ANNEXURE "C"

BITOU
MUNICIPALITY

ENTERPRISE RISK MANAGEMENT STRATEGY

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VERSION

Description	Version Number	Date	Changes
Enterprise risk management strategy	**2.0**	**26 08 2020**	**Revised for approval by the RMC and Council.**

GLOSSARY OF TERMS

BATHO PELE PRINCIPLES:	Similarly, the principles of Batho Pele clearly articulate the need for prudent risk management to underpin government objectives. Batho Pele strives to install a culture of accountability and caring by public servants. Further objectives of Batho Pele include supporting the governments' governance responsibilities, improving results through more informed decision-making, strengthening accountability and enhancing stewardship and transparency, all of which resonate well with the principles of risk management.
BM	Bitou Municipality
Compliance:	Conforming with laws and regulations applicable to an entity.
Control:	1. A noun, denoting an item, e.g., existence of a control – a policy or procedure that is part of internal control. A control can exist within any of the eight components. 2. A noun, denoting a state or condition, e.g., to effect control – the result of policies and procedures designed to control; this result may or may not be effective internal control. 3. A verb, e.g., to control – to regulate; to establish or implement a policy that effects control.
CORPORATE GOVERNANCE:	Institutions are encouraged to adhere to the principles espoused in the King IV Report on Corporate Governance (King IV) given its promotion of an advanced level of institutional conduct.
Criteria:	A set of standards against which BM risk management can be measured in determining effectiveness. The eight BM risk management components, taken in the context of inherent limitations of BM risk management, represent criteria for BM risk management effectiveness for each of the four objectives categories.
CRO (Chief Risk Officer)	Manager: Risk Management. The CRO is thus the custodian of the ERM framework, the co-ordinator of the risk management throughout the district municipality and the institutional advisor on all risk management matters.
EXECUTIVE AUTHORITY:	The Mayoral Executive Committee (MAYCO) is accountable to the Council in terms of the achievement of the goals and objectives of the BM
IDP:	Integrated Development Plan
Institution/Entity:	Municipality
Likelihood:	The possibility that an event will occur

MFMA:	Municipal Finance Management Act (Act 56 of 2003) (MFMA)
NTR:	National Treasury Regulations
Operations:	Used with “objectives” or “controls”: having to do with the effectiveness and efficiency of an entity's activities, including performance and profitability goals, and safeguarding resources.
Other personnel:	Other Personnel are accountable to line management to integrate the principles of risk management into their daily routines to enhance the achievement of their functional objectives.
Policy:	Management's dictate of what should be done to effect control. A policy serves as the basis for procedures for its implementation.
Procedure:	An action that implements a policy.
Reporting:	Used with “objectives”: having to do with the reliability of the entity’s reporting, including both internal and external reporting.
Residual Risk:	The remaining risk after management has taken action to alter the risk’s likelihood or impact.
RMC	The Risk Management Committee is responsible for oversight of the quality, integrity and reliability of the BM’s risk management processes and risk responses.
Risk:	The possibility that an event will occur and adversely affect the achievement of objectives.
Risk Appetite:	The broad-based amount of risk a company or other entity is willing to accept in pursuit of its mission or vision.
Risk Management:	The identification, assessment and response to risk to a specific objective.
RISK MANAGEMENT FRAMEWORK:	The Bitou Municipality Risk Management Framework (Framework) represents the pre-eminent source of reference and guidance on risk management practices in the public sector.
RISK MANAGEMENT POLICY:	The risk management policy formally sets out the BM’s stance on ERM. The risk management policy generally addresses what the district municipality will do about ERM
RISK MANAGEMENT STRATEGY:	The risk management strategy guides the BM on how to implement its risk management policy.
Risk Tolerance:	The acceptable variation relative to the achievement of objectives.
Stakeholders:	Parties that are affected by the entity, such as shareholders, the communities in which the entity operates, employees, customers and suppliers.
Strategic:	“Used with objectives”: having to do with high-level goals that are aligned with and support the entity’s mission.

INTRODUCTION

Purpose:

- The purpose of this document is to establish a framework for the systematic management of risk that will ensure that the objectives of the municipality's Risk Management Policy are realized.
- It has been developed to support Management as well as the Chief Risk Officer with the execution of their Enterprise Risk Management (ERM) related tasks and responsibilities.

Growing Nature of this document:

- As this is a methodology document, please bear in mind that the contents of this document may change from time to time. Please ensure that you have the latest copy of this document, by referring to the version date on the front page and obtaining the last version date from the Chief Risk Officer within the Office of the Municipal Manager.

The need for an effective ERM system

- The need for local government to implement effective ERM systems are clearly described in the following extract from the MFMA, Section 62(1) (c) (i) and Section 95:

> "General financial management functions.—(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must take all reasonable steps to ensure —
>
> (c) that the municipality has and maintains effective, efficient and transparent systems —
>
> (i) of financial and risk management and internal control."

> "General financial management functions of accounting officers. — The accounting officer of a municipal entity is responsible for managing the financial administration of the entity, and must take reasonable steps to ensure—
>
> (a) that the resources of the entity are used effectively, efficiently, economically and transparently
>
> (b) that full and proper records of the financial affairs of the entity are kept
>
> (c) that the entity has and maintains effective, efficient and transparent systems—
>
> (i) of financial and risk management and internal control; and
>
> (ii) of internal audit complying with and operating in accordance with any prescribed norms and standards;"

- In addition National Treasury Regulation 3.2.1 also makes it clear as to what needs to be done in terms of risk management implementation. Below is an extract of the said NTR that was issued:

  *"*The accounting officer must ensure that a risk assessment is conducted regularly to identify emerging risks of the institution. A risk management strategy, which must include a fraud prevention plan, must be used to direct internal audit effort and priority, and to determine the skills required of managers and staff to improve controls and to manage these risks. The strategy must be clearly communicated to all officials to ensure that the risk management strategy is incorporated into the language and culture of the institution."

