

SWELLENDAM MUNICIPALITY



RISK MANAGEMENT POLICY

2023/2024

APPROVED BY COUNCIL PER ITEM XXXX ON XXXX

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1 RISK MANAGEMENT STATEMENT / PHILOSOPHY

The Council has committed the Swellendam Municipality (Municipality) to a process of risk management that is aligned to the vision, mission and the principles of good corporate governance, as supported by the Municipal Finance Management Act (MFMA), No. 56 of 2003 and other legislation applicable to local government.

Enterprise Risk Management is recognised as an integral part of responsible management and the Municipality therefore adopts a comprehensive approach to the management of risk.

The features of this process are outlined in the Municipality's Risk Management Policy. It is expected that all departments / sections, operations and processes will be subjected to the risk management policy. It is the intention that these departments / sections will work together in a consistent and integrated manner, with the overall objective of reducing and avoiding risk, as far as reasonably practicable.

Effective risk management is imperative to the Municipality to fulfil its mandate, the service delivery expectations of the public and the performance expectations within the Municipality.

The realization of our strategic plan depends on us being able to take calculated risks in a way that does not jeopardize the direct interests of stakeholders. Sound management of risk will enable us to anticipate and respond to changes in our service delivery environment, as well as make informed decisions under conditions of uncertainty.

We subscribe to the fundamental principles that all resources will be applied economically to ensure:

- The highest standards of service delivery;
- A management system containing the appropriate elements aimed at minimizing / avoiding risks and costs in the interest of all stakeholders;
- Risk Management as a performance management indicator and change agent;
- Education and training of all our staff to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent assurance to the stakeholder expectations;

- An enterprise-wide approach to risk management will be adopted by the Municipality, which means that every key risk in each part of the Municipality will be included in a structured and systematic process of risk management. It is expected that the risk management processes will become embedded into the Municipality's systems and processes, ensuring that our responses to risk remain current and dynamic; and
- Compliance with relevant legislation, and fulfil the expectations of employees, communities and other stakeholders in terms of corporate governance.

It is with enthusiasm and great commitment that the Municipality will ensure the success of risk management initiatives. These processes are critical to be proactive in our management and operational approaches to seamlessly achieve the Municipality's set strategic objectives.

The responsibility to ensure effective management of risks in the Swellendam Municipality rests with all employees. The Municipality's commitment to risk management is an expression of the commitment to the Batho Pele principles.

2 **DEFINITIONS**

Accounting Officer refers to the Municipal Manager.

Control: 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.

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

Impact means a result or effect of an event. The impact of an event can be positive or negative.

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 pose a serious threat to the municipality.

Likelihood / Probability means the probability of the event occurring.

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

Mitigation / Treatment - After comparing the inherent risk score with the risk appetite and 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 Risk 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 means *chance or possibility of danger, loss, injury or the probability or threat of damage, injury, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through pre-emptive action.*

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, fraud prevention policy and fraud prevention strategy and implementation plan.

Risk Register - The risk register 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.

Risk Profile - The Municipality's risk management processes, systems, structures, resources, data, information, staff and related activities and initiatives. In other words, the entire risk management function of the municipality.

Risk Tolerance means the level of risk that the municipality has the ability to tolerate/ bear.

Risk Universe means the Municipality's risks per risk classification compared and assessed against district, provincial, national and international related industries.

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.

3 STATUTORY FRAMEWORK

In terms of section 62 of the Local Government: Municipal Finance Management Act [No. 56 of 2003] [MFMA] the Municipal Manager is responsible for managing the Municipality's financial administration. For this purpose, the Municipal Manager must take all reasonable steps to ensure, amongst others, that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Section 120 of the MFMA empowers the Municipality to enter into a public-private partnership agreement, if it can demonstrate that the agreement will, amongst other things, transfer appropriate technical, operational and financial risk to the private party.

Section 165 of the MFMA requires that the Municipality must have an internal audit unit. The internal audit unit must prepare a risk-based audit plan and an internal audit program for each financial year. It must also advise the Municipal Manager and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices and risk and risk management.

Section 166 of the MFMA requires that the Municipality must have an audit committee (subject to subsection 6). The audit committee is an independent advisory body which must, amongst other things, advise the Council, the Municipality's political officer-bearers, the Municipal Manager and the management staff on matters relating to internal financial control, internal audit and risk management.

