OVERBERG DISTRICT MUNICIPALITY

ENTERPRISE RISK MANAGEMENT

STRATEGY

2017-2018

1. Introduction

Risk management is a process not an event, and requires the municipality to pay closer attention to the developments both the external and internal control environments. Council and senior management's strategic direction and commitment are also regarded as very important, if the risk management process is to be successful and effective.

Senior Management is expected to lead the process and ensure that everybody within the municipality understands the benefits of risk management. This represents the challenge to them to set the tone or to establish a supportive internal environment.

Involvement of all personnel and at all levels of management ensures that risk management activities are applied consistently across all levels within the municipality. The philosophy that everybody is a risk manager ensures that everybody is involved in the risk management process.

Risk management is not undertaken in isolation. It has to be integrated with other management processes that are happening in the municipality, such as internal audit. This involves, but is not limited to, strategic planning processes, performance management systems, human resource management systems, guidelines, systems and other internal control activities. Hence the Combined Assurance approach is the ideal methodology to ensure that all relevant parties and at all levels are involved in managing risks threatening the achievement of municipal goals and objectives. The main activities involved here include defining the context within which the risk management activities that will be undertaken as well as the scope and coverage of risk management activities.

The system is facilitated by effective communication between all levels. Without it, employees are less likely to know and understand the purpose and importance of their activities in the risk management process and in contributing to the overall objective of the municipality. A clear definition and communication of the concept of risk is pivotal to the success of the risk management process. Defining guidelines, methods, frequency of reporting, clear lines of reporting and accountability makes a significant contribution to a well-informed and motivated team.

2. Legislative mandate

Section 62(1)(c)(i) and 95(c)(i) of the Municipal Finance Management Act, No 56 of 2003, states that:

"... The accounting officer of the municipality and municipal entity is 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 control."

Streamlining risk related documentation processes with National Treasury's Public Sector Risk Management Framework, King Code of governance for South Africa, Committee of Sponsoring Organisations of the Treadway Commission (COSO), International Organisation of Standards (ISO 31000).

3. Background

As set out by National Treasury, institutions are bound by their Constitutional mandates to provide services in the interest of the public good. Stating that no municipal functions is a risk free environment. As a result, risk management needs to be in place in relation with the requirements of National Treasury.

The Overberg District Municipality did not have a formal Risk Management Unit, and therefore engage on the establishment of a Shared Services Risk Management Unit. An external service provider was appointed to facilitate the risk management process.

The risk management function came into ideal development in 2015-2016 with the appointment of the Chief Risk Officer (CRO) on a Shared Service Business Model between municipalities within the district which ultimately meant getting the same service under a shared cost model. This appointment brought about substantial cost-saving initiatives as it meant that in-house skills and resources were available, which in turn resulted in a significant reduction on the reliance of external service providers for their specialised contributions to the establishment or maintenance of the risk management structures and process.

In an effort to ensure that the municipality has an effective risk management function, Business Continuity Framework, Combined Assurance Framework and Code of Ethics have been developed to ensure that the function adds value to the entire municipality.

3.1 What is risk?

According to the National Treasury, risk is an:

"...unwanted outcome, actual or potential, to the Institution's service delivery and other performance objectives, caused by the presence of risk factor(s)."

Risk manifest as negative impacts on goals and objectives or as missed opportunities to enhance performance. Stakeholders expect the municipality to anticipate and manage risks in order to eliminate waste, inefficiencies, reduce unplanned events/crises and to continuously improve capacity for delivering on their mandates/commitments as depicted in the IDP.

3.2 Enterprise-wide Risk Management

The municipality's risk management framework is based on the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Framework along with the guidelines set out in the National Treasury's Public Sector Risk Management Framework.

Risk management is a systematic and formalised process used by the municipality to identify, assess, manage, monitor and report risks to ensure the achievement of objectives.

