

OVERSTRAND MUNICIPALITY



RISK MANAGEMENT STRATEGY

Table of Contents

| | |
|---|----|
| 1. Introduction | 3 |
| 2. Mission of Risk Management..... | 3 |
| 3. Objectives of Risk Management | 3 |
| 4. Improvement of Risk Maturity | 4 |
| 5. Accountability, Roles and Responsibilities | 4 |
| 5.1. Municipal Council | 4 |
| 5.2. Municipal Manager | 6 |
| 5.3. Directors | 7 |
| 5.4. Management | 9 |
| 5.5. Risk Champions | 10 |
| 5.6. Chief Risk Officer..... | 11 |
| 5.7. Fraud and Risk Management Committee (FARMCO)..... | 12 |
| 5.8. Internal Audit Services..... | 15 |
| 5.9. Joint Audit & Performance Audit Committee (JAPAC)..... | 16 |
| 6. Reporting Requirements | 17 |
| 7. Monitoring | 18 |
| 8. Review | 18 |

1. INTRODUCTION

The risk management strategy outlines a high level plan on how the municipality will go about implementing risk management within the municipality. The strategy is designed to provide all role players with the necessary information to enable them to fully understand the roles and responsibilities of their office in terms of risk management processes.

Since Overstrand Municipality is a local government institution and the primary reason for its existence is the delivery of services, the approach to risks and risk management will differ from the more commonly known approaches of profit-making organisations, due to the laws and regulations regarding service delivery and risk management for local government and the different strategies of non-profit and profit entities.

The ultimate aim of the municipality's risk management is to assist the municipality create value for customers and the Overstrand community in a sustainable manner. Risk management will also be used to improve the efficiency of the municipality's support functions.

2. MISSION OF RISK MANAGEMENT

To assist the municipality in ensuring that municipal strategic objectives are achieved without compromising the stakeholders' trust and quality of our services, by implementing an effective approach to risk management and leverage its benefits to enhance performance.

3. OBJECTIVES OF RISK MANAGEMENT

- Align strategic objectives with supporting processes, risk and control;
- Coordinate specific risk management and control processes to respond to the potential threats and opportunities;
- Assist the municipality to reach a common understanding on identifying risks which poses threat to the achievement of municipal objectives and applying relevant controls;
- Provide clarity on the municipality's risk appetite – risks must be taken in the pursuit of opportunities;
- Assist to identify and prioritise potential risk events and use established risk management methods, tools and techniques to effectively respond to identified risks; and
- Incorporate risk reporting into the municipality's systems to support risk-based decision-making.

4. IMPROVEMENT OF RISK MATURITY

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Risk management should be integrated into the culture of the municipality. The key driver for a municipality's risk management maturity is the attitude that the Municipal Council its Audit Committee and senior management has towards the role of risk management within the municipality.

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.

5. ACCOUNTABILITY, ROLES AND RESPONSIBILITIES

To be effectively executed and monitored, risk management requires ethical, qualified, skilled and experienced individuals.

The risk management support function should be adequately capacitated to implement, maintain and improve the risk management systems and processes of the municipality and support staff with their risk management responsibilities.

Second and third line assurance providers should have the skills, qualifications and experience required to enable them to provide credible assurance over key risks.

Legislating the implementation of risk management in public sector institutions is part of a macro strategy of National Government towards ensuring the achievement of national goals and objectives.

5.1. MUNICIPAL COUNCIL

5.1.1. 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 Local Government: Municipal Structures Act (No. 117 of 1998)**
- **Section 52(b),(e) and 58 of the Local Government: Municipal Finance Management Act (No. 56 of 2003)**

The following framework provides recommended practice guidelines for the Municipal Council regarding risk management:

- **Chapter 10 of the Public Sector Risk Management Framework**

5.1.2. Roles and Responsibilities

As risk management is an important tool to support the achievement of the municipality's goals, it is important that the Municipal Council provides leadership to governance and risk management. To derive optimal benefits, risk management ought to be conducted in a systematic manner, using proven methodologies, tools and techniques, while taking into account the unique circumstances of the municipality.

