

**AGENDA of the
Portfolio Committee : Management Services
22 March 2016
(Also the agenda for the Mayoral Committee Meeting : 30 March 2016)**

**2.
RISK MANAGEMENT STRATEGY AND POLICY 2015/2016**

2/B

**A Riddles
19 February 2016**

(028) 313 8001

Corporate Head Office

1. Executive Summary

To obtain Council's approval for the Risk Management Strategy as well as the Risk Management Policy for the financial year 2015-2016, that has been reviewed by the Risk Committee.

2. Service Delivery and Budget Implementation Plan - IGNITE

Directorate: Management Services

3. Compliance with Strategic Priority

Provision of democratic, accountable and ethical governance

4. Delegated Authority

None

5. Legal Requirements

Local Government: Municipal Finance Management Act, 2003, Act 56 Of 2003.

6. Background/Discussion/Evaluation/Conclusion

Section 62 1 (c)(i) and 95(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.

Council must take cognisance of the fact that the Risk Management Strategy has been adopted on 25 November 2009 and has not since been reviewed because of the strategic nature and alignment with the related long term objectives and documents of the municipality. So too has the Risk Management Policy last been reviewed and approved by Council on 29 April 2015.

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:

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- ✓ 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.
- ✓ 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 Act 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.

7. Financial Implications

None

8. Staff Implications

None

9. Comments from other Departments, Divisions and Administrations

None

10. Annexures

Annexure A: Risk Management Strategy
Annexure B: Risk Management Policy

RECOMMENDATION TO THE COUNCIL:

that the reviewed Risk Management Strategy and -Policy **be approved.**

RESPONSIBLE OFFICIAL :

A RIDDLES

TARGET DATE FOR IMPLEMENTATION :

1 APRIL 2016



RISK MANAGEMENT STRATEGY 2015-2016

March 2016

1. Introduction

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

Mission

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 minimize losses and maximize opportunities. Identify and prioritize potential risk events and to use established risk management methods, tools and techniques to assist the municipality. Inform and assist the executive and personnel on their roles and responsibility and to ensure that the risks relating to their particular area of control are managed to ensure that the best outcome is achieved.

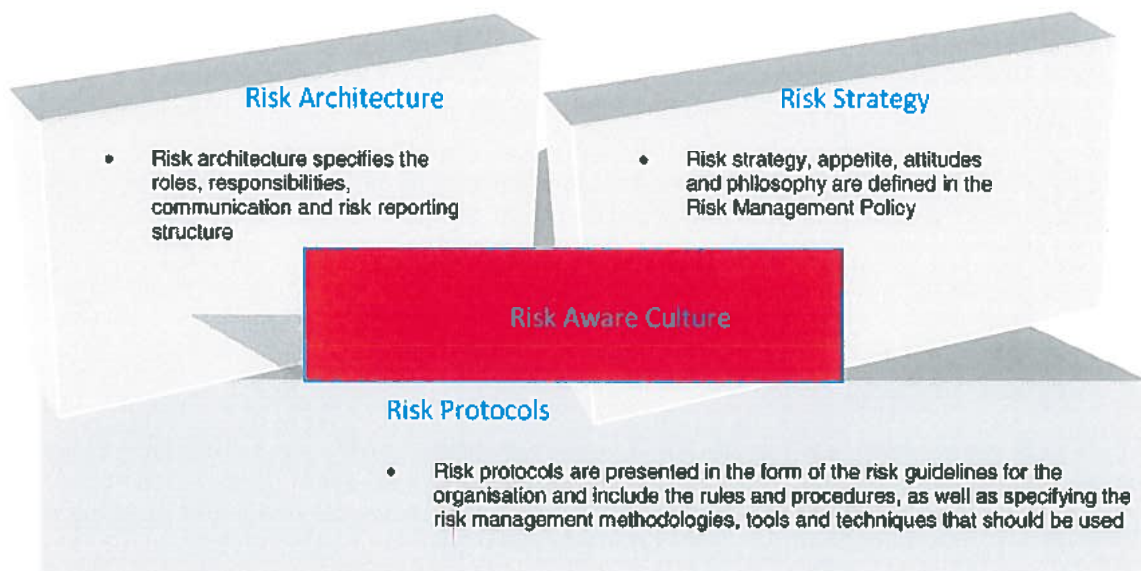
2. Objectives

The objectives of a risk management framework 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 priorities 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.