Regulation 9 of the Municipal Supply Chain Management Regulations [Notice 868 of 30 May 2005] prescribes that the Municipality's supply chain management must describe in sufficient detail effective systems for risk management. Such a risk management system must, in terms of regulation 41, provide for the identification, consideration and avoidance of potential risks in the supply chain management system. The risk management provisions of the supply chain management policy must include -

- the identification of risks on a case-by-case basis;
- the allocation of risks to the party best suited to manage such risks;
- acceptance of the cost of the risk where the cost of transferring the risk is greater than that of retaining it;
- the management of risks in a pro-active manner and the provision of adequate cover for residual risks; and

- the assignment of relative risks to the contracting parties through clear and unambiguous contract documentation.

4 POLICY OBJECTIVES

The objectives of this policy are to -

- provide a framework for the effective identification, measurement, management and reporting, of the Municipality's risks;
- define and assign risk management roles and responsibilities within the Municipality; and
- define a reporting framework which ensures regular communication of risk management information to the Council, Portfolio Committees, Audit and Performance Audit Committee, Fraud and Risk Management Committee, Senior Management and officials engaged in risk management activities.

5 INTRODUCTION TO RISK MANAGEMENT

Risks are uncertain future events which could influence the achievement of the Municipality's objectives. Risk is the chance of an event occurring which will have a negative/ positive impact upon the achievement of the Municipality's business objectives.

Risk management is the process whereby the Municipal Manager, Senior Management and key officials with the assistance of the Chief Risk Officer proactively, purposefully and regularly identify and define current as well as emerging business, financial and operational risks and either simultaneously or with due expedition identify appropriate and cost-effective methods of obviating and managing these risks within the Municipality. Stated differently, risk management is the identification and evaluation of actual and potential risk areas as they pertain to the Municipality as an entity, followed by a process of either avoidance, transfer, acceptance treatment or exploitation of those risks through a system of appropriate internal controls and other measures. The risk management process entails the planning, arranging and controlling of activities and resources to minimise the impacts of all risks to levels that can be tolerated by stakeholders whom the Council has identified as relevant to the Municipality.

6 BENEFITS OF ENTERPRISE RISK MANAGEMENT

Enterprise Risk Management (ERM) is a process, affected 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.

The Swellendam Municipality implements and maintains effective, efficient and transparent systems of risk management and internal control. The risk management will assist the Municipality to achieve, among other things, the following outcomes needed to underpin and enhance performance:

- more sustainable and reliable delivery of services;
- informed decisions underpinned by appropriate rigour and analysis;
- innovation;
- reduced waste;
- prevention of fraud and corruption;
- better value for money through more efficient use of resources; and
- better outputs and outcomes through improved project and programme management.

7 OBJECTIVES OF ENTERPRISE RISK MANAGEMENT

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

- align the risk-taking behaviour to the Municipality's risk appetite and risk tolerance to better achieve the goals and related objectives;
- 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 risk awareness in all Departments/Directorates and improve risk transparency to stakeholders;
- promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefit the Municipality are encouraged; and
- provide a sound basis for integrated risk management and internal control as components of good corporate governance.

8 SCOPE

The Enterprise Risk Management (ERM) is the application of risk management throughout the Municipality, and not only in selected business areas or disciplines. The policy should be clearly communicated to all employees to ensure that the risk strategy is incorporated into the language and culture of the Municipality.

9 ROLE PLAYERS IN THE RISK MANAGEMENT PROCESS

Every person within Swellendam Municipality has a role to play in the risk management process. The primary responsibility for identifying and managing risks lies with Management. The responsibilities of each role player are formally defined in the risk management strategy of Swellendam Municipality.

9.1 RISK MANAGEMENT OVERSIGHT

9.1.1 Council

The Municipal 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 Swellendam Municipality against significant risks.

9.1.2 Audit and Performance Audit Committee (APAC)

The APAC is an independent committee responsible for oversight of the Municipality's control, governance and risk management. The APAC's primary responsibility is providing an independent and objective view of the effectiveness of the Municipality's risk management process.

9.1.3 Fraud and Risk Management Committee (FARMCO)

The members of the FARMCO are appointed by the Municipal Manager and consists of the Directors (members), Chief Risk Officer (invitee) and the Chief Audit Executive (invitee) 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.

9.1.4 Mayor

The role of the Mayor is to oversee the risk management process and administration of the Municipality and convey any concerns or suggestions to the Municipal Manager.

9.2 RISK MANAGEMENT IMPLEMENTERS

9.2.1 Municipal Manager

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 and support ERM.

