

# West Coast District Municipality

## Risk Management Policy



## TABLE OF CONTENTS

		<u>Page No.</u>
	<b>RISK MANAGEMENT POLICY</b>	5
<b>1.</b>	<b>OVERVIEW</b>	6
1.1.	Policy Objective	6
1.2.	Policy Statement	6
1.3.	Risk Management Approach	6
1.4.	Policy Scope	6
1.5.	Background	7
1.5.1.	Regulatory Context	7
1.5.2.	Objectives of Enterprise Risk Management	7
1.5.3.	Benefits of Enterprise Risk Management	7
1.6.	Key Concepts	8
1.6.1.	Risk	8
1.6.2.	Risk Management	8
1.6.3.	Enterprise-wide Risk Management (ERM)	8
<b>2.</b>	<b>ROLES AND RESPONSIBILITIES</b>	8
2.1.	Risk Management Oversight	8
2.1.1.	Council	8
2.1.2.	Audit and Audit Performance Committee (AAPC)	9
2.1.3.	Fraud and Risk Committee (FRC)	10
2.2.	Risk Management Implementers	11
2.2.1.	Municipal Manager (MM)	11
2.2.2.	Management	12

		<b><u>PAGE NO.</u></b>
2.2.3.	Other Officials	13
2.3	Risk Management Support	13
2.3.1.	Chief Risk Officer (CRO)	13
2.3.2.	Risk Champions	14
2.4.	Risk Management Assurance Providers	15
2.4.1.	Internal Audit	15
2.4.2.	External Audit	15
<b>3.</b>	<b>ENTERPRISE RISK MANAGEMENT PROCESS</b>	16
3.1.	Internal Environment	16
3.2.	Objective Setting	16
3.3.	Event Identification	17
3.4.	Risk Assessment	19
3.5.	Risk Appetite and Tolerance	21
3.6.	Risk Response	22
3.7.	Control Activities	22
3.8.	Information and Communication	23
3.9.	Monitoring	23
4.	Training and Awareness	24
5.	Fraud Prevention Policy and Plan	24
6.	Policy Review	24
7.	Glossary of Terms	24
8.	Approval	25

## ACRONYMS

AAPC	Audit and Audit Performance Committee
CAE	Chief Audit Executive
CRO	Chief Risk Officer
ERM	Enterprise-wide Risk Management
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act
MM	Municipal Manager
FRC	Fraud and Risk Committee
SDBIP	Service Delivery and Budget Improvement Plan
AG	Auditor General

## **RISK MANAGEMENT POLICY**

West Coast District Municipality is committed to the optimal management of risk in order to protect our core public service values, achieve our vision, objectives and deliver on our core business.

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.

To ensure business success we have adopted an enterprise-wide integrated approach to the management of risks. By embedding the risk management process 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 in ways that are consistent with the approved risk appetite.

To further implement this approach, all roles players involved in the risk management process were identified and their responsibilities clearly documented to enforce a culture of disciplined risk-taking.

Council is responsible for the overall governance of risk within the municipality. Council has however delegated this responsibility to the Municipal Manager (MM) and the Fraud and Risk Committee (the FRC). The MM, who is ultimately responsible for the municipality's risks, has delegated this role to the Chief Risk Officer (CRO) (Outsourced Risk Service Provider) and Management. The CRO will ensure that the framework is implemented and that the MM, the FRC, the Audit Committee and the Council receive appropriate reporting on the municipality's risk profile and risk management process. Management will execute their responsibilities outlined in this policy. All other officials are responsible for incorporating risk management into their day-to-day operations.

As the MM of the municipality, Council and I are responsible for enhancing corporate governance. Entrenching Enterprise-wide Risk Management (ERM) into the municipality is only but one component of governance, but together we will ensure that appropriate focus is placed on important tasks and key risks.

### **SIGNATURE OF MUNICIPAL MANAGER:**

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**D. Joubert**

**DATE:**

## **1. OVERVIEW**

### **1.1. Policy Objective**

The objective of this policy is to communicate the municipality's risk management policy in the context of how risk management is expected to support the municipality in achieving its objectives.

### **1.2. Policy Statement**

Through this policy, the Municipality puts into practice its commitment to implement and maintain an effective, efficient and transparent system of risk management. This policy forms the basis for the accompanying Risk Management Strategy and Implementation Plan which is designed to help achieve the objective of implementing an effective Enterprise Risk Management process and embedding a culture of risk management within the municipality.

