

SWELLEN DAM MUNICIPALITY



RISK MANAGEMENT STRATEGY

2021/2022

APPROVED BY COUNCIL PER ITEM A83 ON 24 JUNE 2021

1 INTRODUCTION

The Swellendam Municipality has undertaken to embed a culture of Enterprise Risk Management (ERM) within the Municipality and to identify, assess, manage, monitor and report risks to ensure the achievement of objectives as identified in the Integrated Development Plan (IDP).

The ultimate aim of the Municipality's risk management is to create value for customers and the Swellendam community in a sustainable manner. To this end, risk management will also be used to improve the efficiency of Swellendam Municipality's support functions.

2 MISSION OF RISK MANAGEMENT

- To ensure that the strategic objectives are achieved and without compromising our stakeholders' trust and quality of our service, an effective approach to management of risks must be taken to minimise losses and maximise opportunities.
- To identify and prioritise potential risk events and use established risk management methods, tools and techniques to assist the Municipality.
- To inform and assist the executive and personnel on their roles and responsibilities to guarantee that the risks relating to their particular area of control are managed to ensure that the best outcome is achieved.

3 OBJECTIVES OF RISK MANAGEMENT

- Align strategic objectives with supporting processes, risk and control;
- Drive specific risk management and control processes to respond to the potential threats and opportunities;
- Provide a common understanding of how the Municipality, its business processes and people describe and prioritise objectives, risk and control;
- Embed instinctive and consistent consideration of risk and reward in the day-to-day planning and achievement of objectives;
- Provide clarity on the Municipality's risk appetite – risks must be taken in the pursuit of opportunities; and
- Incorporate risk reporting into the Municipality's systems to support risk-based decision-making.

4 IMPROVEMENT OF RISK MATURITY

Risk management should be integrated into the culture of Swellendam Municipality and this will include mandate, leadership and commitment. It should translate risk strategy into tactical and operational objectives, and assign risk management responsibilities throughout the Municipality. It should support accountability, performance measurement and reward the promoting of operational efficiency at all levels.

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 RISK MANAGEMENT STRUCTURE

The structures through which risk management will be reported within the Swellendam Municipality are set out below.