- The need for definitive guidance on risk management has led to National Treasury and the Public Service Commission to develop and issue a National Risk Management Framework. The objectives of the Framework were:
  - ➲ To develop and implement modern management practices
  - ➲ To create a risk-smart workforce and environment
  - ➲ To develop a comprehensive approach to integrate risk management into strategic decision-making
  - ➲ To give guidance to all role players
- The municipality's ERM Strategy is entirely based on the National Risk Management Framework thereby ensuring that we adhere to legal requirements as well as being on par with best practice.

Definitions

Risk:

Uncertainty of events or variability of outcomes which have the potential to undermine the achievement of IDP **objectives** in the most **effective, efficient** and **economical** manner. Also missing out on opportunities to optimize **effectiveness**, **efficiency** and **economy** when pursuing set **objectives**.

Enterprise Risk Management:

"Enterprise risk management is a process, effected by an entity's Accounting Officer, management and other personnel, applied in strategy setting and across the entity, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

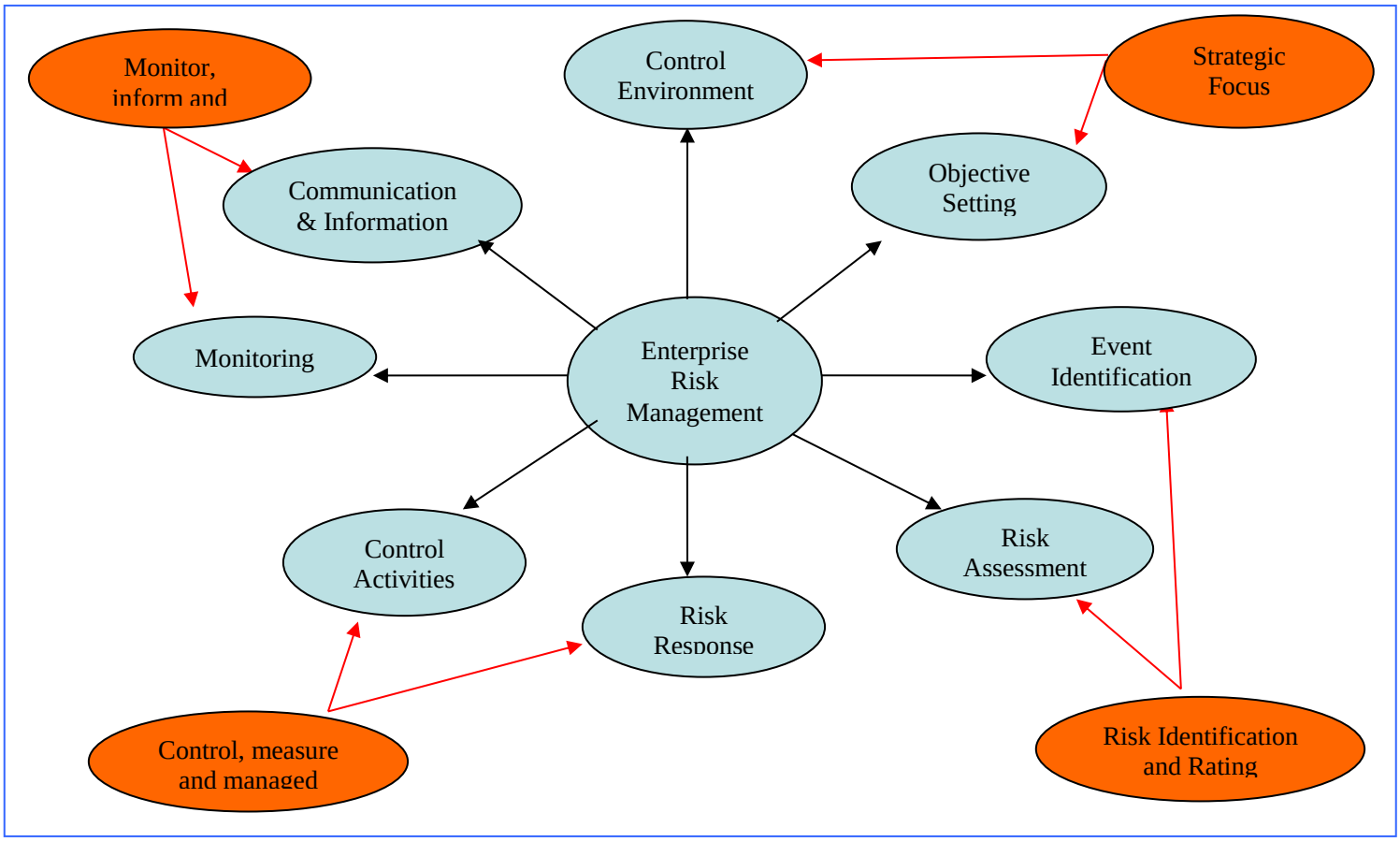
"National Risk Management Framework"

