OVERBERG DISTRICT MUNICIPALITY

RISK MANAGEMENT

STRATEGY

(Version 8)

Contents

Glossary of terms

Terminology	Definition
Accounting Officer	In relation to a municipality, the Municipal Manager as referred to in section 60 of the MFMA
Auditor-General	The designated public auditor of the municipality, being the person appointed as Auditor-General in terms of section 193 of the Constitution.
Chief Risk Officer	A senior official who is the head of the risk management unit.
Combined Assurance	A process that seeks to optimise the scope of assurance to the Institution by harmonising the work of various providers of assurance through eliminating fragmentation and duplication of efforts.
Council	In relation to a municipality, the Municipal Council as referred to in section 18 of the Municipal Structures Act, and as defined in section 1 of the MFMA.
Enterprise-wide Risk Management	A systematic, co-ordinated and inclusive process which uses the Institution's strategy and objectives as the focal point to manage the range of risks and optimisation of opportunities to enhance the achievement of the strategy and objectives.
Fraud and Risk Management Committee	A committee appointed by the Accounting Officer to apply specialist skills, knowledge and experience and assist him/her to dispose of his/her responsibilities for all matters concerned with the establishment, maintenance and functioning of Institution's system of risk management, especially the management of priority risks.
Incident risk	Is a risk that may come to light/ incidentally occur during the financial year but was not captured in the initial risk register for that particular financial year. (A risk that has actualised).
Integrated Development Plan (IDP)	A single, inclusive and strategic plan aimed at the integrated development and management of a municipality, as envisaged in Chapter 5 of the Municipal Systems Act.
Impact	The magnitude of the impact on the municipality should the risk materialise.
Inherent risk	The risks to the municipality in the absence of any actions management might take to alter either the risk's impact or likelihood. In other words, the likelihood and impact of the risk if the current controls that are in place are not considered.
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 V	The King Code of Corporate Governance for South Africa, 2025 for corporate governance best practice

MFMA	Municipal Finance Management Act (Act No. 56 of 2003),
Municipal Manager	A person appointed in terms of section 82 (a) or (b) of the Municipal Structures Act, who is the head of administration and also the accounting officer for the municipality.
Operational Risk	Risks that affect the achievement of the SDBIP, mainly resulting from inadequate or failed internal processes, actions of staff, loss of key personnel, failure of IT systems, failure of equipment, the actions of regulatory authorities, customers, suppliers and the public, as well as other external events that impact on the objectives.
Performance and Audit Committee	An independent committee constituted to review the control, governance and risk management within the Institution, established in terms of section 166 of the MFMA.
Project Risk	Project risk identification hones in on particular projects to identify risks inherent in those projects.
Residual risk	The exposure remaining after the mitigating effects of management intervention(s) to control such exposure, i.e. the remaining risk after management has put in place measures to control the inherent risk.
Risk	The effect of uncertainty regarding the achievement of the Municipality's objectives (IDP) An unwanted outcome, actual or potential, to the Institution's service delivery and other performance objectives, caused by the presence of risk factor(s). The failure to optimise opportunities to enhance the achievement of the IDP and service delivery targets.
Risk appetite	The amount (Level) of residual risk that the Institution is willing to accept.
Risk assessment	The process of identifying, analysing and evaluating risks.
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 management	A systematic and formalised process to identify, assess, manage and monitor risks.
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 individual who is accountable for ensuring the risk is managed appropriately. (Director)
Risk policy	Serves as a foundation for the Municipality's ERM activities, as it encapsulates the municipality's philosophy and approach to risk 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 tolerance	The amount of risk the Institution is capable of bearing (as opposed to the amount of risk it is willing to bear).
Strategic Risk	Risks connected with strategy selection, implementation or revision which affects the achievement of the IDP. Strategic risks occur both from poor business decisions as well as the failure to effectively implement good decisions. The events which could have a negative effect on the achievement of strategic objectives.

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 make 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 to ensure the achievement of the strategic goals identified in the Integrated Development Plan.

1.2. 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, Local Government 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).

2. Background

As set out by Local Government Risk Management Framework, institutions are bound by their Constitutional mandates to provide services or products in an efficient, cost effective and economical way. Stating that no municipal functions in a risk-free environment in fulfilling their mandates, public institutions are especially vulnerable to risks while being ripe for opportunities at the same time. Many functions within the scope of the local government mandate poses substantial risk exposure, but which cannot be avoided in the interest of public good. As a result, risk management needs to be in place to achieve the following outcomes to underpin and enhance overall performance:

a) more sustainable and reliable delivery of services;
b) informed decisions through appropriate rigour and analysis;
c) innovation;
d) reduced waste;
e) prevention of fraud and corruption;
f) better value for money through more efficient use of resources; and
g) better outputs and outcomes through improved project and programme management.

