Risk Management Policy

June 2013

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1   RISK MANAGEMENT PHILOSOPHY

Witzenberg 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 role 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). The Municipal Manager, who is ultimately responsible for the municipality's risks, has delegated this role of Chief Risk Officer (CRO) to the Chief Financial Officer and Internal Audit. The CRO will ensure that the framework is implemented and that council, the Performance, Risk and Audit Committee and the MM will receive appropriate reporting on the municipality's risk profile and risk management process. Management will execute their responsibilities outlined in the Risk Management Strategy and Implementation Plan. 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 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 ACCOUNTING OFFICER:

_____

D. Nasson
DATE:

2 OVERVIEW

2.1 Policy objectives

The objective of this policy is to safeguard Witzenberg Municipality's property, interest and safeguard people.

2.2 Policy Statement

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

2.3 Policy Scope

This is an enterprise-wide policy. It applies throughout Witzenberg 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.

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2.4 Background

2.4.1 Legislative Mandate

Section 62(1)(c)(i) and 95(c)(i) of the MFMA states that: *"… The accounting officer of the 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."*

2.4.2 Legislative Compliance

This policy is aligned to the principles set out in the National Treasury Public Sector Risk Management Framework, published on 1 April 2010 and to some extent King III. This policy is also supported by the MFMA, Act no 56 of 2003.

2.4.3   Objectives of Enterprise 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 risk management and internal control as components of good corporate governance.

2.4.4   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;
- 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.

2.4.5   Key concepts

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 municipality 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.

OR

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.

3 ROLES AND RESPONSIBILITIES

Every person within Witzenberg Municipality has a role to play in the risk management process. The primary responsibility for identifying and managing risks lies with Management. The roles and responsibilities of each of the role players are discussed in more detail in the Risk Management Strategy and Implementation Plan.

3.1 Risk Management Oversight

3.1.1 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 Witzenberg Municipality against significant risks.

Council has to 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).

3.1.2 Performance, Risk and Audit Committee

The Performance, Risk and Audit Committee is an independent committee responsible for oversight of the municipality's control, governance and risk management. This committee is vital to, among other things, ensure that financial, IT and fraud risk related to financial reporting are identified and managed.

The Performance, Risk and Audit Committee primary responsibility for risk is providing an independent and objective view of the effectiveness of the municipality's risk management process to Council and to provide recommendations to the Municipal Manager for continuous improvement and management of risks. The responsibilities of the Performance, Risk and Audit Committee with regard to risk management are formally defined in its charter.

3.2 Risk Management Implementers

3.2.1 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.

3.2.2 Management

All other levels of management support the municipality's risk management philosophy, 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.

3.2.3 Other Officials

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

3.3 Risk Management Support

3.3.1 Chief Risk Officer

The Chief Risk Officer is the custodian of the Risk Management Strategy and Annual Implementation Plan and the coordinator of ERM activities throughout Witzenberg municipality. The primary responsibility of the Chief Risk Officer is to use his/her specialist expertise to assist the municipality to embed ERM and leverage its benefits to enhance performance. The CRO plays a vital communication link between operational level management, senior management, Performance, Risk and Audit Committee and other relevant committees.

3.3.2 Risk Champion

A Risk Champion would generally hold a senior position within the municipality and possess skills, knowledge and leadership qualities required to champion a particular aspect of risk management. The Risk Champions primary responsibility for advising on, formulating, overseeing and managing all

aspects of a municipality's risk management system. The Risk Champion monitors the municipality's entire risk profile, ensuring that major risks are identified and reported upwards.

3.4   Risk Management Assurance Providers

3.4.1   Internal Audit

The core role of Internal Audit in risk management is to provide an independent, objective assurance to 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.

3.4.2   External Audit

The external auditor (Auditor-General) provides an independent opinion on the effectiveness of risk management.

In providing the audit opinion, the Auditor- General usually focuses on:

a) determining whether the risk management policy, strategy and implementation plan are in place and is appropriate;

b) assessing the implementation of the risk management policy, strategy and implementation plan;

c) reviewing 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;

d) reviewing the risk assessment process to determine if it is sufficiently robust to facilitate timely and accurate risk rating and prioritisation; and

e) determining whether the management action plans to mitigate the key risks are appropriate, and effectively implemented.

4   ENTERPRISE WIDE RISK MANAGEMENT PROCESS

To fulfil its philosophy and implement an enterprise-wide integrated approach, Witzenberg Municipality will ensure that the eight (8) components of the ERM process are implemented and operating effectively, efficiently and economically *(Refer to figure 1)*. These components of the ERM process are discussed in further detail in the Risk Management Strategy, accompanied by a detailed plan.

Figure 1: Enterprise Wide Risk Management Process (COSO)

4.1   Internal Environment

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

4.2   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.

4.3   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.

4.4 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 assess events from two perspectives impact and likelihood to determine their risk score or severity rating and normally uses the quantitative method.

Risk Assessments are performed through a three stage process:
- Firstly, inherent risk should be assessed;
- Secondly, residual risk should be assessed;
- Thirdly, the residual risk should be benchmarked against the risk appetite to determine the need for further intervention.

4.5 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.