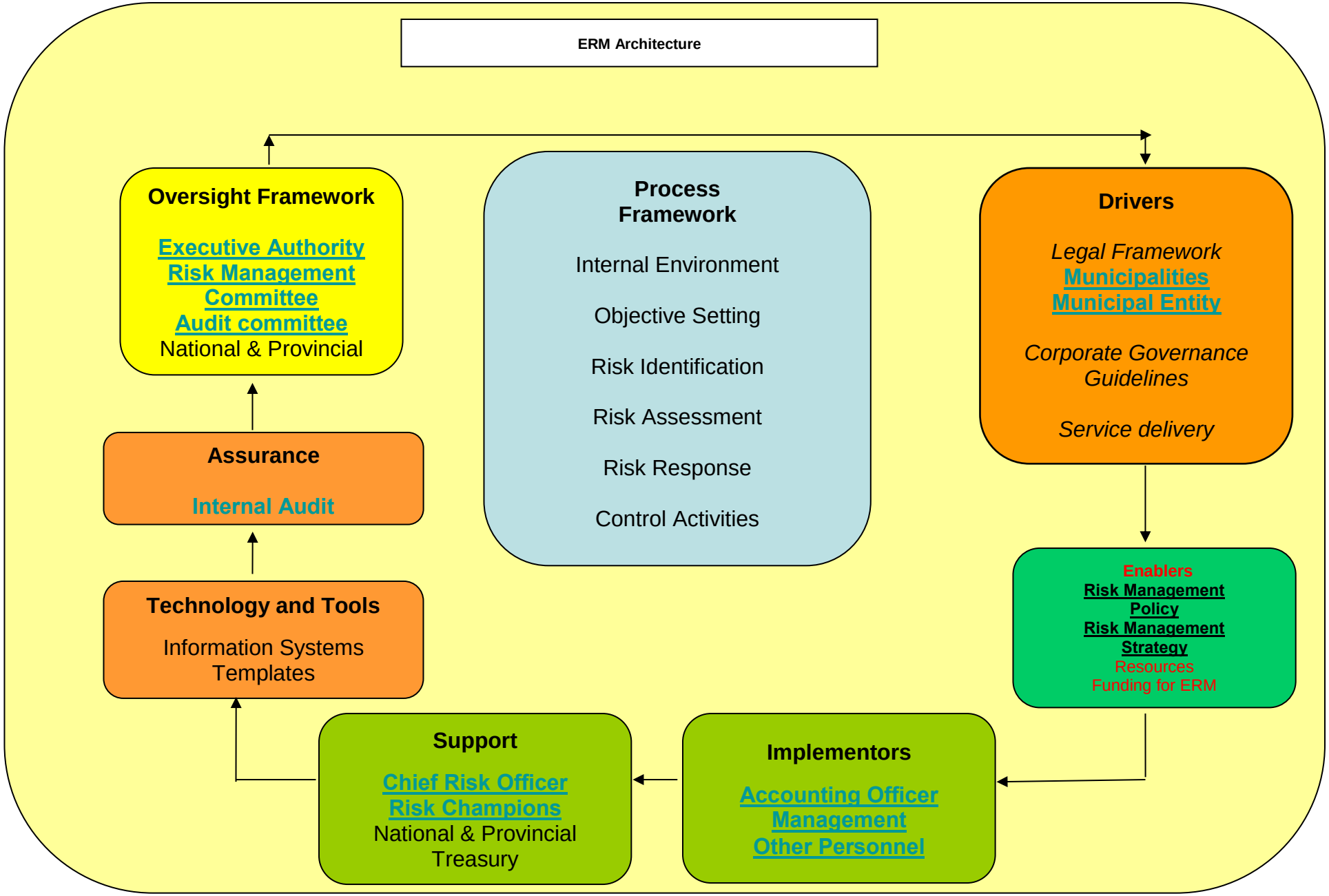
- **The ERM process can be split into four main areas:**
  - ➲ First is to identify and evaluate the risks facing the organization and link these to strategic objectives.
  - ➲ Secondly, risk response strategies are put in place to treat risks through some form of action that will alter the likelihood or impact of an event or action occurring.
  - ➲ Thirdly, risks and treatments must be monitored on a continuous basis; AND
  - ➲ Lastly, there is the provision of assurance that certain actions are being carried out correctly.

THE ERM STRATEGY

AN OVERVIEW OF ERM METHODOLOGY

Figure 1: Bitou Municipality (BM) ERM Methodology




ERM Architecture
Oversight Framework
Executive Authority
Risk Management Committee
Audit committee
National & Provincial
Process Framework
Internal Environment
Objective Setting
Risk Identification
Risk Assessment
Risk Response
Control Activities
Drivers
Legal Framework
Municipalities
Municipal Entity
Corporate Governance Guidelines
Service delivery
Assurance
Internal Audit
Technology and Tools
Information Systems
Templates
Enablers
Risk Management Policy
Risk Management Strategy
Resources
Funding for ERM
Support
Chief Risk Officer
Risk Champions
National & Provincial Treasury
Implementors
Accounting Officer
Management
Other Personnel

- The interrelated components as depicted in Figure 1 form the bases of the ERM methodology at Bitou Municipality. The components are linked and serve as criteria for ensuring that ERM is effective:

