

**PORTFOLIO COMMITTEE :**

**MANAGEMENT SERVICES**

**Chairperson :**

**Cllr A Komani**

**Committee Members :**

**Ald M Sapepa, Ald N Botha-Guthrie,  
Cllrs M Opperman & N Nqinata**

**PORTEFEULJEKOMITEE :**

**BESTUURSDIENSTE**

**Voorsitter :**

**Rdl A Komani**

**Komiteelede :**

**Rdh M Sapepa, Rdh N Botha-Guthrie,  
Rdle M Opperman & N Nqinata**

**MANAGEMENT SERVICES PORTFOLIO COMMITTEE**

**BESTUURSDIENSTE PORTEFEULJEKOMITEE**

**19 June 2018**

**I N D E X**

**ITEM**

**PAGE  
NUMBER**

**APPLICATIONS FOR LEAVE OF ABSENCE**

**STATEMENTS AND COMMUNICATIONS BROUGHT FORWARD BY THE  
CHAIRPERSON**

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| <b>2.</b> | <b>COMBINED ASSURANCE POLICY FRAMEWORK 2018/2019</b> | <b>67</b> |

**AGENDA of the  
Portfolio Committee : Management Services  
19 June 2018  
(Also the agenda for the Mayoral Committee Meeting : 27 June 2018)**

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**1.  
RISK MANAGEMENT STRATEGY AND POLICY 2018/2019**

**2/B**

**A Riddles**

**(028) 313 5044**

**Corporate Head Office**

**18 May 2018**

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**1. Executive Summary**

To obtain Council's approval for the Risk Management Strategy and Policy, that has been reviewed by the Risk Management Committee.

**2. Service Delivery and Budget Implementation Plan - IGNITE**

Directorate: Management Services  
Risk Management Unit

**3. Compliance with Strategic Priority**

The provision of democratic, accountable and ethical governance

**4. Delegated Authority**

None

**5. Legal Requirements**

Local Government: Municipal Finance Management Act (No. 56 of 2003)  
(MFMA)

**6. Background**

Section 62(1)(c)(i) of the MFMA requires the Accounting Officer of a Municipality to be 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 controls.

The principles of the King Report on Governance for South Africa, 2009 (King III) has three main focus areas which emphasise the need for annual revision of these documents by Council:

- The essential emphasis of the code is that the Council should exercise leadership to prevent risk management from becoming a series of activities that are detached from the realities of the council's business.

**AGENDA of the  
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- King III positions risk as a cornerstone of governance and risk is substantially different to the requirement to implement risk management.
- Greater emphasis is placed on the accountable leadership structure to ensure that it is satisfied with the management of risk.

In order to give effect to the MFMA and these principles of Good Governance as well as to the responsibility of the Accounting Officer, the reviewed Risk Management Strategy and Policy must be approved annually to implement systems for risk management activities and internal controls.

The following significant changes have been made to the Risk Management Strategy since the last review:

- Added a section *Risk Management Maturity*.
- Moved the sections on *Opportunity Risk Management*, *Enterprise Risk Management Processes* and *Risk Classification* to the policy. The sections *Methodology*, *Enterprise Risk Management Control*, *Combined Assurance* and *Business Continuity* were removed, since it is contained in the policy.
- Amended and added to the responsibilities of the different role players, mainly related to combined assurance and ethics.

The following significant changes have been made to the Risk Management Policy since the last review:

- Changed the heading of the section *Applicable Frameworks* to *Supporting Frameworks* and added an explanatory paragraph that the Municipality is striving towards compliance with the frameworks to increase its risk management maturity.
- The section *Role Players in the Risk Management Process* was amended to include lower management and senior staff.
- Three new risk categories were added: *Intergovernmental functions*, *Community Participation* and *Change Management*.
- The impact rating scale was changed.
- Sections on financial exposure, cost of controls and risk actions were included.

**GENERAL EXPLANATORY NOTE :**

[            ] Words in bold type in square brackets indicate omissions from existing enactments.

                     Words underlined with a solid line indicate insertions in existing enactments.

**AGENDA of the  
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**7. Financial Implications**

None

**8. Staff Implications**

None

**9. Comments from other Departments, Divisions and Administrations**

None

**10. Annexures**

Annexure A: Overstrand Municipality Risk Management Strategy 2018/2019

Annexure B: Overstrand Municipality Risk Management Policy 2018/2019

**RECOMMENDATION TO THE COUNCIL:**

1. that the Risk Management Strategy **be approved**; and
2. that the Risk Management Policy **be approved**;

**RESPONSIBLE OFFICIAL : A RIDDLES**

**TARGET DATE FOR IMPLEMENTATION : 1 JULY 2018**

**AGENDA of the  
Portfolio Committee : Management Services  
19 June 2018  
(Also the agenda for the Mayoral Committee Meeting : 27 June 2018)**

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**1.  
RISK MANAGEMENT STRATEGY AND POLICY 2018/2019**

**2/B  
A Riddles  
18 May 2018**

**(028) 313 5044**

**Corporate Head Office**

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**THIS MATTER SERVED BEFORE THE JOINT PORTFOLIO COMMITTEE ON  
19 JUNE 2018, WHICH COMMITTEE RECOMMENDED AS FOLLOWS:**

**RECOMMENDATION TO THE COUNCIL:**

1. that the Risk Management Strategy **be approved**; and
2. that the Risk Management Policy **be approved**.

**RESPONSIBLE OFFICIAL : A RIDDLES**

**TARGET DATE FOR IMPLEMENTATION : 1 JULY 2018**

# OVERSTRAND MUNICIPALITY



## RISK MANAGEMENT STRATEGY 2018-2019

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### GENERAL EXPLANATORY NOTE :

[ ] Words in bold type in square brackets indicate omissions from existing enactments.

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## 1. INTRODUCTION

The risk management strategy outlines a high level plan on how the Municipality will go about implementing risk management within the Municipality. The strategy is designed to provide all role players with the necessary information to enable them to fully understand the roles and responsibilities of their office in terms of risk management processes.

Since Overstrand Municipality is a local government institution and the primary reason for its existence is the delivery of services with profit secondary, the approach to risks and risk management will differ from the more commonly known approaches of profit companies due to law and regulations regarding service delivery and risk management for local government and the different strategies of non-profit and profit entities.

The ultimate aim of the Municipality's risk management is to create value for customers and the Overstrand community in a sustainable manner. To this end, risk management will also be used to improve the efficiency of the Municipality's support functions.

## 2. MISSION OF RISK MANAGEMENT

- To ensure that the strategic objectives are achieved and without compromising our stakeholders' trust and quality of our service, an effective approach to management of risks must be taken to minimise losses and maximise opportunities.
- To identify and prioritise potential risk events and **[to]** use established risk management methods, tools and techniques to assist the Municipality.
- To inform and assist the executive and personnel on their roles and responsibilities to guarantee that the risks relating to their particular area of control are managed to ensure that the best outcome is achieved.

## 3. OBJECTIVES OF RISK MANAGEMENT

**[The objectives of a risk management strategy are to:]**

- Align strategic objectives with supporting processes, risk and control;
- Drive specific risk management and control processes to respond to the potential threats and opportunities;
- Provide a common understanding of how the Municipality, its business processes and people describe and prioritise objectives, risk and control;
- Embed instinctive and consistent consideration of risk and reward in the day-to-day planning and achievement of objectives; **[and]**

- Provide clarity on the Municipality's risk appetite – risks must be taken in the pursuit of opportunities; and
- Incorporate risk reporting into the Municipality's systems to support risk-based decision-making.

#### 4. [RISK AWARE CULTURE]IMPROVEMENT OF RISK MATURITY

Risk management should be integrated into the culture of the Municipality and this will include mandate, leadership and commitment. It should translate risk strategy into tactical and operational objectives, and assign risk management responsibilities throughout the [organisation]Municipality. It should support accountability, performance measurement and reward the promoting of operational efficiency at all levels. **[A good risk aware culture can be achieved by establishing an appropriate risk architecture, strategy and protocols.]**

Risk management is a central part of the strategic management of any organisation. It is the process whereby organisations methodically address the risks attached to their activities. A successful risk management initiative should be proportionate to the level of risk in the organisation, aligned with other corporate activities, comprehensive in its scope, embedded into routine activities and dynamic by being responsive to changing circumstances.

#### 5. [PRINCIPLES OF RISK MANAGEMENT

**Risk management is a central part of the strategic management of any organisation. It is the process whereby organisations methodically address the risks attached to their activities. A successful risk management initiative should be proportionate to the level of risk in the organisation, aligned with other corporate activities, comprehensive in its scope, embedded into routine activities and dynamic by being responsive to changing circumstances.**

Since Overstrand Municipality is a local government institution and the primary reason for its existence is the delivery of services with profit secondary, the approach to risks and risk management will differ from the more commonly known approaches of profit companies due to law and regulations regarding service delivery and risk management for local government and the different strategies of non-profit and profit entities.

#### 6. OPPORTUNITY RISK MANAGEMENT

Events can have positive outcomes too. These events are commonly known as opportunities.

Risks can be mitigated in such a way that it not only address the negative consequences on the Municipality's objectives, but contributes to the

achievement of the objectives. The risk response is thus turned into an opportunity to improve or innovate.

Including opportunities in the risk management of the Municipality will prevent a culture of only focusing on risk events and missing the opportunities among the risks, and assist with the creation of a culture of designing risk responses in such a way that it not only focusses on reducing or eliminating the risk, but goes beyond and improve or innovate the whole strategic/operational process that is affected by the risk.

## 7. ENTERPRISE RISK MANAGEMENT PROCESSES

The Enterprise Risk Management (ERM) process can make major contributions towards helping the Municipality achieve its objectives. The ERM processes, which focus on the organisational goals, objectives and strategy, are clinical in nature. The ERM process is as follows:

- Identification or establishment of organisational objectives using the four categories: Strategic, Operational, Compliance and Reporting.
- Determination of risk appetite and risk tolerance;
- Risk identification, assessment (analysis, measurement) and prioritisation;
- Identification and design of risk mitigation strategies and responses, as well as capabilities;
- Implementation of risk mitigation strategies and action plans;
- Measuring the risk exposure, monitor and communicate results;
- Integrate results with decision making processes.

Overstrand Municipality's ERM process is explained in detail in the Risk Management Policy.

## 8. RISK CLASSIFICATION

Overstrand Municipality classifies risks in accordance with the regulations and frameworks applicable to government institutions.

### 8.1. RISK TYPES

The Municipality can be exposed to different types of risks which may be internal or external to the Municipality.

Internal risks are risks emanating from within the Municipality and over which the Municipality to a large extent has control over its occurrence.

External risks are risks emanating from outside the Municipality and the Municipality has little or no control over its occurrence.

#### 8.2. RISK LEVELS

Risks have been arranged into five main levels: Strategic Risks, Operational Risks, Project Risks, Incident Risks and Emerging Risks.

**Strategic Risks:** risks that affect the Municipality's ability to achieve its strategic goals, based on strategic planning, corporate or operating structure or business models.

**Operational Risks:** risks associated with the functioning of operational processes, people, information systems and management involved in the daily operations of the Municipality.

**Project Risks:** specific risks associated with the implementation and completion of projects regulated by provincial or national government departments or state agencies. Not all capital projects' risks are project level risks.

**Incident Risks:** risks that come to light / incidentally occur during the financial year, but were not captured in the initial risk register for that particular financial year.

**Emerging Risks:** risks that could realise in the future, by taking into account processes involving a future event. In other words newly developing or changing risks which are difficult to quantify and which could have a major impact on the Municipality.

#### 8.3. RISK CATEGORIES

Risks are categorised based on their origin and the area they affect.

