

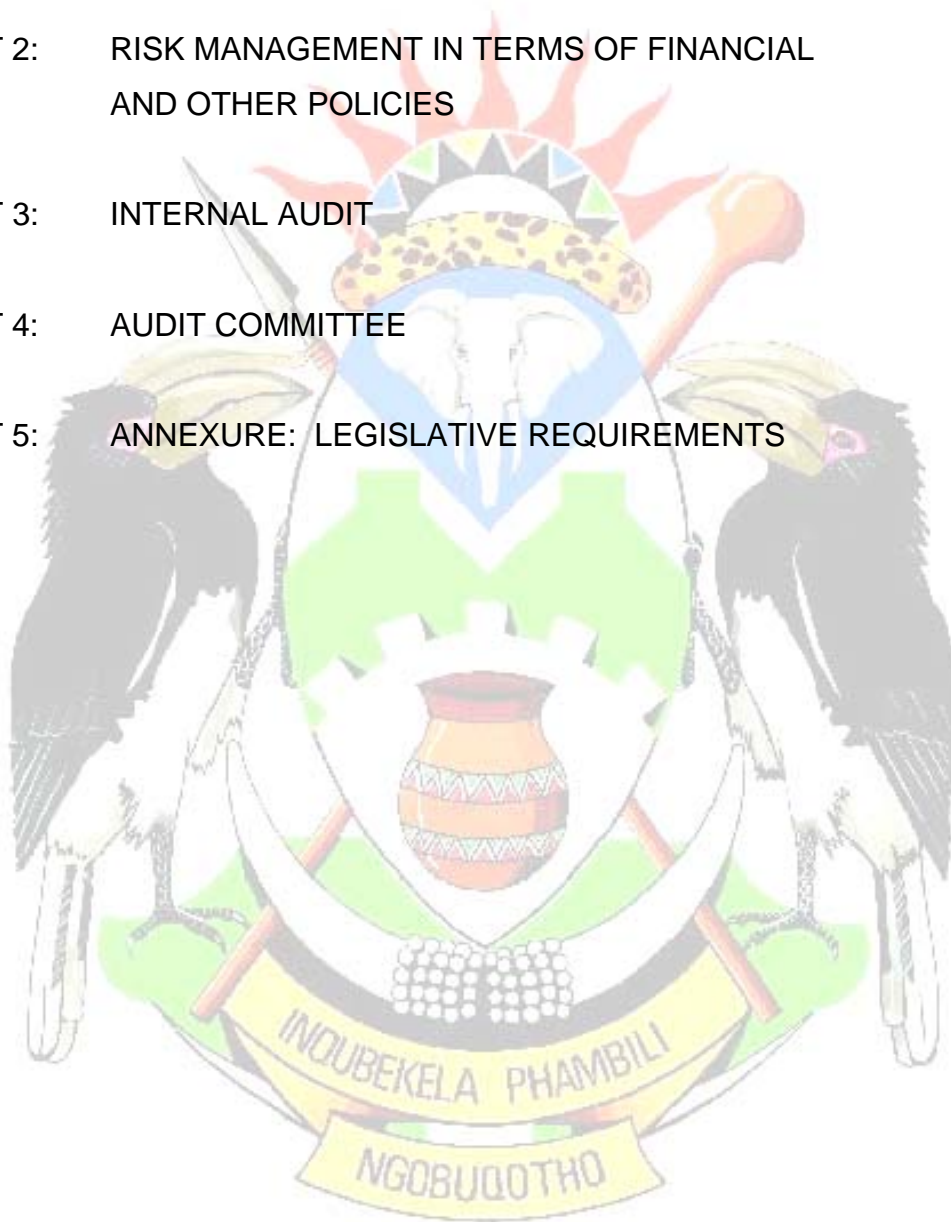


**ZULULAND
DISTRICT MUNICIPALITY
DRAFT RISK
MANAGEMENT POLICY**

Zululand District Municipality Finance Department

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PART 1: RISK MANAGEMENT REVIEW COMMITTEE

The municipal manager shall establish and chair a risk management committee, membership of which shall comprise all heads of departments and such other officials as the municipal manager may choose to appoint to the committee.

The committee shall meet at least annually, or more frequently if the municipal manager so decides.

The functions of the committee shall be to:

- Review the effectiveness of the municipality's financial risk management strategies, with specific reference to the effectiveness with which the municipality's financial and other policies are being implemented (see part 2 below).
- Review the effectiveness of the municipality's other operational risk management strategies, including environmental risks, risks relating to the safety and well-being of the municipality's employees and risks relating to inadequate training and functional capacitation of the municipality's employees.
- Identify and assess the significance of any risks not covered by existing risk management strategies, and formulate means of addressing such risks.
- Consider, and make recommendations to the executive committee on policy matters, on any risk management matters identified by the internal audit department or the audit committee.

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PART 2: RISK MANAGEMENT IN TERMS OF FINANCIAL AND OTHER POLICIES

The council of the municipality shall ensure that when adopting or revising its financial policies, the risks associated with the matters or functions to which those policies relate are adequately identified and addressed.