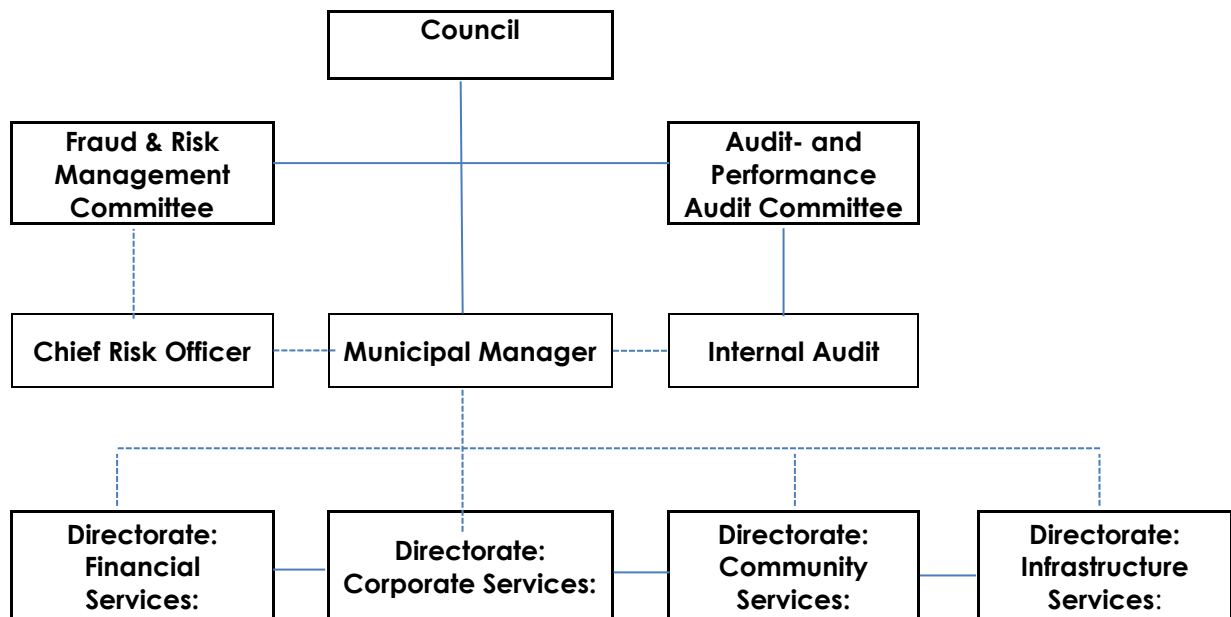


Figure 1: Swellendam Municipality's Risk Management Reporting Structure

6 ROLES AND RESPONSIBILITIES

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

6.1.1 Council

Council, as the executive authority, 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 Swellendam Municipality against significant risks and 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.

- Determine the levels of Risk Appetite with guidance from the CRO and the FARMCO.
- Ensure that policies, frameworks and methodologies are developed and implemented.
- Approve the risk related policies and frameworks.
- Oversight on the risk assessment process by scrutinizing FARMCO reports.
- Ensure that assurance regarding the effectiveness of the ERM process is received from the Audit and Performance Audit Committee.
- Disclose how Council have satisfied themselves that risk assessments, responses and interventions are effective as well as undue, unexpected or unusual risks and any material losses (the annual report to include a risk disclosure).
- Ensure that management implements, monitors and evaluates performance through the FARMCO reports.

6.1.2 Audit and Performance Audit Committee (APAC)

The APAC is an independent committee, responsible to oversee the Municipality's control, governance and risk management processes. This committee is vital to, among other things, ensure that Legal-, Financial, IT, Fraud and other risks that could have an impact on the Municipality's objectives are identified and managed.

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

- Formally define its responsibility with respect to risk management in its charter.
- Ensure that combined assurance is given to address all the significant risks facing the Municipality.
- Review and ensure that the internal audit plans are aligned to the risk profile of the Municipality;
- Review the effectiveness of the internal audit assurance activities and recommend appropriate action to address any shortcomings;
- Review and recommend any risk related disclosures in the annual report;

- MFMA Section 166(2)(a): “An audit committee is an independent advisory body which must- advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity on matters relating to-
 - (i) internal financial control and internal audits;
 - (ii) risk management;
 - (iii) accounting policies;
 - (iv) the adequacy, reliability and accuracy of financial reporting and information;
 - (v) performance management;
 - (vi) effective governance;
 - (vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;
 - (viii) performance evaluation; and
 - (ix) any other issues referred to it by the municipality or municipal entity”

6.1.3 Fraud and Risk Management Committee (FARMCO)

The FARMCO'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 FARMCO **must** perform the following tasks to fulfil its mandate with regard to ERM.

- Formally define its roles and responsibilities with respect to risk management in its charter.
- Meet on a regular basis.
- Review and recommend approval of the Risk Management Strategy and Policy to Council.
- Provide guidance to the Municipal Manager (MM), Chief Risk Officer (CRO), Management and other relevant risk management stakeholders on how to manage risks to an acceptable level.
- Provide timely and useful reports to the MM on the state of ERM, together with recommendations for improvement.
- Share risk information with the APAC.
- Evaluate the extent and effectiveness of integration of ERM within the municipality.
- Assess implementation of the Risk Management Strategy and Policy.
- Review material findings and recommendations by assurance providers on the system of risk management and monitor implementation of such recommendations.

- Develop Key Performance Indicators (KPIs) for the FARMCO for approval by the MM.
- Ensure that all risks are considered as part of the Municipality's risk management activities. (risk universe)
- Understand the Municipality's overall exposure to risks and ensure that proper processes are in place to mitigate these risks to acceptable levels. (part of the departmental risk register)
- Review the Code of Ethics and recommend for approval by Council.
- Review the Business Continuity Framework and recommend for approval by Council.
- Review and approve the Combined Assurance Framework and quarterly monitor adequacy of progress status in the Combined Assurance Model.
- Provide assurance to relevant stakeholders that key risks are properly identified, assessed and mitigated.