3. Risk Aware Culture

Risk management must be integrated into the culture of the organisation and this will include mandate, leadership and commitment. It must translate risk strategy into tactical and operational objectives, and assign risk management responsibilities throughout the organisation. It should support accountability, performance measurement and reward the promoting operational efficiency at all levels. Achieving a good risk aware culture is ensured by establishing an appropriate risk architecture, strategy and protocols.



4. 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.

5. Enterprise Risk Management Processes

The (ERM) process can make major contributions towards helping the municipality achieve its objectives. The (ERM) processes, which focus on the organizational goals, objectives and strategy is clinical in nature. The (ERM) process it as follow:

- Identification or establishment of organizational objectives using the four categories, Strategic, Operational, Compliance and Reporting.
- Risk Identification, Assessment (analysis, measurement) and Prioritization
- Identification and design of risk mitigation strategies and responses, as well as capabilities (risk avoidance/termination, risk tolerance, risk transfer, risk treatment/control)
- Implementation of risk mitigation strategies and action plans.
- Measuring the risk exposure, monitor and communicate results.
- Integrate results with decision making processes.

Risk Categories Framework

The Municipality may be exposed to different categories of risks which may be internal or external to the organization. External risks are those where the municipality has little or no control over their occurrence but may have an impact on the achievement of objectives.

Internal risks have been classified into four main categories: Strategic Risks, Financial Risks, Regulatory risks; and Operational Risks.

Strategic Risks: risks that prevent the municipality from reaching its strategic goals based on poor strategic planning, corporate or operating structure or business models.

Financial Risks: include funding resources, cash flow management, counterpart risk, investment risks and credit risks.

Regulatory Risks: risks associated with the failure to comply with various regulatory requirements governing municipalities in South Africa, for example the MFMA, Supply chain management regulations.

Operational risks: the risk of loss due to deficiencies or failures in operational processes, people, information systems, and management failures.

The risk management process consists of eight (8) components and is explain in more detail in the Risk Management Policy

6. Accountability, Roles and Responsibilities

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

EXECUTIVE MANAGEMENT TEAM (EMT)

(i) Legal Mandate

The EMT is accountable to the Municipal Council in terms of the achievement of the goals and objectives of the Municipality and those advocated nationally. As risk management is an important tool to support the achievement of this goal, it is important that the EMT 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.

(ii) Role and Responsibilities

High level responsibilities of the EMT in risk management include:

- Providing oversight and direction to the Municipal Manager on the risk management related strategy and policies;
- Having knowledge of the extent to which the Municipal Manager and management has established effective risk management in their respective institutions;
- Awareness of and concurring with the institution's risk appetite and tolerance levels;
- Reviewing the institution's portfolio view of risks and considers it against the institution's risk tolerance;
- 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
- Insist on the achievement of objectives, effective performance management and value for money.

(iii) Evaluation

To measure the EMT effectiveness in the institution's ERM in contributing to the institution's goals and objectives, clear objectives and key performance indicators for the Overstrand Risk Management Strategy should be set for the EMT in respect of risk management. The key performance indicator for the EMT is: Year-on-year performance that requisite outcomes are achieved.

MUNICIPAL MANAGER

(i) Legal Mandate

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

- **Section 62 (1)(c)(i) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA).**

(ii) Role and Responsibilities

To derive optimal benefits, risk management is conducted in a systematic manner, using proven methodologies, tools and techniques. 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:

- The tone is set at the top by supporting ERM and allocating resources towards the implementation thereof;
- Establishing the necessary structures and reporting lines within the institution to support ERM;
- Approving the risk management strategy, risk management policy, risk management implementation plan and fraud risk management policy;
- Approving the institution's risk appetite and risk tolerance;
- Influencing an institutional "risk aware" culture;
- Approving the code of conduct for the institution 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 accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities;

- Holding the structures responsible for risk management activities accountable for adequate performance;
- Ensuring that a conducive control environment exists to ensure that identified risks are proactively managed;
- Leverage the Audit Committee, Internal Audit, 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;
- Consider and act on recommendations from the Audit Committee, Internal Audit, Risk Management Committee and other appropriate structures for improving the overall state of risk management;
- Provide appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management.