### **1.3 Risk Management Approach**

Risk Management will be infused into our culture, our everyday business operations and those of our contractors and business partners. Everyone's involvement and support is critical to achieve an effective result.

In pursuance of its risk management objectives, the municipality undertakes to:

- Openly disclose, both internally and externally, the risk management process to ensure that stakeholders view the municipality as a transparent organisation and that awareness and understanding of the risk management framework is established at the appropriate levels of the municipality; and
- Constantly identify, manage, monitor and report on risk and hold management accountable for the effective management of those risks.

To ensure that the risk management processes are effective, the municipality will:

- Execute the process under the governance of a risk management strategy, the key components of which are documented in the risk management strategy document;
- Identify risks through an objective driven process, which assesses the impact that risks would have on the achievement of the objectives of the municipality; and
- Have a clearly defined responsibility structure.

This Risk Management Policy is guided by principles set by the Council, reviewed by the FRC and approved by the Council. The Council is ultimately responsible for the monitoring of the implementation of the Risk Management Policy.

Ownership of risks and treatment actions will be assigned to relevant roles within the municipality. Risk management accountability will be incorporated into the executive, management and supervisory roles that are required to report on risks and risk treatment actions.

### **1.4 Policy Scope**

This is an enterprise-wide policy. It applies throughout West Coast District Municipality in as far as risk management is concerned as all personnel within the municipality have a role to play in the identification and management of risk.

## **1.5. Background**

### **1.5.1. Regulatory Context**

The policy is informed by the following pieces of legislation (as applicable):

- The Constitution of the Republic of South Africa;
- Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000); and
- Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).

This policy is also informed by the principles set out in:

- the National Treasury Public Sector Risk Management Framework, published 01 April 2010; and
- King IV Report on Corporate Governance for South Africa 2016 in so far as it concerns risk management.

### **1.5.2. Objectives of Enterprise Risk Management**

The objective of risk management is 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.

### **1.5.3. Benefits of Enterprise 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;
- innovation;
- reduced waste;
- prevention of fraud and corruption;
- fewer surprises and crises by placing management in a position to effectively deal with potential new and emerging risks that may create uncertainty;
- 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 effective, efficient and economical use of scarce resources; and
- better outputs and outcomes through improved project and programme management.

## 1.6. Key Concepts

- 1.6.1. **Risk** is an uncertain future event (threat or opportunity) that could influence the achievement of the municipality's strategic goals and business objectives.
- 1.6.2. **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.
- 1.6.3. **Enterprise Risk Management (ERM)** is the application of risk management throughout the municipality rather than only in selected business areas or disciplines and needs to be managed in a comprehensive and integrated way. ERM recognises that risks (including opportunities) are dynamic, often highly interdependent and ought not to be considered and managed in isolation.

## 2. ROLES AND RESPONSIBILITIES

The roles and responsibilities of the role players in the risk management process are as follows:

### 2.1. Risk Management Oversight

#### 2.1.1. Council

Council is responsible for the governance of risk. 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 the West Coast District Municipality against significant risks.

Council must report to the community, on the municipality's system of internal control. This provides comfort that the municipality is protected against significant risks to ensure the achievement of objectives as detailed in the Service Delivery and Budget Improvement Plan (SDBIP).

Council **must** perform the following tasks, to fulfil its mandate with regard to ERM:

Ref.	Activity	Frequency
01	Approve the Fraud and Risk Management Policy, Strategy and Implementation Plan as well as the FRC Terms of Reference.	Annually
02	Ensure that the municipality's strategies are aligned to the government mandate and obtain assurance from management that the municipality's strategic choices were based on a rigorous assessment of risk	Annually
03	Obtain assurance that key risks inherent in the municipality's strategies were identified and assessed, and are being properly managed	Quarterly
04	Assist the MM to deal with fiscal, intergovernmental, political and other risks beyond their direct control and influence	Ongoing

Ref.	Activity	Frequency
05	Insist on the achievement of objectives, effective performance management and value for money	Ongoing
06	Approve the municipality's risk appetite and risk tolerance with guidance from the CRO and the FRC	Annually
07	Approve the municipality's Fraud Prevention Policy, Strategy and Implementation Plan	Annually
08	Ensure that IT, Fraud and Occupational Health and Safety (OHS) risks are considered as part of the municipality's risk management activities	Annually
09	Ensure that risk assessments (strategic and operational) are performed by reviewing the FRC reports	Quarterly
10	Disclose how they have satisfied themselves that risk assessments, responses and interventions are effective and to disclose undue, unexpected or unusual risks and any material losses incurred (the annual report to include a risk disclosure)	Quarterly
11	Ensure that management implements, monitors and evaluates performance through the FRC reports	Annually

### 2.1.2. Audit and Audit Performance Committee (AAPC)

The AAPC is an independent committee, responsible to oversee the municipality's controls, governance and risk management.

