



OVERBERG DISTRICT MUNICIPALITY

ENTERPRISE RISK MANAGEMENT POLICY

2017-2018

1. Policy statement

Risk management is recognised as an integral part of responsible management and the Municipality therefore adopts a comprehensive approach to the management of risk. The Overberg District Municipality is committed to the optimal management of risk in order to achieve its vision, service delivery and strategic key objectives to ensure appropriate outcomes for the community.

All risk management efforts will be focused on supporting the Municipality's objectives. Equally, they must ensure compliance with relevant legislation and fulfil the expectations of employees, communities and other stakeholders in terms of good corporate governance.

Commitment to risk management is a sure expression of commitment to Batho Pele principles. The Overberg District Municipality is committed to a process of risk management that is aligned to the principles of leading practice and legislation, e.g. Municipal Finance Management ACT (MFMA) and the King III Report on Codes of Governance. The Municipal Code of Ethics plays an essential role in promoting and enhancing good ethics in the municipality as it ensures that the municipality is in line with best ethical practices. It is required that all directorates will follow a uniform risk management process and align processes to its key principles and objectives.

Risk in the Overberg District Municipality is a complex and diverse concept. It is the intention that all departments will work together in a consistent and integrated manner, with the overall objective of reducing risk and optimizing opportunities, as far as reasonably practical in the interest of the municipality. Thus, the Combined Assurance approach to risk management becomes a vital approach to assess the extent of adequacy of assurance coverage on key organisational risks and reporting thereof.

The Council recognises the wide range of risks to which the Overberg District Municipality is exposed. It is therefore a strategic objective to adopt a process of Enterprise Risk Management (ERM) that will assist the Overberg District Municipality in meeting its key goals, most specifically:

- To align the risk-taking behaviour to better achieve the goals and related objectives;
- To protect the reputation and brand name of the Overberg District Municipality;
- To promote a risk awareness ethics in all Departments/Directorates and improve risk transparency to stakeholders;
- To maximise (create, protect and enhance) stakeholder value and net worth by managing risk that may impact on the development and success indicators;
- To identify risk improvement opportunities that will maximise business opportunities and sustainable delivery of services and programs.

Effective risk management is imperative to the municipality, with its diverse key processes and an intrinsic risk profile. The realisation of the municipality's Integrated Development Plan (IDP), strategic goals and objectives depends on all role-players being able to take calculated risks in a way that does not jeopardise service delivery. Sound management of risk will enable all role-players to anticipate and respond to the changes in our environment, as well as to make informed decisions under conditions of uncertainty and inherent risk.

Management is responsible for ERM execution, in the achievement of the Overberg District Municipality's IDP strategy and every employee, partner, contractor and specialist has a part to play in this important endeavour.

2. Purpose and scope

2.1 Purpose

The purpose of this policy is to formalise The Overberg District Municipality's Enterprise Risk Management (ERM) program and to articulate the roles and responsibilities of the risk implementers, oversight bodies, and risk management and assurance providers in risk management. Through this policy the Overberg District Municipality puts into practice its commitment to implement risk management and embed a culture of risk management within the municipality. This policy forms the basis for the accompanying risk management strategy which is designed to help achieve the objectives of implementing an effective ERM process.

2.2 Scope

The scope of this policy applies throughout the Overberg District Municipality in as far as risk management is concerned.

Sound risk management principles must become part of routine management activity across the municipality. The key objective of this policy is to ensure the municipality has a consistent basis for measuring, controlling, monitoring and reporting risk across the municipality at all levels.

2.3 Objective

The objectives of this policy are -

- [a] to provide a framework for the effective identification, measurement, avoidance / management and reporting, of the Municipality's risks;
- [b] to define and assign risk management roles and responsibilities within the Municipality; and
- [c] To define a reporting framework which ensures regular communication of risk management information to the Council, portfolio committees, the Audit and Performance Audit Committee and senior management and officials engaged in risk management activities.

3. Authority

Section 195 of the Constitution emphasises the values and principles underpinning public administration, which include the efficient, economic and effective use of resources in the public sector.