The following risk categories for internal risks have been identified:

- **Litigation**
- **Material Resources**
- **Service Delivery**
- **Information Technology**
- **Third Party Performance**
- **Compliance**
- **Human Resources**

- Knowledge and Information Management
- Occupational Health and Safety
- Theft
- Fraud and Corruption
- Financial Environment
- Political Environment
- Reputational Risks
- Interdepartmental and interrelated functions

The following risk categories for external risks have been identified:

- Economic Environment
- Political Environment
- Social Environment
- Natural Environment
- Technological Environment
- Cultural Environment

The risk categories are explained in Overstrand Municipality's Risk Management Policy.]

## 9. ACCOUNTABILITY, ROLES AND RESPONSIBILITIES

### 9.1. INTRODUCTION

Risk management requires ethical, qualified, skilled and experienced individuals to be effectively executed and monitored.

The risk management support function should be capacitated to implement, maintain and improve the risk management systems and processes of the Municipality and support staff with their risk management responsibilities.

Second and third line assurance providers should have the skills, qualifications and experience required to enable them to provide credible assurance over key risks.

Legislating the implementation of risk management in public sector institutions is part of a macro strategy of National Government towards ensuring the achievement of national goals and objectives.

**[Overstrand Municipality has opted to implement a risk management unit jointly with other municipalities as it is not cost effective to establish a sole**

risk management unit. The joint risk management unit took the form of a shared services centre (SSC). The SSC acts as Overstrand Municipality's risk management unit.]

## 9.2. MUNICIPAL COUNCIL

### 9.2.1. Legal Mandate and Frameworks

The following legislative instruments provide the legal foundation for the Municipal Council's responsibility for risk management:

- **Section 44(2) of the Local Government: Municipal Structures Act (No. 117 of 1998)**
- **Section 52(b),(e) and 58 of the Local Government: Municipal Finance Management Act (No. 56 of 2003)**

The following frameworks provide the recommended practice guidelines for the Municipal Council regarding risk management:

- **Chapter 10 of the Public Sector Risk Management Framework**

### 9.2.2. Role and Responsibilities

As risk management is an important tool to support the achievement of [this] the Municipality's goals, it is important that the Municipal Council provides leadership to governance and risk management. To derive optimal benefits, risk management ought to be conducted in a systematic manner, using proven methodologies, tools and techniques, while taking into account the unique circumstances of the Municipality.

**High level responsibilities of the Municipal Council in risk management include:**

- Providing oversight and direction to the Municipal Manager on the risk management related strategy and policies;
- Approve the risk management strategy, policy and implementation plan;
- Approve the fraud prevention strategy, policy and plan;
- Approve the business continuity framework;
- Approve the code of ethics;
- Approve the combined assurance policy framework;
- Having knowledge of the extent to which the Municipal Manager, Directors and management [has]have established effective risk management in their respective departments;

- **[Awareness of and concurring]** Ensure the implementation of **[with]** the Municipality's risk appetite and tolerance levels;
- Reviewing the Municipality's portfolio view of risks and consider it against the Municipality's risk tolerance and risk appetite;
- Influencing how strategy and objectives are established, institutional activities are structured, and risks are identified, assessed and acted upon;
- Requiring that management should have an established set of values by which every employee should abide by; **[and]**
- Ensure the implementation of the combined assurance efforts, as stipulated in the combined assurance policy framework, on the Municipality's key risks;
- Insist on the achievement of objectives, effective performance management and value for money.

### 9.3. MUNICIPAL MANAGER

#### 9.3.1. Legal Mandate and Frameworks

The following legislative instruments provide the legal foundation for the Municipal Manager's responsibility for risk management:

- **Section 62(1)(c)(i) of the Local Government: Municipal Finance Management Act (No. 56 of 2003) (MFMA)**

The following frameworks provide the recommended practice guidelines for the Municipal Manager regarding risk management:

- **Chapter 11 of the Public Sector Risk Management Framework**
- **[Principle] Recommended Practices 1.3.5; 1.3.6; 2.2.3 and 2.20.4 and Principle 4 of the King III Code of Governance Principles**

#### 9.3.2. Role and Responsibilities

**[To derive optimal benefits, risk management is conducted in a systematic manner, using proven methodologies, tools and techniques, while taking into account the unique circumstances of the Municipality.]** The Municipal Manager has the legal responsibility to establish and maintain an effective, efficient and transparent system of risk management **[The Municipal Manager]** Through the delegation of powers in accordance with Section 79 of the MFMA, the Municipal Manager ensures that the responsibility for risk management vests at all levels of management and that it is not only limited to the Municipal Manager. **[The Municipal Manager also ensures that a risk assessment is conducted regularly to identify emerging risks.]**

**High level responsibilities of the Municipal Manger include:**

- Set the tone at the top by supporting ERM and allocating resources towards the implementation thereof;
- Ensure the risk management strategy, policy, implementation plan and related documents are developed;
- Establish the necessary structures and reporting lines within the Municipality to support ERM;
- Influencing the improvement of risk maturity through institutionalisation of a risk management culture that will enhance the risk profile of the Municipality; [an institutional "risk aware" culture];
- **[Approving the code of conduct for the Municipality and holding management and officials accountable for adherence;]**
- Endorsing the code of ethics for the Municipality and holding management and officials accountable for adherence;
- Place the key risks at the forefront of the management agenda and devote personal attention to overseeing their effective management;
- Hold **[management] directors** accountable for designing, implementing, monitoring and integrating risk management principles into their **[day-to-day activities] directorates;**
- Holding the structures responsible for risk management activities accountable for adequate performance;
- Ensuring that a structured risk assessment process is in place to identify and rank risks according to exposure;
- Ensuring that a conducive control environment exists to ensure that identified risks are proactively managed;
- **[Leverage] Promote good governance principles through the required functions performed by the Joint Audit & Performance Audit Committee, Internal Audit Services, Risk Management Committee and other appropriate structures for assurance on the effectiveness of risk management;**
- Provide all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored;
- Ensure proper alignment between the integrated development plan, risk management, municipal annual budget and performance management.
- Consider and act on recommendations from the Joint Audit & Performance Audit Committee, Internal Audit Services, Risk Management Committee and other appropriate structures for improving the overall state of risk management;

- Provide appropriate leadership and guidance to **[senior management]directors** and structures responsible for various aspects of risk management.

#### 9.4. DIRECTORS

##### 9.4.1. Legal Mandate and Frameworks

The following legislative instruments provide the legal foundation for Directors' responsibility for risk management:

- Section 78(1)(a) of the Local Government: Municipal Finance Management Act (No. 56 of 2003) (MFMA)
- Section 62(1)(c)(i) of the MFMA, delegated in terms of Section 79(1)(b)(ii) of the MFMA

The following frameworks provide the recommended practice guidelines for Directors regarding risk management:

- Chapter 15 of the Public Sector Risk Management Framework
- Recommended Practices 1.3.5; 2.2.3 and 2.20.4 and Principle 4 of the King III Code of Governance Principles

##### 9.4.2. Role and Responsibilities

Directors are accountable to the Municipal Manager for designing, implementing and monitoring risk management systems in their directorates. This needs to be done in such a manner as to ensure that risk management becomes a valuable strategic management tool for underpinning the efficacy of service delivery and value for money.

##### High level responsibilities of Directors include:

- Acknowledge the "ownership" of risks within their directorates and their ultimate responsibility to oversee the managing of such risks;
- Cascade risk management into their departments' functional responsibilities;
- Empower managers to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- Hold management accountable for their risk management responsibilities;
- Monitor the implementation of mitigating actions by management and intervene when required;

- Maintain the directorate's risk profile within the Municipality's risk tolerance and appetite;
- Provide reports on the directorate's risk management, consistent with the Municipality's reporting protocols (including appearing before committees);
- Align the functional and institutional risk management methodologies and processes;
- Respond to requests for changes to the risk register by management;
- Periodically review their directorate's risk register to ensure it is up to date;
- Implement the directives of the Municipal Manager concerning risk management;
- Maintain a constructive working relationship with the Chief Risk Officer and Risk Officer and support them in matters concerning the functions of risk management within the directorates;
- Keep key directorate risks at the forefront of the management agenda and devote personal attention to overseeing the management of these risks.

#### 9.5. MANAGEMENT

##### 9.5.1. Legal Mandate and Frameworks

The following legislative instruments provide the legal foundation for Management's responsibility for risk management:

- **Section 78(1)(a) of the Local Government: Municipal Finance Management Act (No. 56 of 2003) (MFMA)**
- **Section 62(1)(c)(i) of the MFMA, delegated in terms of Section 79(1)(b)(ii) of the MFMA**

The following frameworks provide the recommended practice guidelines for Management regarding risk management:

- **Chapter 15 of the Public Sector Risk Management Framework**
- **[Principle 4.4]Recommended Practices 4.4.1; 4.4.2; 4.7.1; 4.7.2; 4.9.1 of the King III Code of Governance Principles**

##### 9.5.2. Role and Responsibilities

Management is accountable to **[the Municipal Manager]**their Directors for designing, implementing and monitoring risk management, and integrating it into the day-to-day activities of the Municipality. This needs to be done in such a manner as to ensure that risk management becomes a valuable strategic and operational

management tool for underpinning the efficacy of service delivery and value for money.

**High level responsibilities of Management include:**

- Acknowledge the "ownership" of risks within their **[functional]** departmental areas and all responsibilities associated with managing such risks;
- Cascade risk management into their functional responsibilities;
- Empower officials to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- Hold officials accountable for their specific risk management responsibilities;
- **[Maintain the functional risk profile within the Municipality's risk tolerance and appetite;]**
- Provide reports on the **[functional]** departmental risk management, consistent with the Municipality's reporting protocols (including appearing before committees);
- Align the functional and institutional risk management methodologies and processes;
- Implement the directives of **[the Municipal Manager]**their respective directors concerning risk management;
- Maintain a **[harmonious]** constructive working relationship with the **[CRO]**Chief Risk Officer, Risk Officer and Risk Champion and support **[the CRO]**them in matters concerning the functions of risk management;
- **[Maintain a harmonious working relationship with the Risk Champion and support the Risk Champion in matters concerning the functions of risk management;]**
- Keep key functional risks at the forefront of the management agenda and devote personal attention to overseeing the management of these risks.

**9.6. RISK CHAMPIONS**

**9.6.1. Legal Mandate and Frameworks**

Certain responsibilities regarding risk management are delegated by the Municipal Manager to Risk Champions. The following legislative instruments provide the legal foundation for the Risk Champions' responsibility for risk management:

- **Section 62(1)(c)(i) of the Local Government: Municipal Finance Management Act (No. 56 of 2003) (MFMA), delegated in terms of Section 79(1)(b)(ii) of the MFMA**

- **[Contract] Letter of appointment**
- **Performance Agreement**

The following frameworks provide the recommended practice guidelines for the Risk Champions regarding risk management:

- **Chapter 17 of the Public Sector Risk Management Framework**

#### 9.6.2. Role and Responsibilities

The Risk Champion is a person with the skills, knowledge and leadership required to champion a particular aspect of risk management.

The Risk Champion acts as a change agent in the ERM process and is distinguished from risk co-ordinators as they are trouble shooters that facilitate resolution of risk related problems.