2.1. What is risk?

According to the Local Government Risk Management Framework, risk is:

The effect of uncertainty on the achievement of the Institution's strategy and objectives caused by presence of risk factors; and/or
The failure to optimise opportunities to enhance the achievement of the IDP and SDBIP.

"It 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.

2.2. 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.

2.3. Mission of risk management

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

2.4. 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.

2.5. Risk Management Modalities

Risk assessment is the process the municipality undertakes for:

- **Identification**
  List potential risk that could impact on the municipality
- **Assessment**
  Evaluate the likelihood and potential impact of the identified risks
- **Prioritisation**
  Ranking risks based on the severity and likelihood.
- **Mitigation**
  Developing actions to reduce the likelihood or the impact of the risk

- **<u>Monitoring</u>**
  Continuously tracking and reviewing the effectiveness of mitigation and adapting as needed.

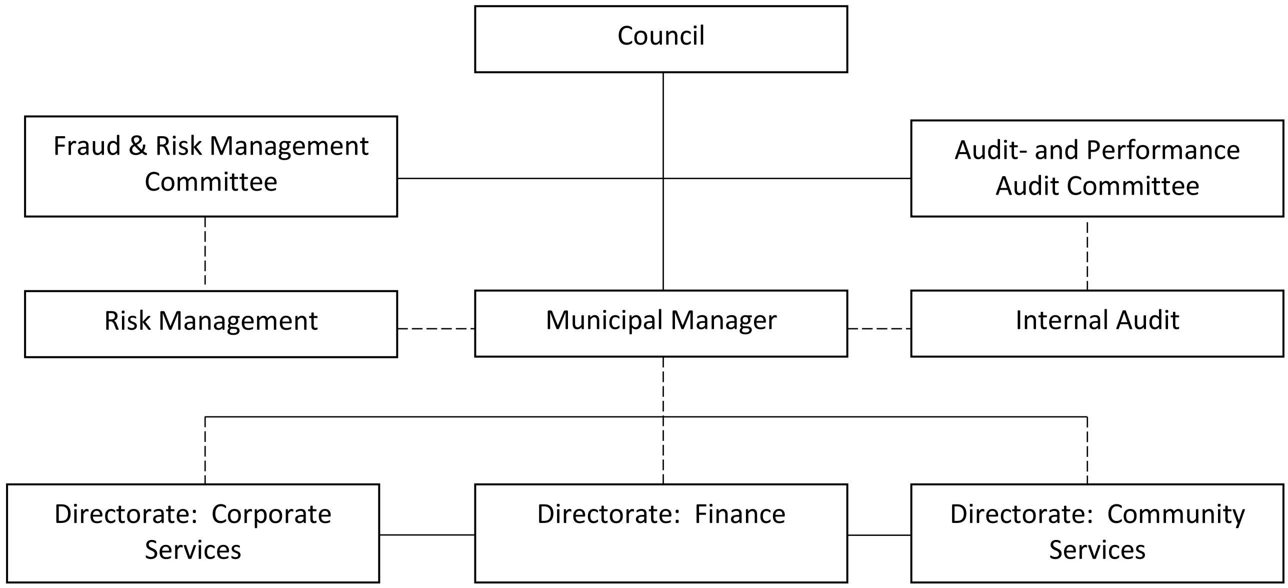
Risk management is not only about identification of risks but what becomes crucial is the mitigation thereof. There are different risk responses which management can choose from depending on the risk appetite and the capacity to bearing a risk.

- **<u>Risk avoidance</u>**
  Avoiding the risk, e.g. by choosing a different strategy or terminating the activity that produces the risk.
- **<u>Risk acceptance/retention</u>**
  Accepting the risk where cost and strategy considerations rule out alternative strategies.
- **<u>Risk treatment</u>**
  Treating the risk, e.g. by implementing or improving the internal control system.
- **<u>Risk transfer</u>**
  Transferring the risk to another party more competent to manage it, e.g. contracting out services, establishing strategic partnerships and buying insurance.
- **<u>Exploit</u>**
  Exploiting the risk factors by implementing strategies to take advantage of the opportunities presented by such risk factors.

Risks can be assessed at different levels which includes Strategic, Operational, project, emerging and incident level.

3. Accountability, role and responsibility of the risk management structure

The structure through which risk management will be reported within the Overberg District Municipality are set out below.



3.1. Council (Oversight Role)

3.1.1. Legal Mandate and Frameworks

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

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

3.1.2. Roles and Responsibilities

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.

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

High level responsivities of the Municipal Council in the risk management process 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;
- Determine the Risk Appetite with guidance from the FARMCO, Municipal Manager and Chief Risk Officer;
- Awareness of the combined assurance activities on the Municipality's key risks.