The Municipal Finance Management Act, No 56 of 2003, sets out the roles and responsibilities of the key stakeholders within the risk management process as follows:

- Accounting Officer: Section 62(1)(c)(i) states that the Accounting Officer takes all reasonable steps to "... ensure that the municipality has and maintains effective, efficient and transparent systems of inter alia risk management and internal control."

- Management, Chief Risk Officer, Risk Specialists and Other Personnel: In terms of section 78 management responsibilities are extended to all senior managers and other officials of municipalities. This implies that responsibility for risk management vests at all levels of management and personnel and is not limited to only the Municipal Manager, the Risk Management Unit or Internal Audit Division.
- Internal Audit: Section 165 of the MFMA requires that:
 - "(2) The internal audit unit of a municipality or municipal entity must –*
 - (a) Prepare a risk based audit plan and an internal audit program for each financial year;*
 - (b) Advise the accounting officer and report to the Audit and Performance Audit Committee on the implementation on the internal audit plan and matters relating to:*
 - (iv) Risk and risk management."*
- Audit and Performance Audit Committee: Section 166 (2) of the MFMA states:
 - "(2) An Audit and Performance Audit Committee is an independent advisory body which must–*
 - (a) Advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and management staff of the municipal entity, on matters relating to -*
 - (ii) Risk management"*

4. Benefits of risk management.

Enterprise Risk Management (ERM) is a process, effected by the Accounting Officer, management and other personnel, applied in strategy setting and across the municipal environment, designed to identify potential events that may affect the municipality, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of the municipality's objectives.

The risk management process will assist the municipality achieve its objectives. The benefits include:

- More sustainable and reliable delivery of services
- Enhanced decision making underpinned by appropriate rigour and analysis
- Reduction in waste
- Prevention of fraud and corruption
- Fewer surprises and crises
- Assisting with avoiding damage to the municipality's reputation and image
- Assisting with ensuring effective reporting and compliance with laws and regulations
- Better value for money through effective use of resources
- Better outputs and outcome through improved projects and programme management

5. Proficiency and due professional care

Risk management activities must be performed with proficiency and due professional care.

The CRO and risk champions:

- Should apply the care and skills expected of reasonably prudent and competent risk management officials
- Must exercise due professional care by considering the cost of managing the risk in relation to the value of the objective, that management define and implement controls to manage risk and reducing the probability of significant errors, irregularities or non-compliance
- Must be alert to the significant risks that might affect objectives, operations or resources, but cannot guarantee that all significant risks will be identified
- Should enhance their knowledge, skills and other competencies through continuing professional development. This is an interactive process and it is expected to develop as risk management matures and becomes embedded within the municipality.

6. Risk Management Strategy

The Overberg District Municipality will formulate a Risk Management Strategy to complement this policy that will define the necessary processes and systems to be used by the Enterprise Risk Management (ERM) activity and the Risk Community (risk champions and co-ordinators).

7. Municipality's Risk Management Approach

The Overberg District Municipality's risk management approach is set out as follows:

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

8. Role-players in Risk Management Process

Executive Structure

Council is the primary accountable body within the municipality with regards to risk. Oversight in respect of all risk related issues will be performed by Council.

Accounting Structure

As per the Municipal Finance Management Act, the Accounting Officer will be the Municipal Manager.

Risk Management Committee Structure

The Risk Management Committee consists of six people including of the Municipal Manager, Directors, and the Manager: Performance and Risk Management, Manager IDP as well as a member of the Audit and Performance Audit Committee (external member) and Chief Risk Officer with a standing invite to Internal Audit.

Chief Risk Officer

The Chief Risk Officer has been appointed by the Accounting Officer in a shared service role.

Risk Champions (Management)

The principle of Risk Champions as promoted by National Treasury is to be implemented throughout the municipality. A minimum of at least one manager from each directorate will be designated as a Risk Champion.

Senior Officials (Action Owners)

Senior Officials will be all other managers, departmental managers, process owners and section managers.

Employees

All employees within the Municipality have a role to play with regards to management of risk.