**[In order to be an effective and efficient risk champion, he / she must have:**

- **a good understanding of risk concepts, principles and processes;**
- **good analytical skills to assist with the analysis of root causes to risk problems;**
- **leadership and motivational qualities; and**
- **good communication skills.]**

**High level responsibilities of the Risk Champion include:**

- Escalate and resolve instances where risk management efforts are being stifled;
- Provide guidance and support to manage "problematic" risks and risks of a transversal nature;
- **[Ensure] Encourage the management of [that] risks [are managed] in a manner that reflects relevance, efficiency, effectiveness and progression;**
- **[Ensure] Monitor timeous updates [that the responsible persons update the risk register and risk action plans.] of the risk action owners as recorded on the risk register and risk action plan.**

#### 9.7. OVERBERG RISK MANAGEMENT SHARED SERVICES CENTRE (SSC)

Overstrand Municipality has resolved to implement a risk management unit as per a shared services model with other municipalities as it is not cost effective to establish a sole risk management unit. Overstrand Municipality's risk management function is internally performed by one incumbent (Risk Officer) and supported by a Shared Services Centre (SSC).

### 9.7.1. Legal Mandate

The following legislative instruments provide the legal foundation for the SSC's responsibility for risk management:

- **Service Level Agreement**

### 9.7.2. Role and Responsibilities

The primary role of the SSC is to provide a standardised, competitive range of risk management support services to its customer municipalities, including Overstrand Municipality.

#### **High level responsibilities of the SSC include:**

- Review of risk management policies / frameworks for completeness and compliance;
- Investigate risk management best practices and develop risk management procedures accordingly;
- Develop criteria to evaluate impact and likelihood and ensure the Risk Management Policy of the Municipality is updated accordingly;
- Formulation of standards to be used in risk management;
- Implementation of a computerised risk management system;
- Support the Municipality with the establishment of internal structures to determine risk management responsibilities;
- Integration of risk management processes and key risks with the IDP and budget process;
- Provide assurance on the risk management processes that all critical risks and its impact have been identified and correctly evaluated;
- Prepare a consolidated risk register of the municipalities in the SSC to benchmark risks and identify best practices;
- Monitor critical risks and its impact;
- Organise training for municipal officials;
- Continuous risk assessments and reporting;
- Substance verification;
- Monitoring of risk management processes and reporting;
- Maintenance of risk registers;
- **[Facilitate meetings and procedures of the Risk Management Committee;]**

- Advise the Municipality on risk management;
- Provide support to Internal Audit Services;
- Maintain a loss control system and procedures.

#### 9.8. CHIEF RISK OFFICER

##### 9.8.1. Legal Mandate and Frameworks

The following legislative instruments provide the legal foundation for the **[CRO's]** Chief Risk Officer's responsibility for risk management:

- **Employment Contract**
- **Performance Agreement**

The following frameworks provide the recommended practice guidelines for the **[CRO]** Chief Risk Officer regarding risk management:

- **Chapter 14 of the Public Sector Risk Management Framework**
- **Principle 4.4 of the King III Code of Governance Principles**

##### 9.8.2. Role and Responsibilities

The primary responsibility of the **[CRO]** Chief Risk Officer is to bring to bear his / her specialist expertise to assist the Municipality to embed and leverage the benefits of risk management to achieve its stated objectives. **[To derive optimal benefits, risk management ought to be conducted in a systematic manner, using proven methodologies, tools and techniques, while taking into account the unique circumstances of the Municipality.]**Focusing on enterprise-wide risk management programmes, the **[CRO]**Chief Risk Officer is tasked with the overall efficiency of the ERM function. This is inclusive of the embedding of risk management practices and fostering a risk aware culture within the Municipality.

**High level responsibilities of the [CRO] Chief Risk Officer include:**

- Communicating the risk management strategy, risk management policy and risk management implementation plan to all stakeholders in the Municipality;
- Continuously driving the risk management process towards best practice;
- Developing a common risk assessment methodology that is aligned with the Municipality's objectives at strategic, **[tactical]**project and operational levels for approval by the Municipal Manager;
- Coordinating risk assessments within the municipality / directorate / department / section on a regular basis;

- Sensitising management timeously of the need to perform risk assessments for all major changes, capital expenditure, projects, institutional restructuring and similar events, and assist to ensure that the attendant processes, particularly reporting, are completed efficiently and timeously;
- Assisting management in developing and implementing risk responses for each identified material risk;
- Participating in the development of the combined assurance plan for the Municipality, together with Internal Audit Services and management;
- Champion combined assurance activities;
- Create and maintain the combined assurance model;
- Ensuring effective information systems exist to facilitate overall risk management improvement within the Municipality;
- Continuously transferring risk management principles and practices, through training interventions, to all stakeholders within the Municipality;
- Advise on the financing of risk action plans;
- Collating and consolidating the results of the various assessments within the Municipality;
- Analysing the results of the assessment process to identify trends, within the risk and control profile, and assess the adequacy of the control interventions.
- Compiling the necessary reports to the Risk Management Committee;
- Providing input into the development and subsequent review of the fraud prevention strategy, code of ethics, business continuity plans, occupational health and safety, environmental policies and practices and disaster management plans.

#### 9.9. RISK MANAGEMENT COMMITTEE

##### 9.9.1. Legal Mandate and Frameworks

The following legislative instruments provide the legal foundation for the Risk Management Committee's responsibility for risk management:

- **Overstrand Municipality Risk Management Committee Terms of Reference**

The following frameworks provide the recommended practice guidelines for the Risk Management Committee regarding risk management:

- **Chapter 13 of the Public Sector Risk Management Framework**
- **Principle 4.3 of the King III Code of Governance Principles**

### 9.9.2. Role and Responsibilities

The Risk Management Committee is responsible for assisting the Municipal Manager [in addressing its]with the oversight requirements of risk management and evaluating and monitoring the Municipality's performance with regards to risk management. The role of the Risk Management Committee is to formulate, promote and review the Municipality's ERM objectives, strategy and policy and monitor the process at strategic, management and operational levels.

The Risk Management Committee must also play a pivotal oversight role in ethics risk management and ethical behaviour within the Municipality.

#### **High level responsibilities of the Risk Management Committee include:**

- Review the risk management strategy, risk management policy and risk management implementation plan, and recommend for approval by the Municipal Council;
- Review the risk appetite and risk tolerance and recommend for approval by the Municipal Council;
- Review the progress made with the implementation of the risk management strategy of the Municipality;
- Review the Municipality's risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register, to ensure that all possible categories of risks, both internal and external, have been identified during the risk assessment process, including an awareness of emerging risks;
- Evaluate the effectiveness of mitigating strategies to address the material risks of the Municipality;
- Ensure that the Municipality's strategy and business plans are not encumbered by risks that have not been thoroughly examined by management;
- Inform the Municipal Manager of any material changes to the risk profile of the Municipality;
- Ensure that the roles and responsibilities of management with regard to risk management are clear and communicated;
- Review the strategic risks at least quarterly and communicate the results to the Municipal Manager and Council;
- Review the operational and project risk registers quarterly;
- Monitor the possibility of unforeseen risk events through assessment of incident risks;

- Monitor the possibility of unpredictable risk events through assessment of emerging risks;
- Advise Council and other stakeholders on urgent and emerging risk issues and required initiatives;
- Ensure that continuous risk monitoring by management takes place;
- Monitor the performance of the enterprise risk management process;
- Review the fraud prevention strategy, policy and plan and recommend for approval by the Municipal Council;
- Evaluate the effectiveness of the implementation of the fraud prevention policy;
- Review the code of ethics and recommend for approval by the Municipal Council;
- Evaluate the progress with the institutionalisation of an ethical culture;
- Evaluate the effectiveness of the incorporation of ethics risk management in the risk management process;
- Review **[and approve]**the combined assurance policy framework and recommend for approval by Council;
- Review the combined assurance model and evaluate the effectiveness of assurance activities;
- Review the business continuity framework and recommend for approval by the Municipal Council;
- Review and approve the Business Continuity Committee Terms of Reference;
- Review the effectiveness of the Business Continuity Committee and provide recommendations for improvement;
- Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses;
- Develop goals, objectives and key performance indicators for the Risk Management Committee for approval by the Municipal Manager;
- Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management function for approval by the Municipal Manager;
- Set out the nature, role, responsibility and authority of the risk management function within the Municipality for approval by the Municipal Manager, and oversee the performance of the risk management function;

- Provide proper and timely information to the Municipal Manager on the state of risk management, together with aspects requiring improvement accompanied by the Risk Management Committee's recommendations to address such aspects;
- Promote the improvement of risk maturity through institutionalisation of a risk management culture that will enhance the risk profile of the Municipality.

#### 9.10. INTERNAL AUDIT SERVICES

##### 9.10.1. Legal Mandate and Frameworks

The following legislative instruments provide the legal foundation for Internal Audit Services' responsibility for risk management:

- **Section 165(2)(a) and (b)(iv) of the Local Government: Municipal Finance Management Act (No. 56 of 2003)**

The following frameworks provide the recommended practice guidelines for Internal Audit Services regarding risk management:

- **Chapter 18 of the Public Sector Risk Management Framework**
- **Recommended Practices 4.9.2; 7.1.2.2 and 7.1.2.4 and Principles 4.9; 7.2 and 7.3 [and Recommended Practice 4.9.2] of the King III Code of Governance Principles**
- **International Standards for the Professional Practice of Internal Auditing – Performance Standard 2120.**

##### 9.10.2. Role and Responsibilities

Internal Audit Services acts as an assurance provider and consultant for the Municipality regarding risk management.

##### **High level responsibilities of Internal Audit Services include:**

- Reviewing the risk philosophy of the Municipality. This includes the risk management strategy, risk management policy, fraud prevention strategy, fraud prevention policy, fraud prevention plan, business continuity framework, business continuity plans, combined assurance framework, risk management reporting lines and the values that have been developed for the Municipality;
- Reviewing the appropriateness of the risk tolerance levels set by the Municipality, taking into consideration the risk profile of the Municipality;
- Providing assurance over the design and functioning of the control environment, information and communication systems and the monitoring systems;

- Providing assurance over the Municipality's risk identification and assessment processes;
- Utilising the results of the risk assessment to develop long term and current year internal audit plans;
- Providing independent assurance as to whether the risk management strategy, risk management implementation plan and fraud prevention plan have been effectively implemented within the Municipality;
- Providing independent assurance over the adequacy of the control environment. This includes providing assurance over the effectiveness of the internal controls implemented to mitigate the identified risks;
- Reporting on the adequacy of the assurance received over key risks by combined assurance activities.

#### 9.11. JOINT AUDIT & PERFORMANCE AUDIT COMMITTEE

##### 9.11.1. Legal Mandate and Frameworks

The following legislative instruments provide the legal foundation for the Joint Audit & Performance Audit Committee's responsibility for risk management:

- **Section 166(2)(a)(ii) of the Local Government: Municipal Finance Management Act (No. 56 of 2003)**

The following frameworks provide the recommended practice guidelines for the Joint Audit & Performance Audit Committee regarding risk management:

- **Chapter 12 of the Public Sector Risk Management Framework**
- **[Principle]Recommended Practice 3.5.1 and Principle 3.8 of the King III Code of Governance Principles**

##### 9.11.2. Role and Responsibilities

The Joint Audit & Performance Audit Committee is responsible for providing the Municipal Manager with independent counsel, advice and direction in respect of risk management. The stakeholders rely on the Joint Audit & Performance Audit Committee for an independent and objective view of the Municipality's risks and effectiveness of the risk management processes. In this way, the Joint Audit & Performance Audit Committee provides valuable assurance that stakeholder interests are protected.