9.2.2 Senior Management (Risk Owners)

Senior Managers support the Municipality's risk management philosophy, integrating it into operational routines of their directorates. They are the risk owners and ultimately accountable for the risk management of the risks in their directorates and must therefore monitor the risk management activities within their areas of responsibility and intervene where necessary.

9.2.3 Risk Champions

The Risk Champions' primary responsibilities are to intervene when risk management efforts are being hampered and to provide guidance and support on the management of problematic risks and risks of a transversal nature that require the involvement of multiple people to address. Risk Champions should also assist management with the identification and mitigation of risks.

9.2.4 Risk Action Owners

9.2.4.1 Heads of Department

Heads of Department have the responsibility to integrate the risk management strategy and policy into their department's operational routines. They also implement risk actions to address operational and certain strategic risks.

9.2.4.2 Senior Staff

Senior staff must assist their Head of Department with the implementation of risk actions.

Depending on the seniority and responsibilities of the staff member, some senior staff may be the actual implementers of the operational risk actions.

9.3 RISK MANAGEMENT UNIT

The Risk Management process resides with the Office of the Municipal Manager (MM). The Internal Audit Activity play a pivotal role in the Risk Management processes and assist management in developing a risk management process which suit the Municipality needs.

9.3.1 Chief Risk Officer

The Chief Risk Officer is the custodian of the risk management strategy and coordinator of risk management activities throughout Swellendam Municipality.

The primary responsibilities of the Chief Risk Officer are to bring to bear his/her specialist expertise to assist Swellendam Municipality to embed risk management and leverage its benefits to enhance performance.

9.4 RISK MANAGEMENT ASSURANCE PROVIDERS

9.4.1 Internal Audit

The core role of Internal Audit in risk management is to provide an independent, objective assurance to the Municipal Manager, Municipal Council, Fraud and Risk Management Committee and the Audit & Performance 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. Internal Audit Services must determine whether the risk management process is efficient and effective.

9.4.2 Auditor-General

The Auditor-General provides an independent opinion on the effectiveness of risk management. In providing an opinion the Auditor-General focuses on:

- Determining whether the risk management strategy, policy and implementation plan are in place and appropriate;
- Assessing the implementation of the risk management strategy, policy and implementation plan;

- Reviewing the risk assessment process to determine if it is sufficiently robust to facilitate timely and accurate risk rating and prioritisation;
- Determining whether management action plans to mitigate the key risks are appropriate and being implemented effectively.

10 ENTERPRISE RISK MANAGEMENT PROCESS

The enterprise risk management process comprises eight (8) components:



Enterprise Risk Management Process (COSO ERM Framework)

10.1 INTERNAL ENVIRONMENT

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

10.1.1 Ethics

The effectiveness of risk management activities is directly influenced by the ethical behaviour of the people responsible for risk management, which includes their professionalism and commitment in executing their risk management responsibilities.

A lack of ethics is a contributing factor to a variety of risks, either being the cause of the risk itself or the cause of ineffective control measures. Therefore, risk management initiatives can only be successful in an environment of ethical behaviour with adequate ethics risk management processes.

Swellendam Municipality has a Code of Conduct and Code of Ethics for Municipal Staff and Councillors in place to regulate the conduct and ethical behaviour expected in the workplace.

10.1.2 Authority

10.1.2.1 Risk Management Unit

The Risk Management Unit has the authority to conduct all activities listed in the approved risk management implementation plan and execute instructions from the FARMCO and Municipal Manager.

The Risk Management Unit may respond to requests for assistance received from the Municipal Manager, Senior Managers and Managers. Requests for assistance from other staff must first be approved by their manager.

10.1.2.2 Internal Audit

Internal Audit has the authority to investigate/audit any matter that is included in the approved risk-based audit plan or requested by the Municipal Manager or APAC.

Internal Audit, as a standing invitee to FARMCO meetings, still upholds their independence and objectivity towards any contributions made in this capacity.

10.1.2.3 Fraud and Risk Management Committee (FARMCO)

The FARMCO's terms of reference is approved by the Municipal Council. The FARMCO is thus authorised to conduct all activities listed in the FARMCO Terms of Reference.

10.1.2.4 Audit and Performance Audit Committee (APAC)

The APAC has by law the authority to conduct all activities listed in Section 166(2) and (3) of the MFMA. Additionally, the APAC has the authority to conduct all activities contained in the APAC Charter approved by the Municipal Council.

10.1.3 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 risk appetite shall be clearly stated and articulated so that it informs management decisions.

The Municipality has set its risk appetite level at 40 as determined through a district benchmark initiative. The risk appetite will remain 40 throughout the 2023/2024 financial year.

