OVERSTRAND MUNICIPALITY

RISK MANAGEMENT POLICY

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POLICY COMPILED BY:			**DC VAN DER HEEVER**		
POLICY OWNER:			**OVERSTRAND INTERNAL AUDIT SERVICES**		
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		√	May 2013	All	Alignment of Risk Management Policy to the MFMA, Public Sector Risk Management Framework issued by National Treasury and the principles set out in King III Report on Governance.

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RISK MANAGEMENT PHILOSOPHY

The Overstrand Municipality is committed to the optimal management of risk in order to achieve our vision, deliver on our core business and key objectives.

In the course of conducting our day-to-day business operations, we are exposed to a variety of risks. These risks include operational and other risks that are material and require comprehensive controls and on-going oversight.

In order to ensure business success we have adopted an enterprise-wide integrated approach to the management of risks. By embedding the risk management process throughout the Overstrand Municipality and into key business processes such as planning, operations and new projects, we will be better equipped to identify events affecting our objectives and to manage risks.

To further implement the enterprise-wide approach, we have taken a number of steps to reinforce a culture of disciplined risk-taking.

Council is responsible for oversight of the Risk Management process whilst the Accounting Officer has the original obligation in terms of section 62(1)(c)(i) of the Local Government: Municipal Finance Management Act, No. 56 of 2003, to develop and maintain effective, efficient and transparent risk management systems. A Risk Management Committee has been established consisting of the Municipal Manager and all the directors. During the Top Management Team meeting, where inter alia risk management is considered, management will provide updates on risk-related matters. All the directorates work together at managing risk exposures. It is the intention that these directorates will work in a consistent and integrated manner, with the overall objective of reducing risk and optimising opportunities, as far as reasonably possible and practical.

The Council and I, as the Accounting Officer, are responsible for ensuring that a comprehensive risk management framework is established consisting of policies, procedures, methodologies and processes. To enhance corporate governance within Overstrand Municipality and to ensure that appropriate focus is placed on this important task, I will ensure that the framework is implemented and that the Executive Mayor receives appropriate reporting on the municipality's risk profile and risk management process. Management will execute their responsibilities outlined in the Risk Management Strategy. All other officials are responsible for incorporating risk management into their day-to-day activities.

Council and the Accounting Officer of Overstrand Municipality are responsible for enhancing corporate governance within the municipality and to ensure that appropriate focus is placed on risk management.

_____   _____

Coenie Groenewald   **Date**

Municipal Manager

1. OVERVIEW

1.1. Introduction

The Accounting Officer has committed Overstrand Municipality to implementing and maintaining an effective, efficient and transparent system of risk management. The process of risk management is aligned to the principles as set out in the King III Report on Governance for South Africa and as supported by the Municipal Finance Management Act (MFMA), Act no 56 of 2003 and the Public Sector Risk Management Framework issued by National Treasury.

1.2. Purpose

Through this policy Overstrand 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 a Risk Management Strategy which must be designed to help achieve the objective of implementing an effective Enterprise Risk Management (ERM) process.

1.3. Scope

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

1.4. Background

1.4.1. Legislative Mandate

Section 62(1)(c)(i) of the MFMA provides that the accounting officer of a municipality 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.

1.4.2. Objectives of Risk Management

The objectives of risk management are to assist Management in making more informed decisions which:

- provide a level of assurance that current significant risks are effectively managed;
- improve operational performance by assisting and improving decision making and planning;
- promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities, to benefit the municipality is encouraged; and
- provide a sound basis for integrated risk management and internal control as components of good corporate governance.

1.4.3   Benefits of Risk Management

The risk management process can make major contributions towards helping the municipality achieve its objectives. The benefits include:

- more sustainable and reliable delivery of services;
- enhance decision making underpinned by appropriate rigour and analysis;
- reduced waste;
- prevention of fraud and corruption;
- fewer surprises and crises;
- help avoid damage to the municipality's reputation and image;
- helps ensure effective reporting and compliance with laws and regulations;
- better value for money through more efficient use of resources; and
- better outputs and outcomes through improved project and programme management.

1.4.4   Risk, Risk Management and Enterprise Risk Management

Risk is an uncertain future event that could influence the achievement of the municipality's strategic and business objectives.

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

Enterprise Risk Management is a process, effected by the Accounting Officer, Management and other personnel, applied in strategy setting and across the enterprise, 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.

2. ROLES AND RESPONSIBILITIES

Every person within Overstrand Municipality has a role to play in the risk management process. The primary responsibility for identifying and managing risks lies with Management.

2.1. Risk Management Oversight

2.1.1. Executive Authority (Council)

Council takes 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 Overstrand Municipality against significant risks.

2.1.2. Audit Committee (AC)

The Audit Committee (AC) is an independent committee responsible for oversight of the municipality's control, governance and risk management. The responsibilities of the AC with regard to risk management are formally defined in its charter. The AC's primary responsibility is providing an independent and objective view of the effectiveness of the municipality's risk management process.

2.1.3. Risk Management Committee (RMC)

The RMC is appointed by the Accounting Officer to assist him in the discharge of his risk management responsibilities. The committee consists of the Top Management Team (Directors) and its role is to review the risk management progress and maturity of the municipality, the effectiveness of risk management activities, the key risks facing the municipality and the responses to address these key risks.