(iii) Evaluation

To measure the Municipal Manager's effectiveness in leading the institution's ERM in contributing to the institution's goals and objectives, clear objectives and key performance indicators have been set for the Municipal Manager in respect of risk management. The key performance indicators for the Municipal Manager are:

- Maturity level of ERM as measured in terms of an appropriate index such as the Financial Capability Maturity Model;
- The institution's performance against key service delivery indicators, including comparison of year-on year performance;
- Percentage change in unauthorised expenditure, fruitless and wasteful expenditure and irregular expenditure based on year on year comparisons;
- Percentage change in incidents of fraud based on year-on-year comparisons;
- Comparison of year-on-year Auditor-General regularity and performance report findings.

CHIEF RISK OFFICER

(i) Legal Mandate

The following legislative instruments provide the legal foundation for the CRO

- **Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA).**

(ii) Role and Responsibilities

The primary responsibility of the CRO is to bring to bear his / her specialist expertise to assist the institution 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. Focusing on enterprise-wide risk management programmes, the CRO 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 institution.

High level responsibilities to achieve this include:

- Communicating the risk management policy, risk management strategy and **risk management implementation plan** to all stakeholders in the institution;
- Continuously driving the risk management process towards best practice;
- Developing a common **risk assessment** methodology that is aligned with the institution's objectives at strategic, tactical and operational levels for approval by the Municipal Manager
- Coordinating risk assessments within the institution/ 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 institution, together with internal audit and management;
- Ensuring effective information systems exist to facilitate overall risk management improvement within the institution;
- Continuously transferring risk management principles and practices, through training interventions, to all stakeholders within the institution;
- Advising management in the development of financing structures;
- Collating and consolidating the results of the various assessments within the institution;
- Analysing the results of the assessment process to identify trends, within the risk and control profile, and develop the necessary high level control interventions to manage these trends;
- Compiling the necessary reports to the Risk Management Committee;
- Providing input into the development and subsequent review of the fraud prevention strategy, business continuity plans, occupational health, safety and environmental policies and practices and disaster management plans. In addition to the above mentioned high level responsibilities the CRO needs to possess certain attributes to function effectively and efficiently.

(iii) Evaluation

To measure the CRO's effectiveness in leading the institution's ERM in contributing to the institution's goals and objectives, clear objectives and key performance indicators have been set for the CRO in respect of risk management. The key performance indicators for the CRO are:

- Maturity on the implementation of the ERM Framework;
- Risk management structures active and credible;
- Realistic risk management implementation plan achieved;
- Proactive identification of emerging risks;
- Implementation progress achieved of Loss Prevention Programme;
- Lack of surprises;
- Updated risk profile of the institution;

- Updated action plans for all material risks.

RISK COMMITTEE

(i) Legal Mandate

On a continuously basis provide recommendations to the Municipal Manager to improve the management of specific risks.

(ii) Role and Responsibilities

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

High level responsibilities of the Risk Committee include:

- Review the **risk management policy** and **strategy** and recommend for approval by the Municipal Manager;
- Review the risk appetite and **tolerance** and recommend for approval by the Municipal Manager;
- Review the institution's **risk identification and assessment** methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register;
- Evaluate the effectiveness of mitigating strategies to address the material risks of the Institution;
- Report to the Accounting Officer any material changes to the risk profile of the Institution;
- Review the fraud prevention policy and recommend for approval by the Municipal Manager

- Evaluate the effectiveness of the implementation of the fraud prevention policy;
- 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 Committee for approval by the Municipal Manager;
- Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management activity;
- Set out the nature, role, responsibility and authority of the risk management function within the Institution for approval by the Municipal Manager, and oversee the performance of the risk management function;
- Provide proper and timely reports to the Municipal Manager on the state of risk management, together with aspects requiring improvement accompanied by the Committee's recommendations to address such issues.
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(iii) Evaluation

To measure the Risk Management Committee's effectiveness in the institution's ERM in contributing to the institution's goals and objectives, clear objectives and key performance indicators have been set for the Risk Management Committee in respect of risk management. The key performance indicators for the Risk Management Committee are:

- Results of the Risk Management Committee 360 degree assessment;
- % implementation of the ERM Framework;
- Credibility of the implemented risk management structures.

