

## **RISK MANAGEMENT PHILOSOPHY/ STRATEGY**

(Report from the Acting Municipal Manager)

(5/12/R)(7579)

### 1. STRATEGIC THRUST

To ensure that Rustenburg Local Municipality has and maintains an effective, efficient and transparent system of financial and risk management and internal control.

### 2. PURPOSE OF THE REPORT

Council resolved on 25 November 2003 per item 745 that a risk management philosophy/ strategy be drafted and submitted by February 2004. Due to the obtaining of comments and Councils recess the report was held back.

### 3. BACKGROUND

- 3.1 The Local Government: Municipal Finance Management Act in section 62 determines that the duty of a Municipal Manager and Accounting Authorities are *inter alia* to ensure that a municipality has and maintains an effective, efficient and transparent system of financial and risk management and internal control.
- 3.2 Risk is the chance of an occurrence that will have an impact on council's efficiency, effectiveness and services. It is measured in terms of consequences and likelihood.
- 3.3 Council should make use of generally recognised risk management strategy in order to maintain a sound system of risk management.
- 3.4 Risk management is a key responsibility of senior management. To achieve its business objectives, senior management should ensure that sound risk management processes are in place and functioning. Council's and Audit committees have an oversight role to determine that appropriate risk management processes are in place and that these processes are adequate and effective. Internal auditors should assist both Council and the Audit committee by examining, evaluating, reporting, and recommending improvements on the adequacy and effectiveness of management's risk processes. Senior management is ultimately responsible for the municipalities risk management and control processes.
- 3.5 The quality, integrity and reliability of councils organisations risk management should be delegated to a Risk Management Champion with a team to give assistance. The Risk Management Champion must have authority to investigate matters within its mandate, have access to all information and individuals needed to fulfil its responsibility and to initiate disciplinary action on any individual appointed by council. This person must have authority to assess risks annually and sufficient funds need to be budgeted for this process. The ideal individual for this task is the Municipal Manager.

#### 4. DISCUSSION

- 4.1 Risk Management is fundamentally a business planning tool designed to provide a methodical way for addressing risk. It is about;
- Identifying, considering risks and determining what can go wrong if not controlled,
  - Acting proactively to avoid, insure, exploit, reduce or retain it once the risks are identified, and
  - Measuring, monitoring and reporting.
- 4.2 If risks are not properly identified and managed the consequences can be;
- Not achieving goals and objectives,
  - Loss of reputation,
  - Financial losses,
  - Injury or death for individuals.
- 4.3 The Risk Management Champion, as leader of a risk management team is responsible for designing, communicating, and supporting the implementation of the councils risk management approach. The team's primary objective should be to identify business risks and design strategies for managing them.
- 4.4 The Risk Management team is responsible for support and advice and drives the risk management process by;
- Acting as the primary advocate for risk management at the strategic and operational levels of council (currently the insurance claims committee),
  - Establishing a charter for council approval, framework and methods to directorates to identify, analyse, and manage their risks more effectively to achieve their objectives,
  - Developing a risk response process(including crisis responses) to assist appropriate kind and level of responses required,
  - Evaluating and considering insurance claims,
  - Communication and training in risk management,
  - Monitoring performance to provide assurance that the risk management approach is operating effectively to support achievement of the organisations objectives,
  - Reporting to the Council on risk management and act as a troubleshooting team.
- 4.5 The Risk Management team should comprise of senior managers with the Municipal Manager as chairperson.
- 4.6 The role of Internal Audit in this process is to independently and regularly review the performance, operations and risks. Internal Audit will according to the approved charter report its findings to the Audit Committee and must

advise and make recommendations to the Risk Management team and other levels of management as appropriate.

- 4.7 Implementing risk management requires Council to constantly reinforce the “Tone at the Top” by living and communicating objectives and values. Ultimately the council’s employees will drive control and process improvement in the context of established core objectives and values. This can only be achieved through hiring the right people and then train them in both their job and control. Most importantly, the message must be reinforced through employee appraisals and incentives that not only reward financial results, but also desired behaviour. Ignoring or dealing inconsistently with unethical or uncontrolled actions creates a subtle erosion in corporate values that can lead to control failures.
- 4.8 Control is a process, affected by an entity’s board, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories;
- Effectiveness and efficiency of operations,
  - Reliability of financial reporting, and
  - Compliance with applicable laws and regulations.