High level responsibilities of the Municipal Council in risk management include:

- Providing oversight and direction to the Municipal Manager on the risk management related strategy and policies;
- Approve the risk management strategy and policy;
- Approve the fraud prevention strategy and policy;
- Approve the business continuity framework;
- Approve the code of ethics;
- Approve the combined assurance policy framework;
- Having knowledge of the extent to which the Municipal Manager, Directors and management have established effective risk management in their respective departments;
- Ensure the implementation of the municipality's risk appetite and tolerance levels;
- Reviewing the municipality's portfolio view of risks and consider it against the municipality's risk tolerance and risk appetite;
- Influencing how strategy and objectives are established, institutional activities are structured, and risks are identified, assessed and acted upon;
- Requiring that management should have an established set of values by which every employee should abide by;
- Ensure the implementation of the combined assurance efforts, as stipulated in the combined assurance policy framework, on the municipality's key risks;
- Insist on the achievement of objectives, effective performance management and value for money.

5.2. MUNICIPAL MANAGER

5.2.1. Legal Mandate and Frameworks

The following legislative instrument provides a legal foundation for the Municipal Manager's responsibility for risk management:

- **Section 62(1)(c)(i) of the Local Government: Municipal Finance Management Act (No. 56 of 2003) (MFMA)**

The following frameworks provide recommended practice guidelines for the Municipal Manager regarding risk management:

- **Chapter 11 of the Public Sector Risk Management Framework**
- **Recommended Practices 1.3.5; 1.3.6; 2.2.3 and 2.20.4 and Principle 4 of the King III Code of Governance Principles**

5.2.2. Roles and Responsibilities

The Municipal Manager has the legal responsibility to establish and maintain an effective, efficient and transparent system of risk management. Through the delegation of powers in accordance with Section 79 of the MFMA, the Municipal Manager ensures that the responsibility for risk management vests at all levels of management and that it is not only limited to the Municipal Manager.

High level responsibilities of the Municipal Manager include:

- Set the tone at the top by supporting ERM and allocating resources towards the implementation thereof;
- Ensure the risk management strategy, policy, implementation plan and related documents are developed;
- Establish the necessary structures and reporting lines within the municipality to support ERM;
- Influencing the improvement of risk maturity through institutionalisation of a risk management culture that will enhance the risk profile of the municipality;
- Endorsing the code of ethics for the municipality and holding management and officials accountable for adherence;
- Place the key risks at the forefront of the management agenda and devote personal attention to overseeing their effective management;
- Hold directors accountable for designing, implementing, monitoring and integrating risk management principles into their directorates;

- Holding the structures responsible for risk management activities accountable for adequate performance;
- Ensuring that a structured risk assessment process is in place to identify and rank risks according to exposure;
- Ensuring that a conducive control environment exists to ensure that identified risks are proactively managed;
- Promote good governance principles through the required functions performed by the Joint Audit & Performance Audit Committee, Internal Audit Services, Fraud and Risk Management Committee and other appropriate structures for assurance on the effectiveness of risk management;
- Provide all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored;
- Ensure proper alignment between the integrated development plan, risk management, municipal annual budget and performance management.
- Consider and act on recommendations from the Joint Audit & Performance Audit Committee, Internal Audit Services, Fraud and Risk Management Committee and other appropriate structures for improving the overall state of risk management;
- Provide appropriate leadership and guidance to directors and structures responsible for various aspects of risk management.

5.3. DIRECTORS

5.3.1. Legal Mandate and Frameworks

The following legislative instruments provide a 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 following frameworks provide recommended practice guidelines for Directors regarding risk management:

- **Chapter 15 of the Public Sector Risk Management Framework**
- **Recommended Practices 1.3.5; 2.2.3 and 2.20.4 and Principle 4 of the King III Code of Governance Principles**

Directors are accountable to the Municipal Manager for implementing and monitoring risk management systems in their directorates. This needs to be done in such a manner as to ensure that risk management becomes a valuable strategic management tool for underpinning the efficacy of service delivery and value for money.

High level responsibilities of Directors include:

- Acknowledge the “ownership” of risks within their directorates and their ultimate responsibility to oversee the managing of such risks;
- Cascade risk management into their departments’ functional responsibilities;
- Empower managers to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- Hold management accountable for their risk management responsibilities;
- Monitor the implementation of mitigating actions by management and intervene when required;
- Maintain the directorate’s risk profile within the municipality’s risk tolerance and appetite;
- Provide reports on the directorate’s risk management, consistent with the municipality’s reporting protocols (including appearing before committees);
- Align the functional and institutional risk management methodologies and processes;
- Respond to requests for changes to the risk register by management;
- Periodically review their directorate’s risk register to ensure it is up to date;
- Implement the directives of the Municipal Manager concerning risk management;
- Maintain a constructive working relationship with the Chief Risk Officer and Risk Officer and support them in matters concerning the functions of risk management within the directorates;
- Keep key directorate risks at the forefront of the management agenda and devote personal attention to overseeing the management of these risks.