The AAPC's primary responsibility is providing an independent and objective view of the effectiveness of the municipality's risk management processes to Council and to provide recommendations to the MM for continuous improvement and management of risks. The responsibilities of the AAPC with regard to risk management are formally defined in its charter.

The AAPC **must** perform the following tasks, to fulfil its mandate with regard to ERM:

Ref.	Activity	Frequency
12	Ensure that combined assurance is given to address all the significant risks facing the municipality.	Annually
13	Advise Council on risk management as defined in its charter.	Bi annually
14	Review the internal and external audit plans and ensure that these plans address the risk areas of the municipality.	Annually
15	Review and recommend disclosures on matters of risk and risk management in the Annual Financial Statements (AFS).	Annually
16	Review and recommend disclosures on matters of risk and risk management in the annual report.	Annually
17	Evaluate the effectiveness of Internal Audit in its responsibilities for risk management.	Annually

Ref.	Activity	Frequency
18	Provide regular feedback to the MM on the adequacy and effectiveness of risk management in the municipality, including recommendations for improvement	Quarterly
19	Ensure that all risks including, IT, fraud, financial reporting, internal financial controls and OHS risks have been appropriately addressed.	Quarterly
20	Provide an independent and objective view of the municipality's risk management effectiveness.	Annually

### 2.1.3. Fraud and Risk Committee (FRC)

The FRC is appointed by the MM to assist in discharging his responsibilities for risk management. The committee's 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. The responsibilities of the FRC are formally defined in its charter which is approved by Council.

The FRC **must** perform the following tasks, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
21	Review and recommend the approval of the Risk Management Policy by Council.	Annually
22	Review and recommend the approval of the Risk Management Strategy and Implementation Plan by Council.	Annually
23	Review and recommend the approval of the municipality's risk appetite and risk tolerance by Council.	Annually
24	Review and recommend approval of the municipality's risk identification and assessment methodologies by Council.	Annually
25	Provide guidance to the relevant risk management stakeholders on how to manage risks to an acceptable level.	Quarterly
26	Share risk information with the AAPC.	Quarterly
27	Evaluate the extent and effectiveness of integration of ERM within the municipality.	Quarterly
28	Assess implementation of the Risk Management Policy, Strategy and Implementation Plan.	Quarterly
29	Evaluate effectiveness of the mitigating strategies implemented to address the material risks of the municipality.	Quarterly
30	Review material findings and recommendations by assurance providers on the system of risk management and monitor implementation of such recommendations.	Quarterly
31	Develop KPIs for the FRC.	Annually
32	Measure and understand the municipality's overall exposure to fraud and corruption and ensure that proper processes are in place to prevent these risks from materialising.	Quarterly

Ref.	Activity	Frequency
33	Measure and understand the municipality's overall exposure to IT risks and ensure that proper processes are in place to prevent these risks from materialising.	Quarterly
34	Measure and understand the municipality's overall exposure to Occupational Health & Safety (OH&S) and ensure that proper processes are in place to prevent these risks from materialising.	Quarterly

## 2.2. Risk Management Implementers

### 2.2.1. Municipal Manager

The MM is ultimately responsible for risk management within the municipality. This includes ensuring that the responsibility for risk management vests at all levels of management. The MM sets the tone at the top by promoting accountability, integrity and other factors that will create a positive control environment.

