

POLICY 07/2015 RAADSBELEID

ONDERWERP: RISK MANAGEMENT STRATEGY

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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 and to effectively discharge such roles and responsibilities.
- The risk management strategy contains the following five main elements:
 - ✓ **Structural configuration:** This element describes how the institution will be structured in terms of committees and reporting lines to give effect to the risk management policy.
 - ✓ **Accountability, roles and responsibilities:** This element describes the authority and delegation of responsibilities to give effect to the risk management policy.
 - ✓ **Risk management activities:** This element includes the risk assessment processes and methodologies, monitoring activities and risk reporting standards to give effect to the risk management policy.
 - ✓ **Monitoring of the achievement of the risk management strategy:** This element includes assessment of whether or not key milestones are achieved. More importantly it is also monitoring whether the risk management strategy is producing the sustainable outcomes as originally envisaged.
- Assurance activities: This element considers all assurance providers available to the institution and integration of their scope of responsibility.

2. RISK MANAGEMENT STRATEGY

Structural Configuration

The municipality will make use of the following structures to give effect to its Risk Management Policy.

- The Council
- The Municipal Manager

- **The Risk Management Unit**
 - The Risk Management Committee will consist out of the Chairperson of Risk Management Committee Municipal Manager, Directors, Senior Manager Chairperson of the Audit Committee, Senior Manager Internal Audit and the Manager Risk Management.
- Other officials who also play a role in Risk Management, are employees within the Municipality with non-specific risk management responsibilities.

3. **ACCOUNTIBILITY, 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.

COUNCIL

(i) Legal Mandate

The Municipal Council has an oversight role in the achievement of goals and objectives of the municipality. As risk management is an important tool to support the achievement of this goal, it is important that Council provides leadership to governance and risk management.

Section 4 (2)(d) of the Municipal Systems Act 32 of 2000 determine the role of Council with regard to the achievement of the goals of the municipality in terms of service delivery.

Section 11 (3)(a)(j) determine the role of Council with regard to governance within the municipality.

(ii) Role and Responsibilities

High level responsibilities of Council in risk management include:

- Approve all strategic risk management documents.
- Providing oversight and direction to the Accounting Officer on the risk management related strategy and policies;
- Having knowledge of the extent to which the Accounting Officer 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.

In addition Council should consider the following aspects below which if not considered could affect the institution's risk culture:

- The design and functioning of control activities, information and communication systems, and monitoring activities;
- The quality and frequency of reporting;
- The way the institution is managed including the type of risks accepted;
- The appropriateness of reporting lines.
- Assign responsibility and authority;
- Insist on accountability

ACCOUNTING OFFICER

(i) Legal Mandate

Section 62 (1)(c)(i) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) determine the responsibility of the Accounting Officer with regard to Risk Management.

(ii) Roles and Responsibilities

The Accounting Officer must ensure that the responsibility for risk management vests at all levels of management and that it is not only limited to the Accounting Officer. The Accounting Officer must also ensure that a risk assessment is conducted regularly to identify emerging risks. The Accounting Officer is accountable for ensuring that a risk management system is established, implemented and maintained in accord with this policy. Assignments of responsibilities in relation to risk management are the prerogative of the Accounting Officer.

Responsibilities of the Accounting Officer include:

- Setting the tone at the top by supporting Enterprise Risk Management and allocating resources towards the implementation thereof;
- Establishing the necessary structures and reporting lines within the institution to support Enterprise Risk Management;
- Approving the institution's risk appetite and risk tolerance level;
- 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 risk management unit responsible and accountable for adequate performance;
- Ensuring that a conducive control environment exists to ensure that identified risks are proactively managed;
- Leverage the Audit Committee, Risk Management Committee, Department Internal Audit and Risk Management 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, , Department Internal Audit and Risk Management 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.

DEPARTMENT RISK MANAGEMENT

(i) Legal Mandate

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.

Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) provide the legal foundation for risk management.

(ii) Role and Responsibilities

The primary responsibility of Manger Risk Management is to provide specialist expertise to assist the institution to embed and leverage the benefits of risk management to achieve its stated objectives.

Focusing on enterprise-wide risk management programs, the Manger Risk Management is tasked with the overall efficiency of the Enterprise Risk Management function. This is inclusive of the embedding of risk management practices and fostering a risk aware culture within the institution.

Responsibilities of the Department Risk Management include:

- Working with senior management to develop the overall enterprise risk management vision, risk management strategy, risk management policy, as well as risk appetite and tolerance levels for approval by the Council and the Accounting Officer;
- Communicating the risk management policy, risk management strategy 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 and operational levels for approval by the Accounting Officer;
- Coordinating risk assessments within the municipality 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;
- 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 institution;
- Collating and consolidating the results of the various assessments within the institution;
- Compiling the necessary reports to the Risk Management Committee.

(iii) Evaluation

To measure the Manger Risk Management effectiveness in leading the institution's Enterprise Risk Management in contributing to the institution's goals and objectives, clear objectives and key performance indicators have been set for the Manger Risk Management in respect of risk management. The key performance indicators for the Manager Risk Management should include:

- Maturity on the implementation of the Enterprise Risk Management Framework;
- Risk management structures active and credible;
- Realistic risk management implementation plan achieved;
- Proactive identification of emerging risks;
- Updated risk profile of the institution;
- Updated action plans for all material risks.

RISK MANAGEMENT COMMITTEE

(i) Legal Mandate

There is currently no legal mandate for the establishment of a Risk Management Committee.

(ii) Roles and Responsibilities

The Risk Management Committee consists of the Chairperson of Risk Management Committee, Municipal Manager, Directors, Manager In Office of Municipal Manager, Chairperson of the Audit Committee, Senior Manager Internal Audit and the Manager Risk Management. The Risk Management Committee must meet at least quarterly to discuss reports on Risk Management as well as progress reports from the different department on the management of risks. The Risk Management Committee is responsible for assisting the Accounting Officer in addressing its oversight requirements of risk management.

Responsibilities of the Risk Management Committee:

- To ensure that risks are managed and monitored effectively;
- To evaluate reports from the Department Risk Management and Internal Audit and the concerned departments;
- Review annually the risk management policy, charter, framework and strategy and recommend it for approval by Council and the Accounting Officer;
- Review the risk appetite and tolerance and recommend for approval by the Accounting Officer;
- Review the institution's risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register;
- Report to the Accounting Officer any material changes to the risk profile of the Institution;
- 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;
- Set out the nature, role, responsibility and authority of the risk management function within the municipality for approval by the Accounting Officer;
- Provide proper and timely reports to the Accounting Officer on the state of risk management, together with aspects requiring improvement accompanied by the Committee's recommendations to address such issues.
- Evaluate the effectiveness of mitigating strategies to address the material risks of the institution;
- Review the fraud prevention policy and recommend for approval by the Accounting Officer.
- Evaluate the effectiveness of the implementation of the fraud prevention policy.

AUDIT COMMITTEE

(i) Legal Mandate

Section 166 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) determines the responsibility of the Accounting Officer with regard to Risk Management

(ii) Role and Responsibilities

The Audit Committee will be accountable for the oversight of the processes for the identification and assessment of the processes for the identification and assessment of general risks, reviewing the outcome of the risk management processes and advising Council as necessary. The Audit Committee is responsible for providing the Accounting Officer with independent advice and direction in respect of risk management.