5.4. MANAGEMENT

5.4.1. Legal Mandate and Frameworks

The following legislative instruments provide a legal foundation for Management's 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 following frameworks provide recommended practice guidelines for Management regarding risk management:

- **Chapter 15 of the Public Sector Risk Management Framework**
- **Recommended Practices 4.4.1; 4.4.2; 4.7.1; 4.7.2; 4.9.1 of the King III Code of Governance Principles**

5.4.2. Roles and Responsibilities

Management is accountable to their Directors for designing, implementing and monitoring risk management, and integrating it into the day-to-day activities of the municipality. This needs to be done in such a manner as to ensure that risk management becomes a valuable strategic and operational management tool for underpinning the efficacy of service delivery and value for money.

High level responsibilities of Management include:

- Acknowledge the "ownership" of risks within their departmental areas and all responsibilities associated with managing such risks;
- Cascade risk management into their functional responsibilities;
- Empower officials to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- Hold officials accountable for their specific risk management responsibilities;
- Provide reports on the departmental risk management, consistent with the municipality's reporting protocols (including appearing before committees);
- Align the functional and institutional risk management methodologies and processes;
- Implement the directives of their respective directors concerning risk management;

- Maintain a constructive working relationship with the Chief Risk Officer, Risk Officer and Risk Champion and support them in matters concerning the functions of risk management;
- Keep key functional risks at the forefront of the management agenda and devote personal attention to overseeing the management of these risks.

5.5. RISK CHAMPIONS

5.5.1. Legal Mandate and Frameworks

Certain responsibilities regarding risk management are delegated by the Municipal Manager to Risk Champions. The following legislative instruments provide a legal foundation for the Risk Champions' responsibility for risk management:

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

The following frameworks provide recommended practice guidelines for the Risk Champions regarding risk management:

- **Chapter 17 of the Public Sector Risk Management Framework**

5.5.2. Role and Responsibilities

The Risk Champion is a person with the skills, knowledge and leadership required to champion a particular aspect of risk management.

The Risk Champion acts as a change agent in the ERM process and is distinguished from risk co-ordinators as they are trouble shooters that facilitate resolution of risk related problems.

High level responsibilities of the Risk Champion include:

- Escalate and resolve instances where risk management efforts are being stifled;
- Provide guidance and support to manage "problematic" risks and risks of a transversal nature;
- Encourage the management of risks in a manner that reflects relevance, efficiency, effectiveness and progression;
- Monitor timeous updates of the risk action owners as recorded on the risk register and risk action plan.

5.6. CHIEF RISK OFFICER

5.6.1. Legal Mandate and Frameworks

The following legislative instruments provide a legal foundation for the Chief Risk Officer's responsibility for risk management:

- **Employment Contract**
- **Performance Agreement**

The following frameworks provide recommended practice guidelines for the Chief Risk Officer regarding risk management:

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

5.6.2. Roles and Responsibilities

The primary responsibility of the Chief Risk Officer is to bring to bear his/ her specialist expertise to assist the municipality to embed and leverage the benefits of risk management to achieve its stated objectives. Focusing on enterprise-wide risk management programmes, the Chief Risk Officer is tasked with the overall efficiency of the ERM function. This is inclusive of the embedding of risk management practices and fostering a risk aware culture within the municipality.