  - ➲ **The control environment** encompasses the management style and tone within BM which is based on achieving its objectives within parameters set by the municipality's risk management philosophy, risk appetite and risk culture.
  - ➲ BM's annual ERM approach is fed by the municipality's annual strategic **objective setting** process IDP which also feeds into budget, thereby ensuring integration of risk management.
  - ➲ **Event identification** is the process of identifying potential events both internal and external that may affect BM's ability to successfully implement strategy and achieve municipal objectives.
  - ➲ **Risk assessment** allows BM to consider the extent to which potential events might have an impact on the achievement of IDP objectives. Identified risks are analyzed and assessed by considering the risk Likelihood and Impact in order to form a basis for determining how they should be managed.
  - ➲ Having completed the risk assessment**, risk responses** are formulated. These include risk avoidance, reduction, sharing and acceptance.
  - ➲ **Control activities** are those policies and procedures that help ensure that management's responses to identified risks are carried out. These control activities are recorded in BM's risk register and acts as a driver for monitoring and reporting on the status of risk management within the municipality.
  - ➲ The status of ERM is **monitored** on a regular basis by the ERM unit of the municipality and the Risk Management Committee. The adequacy and effectiveness of the ERM process is independently assessed by the Municipality's Internal Audit unit as part of their Annual Internal Audit Plan.
  - ➲ The Chief Risk Officer **communicates and reports** on the status of ERM upstream on a monthly basis via the Risk Management Committee, with serious matters reported to the Accounting Officer, Trade Unions, Council and the Audit Committee.

DETAILED ERM METHODOLOGY

COMPONENT 1 - CONTROL ENVIRONMENT

- This municipality's control environment consists of different layers that are all present and functioning and provide the building blocks for BM's ERM system. Below is a brief description of each component:

a) Enterprise Risk Management Philosophy

- The philosophy reflects the value that the BM seeks from applying risk management principles. It facilitates the employees' ability to recognize and effectively manage risks.
- The ERM Philosophy provides the building blocks for the risk management process and forms part of the overall ERM Strategy.

b) Risk Tolerance

- BM readiness to bear the risk after treating the risk in order to achieve its objectives is outlined and guided by the BM Risk Tolerance Statement. The BM Risk Tolerance Statement of each Directorate will be developed with management.
- BM Risk Tolerance Levels of each Directorate varies, but must be aligned to the municipality's risk appetite.

c) Risk Culture

- To ensure that a systematic framework for risk management is implemented throughout the Municipality, risk management thinking needs to be embedded into the culture and the thought processes of all individuals. This will be achieved through:-
  - Communication and feedback
  - Meeting agendas
  - Management Performance Agreements

- Communication and feedback
  - The ERM Policy and Strategy document will be issued to the following interested parties:-
    - ➲ All Members of the Risk Management Committee;
    - ➲ Executive Management Committee;
    - ➲ All Managers;
    - ➲ Trade Unions

- ➲ Council
- ➲ Other interested external parties such as the Audit Committee; and
- ➲ All staff members.

- The launch of the ERM Policy and Strategy will include an article in all staff newsletters as well as publication on the municipality intranet and website. It is essential that communication on this important Strategy is a two-way process and not simply 'top down'. All individuals throughout the municipality will be encouraged to provide feedback on the Strategy and any related risk management issues.

- Meeting Agendas
  - ERM will be a standing agenda item for the following meetings: -
    - ➲ Risk Management unit - All risks and risk management issues
    - ➲ Directorate Management Teams - Operational or project risks pertinent to the Directorate's business and any crosscutting risk issues.

- Management Appraisals
  - Objectives set for management under the Performance Agreements will include risk management focused objectives. For more junior staff the objective may relate to individual and/or team compliance with control systems and/or identification and mitigation of routine or transactional process risks.

d) Mayoral Committee/Council

- The BM's executive authority has demonstrated its commitment to ERM by fully endorsing the ERM Policy and Strategy.

e) Integrity and Values

- As a Municipality, its actions, conduct and behaviour are guided by the following principles:
  - ➲ Excellence in service delivery;
  - ➲ Leveraging tourism development;
  - ➲ Improvement of basic service delivery to informal settlements and the poor;
  - ➲ Embracing technology to facilitate development and progress;
  - ➲ Create an enabling environment where all people can be included;
  - ➲ Effective and efficient utilisation of resources;
  - ➲ Improvement of safety for all communities; and

- ➲ Institutional and financial sustainability.

f) Commitment to Competence

- It is essential that members of the municipal ERM unit, management and all other key personnel involved in the risk management process are well trained in risk management methodologies and approaches. A programme of training through specialist internal and/or external trainers will be implemented to ensure that individuals are able to effectively implement this strategy in accordance with best practice.

g) Management's Philosophy and Operating Style

- Value is created by informed and inspired management decisions in all spheres of the municipality's activities, from strategy setting to operations. ERM supports value creation by enabling management to:
  - ➲ Deal effectively with potential future events that create uncertainty.
  - ➲ Respond in a manner that reduces the likelihood of downside outcomes and increases the upside.
- Management are aware that failure to recognize the risks they face, from external or internal sources and to manage them effectively can destroy value for stakeholders, including the community and society at large.