Enterprise-wide Risk Management (ERM) is the application of risk management throughout the municipality rather than only in selected business areas or disciplines. ERM recognises that risks (including opportunities) are dynamic, often highly interdependent and ought not to be considered and managed in isolation. ERM responds to this challenge by providing a methodology for managing municipal wide risks in a comprehensive and integrated way.

3.3 Objectives of risk management

The objectives of risk management as to assist management in making more informed decisions which includes:

- Aligning the risk-taking behaviour to better achieve the gaols and related objectives
- Providing a level of assurance that significant risks are effectively being managed
- Improving operational performance by assisting and improving decision making and planning
- Promoting a risk awareness ethic in all departments/directorates and improve risk transparency to stakeholders
- Promoting a more innovate, less risk averse culture in which the taking of calculated risks in pursuit of opportunities, to benefit the municipality, is encouraged.
- Providing a sound basis for risk management and internal control as components of good corporate governance

4. Risk management architecture

The National Treasury: Public Sector Risk Management Framework provides architecture for public entities to apply to improve risk management efforts.
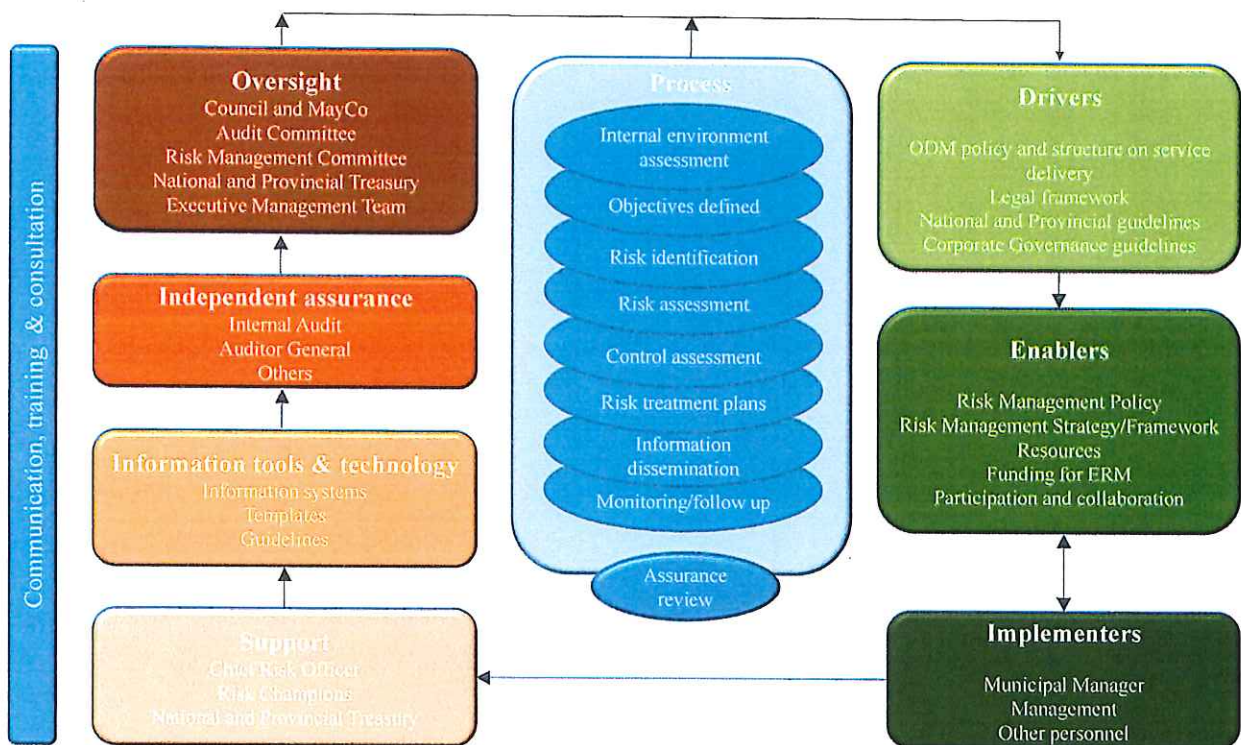
5. Risk management methodology

The COSO ERM model and the Public Sector: National Treasury Risk Management Framework is used to ensure a common language and to provide clear direction and guidance in terms of a risk management methodology.