The MM **must** perform the following tasks, to fulfil its mandate with regard to ERM:

Ref.	Activity	Frequency
35	Set an appropriate tone by supporting and being seen to be supporting the municipality's aspirations for effective management of risks	Ongoing
36	Delegate responsibilities for risk management to management and internal formations and hold them accountable for performance in terms of their responsibilities for risk management	As the need arises
37	Hold management accountable for designing, implementing, monitoring and integrating risk management into their day-to-day activities	Ongoing
38	Leveraging the AAPC, Internal Audit and FRC for assurance on the effectiveness of risk management.	Quarterly
39	Understand and determine the risk appetite with guidance from the CRO and the FRC.	Annually
40	Ensure that frameworks and methodologies are developed and implemented.	Annually
41	Appoint adequate staff capacity to drive the ERM activity.	As the need arises
42	Appoint a FRC with the necessary skills, competencies and attributes.	As the need arises
43	Ensure that the control environment supports the effective functioning of ERM.	Quarterly
44	Devote personal attention to overseeing management of significant risks.	Quarterly
45	Ensure appropriate action in respect of recommendations of the AAPC, Internal Audit, External Audit and FRC to improve ERM.	Quarterly

Ref.	Activity	Frequency
46	Evaluate the value add of risk management by considering results of effectiveness assessments.	Annually
47	Provide assurance to relevant stakeholders that key risks are properly identified, assessed and mitigated.	Quarterly
48	Provide leadership and guidance to enable management and internal structures responsible for various aspects of risk management to properly perform their functions.	Ongoing

### 2.2.2. Management

All other levels of management, support the municipality's risk management policy, promote compliance with the risk appetite and manage risks within their areas of responsibility.

Management takes ownership for managing the municipality's risks within their areas of responsibility and is accountable to the MM for designing, implementing, monitoring and integrating ERM into their day-to-day activities of the municipality. This should be done in a manner that ensures that risk management becomes a valuable strategic management tool.

Management **must** perform the following tasks, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
49	Execute their responsibilities as set out in the approved Risk Management Strategy.	Daily
50	Aligning the functional risk management methodologies and processes with the institutional process	Ongoing
51	Providing risk management reports and presenting to the FRC and AAPC as requested	As the need arises
52	Report to the FRC regarding the performance of internal controls for those risks in the operational risk registers.	Quarterly
53	Devote personal attention to overseeing the management of key risks within their area of responsibility.	Ongoing
54	Empower officials to perform effectively in their risk management responsibilities.	Ongoing
55	Maintain a co-operative relationship with the CRO and Risk Champions.	Ongoing
56	Maintain the proper functioning of the control environment within their area of responsibility.	Ongoing
57	Hold officials accountable for their specific risk management responsibilities.	Ongoing
58	Continuously monitor the implementation of risk management within their area of responsibility.	Ongoing

### 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 and compliance to procedures.

Other officials **must** perform the following tasks, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
59	Take the time to read and understand the content in the Risk Management Policy, but more importantly understanding their roles and responsibilities in the risk management process.	Ongoing
60	Implementing the delegated action plans to address the identified risks.	Monthly
61	Apply the risk management process in their respective functions.	Ongoing
62	Inform their supervisors and/or the risk management unit (CRO) of new risks and significant changes.	As the need arises
63	Co-operate with other roles players in the risk management process.	Ongoing
64	Provide information to role players in the risk management process as required.	As the need arises

### 2.3. Risk Management Support

#### 2.3.1. Chief Risk Officer (Outsourced Risk Service Provider)

The CRO is the custodian of the Risk Management Strategy and Implementation Plan and the coordinator of ERM activities throughout West Coast District Municipality. The primary responsibility of the CRO is to use specialist expertise to assist the municipality to embed ERM and leverage its benefits to enhance performance. The CRO plays a vital communication link between senior management, operational level management, the FRC and other relevant committees.

The CRO **must** perform the following task, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
65	Assist the MM and senior management develop the municipality's vision for risk management.	Annually
66	Develop, in consultation with management, the municipality's risk management framework incorporating, inter alia, the: methodologies: (i) Risk management policy; (ii) Risk management strategy; (iii) Risk management implementation plan; (iv) Risk identification and assessment methodology; (v) Risk appetite and tolerance; and (vi) Risk classification.	Annually
67	Communicate the municipality's risk management framework to all stakeholders	Annually