h) Organizational Structure

- A large part of the responsibility for driving the ERM agenda rests with the Enterprise Risk Management component within the municipality. This responsibility includes making the Accounting Officer aware of his/her accountability for ERM and assisting him/her to create an appropriate culture, operating structure and system within which the practice of ERM can take root and eventually flourish.
- In order to strengthen ERM within the Bitou Municipality, the Council (per Resolution C/3/66/06/13 of 30 June 2013) concurred in principle the Risk Management Strategy, with the creation of an enterprise risk management unit in Bitou municipality.
- In complying with the said Council Resolution, the municipality has established an ERM unit comprising inter alia of the following personnel:
  - ➲ Risk Manager / Chief Risk Officer

i) Authority and Responsibility

- The MFMA, Act 56 of 2003 is quite clear as to who is responsible for ERM within a municipality.
- Responsibility for the management of risk, however, is not restricted to any one person or group of specialists. It is the duty of every member of staff and manager.
- This municipality is confident that the work done thus far, coupled with the commitment and enthusiasm of its stakeholders, provides a sound basis for going forward
- Below is a clear statement of the roles and responsibilities of the various role-players:

ACCOUNTING OFFICER / MUNICIPAL MANAGER	
ROLE	**RESPONSIBILITIES**
• Responsible for effective, efficient and transparent systems of financial and risk management and to ensure that internal controls are in place.	• To advise Council on the approval and adoption of the Municipal ERM Policy and Strategy. • To delegate the responsibility of high-level strategic risk ownership to appropriate personnel. • To update the Executive Mayor and external stakeholders on the Municipal Risk Profile. • Setting the tone at the top by supporting ERM and allocating resources towards the implementation thereof; • Establishing the necessary structures and **reporting lines** within the BM to support ERM; • Recommending the approval of the **risk management strategy**, **risk management policy, risk management implementation plan, risk universe** and **fraud prevention policy** to the Risk Management Committee and Council; • Recommending the approval of the BM's risk appetite and **risk tolerance** to Council**;** • Influencing an institutional "risk aware" culture; • Approving the code of conduct for the institution and holding management and officials accountable for adherence; • Place the key risks at the forefront of the management agenda and devote personal attention to overseeing their effective management;

	• Hold management accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities; • Holding the structures responsible for risk management activities accountable for adequate performance; • Ensuring that a conducive **control environment** exists to ensure that identified risks are proactively managed; • Leverage the Audit Committee, Internal Audit, Risk Management Committee and other appropriate structures for assurance on the effectiveness of risk management; • Provide all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored; • Consider and act on recommendations from the Audit Committee, Internal Audit, Risk Management Committee and other appropriate structures for improving the overall state of risk management; • Provide appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management.

RISK MANAGEMENT COMMITTEE	
ROLE	**RESPONSIBILITIES**
• Responsible for overseeing the risk management process in terms of identifying and managing risks and opportunities to the Municipality and to setting the example and standards for all other officials in the Municipality.	• Meet on a quarterly basis and when required to discuss risk management related issues. • Determine the Municipal ERM Policy and Strategy. • Promote and oversee the implementation of the ERM Policy and Strategy. • Determine the municipal risk appetite and advise the Accounting Officer thereon. • Delegate responsibilities for control to appropriate personnel. • Review ERM reports tabled by the Chief Risk Officer. • Ensure that risk response actions taken by Risk Owners are adequate and effective. • Ensure that high-level strategic and cross-cutting risks are identified and analyzed. • Ensure that appropriate risk management skills training is provided to all members and staff. • Report to Accounting Officer and external stakeholders on the Municipal Risk Management Policy and Strategy and processes.

MANAGEMENT	
ROLE	**RESPONSIBILITIES**
• Responsible for the organizational units under their direct control and supervision and managing risks related to their unit's objectives.	• Convert ERM Policy and Strategy into operations. • Identify risks that could adversely affect the achievement of their unit's objectives. • Prioritize these risks in terms of Impact and Likelihood. • Take ownership of the identified risks and develop adequate risk response strategies. • Develop and implement adequate control activities to mitigate risks identified. • Continuously monitor the functioning of the risk management system. • Provide monthly reports on the directorate or unit's risk profile to the Chief Risk Officer. • Embed ERM into the business tasks of the specific directorate.

RISK MANAGER	
ROLE	**RESPONSIBILITIES**
• Responsible for providing ERM leadership and direction, creating and maintaining risk awareness across the Municipality and continuously monitor the ERM policy and strategy to ensure that it is adequate and functioning as intended.	• Drive the ERM process by ensuring that the ERM Policy and Strategy is adopted and effectively implemented. • Facilitate the identification, assessment and management of all risks. • Facilitate the identification the existing controls that mitigate the risks identified. • Ensure that the controls identified are adequate to address the risks. • Make recommendations where deficiencies were found and monitor their application. • Develop and maintain a Municipal Risk Profile and ensure it is regularly updated. • Provide timeous reports to the Risk Management Committee and interested stakeholders as and when required. • Ensure that the Risk Management Committee meets regularly as per the terms of reference.

