

Bojanala District Municipality

Risk Management policy



January 2006

Prepared by

PROBODO



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1. INTRODUCTION

The Bojanala District Municipality is committed to managing its risks in a proactive, ongoing and positive manner. This policy outlines the municipality's position and approach to risk management.

2. DEFINITIONS

Controls are the existing processes, devices, practices or other actions that act to minimize negative risks or enhance positive opportunities.

Business Risk is the chance of something happening that will have an impact (either positive or negative) on objectives. A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. It is measured in terms of a combination of the consequences (impact) of an event and their likelihood. Note that risk is characterised by uncertainty.

Risk Assessment refers to the overall process of identifying, analysing, and evaluating risks. It may also be referred to as a 'risk analysis' or 'risk evaluation' or 'risk profile' and may involve a qualitative and/or quantitative assessment. - See Appendix A: The Risk Management Process.

Risk Management is the culture, processes and structures that are directed towards realizing potential opportunities whilst managing adverse effects. The risk management process involves communicating, establishing the context, identifying, analysing, evaluating, treating, monitoring and reviewing risk.

Risk Register is a documented record of each risk identified. It specifies: a description of the risk, its causes and its impacts; an outline of the existing controls; an assessment of the consequences of the risk should it occur and the likelihood of the consequence occurring, given the controls; a risk rating; and an overall priority for the risk.

Types of Risk:

- **Financial/Budget Risk** (Overspend, run out of money, failure to pay etc.)
- **Performance Risk** (Lack of skills and delivery leads to termination)
- **Political Risk** (Stakeholder unhappiness e.g. Voters)
- **Legal Risk** (Moneys not utilised according to regulations)
- **Audit Risk** (Qualified audit reports reflects very badly on management's performance)
- **Organisational Risk** (Lack of skill, succession, capacity, training)
- **Reputation Risk** (Branding of the municipality, external image to the community)

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Impact may be defined as the effect to a business process resulting in potential loss or service delivery failure should risk arise.

Likelihood may be defined as the probability that an adverse event, which could cause a risk to arise, may occur.

3. POLICY STATEMENT

The Bojanala District Municipality recognises that it is obliged to systematically manage and regularly review its risk profile at a strategic, operational, and management level. The municipality has developed this policy that determines the process and identifies tools for realising its objectives. Not only does it wish to minimise its risks but also maximise its opportunities.

In terms of the Municipal Finance Management Act No56 of 2003 section 62(1)(i) “the accounting officer of the municipality is responsible for managing the financial administration of the municipality, must take all reasonable steps to ensure that the municipality has and maintains effective, efficient, transparent systems of financial, **risk management** and **internal control**”.

The policy is managed by the Municipal Manager with content input from those with accountability in specific areas. A Risk Register is being developed that will be regularly reviewed at portfolio level and subsequently ranked, debated, and reported to, the Council, Mayor, Municipal Manager, section 57 managers, Audit Committee and any applicable specialists.

The management of the municipality also identified the following as important factors to the proper management of risks:

- Internal Control policies and procedures around each section of the municipality,
- Continuous monitoring and updating of risks within the municipality,
- Internal control reviews to be performed by the internal audit function as indicated on the Internal Audit Plan for identified risk areas,
- Development and implementation of a Fraud Prevention Plan to manage Fraud risk,
- Special action (Fraud hot line),
- Fully functioning internal audit with sufficient capacity to reach Internal Audit Plan objectives

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The management of the municipality also undertakes to revise this policy at least once annually to determine if the Risk Management Policy needs to be updated to cover other potential risk areas of concern.

4. RISK IDENTIFICATION & ANALYSIS

The **types of risks** faced by the municipality are many and varied, and may be categorised as strategic, operational or management. These risks may impact – either positively or negatively – on the municipality’s human resource, environmental, information, intellectual, political, and financial assets and image.