The Overberg District Municipality is set out as follows:

- Rigorous risk assessment process
- Formalised risk register
- Monthly monitoring
- Regular reporting
- Data analysis
- Informed decision making accompanied by substantiated verification.

6. Risk Management process

The risk management process consists of eight components:

6.1 Internal environment

The internal environment sets the foundation for how risk and controls are viewed and addressed by the municipality. It provides discipline and structure.

The control environment influences how strategy and objectives are established and policy and implementation plan applied, ODM activities are structured, and risks are identified, assessed and acted upon. The control environment comprises many elements, including ODM's ethical values, competence and development of personnel, senior management's operating style and how it assigns authority and responsibility.

6.2 Objective setting

Objectives must exist before management can identify events potentially affecting their achievement. Objectives are set at the strategic level, establishing a basis for operations, reporting and compliance within the municipality's constitutional mandate.

6.3 Risk identification

The primary responsibility for identifying and managing risks lies with management for operational risks and top management and Council for strategic risks.

Risk identification is the process of identifying potential events that by affect Overberg District Municipality's ability to successfully implement strategies and the achievement of objectives. Risk identifying includes considering both internal and external factors that influence how potential events may affect strategy implementation and the achievement of objectives. This includes distinguishing between potential events that represent risks, those representing opportunities and those that may be both. Management should identify the interrelationship between potential events and may categorise event in order to create and reinforce a common risk language across the municipality.

Whilst risk identification is a continues process, risk identification workshops should be conducted at least once a year in order to assess the applicability of risks previously identified, identify any new risks and to consider emerging risks.

Risk identification must result in a documented list of risks where each risk is identified in principle and described in order to capture its qualitative characteristics.

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6.4 Risk assessment

Identified risks should be analysed in order to form a basis for determining how they should be managed. The main purpose of a risk assessment is to help to prioritise the most important risks in order to focus the municipality's limited resources to areas with the most exposure.

Risks are considered on both an inherent and residual basis and the assessment considers both risk impact and likelihood.

Effectively this is a self-assessment from management and staff as to how well risks are managed. The risk assessment workshop ensures that all management and staff understand the key risks which need to be managed.

Risk assessments should be re-performed for the key risks in response to significant environmental and/or organisational changes, but at least once a year in order to ascertain the shift in the magnitude of risk and the need for further management action as result thereof.

6.5 Risk response

Having assessed relevant risks, management has to determine how it will respond in order to reduce or eliminate the treat and events that create the risks. Management will select an approach or set of actions in order to align the risk with the municipality's risk appetite, in the context of the strategy and objectives. Risk response should also make provision for the exploitation of opportunities to improve the performance of the municipality.

Where the management of the risk is within the control of the municipality, the response strategy will include:

- Terminating the risk, for example choosing a different strategy or terminating the activity that produces the risk
- Treating the risk by, for example, implementing or improving the internal control system
- Transferring the risk to another party more competent to manage it by, for example contacting out services, establishing strategic partnerships or buying insurance
- Tolerate or accepting the risk where cost and strategy considerations rule out alternative strategies
- Take the opportunity through exploiting the risk factors by implementing strategy to take advantage of the opportunities presented by such risk factors.

Management should recognise that some level of residual risk will always exist, not only because resources are limited but because of the level of control over a risk, inherent future uncertainty and limitations inherent in all activities.

6.6 Control activities

Risk responses serve to focus attention on control activities needed to help ensures that the risk responses are carried out properly and in a timely manner. Control activities are part of the process by which a department strives to achieve its business objectives.

Control activities are the policies and procedures that help ensure risk management strategies are properly executed. They occur throughout the municipality at all levels and in all functions.

