



# OVERBERG DISTRICT MUNICIPALITY

## RISK MANAGEMENT

### STRATEGY

2020 / 2021

## **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. 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.

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.

## **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 in 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 is 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.

#### **4. What is risk?**

According to the National Treasury's Public Sector Risk Management Framework, 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.

#### ***Enterprise Risk management Control***

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

#### **5. 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 goals 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

#### **6. Roles and Responsibilities**

Every person within the Overberg District Municipality has a role to play in the risk management process.

## **6.1 Council (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;
- Approve the code of conduct and code of ethics;
- Approve the combined assurance framework;
- Awareness of and concurring with the Municipality's risk appetite and tolerance levels;
- Awareness of the combined assurance activities on the Municipality's key risks.

## **6.2 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 all strategic risks inherent in the IDP have been identified and mitigating action plans have been budgeted for.
- Approving the risk management policy, strategy and implementation plan
- Approving the fraud prevention policy, strategy and implementation plan

- Approving the municipality's risk appetite and risk tolerance
- Devoting personal attention to overseeing management of the significant risks
- Leveraging the Audit and Performance Audit Committee, Internal Audit, External Audit and Fraud 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

### **6.3 Senior Management/Directors (Risk Owners)**

Senior Management at 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 framework 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 framework;
- 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;
- Periodically review their directorate's risk register to ensure it is up to date
- 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;
- 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.

### **6.4 Middle 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 & risk action plan 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 to assist with the root causes to risk problems
- Expert power;
- Leadership and motivational qualities; and
- Good communication skills.

### **6.5 Senior officials (Action Owners)**

Other 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 other 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

### **6.6 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 is accountable to the DCFTECH (District Coordinating Forum – Technical).

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 Fraud and Risk Management Committee and other relevant committees. The CRO is thus the custodian of the ERM framework, 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 framework incorporating, inter alia, the
  - Risk management policy;
  - Risk management strategy/framework;
  - Risk management implementation plan (through DCFTECH process);
  - Risk identification and assessment methodology;

- Risk appetite and tolerance;
- Risk classification;
- Communication the municipality's risk management framework to all stakeholders and monitoring the implementation
- Facilitating orientation and training for the Fraud and 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 Fraud and Risk Management Committee
- Participating with Internal Audit, management and the Auditor-General in developing the combined assurance plan
- Champion combine assurance activities;
- Providing input into the development and subsequent review of the fraud prevention strategy, code of ethics, business continuity plans, occupational health and safety, environmental policies and practices and disaster management plans.

#### **6.7 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

#### **6.8 Fraud and Risk Management Committee (Oversight)**

The Fraud and 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:
  - Risk management policy annually to be approved by council annually;
  - Risk management strategy/framework to be approved by council annually;
  - Risk management implementation plan is approved by DCFTECH annually;
  - Combined assurance framework to be approved by council annually;
  - Risk management Terms of reference to be approved by council annually
  - 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
  - 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/framework (including plan)
- Evaluate the effectiveness of the mitigating strategies implemented to address the material risks
- 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
- Review the combined assurance model and evaluate the effectiveness of assurance activities;



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
- 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

### **6.9 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.

Reviewing the risk profile of the Municipality. This includes the risk management strategy, risk management policy, fraud prevention strategy. fraud prevention policy, fraud prevention plan, business continuity framework, business continuity plans, combined assurance framework, risk management reporting lines and the values that have been developed for the Municipality;

### **6.10 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.

## **7. Improvement of Risk Maturity**

Risk management should be integrated into the culture of Overberg District Municipality and this will include mandate, leadership and commitment. It should translate risk strategy into tactical and operational objectives, and assign risk management responsibilities throughout the Municipality. It should support accountability, performance measurement and reward the promoting of operational efficiency at all levels.

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.

## **8. 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.

## **9. Combined Assurance**

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

## **10. Business Continuity**

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

A business continuity framework must be maintained to guide the development of business continuity plans and governance structures in order to prepare the Municipality in the event of extended service outages.

## **11. Monitoring**

Monitoring risk management is a process that assesses the presence and functioning of its components monthly. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the normal course of management activities. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures.

## **12. 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.

## **13. 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.

## **14. 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/framework 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.

### **15. Review**

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

### **16. Date of last approval:**

Approved by Council – 18/06/2018, ITEM A262 (For 2018-2019 Financial Year) (Version 4)

Approved by Council – 30/06/2017, Item A112 (For 2017-2018 Financial Year) (Version 3)

Approved by Council - 25/01/2016, Item A332 (For 2016-2017 Financial Year) (Version 2)

Approved by Council – 05/12/2016, (Version1)

Approved by Council – 29/06//2020,Item A63 ( [For 2020-2021 Financial year](#) Version 5)