2.2. Risk Management Implementers

2.2.1. Accounting Officer

The Accounting Officer is ultimately responsible for risk management within the municipality. By setting the tone at the top, the Accounting Officer promotes accountability, integrity and other factors that will create a positive control environment.

2.2.2. Management

The Senior Management Team (Senior Managers and Managers) supports the municipality's risk management philosophy and manage risks within their areas of responsibility.

2.2.3. Other Officials

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

2.3.   Risk Management Support

2.3.1. Risk Champion

The Manager: Risk Management must possess skills, knowledge and leadership qualities required to champion a particular aspect of risk management. The Risk Champion's primary responsibility is to advise on, formulate, oversee and manage all aspects of the municipality's risk management system. The Risk Champion monitors the municipality's entire risk profile, ensuring that major risks are identified and reported upwards.

2.4.   Risk Management Assurance Providers

2.4.1. Internal Audit

The core role of Internal Audit in risk management is to provide an independent, objective assurance to the Accounting Officer, Council and the Audit Committee on the effectiveness of risk management. Internal Audit also assists in bringing about a systematic, disciplined approach to evaluate and improve the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.

2.4.2. External Audit

The Auditor-General will, during their audits, highlight weaknesses and deficiencies with regards to controls and providing independent assurance on the effectiveness of the risk management activities of Overstrand Municipality.

3. RISK MANAGEMENT PROCESS

The risk management process consists of eight (8) components.

Figure 1: Risk Management Process

3.1. Internal Environment

The internal environment encompasses the tone of Overstrand Municipality, influencing the risk consciousness of its people. It is the foundation for all other components of risk management, providing discipline and structure.

3.2. Objective Setting

Objectives are set at the strategic level, establishing a basis for operations, reporting, and compliance objectives.

3.3. Event Identification

Event identification is the process of identifying potential events affecting Overstrand Municipality's ability to successfully implement strategy and achieve objectives.

3.4. Risk Assessment

Risk assessments allow the Municipality to consider the extent to which potential events might have an impact on the achievement of objectives. Management should assess events from two perspectives impact and likelihood and normally uses the quantitative method i.e. risk rating scales for both the inherent and residual basis.

3.5 Risk Response

Having assessed relevant risks, management determines how it will respond. Responses include risk avoidance, reduction, sharing and acceptance.

3.6 Control Activities

Control activities are the policies and procedures that help ensure that management's risk responses are carried out. Control activities occur throughout the municipality, at all levels and in all functions. They include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

3.7 Information and Communication

Pertinent information is identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also occurs, flowing down, across and up in the municipality. All personnel receive a clear message from top management that risk management responsibilities must be taken seriously. They understand their own role in risk management, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There is also effective communication with external parties.

3.8 Monitoring

Monitoring risk management is a process that assesses the presence and functioning of its components over time. This is accomplished through on-going monitoring activities, separate evaluations or a combination of the two. On-going 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 on-going monitoring procedures.

4 POLICY REVIEW

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

5.   GLOSSARY OF TERMS

Event - An incident or occurrence from internal or external sources that affects the achievement of Overstrand Municipality's objectives.

Impact - A result or effect of and event. The impact of an event can be positive or negative. A negative event is termed a "risk".

Inherent - The risks to Overstrand Municipality in the absence of any actions management might take to alter either the risk's impact or likelihood. In other words the impact that the risk will have on the achievement of objectives if the current controls that are in place are not considered.

Likelihood / **Probability** - The probability of the event occurring.

Operations - used with "objectives", having to do with the effectiveness and efficiency of the municipality's activities, including performance and safeguarding resources against loss.

Priority / **Key Risks** - Risks that are rated high on an inherent level. Risks that need to be acted upon. Risks that possess a serious threat to the municipality.

Project Risks - Risks that are identified for all major projects, covering the whole lifecycle and for long-term projects.

Residual - The remaining exposure after the controls/treatments has been taken into consideration. (The remaining risk after management has put in place measures to control the inherent risk).

Risk Appetite - The term "risk appetite" can be defined as the acceptable level or amount of risk that the municipality is willing to accept, before action is needed to reduce it.

Risk Owner - The person responsible for managing a particular risk.

Risk Profile / **Register** - Also known as the risk register. The risk profile will outline the number of risks, type of risk and potential effects of the risk. This outline will allow the municipality to anticipate additional costs or disruptions to operations. Also describes the willingness of a company to take risks and how those risks will affect the operational strategy of the municipality.

Risk Response - Management develop strategies to reduce or eliminate the threats and events that create risks.

Stakeholders - Parties that are affected by the municipality, such as the communities in which the municipality operates, employees, suppliers etc.

Strategic – used with "objectives", it has to do with high-level goals that are aligned with and support the municipality's mission or vision.

Mitigation / **Treatment** - After comparing the risk score (severity rating = impact X likelihood) with the risk tolerance, risks with unacceptable levels of risk will require treatment plans (additional action to be taken by management)

Recommended for approval by Council:

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Accounting Officer: **Date**

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Signed on behalf of the   **Date**
Overstrand Municipal Council:

Executive Mayor

Policy Section	Internal Audit Services
Current update	26 June 2013
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