**High level responsibilities of the Joint Audit & Performance Audit Committee include:**

- **[Gain a thorough understanding of the risk management strategy, risk management policy, risk management implementation plan and fraud risk management policy of the Municipality to enable them to add value to the risk management process when making recommendations for improvement of the process;]**
- **[Review and critique]Monitor the application of the risk appetite and risk tolerance of the Municipality [and recommend this for approval by the Municipal Manager and Council];**
- Through feedback from Internal Audit Services, review the completeness of the risk assessment process implemented by the **[Municipality]Risk Management Unit** to ensure that all possible categories of risks, both internal and external, have been identified during the risk assessment process, including an awareness of emerging risks;
- **[Review the risk profile;**
- **Review the adequacy of adapted risk responses;]**
- Review the adequacy of **[management]risk** action plans and subsequent responses thereof;**[to address risks and monitor the implementation thereof;]**
- **[Review the adequacy of the business continuity framework;**
- **Review the progress made with the implementation of the risk management strategy of the Municipality;]**
- Monitor the coordination and effectiveness of combined assurance activities and provide recommendations for improvement;
- Monitor the progress with the institutionalisation of an ethical culture;
- Review and recommend any risk related disclosures in the annual report;
- Provide regular feedback to the Municipal Manager on the effectiveness of the risk management process implemented by the Municipality;
- Review the process implemented **[by Management]**in respect of the fraud prevention policy and ensure that all fraud related incidents have been followed up appropriately;
- Review and ensure that the internal audit plans are aligned to the current risk [profile]register of the Municipality;
- Review the effectiveness of the internal audit assurance activities and recommend appropriate action to address any shortcomings;

#### 10. REPORTING REQUIREMENTS

The reporting requirements in the risk management process are defined in the responsibilities of each role player.

The information regarding risk management **[must always]** should ideally reach the Directors, Municipal Manager, Risk Management Committee, Joint Audit & Performance Audit Committee and Municipal Council. A communication strategy to ensure risk management information is shared between all the other role players should be established and monitored for effectiveness.

#### 11. [METHODOLOGIES

**Methodologies are the processes that are followed and information used to compile the risk register of the Municipality.**

**The methodologies followed must ensure that the risk assessment of the Municipality, directorate or department is complete and the risks evaluated correctly.**

#### 12. ENTERPRISE RISK MANAGEMENT CONTROL

**Controls must be in place to ensure the risk management strategy, policy and guidelines of the Municipality are adhered to and management implement the risk responses. (Interdepartmental cooperation and relations)**

#### 13. COMBINED ASSURANCE

**A combined assurance framework must be developed to optimise and maximise the level of risk, governance and control oversight over the Municipality's risk landscape.**

#### 14. BUSINESS CONTINUITY

**No risk management strategy will be effective without making provision for business continuity.**

**A business continuity framework must be in place to guide the development of business continuity plans and governance structures, to prepare the Municipality in the event of extended service outages.]**

#### 15. MONITORING

Monitoring risk management is a process that assesses the presence and functioning of its components monthly. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing 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 ongoing monitoring procedures.

#### 16. REVIEW

The Risk Management Strategy will be reviewed and approved by the Municipal Council on an annual basis.

Review history:

Policy Section	Risk Management Unit
Current update	31 May 2017
Previous reviews	29 March 2017
	30 March 2016
Approval by Council	25 November 2009

# OVERSTRAND MUNICIPALITY



## RISK MANAGEMENT POLICY 2018-2019

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### GENERAL EXPLANATORY NOTE :

[ ] Words in bold type in square brackets indicate omissions from existing enactments.

       Words underlined with a solid line indicate insertions in existing enactments.

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## 1. INTRODUCTION

The Accounting Officer has committed Overstrand Municipality to implementing and maintaining an effective, efficient and transparent system of risk management. The process of risk management is in accordance with the requirements of the Local Government: Municipal Finance Management Act, [Act]No. 56 of 2003 (MFMA) and guided by the principles as set out in the King [III Report]Codes on Governance for South Africa and Public Sector Risk Management Framework (PSRMF) issued by National Treasury.

## 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 adverse 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.

## 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;
- help 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. APPLICABLE LEGISLATION

In terms of Section 62(1)(c)(i) of the Local Government: Municipal Finance Management Act (Act 56 of 2003) (MFMA)

(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:

- (c) That the municipality has and maintains effective, efficient and transparent systems;
- (i) Of financial and risk management and internal control;

The above risk management responsibilities can be delegated to municipal officials in terms of Section 79 (1)(b) of the MFMA.

The above is furthered by MFMA Section 165 regarding internal audit. Section 165 (2) (a) requires internal audit to follow a risk based audit plan and Section 165 (2) (b) (iv) requires internal audit to advise the Accounting Officer and report to the Audit Committee on risk and risk management.

Oversight of the risk management process is conducted by the Audit Committee, in terms of MFMA Section 166 (2) (a) (ii).

#### 5. [APPLICABLE]SUPPORTING FRAMEWORKS

The following frameworks **[are applicable to]**guide the risk management practices of Overstrand Municipality:

- Committee of Sponsoring Organizations of the Treadway Commission: Enterprise Risk Management – Integrated Framework (COSO ERM Framework)
- Public Sector Risk Management Framework (PSRMF)
- King **[III]**Codes of Governance Principles
- International Organization for Standardization – Standard 31000 (ISO 31000)

The Municipality is continuously implementing new initiatives and redesigning systems and processes to align with the best practices espoused by the risk management frameworks and increase its risk management maturity.

#### 6. OVERSTRAND MUNICIPALITY'S RISK MANAGEMENT APPROACH

The risk management principles contained in this policy will be applied at both strategic and operational levels within the Municipality.

Our positive approach to risk management means that we will not only look at the risk of activities that could go wrong, but also the impact of not taking opportunities or not capitalising on corporate strengths. All risk management activities will be aligned to the Municipality's aims, objectives and priorities, and aims to protect and enhance the reputation and standing of the Municipality.

The policy should be read in conjunction with the Risk Management Strategy and Risk Management Implementation Plan.

#### 7. [ETHICS IN RISK MANAGEMENT

**Risk management, even when software is used, is performed by humans.**

**The effectiveness of risk management activities is directly influenced by the ethical behaviour of the people responsible for risk management, which includes their professionalism and commitment in executing their risk management responsibilities.**

**A lack of ethics is a contributing factor to a variety of risks, either being the cause of the risk itself or the cause of ineffective control measures.**

**Therefore, risk management initiatives can only be successful in an environment of ethical behaviour with adequate ethics risk management processes.]**

#### 8. ROLE PLAYERS IN THE RISK MANAGEMENT PROCESS

Every person within Overstrand Municipality has a role to play in the risk management process. The primary responsibility for identifying and managing risks lies with Management. The responsibilities of each role player are formally defined in the risk management strategy of Overstrand Municipality.

##### 8.1 RISK MANAGEMENT OVERSIGHT

###### 8.1.1 MUNICIPAL COUNCIL

The Municipal 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 Overstrand Municipality against significant risks.

###### 8.1.2 JOINT AUDIT & PERFORMANCE AUDIT COMMITTEE (JAPAC)

The JAPAC is an independent committee responsible for oversight of the municipality's control, governance and risk management. The JAPAC's primary responsibility is providing an independent and objective view of the effectiveness of the Municipality's risk management process.

###### 8.1.3 RISK MANAGEMENT COMMITTEE (RMC)

The members of the RMC [is]are appointed by the Accounting Officer and consists of the Directors (members), Chief Risk Officer (invitee) and the Chief Audit Executive (invitee) and its 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.

## 8.2 RISK MANAGEMENT IMPLEMENTERS

### 8.2.1 ACCOUNTING OFFICER (MUNICIPAL MANAGER)

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 and support ERM.

### 8.2.2 DIRECTORS / RISK OWNERS

Directors support the Municipality's risk management philosophy, integrating it into operational routines of their directorates. They are the risk owners and ultimately accountable for the risk management of the risks in their directorates and [manage and] must therefore monitor the risk management activities within their areas of responsibility and intervene where necessary.

**[The Directors are also the risk owners. They are ultimately accountable for the risk management of the risks in their directorates.]**

### 8.2.3 RISK CHAMPIONS

The Risk Champions' primary responsibilities are to intervene when risk management efforts are being hampered and to provide guidance and support on the management of problematic risks and risks of a transversal nature that require the involvement of multiple people to address.

### 8.2.4 RISK ACTION OWNERS

"Risk Action Owner" refers to the person responsible for implementing the risk mitigation plans, known as risk actions.

#### 8.2.4.1 [Senior Management / Risk Champions]Heads of Department

**[Senior Management]Heads of Department [has]have** the responsibility to integrate the risk management strategy and policy into their department's operational routines. They also implement risk actions to address strategic risks and certain operational risks.[To do this they must champion risk management in their department, thus they are the Risk Champions.

**The Risk Champion's primary responsibilities are to intervene when risk management efforts are being hampered and to provide guidance and support on the management of problematic risks and risks of a transversal nature that require the involvement of multiple people to address.]**

#### 8.2.4.2 [Middle Management / Senior Officials / Action Owners]Line Managers

Line Managers must assist the Head of Department with the integration of the risk management strategy and policy into the operational routines of their functional areas

and implement risk actions to address operational risks within their area of responsibility.

The small departments do not have Line Managers and the Head of Department will perform these functions as well.

#### 8.2.4.3 Senior Staff

Senior staff must assist their Head of Department or Line Manager with the implementation of risk actions.

Depending on the seniority and responsibilities of the staff member, some senior staff may be the actual implementers of the operational risk actions.

**[Middle management and senior officials have the responsibility to implement the plans to mitigate the risks, known as risk action plans. They are therefore the action owners.**

**Action Owners implement the responses to the risks identified in the risk assessment.]**

### 8.3 RISK MANAGEMENT UNIT

#### 8.3.1 OVERBERG RISK MANAGEMENT SHARED SERVICES CENTRE

The Overberg Risk Management Shared Services Centre (SSC) is a cooperative municipal entity that functions as the risk management unit for Overstrand Municipality and the four other municipalities in the Overberg district.

The primary responsibility of the SSC is to provide the services of a fully functioning risk management unit to Overstrand Municipality.

#### 8.3.2 CHIEF RISK OFFICER

The Chief Risk Officer is the custodian of the risk management strategy and coordinator of risk management activities throughout Overstrand Municipality.

The primary responsibilities of the Chief Risk Officer are to bring to bear his/her specialist expertise to assist Overstrand Municipality to embed risk management and leverage its benefits to enhance performance.

#### 8.3.3 RISK OFFICER [INTERN]

The Risk Officer's **[Intern's]**primary responsibilities are to **[communicate with the risk managers, action owners and risk champions on risk related matters of Overstrand Municipality and use his/her fresh academic knowledge for new ideas and inputs on the risk management of the Municipality.]**assist the Chief Risk Officer with the implementation of the risk management plan and provide onsite support to the staff of the Municipality.

#### 8.4 RISK MANAGEMENT ASSURANCE PROVIDERS

##### 8.4.1 INTERNAL AUDIT SERVICES

The core role of Internal Audit Services in risk management is to provide an independent, objective assurance to the Accounting Officer, Municipal Council, Risk Management Committee and the Joint Audit & Performance Audit Committee on the effectiveness of risk management. Internal Audit Services 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. Internal Audit Services must determine whether the risk management process is efficient and effective.

##### 8.4.2 EXTERNAL AUDITOR / AUDITOR-GENERAL

The Auditor-General provides an independent opinion on the effectiveness of risk management.

In providing an opinion the Auditor-General focuses on:

- Determining whether the risk management strategy, policy and implementation plan are in place and appropriate;
- Assessing the implementation of the risk management strategy, policy and implementation plan;
- Reviewing the risk assessment process to determine if it is sufficiently robust to facilitate timely and accurate risk rating and prioritisation;
- Determining whether management action plans to mitigate the key risks are appropriate and being implemented effectively.

