basis.

## **6.5 RISK RESPONSE**

Having assessed relevant risks, management determines how it will respond. Responses include risk avoidance, reduction, sharing and acceptance.

## **6.6 CONTROL ACTIVITIES**

Control activities are the policies and procedures that help ensure that management's risk responses are carried out. Control activities occur throughout the municipality, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

### **6.6.1 Risk Appetite**

The term "risk appetite" can be defined as the acceptable level or amount of risk that the municipality is willing to accept, before action is needed to reduce it.

George Municipality has set its risk appetite level at an acceptable level not to put the municipality or the community at social, health and or economic risk and to maintain acceptable levels of service delivery. The municipality has committed itself to aggressively pursue managing risks to be within its risk appetite to avoid exposures to losses and to manage actions that could have a negative impact on the reputation of the municipality.

The parameters and different levels of the risk appetite are addressed in the Risk Management Strategy and Implementation Plan.

## **6.7 INFORMATION AND COMMUNICATION**

Pertinent information is identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also occurs, flowing down, across and up in the municipality. All personnel receive a clear message from top management that risk management responsibilities must be taken seriously. They understand their own role in risk

management, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There is also effective communication with external parties.

## **6.8 MONITORING**

Monitoring risk management is a process that assesses the presence and functioning of its components over time. This is accomplished through on-going monitoring activities, separate evaluations or a combination of the two. On-going monitoring occurs in the normal course of management activities. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of on-going monitoring procedures.

## **7. REPORTING**

Relevant information, properly and timeously communicated to relevant stakeholders, is essential to equip such stakeholders to identify, assess and respond to risks. This may include implementing a risk management reporting system, incident reporting system and emergency risk warning system.

## **8. PROFICIENCY AND DUE PROFESSIONAL CARE**

Risk management activities must be performed with proficiency and due professional care. ERM and Risk Community officials should apply the care and skill expected of reasonably prudent and competent risk management officials. Management must exercise due professional care by considering the cost of managing the risk in relation to the value of the objective. Management defines and implements controls and actions to manage risk to reduce the probability of significant errors, irregularities or non-compliance.

ERM, risk community officials and management must be alert to the significant risks that might affect objectives, operations or resources, but cannot guarantee that all significant risks will be identified.

ERM and Risk Community officials should enhance their knowledge, skills, and other competencies through continuing professional development. This is a repetitive process and it is expected to develop as risk management matures and becomes embedded within the municipality.

## **9. POLICY REVIEW**

The policy should be reviewed annually, and amendments recommended to Council for approval.

## 10. APPROVAL

Version	Date
Revised and accepted by Risk Management Committee	15 May 2023
Revised and approved by Executive Mayoral Committee	19 June 2023

As approved by the Executive Mayoral Committee Meeting which was held on 19 June 2023

  
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**Municipal Manager: Dr M Gratz**  
**Risk Management Committee Chairperson**