High level responsibilities of the Chief Risk Officer include:

- Communicating the risk management strategy, risk management policy and risk management implementation plan to all stakeholders in the municipality;
- Continuously driving the risk management process towards best practice;
- Developing a common risk assessment methodology that is aligned with the municipality's objectives at strategic, project and operational levels for approval by the Municipal Manager;
- Coordinating risk assessments within the municipality/ directorate/ department/ section on a regular basis;
- Sensitising management timeously of the need to perform risk assessments for all major changes, capital expenditure, projects, institutional restructuring and similar events, and assist to ensure that the attendant processes, particularly reporting, are completed efficiently and timeously;
- Assisting management in developing and implementing risk responses for each identified material risk;

- Participating in the development of the combined assurance plan for the municipality, together with Internal Audit Services and management;
- Champion combined assurance activities;
- Create and maintain the combined assurance model;
- Ensuring effective information systems exist to facilitate overall risk management improvement within the municipality;
- Continuously transferring risk management principles and practices, through training interventions, to all stakeholders within the municipality;
- Advise on the financing of risk action plans;
- Collating and consolidating the results of the various assessments within the municipality;
- Analysing the results of the assessment process to identify trends, within the risk and control profile, and assess the adequacy of the control interventions.
- Compiling the necessary reports to the Fraud and Risk Management Committee;
- 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.

5.7. FRAUD AND RISK MANAGEMENT COMMITTEE (FARMCO)

5.7.1. Legal Mandate and Frameworks

The following legislative instruments provide a legal foundation for the Fraud and Risk Management Committee's responsibility for risk management:

- **Overstrand Municipality Risk Management Committee Terms of Reference**

The following frameworks provide recommended practice guidelines for the Fraud and Risk Management Committee regarding risk management:

- **Chapter 13 of the Public Sector Risk Management Framework**
- **Principle 4.3 of the King III Code of Governance Principles**

5.8.2. Roles and Responsibilities

The Fraud and Risk Management Committee is responsible for assisting the Municipal Manager with the oversight requirements of risk management and evaluating and monitoring the municipality's performance with regards to risk management. The role of the Risk Management Committee is to formulate, promote and review the municipality's ERM objectives, strategy and policy and monitor the process at strategic, management and operational levels.

The Fraud and Risk Management Committee must also play a pivotal oversight role in ethics risk management and ethical behaviour within the municipality.

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

- Review the risk management strategy, risk management policy and risk management implementation plan, and recommend for approval by the Municipal Council;
- Review the risk appetite and risk tolerance and recommend for approval by the Municipal Council;
- Review the progress made with the implementation of the risk management strategy of the municipality;
- Review the municipality's risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register, to ensure that all possible categories of risks, both internal and external, have been identified during the risk assessment process, including an awareness of emerging risks;
- Evaluate the effectiveness of mitigating strategies to address the material risks of the municipality;
- Ensure that the municipality's strategy and business plans are not encumbered by risks that have not been thoroughly examined by management;
- Inform the Municipal Manager of any material changes to the risk profile of the municipality;
- Ensure that the roles and responsibilities of management with regard to risk management are clear and communicated;
- Review the strategic risks at least quarterly and communicate the results to the Municipal Manager and Council;
- Review the operational and project risk registers quarterly;
- Monitor the possibility of unforeseen risk events through assessment of incident risks;

- Monitor the possibility of unpredictable risk events through assessment of emerging risks;
- Advise Council and other stakeholders on urgent and emerging risk issues and required initiatives;
- Ensure that continuous risk monitoring by management takes place;
- Monitor the performance of the enterprise risk management process;
- Review the fraud prevention strategy, policy and plan and recommend for approval by the Municipal Council;
- Evaluate the effectiveness of the implementation of the fraud prevention policy;
- Review the code of ethics and recommend for approval by the Municipal Council;
- Evaluate the progress with the institutionalisation of an ethical culture;
- Evaluate the effectiveness of the incorporation of ethics risk management in the risk management process;
- Review the combined assurance policy framework and recommend for approval by Council;
- Review the combined assurance model and evaluate the effectiveness of assurance activities;
- Review the business continuity framework and recommend for approval by the Municipal Council;
- Review and approve the Business Continuity Committee Terms of Reference;
- Review the effectiveness of the Business Continuity Committee and provide recommendations for improvement;
- Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses;
- Develop goals, objectives and key performance indicators for the Risk Management Committee for approval by the Municipal Manager;
- Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management function for approval by the Municipal Manager;
- Set out the nature, role, responsibility and authority of the risk management function within the municipality for approval by the Municipal Manager, and oversee the performance of the risk management function;

- Provide proper and timely information to the Municipal Manager on the state of risk management, together with aspects requiring improvement accompanied by the Fraud and Risk Management Committee's recommendations to address such aspects;
- Promote the improvement of risk maturity through institutionalisation of a risk management culture that will enhance the risk profile of the municipality.

