



LIMPOPO

PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

Ref: 12/1

Enq: SE Tema Tel: 015 291 8563

PROVINCIAL TREASURY

**TO: AII MUNICIPAL MANAGERS
AII RISK MANAGEMENT OFFICERS
ALL S56 MANAGERS
ALL DIVISIONAL HEADS
ALL CHIEF EXECUTIVE OFFICERS: MUNICIPAL ENTITIES**

Dear Sir/Madam

PROVINCIAL TREASURY MFMA CIRCULAR NO.3 OF 2016: INTEGRATION OF RISK MANAGEMENT TO THE IDP AND MTREF BUDGET PROCESS

PURPOSE

This circular has been prepared to provide guidance municipalities/municipal entities regarding integration of risk management process to the IDP and MTREF budget process in line with the Municipal Finance Management Act (MFMA). The IDP and budget process must be one process. It is considered that a well-run budget process that incorporates the IDP review will facilitate community input, encourage discussion, promote a better understanding of community needs, provide an opportunity for feedback and improve accountability and responsiveness to the needs of the local communities.

LEGAL FRAMEWORK

Section 21 of the MFMA is the primary provision relating to the municipal budget process. It requires the mayor to coordinate the processes for preparing the annual budget and for reviewing the Integrated Development Plan (IDP) and budget related policies. The mayor must table in council by 31 August (10 months before the start of the budget year) a schedule of key deadlines for various budget related activities as spelled out in section 21. The accounting officer is tasked by section 68 of the MFMA with assisting the mayor in developing and implementing the budgetary process. The process

should provide for both internal (within municipality) and external (local community and other stakeholder) consultations. The accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management, internal control and internal audit, in accordance with section 62(1)(c) of the MFMA. The Accounting officer must undertake a 'risk assessment' for his/her municipality or municipal entity.

INTEGRATION OF RISK MANAGEMENT WITH THE IDP AND BUDGET PROCESS

A good budgeting system will include well-defined rules (e.g., legislation and supporting regulations), role and responsibility definitions (e.g., legislation and supporting delegations policy) and supporting internal systems (information, financial, risk management and internal control systems). The budget process (through specifying what should be done by whom and when) is an integral part of a well-functioning budget system. Risk management acknowledges that all the activities of an organisation involve some element of risk. Management should decide what is an acceptable level of risk (given cost and other social factors) by objectively assessing the factors (risks) that may prevent a particular activity from meeting its strategic objectives.

Municipal Council should be aware of the risk (events) that could occur and prevent the municipality from achieving the objectives set out in the IDP. Council should be advised of its responsibility in approving the risk management related strategies and policies. It is against this background that the risk management process timeframes should be aligned to that of the IDP and municipal planning process.

The Schedule of Key deadlines which must be tabled in council by the 31 August must include timeframes for strategic risk assessment and operation risk assessment to ensure that when council adopts the IDP and Budget they also adopt the Strategic Risk Register for that financial year. Municipalities are advised to review their strategic risks in line with the strategic objectives as set out in the IDP.

This approach will ensure integration of risk management in the planning process of the municipality and assist the municipality in prioritisation of projects and the allocation of the budget to the critical areas.



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The table below indicates the manner in which municipalities should align both the IDP and Budget process to the Risk Management process.

No	Steps	Budget process	Risk management activity	Timeframes
1	Planning	Preparation and tabling of Schedule of Key deadlines	Identify and schedule key Risk Management activities aligned to the budget process schedule	31 August
2	Strategising	Strategic sessions to review IDP, Policies and set service delivery objectives.	Identification of strategic risks that may hinder achievement of objectives	September - November
3	Preparing	Preparations of revenue and expenditure projections (budget preparation)	Review of operational risks. Assessing of budget allocation in line with priorities and key risks identified	December - February
4	Tabling	Table complete proposed budget, IDP revisions and budget related policies to Council	Risk Awareness and tabling of the risk policies and draft risk register to Council	31 March
5	Approving	Council approves budget and related policies	Council approves the risk and fraud prevention policies.	31 May - June
6	Finalising	Preparation, approval and publication of SDBIP	Finalisation of the Strategic and operational risk register	June - July
		Signing of performance agreements	Inclusion of risk management responsibilities in Performance Management Agreements of officials	

RISK MANAGEMENT FUNCTIONALITY

The MFMA requires that a municipality has and maintains effective, efficient and transparent systems of risk management. Therefore municipalities should ensure that risk management units are established and fully capacitated. In ideal circumstances, the Chief Risk Officer (CRO) should report directly to the Accounting Authority given the latter's legal responsibility for risk management and be a member of IRMSA (The Institute of Risk Management South Africa)

SUBMISSION TO THE PROVINCIAL TREASURY

Municipalities and municipal entities must submit the Schedule of Key deadline 10 working days after tabling in council. Municipalities and municipal entities must submit the strategic risk register and risk related policies to the Provincial Treasury together with the tabled IDP and budget for that financial year. Ten working days after each quarter municipalities and municipal entities must submit the risk implementation report/quarterly risk management report which includes the incident register and emerging risk register.

CONCLUSION

The goal of risk management is to create a safe workplace, to prevent catastrophic financial losses, and to provide budgetary stability. Effective risk management reduces the detrimental effects of risks that cannot be avoided, and protects both the municipality and its employees. It is important that the accounting officer ensure that this Circular is brought to the attention of the Municipal Council, Board of Directors of municipal entities, the members of the audit committee, internal audit unit, and all other relevant officials.

All comments on this Circular must be forwarded to Provincial Treasury Municipal Governance & Capacity Building directorate on email BuysIY@treasury.limpopo.gov.za, NchabelengeMF@treasury.limpopo.gov.za and TshivuleMM@treasury.limpopo.gov.za.

Risk management templates are available on the National Treasury website: <http://oag.treasury.gov.za/RMF/RMF%20Documents/Forms/AllItems.aspx>

Kind regards,



G Pratt CA (SA)

Head of Department

12/08/2016
DATE