The oversight responsibilities of the Audit Committee relating to risk management include:

- Gains thorough understanding of the risk management policy, risk management strategy and risk management implementation plan of the institution to enable them to add value to the risk management process when making recommendations to improve the process;
- Reviews the risk appetite and risk tolerance, and recommends this for approval by the Accounting Officer;
- Reviews the completeness of the risk assessment process implemented 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;
- Monitoring the progress of management actions to address risks;
- Reviews the progress made with regards to the implementation of the risk management strategy of the institution;
- Reviews and recommends any risk disclosures in the annual financial statements;
- Provides regular feedback to Council and the Accounting Officer on the effectiveness of the risk management process implemented by the institution;
- Reviews the process implemented by Management in respect of fraud prevention and ensures that all fraud related incidents have been followed up appropriately;
- Reviews and ensures that the risk based audit plans are aligned to the risk profile of the institution;
- Reviews the effectiveness of the Internal Audit assurance activities and recommends appropriate action to address any shortcomings.

SENIOR MANAGEMENT

(i) Legal Mandate

Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) determine the role of Senior Management with regard to Risk Management.

(ii) Roles and Responsibilities

Senior Management is accountable to the Accounting Officer for designing, implementing and monitoring risk management and integrates it into the day-to-day activities of the municipality. The Directors are accountable for strategic risks management within areas under their control including the devolution of the risk management process to the operational managers.

The responsibilities of Senior Management relating to risk management 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 Council and the Accounting Officer concerning risk management;
- Maintains a harmonious working relationship with the Senior Manager Internal Audit and Risk Management and supports the Senior Manager Internal Audit and Risk Management in matters concerning risk management;
- Keeps key functional risks at the forefront of the management agenda and devote personal attention in overseeing the management of these risks.

LINE MANAGERS AND SECTION HEADS

(i) Legal Mandate

Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) determine the role of Senior Management with regard to Risk Management.

(ii) Roles and Responsibilities

Line Managers and Section Heads are accountable to Council and the Accounting Officer Senior Management of the different directorates for the implementation of risk management.

The responsibilities of the Line Managers and Section Heads relating to risk management include:

- Implementation of this policy within their respective areas of responsibility.
- Annual reporting on the status of the risk register, insofar as it impacts on their responsibilities as part of their annual planning and review cycle.
- Ensure compliance with risk assessment procedures.

INTERNAL AUDIT

(i) Legal Mandate

Section 165(2)(b)(iv) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) determine the role of Internal Audit with regard to Risk Management.

Internal Audit must comply with the International standards for the Professional Practice of Internal Auditing ó Performance Standard 2110 which regulates the profession.

(ii) Roles and Responsibilities

Internal Audit is accountable to the Accounting Officer and the Audit Committee for providing independent assurance regarding the risk management activities of the municipality. Internal Audit is responsible for providing independent assurance that management has identified the municipality's risks and has responded effectively. According to the International standards for Professional Practice 2110 of Internal Auditing the Internal Audit may also play an advisory and consulting role to Management regarding risk management matters.

- õi. 2010 - *The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.*
- ii. 2010.A1 - *The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process."*

The responsibilities of Internal Audit in risk management include:

- Reviewing the risk philosophy of the institution. This includes the risk management policy, risk management strategy, risk management reporting lines and 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 a three year strategic plan and an operational internal audit plan for every financial year;
- Providing independent assurance as to whether the risk management strategy and the risk management implementation 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;
- Make recommendations to management to improve the management of risks.

OTHER PERSONNEL

(i) Legal Mandate

Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) determine the role of personnel with regard to Risk Management.

(ii) Roles and Responsibilities

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

The responsibilities of personnel in risk management include:

- Familiarity with the overall enterprise risk management vision, risk management strategy and risk management policy;
- Acting in terms of the spirit and letter of the above;
- Applying the risk management process to their respective roles;
- Focusing upon identifying risks and reporting these to the relevant risk owner. Where possible and appropriate, manage these risks;
- 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;
- All personnel who suspect that some kind of fraud has been attempted or committed, to immediately report their suspicion to their respective institutions;

4. RISK MANAGEMENT ACTIVITIES

The following are the risk management activities that the Municipality will implement together with the methodology that will be applied in each case:

RISK ASSESSMENT

The Municipality will as far as possible conduct an enterprise risk assessment annually, ie one that will include every directorate, department and section, however small or seemingly insignificant and no such directorate, department or section may exclude them from the assessment. Workshops will be held,

per directorate, to be attended by the relevant Director, Managers and other relevant staff members. After conclusion of the workshops and scrutiny of the draft result of the assessment, copies of the final document will be distributed to each directorate.