Ref.	Activity	Frequency
68	Monitoring the implementation of the municipality's risk management framework.	Ongoing
69	Facilitate orientation and training for the FRC.	As the need arises
70	Train all stakeholders in their ERM responsibilities.	As the need arises
71	Continuously drive ERM to higher levels of maturity.	Ongoing
72	Assist Management with risk identification, assessment and development of response strategies.	Quarterly
73	Prepare ERM registers, reports and dashboards for submission to the FRC and other roles players.	Quarterly
74	Monitor the implementation of response strategies.	Ongoing
75	Collating, aggregating, interpreting and analysing the results of risk assessments to extract risk intelligence and report accordingly to the FRC	Quarterly
76	Ensure that all IT, fraud and OHS risks are considered as part of the municipality's ERM activities.	Ongoing
77	Avail the approved risk registers to Internal Audit on request.	As the need arises
78	Consolidate risks identified by the various Risk Champions.	Quarterly
79	Participate with Internal Audit, Management and the AG in developing the combined assurance plan.	Annually

### 2.3.2. Risk Champions

A Risk Champion would preferably hold a senior position within the municipality and possess the skills, knowledge and leadership qualities required to champion a particular aspect of risk management.

The Risk Champion assists the CRO facilitate the risk assessment process and manage risks within their area of responsibility to be within the risk appetite. Their primary responsibilities are advising on, formulating, overseeing and managing all aspects of a municipality's entire risk profile, ensuring that major risks are identified and reported upwards as well as intervening in instances where the risk management efforts are being hampered.

Risk Champions **must** perform the following tasks, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
80	Provide guidance and support to manage “problematic” risks and risks of a transversal nature that require a multiple participant approach.	Ongoing
81	Assist the Risk Owner to resolve risk related problems.	Ongoing
82	Facilitate operational risk register updates for their area of responsibility with the assistance of the CRO.	Quarterly
83	Co-ordinate the implementation of action plans for risks and report on any developments regarding the risk.	Quarterly
84	Populate the risk registers/dashboard.	Ongoing
85	Ensure that all risk information is updated regularly and submitted to the CRO.	Ongoing

## 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 on the effectiveness of the municipality’s system of risk management to Council and the AAPC. 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.

Internal Audit **must** perform the following tasks, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
86	Evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement.	Annually
87	Provide assurance on the ERM process design and its effectiveness.	Annually
88	Provide assurance on the management of “key risks” including, the effectiveness of the controls and other responses to the “key risks.	Annually
89	Provide assurance on the assessment and reporting of risk and controls.	Annually
90	Prepare a rolling three (3) year Internal Audit plan based on its assessment of key areas of risk. With the most pertinent risk items to be included in the one (1) year plan	Annually

### 2.4.2. External Audit

External Audit (Auditor-General) provides an independent opinion on the effectiveness of ERM.

External Audit **must** perform the following tasks, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
91	Determine whether the risk management policy, strategy and implementation plan are in place and appropriate.	Annually
92	Assess the implementation of the risk management policy, strategy and implementation plan.	Annually
93	Review the risk identification process to determine if it is sufficiently robust to facilitate the timely, correct and complete identification of significant risks, including new and emerging risks.	Annually
94	Review the risk assessment process to determine if it is sufficiently robust to facilitate timely and accurate risk rating and prioritisation.	Annually
95	Determine whether management action plans to mitigate the key risks are appropriate and are being effectively implemented.	Annually

### 3. ENTERPRISE RISK MANAGEMENT PROCESS

To fulfil its philosophy and implement an enterprise-wide integrated approach, West Coast District Municipality will ensure that the eight (8) components of the ERM process are implemented and operating effectively, efficiently and economically (*Refer to figure 1*).



Figure 1: Enterprise Risk Management Process

#### 3.1. Internal Environment

The municipality's internal environment is the foundation of all other components of risk management. The internal environment encompasses the tone of West Coast District 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

Objective setting is a precondition to event identification, risk assessment, and risk response. There must first be objectives before management can identify risks to their achievement and take necessary actions to manage the risks.

The strategic objectives of WCDM are as follows:

- To ensure the environmental integrity of the West Coast
- To pursue economic growth and the facilitation of job opportunities
- To promote the social well-being of residents, communities and targeted social groups in the district
- Promoting bulk infrastructure development services
- To ensure good governance and financial viability

Objectives flow from a strategic level, to a business and ultimately a process level to ensure the alignment as set out below:

- *Strategic:* Strategy and strategic goals that are approved by Council;
- *Business:* Objectives that are set by the MM to support the achievement of the strategic goals in line with the strategy; and
- *Process:* Objectives that are set by the MM and Municipal Management at a process level to support the operational/ business objectives.