The Municipality has committed itself to aggressively pursue managing risks to be within its risk appetite to avoid exposures to losses and to manage actions that could have a negative impact on the reputation of the municipality.

Witzenberg Municipality has set its risk appetite level as follows:

Risk Appetite								
Rating				**Improve**				
Impact	Critical	5	**Monitor**	5	10	15	20	25
	Major	4		4	8	12	16	20
	Moderate	3		3	6	9	12	15
	Minor	2		2	4	6	8	10
	Insignificant	1		1	2	3	4	5
			Rating	Rare	Unlikely	Moderate	Likely	Common
				1	2	3	4	5
				Likelihood				

Risk appetite rating*	Risk Acceptance	Risk Treatment
13-25	High	Risk exceeds the acceptance level and requires urgent and immediate management attention to bring it within the acceptable level therefore, the current controls require substantial redesign, or greater emphasis on proper implementation
9-12	Medium	Risk exceeds but is within the acceptable level and requires proactive management to bring it within acceptable level therefore, controls require some redesign or more emphasis on proper implementation
1-8	Low	Risk that does not require active management but require active monitoring therefore, the controls are adequately designed and may require close monitoring to maintain the risk within an acceptable level.

* (Impact x Likelihood)

4.6 Risk Tolerance

It is not always efficient to manage risks to zero residual risk or a very low residual risk threshold because of the time, cost and effort that will be required, and which could result in the cost / benefit dynamics to

become skewed. On the other hand it is also poor management practice to accept risks which create unnecessary exposure for the institution.

4.6.1 Approach

Principles for development of risk tolerance:

- Risk tolerance should be expressed in the same indicators as its related objectives;
- In setting the risk tolerance management should consider the relative importance of the related objective;
- Tolerance levels should not be out of line with the materiality framework of the institution;
- Without exception, all tolerance levels should be supported by rigorous analysis and expert management judgement;
- Tolerances may be established for individual material risks, as well as aggregate tolerance for particular categories of risk;
- Tolerances may also be established per individual business activity;
- Risk tolerance levels should be revised as more reliable information becomes available;
- Setting risk tolerance should be a collective senior management responsibility.

The following aspects will be considered to quantify and qualify potential loss:

Quantitative	Qualitative:
Considerations for quantifying the impact of a risk: ► What is the actual / potential financial loss? ► Potential indirect costs such as: o Effect on grant funds and development institutes o Cost of borrowing o Management time to fix – salary cost o Increased overtime -	**Cultural Statements** – statements around behaviour that are principles based across the municipality. Cultural Statements are useful for setting a tone, but do not tend to be as measurable or actionable. Examples include: ► WBM has a very low appetite for reputational risk exposure that impacts the municipality's reputation for service delivery. Steps to minimize the likelihood of an adverse Reputational impact should always be taken ► WBM will promptly take action to address resident complaints and regulatory concerns ► WBM will not engage in any activity that will put its long-term reputation at risk. The Municipality will meet customer's expectations of providing efficient, considerate and cost-effective services

Quantitative	Qualitative:
cost o Press campaigns / public forums – marketing and communication cost o Delays in collections from residents o Litigation costs o Increased staff turnover o Lower morale – results in less effectiveness and the need to increase resources o Use of infrastructure o Fines / penalties	► The Municipality is an equal opportunity employer that employs skilled and experienced staff in positions with clearly defined roles and responsibilities **Outcome Statements** – statements that specify limits or maximum impact or outcome. Outcome Statements can be measurable, but do not generally speak to how the outcomes will be achieved or put specific constraints on activity Examples include: ► The rand value or number of operational loss amounts for a given period (e.g., quarterly, yearly) that are acceptable or unacceptable ► The size of a single operational loss amount that is acceptable or unacceptable over a given period of time ► The degree to which operational loss levels/number of events can increase in a given year **Expectation Statements** – statements that identify the company's tolerance for particular actions. Expectation Statements are generally measurable and action oriented, but tends to be more narrow or specific to specific activities or risks. Examples include: ► WBM has a low appetite for operational risk. These risks will be mitigated and controlled to where the cost of control is equal to the marginal cost of the risk ► WBM has zero appetite for internal fraud activities ► WBM has a low appetite for information technology outages. There is no tolerance for outages that exceed one week

4.7   Risk Response

After assessing the risk scores an appropriate mitigation strategy is selected. These responses may fall within the categories of avoidance, reduce, share and accept.

4.8 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.

4.9 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.

4.10 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.

5 REPORTING

Regular Risk Management reports will be presented to the Municipal Manager, Performance, Risk and Audit Committee for consideration.

6 POLICY REVIEW

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

7 GLOSSARY OF TERMS

Municipal Manager also referred to as the Accounting Officer.

Event *means* an incident or occurrence from internal or external sources that affects the achievement of Witzenberg 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. Risks that need to be acted upon. Risks that possess a serious threat to the municipality.

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

Management refer to all levels of management, other than the MM and the CRO.

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)

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

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

Risk Owner *means* 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 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 ACKNOWLEDGEMENT OF APPROVAL

Recommended by the Performance, Risk and Audit Committee:

Resolution No.:   _____

Date: _____

Approved by Council Resolution:

Resolution No.:   _____

Date: _____