Administrative Support

Administrative support with regards to risk management will be provided by the Risk Management department.

Audit and Performance Audit Committee

The Audit and Performance Audit and Performance Audit Committee will act in terms of section 166 of the Municipal Finance Management Act in an advisory capacity.

Internal Audit

The Internal Audit service will be provided by the Municipality's Internal Audit Unit in relation to auditing the risk management processes.

Auditor-General

The Auditor General is responsible to provide assurance to stakeholder.

9. Risk Assessment

9.1. Risk Analysis

- Risk Identification

All activities undertaken by the Municipality, both existing and emerging, must be assessed in order to identify any material current or emerging risks which: -

- threaten the achievement of the Municipality's objectives;
- may cause material loss or damage to the Municipality's resources;
- may have potentially disruptive influence on the Municipality's business continuity;
- May impair the Municipality's reputation among its stakeholders; or

- Identifying possible “Black Swan” Events – Very Rare and unpredictable events that may have catastrophic consequences or a devastating impact on the operations or sustainability of the Municipality (This assessment may also include “Incident” and Emerging risks).

For this purpose the Municipal Manager and departmental heads must utilise the risk identification and assessment matrix included in this policy.

- Risk Description

There are numerous definitions of risk, which are informed principally by the context in which they are applied.

The following is a commonly used definition: “A risk is any threat or event that is currently occurring, or that has a reasonable chance of occurring in the future, which could undermine the institution’s pursuit of its goals and objectives.”

Risks manifest as negative impacts on goals and objectives or as missed opportunities to enhance institutional performance. Stakeholders expect the Municipality to anticipate and manage risks in order to eliminate waste and inefficiency, reduce potential shocks and crises and to continuously improve capacity for delivering on their institutionalised mandates.

- Risk Category

As the risk environment is varied and complex it is useful to group potential events into risk categories. By aggregating events horizontally across an institution and vertically within operational units, management develops an understanding of the interrelationship between events, gaining enhanced information as a basis for risk assessment.

The main categories to group individual risk exposures are as follows:

Municipal Risk Levels	
Strategic risks	<p>Strategic objectives are high-level goals aligned with and supporting the municipality’s mission and vision. Strategic objectives reflect management’s efforts as to how the municipality will look to create value for its stakeholders.</p> <p>Strategic risks are those events, which could have a negative effect on the achievement of this municipality’s strategic objectives as noted in the IDP.</p>
Operational risks	<p>Operational objectives pertain to the effectiveness and efficiency of the municipality’s operations, including performance, revenue goals and safeguarding resources against loss. They vary based on management’s view about structure and performance.</p> <p>Operational risks are those events that may affect the achievement of the directorate’s operational objectives.</p>
Emerging risk	<p>Newly developing or changing risks which are difficult to quantify and which may have a major impact on the municipality.</p>
Project risk	<p>Risks identified during the setup of the business implementation plan of a</p>

	capital project or any other projects / plans, including those that has a substantial financial impact on the municipality
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.

Risk type	Risk Category	Description
Internal	Human resources	<p>Risks that relate to human resources of an institution. These risks can have an effect on an institution's human capital with regard to:</p> <ul style="list-style-type: none"> • Integrity & Honesty; • Recruitment; • Skills & competence; • Employee wellness; • Employee relations; • Retention; and • Occupational health & safety
	Knowledge and information management	<p>Risks relating to an institution's management of knowledge and information. In identifying the risks consider the following aspects related to knowledge management:</p> <ul style="list-style-type: none"> • Availability of information; • Stability of the information; • Integrity of information data; • Relevance of the information; • Retention; and Safeguarding
	Litigation	<p>Risks that the institution might suffer losses due to litigation and lawsuits against it. Losses from litigation can possibly emanate from:</p> <ul style="list-style-type: none"> • Claims by employees, the public, service providers and other third parties; • Failure by an institution to exercise certain right that are to its advantage
	Loss \ theft of assets	<p>Risks that an institution might suffer losses due to either theft or loss of an asset of the institution.</p>
	Material resources (procurement risk)	<p>Risks relating to an institution's material resources. Possible aspects to consider include:</p> <ul style="list-style-type: none"> • Availability of material; • Costs and means of acquiring \ procuring resources; and • The wastage of material resources
	Information Technology	<p>The risks relating specifically to the institution's IT objectives, infrastructure requirement, etc. Possible considerations could include the following when identifying applicable risks:</p>