The municipality has five main ways in which it can effectively **manage risk**, as follows:

- accept the risk and make a conscious decision to not take any action;
- accept the risk but take some actions to lessen or minimize its likelihood or impact;
- transfer the risk to another individual or organization, by, for example, outsourcing the activity;
- finance (insure against) the risk;
- eliminate the risk by ceasing to perform the activity causing it.

How the municipality decides to manage individual risks will be determined following a risk assessment based on a systematic analysis of how a number of **likelihood** and **impact ratings** apply to each risk.

The municipality has identified relevant likelihood and impact ratings, as shown in Appendix {Insert}. In addition to assessing likelihood and impact ratings, the effectiveness of **existing controls** over a 36 month period should also be considered in terms of the ratings illustrated in Appendix { Insert }.

The sources used in the identification of risks are as follows:

- Strategic Plans or Annual reports
- Budget implementation plans
- Current legal cases
- Report to management
- Auditor General report
- Internal Audit Charter
- Audit Committee Charter
- Previous years risk assessments
- Inputs from other departments within the organisation

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The approach adopted can be summarised as follows:

- Identification of risks
- Building of questionnaires
- Distributing questionnaire to key personnel
- Personnel completing the questionnaire through scoring and reliance on controls
- Personnel adding additional risks
- Questionnaires collected.
- Risks analysed by weighting and performing averages
- Identification of high potential risks
- Developing of Internal Audit Plan
- Updating of Risk Register

Note: Reliance on controls are assessed through the knowledge of key risk owners and investigation of the sources defined within this policy of possible control weakness.

Detailed control reviews per risk are tested through the internal audit function as part of the Internal Audit Plan.

5. RISK REGISTER

A **Risk Register** is a documented record of each risk identified as part of a risk assessment (also known as a risk profile).

It specifies:

- a description of the risk, its causes and its impacts;
- an outline of the existing controls;
- an assessment of the consequences of the risk should it occur and the likelihood of the consequence occurring, given the controls;
- a risk rating;
- and an overall priority for the risk

The municipality will maintain a master risk register that systematically identifies and registers key risks – at a strategic and operational level as per the Internal Audit Plan that was prepared after the risk assessment. This will be reviewed and reported to the management & Audit Committee at least once a year.

A sample risk register is shown in Appendix {insert}.

6. DOCUMENTATION & RECORDING REQUIREMENTS

In accordance with the policy to proactively and systematically manage risk issues at the municipality, the following will be documented:

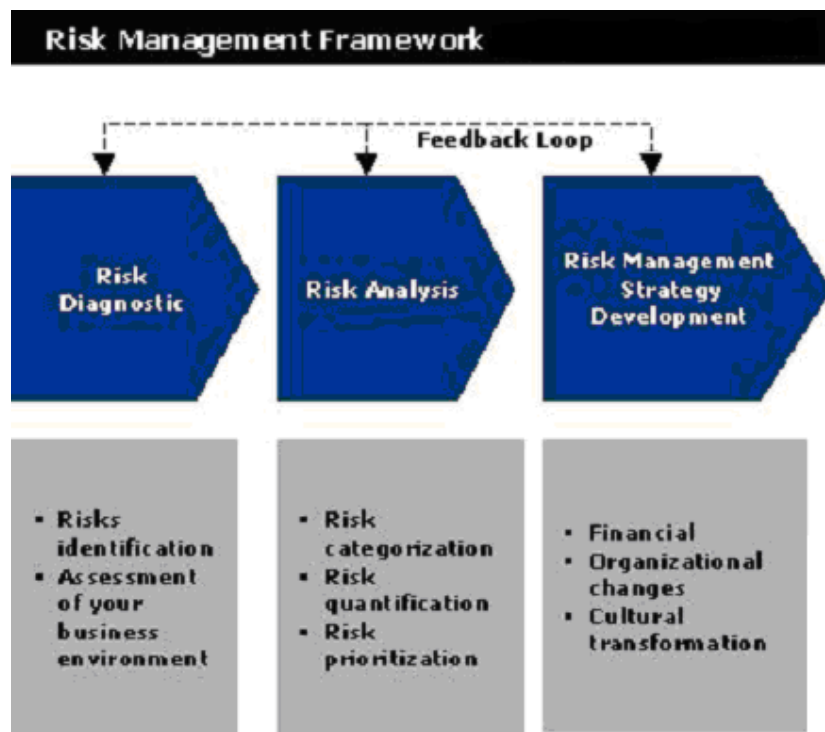
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- Master Risk Register consisting of the risks identified within the risk assessment with the applicable scoring provided by management.
- Risk Controls templates for each identified risk