AUDIT COMMITTEE

(i) Legal Mandate

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

- **Section 166 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA).**

(ii) Role and Responsibilities

The 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 Audit Committee for an independent and objective view of the institution's risks and effectiveness of the risk management processes. In this way, the Audit Committee provides valuable assurance that stakeholder interests are protected. In discharging its oversight responsibilities relating to risk management, the audit committee:

- Gains thorough understanding of the **risk management policy, risk management strategy, risk management implementation plan, and fraud risk management policy** of the institution to enable them to add value to the risk management process when making recommendations to improve the process;
 - Reviews and critiques the risk appetite and risk tolerance, and recommends this for approval by the Municipal Manager;
 - Reviews the completeness of the risk assessment process implemented by management to ensure that all possible categories of risks, both internal and external to the institution, have been identified during the risk assessment process. This includes an awareness of emerging risks pertaining to the institution.
 - Reviews the risk profile and management action plans to address the risks;
 - Reviews the adequacy of adapted risk responses;
 - The audit committee must monitor the progress made with the management action plan;
 - Reviews the progress made with regards to the implementation of the risk management strategy of the institution;
 - Facilitates and monitors the coordination of all assurance activities implemented by the institution;
 - Reviews and recommends any risk disclosures in the annual financial statements;

- Provides regular feedback to the Municipal Manger on the effectiveness of the risk management process implemented by the institution;
- Review the process implemented by Management in respect of fraud prevention and ensure that all fraud related incidents have been followed up appropriately;
- Reviews and ensures that the internal audit plans are aligned to the risk profile of the institution;
- Review the effectiveness of the internal audit assurance activities and recommends appropriate action to address any shortcomings.

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(iii) Evaluation

To measure the Audit Committee's effectiveness in the institution's ERM in contributing to the institution's goals and objectives, clear objectives and key performance indicators have been set for the Audit Committee in respect of risk management. The key performance indicators for the Audit Committee are:

- Auditor-General report on effectiveness of the Audit Committee;
- Results of the Audit Committee 360 degree assessment;
- The credibility of the Audit Committee statement in the annual report;
- Proactive identification of emerging / new risks to avoid surprises;
- Effective Risk Management Committee and other governance committees.

RISK CHAMPIONS

(i) Legal Mandate

The following legislative instruments provide the legal foundation for the Risk Champions responsibility for risk management:

- **Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA).**

(ii) Role and Responsibilities

The Risk Champion is a person with the skills, knowledge and leadership required to champion the risk management cause. A key part of the Risk Champion's responsibility involves escalating instances where the risk management efforts are stifled, such as when individuals try to block ERM initiatives. The Risk Champion also adds value to the risk management process by providing guidance and support to manage "problematic" risks and risks of a transversal nature. The Risk Champion acts as a change agent in the ERM process and is distinguished from risk coordinators 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;
- Have good analytical skills to assist with the analysis of root causes to risk problems;
- Leadership and motivational qualities;
- Have good communication skills.

(iii) Evaluation

To measure the Risk Champion's effectiveness in the institution's ERM in contributing to the institution's goals and objectives, clear objectives and key performance indicators should be set for the Risk Champion in respect of risk management. The key performance indicators for the Risk Champion are:

- Resolution of problems identified.

MANAGEMENT

(i) Legal Mandate

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

- **Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA).**

(ii) Role and Responsibilities

Management is accountable to the Municipal Manager for designing, implementing and monitoring risk management, and integrating it into the day-to-day activities of the institution. 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 the Municipal Manger include:

- Acknowledges the “ownership” of risks within their functional areas and all responsibilities associated with managing such risks;
- Cascades risk management into their functional responsibilities;
- Empowers officials to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- Holds officials accountable for their specific risk management responsibilities;
- Maintains the functional risk profile within the institution’s risk tolerance and appetite;
- Provides reports on the functional risk management consistent with the institution’s reporting protocols (including appearing before committees);
- Aligns the functional and institutional risk management methodologies and processes;
- Implements the directives of the Municipal Manager concerning risk management;
- Maintains a harmonious working relationship with the CRO and supports the CRO in matters concerning the functions risk management;
- Maintains a harmonious working relationship with the Risk Champion and supports the Risk Champion in matters concerning the functions risk management;

- Keeps key functional risks at the forefront of the management agenda and devote personal attention in overseeing the management of these risks.