The business and process levels form the operational area of the municipality.

### 3.3. Event Identification

An event is an incident or occurrence emanating from internal or external sources that could affect implementation of strategy or achievement of objectives. Events may have positive or negative impacts, or both. As part of event identification, management recognises that uncertainties exist, but does not know when an event may occur, or its outcome should it occur. To avoid overlooking relevant events, identification is best made apart from the assessment of the likelihood of the event occurring, which is the topic of risk assessment.

The following broad areas of risk categories will be considered:

#### *Internal Risks:*

Risk category	Description
Human resources	<ul style="list-style-type: none"> <li>• Risks that relate to human resources of an institution arising from the actions or non-actions of employees, intentional or unintentional, human resource administration, employee relations etc.</li> <li>• Risk of the municipality failing to meet its mandate and/or objectives due to lack of critical skills capacity, loss of key executives, or retention of acquired intellectual capital.</li> </ul>
Service delivery	Risk of the service delivery to customers and stakeholders not meeting required standards or expectations.
Information Technology	The risks relating specifically to the municipality's IT objectives, infrastructure requirement, etc. and information security.
Health & Safety	Risks that have a negative impact on the health and safety of the municipality's employees, customers, contractors and citizens arising from non-compliance with the Occupational Health and Safety Act.
Compliance\ Regulatory	Risks arising from the failure to implement regulatory compliance requirements as per the MFMA, MSA, Supply Chain Management Regulations and other applicable legislative requirements.

Risk category	Description
Financial	<p>Risks encompassing the entire scope of general financial management. Potential factors to consider include:</p> <ul style="list-style-type: none"> <li>• Cash flow adequacy and management thereof;</li> <li>• Financial losses;</li> <li>• Procurement &amp; contract management</li> <li>• Wasteful expenditure;</li> <li>• Budget allocations;</li> <li>• Financial statement integrity;</li> <li>• Revenue collection; and</li> <li>• Increasing operational expenditure.</li> </ul>
Reputation	<p>Factors that could result in the tarnishing of the municipality's reputation, public perception and image.</p>

*External Risks:*

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

Risks should be identified that could prevent the achievement of the strategic goals of the municipality.

Risks will be identified as:

- (1) Strategic risks – that affect the municipality’s ability to meet its strategic goals and require oversight by the MM and Directors. It will include risks that:
  - Have a transversal impact across the municipality;
  - Impact the goals of the municipality; and
  - Are of a longer term in nature.
- (2) Operational risks – arise in the day to day operations and require specific and detailed responses and monitoring. These risks are shorter term in nature and linked to the annual performance plan indicators.

The risks and action plans identified to improve the risk area will be reviewed quarterly by the outsourced risk service provider.

The identification and discussion of emerging risks will be included as an agenda item at staff meetings. Emerging risks arising from these meetings will be communicated to the Risk Champions, along with all relevant available documents relating to such emerging risk, which will be reported at the quarterly FRC meetings.

### 3.4. Risk Assessment

Following the identification of risks, the risks will be documented in the risk register.

Risks will be rated in terms of the potential impact to the business and the likelihood of the risk being encountered at an inherent level (before taking into account the effectiveness of controls).

The Risk Impact and Risk Likelihood will then be multiplied to give an inherent risk score.

Impact and likelihood scales of identified risks at an inherent level will be rated as follows:

#### **Likelihood**

Each risk will be rated in terms of the likelihood of the risk occurring as per the table below:

Score	Title	Description
5	Common	The risk is already occurring, or is likely to occur more than once within the next 12 months
4	Likely	The risk could easily occur, and is likely to occur at least once within the next 12 months
3	Moderate	There is an above average chance that the risk will occur at least once in the next three years
2	Unlikely	The risk occurs infrequently and is unlikely to occur within the next three years
1	Rare	The risk is conceivable but is only likely to occur in extreme circumstances

## **Impact**

Risks that have a potential to impact the objectives of the municipality (i.e. risks that not only would impact the divisional objectives but also potentially the strategic objectives) will be rated in terms of the rating scale below:

<b>Score</b>	<b>Title</b>	<b>Description</b>
<b>5</b>	<b>Critical</b>	Negative outcomes or missed opportunities that are of critical importance to the achievement of objectives
<b>4</b>	<b>Major</b>	Negative outcomes or missed opportunities that are likely to have a relatively substantial impact on the ability to meet objectives
<b>3</b>	<b>Moderate</b>	Negative outcomes or missed opportunities that are likely to have a relatively moderate impact on the ability to meet objectives
<b>2</b>	<b>Minor</b>	Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives
<b>1</b>	<b>Insignificant</b>	Negative outcomes or missed opportunities that are likely to have a relatively negligible impact on the ability to meet objectives

## **Ranking of Risks**

The product of the Likelihood and Impact ratings at the inherent risk level and after taking into account the perceived effectiveness of the current controls at residual risk level, will be categorised as follows:

<b>Risk Score</b>	<b>Risk Magnitude</b>	<b>Response</b>
<b>16-25</b>	<b>High</b>	Unacceptable level of risk – High level of control intervention required to achieve an acceptable level of residual risk
<b>8-15</b>	<b>Medium</b>	Unacceptable level of risk, except under unique circumstances or conditions – Moderate level of control intervention required to achieve an acceptable level of residual risk
<b>1-7</b>	<b>Low</b>	Mostly acceptable – Low level of control intervention required if any

The risk register will include:

- Link to the Strategic Objective/ Strategic Risk;
- Risk Category;
- A clear description of the risk (risk statements);
- Root cause of the risk;
- Consequences of the risk;
- Department;
- The inherent risk rating divided into Likelihood, Impact and Rating;

- Existing Mitigating Measures (Controls);
- The control effectiveness rating;
- The residual risk rating;
- Proposed response strategy / action plans with additional actions/ controls to be implemented;
- Risk Owner and Responsible person (Action Owner) of additional actions/ controls; and
- Due date for implementation of additional actions/ controls.

### 3.5. Risk Appetite and Tolerance

Council is responsible for approving the risk tolerance and risk appetite levels for the municipality.

The risk appetite level being the residual risk that the municipality is prepared or willing to accept without further mitigating action being put in place, or the amount of risk the municipality is willing to accept in the pursuit of value and tolerance levels being the amount of risk the municipality is capable of bearing is set out below per risk category:

No.	Risk Categories	Appetite	Tolerance
<b><i>Internal risks</i></b>			
1	Human resources	Medium	15 - 25
2	Information Technology	Low	8 – 14
3	Financial	Low	8 – 14
4	Reputation	Medium	15 - 25
5	Service delivery	Low	8 – 14
6	Health & Safety	Low	8 – 14
7	Compliance \ Regulatory	Low	8 - 14
8	Fraud and Corruption	Zero	Zero
<b><i>External risks</i></b>			
8	Political environment	Medium	16 - 25
9	Economic environment	Medium	16 - 25
10	Social Environment	Medium	16 - 25
11	Natural Environment	Medium	16 - 25

As external risks are not avoidable and mostly being tolerated, a medium appetite level for risks in the relevant sub-categories has been adopted. These risks will in the main be addressed through monitoring, contingency planning and exerting influence in the relevant forums/intergovernmental committees.

Risks above the approved appetite and tolerance levels per category will be escalated as indicated in the Risk Management Strategy.

### 3.6. Risk Response

Each inherent risk will be evaluated to determine the risk response.

To be effective, risk responses selected must meet a number of important criteria:

- (1) Appropriate – the correct level of response based on the “size” of the risk.
- (2) Affordable – the response should be cost-effective.
- (3) Actionable – the time within which responses need to be completed in order to address the risk should be defined.
- (4) Achievable – responses should be realistically achievable or feasible, either technically or within the scope of the respondent’s capability and responsibility.
- (5) Assessed – proposed responses must work.
- (6) Agreed – the consensus and commitment of stakeholders should be obtained before agreeing responses.
- (7) Allocated & Accepted – each response should be owned and accepted to ensure a single point of responsibility and accountability for implementing the response.

Each proposed response should be tested against these seven criteria before it is accepted.

The options for responses will include:

- **Avoiding** the risk by not starting the activity that creates exposure to the risk. Inappropriate risk aversion may increase other risk areas.
- **Treating, reducing or mitigating** the risk, through improvements to the control environment such as the development of contingencies and business continuity plans. Risk treatment may include methods, procedures, applications, managements systems and the use of appropriate resources that reduce the probability or possible severity of the risk.
- **Transferring** the risk exposure, usually to a third party better able to manage the risk, for example, through insurance or outsourcing.
- **Tolerating or accepting** the risk, where the level of exposure is as low as reasonably practicable or where there are exceptional circumstances.