		<ul style="list-style-type: none"> • Security concerns; • Technology availability (uptime) • Applicability of IT infrastructure; • Integration / interface of the systems; • Effectiveness of technology; and • Obsolescence of technology
Internal	Third party performance	<p>Risks related to an institution's dependence on the performance of a third party. Risk in this regard could be that there is the likelihood that a service provider might not perform according to the service level agreement entered into with an institution. Non-performance could include:</p> <ul style="list-style-type: none"> • Outright failure to perform • Not rendering the required service in time; • Not rendering the correct service; and • Inadequate / poor quality of performance.
	Health & Safety	Risks from occupational health and safety issues e.g. injury on duty; outbreak of disease within the institution.
	Disaster recovery Business continuity	<p>Risks related to an institution's preparedness or absence thereto to disasters that could impact the normal functioning of the institution e.g. natural disasters, act of terrorism etc. This would lead to the disruption of processes and service delivery and could include the possible disruption of operations at the onset of a crisis to the resumption of critical activities. Factors to consider include:</p> <ul style="list-style-type: none"> • Disaster management procedures; and • Contingency planning
	Compliance \ Regulatory	<p>Risks related to the compliance requirements that an institution has to meet. Aspects to consider in this regard are:</p> <ul style="list-style-type: none"> • Failure to monitor or enforce compliance; • Monitoring and enforcement mechanisms; • Consequences of non-compliance; and • Fines and penalties paid
	Fraud and corruption	These risks relate to illegal or improper acts by employees resulting in a loss of the institution's assets or resources.
	Financial	<p>Risks encompassing the entire scope of general financial management. Potential factors to consider include:</p> <ul style="list-style-type: none"> • Cash flow adequacy and management thereof; • Financial losses; • Wasteful expenditure; • Budget allocations; • Financial statement integrity; • Revenue collection; and • Increasing operational expenditure.
	Cultural	<p>Risks relating to an institution's overall culture and control environment. The various factors related to organisational culture include:</p> <ul style="list-style-type: none"> • Communication channels and the effectiveness; • Cultural integration; • Entrenchment of ethics and values; • Goal alignment; and

		<ul style="list-style-type: none"> • Management style.
	Interdepartmental and interrelated functions	<p>Risks arising from the interrelatedness and interdependence of the Municipality's directorates / departments on each other to seamlessly perform their functions and meet their objectives.</p> <p>Factors to consider include:</p> <ul style="list-style-type: none"> • Lack of co-operation • Shifting of responsibilities • Directorate / Departmental decisions negatively impact on another directorate / department. • Inadequate / Unclear communication between directorates • Friction between directorates / departments
	Reputation	Factors that could result in the tarnishing of an institution's reputation, public perception and image.

Risk Type	Risk category	Description
External	Economic environment	<p>Risks related to the institution's economic environment.</p> <p>Factors to consider include:</p> <ul style="list-style-type: none"> • Inflation; • Foreign exchange fluctuations; and • Interest rates
	Political environment	<p>Risks emanating from political factors and decisions that have an impact on the institution's mandate and operations.</p> <p>Possible factors to consider include:</p> <ul style="list-style-type: none"> • Political unrest; • Local, Provincial and National elections; and • Changes in office bearers.
	Social environment	<p>Risks related to the institution's social environment. Possible factors to consider include:</p> <ul style="list-style-type: none"> • Unemployment; and • Migration of workers
	Natural environment	<p>Risks relating to the institution's natural environment and its impact on normal operations. Consider factors such as:</p> <ul style="list-style-type: none"> • Depletion of natural resources; • Environmental degradation; • Spillage; and • Pollution
	Technological environment	Risks emanating from the effects of advancements and changes in technology
	Legislative environment	Risks related to the institution's legislative environment e.g. changes in legislation, conflicting legislation.