RISK MANAGER	
ROLE	**RESPONSIBILITIES**
	• Chair / Lead the BM Risk Champion Forums on a monthly basis. • Ensure that management is properly capacitated to perform their ERM responsibilities by providing regular training. • Create ERM awareness amongst all staff by following an integrated Top-Down Approach

MAYORAL COMMITTEE/ COUNCIL	
ROLE	**RESPONSIBILITIES**
• Mayoral Committee is accountable to the Council in terms of the achievement of IDP goals and objectives of the BM	• Providing oversight and direction to the Accounting Officer on risk management related strategy and policies; • Having knowledge of the extent to which the Accounting Officer and management has established effective risk management within the municipality; • Awareness of and concurring with the municipality's risk appetite and tolerance levels; • Reviewing the BM portfolio view of risks and considers it against the municipality's risk tolerance; • Influencing how strategy and objectives are established, municipal activities are structured, and risks are identified, assessed and acted upon; • Requiring that management should have an established set of values by which every employee should abide by; • Insisting on the achievement of objectives, effective performance management and value for money;

MAYORAL COMMITTEE/ COUNCIL	
ROLE	**RESPONSIBILITIES**
	• Considering the design and functioning of control activities, information and communication systems, and monitoring activities; • Considering the design, the quality and frequency of reporting; • Considering the design and the way the municipality is managed including the type of risks accepted and the appropriateness of reporting lines;

AUDIT COMMITTEE	
ROLE	**RESPONSIBILITIES**
• Audit Committee is responsible for providing the Council with independent counsel, advice and direction in respect of risk management.	• Gains thorough understanding of the **risk management policy**, **risk management strategy**, **risk management implementation plan,** and **fraud prevention policy** of the institution to enable them to add value to the risk management process when making recommendations to improve the process; • Reviews and critiques the risk appetite and **risk tolerance**, and recommends this for approval by the Council; • Reviews the completeness of the **risk assessment** process implemented by management to ensure that all possible categories of risks, both internal and external to

AUDIT COMMITTEE	
ROLE	**RESPONSIBILITIES**
	the institution, have been identified during the risk assessment process. This includes an awareness of emerging risks pertaining to the institution. • Reviews the risk profile and management action plans to address the risks; • Reviews the adequacy of adapted risk responses; • The audit committee must monitor the progress made with the management action plan; • Reviews the progress made with regards to the implementation of the risk management strategy of the institution; • Facilitates and monitors the coordination of all **assurance** activities implemented by the institution; • Reviews and recommends any risk disclosures in the annual financial statements; • Provides regular feedback to the Council on the effectiveness of the risk management process implemented by the institution; • Reviews the process implemented by Management in respect of fraud prevention and ensure that all fraud related incidents have been followed up appropriately; • Reviews and ensures that the internal audit plans are aligned to the risk profile of the institution;

AUDIT COMMITTEE	
ROLE	**RESPONSIBILITIES**
	• Reviews the effectiveness of the internal audit assurance activities and recommends appropriate action to address any shortcomings.

INTERNAL AUDIT	
ROLE	**RESPONSIBILITIES**
• Internal Audit is accountable to the Audit Committee for providing independent assurance regarding risk management activities of the BM.	• Reviewing the risk philosophy of the institution. This includes the **risk management policy**, **risk management strategy**, fraud prevention plan, **risk management reporting lines**, the values that have been developed for the institution; • Reviewing the appropriateness of the risk **tolerance** levels set by the institution taking into consideration the risk profile of the institution; • Providing assurance over the design and functioning of the **control environment**, information and communication systems and the monitoring systems;

INTERNAL AUDIT	
ROLE	**RESPONSIBILITIES**
	• Providing assurance over the institution's **risk identification** and **assessment** processes; • Utilising the results of the risk assessments to develop long term and current year internal audit plans; • Providing independent assurance as to whether the **risk management strategy**, **risk management implementation plan** and fraud prevention plan have been effectively implemented within the institution; • Providing independent **assurance** over the adequacy of the control environment. This includes providing assurance over the effectiveness of the internal controls implemented to mitigate the identified risks.

RISK CHAMPIONS	
ROLE	**RESPONSIBILITIES**

• Responsible for supporting the Director in fulfilling his/her mandate to ensure effective and efficient risk management by collaborating with the CRO and unit managers aimed at achievement of the objectives and regularly reporting to the Director on risk activities and related problems.	• Attend monthly BM Risk Champion Forum meetings. • Risk Champions are to act as change agents in the enterprise risk management process and should be individuals with the skills, knowledge and leadership required to champion the risk management cause. • Risk Champion's responsibility will involve escalating instances where the risk management efforts are stifled, such as when individuals try to block enterprise risk management initiatives. • The Risk Champion acts as a change agent in the risk management process and is distinguished from risk owners in that champions are troubleshooters that facilitate resolution of risk related problems. • The Risk Champion should not assume the role of the Risk Owner but should assist the Risk Owner to resolve problems.

COMPONENT 2 – OBJECTIVE SETTING

- The Bitou Municipality has got a clear vision and mission statement.
- High level Strategic Goals/Objectives were developed to ensure that the municipality's vision and mission are achieved. These strategic goals/objectives were determined by the executive management and are reviewed on an annual basis.
- Measurable objectives for each programme as they relate to the strategic goals have been developed and these are also reviewed on an annual basis. The municipality's goals and objectives are published in an Annual Performance Plan that is signed off by the Executive Authority and is made available to the general public and all staff members.
- This process ensures that all the various programmes are streamlined and geared towards achieving the strategic goals of the municipality.

- Below are BM's Vision and Mission Statements :

Vision:
To Be the Best Together

Mission:
We partner with communities and stakeholders to sustainably deliver quality services so that everyone in Bitou can live and prosper together.

COMPONENT 3 – RISK IDENTIFICATION

- Event identification is the process of identifying potential events both internal and external that may affect the municipality's ability to successfully implement strategy and achievement of IDP objectives.

- The municipality realizes that events do not occur in isolation and that one event can trigger another or events can occur concurrently. We therefore take into account the interrelationships of events in the event identification process.