(iii) Evaluation

To measure the Management’s effectiveness in the institution’s ERM in contributing to the institution’s goals and objectives, clear objectives and key performance indicators should be set

for the Management in respect of risk management. The key performance indicators for the Management are:

- The business unit's performance against key service delivery indicators, including comparison of year-on year performance;
- Implementation level of the ERM Framework within their business unit;
- Implementation of credible risk management structures within their business unit;
- Proactive identification of emerging / new risks to avoid surprises;
- Zero contravention notices served by authorities;
- Service delivery performance and improvement;
- Improvement in efficiency ratios for service delivery;
- % achievement of KPI's;
- Updated risk registers;
- Updated action plans;
- Actual effectiveness of controls validated;
- Year-on-year reduction in incidents/ losses
- Implementation progress achieved of Loss Prevention Programme;
- Reduction in fraud;
- Reduction in stakeholder complaints.

OTHER STAFF

(i) Legal Mandate

The following legislative instruments provide the legal foundation for Other Staff responsibility for risk management:

- **Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA).**

(ii) Role and Responsibilities

Other Personnel are accountable to their Management for implementing and monitoring the process of risk management and integrating it into their day-to-day activities.

High level responsibilities include:

- Familiarity with the overall enterprise risk management vision, risk management strategy, fraud risk management policy and risk management policy;
- Acting in terms of the spirit and letter of the above
- Acting within the risk appetite and tolerance levels set by the business unit;
- Adhering to the code of conduct for the institution;
- Maintaining the functioning of the control environment, information and communication as well as the monitoring systems within their delegated responsibility;
- Providing information and cooperation with other role players;
- Participation in risk identification and risk assessment within their business unit;
- Implementation of risk responses to address the identified risks.

(iii) Evaluation

To measure Other Staff effectiveness in participating in the institution's ERM in contributing to the institution's goals and objectives, clear objectives and key performance indicators have been set for Other Staff in respect of risk management. Their main indicator is to establish whether Other Staff are held accountable to perform in terms of their delegated responsibilities.

INTERNAL AUDIT**(i) Legal Mandate**

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

- **Section 165(2)(b)(iv) of the Municipal Finance Management Act (Act 56 of 2003)(MFMA);**
- **International Standards for the Professional Practice of Internal Auditing – Performance Standard 2110.**

(ii) Role and Responsibilities

Responsibilities of Internal Audit in risk management include:

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

(iii) Evaluation

To measure the Internal Audit's effectiveness in the institution's ERM in contributing to the institution's goals and objectives, clear objectives and key performance indicators should be set for the Internal Audit in respect of risk management. The key performance indicators for the Internal Audit are:

- Effectiveness, timeliness and quality of assurance and recommendations to improve risk management;
- Effectiveness, timeliness and quality of reporting on the control environment of the institutions material risks;
- Effectiveness, timeliness and quality of consulting services in respect of risk management activities.

7. Reporting Requirements

The Chief Risk Office draws a monthly report of the top 10 risk and will serve before the Municipal Manager on a monthly basis. The Municipal Manager must evaluate the progress as contained in the report and endeavour to resolve hurdles that are inhibiting the RM implementation plan. The report plus the Accounting Authority's comment/ recommendation should then be submitted to the Risk Committee

8. Monitoring

Monitoring risk management is a process that assesses the presence and functioning of its components over time. This is accomplished through on-going monitoring activities, separate evaluations or a combination of the two. On-going 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 on-going monitoring procedures.

9. Review

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

OVERSTRAND MUNICIPALITY



RISK MANAGEMENT POLICY 2015-2016

March 2016

RISK MANAGEMENT PHILOSOPHY

The Overstrand Municipality is committed to the optimal management of risk in order to achieve our vision, deliver on our core business and key objectives.