5.8. INTERNAL AUDIT SERVICES

5.8.1. Legal Mandate and Frameworks

The following legislative instruments provide a legal foundation for Internal Audit Services' responsibility for risk management:

- **Section 165(2)(a) and (b)(iv) of the Local Government: Municipal Finance Management Act (No. 56 of 2003)**

The following frameworks provide recommended practice guidelines for Internal Audit Services regarding risk management:

- **Chapter 18 of the Public Sector Risk Management Framework**
- **Recommended Practices 4.9.2; 7.1.2.2 and 7.1.2.4 and Principles 4.9; 7.2 and 7.3 of the King III Code of Governance Principles**
- **International Standards for the Professional Practice of Internal Auditing – Performance Standard 2120.**

5.8.2. Roles and Responsibilities

Internal Audit Services acts as an assurance provider and consultant for the municipality regarding risk management.

High level responsibilities of Internal Audit Services include:

- Reviewing the risk philosophy 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;
- Reviewing the appropriateness of the risk tolerance levels set by the municipality, taking into consideration the risk profile of the municipality;
- Providing assurance over the design and functioning of the control environment, information and communication systems and the monitoring systems;

- Providing assurance over the municipality's risk identification and assessment processes;
- Utilising the results of the risk assessment to develop long term and current year internal audit plans;
- Providing independent assurance as to whether the risk management strategy, risk management implementation plan and fraud prevention plan have been effectively implemented within the municipality;
- Providing independent assurance over the adequacy of the control environment. This includes providing assurance over the effectiveness of the internal controls implemented to mitigate the identified risks;
- Reporting on the adequacy of the assurance received over key risks by combined assurance activities.

5.9. JOINT AUDIT & PERFORMANCE AUDIT COMMITTEE

5.9.1. Legal Mandate and Frameworks

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

- **Section 166(2)(a)(ii) of the Local Government: Municipal Finance Management Act (No. 56 of 2003)**

The following frameworks provide recommended practice guidelines for the Joint Audit & Performance Audit Committee regarding risk management:

- **Chapter 12 of the Public Sector Risk Management Framework**
- **Recommended Practice 3.5.1 and Principle 3.8 of the King III Code of Governance Principles**

5.9.2. Roles and Responsibilities

The Joint Audit & Performance Audit Committee is responsible for providing the Municipal Manager with independent counsel, advice and direction in respect of risk management. The stakeholders rely on the Joint Audit & Performance Audit Committee for an independent and objective view of the municipality's risks and effectiveness of the risk management processes. In this way, the Joint Audit & Performance Audit Committee provides valuable assurance that stakeholder interests are protected.

High level responsibilities of the Joint Audit & Performance Audit Committee include:

- Monitor the application of the risk appetite and risk tolerance of the municipality;
- Through feedback from Internal Audit Services, review the completeness of the risk assessment process implemented by the Risk Management Unit to ensure that all possible categories of risks, both internal and external, have been identified during the risk assessment process, including an awareness of emerging risks;
- Review the adequacy of risk action plans and subsequent responses thereof;
- Monitor the coordination and effectiveness of combined assurance activities and provide recommendations for improvement;
- Monitor the progress with the institutionalisation of an ethical culture;
- Review and recommend any risk related disclosures in the annual report;
- Provide regular feedback to the Municipal Manager on the effectiveness of the risk management process implemented by the municipality;
- Review the process implemented in respect of the fraud prevention policy and ensure that all fraud related incidents have been followed up appropriately;
- Review and ensure that the internal audit plans are aligned to the current risk register of the municipality;
- Review the effectiveness of the internal audit assurance activities and recommend appropriate action to address any shortcomings;

6. REPORTING REQUIREMENTS

The reporting requirements in the risk management process are defined in the responsibilities of each role player.

The information regarding risk management should ideally reach the Directors, Municipal Manager, Fraud and Risk Management Committee, Joint Audit & Performance Audit Committee and Municipal Council. A communication strategy to ensure risk management information is shared between all the other role players should be established and monitored for effectiveness.

7. 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.

8. REVIEW

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

| Policy Section | Risk Management Unit |
|---------------------|----------------------|
| Current update | 27 May 2020 |
| Previous reviews | 27 June 2018 |
| | 31 May 2017 |
| | 29 March 2017 |
| | 30 March 2016 |
| Approval by Council | 25 November 2009 |