- The Enterprise Risk Management unit will facilitate the identification and assessment of the risks. Various techniques will be used to identify potential events and these will include, but is not limited to:
  - facilitated workshops;
  - one-on-one interviews;
  - detailed data analysis;
  - process and control maps;
  - questionnaires;

- Events will be identified on an on-going basis ensuring that the municipality is proactive in considering all possible risks to which it may be exposed to.

- Events potentially either have a negative impact, a positive impact or both. Events that have a potentially negative impact represent risks, which require management's assessment and response.

- Events with a potentially positive impact represent opportunities or offset the negative impact of risks. Those representing opportunities are channeled back to management's strategy or objective-setting processes, so that actions can be formulated to seize the opportunities.

- Risks that have the same characteristics are grouped together and plotted on the **Municipal Risk Universe** ensuring that the municipality's Risk Profile is easily understood and assessed. The categorization of risks according to the risk universe will ensure that all risk areas are covered and ensure consistency in risk categorization.

- The outcome of the risk identification process will result in a documented list of risks where each risk is identified in principle and described in order to capture its qualitative characteristics.

COMPONENT 4 – RISK ASSESSMENT

- Risk assessment allows the Municipality to consider the extent to which potential events might have an impact on achievement of objectives.

- Management assesses events from two perspectives namely, Likelihood and Impact.
  - ➲ Likelihood represents the possibility that a given event will occur, and
  - ➲ Impact represents the effect on the municipality should the event occur.

- Risks are assessed on both an Inherent and Residual basis.
  - ➲ Inherent risk is the risk to the municipality in the absence of any actions management might take to alter either the risk's likelihood or impact.
  - ➲ Residual risk is the risk that remains after management responds to the risk.

- Risk assessment is applied first to inherent risks. Once risk responses have been developed, management then uses risk assessment techniques in determining residual risk.

- The municipality uses the following as a basis of measuring or quantifying the residual risk.
  - ➲ Assessing the level of inherent risk associated with each strategy, process or functionality
  - ➲ Assessing the adequacy and effectiveness of internal controls to mitigate the inherent risks. This necessitates a review of the design of the control activities for adequacy to mitigate the identified risk as well as the implementation of the control activities for effectiveness to mitigate the identified risks.

RISK RATING SCALES:

a) Impact Ratings

Impact		
Score	**Grading**	**Description**
5	Extreme	Loss of ability to sustain ongoing operations.
4	Major	Reduced ability to achieve business objectives (i.e. loss of key operations, reduction in quality of delivery.)
3	Moderate	Disruption to normal operations with a limited effect on achievement of business unit strategy and objectives.
2	Minor	Limited impact on ongoing operations and on the achievement of business strategy and objectives.
1	Negligible	No material impact on ongoing operations and on the achievement of business strategy and objectives.