The internal control architecture is made up of the following types of control activities:

- Preventative controls to prevent errors or irregularities from occurring
- Detective controls to find errors or irregularities after they have occurred
- Corrective controls that operate together with detective controls to correct errors or irregularities

The internal control architecture is made up of:

- Management controls to ensure that the municipality's structure and systems support its policies, plans and objectives, and that it operates within laws and regulations
- Administrative controls to ensure that policies and objectives are implemented in an efficient and effective manner
- Accounting controls to ensure that resources are accounted for fully and transparently and are properly documented
- Information technology controls to ensure security, integrity and availability of information

6.7 Information and communication

Pertinent information – both from internal and external sources, financial or non-financial – must be identified, captured and communicated in a form and timeframe that enable personnel to carry out their responsibilities. Effective communication should also occur in a broader sense, flowing down, across and up the department, as well as the exchange of relevant information with external parties. All personnel must receive a clear message from top management that risk management responsibilities must be taken seriously. They should understand their 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.

6.8 Risk monitoring

The entire ERM process should be monitored and modifications should be made as necessary. The system should be able to react in a dynamic way to changing conditions. Monitoring should take place through a combination of ongoing management activities and separate evaluations.

7. Reporting

Results of risk assessments should be communicated to the process and risk owners on an ongoing basis (or at least quarterly). It is advisable that process and risk owners should communicate on a regular basis to ERM function on any new processes, controls and risks that have been added in their areas of responsibility. Managers and officials at all levels will have a responsibility to identify, evaluate and manager report risks. All relevant officials should maintain strict safeguarding measures on the risk management reports issued.

8. Interest, roles and responsibilities

Every person within the Overberg District Municipality has a role to play in the risk management process. The people responsible for ERM can be categorised into four distinct categories.

8.1 Executive Authority (Council's Oversight Role)

Council is responsible for overseeing the complete spectrum of governance within the Overberg District Municipality. This responsibility would therefore also include 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 the Overberg District Municipality against significant risks.

Responsibilities of the Council in risk management include:

- Ensuring that the municipality's strategies are aligned with the government mandate
- Obtaining assurance from management that the municipality's strategic choices were based on a rigorous assessment of risk
- Obtaining assurance that key risks inherent in the municipality's strategies were identified and assessed and are being properly managed
- Assisting the Accounting Officer to deal with fiscal, intergovernmental, political and other risks beyond their direct control and influence
- Insisting on the achievement of objectives, effective performance and value for money
- Approve the risk management policy, strategy and implementation plan.
- Approve the fraud prevention policy, strategy and implementation plan.
- Approve the Business Continuity Framework and Code of Ethics.

  Section 44 (2) of the Municipal Structures Act (Act 117 of 1998)
  Section 52 (b), (e) and 58 of the Municipal Finance Management Act (Act 56 of 2003)
  Chapter 10 of the Public Sector Risk Management Framework

8.2 Accounting Officer (Municipal Manager)

The Account Officer is ultimately responsible for risk management within the municipality. The Municipal Manager is accountable to the Council regarding the effectiveness of the risk management process. By setting the tone at the top, the Municipal Manager promotes accountability, integrity and other factors that will create a positive control environment.

The role of the Municipal Manager includes the following:

- Setting an appropriate tone by supporting and being seen to be supporting the Overberg District Municipality's aspirations for effective management of risk
- Delegating responsibility for risk management to management and internal formations such as the Risk Management Committee, Fraud Prevention Committee, Finance Committee, Information and Communication Technology Committee
- Holding management accountable for designing, implementing, monitoring and integrating risk management into their day-to-day activities
- Holding the internal structures accountable for performance in terms of their responsibility for risk management