#### 9. ENTERPRISE RISK MANAGEMENT PROCESS

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



### **Enterprise Risk Management Process (COSO ERM Integrated Framework)**

#### **9.1 INTERNAL ENVIRONMENT**

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

##### **9.1.1 RISK MANAGEMENT PHILOSOPHY**

Overstrand Municipality is committed to the optimal management of risk in order to achieve its vision of being a centre of excellence, achieve key objectives and deliver services at the standard expected by the community.

In order to ensure success the Municipality has adopted an enterprise-wide integrated approach to the management of risks. By embedding the risk management process throughout the Municipality and into key business processes such as planning, operations and new projects, the Municipality will be better equipped to identify events affecting its objectives and to manage risks.

All directorates should work together in a consistent and integrated manner to manage risk exposures, with the overall objective of reducing risk and optimising opportunities.

To further implement the enterprise-wide approach, the Municipality has taken a number of steps to reinforce a culture of disciplined risk-taking as outlined in the rest of this policy.

##### **9.1.2 ETHICS**

Risk management, even when software is used, is performed by humans.

The effectiveness of risk management activities is directly influenced by the ethical behaviour of the people responsible for risk management, which includes their professionalism and commitment in executing their risk management responsibilities.

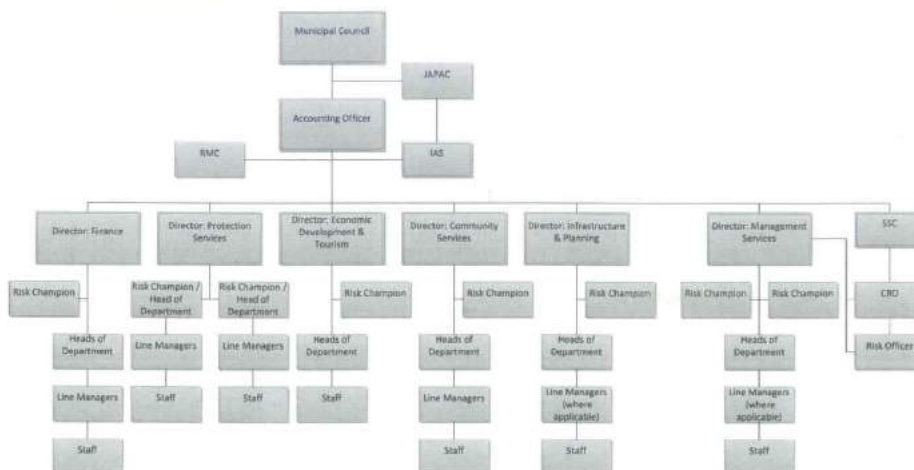
A lack of ethics is a contributing factor to a variety of risks, either being the cause of the risk itself or the cause of ineffective control measures.

Therefore, risk management initiatives can only be successful in an environment of ethical behaviour with adequate ethics risk management processes.

Overstrand Municipality has a Code of Conduct and Code of Ethics for Municipal Staff in place to regulate the conduct and ethical behaviour expected in the workplace.

### 9.1.3 ORGANISATIONAL STRUCTURE

The enterprise risk management structure of Overstrand Municipality is depicted by the following diagram:



#### 9.1.3.1 Management

The Accounting Officer has the legally assigned responsibility to ensure that an effective, efficient and transparent system of risk management is in place and maintained.

Risk management responsibilities are included in the Directors' performance agreements and have been delegated by the Directors to their Heads of Department, who in turn delegated it to their Line Managers, where applicable, or to their staff. Lastly Line Managers delegated the risk management responsibilities to their staff. (Not all departments have line managers.)

Risk Champions have been appointed in each directorate to assist managers. In the case of Protection Services, the Risk Champions are also the heads of the two departments for which they are appointed.

#### 9.1.3.2 Risk Management Unit (RMU)

Overstrand Municipality's RMU is a collaboration consisting of the Chief Risk Officer (CRO) employed by the Overberg Risk Management Shared Services Centre (SSC) and the Risk Officer employed by Overstrand Municipality in the Office of the Director: Management Services. Due to this arrangement, there is no risk management support department on the organogram of Overstrand Municipality.

The CRO is accountable to the Accounting Officer through the District Coordinating Forum Technical (DCFTech), consisting of the Accounting Officer of Overstrand Municipality and the Accounting Officers of the other four municipalities in the Overberg district, while the Risk Officer is accountable to the Director: Management Services.

Regardless of the formal structure that separates the role players in the RMU, they function as one. The Risk Officer receives instructions from and reports to the CRO on day-to-day activities and to the Director: Management Services on significant matters or matters requiring clarity. The CRO reports pertinent information to the Director: Management Services, while the Director provides direction with the implementation of new risk management initiatives.

#### 9.1.3.3 Internal Audit Services (IAS)

IAS forms part of the Office of the Municipal Manager, but the authority to appoint or dismiss the Chief Audit Executive (CAE) resides in the Joint Audit and Performance Audit Committee (JAPAC) to ensure the independence of the CAE.

#### 9.1.3.4 Oversight Bodies

The JAPAC members are appointed by and report to the Municipal Council, while the Risk Management Committee (RMC) members are appointed by and report to the Municipal Manager.

The ultimate responsibility to oversee the Municipality's risk management rests with the Municipal Council.

### 9.1.4 AUTHORITY

#### 9.1.4.1 Risk Management Unit (RMU)

The RMU has the authority to conduct all activities listed in the approved risk management implementation plan and execute instructions from the RMC, Municipal Manager and Director: Management Services.

The RMU may respond to requests for assistance received from the Municipal Manager, Directors and Managers. Requests for assistance from other staff must first be approved by their manager.

The Risk Officer may execute any instructions of the CRO in accordance with the policies and procedures of Overstrand Municipality.

#### 9.1.4.2 Internal Audit Services (IAS)

IAS has the authority to investigate/audit any matter that is included in the approved risk based audit plan or requested by the Municipal Manager or JAPAC.

IAS, as a standing invitee to RMC meetings, still upholds their independence and objectivity towards any contributions made in this capacity.

#### 9.1.4.3 Risk Management Committee (RMC)

The RMC's terms of reference is approved by the Municipal Council. The RMC is thus authorised to conduct all activities listed in the Risk Management Committee Terms of Reference.

#### 9.1.4.4 Joint Audit and Performance Audit Committee (JAPAC)

The JAPAC has by law the authority to conduct all activities listed in Section 166(2) and (3) of the MFMA. Additionally, the JAPAC has the authority to conduct all activities contained in the Joint Audit and Performance Audit Committee Charter approved by the Municipal Council.

#### 9.1.5 HUMAN RESOURCES

An effective, efficient and transparent system of risk management requires qualified, skilled, experienced and ethical personnel.

To this end the Municipality should have adequate recruitment, orientation, training, retention and succession plans. Refer to Annexure A for more detail.

#### 9.1.6 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.

The risk appetite shall be clearly stated and articulated so that it informs management decisions.

The risk appetite for 2018/2019 has been calculated as 40, using the risk appetite framework of Provincial Treasury.

The Municipality's risk appetite will be reassessed on a yearly basis, based on the annual risk assessment exercise results and adjusted if required. The ultimate goal is to reduce the risk level of the Municipality to acceptable levels.

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.

#### 9.1.7 RISK TOLERANCE

Risk tolerance refers to the maximum level or amount of risk that the Municipality can bear, before action is needed to reduce it.

All risks above the Municipality's risk tolerance will receive attention from the top management team until it is mitigated to below the risk tolerance level.

### 9.2 OBJECTIVE SETTING

**[Objectives are set at the strategic level, establishing a basis for operations, reporting, and compliance objectives.]**Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the Municipality's mission and are consistent with its risk appetite.

#### 9.2.1 STRATEGIC OBJECTIVES

Objectives are first set at the strategic level, establishing a basis for operational objectives. Once the strategic objectives are identified and approved, the Risk Management Unit facilitates a strategic risk assessment to identify and assess the risk environment associated with each strategic objective.

The strategic objectives of Overstrand Municipality are taken exactly from the objects of local government listed in the Constitution and are the following:

- The provision of democratic, accountable and ethical governance;
- The provision and maintenance of municipal services;
- The encouragement of structured community participation in the matters of the Municipality;
- The creation and maintenance of a safe and healthy environment;
- The promotion of tourism, economic and social development.

#### 9.2.2 OPERATIONAL OBJECTIVES

The operational objectives are identified during the development of the Service Delivery and Budget Implementation Plan (SDBIP) and reflected as a Key Performance Indicator (KPI). The full list of KPIs for 2018-2019 can be found in the Municipality's SDBIP for 2018-2019.

Risk actions for operational risks should manage the risks in a manner that will ensure the KPIs impacted by risk are achieved.

### 9.3 EVENT IDENTIFICATION

Event identification is the process of identifying potential events affecting Overstrand Municipality's ability to successfully implement strategies and achieve objectives. Internal and external events affecting the achievement of objectives must be identified, distinguishing between risks and opportunities.

#### 9.3.1 OPPORTUNITY IDENTIFICATION

Events can have positive outcomes too. These events are commonly known as opportunities.

Including opportunities in the risk management of the Municipality will prevent a culture of only focusing on risk events and missing the opportunities among the risks, and assist with the creation of a culture of designing risk responses in such a way that it not only focusses on reducing or eliminating the risk, but goes beyond and improve or innovate the whole strategic/operational process that is affected by the risk.

#### 9.3.2 RISK IDENTIFICATION

~~[Two]~~Three processes are followed to identify risks:

##### 1. Structured interviews

Municipal officials are interviewed about the risks they are aware of and the emerging risks they can think of.

##### 2. Benchmarking – Top 10 risks in the annual *IRMSA Risk Report: South Africa Risks and risk registers of the Overberg District Municipalities*

The ~~[top 10]~~risks in the IRMSA Risk Report and risk registers of the other district municipalities are used as a guideline. It is then established whether the risks are applicable to Overstrand Municipality.

##### 3. Annual Risk Assessment Focus Areas

Focus areas are determined by the Risk Management Unit, based on historical events, future predictions and engagements at various internal and external platforms.

#### 9.3.3 RISK DESCRIPTION

A short, to the point description of the risk must be articulated. For ease, the cause of risk should be established first and secondly the background information related to

the risk. The risk description can then be articulated using the cause and background information.

#### 9.3.4 CAUSE OF RISK

Current and/or potential [The] causes of the risk must be established and included in the risk register.

#### 9.3.5 RISK BACKGROUND

**[Information about the risk can be included in the risk register. The background should lead to a better understanding of the risk.]**Supplementary and/or explanatory information is required to enable users of the risk reports, some of whom has no knowledge about the risk, to understand the risk.

#### 9.3.6 CONSEQUENCES

The potential consequences should the risk materialise must be identified and included in the risk register.

#### 9.3.7 RISK CLASSIFICATION

After the risk has been identified, it can be classified according to its nature.

Overstrand Municipality classifies risks in accordance with the regulations and frameworks applicable to government institutions.

##### 9.3.7.1 Risk Type

The Municipality can be exposed to different types of risks which may be internal or external to the Municipality.

Internal risks are risks emanating from within the Municipality and over which the Municipality to a large extent has control over its occurrence.

External risks are risks emanating from outside the Municipality and the Municipality has little or no control over its occurrence.

##### 9.3.7.2 Risk Level

Risks have been arranged into five main levels:

- Strategic Risks: Risks that affect the Municipality's ability to achieve its strategic goals, based on strategic planning, corporate or operating structure or business models.
- Operational Risks: Risks associated with the functioning of operational processes, people, information systems and management involved in the daily operations of the Municipality.