6.1.4 Municipal Manager (MM)

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:

- Understand and determine the risk appetite with guidance from the CRO and the FARMCO.
- Recommend to Council the approval of the risk management documents and methodologies and ensure that they are implemented.
- Appoint adequate staff capacity to drive the ERM activity.
- Appoint FARMCO members with the necessary skills, competencies and attributes.
- Ensure that the control environment supports the effective functioning of ERM.
- Hold officials accountable for their specific risk management responsibilities.
- Devote personal attention to overseeing management of significant risks.
- Ensure appropriate action in respect of recommendations of Internal Audit, External Audit FARMCO and the APAC to improve ERM.
- Evaluate the value add of risk management.
- Provide leadership and guidance on ERM.

6.1.5 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.

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

- Execute their responsibilities as set out in the approved Risk Management Strategy, Policy and Implementation Plan.
- Report to the FARMCO regarding the performance of internal controls for those risks in the operational risk registers.
- Devote personal attention to overseeing the management of key risks within their area of responsibility.
- Empower officials to perform effectively in their risk management responsibilities.
- Maintain a co-operative relationship with the CRO and Risk Champions.
- Maintain the proper functioning of the control environment within their area of responsibility.
- Hold officials accountable for their specific risk management responsibilities.
- Continuously monitor the implementation of risk management within their area of responsibility.

6.1.6 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:

- 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.
- Apply the risk management processes in their respective functions.
- Inform their supervisors and/or the risk management unit (CRO) of new risks and significant changes.
- Co-operate with other roles players in the risk management process.
- Provide information to role players in the risk management process as required.

6.1.7 Chief Risk Officer (CRO)

The CRO is the custodian of the Risk Management Strategy and Implementation Plan and the coordinator of ERM activities throughout the Swellendam Municipality. The primary responsibility of the CRO 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 senior management, operational level management, the FARMCO and other relevant committees.

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

- Communicate the Risk Management Strategy, Policy and Implementation Plan to all stakeholders in the Municipality;
- Continuously drive the risk management process towards best practice;
- Develop a common risk assessment methodology that is aligned with the Municipality's objectives at strategic, project and operational levels for approval by the MM;
- Coordinate risk assessments within the Municipality / directorate / department / section on a regular basis;
- Sensitise 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;
- Assist Management in developing and implementing risk responses for each identified material risk;
- Participate in the development of the combined assurance plan for the Municipality, together with Internal Audit and Management;
- Champion combined assurance activities;
- Create and maintain the combined assurance model;
- Ensure effective information systems exist to facilitate overall risk management improvement within the Municipality;
- Continuously transfer risk management principles and practices, through training interventions, to all stakeholders within the Municipality;
- Advise on the financing of risk action plans;
- Collate and consolidate the results of the various assessments within the Municipality;
- Analyse the results of the assessment process to identify trends, within the risk and control profile, and assess the adequacy of the control interventions.
- Compile the necessary reports to the FARMCO;
- Provide input into the development and subsequent review of the Fraud Prevention Strategy and Policy, Code of Ethics, Business Continuity Framework, Occupational Health and Safety Policy, Disaster Management Policy, Information and Communication Technology Policy and the related plans and practices.

6.1.8 Risk Champions

The Risk Champions assist the CRO to facilitate the risk assessment process and oversee the management of 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.

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

- Facilitate operational risk workshops for their area of responsibility with the assistance of the CRO.
- Co-ordinate the implementation of action plans for the risks and report on any developments regarding the risks.
- Populate the risk registers/dashboard.
- Ensure that all risk information is updated regularly and submitted to the CRO.
- Provide assurance regarding the risks' controls.

6.1.9 Internal Audit

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

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

- Provide assurance on the ERM processes' design and its effectiveness.
- Provide assurance on the management of "key" risks including the effectiveness of the controls and other responses to the "key" risks.
- Provide assurance on the assessment and reporting of risk and controls.
- Prepare a rolling three (3) year Internal Audit plan based on its assessment of key areas of risk.

6.1.10 External Audit

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

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

- Determine whether the risk management framework and methodologies are in place and appropriate.
- Assess the implementation of the risk management framework and methodologies.
- Review the risk identification process to determine if it is sufficient to facilitate the timely, correct and complete identification of significant risks.
- Review the risk assessment process to determine if it is sufficient to facilitate timely and accurate risk rating and prioritisation.
- Determine whether management action plans to mitigate the key risks are appropriate and are being effectively implemented.

7 REVIEW OF RISK MANAGEMENT STRATEGY

The Risk Management Strategy must be reviewed and approved by Council on an annual basis.