- Providing leadership and guidance to enable management and internal structures responsible for various aspects of risk management to properly perform their functions
- Ensuring that the control environment supports the effecting functioning of risk management
- Ensure the risk management policy, strategy and implementation plan are approved by Council
- Ensure the fraud prevention policy, strategy and implementation plan are approved by Council
- Ensure that the Business Continuity Frameworks and Code of Ethics.
- Ensure the effective application of Business Continuity processes, Combined Assurance and promote an acceptable Ethics Culture.
- Ensure the municipality's risk appetite and risk tolerance are approved by Council
- Devoting personal attention to overseeing management of the significant risks
- Leveraging the Audit and Performance Audit Committee, Internal Audit, External Audit and Risk Management Committee for assurance on the effectiveness of risk management
- Ensuring appropriate action in respect of the recommendations of the Audit and Performance Audit Committee, Internal Audit, External Audit and Risk Management Committee to improve risk management
- Providing assurance to relevant stakeholders that key risks are properly identified, assessed and mitigated

Section 62 (1)(c)(i) of the Municipal Finance Management Act (Act 56 of 2003)
Chapter 11 of the Public Sector Risk Management Framework
Principle 4 of the King III Code of Governance Principles

8.3 Senior Management/Directors (Risk Owners)

Senior Management within the municipality owns the risks, thus in taking that ownership they are accountable to the Municipal Manager for integrating the principles of risk management into their daily routines to enhance the achievement of their service delivery objectives.

In addition, management needs to take accountability for the material completeness of the risk identification, the material correctness of their risk analysis, as well as for the timelines and appropriateness of their decisions as well as tracking the risks and their reporting where appropriate.

Senior Management is responsible for executing their responsibility outlined in the risk management strategy and for integrating risk management into the operational routines. The high level responsibilities of management include:

- Executing their responsibilities as set out in the risk management strategy;
- Empowering officials to perform effectively in their risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- Aligning the functional risk management methodologies and processes with the institutional processes;
- Devoting personal attention to overseeing the management of key risks within their area of responsibility;
- Maintaining a co-operative relationship with the Risk Management Unit and the Risk Champion;

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- Providing risk management reports;
- Presenting to the Risk Management and Audit and Performance Audit Committees as requested;
- Maintaining the proper functioning of the control environment within their area of responsibility; and
- Holding officials accountable for their specific risk management responsibilities.

Section 78 (1)(a) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA)
Section 62 (1)(c)(i) of the MFMA, delegated in terms of Section 79 (1)(b)(ii) of the MFMA
Chapter 15 of the Public Sector Risk Management Framework
Principle 4.4 of the King III Code of Governance Principles

8.4 Management (Risk Champions)

The risk champions are primarily involved and responsible for identifying and managing the operational risks pertaining to their department / unit. The risk champions are fundamental in the risk assessment process as they respond initially to the risk analysis which entail Risk identification(description, background, root cause, consequences), Changes in rating scales, Applicable current controls, Loss control, KPI linkage, Risk Responses. It is expected of the risk champions to convene and interact with the assigned risk action owners in their departments and to ensure that the risk register is updated regularly (monthly). Risk champions are ultimately responsible to take initiative with regards to new risks or amendments to existing risks and always support the Chief Risk Officer to ensure that risks are managed in a manner that reflects relevance, efficiency, effectiveness and progression.

In order to fulfil his/her function, the risk champion should possess:

- A good understanding of risk management concepts, principles and processes
- Good analytical skills;
- Expert power;
- Leadership and motivational qualities; and
- Good communication skills.

Section 62 (1)(c)(i) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA),
delegated in terms of Section 79 (1)(b)(ii) of the MFMA
Chapter 17 of the Public Sector Risk Management Framework

8.5 Senior officials (Action Owners)

Senior officials are responsible for integrating risk management into their day-to-day activities i.e. by ensuring conformance with controls. The high level responsibility of these officials includes:

- Applying the risk management process in their respective functions
- Implementing the delegated action plans to address the identified risks
- Informing their supervisors and/or the Risk Management Unit of new risks and significant changes in know risks
- Co-operating with other role players in the risk management process and providing information as required

8.6 Chief Risk Officer (CRO)

Accountability for risk management in the municipality is assigned to the Accounting Officer (Municipal Manager) and is sub-delegated to the CRO to facilitate and co-ordinate the development and implementation of a risk management system. Risk remains the responsibility of line management and risk ownership is a management function. The CRO does report and is accountable to the Accounting officer of the municipality and provide quarterly progress / performance reports to the DCFTECH (all of the Municipal Managers of the municipality's that use the shared service)