- Project Risks: Specific risks associated with the implementation and completion of projects that have or could have a substantial impact on the objectives and/or finances of the Municipality.
- Incident Risks: Risks that come to light / incidentally occur during the financial year, but were not captured in the risk register at the time of occurrence.
- Emerging Risks: Newly developing or changing risks which are difficult to quantify and which could have a significant impact on the Municipality. In some cases, the risk cannot be identified and measured with reasonable accuracy due to a lack of information and/or understanding.

#### 9.3.7.3 Risk Categories

Risks are categorised based on their origin and the area they affect.

One risk may fall into many categories. In such instances the predominant cause and/or consequence of the risk should be used to determine the category.

Category	Description	Risk Type
1. Litigation	Risks that the Municipality might suffer losses due to litigation and lawsuits against it. Losses from litigation can possibly emanate from: - Claims by staff, councillors, the public, service providers and other third parties; - Failure by the Municipality to exercise certain levels of compliance to legislative requirements; - <u>Costs of litigation (legal fees and productivity).</u>	Internal
2. Material Resources	Risks relating to the Municipality's material resources. Possible aspects to consider include: - Availability of material resources (amount and quality); - Costs and means of acquiring resources; - The wastage of material resources.	Internal
3. Service Delivery	Every institution exists to provide value for its stakeholders. The risk will arise if the appropriate quality of service is not delivered to the citizens.	Internal
4. Information Technology	Risks related to the Municipality's IT infrastructure, including hardware, software and the processes involved with the use of IT.	Internal
5. Third Party Performance	Risks related to the Municipality's dependence on the performance of a third party. Risk in this regard could be that there is a likelihood that a service provider might not perform according to the service level agreement entered into with the Municipality.	Internal

Category	Description	Risk Type
6. Economic Environment	Risks related to the Municipality's economic environment. Factors to consider include: <ul style="list-style-type: none"> <li>- Inflation;</li> <li>- Foreign exchange fluctuations;</li> <li>- Interest rates;</li> <li>- <u>Unemployment rate;</u></li> <li>- <u>World economy;</u></li> <li>- <u>GDP growth rate;</u></li> <li>- <u>Savings and investment rates;</u></li> <li>- <u>Household debt ratios;</u></li> </ul>	External
7. Political Environment	Risks emanating from political factors and decisions that have an impact on the Municipality's mandate and operations. Possible factors to consider include: <ul style="list-style-type: none"> <li>- Political unrest;</li> <li>- Local, Provincial and National Elections;</li> <li>- Changes in office bearers;</li> <li>- <u>Decisions and statements by the ruling party (local, provincial and national);</u></li> <li>- <u>Disruptive actions by other political parties and political organisations;</u></li> <li>- <u>International political decisions and statements.</u></li> </ul>	External / Internal
8. Social Environment	Risks related to the Municipality's social environment. Possible factors to consider include: <ul style="list-style-type: none"> <li>- Unemployment;</li> <li>- Migration of workers;</li> <li>- <u>Poverty;</u></li> <li>- <u>Living conditions / Housing;</u></li> <li>- <u>Crime in communities;</u></li> <li>- <u>Well-being of children;</u></li> <li>- <u>Access to education.</u></li> </ul>	External
9. Natural Environment	Risks relating to the Municipality's natural environment and its impact on normal operations. Consider factors such as: <ul style="list-style-type: none"> <li>- Depletion of natural resources;</li> <li>- Environmental degradation;</li> <li>- Spillage;</li> <li>- Pollution;</li> <li>- <u>Invasion of alien species;</u></li> </ul>	External

Category	Description	Risk Type
10. Compliance	Risks related to compliance with legislative requirements such as the Constitution, Municipal Structures Act, Municipal Systems Act, Municipal Finance Management Act, related regulations, Council By-Laws, etc.	Internal
11. Human Resources	Risks that relate to human resources of the Municipality. These risks can have an effect on human capital with regard to: <ul style="list-style-type: none"> <li>- Ethics;</li> <li>- Recruitment;</li> <li>- Skills &amp; competence;</li> <li>- <b>[Employee]</b>Staff wellness;</li> <li>- <b>[Employee]</b>Labour relations;</li> <li>- Staff retention</li> </ul> <b>[- Occupational health &amp; safety]</b>	Internal
12. Knowledge and Information Management	Risks relating to the Municipality's management of knowledge and information. In identifying the risks consider the following aspects related to knowledge management: <ul style="list-style-type: none"> <li>- Availability of information;</li> <li>- Stability of the information;</li> <li>- Integrity of information data;</li> <li>- Relevance of the information;</li> <li>- Retention / Backup;</li> <li>- Safeguarding</li> </ul>	Internal
13. Loss / Theft of Assets	Risks that the Municipality might suffer losses due to either theft or loss of an asset of the Municipality. The risk refers to the general meaning of asset and <b>[includes small assets accounted for as expenditure]</b> can include items accounted for as expenditure such as stationary and small tools.	Internal

Category	Description	Risk Type
14. Occupational Health and Safety	<p>Risks from occupational health and safety* issues [e.g. <b>injury on duty; outbreak of disease within the Municipality</b>]such as:</p> <ul style="list-style-type: none"> <li>- <u>Injury on duty;</u></li> <li>- <u>Sickness caused by unhygienic conditions at the Municipality;</u></li> <li>- <u>Mental trauma as a result of incidents at work;</u></li> <li>- <u>Delivering the required standard of treatment for work related injuries, sickness and trauma, including psychological treatment;</u></li> <li>- <u>Effectiveness of safe working processes, procedures and guidelines;</u></li> <li>- <u>Adequacy and availability of protective clothing and equipment.</u></li> </ul> <p>* Risks related to compliance with provisions of the <u>Occupational Health and Safety Act will be categorised as a compliance risk.</u></p>	Internal
15. Fraud and Corruption	<p><b>[These risks relate to illegal or improper acts by employees resulting in a loss of the Municipality's assets or resources.]</b><u>Risks relating to offences of fraud and corruption committed by staff, councillors and the public which are or potentially could be prejudicial to the Municipality.</u></p>	Internal
16. Financial Environment	<p>Risks encompassing the entire scope of general financial management. Potential factors to consider include:</p> <ul style="list-style-type: none"> <li>- Cash flow adequacy and management thereof;</li> <li>- Financial losses;</li> <li>- Unauthorised, irregular and fruitless and wasteful expenditure;</li> <li>- Budget allocations and budget forecasts;</li> <li>- Financial statement integrity;</li> <li>- Revenue collection;</li> <li>- Increasing operational expenditure.</li> </ul>	Internal
17. Reputational Risks	<p>Factors that could result in the tarnishing of the Municipality's reputation, public perception and image.</p>	Internal

Category	Description	Risk Type
18. Technological Environment	Risks emanating from the effects of advancements and changes in technology. Consider factors such as: <ul style="list-style-type: none"> <li>- <u>Outdated electronic systems that cannot run the latest software or communicate with new systems;</u></li> <li>- <u>The need to retrain staff;</u></li> <li>- <u>Effect on staff retention (e.g. staff might prefer to work at a place utilising new technology with less arduous labour);</u></li> <li>- <u>Continuous decline in the supply of materials required to sustain the use of old technology (e.g. some fuel stations no longer sell lead replacement petrol or older versions of diesel);</u></li> <li>- <u>Availability of qualified labour to operate old or new technology.</u></li> <li>- <u>Possible legislation that will ban outdated technology either directly (specifying the technology in the legislation) or indirectly (e.g. new regulations that older technology cannot comply with);</u></li> <li>- <u>Effect on the Municipality's cyber and physical security.</u></li> </ul>	External
19. Cultural Environment	Risks arising from the cultural diversity of the citizens within the Municipality's boundaries, their values and beliefs, <u>their interactions with each other and their attitude towards authority.</u> Consider factors such as: <ul style="list-style-type: none"> <li>- <u>The languages of the citizens;</u></li> <li>- <u>Religious beliefs;</u></li> <li>- <u>Communities that have a historic mistrust of government;</u></li> <li>- <u>Animosity between different communities.</u></li> </ul>	External
20. Interdepart- mental and interrelated functions	Risks arising from the interrelatedness and interdependence of the Municipality's directorates / departments on each other in order to seamlessly perform their functions and meet their objectives. Factors to consider include: <ul style="list-style-type: none"> <li>- Lack of co-operation;</li> <li>- Shifting of responsibilities;</li> <li>- Directorate / Departmental decisions negatively impact on another directorate / department;</li> <li>- Inadequate / Unclear communication between directorates / departments;</li> <li>- Friction between directorates / departments.</li> </ul>	Internal

Category	Description	Risk Type
21. <u>Intergovernmental functions</u>	Risks arising from the Municipality's dependence on other government departments and entities in order for the Municipality to seamlessly perform its functions and meet its objectives. Risks can arise due to a government department or entity's: - Lack of co-operation; - Shifting of responsibilities; - Inefficiency / Delays in executing its responsibilities; - Lack of consultation with the Municipality or a representative body (e.g. SALGA) before taking a decision that affects the Municipality; - Inadequate / Unclear communication; - Failure to performs its legally mandated functions; - Delivering at a standard below the expectations / requirements of the Municipality.	<u>External</u>
22. <u>Community participation</u>	Risks related to the Municipality's dependence on the involvement of citizens and organisations to achieve its objectives. Examples are: - Participation by businesses in economic development and employment initiatives; - Cooperation with the tourism industry to increase the tourist attraction of Overstrand; - Use of volunteers and volunteering organisations to deliver services, e.g. volunteer firefighters and the National Sea Rescue Institute; - Reliance on the public for development proposals that will maximise the economic and social benefit.	<u>External</u>
23. <u>Change Management</u>	Risks arising from the reluctance of stakeholders to embrace and support a change in strategy, process or practice. Examples include: - Outsourcing; - Restructuring of directorates and departments; - Replacement of staff with machines (automation); - Changing a standard practice that has been institutionalised throughout the years.	<u>Internal</u>

#### 9.4 RISK ASSESSMENT

Risk assessments allow the Municipality to consider the extent to which potential events might have an impact on the achievement of objectives. Overstrand Municipality assess events from two perspectives, namely impact and likelihood and

normally uses the quantitative method i.e. risk rating scales for both the inherent and residual basis.

#### 9.4.1 RISK RATING [SCALE] / INHERENT RISKS

A risk's impact and likelihood is separately assessed on a 10X10 scale. The inherent risk rating is calculated by multiplying the impact rating and likelihood rating of the risk. **[The inherent risk exposure is determined by the inherent risk rating.]**

##### 9.4.1.1 Impact

When determining the impact rating, the worst case scenario that could materialise when there is no control intervention from the Municipality is considered.