APPENDIX A : RISK MANAGEMENT PROCESS



Using this process and with the input provided by the Municipality’s management, risks are identified facing the Municipality and quantified. The impact and likelihood of the risks are scored through the facilitation of a workshop and the use of a risk assessment tool and approach.

Also refer to “Risk Identification & Analysis” section of this policy document and the “Policy Statement” on more detail of approach.

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APPENDIX B: OTHER GENERIC RISK CATEGORIES

Sources of Risk

When identifying risks, all sources of potential risk should be considered. Some sources of risk are generic to all organisations. These include:

People Risks, including:

- Human Resource Management practices
- Recruitment
- Induction
- Training & Development
- OH&S (occupational health and safety)
- OH&S Management Systems
- Hazard Management
- Industrial Action
- Manual Handling
- Health
- Rehabilitation
- EEO (equal employment opportunities)
- Fraud, Corruption & Crime

Environmental Risks, including:

- Natural Hazards
- Technological Hazards
- Security
- Hazardous and Toxic Materials (e.g. chemicals, asbestos, gas etc)
- Public health (e.g. Legionella, food safety etc.)
- Emergency/ Disaster Management
- Environment
- Waste and Refuse
- Radiation

Organisational Management Risks, including:

- Finance & insurance
- Workers Compensation
- Public Liability
- Legal Relationships
- Projects
- International and Domestic Economics
- Market Competition
- Commercial/ Business/ Contractual/ Consultancy Activities and Interruptions
- Property and Physical Assets
- Fleet
- Information Technology/ Computer Systems
- Business Continuity Resumption

Risk categories used in the risk assessment are indicated under the “Definitions” section of this document.

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APPENDIX C: RISK IMPACT & LIKELIHOOD SCORING

Risk Impact ratings	
Rating	Description
1	If event would occur, it would be negligible effect
2	If event would occur, risk can be managed
3	Service delivery may be effected
4	Major delay on service delivery
5	Collapse of organisational functions (Major intervention required)

Note:

The rating of 1 to 2 is minor impact

The rating of 3 is medium impact

The rating of 4 is high impact

The rating of 5 is high/catastrophic impact

Risk Likelihood ratings	
Rating	Description
1	Not probable
2	Low probability
3	Moderate probability
4	High probability
5	Nearly certain

Note:

An additional rating can be considered for both impact and Likelihood ratings. A rating of 0 can be applied where the identified risk is not applicable.

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APPENDIX D: RISK CONTROL TEMPLATE EXAMPLE

Risk Control Template

Risk Controls

Risk Title				
Risk Definition				
Risk Impact	Likelihood before	Likelihood After	Control Reliance	
Control Methods				
Weakness / Improvement				
Loss History				
Person Responsible	Person Interviewed	Last Reviewed by	Date of interview	
		//____	_/_/____	

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APPENDIX E: RISK REGISTER TEMPLATE (EXAMPLE)

Risk Register Template

RISK:		Business Process
Risk Description:		
Risk Assessment		
Impact	1	2
Likelihood before	1	2
Likelihood after	1	2
	3	4
	3	4
	3	4
	5	5
	5	5
	5	5
Control assessment: [describe the controls and assess their effectiveness		
Recommendation (Check one of the options)	<input type="checkbox"/> Accept (No Action)	<input type="checkbox"/> Accept (further action)
	<input type="checkbox"/> Transfer/pass on Finance the risk	<input type="checkbox"/> Eliminate (terminate activity)
Action Plans [including date by which actions will be achieved]		
Risk Owner		Date ___/___/___

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