Depending on the risk response strategy selected, management will consider additional actions/controls to mitigate the risk to an acceptable level.

### 3.7. 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.

#### Types of Control Activities

Many different descriptions of types of control activities have been put forth. Internal Controls can be preventative, detective or corrective by nature.

- Preventative Controls are designed to keep errors or irregularities from occurring in the first place.

- Detective Controls are designed to detect errors or irregularities that may have occurred.
- Corrective Controls are designed to correct errors or irregularities that have been detected.

Residual Risk is calculated after taking into account the perceived effectiveness of the current controls.

<b>Control Effectiveness</b>	<b>Qualification Criteria</b>	<b>Rating</b>
<b>Excellent</b>	Control eliminates the root causes of the risks, is officially documented and in operation	0.20
<b>Good</b>	Control addresses risk, but documentation and/or operation of control could be improved. These control measures are for prevention and are intended to remove certain causes of incidents, reduce their likelihood or prevent the occurrence of the risk.	0.40
<b>Average</b>	Control addresses risk, at least partly, but documentation and/or operation could be improved. These control measures are for reduction and mitigation. They are intended to reduce the severity (consequences) of incidents.	0.75
<b>Non/Ineffective</b>	Controls do not exist or fails to address the risk and is not documented or fully in operation.	1.00

### **3.8. 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.

### **3.9. 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.

Changes within the municipality and the external environment will be identified so that existing risk management protocols and procedures can be modified.

The monitoring and measuring process adopted will determine whether:

- The measures adopted achieved the intended result;
- The procedures adopted were efficient;
- Sufficient information was available for the risk assessments;
- Improved knowledge would have helped reach better decisions; and
- Lessons can be learnt for future assessments and controls.

Formal reviews of both the risk management system and the risk registers will take place quarterly and the Council will assess the effectiveness of the Risk Management Policy and Strategy at least annually.

#### **4. TRAINING AND AWARENESS**

Key staff members involved in risk management processes will be trained in risk management methodologies and approaches. A training and awareness programme will be formalised and rolled out for all the key role players in the municipality.

#### **5. FRAUD PREVENTION**

The Anti-Fraud and Corruption Strategy and Policy was approved by Council. The Anti-Fraud and Corruption plan will be monitored by the FRC at the quarterly meetings.

#### **6. POLICY REVIEW**

The content of the Risk Management policy will be reviewed annually to reflect the current stance on risk management within the West Coast District Municipality or earlier if needed.

#### **7. GLOSSARY OF TERMS**

**Event** *means* an incident or occurrence from internal or external sources that affects the achievement of the municipality's objectives.

**Framework** *refers* to the National Treasury Public Sector Risk Management Framework, 1 April 2010.

**Impact** *means* 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** *refers* to the impact that the risk will have on the achievement of objectives if the current controls in place are **not** considered.

**Key risks** - Risks that are rated high on an inherent level. It is risks that possess a serious threat to the municipality.

**Likelihood / Probability** *means* the probability of the event occurring.

**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)

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

**Risk Appetite** *means* the amount (level) of risk the municipality is willing to accept.

**Risk Owner** *means* the person responsible for managing a particular risk.

**Risk Management Strategy** includes the detailed risk management implementation plan.

**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 to take risks and how those risks will affect the operational strategy of the municipality.

**Risk Tolerance** means the acceptable level of risk that the municipality has the ability to tolerate.

**Strategic** is a term used with “objectives”, it has to do with high-level goals that are aligned with and support the municipality’s mission or vision.

## 8. APPROVAL

Recommended by the Fraud and Risk Committee:

Signature: \_\_\_\_\_

Name in Print: \_\_\_\_\_

Date: \_\_\_\_\_

Position: Chairperson

Recommended by the Audit and Performance Audit Committee:

Signature: \_\_\_\_\_

Name in Print: \_\_\_\_\_

Date: \_\_\_\_\_

Position: Chairperson

Approved by the Municipal Manager

Signature: \_\_\_\_\_

Name in Print: \_\_\_\_\_

Date: \_\_\_\_\_

Position: Municipal Manager

Approved by Council Resolution

Resolution No.: \_\_\_\_\_

Date: \_\_\_\_\_