The CRO provides specialist expertise in providing a comprehensive support service to ensure systematic, uniform and effective enterprise risk management. The CRO plays a vital communication link between operational level, management, senior management, the Risk Management Committee and other relevant committees. The CRO is thus the custodian of the ERM strategy, the co-ordinator of risk management throughout the municipality and also the advisor on all risk management matters. This includes ensuring the municipality remains constantly legislative compliant with the MFMA in terms of risk management.

The high level responsibilities of the CRO include:

- Working with senior management to develop the Overberg District Municipality's vision for risk management
- Developing in consultation with management the Overberg District Municipality's risk management incorporating, inter alia, the
  - Risk management policy;
  - Risk management strategy;
  - Risk management implementation plan(through DCFTECH process);
  - Business Continuity;
  - Ethics;
  - Combined Assurance;
  - Fraud prevention plans;
  - Risk identification and assessment methodology;
  - Risk appetite and tolerance;
  - Risk classification;
- Communication the municipality's risk management strategy to all stakeholders and monitoring the implementation
- Facilitating orientation and training for the Risk Management Committee
- Training all stakeholders in their risk management functions
- Continuously driving risk management to higher levels of maturity
- Assisting management with risk identification, assessment and development of response strategies
- Monitoring the implementation of the response strategies
- Collating, aggregating, interpreting and analysing the results of risk assessments to extract risk intelligence
- Reporting risk intelligence to the Accounting Officer/Authority, management and the Risk Management Committee
- Participating with Internal Audit, management and the Auditor-General in developing the combined assurance plan

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

8.7   Audit and Performance Audit Committee (Oversight role)

The Audit and Performance Audit Committee is an independent committee responsible for assisting the Council in addressing its oversight requirements of the municipality's control, governance and risk management. The Audit and Performance Audit Committee's primary function is to review the effectiveness of the system of risk management and plan ensuring that significant risk within the municipality are adequately addressed and that suitable controls exist to treat and reduce these risks. The stakeholders rely on the Audit and Performance Audit Committee for an independent and objective view of the municipality's risk management effectiveness.

Responsibilities of the Audit and Performance Audit Committee include:

- Reviewing and recommending disclosures on matters of risk in the annual financial statements
- Reviewing and recommending disclosures on matters of risk and risk management in the annual report
- Providing regular feedback to the Accounting Officer on the adequacy and effectiveness of risk management in the municipality, including recommendations for improvement
- Ensuring that the internal and external audit plans are aligned to the risk profile
- Satisfying itself that it has appropriately addressed the following areas
  - Financial reporting risks including the risk of fraud
  - Internal financial controls
  - IT risks as they relate to financial reporting
- Evaluate the effectiveness of Internal Audit in its responsibilities for risk management

Section 166 (2)(a)(ii) of the Municipal Finance Management Act (Act 56 of 2003)
Chapter 12 of the Public Sector Risk Management Framework
Principle 3.8 of the King III Code of Governance Principles

8.8   Risk Management Committee (Oversight)

The Risk Management Committee (RMC) is responsible for oversight of the quality, integrity and reliability of the Overberg District Municipality's risk management process and risk responses. The RMC is appointed by the Accounting Officer/Authority to assist him to discharge his responsibilities for risk management. An important part of the Committee's mandate is to provide recommendations to the Municipal Manager to continuously improve the management of specific risks as well as the overall process of risk management.

The membership of the RMC should comprise both management and external members with the necessary blend of skills, competencies and attributes, including the following critical aspects:

- An intimate understanding of the municipality's mandate and operations
- The ability to act independently and objectively in the interest of the municipality
- A thorough knowledge of risk management principles and their application

The responsibility of the RMC should be formally defined in a Terms of Reference approved by the Accounting Officer/Authority.