Rating	Assessment	Description
1	Negligible	Impact of adverse event has little (if any) impact on <b>[business]</b> services.
2	Insignificant	Impact of adverse event is minimal.
3	Minor	<b>[Event]</b> Impact will be coped with in short term through normal <b>[management]</b> operational processes performed by staff.
4	Immaterial	- Irritation in rendering or receiving services. - No material impact on achievement of the Municipality's strategy and objectives. - Can be dealt with by senior staff.
5	Marginal	Disruption of normal operations/services. - <b>[with a]</b> Limited effect on the achievement of the Municipality's strategy and objectives. - Requires intervention from the Line Manager.
6	Moderate	<b>[Reduced ability to achieve business objectives. Requires executive management intervention.]</b> - Short/medium term disruption of services. - Reduced ability to achieve the Municipality's strategy and objectives. - Requires intervention from the Head of Department.
7	Significant	- Significant long-term disruption of services. - Significantly reduced ability to achieve the <b>[impact to]</b> Municipality's <b>[business]</b> strategy and objectives. - Requires <b>[attention]</b> intervention <b>[of]</b> from the Director. <b>[s/Department Managers.]</b>
8	Major	- <b>[Critical]</b> Major event resulting in <b>[intervention of executive management. Probable]</b> the long-term cessation of a core <b>[business]</b> organisational activity. - Severely reduced ability to achieve the Municipality's strategy and inability to achieve certain objectives. - Material at organisation level. - Requires intervention from the Municipal Manager and Audit Committee involvement.
9	Critical	- <b>[Major]</b> Critical <b>[financial, operational and/or reputational loss for the Municipality]</b> event resulting in the long-term

		cessation of several core organisational activities. - <u>Drastically reduced ability to achieve the Municipality's strategy and inability to achieve the majority of objectives.</u> - <b>[Issues that should be addressed on Council level.]</b> Requires intervention from Council.
10	Catastrophic	- <b>[Critical]Catastrophic</b> event resulting in <b>[immediate Council intervention]</b> the long-term cessation of <u>the majority or all core organisational activities.</u> - <u>Inability to achieve the Municipality's strategy and objectives.</u> - Requires intervention from Provincial and/or National Government.

#### 9.4.1.2 Likelihood

When determining the likelihood rating, the likelihood that the risk and its worst impact will materialise when there are no controls in place is considered.

Rating	Assessment	Description
1	Rare	0%-10% chance of occurring
2	Improbable	11-20% chance of occurring
3	Remote	21%-30% chance of occurring
4	Occasional	31%-40% chance of occurring
5	Potential	41%-50% chance of occurring
6	Possible	51%-60% chance of occurring
7	<b>[Expected]Probable</b>	61%-70% chance of occurring
8	<b>[Probable]Expected</b>	71%-80% chance of occurring
9	Almost Certain	81%-90% chance of occurring
10	Certain	91%-100% chance of occurring

#### 9.4.1.3 Inherent Risk Exposure

The inherent risk exposure is determined by comparing the inherent risk rating against the risk appetite.

Inherent Risk Rating	Magnitude	Definition
0 – 39.99	Low	<b>[Mostly acceptable level of risk]</b> Level of inherent risk is <u>within the risk appetite</u> – Low level of control intervention required, if any.
40 – 59.99	Medium	Unacceptable level of risk[, <b>except under unique circumstances or conditions</b> ] – Moderate level of control intervention required to achieve an acceptable level of residual risk.
60 – 100	High	Unacceptable level of risk – High level of control intervention required to achieve an acceptable level of residual risk.

#### 9.4.1.4 Financial Exposure

The financial exposure is calculated based on the worst case scenario used to determine the impact rating.

#### 9.4.2 CURRENT CONTROLS EFFECTIVENESS / RESIDUAL RISKS

Current controls' effectiveness in mitigating risks is assessed on a 0-1 reduction scale. The more effective the control, the more it mitigates the inherent risk and the less is the residual risk.

The residual risk rating is calculated by multiplying the inherent risk rating with the current controls effectiveness rating.

**[The residual risk exposure is determined by comparing the residual risk rating to the risk appetite of the Municipality.]**

##### 9.4.2.1 Current Controls Effectiveness

Effectiveness	Qualification Criteria	Rating
Very effective	Controls are pro-actively managing the risk causes and impacts, <b>[mitigating the risk as much as economically possible]</b> <u>preventing the risk from materialising and on rare occasions when the risk does materialise, the impact is minor.</u>	0.2
Effective	Controls are managing the risk causes and impacts as planned and result in effective risk mitigation.	0.4
Moderately effective	Controls are managing the risk causes and impacts to some extent, but its risk mitigation effect is inadequate.	0.75
Ineffective	Controls do not manage the risk causes or impacts adequately, resulting in ineffective risk mitigation.	0.9
Inherent controls in place	Common, non-designed controls that exist in the normal course of operations. (e.g. lock outside door at end of work day)	1

##### 9.4.2.2 Cost of Controls

The cost of controls includes all costs associated with maintaining the current controls for the financial year.

Costs associated with replacing the controls when it reaches the end of its useful life are apportioned across financial years according to the expected useful life of the control components.

Implementation costs are not included in the cost of controls. The current controls are already in place and the implementation costs have been incurred in the past.

#### 9.4.2.3 Residual Risk Exposure

The residual risk exposure is determined by comparing the residual risk rating to the risk appetite of the Municipality.

Residual Risk Rating	Magnitude	Definition
0 – 20	Low	Acceptable level of residual risk – Requires no or minimal control improvements. Residual risk is below/within the risk appetite level.
20.01 – 39.99	Medium	<b>[Unacceptable level of]</b> Residual risk is below/within the risk appetite level, but should still be responded to in order to reduce residual risk exposure – Implies that the <b>[controls are either inadequate (poor design) or ineffective (poor implementation)]</b> control environment is adequate but with room for improvement. Controls require some redesign or more emphasis on proper implementation.
40 – 100	High	Residual risk is above the risk appetite level and unacceptable <b>[level of residual risk]</b> – Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation). Controls require substantial redesign or a greater emphasis on proper implementation. <b>[Residual risk is above the risk appetite level.]</b>

#### 9.4.2.4 Cost of Controls vs Cost of Risk

The cost of controls are adjusted for its effectiveness and compared to the financial exposure of the risk as indicated by the following formula:

$\text{financial exposure} - [\text{cost of controls} \times (1 + \text{current controls effectiveness rating})]$

A positive value indicates that the cost of controls is less than the financial consequences of the risk (value creation). A negative value indicates the cost of controls is more than the financial consequences of the risk (value destruction) and a review of controls is required to align the cost of controls with the cost of risk.

#### 9.4.2.5 Controls Cost Effectiveness

The controls cost effectiveness is calculated by comparing the value of the cost of controls vs cost of risk against the financial exposure and expressing it as a percentage.

This figure can be seen as the Municipality's return on investment in the control environment, since the Municipality is investing money to maintain the control environment and expecting a return in the form of prevented financial losses.

The controls cost effectiveness figure allows the Municipality to compare the costs of controls of risks of different magnitude to determine whether the controls are cost effective in relation to the cost of the risk. This can be used to allocate funds to improve the control environment where it will reap the most financial benefits.

## 9.5 RISK RESPONSE

Having assessed relevant risks, management determines how it will respond to align the risks with the Municipality's risk appetite and risk tolerance, in other words how to bring the residual risk rating within acceptable levels.

### 9.5.1 TYPE OF RESPONSE

Risk responses fall in one or more of the following categories:

- **Avoidance** – avoiding the risk, e.g. by choosing a different strategy or terminating the activity that produces the risk;
- **Treatment** – treating the risk, e.g. by implementing or improving the internal control system;
- **Transfer** – transferring the risk to another party more competent to manage it, e.g. contracting out services, establishing strategic partnerships and buying insurance;
- **Acceptance** – accepting the risk where cost and strategy considerations rule out alternative strategies;
- **Exploit** – exploiting the risk factors by implementing strategies to take advantage of the opportunities presented by such risk factors.

### 9.5.2 RISK ACTION PLANS

The action plans to reduce the risk (referred to as risk actions) are developed according to the following criteria:

<u>Residual Risk Level</u>	<u>Risk Actions</u>
<u>high (above risk appetite)</u>	<u>The current controls are not effective at mitigating the risk. Comprehensive action is required, which can include new controls, enforcing current controls more strictly and redesigning the systems and processes to eliminate the cause(s) of the risk.</u>
<u>medium</u>	<u>The current mitigation of the risk is adequate, but the control environment should be improved. The current controls should be enforced more strictly and/or new controls should be implemented.</u>

<u>low</u>	<u>Current controls should be continuously monitored and evaluated for effectiveness. Any deficiencies identified should be addressed immediately or result in the creation of an additional risk action.</u>
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The proposed risk actions must be practical. The person responsible for the implementation of the risk action, referred to as the risk action owner, must have or be able to obtain the funds, personnel, assets, skills and time required to implement the risk action.

Additionally, the future cost of controls when the risk action has been implemented must be calculated to determine the effect on the cost of controls vs cost of risk. Risk actions that will result in a negative value should not be implemented, unless it mitigates material risks of a non-financial nature.

### 9.5.3 IMPLEMENTATION OF RISK ACTIONS

Along with the development of the risk action, the estimated timeframe to implement the risk action must be determined. The implementation of risk actions for risks with high likelihoods or high impacts should be fast-tracked.

The risk action owner is responsible for the implementation of the risk action and can delegate responsibilities to other staff and engage with internal and external role players to successfully complete the risk action on time.

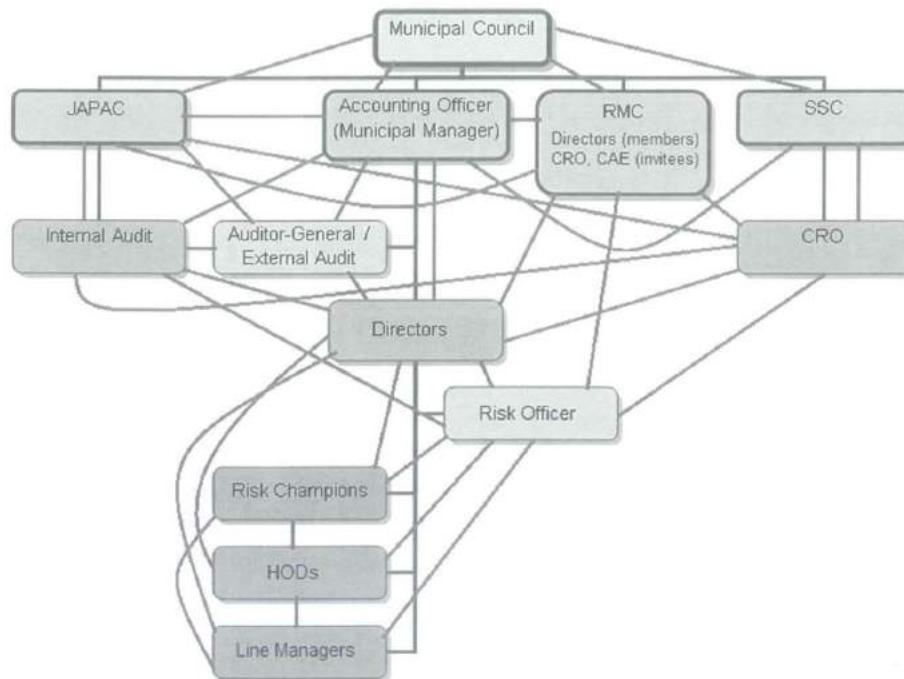
## 9.6 CONTROL ACTIVITIES

Policies and procedures are established and implemented by the Municipal Manager, Directors, Management and the Risk Management Unit to help ensure the risk responses are effectively 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, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

## 9.7 INFORMATION AND COMMUNICATION

Pertinent information should be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Information regarding risk management is communicated by email, file sharing, telephone and in person. Effective communication also occurs, flowing down, across and up in the Municipality.

### **Flow of information**



### 9.8 MONITORING

The system of enterprise risk management is monitored and modifications made if necessary. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two.

Monthly monitoring occurs in the normal course of management activities. The Risk Management Unit monitors the enterprise risk management of the Municipality on an ongoing basis.

The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. The Risk Management Unit and Internal Audit Services can perform separate evaluations.

### 10. RISK PROFILE

All the information regarding the risk or set of risks and the accompanying risk management procedures, constitute the risk profile.

The risk profile of the Municipality is used to measure the maturity of the risk management process.