The Municipality's risk appetite will be reassessed on an annual basis, based on the annual risk assessment exercise results and adjusted if required. The ultimate goal is to reduce the risk level of the Municipality to acceptable levels.

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.

10.1.4 Risk Tolerance

Risk tolerance refers to the maximum level or amount of risk that the Municipality can bear, before action is needed to reduce it.

All risks above the Municipality's risk tolerance will receive attention from the Municipal Manager until it is mitigated to below the risk tolerance level.

10.2 OBJECTIVE SETTING

Objectives are set at the strategic level, establishing a basis for operations, reporting, and compliance objectives. Objectives are to be aligned with the Municipality's risk appetite.

10.2.1 Strategic Objectives

Objectives are first set at the strategic level, establishing a basis for operational objectives. Once the strategic objectives are identified and approved, the Risk Management Unit facilitates a strategic risk assessment to identify and assess the risk environment associated with each strategic objective.

10.2.2 Operational Objectives

The operational objectives are identified during the development of the Service Delivery and Budget Implementation Plan (SDBIP) and reflect as Key Performance Indicators (KPI's). The full list of KPIs for 2023-2024 can be found in the Municipality's SDBIP for 2023/2024.

Risk actions for operational risks should manage the risks in a manner that will ensure the KPIs impacted by risk are achieved.

10.3 EVENT IDENTIFICATION

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

10.3.1 Opportunity Identification

Events can have positive outcomes too. These events are commonly known as opportunities.

Including opportunities in the risk management of the Municipality will prevent a culture of only focusing on risk events and missing the opportunities among the risks, and assist with the creation of a culture of designing risk responses in such a way that it not only focusses on reducing or eliminating the risk, but goes beyond and improve or innovate the whole strategic/operational process that is affected by the risk.

10.3.2 Risk Identification

Three processes are followed to identify risks:

1. Structured interviews

Municipal officials are interviewed about the risks they are aware of and the emerging risks they can think of.

2. Benchmarking – Top 10 risks in the annual IRMSA Risk Report: South Africa Risks and risk registers of the Overberg District Municipalities

The risks in the IRMSA Risk Report and risk registers of the other district municipalities are used as a guideline. It is then established whether the risks are applicable to Swellendam Municipality.

3. Annual Risk Assessment Focus Areas

Focus areas are determined by the Risk Management Unit, based on historical events, future predictions and engagements at various internal and external platforms.

10.3.3 Risk Description

A short, to the point description of the risk must be articulated. For ease, the cause of risk should be established first and secondly the background information related to the risk. The risk description can then be articulated using the cause and background information.

10.3.4 Cause of Risk

Current and/or potential causes of the risk must be established and included in the risk register.

10.3.5 Risk Background

Supplementary and/or explanatory information is required to enable users of the risk reports, some of whom has no knowledge about the risk, to understand the risk.

10.3.6 Consequences

The potential consequences should the risk materialise must be identified and included in the risk register.

10.3.7 Risk Classification

After the risk has been identified, it can be classified according to its nature.

Swellendam Municipality classifies risks in accordance with the regulations and frameworks applicable to government institutions.

10.3.7.1 Risk Type

The Municipality can be exposed to different types of risks which may be internal or external to the Municipality.

Internal risks are risks emanating from within the Municipality and over which the Municipality to a large extent has control over its occurrence.

External risks are risks emanating from outside the Municipality and the Municipality has little or no control over its occurrence.

10.3.7.2 Risk Level

Risks have been arranged into five main levels:

- **Strategic Risks:** Risks that affect the Municipality's ability to achieve its strategic goals, based on strategic planning, corporate or operating structure or business models.
- **Operational Risks:** Risks associated with the functioning of operational processes, people, information systems and management involved in the daily operations of the Municipality.
- **Project Risks:** Specific risks associated with the implementation and completion of projects that have or could have a substantial impact on the objectives and/or finances of the Municipality.
- **Incident Risks:** Risks that come to light / incidentally occur during the financial year, but were not captured in the risk register at the time of occurrence.
- **Emerging Risks:** Newly developing or changing risks which are difficult to quantify and which could have a significant impact on the Municipality. In some cases, the risk cannot be identified and measured with reasonable accuracy due to a lack of information and/or understanding.

10.3.7.3 Risk Categories

Risks are categorised based on their origin and the area they affect.

One risk may fall into many categories. In such instances the predominant cause and/or consequence of the risk should be used to determine the category.