4.9 Mission Statement.

It is proposed that Council should adopt the following Mission Statement;  
***“The Rustenburg Local Municipalities general approach is to minimise its exposure to risks, we will seek to recognise risk and to mitigate the adverse consequences. In our pursuit of our mission, we may choose to accept an increased degree of risk subject thereto that potential benefits and risks are fully understood.***

***The Municipality will adopt best practices in the evaluation and management of risks to which we are exposed to in pursuing our strategic objectives.”***

- 4.10 Responsibilities and activities should be coordinated among all groups and individuals with a role in the municipalities risk management process. These responsibilities and activities should be appropriately documented in the municipality’s strategic plans, policies, procedural manuals and job descriptions. Examples of some of the activities and responsibilities that should be documented include;
- Setting the strategic direction reside with the Council,
  - Ownership of risks may be assigned to the Municipal Manager and senior management,
  - Acceptance of residual risk may reside at the Executive Mayoral Committee,
  - Identifying, assessing, mitigating, and monitoring activities on a continuous basis may be assigned at the operating level, and

- Periodic assessments and assurance to others should reside with the internal audit activity.

#### 4.11 COMMENTS OF DIRECTORATES DIRECTOR: PLANNING AND DEVELOPMENT

The report is in order and supported.

#### DIRECTOR: PUBLIC SAFETY

It is important that the municipality conduct risk analysis on regular basis in order to inform any risk management strategy that may be developed by the municipality. This includes evacuation plan, contingency plan and or disaster recovery plan as a guideline. The draft of such plans must be submitted to other state organs such as department of finance, auditor general, South African Police Service (SAPS), National Intelligence Agency (NIA), State Information Technology Agency (SITA) and others for enrichment and refinery (inputs).

Risk management strategy need to cover all potential losses against the municipality with the aim of determining risk indicators and investigate the causes and possible effect thereof. There are other factors that may cause the municipality to suffer a loss in income such as lax security measures within the premises of the municipality. Risk management strategy for the municipality has to include security awareness, anti-corruption awareness etc. It is a broad concept which covers a wide scope and nature of security as a tool of control and management.

It covers the following:-

- A workplace ethical culture assessment.
- Analysis of document security, physical security, computer security etc.
- Development and implementation of anti-corruption prevention plan.
- Forensic management.
- Disciplinary hearing and training.

It is the responsibility of the municipality to acknowledge the presence of risks in the workplace and externally and to pay serious attention to the possible losses or adverse impact that the municipality may suffer. Risk management strategy in the workplace necessitates a multi-disciplinary approach implemented through an integrated strategy and plans derived from multi-level policies of various directorates.

#### DIRECTOR: FINANCE

1. Section 62 (1)(c)(i) of the Local Government: Municipal Finance Management Act, 2003 (Act no 56 of 2003) requires the accounting officer to maintains an effective, efficient and transparent system of financial and risk management and internal control.

2. Although it is acknowledge that in most cases risk boils down to financial losses, loss control and risk management is not only associated with financial matters, but includes all activities and functions of the Council. (e.g. damage/loss of assets, injury to people, loss of productivity/time, wrong decision making, etc.)
3. It is recognised that top management has a major role to play with regard to risk management but there is however a concern that a heavy workload and time constraints might jeopardise the required attention to the matter. In order to alleviate the workload and still have the necessary attention to the subject, it will be recommended that risk management and loss control matters be handled by the already established Loss Control Committees per Directorate. (Refer Council resolution 438 of 26 August 2003).

**DIRECTOR: CORPORATE SUPPORT SERVICES**

The mission statement is quite long and difficult to remember. It may be shortened as follows:

“That Rustenburg Local Municipality will adopt best practices to minimise its exposure to risk, and to mitigate the above consequences of risk.”

The concept of risk management strategy is however extremely important to ensure responsible, effective service delivery to the community.

5. **CONCLUSION**

Many of these activities are already in place, but it needs to be documented and clearly defined. Some of these actions are delegated to managers that need to be reconsidered, because risk management is primarily the responsibility of the Municipal Manager and senior management.

**RECOMMENDED: (CC)**

**ACTION**

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| 1. | That a risk management philosophy/ strategy be approved and applied; and that risk management and loss control matters be handled by the already established Loss Control Committees per Directorate | AMM<br>DIR's |
| 2. | That a Mission Statement be adopted and explained at future Outreaches and Roadshows in order to promote the Batho Pele Principals;  | AMM<br>DIR's |

3. That Internal Audit should assist the Risk Management team and the Audit Committee by examining, evaluating, and recommending improvements on the adequacy and effectiveness of risk management processes.

AMM  
CAE