In discharging its governance responsibility relating to risk management, the RMC should:

- Review and recommend the:
  o Risk management policy annually to be approved by Council annually;
  o Risk management strategy to be approved by Council annually;
  o Combined Assurance Framework to be adopted by RMC;
  o Business Continuity Framework to be approved by Council annually;
  o Municipal Code of Ethics to be approved by Council annually;
  o Risk management implementation plan is approved by DCFTECH annually;
  o Overberg District Municipalities risk appetite, ensure that limits are:
    - Supported by a rigorous analysis and expert judgement
    - Express in the same values as the key performance indicators to which they apply
    - Set for all material risks individually, as well as in aggregate for particular categorisations of risk
    - Consistent with the materiality and significance framework

  o Overberg District Municipality's risk tolerance, ensuring that limits are supported by a rigorous analysis and expert judgement of:
    - The municipality's ability to withstand significant shocks
    - The municipality's ability to recover financially and operationally from significant shocks

- The municipalities risk identification and assessment methodologies, after satisfying itself of their effectiveness in timeously and accurately identifying and assessing the municipalities risks

- Evaluate the extent and effectiveness of integration of risk management within the municipality

- Assess implementation of the risk management policy and strategy (including plan)

- Evaluate the effectiveness of the mitigating strategies implemented to address the material risk

- Review the material findings and recommendations by assurance providers on the system of risk management and monitor the implementation of such recommendations

- Develop its own key performance indicators for approval by the Accounting Officer/Authority

- Interact with the Audit and Performance Audit Committee to share information relating to material risks of the municipality

- Provide timely and useful reports to the Accounting Officer/Authority on the state of risk management, together with accompanying recommendations to address any deficiencies identified by the Committee

In instances where the scale, complexity and geographical dispersion dictate a need for the RMC to work through sub-committee, the RMC should ensure that:

- Approval is obtained from the Accounting Officer/Authority for the establishment of the sub-committee

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- The terms and reference of the sub-committee is aligned to that of the RMC
- The RMC exercises control over the functioning of the sub-committee

Section 79 of the Municipal Structures Act (Act 117 of 1998)
Chapter 13 of the Public Sector Risk Management Framework
Principle 4.3 of the King III Code of Governance Principles

8.9   Internal audit (assurance provider)

Internal audit is responsible for providing independent, objective assurance on the effectiveness of risk management, controls and governance processes, as designed and represented by management, are adequate and function in a manner to ensure that amongst other things risk are appropriately identified and managed, based on the scope of their coverage plan.

This involve providing reasonable assurance that material risks have been identified and assess and that controls systems implemented to treat such risks are both adequate and effective, and provide recommendations for improvement where necessary.

Internal audit must develop its internal audit plan on the basis of the key risk areas.

Internal audit also co-ordinate with other control and monitoring functions, including risk management to co-ordinate and align objectives to from part of the integrated audit plan.

Section 165 (2) (a) and (b)(iv) of the Municipal Finance Management Act (Act 56 of 2003)
Chapter 18 of the Public Sector Risk Management Framework
Principle 4.9 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.

8.10 Auditor-General (assurance provider)

The Auditor-General is responsible to provide assurance to stakeholders that financial statements are fairly represented and compliant with relevant laws and regulations. He therefor provides an independent opinion on the effectiveness of risk management.

9.   Evaluation of ERM

Evaluation of the effectiveness of the ERM process and efforts is vital to ensure that the benefits of implementing ERM is realised. Often ERM initiatives fail to add value because of the absence of pre-determined goals and targets and/or the lack of appropriate monitoring. The value of risk management is evaluated by measuring performance against present goals, objectives and key performance indicators which is aligned to the overall goals and objectives of the municipality. ERM evaluations should be performed by Internal Audit on an annual basis.

10. Continuous improvement

ERM, like any business activity, should be continuously improved. This means that the Overberg District Municipality will always strive to move from its current level of risk maturity to a more mature level. This maturity can include improvements in risk governance, risk identification, risk assessment, risk monitoring and risk optimisation.