## 11. PROJECT RISKS

The following projects are in progress from 2017/2018 and have been included in the risk management processes of the Municipality for the 2018/2019 financial year:

- mSCOA implementation

The risks associated with the implementation of mSCOA must be reviewed monthly to ensure the risk register is up to date and the action plans still relevant as the implementation progress.

## 12. REPORTING

The reporting requirements regarding risk management have been included in the responsibilities of the following role players and [It] can be found in these documents:

Role player	Document
District Coordinating Forum Technical (DCFTech)	Overberg Risk Management Shared Service Centre Service Level Agreement
Risk Management Committee	Overstrand Municipality Risk Management Committee Terms of Reference
Joint Audit and Performance Audit Committee	Overstrand Municipality Joint Audit and Performance Audit Committee Charter
Overberg Risk Management Shared Service Centre	Overberg Risk Management Shared Service Centre Service Level Agreement
Chief Risk Officer	Overberg Risk Management Shared Service Centre Service Level Agreement
Risk Action Owners	Standard Operating Procedure for Risk Action Updates

Other role players not listed above are required to report as instructed by law, the Municipal Council or superiors. They must ensure their reporting is adequate for the risk management process to function properly.

## 13. RISK UNIVERSE

Many risks are universal, affecting other institutions as well. The universal nature of these risks can enable the Municipality to compare its risk register with the risk registers of other institutions to identify risks that may have been missed in the initial risk assessment and learn more about the mitigation strategies of others, to incorporate it into the risk management of the Municipality.

Overstrand Municipality's risk register is compared with the annual IRMSA Risk Report: South Africa Risks and the risk registers of the other four municipalities that are part of the SSC.

#### 14. INTEGRATION OF RISK MANAGEMENT PLANS/POLICIES

There are many separate plans and policies available that individually deal with fraud, IT, occupational health and safety, disaster management and compliance. These plans and policies contain risk information and risk mitigation plans.

All the different risk information and mitigation plans should be integrated into a single risk register, to provide a detailed and complete profile of the Municipality's risks.

#### 15. COMBINED ASSURANCE

Combined assurance will optimise and maximise the level of risk, governance and control oversight over the Municipality's risk landscape, by integrating, coordinating and aligning the risk management and assurance processes within the Municipality.

A Combined Assurance Model for the top **[10 strategic and operational]**20 risks or risks above the risk appetite will be created and updated quarterly to ensure the Municipality's most significant risks receive adequate assurance.

The combined assurance activities of the Municipality will be conducted in accordance with the Combined Assurance Policy Framework.

#### 16. BUSINESS CONTINUITY

Business continuity is an integral part of risk management.

In the event of extended service outages caused by factors beyond the Municipality's control, the Municipality must be able to restore services to the widest extent possible in a minimum time frame.

A Business Continuity Framework is in place to direct business continuity activities **[including impact analysis, plans, governance structures and quality assurance]** and a Business Continuity Committee has been established to oversee the execution of those activities.

#### 17. ENTERPRISE RISK MANAGEMENT MATURITY

The ERM maturity of the Municipality is assessed on a yearly basis by the Chief Risk Officer, reviewed by the Risk Management Committee and monitored by the Joint Audit and Performance Audit Committee.

The assessment is used in the development of the risk management implementation plan for the next financial year to include initiatives to address the shortcomings identified in the assessment and increase the ERM maturity of the Municipality.

**18. POLICY REVIEW**

The Risk Management Policy will be reviewed and approved by the Municipal Council on an annual basis.

Review history:

Policy Section	Risk Management Unit
Current update	
Previous reviews	31 May 2017
	29 March 2017
	30 March 2016
	29 April 2015
	30 April 2014
	26 June 2013
Approved by Council	25 November 2009

## 19. GLOSSARY OF TERMS

<u>Business Continuity</u>	<u>Planning and preparation to ensure that the Municipality can continue to operate in case of serious disruptions or be able to recover to an operational state within a reasonably short period.</u>
<u>Combined Assurance</u>	<u>Integrating, coordinating and aligning the risk management and assurance processes within the Municipality to optimise and maximise the level of risk, governance and control oversight over the Municipality's risk landscape.</u>
<u>Current Controls</u>	<u>The controls that are already established and functioning to mitigate the risk.</u>
<u>Ethical behaviour</u>	<u>One does not merely consider what is good for oneself, but also consider what is good for others.</u>
<u>Event</u>	<u>An incident or occurrence from internal or external sources that affects the achievement of Overstrand Municipality's objectives.</u>
<u>Head of Department</u>	<u>The manager in charge of a department and ultimately accountable for the performance of the department.</u>
<u>Impact</u>	<u>A result or effect of an event occurring.</u>
<u>Inherent Risk</u>	<u>The risks to Overstrand Municipality in the absence of any actions management might take to alter either the risk's impact and/or likelihood. In other words the likelihood and impact of the risk if the current controls are not considered.</u>
<u>Likelihood / Probability</u>	<b>[The probability of the event occurring]</b> <u>The chance that the event will occur.</u>
<u>Line Manager</u>	<u>The manager in charge of a sub department or section within a department and ultimately accountable for the performance of the sub department / section.</u>
<u>Management</u>	<u>All managerial staff excluding the Directors and Municipal Manager.</u>  <u>Includes managerial staff without the title Manager such as Chief, Assistant Chief and Deputy Director.</u>
<b>[Operations]</b> <u>Operational Objectives</u>	<b>[used with "objectives", having to do with the effectiveness and efficiency of the Municipality's activities, including performance and safeguarding resources against loss.]</b>  <u>Relates to the effective and efficient use of the Municipality's resources.</u>
<u>Opportunity</u>	<u>The uncertainty regarding an event which could positively affect the achievement of the Municipality's objectives.</u>

Priority / Key Risks	Risks that are rated high on an inherent level. Risks that need to be acted upon. Risks that poses a serious threat to the achievement of the Municipality's objectives.
Residual Risk	The remaining risk exposure after the controls[ <b>treatment</b> ] has been taken into consideration. (The remaining risk after management has put in place measures to control the inherent risk).
Risk	<b>[The effect of uncertainty regarding an event, its impact and its likelihood on the objectives of the Municipality.]</b>  The uncertainty regarding an event which could negatively affect the achievement of the Municipality's objectives.
Risk Action Owner	The person responsible for the implementation of the risk action plan.
Risk Champion	A person who by virtue of his/her expertise or authority champions a particular aspect of the risk management process, but who is not the risk owner.
Risk Owner	The person responsible for the management of a particular risk.
Risk Profile	<b>[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 an organisation to take risks and how those risks will affect the operational strategy of the Municipality.]</b>  <u>The Municipality's risk management processes, systems, structures, resources, data, information, staff and related activities and initiatives. In other words, the entire risk management function of the Municipality.</u>
Risk Response	Plans to manage and mitigate risks, based on the information obtained during the risk assessment.
Risk Universe	The Municipality's risks per risk classification compared and assessed against district, provincial, national and international related industries.
Senior staff	Staff that work closely with a manager. / Staff reporting directly to a manager.  <u>Non-managerial staff overseeing critical functions of the department.</u>
Stakeholders	Parties that are affected by the Municipality, such as the communities in which the Municipality operates, employees, suppliers etc.

<b>[Strategic]</b> Strategic Objectives	[used with “objectives”, it has to do with high-level goals that are aligned with and support the Municipality’s mission and vision.]  <u>High level goals formulated from the mission and vision statement of the Municipality.</u>
Treatment / Mitigation	Addressing the cause, impact and/or likelihood of the risk based on the information obtained during the risk assessment, to either decrease or increase the risk level to below the risk appetite of the Municipality.

## **ANNEXURE A**

### **HUMAN RESOURCE PRACTICES TO ATTRACT, DEVELOP AND MAINTAIN RISK MANAGERS**

#### **1. Recruitment**

The required competencies in risk management should be included in the recruitment criteria. Job interviews should include questions on the application of risk management in the position that is being applied for.

During the evaluation of CVs (including qualifications, skills and experience), the candidate's ability to perform their risk management responsibilities should also be considered.

#### **2. Orientation**

Orientation programmes for managers and senior staff should include information on their risk management responsibilities and the risk management processes and procedures of the Municipality.

Orientation on risk management for a new Director or new Municipal Manager will be conducted by the CRO.

Council's oversight responsibilities in terms of risk management should be included in the Councillor inception phase.

#### **3. Training**

##### **3.1. Training facilitated by the Risk Management Unit**

The RMU plays an important role in arranging or conducting training for staff, Councillors and the members of governance structures. Training initiatives are included in the risk management implementation plan, but additional training is conducted throughout the financial year when deficiencies in knowledge are identified.

Once-off training initiatives will mainly be conducted by the CRO. The Risk Officer will provide continuous training as requested by staff or to address a lack of understanding of risk management concepts or processes that comes to light.

The CRO will conduct a training session for Councillors after a local government election to inform them of their oversight responsibilities regarding risk management. New or significantly changed risk management documents will be explained by the RMU to Councillors during a workshop or in an explanatory note in the Council item where appropriate.

Training of Directors and Management takes place during meetings with the RMU, either by way of a dedicated training session at the beginning or end of the meeting or through the explanation of concepts as the meeting progress.

The CRO will conduct training for the JAPAC after new members have been appointed, with a specific focus on the risk management role of the JAPAC in Overstrand Municipality to ensure the JAPAC adds additional value to the ERM process and not duplicate the work of the RMC.

External workshops and training sessions conducted by external specialists will be organised by the CRO when the value add to the institutional knowledge of the Municipality justifies the additional costs.

### **3.2. Management training and personal development**

All staff must take responsibility for their personal development to perform their risk management responsibilities at the standard expected of them and in conformance with the Municipality's ERM processes. To this end they must acquaint themselves with the risk management strategy, policy and standard operating procedures that are applicable to their areas of responsibility.

Risk management should form an integral component of top management development initiatives. Measures to address gaps in risk management knowledge should be included in the personal development plan of each Director and the Municipal Manager.

Management have the responsibility to identify the risk management training needs of themselves and their subordinates and arrange training initiatives, which can include among else training by the RMU and external training courses funded from departments' training budgets.

Management also have the responsibility to explain the risk management activities and related processes to their subordinates.

### **4. Retention**

Staff with the qualifications, skills and experience to enable the establishment and improvement of a system of enterprise risk management should be retained. Retention strategies and plans should focus on all staff involved in the ERM processes, from risk managers, assurance providers and top management.

As part of the retention strategy for top management Overstrand Municipality appoints Directors permanently. A scarce skills policy is in place to offer competitive remuneration to retain highly qualified, skilled and/or experienced staff at all levels.

Council, through the represented political parties, should ensure the retention of Councillors with a thorough understanding of the Municipality's risk management, control environment and governance.

Due to independence requirements, JAPAC members are only appointed for a three year term with the option to renew the appointment for one more term of three years. JAPAC members with an excellent performance record during their term of office may have their contracts of appointment renewed to ensure the retention of JAPAC members with a good understanding of the Municipality's ERM systems and processes.

#### **5. Succession**

The succession planning processes of departments should ensure that, when a manager leaves, either permanently or temporary, his/her designated acting manager can perform the risk management responsibilities of the position.

Directors of Overstrand Municipality are appointed permanently. This ensures that when there is a vacancy, managerial staff familiar with the Municipality and its processes are encouraged to apply because it will not jeopardise their job security by accepting a promotional appointment to a director position.

The directorates Infrastructure & Planning, Community Services and Finance have Deputy Directors who act in the absence of the Director. The other directorates have designated senior managers to act in the absence of the Director.

Heads of departments should expose their line managers or senior staff to the departmental level risk management activities, to enable them to seamlessly take over in the absence of the head of department.