The Risk Assessment must be conducted in accordance with the Institute of Internal Audit Standards and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework.

RISK TOLERANCE

It is important for the municipality to make an informed decision on how much risk it accepts as part of normal management practice. Setting risk tolerance is a collective senior management responsibility.

The output is a clearly defined tolerable level of risk established through a rigorous process of analysis and expert management judgement. Depending on the nature of the risk the tolerance may be expressed either in qualitative or quantitative terms.

The Municipal Manager and Senior Management should encourage the taking of controlled risks, the grasping of new opportunities and the use of innovative approaches to further the interests of the municipality and achieve its objectives provided the resultant exposures are within the municipality's risk tolerance range.

The municipality's Risk Tolerance can be defined by reference to the following components:

Acceptable Risks

- a) All officials should be willing and able to take calculated risks to achieve the municipality's objectives and to benefit the municipality. The associated risks of proposed actions and decisions should be properly identified, evaluated and managed to ensure that exposures are acceptable.
- b) Within the municipality, particular care is needed in taking any action which could:
 - Impact on the reputation of the municipality;
 - Impact on performance;
 - Undermine the independent and objective review of activities;
 - Result in any fines by regulatory bodies; or
 - Result in financial loss.
- c) Any threat or opportunity which has a sizeable potential impact on any of the above should be examined, its exposures defined and it should be discussed with the appropriate line manager. Where there is significant potential impact and high likelihood of occurrence it should be referred to the risk committee.

Prohibited Risk Areas

- a) The Municipality's policies and guidelines should show if there are any mandatory processes and procedures which should be complied with, e.g. the MFMA and MSA. Full compliance with these standards is required and confirmation of compliance will be sought in the Municipality's annual report. Non-compliance with prescribed procedures constitutes an unacceptable risk.
- b) Some risks are acceptable provided the prescribed organisational process is followed, e.g. expenditure proposals, staff recruitment, and designated responsibilities/ authorities are adhered to.

RISK MITIGATION

After the risk tolerance level has been determined, those risks that exceed the medium and high level are to receive immediate attention by:

- Revisiting the existing controls that are inadequate
- Designing /re designing processes that provide controls that will mitigate the risk.
- Obtain expert advice from knowledgeable persons/ companies, etc
- To obtain the best possible result, actions taken in redesigning controls should be done through a collective process by the Director/ Manager with their staff that can often make valuable contributions to finding solutions.

MONITORING OF RISK MITIGATION

The Accounting Officer is ultimately responsible in ensuring that risks that require mitigation receive the necessary attention by enhancing existing/ designing new control measures. However, Senior Management assumes delegation of this duty and ensures that risk management is carried through to the managers and all other staff. The Risk Committee have the responsibility of monitoring the increase in the level of the control environment. Factors inhibiting the implementation of new or revised controls to reduce the risk exposure should be reported to the Risk Committee by the Department Risk Management.

RISK REPORTING STANDARDS

Over and above the annual enterprise risk assessment, risks need to be identified and reported as soon as possible. This will assist in curbing potential and actual loss.

5. ASSURANCE

This process is inseparable from Enterprise Risk Management and is as important as the aforementioned. A combined assurance plan must be compiled from the risk analysis performed. This will enable management to assign resources efficiently to mitigate the risks to an acceptable level and to identify who is responsible for each risk. The Municipality will also on a continuous basis be informed of assurance (or not) that risks are being managed efficiently, effectively and economically.