11. Glossary of terms

Terminology	Definition
Chief Risk Officer	A senior official who is the head of the risk management unit.
Impact	The magnitude of the impact on the municipality should the risk materialise.
Inherent risk	The exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors.
Internal Audit	An independent objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
King III	The King Code of Corporate Governance of South Africa 2009
Residual risk	The remaining exposure after the mitigating effects of deliberate management intervention(s) to control such exposures (the remaining risk after management has put in place measures to control the inherent risk).
Risk	An unwanted outcome, actual or potential, to the Institution's service delivery and other performance objectives, caused by the presence of risk factor(s). Some risk factor(s) also present upside potential, which management must be aware of and be prepared to exploit. This definition of risk also encompasses such opportunities.
Risk appetite	The amount of residual risk that the Institution is willing to accept.
Risk assessment	The overall process of identifying, analysing and evaluating risk.
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 factor	Any threat or event which creates, or has the potential to create risk.
Risk management	Systematic and formalised processes to identify, assess, manage and monitor risks.

Terminology	Definition
Risk Management Committee	A committee appointed by the Accounting Officer / Authority to review the Institution's system of risk management.
Risk management unit	A business unit responsible for coordinating and supporting the overall Institutional risk management process, but which does not assume the responsibilities for management for identifying, assessing and managing risks.
Risk owner	The person accountable for managing a particular risk.
Risk policy	Serves as a foundation for the Municipality's ERM activities, as it encapsulates management's philosophy and approach to risk management.
Risk profile	Identification and listing of risks, typically in order of highest to lowest based on qualitative or quantitative measurements approved by management.
Risk ratings	The analysis of risks identified in terms of impact and likelihood to obtain an inherent risk rating. The final rating assessment relates to control confidence and offset against the inherent risk assessment leaves the residual risk assessment exposure rating.
Risk strategy	The approach adopted for associating and managing risks based on the municipality's objective, strategies and programmes.
Risk tolerance	The amount of risk the Institution is capable of bearing (as opposed to the amount of risk it is willing to bear).

12. Conclusion

With this strategy for mutual understanding, all managers will be able to speak a common risk language. Management will be positioned to assess their risks and place corrective action plans in place to mitigate the risk exposure. This formalised strategy will need to be rolled out to the entire municipality.

Risk management processes and responsibilities are incorporated in a list of responsibilities allocated to the Municipal Manager and Audit and Performance Audit Committee. However, these responsibilities are extended to all managers, as risk management is everybody's responsibility.

Going forward, it is the vision of the municipality to formalise and improve risk management and specifically risk mitigation strategy with the focus on risk governance.

This strategy will be reviewed annually.

Date of last approval

APPROVED BY COUNCIL – 05/01/2016, ITEM A25

APPROVED BY COUNCIL – 25/01/2016, ITEM A332

Item A112. 30.06.2017

RISK MANAGEMENT STRATEGY AND POLICY   **(Ref.: 6/40/B)**

A. Riddles – Chief Risk Officer

PURPOSE

To obtain Council's approval for the Risk Management Strategy as well as the Risk Management Policy for the financial year 2017-2018, that have been reviewed by the Risk Management Committee.

BACKGROUND

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.

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.
✓ 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.

PROGRESS

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.

The Risk Management Strategy and Policy have last been reviewed on 29 March 2017 for the 2016-2017 financial year. The following significant additions have since been made to the Risk Management Strategy and Policy for the 2017-2018 financial year which requires Council's approval:

✓ Ethics Management
✓ Business Continuity
✓ Combined Assurance

LEGAL REQUIREMENTS

▪ Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003)

FINANCIAL IMPLICATIONS

Not Applicable

PERSONNEL IMPLICATIONS

Not Applicable

ATTACHMENTS

- ODM Risk Management Strategy 2017-2018

- ODM Risk Management Policy 2017-2018

UNANIMOUSLY RESOLVED

1) The ODM's Risk Management Strategy and Policy have been reviewed for 2017-2018 and is approved by Council.