Risk type	Risk Category	Description
Internal	Human resources	<p>Risks that relate to human resources of an institution. These risks can have an effect on an institution's human capital with regard to:</p> <ul style="list-style-type: none"> • Ethics; • Recruitment; • Skills & competence; • Staff wellness; • Labour relations; • Retention;

Risk type	Risk Category	Description
Internal	Knowledge and information management	<p>Risks relating to an institution's management of knowledge and information. In identifying the risks consider the following aspects related to knowledge management:</p> <ul style="list-style-type: none"> • Availability of information; • Stability of the information; • Integrity of information data; • Relevance of the information; • Retention; and • Safeguarding
Internal	Litigation	<p>Risks that the institution might suffer losses due to litigation and lawsuits against it. Losses from litigation can possibly emanate from:</p> <ul style="list-style-type: none"> • Claims by employees, the public, service providers and other third parties; • Failure by an institution to exercise certain rights that are to its advantage; • Costs of litigation (legal fees and productivity).
Internal	Loss \ theft of assets	<p>Risks that an institution might suffer losses due to either theft or loss of an asset of the institution.</p>
Internal	Material resources (procurement risk)	<p>Risks relating to an institution's material resources. Possible aspects to consider include:</p> <ul style="list-style-type: none"> • Availability of material; • Costs and means of acquiring \ procuring resources; and • The wastage of material resources
Internal	Information Technology	<p>The risks relating specifically to the institution's IT objectives, infrastructure requirement, etc. Possible considerations could include the following when identifying applicable risks:</p> <ul style="list-style-type: none"> • Security concerns; • Technology availability (uptime) • Applicability of IT infrastructure; • Integration / interface of the systems; • Effectiveness of technology; and • Obsolescence of technology

Risk type	Risk Category	Description
Internal	Third party performance	<p>Risks related to an institution's dependence on the performance of a third party. Risk in this regard could be that there is the likelihood that a service provider might not perform according to the service level agreement entered into with an institution. Non-performance could include:</p> <ul style="list-style-type: none"> • Outright failure to perform • Not rendering the required service in time; • Not rendering the correct service; and • Inadequate / poor quality of performance.
Internal	Occupational Health & Safety	<p>Risks from occupational health and safety* issues such as:</p> <ul style="list-style-type: none"> • Injury on duty; • Sickness caused by unhygienic conditions at the Municipality; • Mental trauma as a result of incidents at work; • Delivering the required standard of treatment for work related injuries, sickness and trauma, including psychological treatment; • Effectiveness of safe working processes, procedures and guidelines; • Adequacy and availability of protective clothing and equipment. <p>* Risks related to compliance with provisions of the Occupational Health and Safety Act will be categorised as a compliance risk.</p>
Internal	Disaster recovery / Business continuity	<p>Risks related to an institution's readiness or absence thereto to disasters that could impact the normal functioning of the institution e.g., natural disasters, act of terrorism etc. This would lead to the disruption of processes and service delivery and could include the possible disruption of operations at the onset of a crisis to the resumption of critical activities. Factors to consider include:</p> <ul style="list-style-type: none"> • Disaster management procedures; and • Contingency planning

Risk type	Risk Category	Description
Internal	Compliance / Regulatory	<p>Risks related to the compliance requirements that an institution has to meet. Aspects to consider in this regard are:</p> <ul style="list-style-type: none"> • Failure to monitor or enforce compliance; • Monitoring and enforcement mechanisms; • Consequences of non-compliance; and • Fines and penalties paid
Internal	Fraud and corruption	<p>Risks relating to offences of fraud and corruption committed by staff, councillors and the public which are or potentially could be prejudicial to the Municipality.</p>
Internal	Financial	<p>Risks encompassing the entire scope of general financial management. Potential factors to consider include:</p> <ul style="list-style-type: none"> • Cash flow adequacy and management thereof; • Financial losses; • Wasteful expenditure; • Budget allocations; • Financial statement integrity; • Revenue collection; and • Increasing operational expenditure.
Internal	Cultural	<p>Risks relating to an institution's overall culture and control environment. The various factors related to organisational culture include:</p> <ul style="list-style-type: none"> • Communication channels and the effectiveness; • Cultural integration; • Entrenchment of ethics and values; • Goal alignment; and • Management style.
Internal	Reputation	<p>Factors that could result in the tarnishing of an institution's reputation, public perception and image.</p>
External	Economic Environment	<p>Risks related to the institution's economic environment. Factors to consider include:</p> <ul style="list-style-type: none"> • Inflation; • Foreign exchange fluctuations; and • Interest rates