- Risk Estimation (Risk Rating Scales)

In this policy, risk assessment refers to the estimation: -

- of the probability of a risk event happening, which will indicate each event's estimated frequency; and
- Of the likely impact the occurrence of a specific risk event may have on the Municipality's operations and / or reputation.

The Municipality utilises a 10 point scale to estimate the impact of risk events, as follows:

Severity rating	Definition
<i>Catastrophic</i> 100	Critical event resulting in immediate Council intervention. Long- term cessation of core organisational activities
<i>Critical</i> 90	Major Financial, operational and/or reputational loss for the Municipality. Issues that should be addressed on Council level
<i>Major</i> 80	Critical event resulting in the intervention of executive management. Probable Long-term cessation of core business activity material at organisation level requires Audit and Performance Audit Committee involvement
<i>Significant</i> 70	Significant long-term impact on the business requires attention of Directors/Department Managers
<i>Moderate</i> 60	Reduced ability to achieve business objectives required executive management intervention. Short term/Medium term disruption of services
<i>Marginal</i> 50	Disruption of normal operations with a limited effect on achievement of the municipality's strategy and objective. Minor financial losses
<i>Immaterial</i> 40	No material impact on achievement of Municipality's strategy and objective. Irritation in rendering or receiving service.
<i>Minor</i> 30	Event will be coped with in short term through normal business processes
<i>Insignificant</i> 20	Impact of adverse event is minimal
<i>Negligible</i> 10	Impact of adverse events has little (if any) impact on business

The Municipality utilises a 10 point scale to estimate the likelihood of a risk event happening, as follows:

Likelihood factor	Qualification criteria
<i>Certain</i> 100%	The risk is almost certain to occur in the current circumstances. The risk is already occurring, or is likely to occur more than once within the next 12 months.
<i>Almost certain</i> 90%	Major financial, operational and/or reputational loss for the Municipality. Issues that should be addressed on Council level.
<i>Probable</i> 80%	Critical event resulting in intervention of executive management. Probable long-term cessation of core business activity material at organisation level requires Audit and Performance Audit Committee involvement
<i>Expected</i> 70%	The adverse event/opportunity can be expected
<i>Possible</i> 60%	It is more than likely that adverse event/opportunity can occur than not.
<i>Potential</i> 50%	There is a probability of occurrence
<i>Occasional</i> 40%	Unlikely, but can be reasonably expected to occur
<i>Remote</i> 30%	Event will be coped with in short term through normal management processes
<i>Improbable</i> 20%	Unlikely that adverse event/opportunity will occur.
<i>Rare</i> 10%	Highly unlikely that adverse event/opportunity will occur.

- Risk Profile

The completed risk identification and assessment matrix will contain the Municipality's risk profile, which will be used to -

- [a] determine the Municipality's priorities for risk treatment; and
- [b] determine appropriate risk treatment actions to be taken.

9.2. Risk Evaluation

When the risk analysis process has been completed, it is necessary to evaluate the risks on the following scale:

Inherent risk will be evaluated as follows:

	Inherent Risk Exposure	Assessment	Definition
1	0 to 39.99	Low	Mostly acceptable - Low level of control intervention required, if any
2	40 to 59.99	Medium	Unacceptable level of risk, except under unique circumstances or conditions - Moderate level of control intervention required to achieve an acceptable level of residual risk
3	60 to 100	High	Unacceptable level of risk - High level of control intervention required to achieve an acceptable level of residual risk

Residual risks will be evaluated as follows:

	Residual Risk Exposure	Assessment	Definition
1	0 to 20	Low	Mostly acceptable level of residual risk - Requires minimal control improvements.
2	20.01 to 40	Medium	Unacceptable level of residual risk - Implies that the controls are either inadequate (poor design) or ineffective (poor implementation). Controls require some redesign, or a more emphasis on proper implementation.
3	40.01 to 100	High	Unacceptable level of residual risk - Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation). Controls require substantial redesign, or a greater emphasis on proper implementation.