3.2. Accounting Officer (Municipal Manager)

3.2.1. Legal Mandate and Frameworks

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

- Section 62 (1)(c)(i) of the Municipal Finance Management Act (No 56 of 2003)

3.2.2. Role and Responsibilities

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.

High level responsibility of the Accounting Office (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.
- Appoint FARMCO members with the necessary skill, competencies and attributes.
- Recommend to Council the approval of risk management documents and methodologies and ensure they are implemented.
- 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

3.3. Senior Management/Directors (Risk Owners)

3.3.1. Legal Mandate and framework

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

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

3.3.2. Role and Responsibilities

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.

High level responsibilities of the Directors (Risk Owners) 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.

3.4. Middle Management (Risk Champions)

3.4.1. Legal Mandate and framework

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

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

3.4.2. Role and Responsibilities

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 responsible functions, 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.

3.5. Senior officials/Head of Departments (Action Owners)

Other officials are responsible for integrating risk management into their day-to-day activities i.e. by ensuring conformance with controls.

3.5.1. Legal Mandate and framework

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

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

The 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.

3.6. Chief Risk Officer (CRO)

3.6.1. Legal Mandate and Frameworks

The following legislative instruments provide the legal foundation for the CRO:

- Employment Contract
- Performance Agreement

3.6.2. Role and Responsibilities

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.

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
  - 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 combines 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.

3.7. Audit and Performance Audit Committee (Oversight role)

3.7.1. Legal Mandate and Frameworks

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

- Section 166 (2)(a)(ii) of the Municipal Finance Management Act (No 56 of 2003)

3.7.2. Role and Responsibilities

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 risks 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.

High level responsibilities of the Audit and Performance Audit Committee include:

- Reviewing and recommending disclosures on matters of risk in the annual financial statements and 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.
- Provide oversight over the combined assurance process.
- Receiving and considering reports form FARMCO.
- Evaluate the effectiveness of Internal Audit in its responsibilities for risk management.
- Provide inputs to risk management policies.

3.8. Fraud and Risk Management Committee (Oversight)

3.8.1. Legal Mandate and Frameworks

The following legislative instruments provide the legal foundation for the Fraud and Risk Management Committee:

- Section 79 of the Municipal Structures Act (No 117 of 1998)
- FARMCO Terms of Reference

3.8.2. Role and Responsibilities

The Fraud and Risk Management Committee (FARMCO) is responsible for oversight of the quality, integrity and reliability of the Overberg District Municipality's risk management process and risk responses. The FARMCO 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 FARMCO 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; and
- A thorough knowledge of risk management principles and their application.

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

High level responsibilities of the Fraud and Risk Management Committee include:

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 Council 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 FARMCO to work through sub-committee, the FARMCO 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 FARMCO; and
- The FARMCO exercises control over the functioning of the sub-committee.

3.9. Internal audit (assurance provider)

3.9.1. Legal Mandate and Frameworks

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

- Section 165 (2) (a) and (b)(iv) of the Municipal Finance Management Act (No 56 of 2003)

3.9.2. Role and Responsibilities

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 risks 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.

3.10. Auditor-General (assurance provider)

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

4. 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.
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5. 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. The Fraud and Risk Management Committee members conduct annually a self-evaluation on: Composition/Competency and Capacity, Governance, Performance of Risk Management Function, Oversights and Performance Management.

6. 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.

7. Communication and Reporting

The communication and reporting process should support enhanced decision making and accountability by providing the following minimum reports to Council / the Performance and Audit Committee / FARMCO.

- A summary of risk broken down into operating units.
- A summary of existing gaps in the capabilities for managing significant risks.
- A report of emerging issues or risks that requires immediate attention.
- Integrated reporting and disclosure (Combined Assurance).

8. Monitoring

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

Monitoring activities should also focus on:

- Assigned responsibilities are being executed effectively; and
- Improvements in the system of risk management are producing positive changes in the municipalities performance, and
- Risk response strategies are producing the desired result of mitigating risks or exploiting opportunities.

9. 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.

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.

10. Review

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

11. Date of last approval

Approved by Council - 25/01/2016, Item A332 (For 2016-2017 Financial Year) (Version 1)
Approved by Council – 05/12/2016, (Version 2)
Approved by Council – 30/06/2017, Item A112 (For 2017-2018 Financial Year) (Version 3)
Approved by Council – 18/06/2018, Item A262 (For 2018-2019 Financial Year) (Version 4)
Approved by Council – 29/06/2020, (Version 5)
Approved by Council – 27/03/2023, Item A67 (Version 6)
FARMCO - 14 May 2025, Item R412
Audit and Performance Audit Committee - 25 June 2025, Item O28
Approved by Council – 08/12/2025, Item A25 (Version 7)
FARMCO - 2/06/2026
Audit and Performance Audit committee - 25 June 2026
Approved by Council – 27/07/2026, Item A84