In the course of conducting our day-to-day business operations, we are exposed to a variety of risks. These risks include operational and other risks that are material and require comprehensive controls and on-going oversight.

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

To further implement the enterprise-wide approach, we have taken a number of steps to reinforce a culture of disciplined risk-taking.

Council is responsible for oversight of the Risk Management process whilst the Accounting Officer has the original obligation in terms of section 62(1)(c)(i) of the Local Government: Municipal Finance Management Act, No. 56 of 2003, to develop and maintain effective, efficient and transparent risk management systems. A Risk Management Committee has been established consisting of the Municipal Manager, Directors, Internal Audit (Invitee) and Chief Risk Officer. During the Top Management Team meeting, where inter alia risk management is considered, management will provide updates on risk-related matters. All the directorates work together at managing risk exposures. It is the intention that these directorates will work in a consistent and integrated manner, with the overall objective of reducing risk and optimising opportunities, as far as reasonably possible and practical.

The Council and I, as the Accounting Officer, are responsible for ensuring that a comprehensive risk management framework is established consisting of policies, procedures, methodologies and processes. To enhance corporate governance within Overstrand Municipality and to ensure that appropriate focus is placed on this important task, I will ensure that the framework is implemented and that the Executive Mayor receives appropriate reporting on the municipality's risk profile and risk management process. Management will execute their responsibilities outlined in the Risk Management Strategy. All other officials are responsible for incorporating risk management into their day-to-day activities.

Council and the Accounting Officer of Overstrand Municipality are responsible for enhancing corporate governance within the municipality and to ensure that appropriate focus is placed on risk management.

Coenie Groenewald

Municipal Manager

Date

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 aligned to the principles as set out in the King III Report on Governance for South Africa and as supported by the Municipal Finance Management Act (MFMA), Act no 56 of 2003 and the Public Sector Risk Management Framework 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;
- helps 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 Municipality Finance Management Act (Act 56 of 2003) (MFMA) requires that:

- (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 is further by the MFMA Section 165 (2) (b) (iv) and 166 (2) (a) (ii) which requires Internal Audit to advise the Accounting Officer (Municipal Manager) and report to the Audit Committee, among others on risk and risk management.

5. MUNICIPALITIES 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 municipality's aims, objectives and the 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 Framework and Risk Management Implementation Plan.

6. ROLE – PLAYERS IN 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 framework of the Overstrand Municipality.

6.1 Risk Management Oversight

6.1.1 Council

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.

6.1.2 Audit Committee (AC)

The Audit Committee (AC) is an independent committee responsible for oversight of the municipality's control, governance and risk management. . The AC's primary responsibility is

providing an independent and objective view of the effectiveness of the municipality's risk management process.

6.1.3 Risk Management Committee (RMC)

The RMC is appointed by the Accounting Officer to assist him in the discharge of his risk management responsibilities. The committee consists of the Top Management Team (Directors), Chief Internal Auditor (Invitee) and the Chief Risk Officer 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.

6.2 Risk Management Implementers

6.2.1 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.

6.2.2 Top Management Team

The TMT supports the municipality's risk management philosophy and manage and monitor risk within their areas of responsibility and integrating it into operational routines of the municipality.

6.2.3 Other Officials

Other officials are responsible for integrating risk management into their day-to-day activities i.e. by ensuring conformance with controls. They must ensure that their delegated management responsibilities are executed and continually reports on progress.

6.3 Risk Management Support

6.3.1 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.

6.3.2 Risk Champion

The Risk Champion must possess skills, knowledge and leadership qualities required to champion a particular aspect of risk management. The Risk Champion's primary responsibility is to advise

on, formulate, oversee and manage all aspects of the municipality's risk management system. The Risk Champion monitors the municipality's entire risk profile, ensuring that major risks are identified and reported upwards.

6.4 Risk Management Assurance Providers

6.4.1 Internal Audit

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

6.4.2 External Audit

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

7. RISK MANAGEMENT PROCESS

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



Figure 1: Risk Management Process

7.1.1 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.

7.1.2 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 the entity's mission and are consistent with its risk appetite.