Risk type	Risk Category	Description
External	Political Environment	Risks emanating from political factors and decisions that have an impact on the institution's mandate and operations. Possible factors to consider include: <ul style="list-style-type: none"> • Political unrest; • Local, Provincial and National elections; and • Changes in office bearers.
External	Social environment	Risks related to the institution's social environment. Possible factors to consider include: <ul style="list-style-type: none"> • Unemployment; and • Migration of workers
External	Natural environment	Risks relating to the institution's natural environment and its impact on normal operations. Consider factors such as: <ul style="list-style-type: none"> • Depletion of natural resources; • Environmental degradation; • Spillage; • Pollution; and • Disease/ pandemics
External	Technological environment	Risks emanating from the effects of advancements and changes in technology.
External	Legislative environment	Risks related to the institution's legislative environment e.g., changes in legislation, conflicting legislation.

10.4 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.

10.4.1 Risk Rating / Inherent Risks

A risk's impact and likelihood are separately assessed on a 10X10 scale. The inherent risk rating is calculated by multiplying the impact rating and likelihood rating of the risk.

10.4.1.1 Impact

When determining the impact rating, the worst-case scenario that could materialise when there is no control intervention from the Municipality is considered.

Rating	Assessment	Description
1	Negligible	Impact of adverse event has little (if any) impact on services.
2	Insignificant	Impact of adverse event is minimal.
3	Minor	Impact will be coped with in short term through normal operational processes performed by staff.
4	Immaterial	<ul style="list-style-type: none"> - Irritation in rendering or receiving services. - No material impact on achievement of the Municipality's strategy and objectives. - Can be dealt with by senior staff.
5	Marginal	<ul style="list-style-type: none"> - Disruption of normal operations/services. - Limited effect on the achievement of the Municipality's strategy and objectives. - Requires intervention from the Line Manager.
6	Moderate	<ul style="list-style-type: none"> - Short/medium term disruption of services. - Reduced ability to achieve the Municipality's strategy and objectives. - Requires intervention from the Head of Department.
7	Significant	<ul style="list-style-type: none"> - Significant long-term disruption of services. - Significantly reduced ability to achieve the Municipality's strategy and objectives. - Requires intervention from the Director.
8	Major	<ul style="list-style-type: none"> - Major event resulting in the long-term cessation of a core organisational activity. - Severely reduced ability to achieve the Municipality's strategy and inability to achieve certain objectives. - Material at organisation level. - Requires intervention from the Municipal Manager and Audit Committee involvement.
9	Critical	<ul style="list-style-type: none"> - Critical event resulting in the long-term cessation of several core organisational activities. - Drastically reduced ability to achieve the Municipality's strategy and inability to achieve the majority of objectives. - Requires intervention from Council.

10	Catastrophic	<ul style="list-style-type: none"> - Critical event resulting in the long-term cessation of the majority or all core organisational activities. - Inability to achieve the Municipality's strategy and objectives. - Requires intervention from Provincial and/or National Government.
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10.4.1.2 Likelihood

When determining the likelihood rating, the likelihood that the risk and its worst impact will materialise when there are no controls in place is considered.

Rating	Assessment	Description
1	Rare	0%-10% chance of occurring
2	Improbable	11-20% chance of occurring
3	Remote	21%-30% chance of occurring
4	Occasional	31%-40% chance of occurring
5	Potential	41%-50% chance of occurring
6	Possible	51%-60% chance of occurring
7	Probable	61%-70% chance of occurring
8	Expected	71%-80% chance of occurring
9	Almost Certain	81%-90% chance of occurring
10	Certain	91%-100% chance of occurring

10.4.1.3 Inherent Risk Exposure

The inherent risk exposure is determined by comparing the inherent risk rating against the risk appetite.

Inherent Risk Rating	Magnitude	Definition
0 – 39.99	Low	Level of inherent risk is within the risk appetite – Low level of control intervention required, if any.
40 – 59.99	Medium	Unacceptable level of risk – Moderate level of control intervention required to achieve an acceptable level of residual risk.

60 – 100	High	Unacceptable level of risk – High level of control intervention required to achieve an acceptable level of residual risk.
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10.4.1.4 Financial Exposure

The financial exposure is calculated based on the worst-case scenario used to determine the impact rating.

10.4.2 Current Controls Effectiveness / Residual Risks

Current controls' effectiveness in mitigating risks is assessed on a 0-1 reduction scale. The more effective the control, the more it mitigates the inherent risk and the less is the residual risk.