The council shall further ensure that the financial policies promote accountability and transparency, and adequately address the risks associated with:

- management of fixed assets
- supply chain management
- banking, investments and cash management
- management of budgetary resources generally
- management of revenues, including credit control and debt collection and management of indigents
- payment of subsistence, travel and entertainment allowances

and that its general policies adequately address all risks reasonably associated with the workplace, including:

- occupational safety and security
- management and administration of human resources including proper segregation of duties
- development of human resources, including training and capacity building
- performance management.

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PART 3: INTERNAL AUDIT

In compliance with the requirements of the Municipal Finance Management Act 2003 and the dictates of sound governance, the municipal manager shall establish an internal audit function under his or her direct control.

The municipal manager shall further ensure that an internal audit charter is prepared, and that the internal audit function is performed in accordance with such charter. The charter shall include all the matters referred to in the Municipal Finance Management Act 2003, and any other matters deemed important by the municipal manager and the risk management review committee, and shall specifically include a mandatory annual review of the municipality's risk management strategies as set out in its financial and general policies, either covering all the policies concerned or selected policies in each financial year. In addition, the internal audit charter shall require an annual review of all or selected systems and controls, assessing their effectiveness in supporting the foregoing policies and in generally managing the municipality's risks, such systems and controls to include those relating to:

- reporting requirements (internal and external)
- cash management
- budgetary management
- revenues and expenses (general ledger)
- debtors
- creditors
- stores
- payroll
- fixed assets
- credit control.

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The municipal manager may outsource the internal audit function to one or more institutions which possess the necessary skills, resources and experience, or may establish an adequately resourced internal audit department comprising suitably skilled and experienced officials, or may have the internal audit function performed partly on an outsourced and partly on an internal basis.

PART 4: AUDIT COMMITTEE

In compliance with the requirements of the Municipal Finance Management Act 2003 and the dictates of sound governance, the council shall appoint an independent audit committee, and approve an audit committee charter in terms of which such committee shall operate.

The municipal manager shall draft the audit committee charter for the executive committee's approval, review such charter annually, and submit to the executive committee any recommended amendments to such charter.

The charter shall set out the:

- composition, tenure, required credentials (skills, expertise, experience), responsibilities and remuneration of the committee
- the minimum frequency of its meetings
- all the matters prescribed by the Municipal Financial Management Act and any matters deemed important by the municipal manager and the risk management review committee, and shall specify as a requirement a mandatory annual review of the municipality's risk management strategies, such review to comprise an assessment of the review conducted by the internal audit function in terms of Part 3 above, as well as any additional assessment which the audit committee may consider necessary.

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PART 5: ANNEXURE: LEGISLATIVE REQUIREMENTS

Internal audit unit

165. (1) Each municipality and each municipal entity must have an internal audit unit, subject to subsection (3).
- (2) The internal audit unit of a municipality or municipal entity must –
- (a) prepare a risk-based audit plan and an internal audit program for each financial year;
 - (b) advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to –
 - (i) internal audit;
 - (ii) internal controls;
 - (iii) accounting procedures and practices;
 - (iv) risk and risk management
 - (v) performance management;
 - (vi) loss control; and
 - (vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation; and
 - (c) perform such other duties as may be assigned to it by the accounting officer.
- (3) The internal audit function referred to in subsection (2) may be outsourced if the municipality or municipal entity requires assistance to develop its internal capacity and the council of the

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municipality or the board of directors of the entity has determined that this is feasible or cost-effective.

Audit committees

166. (1) Each municipality and each municipal entity must have an audit committee, subject to subsection (6).
- (2) An audit committee is an independent advisory body which must-
- (a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, on matters relating to-
- (i) internal financial control and internal audits;
 - (ii) risk management;
 - (iii) accounting policies;
 - (iv) the adequacy, reliability and accuracy of financial reporting and information;
 - (v) performance management;
 - (vi) effective governance;
 - (vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;

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- (viii) performance evaluation; and
 - (ix) any other issues referred to it by the municipality or municipal entity;
- (b) review the annual financial statements to provide the council of the municipality or, in the case of a municipal entity, the council of the parent municipality and the board of directors of the entity, with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness and its overall level of compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;
- (c) respond to the council on any issues raised by the Auditor-General in the audit report;
- (d) carry out such investigations into the financial affairs of the municipality or municipal entity as the council of the municipality, or in the case of a municipal entity, the council of the parent municipality or the board of directors of the entity, may request; and
- (e) perform such other functions as may be prescribed.
- (3) In performing its functions, an audit committee-
- (a) has access to the financial records and other relevant information of the municipality or municipal entity; and
 - (b) must liaise with-

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- (i) the internal audit unit of the municipality; and
 - (ii) the person designated by the Auditor-General to audit the financial statements of the municipality or municipal entity.
- (4) An audit committee must-
- (a) consist of at least three persons with appropriate experience, of whom the majority may not be in the employ of the municipality or municipal entity, as the case may be; and
 - (b) meet as often as is required to perform its functions, but at least four times a year.
- (5) The members of an audit committee must be appointed by the council of the municipality or, in the case of a municipal entity, by the council of the parent municipality. One of the members who is not in the employ of the municipality or municipal entity, must be appointed as the chairperson of the committee. No councillor may be a member of an audit committee.
- (6) A single audit committee may be established for-
- (a) a district municipality and the local municipalities within that district municipality; and
 - (b) a municipality and municipal entities under its sole control.