7.1.3 Event Identification

Event identification is the process of identifying potential events affecting Overstrand Municipality's ability to successfully implement strategy and achieve objectives. Internal and

external events affecting the achievement of objectives must be identified, distinguishing between risks and opportunities.

7.1.4 Risk Assessment

LIKELIHOOD	Catastrophic	5					Risk assessment allows the Municipality to consider
	Major	4					
	Moderate	3					
	Minor	2					
	Insignificant	1	2	3	4	5	
		IMPACT					

der the extent to which potential events might have an impact on the achievement of objectives. Overstrand Municipality assess events from two perspectives impact and likelihood and normally uses the quantitative method i.e. risk rating scales for both the inherent and residual basis.

7.1.4.1 Risk Rating Scale

Figure 1: Heat Map / Risk Matrix

	Rating	Magnitude	Definition
1.	1 to 5	Low	Mostly acceptable - Low level of control intervention required, if any
2.	6 to 15	Medium	Unacceptable level of risk, except under unique circumstances or conditions - Moderate level of control intervention required to achieve an acceptable level of residual risk
3.	16 to 25	High	Unacceptable level of risk - High level of control intervention required to achieve an acceptable level of residual risk

Figure 2: Risk Matrix Key

7.1.4.3 Risk Appetite

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

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 Overstrand Municipality has, for 2015/16 used the standard 5X5 rating scale. The Municipality has set its risk appetite level at a risk grading of 15 (out of a maximum of 25). This implies that that all risks, strategic and operational, with a grading of 15.1 or higher will be addressed each year. However, 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.

7.1.4.4 Risk Categories

1.Litigation	Risks that the institution might suffer losses due to litigation and lawsuits against it. Losses from litigation can possibly emanate from: - Claims by employees, the public, service providers and other third party - Failure by an institution to exercise certain level of compliance to legislative requirements	Internal
2.Material Resources	Risks relating to an institution's material resources. Possible aspects to consider include: - Availability of material - Costs and means of acquiring procuring 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 an institution's dependence on the performance of a third party. Risk in this regard could be that there is the likelihood that a service provider might not perform according to the service level agreement entered into with an institution. Non-performance could include: - Outright failure to perform - Not rendering the required service in time; - Not rendering the correct service; and - Inadequate / poor quality of performance.	Internal
5.Third Party Performance	Risks related to an institution's dependence on the performance of a third party. Risk in this regard could be that there is the likelihood that a service provider might not perform according to the service level agreement entered into with an institute	Internal
6. Economic Environment	Risks related to the institution's economic environment. Factors to consider include: - Inflation - Foreign exchange fluctuations, and - Interest rates.	External

7. Political Environment	Risks emanating from political factors and decisions that have an impact on the institution's mandate and operations. Possible factors to consider includes: - Political unrest - Local, Provincial and National Elections - Changes in office bearers, etc.	External
8. Social Environment	Risks related to the institution's social environment. Possible factors to consider include: - Unemployment - Migration of workers.	External
9. Natural Environment	Risks relating to the institution's natural environment and its impact on normal operations. Consider factors such as: - Depletion of natural resources - Environmental degradation - Spillage - Pollution.	External
10. Political	Political risk refers to the complications that may face as a result of what is commonly referred to as political decisions or political change that alters the expected outcome and value of a given action by changing the probability of achieving objectives.	External
11. Compliance	Failure to comply with legislative requirements such as the Constitution, Municipal Structures Act, Municipal Systems Act, Municipal Finance Management Act, related regulations, Council By-Laws, etc.	Internal
12. Human Resources	Risks that relate to human resources of an institution. These risks can have an effect on an institutions human capital with regard to: - Integrity & Honesty - Recruitment - Skills & competence - Employee wellness - Employee relations - Retention - Occupational health & safety	Internal
13. Knowledge and Information	Risks relating to an institution's management of knowledge and information. In identifying the risks consider the following aspects related to knowledge	Internal