The residual risk rating is calculated by multiplying the inherent risk rating with the current control's effectiveness rating.

10.4.2.1 Current Controls Effectiveness

Effectiveness	Qualification Criteria	Rating
Very effective	Controls are pro-actively managing the risk causes and impacts, preventing the risk from materialising and on rare occasions when the risk does materialise, the impact is minor.	0.2
Effective	Controls are managing the risk causes and impacts as planned and result in effective risk mitigation.	0.4
Moderately effective	Controls are managing the risk causes and impacts to some extent, but its risk mitigation effect is inadequate.	0.75
Ineffective	Controls do not manage the risk causes or impacts adequately, resulting in ineffective risk mitigation.	0.9
Inherent controls in place	Common, non-designed controls that exist in the normal course of operations. (e.g. lock outside door at end of work day)	1

10.4.2.2 Cost of Controls

The cost of controls includes all costs associated with maintaining the current controls for the financial year. Costs associated with replacing the controls when it reaches the end of its useful life are apportioned across financial years according to the expected useful life of the control components.

Implementation costs are not included in the cost of controls. The current controls are already in place and the implementation costs have been incurred in the past.

10.4.2.3 Residual Risk Exposure

The residual risk exposure is determined by comparing the residual risk rating to the risk appetite of the Municipality.

Residual Risk Rating	Magnitude	Definition
0 – 20	Low	Acceptable level of residual risk – Requires no or minimal control improvements. Residual risk is below/within the risk appetite level.
20.01 – 39.99	Medium	Residual risk is below/within the risk appetite level, but should still be responded to in order to reduce residual risk exposure – Implies that the control environment is adequate but with room for improvement. Controls require some redesign or more emphasis on proper implementation.
40 – 100	High	Residual risk is above the risk appetite level and unacceptable – Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation). Controls require substantial redesign or a greater emphasis on proper implementation.

10.4.2.4 Cost of Controls vs Cost of Risk

The cost of controls is adjusted for its effectiveness and compared to the financial exposure of the risk as indicated by the following formula:

$$\text{financial exposure} - [\text{cost of controls} \times (1 + \text{current controls effectiveness rating})]$$

A positive value indicates that the cost of controls is less than the financial consequences of the risk (value creation). A negative value indicates the cost of controls is more than the financial consequences of the risk (value destruction) and a review of controls is required to align the cost of controls with the cost of risk.

10.4.2.5 Controls Cost Effectiveness

The controls cost effectiveness is calculated by comparing the value of the cost of controls vs cost of risk against the financial exposure and expressing it as a percentage.

This figure can be seen as the Municipality's return on investment in the control environment, since the Municipality is investing money to maintain the control environment and expecting a return in the form of prevented financial losses.

The controls cost effectiveness figure allows the Municipality to compare the costs of controls of risks of different magnitude to determine whether the controls are cost effective in relation to the cost of the risk. This can be used to allocate funds to improve the control environment where it will reap the most financial benefits.

10.5 RISK RESPONSE

Having assessed relevant risks, management determines how it will respond to align the risks with the Municipality's risk appetite and risk tolerance, in other words how to bring the residual risk rating within acceptable levels.

10.5.1 Type of Response

Risk responses fall in one or more of the following categories:

- Avoidance – avoiding the risk, e.g., by choosing a different strategy or terminating the activity that produces the risk;
- Treatment – treating the risk, e.g., by implementing or improving the internal control system;
- Transfer – transferring the risk to another party more competent to manage it, e.g., contracting out services, establishing strategic partnerships and buying insurance;
- Acceptance – accepting the risk where cost and strategy considerations rule out alternative strategies;
- Exploit – exploiting the risk factors by implementing strategies to take advantage of the opportunities presented by such risk factors.

10.5.2 Risk Action Plans

The action plans to reduce the risk (referred to as risk actions) are developed according to the following criteria:

Residual Risk Level	Risk Actions
high (above risk appetite)	The current controls are not effective at mitigating the risk. Comprehensive action is required, which can include new controls, enforcing current controls more strictly and redesigning the systems and processes to eliminate the cause(s) of the risk.

medium	The current mitigation of the risk is adequate, but the control environment should be improved. The current controls should be enforced more strictly and/or new controls should be implemented.
low	Current controls should be continuously monitored and evaluated for effectiveness. Any deficiencies identified should be addressed immediately or result in the creation of an additional risk action.

The proposed risk actions must be practical. The person responsible for the implementation of the risk action, referred to as the risk action owner, must have or be able to obtain the funds, personnel, assets, skills and time required to implement the risk action.