Inherent risk exposure matrix

	Certain 100%	Almost Certain 90%	Probable 80%	Expected 70%	Possible 60%	Potential 50%	Occasional 40%	Remote 30%	Improbable 20%	Rare 10%
Catastrophic 100%	High 100	High 90	High 80	High 70	High 60	Medium 50	Medium 40	Low 30	Low 20	Low 10
Critical 90%	High 90	High 81	High 71	High 63	Medium 54	Medium 45	Low 36	Low 27	Low 18	Low 9
Major 80%	High 80	High 71	High 64	Medium 56	Medium 48	Medium 40	Low 32	Low 24	Low 16	Low 8
Significant 70%	High 70	High 63	Medium 56	Medium 49	Medium 42	Low 35	Low 28	Low 21	Low 14	Low 7
Moderate 60%	High 60	Medium 54	Medium 48	Medium 42	Low 36	Low 30	Low 24	Low 18	Low 12	Low 6
Marginal 50%	Medium 50	Medium 45	Medium 40	Low 35	Low 30	Low 25	Low 20	Low 15	Low 10	Low 5
Immaterial 40%	Medium 40	Low 35	Low 32	Low 28	Low 24	Low 20	Low 16	Low 12	Low 8	Low 4
Minor 30%	Low 30	Low 27	Low 24	Low 21	Low 18	Low 15	Low 12	Low 9	Low 6	Low 3
Insignificant 20%	Low 20	Low 18	Low 16	Low 14	Low 12	Low 10	Low 8	Low 6	Low 4	Low 2
Negligible 10%	Low 10	Low 9	Low 8	Low 7	Low 6	Low 5	Low 4	Low 3	Low 2	Low 1

- Control Effectiveness

The Municipality uses an effectiveness scale to estimate the effectiveness of the internal controls, as follows:

Effectiveness category	Qualitative criteria
<i>Very effective</i> 0.20	Controls are pro-actively managing the risk causes and impacts, mitigating the risk as much as economically possible.
<i>effective</i> 0.40	Controls are managing the risk causes and impacts as planned and results in effective risk mitigation.
<i>Moderately effective</i> 0.65	Controls are managing the risk causes and impacts to some extent but its risk mitigation is inadequate.
<i>Ineffective</i> 0.80	Controls do not manage the risk causes or impacts adequately, resulting in ineffective risk mitigation.
<i>Inherent/moderate controls in place</i> 0.9	Common, non-designed controls that exists in the normal course of operations (e.g lock outside door at end of work day)

Residual risk exposure matrix

	<i>Inherent/moderate controls in place</i> 0.9	<i>Ineffective</i> 0.80	<i>Moderately effective</i> 0.65	<i>Effective</i> 0.40	<i>Very Effective</i> 0.20
<i>High</i>	Priority 1 90	Priority 1 80	Priority 2 65	Priority 3 40	Priority 4 20
<i>Medium</i>	Priority 2 63.9	Priority 2 56.8	Priority 3 46.15	Priority 4 28.4	Priority 5 14.2
<i>Low</i>	Priority 2 44.1	Priority 4 39.2	Priority 4 31.85	Priority 5 19.6	Priority 5 9.8

Residual Risk Exposure table

	Certain 100%	Almost Certain 90%	Probable 80%	Expected 70%	Possible 60%	Potential 50%	Occasional 40%	Remote 30%	Improbable 20%	Rare 10%
Catastrophic 100%	High 100	High 90	High 80	High 70	High 60	High 50	High 40	Medium 30	Medium 20	Low 10
Critical 90%	High 90	High 81	High 71	High 63	High 54	High 45	Medium 36	Medium 27	Medium 18	Low 9
Major 80%	High 80	High 71	High 64	High 56	High 48	High 40	Medium 32	Medium 24	Medium 16	Low 8
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Marginal 50%	High 50	High 45	High 40	Medium 35	Medium 30	Medium 25	Medium 20	Low 15	Low 10	Low 5
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Insignificant 20%	Medium 20	Medium 18	Medium 16	Low 14	Low 12	Low 10	Low 8	Low 6	Low 4	Low 2
Negligible 10%	Low 10	Low 9	Low 8	Low 7	Low 6	Low 5	Low 4	Low 3	Low 2	Low 1

- Risk Appetite and Tolerance Levels

Risk appetite is the amount of residual risk that the Institution is willing to accept. The formulation of the risk appetite is typically closely aligned to the strategic planning process and is also inclusive of budgeting, and should be reviewed by management annually, with the annual risk review.