Management	management: - Availability of information - Stability of the information - Integrity of information data - Relevance of the information - Retention - Safeguarding	
14. Loss/Theft of Assets	Risks that an institution might suffer losses due to either theft or loss of an asset of the institution	Internal
15. Occupational Health and Safety	Risks from occupational health and safety issues e.g. injury on duty; outbreak of disease within the institution	Internal
16. Fraud and Corruption	These risks relate to illegal or improper acts by employees resulting in a loss of the institution's assets or resources.	Internal
17. Financial Environment	Risks encompassing the entire scope of general financial management. Potential factors to consider include: - Cash flow adequacy and management thereof - Financial losses - Wasteful expenditure - Budget allocations - Financial statement integrity - Revenue collection - Increasing operational expenditure.	Internal
18. Reputational Risks	Factors that could result in the tarnishing of an institution's reputation, public perception and image.	Internal
19. Technological Environment	Risks emanating from the effects of advancements and changes in technology	External

7.1.5 Risk Response

Having assessed relevant risks, management determines how it will respond. Responses include risk avoidance, reduction, sharing and acceptance.

Risk responses fall within the following categories:

- **Avoidance-** Action is taken to exit the activities giving rise to risk. Risk avoidance may involve ceasing a project / activity, avoiding high risk investments, changing the objective, or not accepting a pioneering technical solution.

- **Reduction** – Action is taken to reduce the risk likelihood or impact, or both. This may involve any of a myriad of everyday business decisions. E.g. monitoring budgets / forecasts, defining accountability, improving staff morale, ensuring adequate skill sets.
- **Sharing** – Action is taken to reduce risk likelihood or impact by transferring or otherwise sharing a portion of the risk. Common risk-sharing techniques include purchasing insurance products, pooling risks, engaging in hedging transactions, or outsourcing an activity
- **Acceptance** – No action is taken to reduce the likelihood or impact of a risk it's a decision to accept the risk.

7.1.6 Control Activities

Policies and procedures are established and implemented 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.

7.1.7 Information and Communication

Pertinent information is identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also occurs, flowing down, across and up in the municipality. All personnel receive a clear message from top management that risk management responsibilities must be taken seriously. They understand their own role in risk management, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There is also effective communication with external parties.

7.1.8 Monitoring

The enterprise risk management is monitored and modifications made necessary. This is accomplished through on-going monitoring activities, separate evaluations or a combination of the two. On-going 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 on-going monitoring procedures.

8. POLICY REVIEW

This policy shall be reviewed annually to reflect the current stance on risk management within the Overstrand Municipality.

9. GLOSSARY OF TERMS

Event - An incident or occurrence from internal or external sources that affects the achievement of Overstrand Municipality's objectives.

Impact - A result or effect of and event. The impact of an event can be positive or negative. A negative event is termed a "risk".

Inherent - The risks to Overstrand Municipality in the absence of any actions management might take to alter either the risk's impact or likelihood. In other words the impact that the risk will have on the achievement of objectives if the current controls that are in place are not considered.

Likelihood / Probability - The probability of the event occurring.

Operations - used with "objectives", having to do with the effectiveness and efficiency of the municipality's activities, including performance and safeguarding resources against loss.

Priority / Key Risks - Risks that are rated high on an inherent level. Risks that need to be acted upon. Risks that possess a serious threat to the municipality.

Project Risks - Risks that are identified for all major projects, covering the whole lifecycle and for long-term projects.

Residual - The remaining exposure after the controls/treatments has been taken into consideration. (The remaining risk after management has put in place measures to control the inherent risk).

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.

Risk Owner - The person responsible for managing a particular risk.

Risk Profile / Register - 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 a company to take risks and how those risks will affect the operational strategy of the municipality.

Risk Response - Management develop strategies to reduce or eliminate the threats and events that create risks.

Stakeholders - Parties that are affected by the municipality, such as the communities in which the municipality operates, employees, suppliers etc.

Strategic – used with "objectives", it has to do with high-level goals that are aligned with and support the municipality's mission or vision.

Mitigation / Treatment - After comparing the risk score (severity rating = impact X likelihood) with the risk tolerance, risks with unacceptable levels of risk will require treatment plans (additional action to be taken by management)

Recommended for approval by Council:

Accounting Officer:

Date

**Signed on behalf of the
 Overstrand Municipal Council:
 Executive Mayor**

Date

Policy Section	Risk Management
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