Additionally, the future cost of controls when the risk action has been implemented must be calculated to determine the effect on the cost of controls vs cost of risk. Risk actions that will result in a negative value should not be implemented, unless it mitigates material risks of a non-financial nature.

10.5.3 Implementation of Risk Actions

Along with the development of the risk action, the estimated timeframe to implement the risk action must be determined. The implementation of risk actions for risks with high likelihoods or high impacts should be fast-tracked.

The risk action owner is responsible for the implementation of the risk action and can delegate responsibilities to other staff and engage with internal and external role players to successfully complete the risk action on time.

10.6 CONTROL ACTIVITIES

Policies and procedures are established and implemented by the Municipal Manager, Senior Management, Management and the Risk Management Unit to help ensure the risk responses are effectively 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.

10.7 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, downstream and across.

10.8 MONITORING

The system of enterprise risk management is monitored and modifications made if necessary. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two.

Monthly monitoring occurs in the normal course of management activities. The Risk Management Unit monitors the enterprise risk management of the Municipality on an ongoing basis.

The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. The Risk Management Unit and Internal Audit can perform separate evaluations.

11 RISK REPORTING

Different levels within Municipality need different information from the risk management process.

The Council, including its Committees, and the Municipality's political office-bearers should -

- know about the most significant risk facing the Municipality;
- ensure appropriate levels of awareness throughout the Municipality;
- be informed on the process of managing risks;
- know the importance of stakeholder confidence in the Municipality; and
- be assured that the risk management process is working effectively.

The Municipal Manager and Senior Management should -

- be aware of risks which fall into their area of responsibility, the possible impacts these may have on other areas and the consequences other areas may have on them;
- have performance indicators which allow them to monitor the key business and financial activities, progress towards objectives and identify developments which require intervention [e.g., forecasts and budgets];
- have systems which communicate variances in budgets and forecasts at appropriate frequency to allow action to be taken; and
- report systematically and promptly to Risk Oversight Committee any perceived new risks or failures of existing control measures.

Officials of the Municipality should -

- understand their accountability for individual risks;
- understand how they can enable continuous improvement of risk management response;
- understand that risk management and risk awareness are a key part of the Municipality's culture; and
- report systematically and promptly to senior management any perceived new risks or failures of existing control measures.

12 RISK UNIVERSE

Many risks are universal, affecting other institutions as well. The universal nature of these risks can enable the Municipality to compare its risk register with the risk registers of other institutions to identify risks that may have been missed in the initial risk assessment and learn more about the mitigation strategies of others, to incorporate it into the risk management of the Municipality.

Swellendam Municipality's risk register is compared with the annual IRMSA Risk Report: South Africa Risks and the risk registers of the other four municipalities that are part of the SSC.

13 INTEGRATION OF RISK MANAGEMENT PLANS/POLICIES

There are many separate plans and policies available that individually deal with fraud, IT, occupational health and safety, disaster management and compliance. These plans and policies contain risk information and risk mitigation plans.

All the different risk information and mitigation plans should be integrated into a single risk register, to provide a detailed and complete profile of the Municipality's risks.

14 COMBINED ASSURANCE

Combined assurance will optimise and maximise the level of risk, governance and control oversight over the Municipality's risk landscape, by integrating, coordinating and aligning the risk management and assurance processes within the Municipality.

A Combined Assurance Model for the top 10 risks (top five strategic and operational risks) or risks above the risk appetite will be created and updated quarterly to ensure the Municipality's most significant risks receive adequate assurance.

The combined assurance activities of the Municipality will be conducted in accordance with the Combined Assurance Policy Framework.

15 BUSINESS CONTINUITY

Business continuity is an integral part of risk management.

In the event of extended service outages caused by factors beyond the Municipality's control, the Municipality must be able to restore services to the widest extent possible in a minimum time frame.

A Business Continuity Framework is in place to direct business continuity activities and a Business Continuity Committee has been established to oversee the execution of those activities.

16 ENTERPRISE RISK MANAGEMENT MATURITY

The ERM maturity of the Municipality is assessed on an annual basis by the Chief Risk Officer, reviewed by the FARMCO and monitored by the APAC.

The assessment is used in the development of the risk management implementation plan for the next financial year to include initiatives to address the shortcomings identified in the assessment and increase the ERM maturity of the Municipality.

17 POLICY REVIEW

The content of the Risk Management policy will be reviewed and approved by Council to reflect the current stance on risk management within the Swellendam Municipality.