The risk appetite has been determined at 40. This appetite finds its origin through a rigorous process of assessments, deliberations and calculations. Ultimately it has been resolved by the risk management forum and also confirmed through a district benchmark to set the appetite at 40. This figure is also the entry level of all high rated risks for residual exposure.

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

Risk appetite:

- Enables an improved consistency of decision making at all levels through improving risk understanding;
- Provides a framework for knowingly taking risk within defined boundaries;
- Improves the ability of the Risk Management Committee as well as the Audit and Performance Audit Committee to challenge recommendations of management by providing a benchmark of what level of risk is defined as acceptable; and
- Derives real value from the assessment of risk over and above compliance purposes.

9.3. Risk Treatment

Risk avoidance

Preventative maintenance and timely repair of assets, a high qualitative standard of workmanship and diligent compliance with the law are some of the strategies that could be implemented to avoid risk. However, the Municipality acknowledges that in some cases the risk event must first occur before any practicable steps can be taken to avoid the risk.

Risk acceptance/retention

It may be determined that it is more practical to retain a risk even though other methods of handling the risk are available. For example, the Municipality accepts/retains the risk of loss to stationary, petrol and diesel because of the difficulty of enumerating and evaluating all of these types of assets.

Risk mitigation/Loss prevention and reduction

When risk cannot be avoided, the effect of loss can often be minimised in terms of frequency and severity. Thus the municipality mitigates its losses.

Risk transfer

In some cases risk can be transferred to others, usually by contract. The most common method of risk transfer is to purchase of insurance since the policy actually shifts the financial risk of loss, contractually, from the Municipality to the insurance company.

9.4. Residual Risk Reporting

Different levels within Municipality need different information from the risk management process.

The Council, other political structures and the Municipality's political office-bearers should -

- know about the most significant risk facing the Municipality;
- ensure appropriate levels of awareness throughout the Municipality;
- be informed on the process of managing risks;
- know the importance of stakeholder confidence in the Municipality; and
- Be assured that the risk management process is working effectively.

The Municipal Manager, Chief Financial Officer and departmental heads should -

- be aware of risks which fall into their area of responsibility, the possible impacts these may have on other areas and the consequences other areas may have on them;
- have performance indicators which allow them to monitor the key business and financial activities, progress towards objectives and identify developments which require intervention [e.g. forecasts and budgets];
- have systems which communicate variances in budgets and forecasts at appropriate frequency to allow action to be taken; and
- Report systematically and promptly to Risk Management Committee any perceived new risks or failures of existing control measures.

Officials of the Municipality should -

- understand their accountability for individual risks;
- understand how they can enable continuous improvement of risk management response;
- understand that risk management and risk awareness are a key part of the Municipality's culture; and
- Report systematically and promptly to senior management any perceived new risks or failures of existing control measures.

10. Risk Universe

Every municipality must define its own risk universe. The risk universe is a collection of risks built on environmental analysis and external benchmarking; therefore it is recommended that the Municipality must define its own risk universe. The risk universe the Overberg District Municipality uses in its revision of its strategic risk assessment is the top 10 risks in South Africa in terms of the Institute of Risk Management South Africa.

11. Policy review

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

12. Conclusion

This policy allows for all involved to have a mutual understanding of risk management and to speak a common language. Management will be able to assess their risks and place corrective action plans in place to mitigate the risk exposure in a consistent manner.

Risk management processes and responsibilities are incorporated in the list of roles and responsibilities. However, these responsibilities are extended to all managers and employees as risk management is everybody's responsibility.

Date of last approval

APPROVED: COUNCIL MEETING HELD 5/12/2016, ITEM A25

APPROVED: COUNCIL MEETING HELD 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.