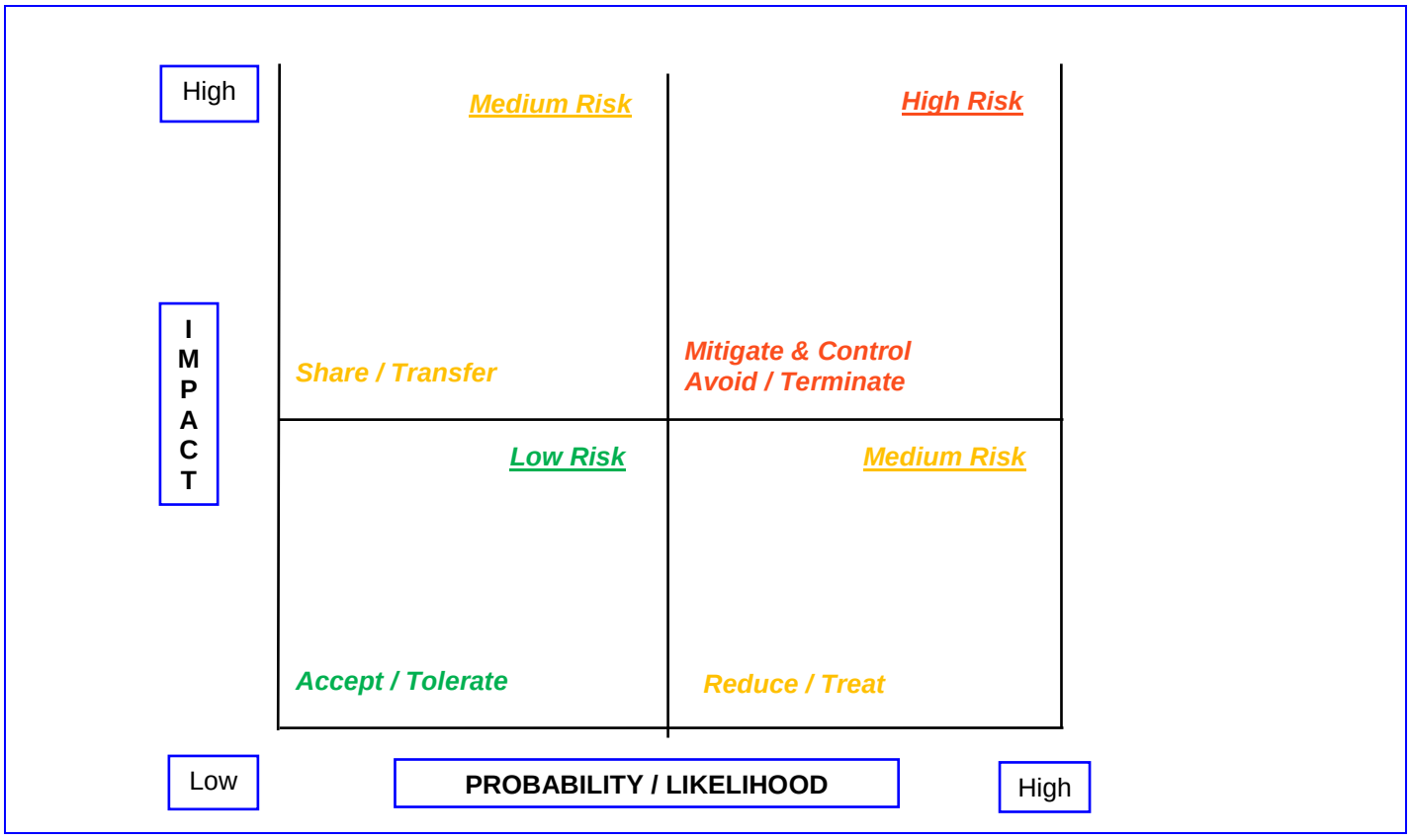
b) Likelihood Rating

Likelihood		
Score	**Grading**	**Description**
5	Certain	Certain to occur / materialise within twelve months
4	Likely	Likely to occur within the next twelve months
3	Possible	Could occur in the next one to two year time period
2	Unlikely	Not likely to occur within the next two years
1	Rare	Not likely to occur within a three year time frame

COMPONENT 5 – RISK RESPONSE

- After risks were identified and assessed, management with the assistance and direction of the Enterprise Risk Management component, identifies risk management strategy options and considers their effect on event likelihood (probability) and impact, in relation to risk tolerances, costs versus benefits, and thereafter designs and implements proper risk response strategies.

- The following schematic illustrations indicate the municipality's risk response strategy:



EXPLANATORY HEATMAP

1 - 6	Green	Low
7 – 14	Amber	Medium
15 - 25	Red	High

IMPACT						
	5 Extreme	5	10	15	20	25
	4 High	4	8	12	16	20
	3 Medium	3	6	9	12	15
	2 Low	2	4	6	8	10
	1 Negligible	1	2	3	4	5
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Certain
		LIKELIHOOD				

- The consideration of risk management strategies by selecting and implementing a risk management strategy is integral to risk management and requires that management select a response that is expected to bring risk likelihood and impact within the municipality's risk tolerance level.

- Risk management strategies fall within the categories of risk avoidance, reduction (mitigation), sharing, acceptance and exploitation.

  - ➲ Avoid / Terminate responses take action to remove the activities that give rise to the risks.
  - ➲ Reduce / Treat responses reduce the risk likelihood, impact, or both.
  - ➲ Share / Transfer responses reduce risk likelihood or impact by transferring or otherwise sharing a portion of the risk.
  - ➲ Accept / Tolerate responses take no action to affect likelihood or impact because it is such a minimal risk or the cost to implement the risk is too high relative to the cost of the risk.
  - ➲ Exploit responses for positive risks or opportunities involve preparation and action to take advantage of the benefits from a potential event by increasing the chance of the event happening to 100%.

- Having selected a risk management strategy with appropriate responses, management reassesses the remaining residual risk based on Impact and Likelihood.

- Management considers risk from a municipal-wide or portfolio perspective and takes an approach in which the manager responsible for each Directorate, Branch or Division develops a composite assessment of risks and risk management strategies for that unit. This view reflects the risk profile of the unit relative to its objectives and risk tolerances.

- With a view of risk for individual units, the most senior manager of the unit is positioned to take a portfolio view to determine if the unit's risk profile commensurate with its overall risk tolerance relative to its objectives.

- Management recognizes that some level of residual risk will always exist, not only because resources are limited, but also because of inherent future uncertainty and limitations in all activities.

COMPONENT 6 – CONTROL ACTIVITIES

- Control activities are the policies and procedures that help ensure risk management strategies are properly executed. They occur throughout the municipality, at all levels and in all functions. They usually involve two elements: a policy establishing what should be done and procedures to effect the policy.

- The Enterprise Risk Management component will facilitate the identification and assessment of existing controls that are in place to mitigate the risks. Various techniques will be used to identify existing controls and these will include, but is not limited to:
    - ➲ Process and Control Maps;
    - ➲ Facilitated Workshops;
    - ➲ One-on-One Interviews;
    - ➲ Detailed Data Analysis;
    - ➲ Questionnaires

- Once existing controls have been identified, management with the assistance and guidance of the Enterprise Risk Management component assesses the adequacy of these controls in addressing the risks.

- The municipality uses the Control Rating Scales as provided by the Western Cape Provincial Treasury as a basis of measuring the adequacy of existing controls. The following perceived control effectiveness ratings will apply

Effectiveness category	Category definition	Factor
Very good	Risk exposure is effectively controlled and managed	**20%**
Good	Majority of risk exposure is effectively controlled and managed	**40%**
Satisfactory	There is room for some improvement	**65%**
Weak	Some of the risk exposure appears to be controlled, but there are major deficiencies	**80%**
Unsatisfactory	Control measures are ineffective / No controls in place	**100%**

- When found that existing controls do not adequately address the risks, treatment action plans are put in place to address these shortcomings.

- To ensure that existing controls are functioning as intended, the effectiveness of these controls needs to be tested and monitored on a continuous basis.

- The Internal Control component in the Units plays an integral part in the monitoring process. Internal control will test the effectiveness of controls implemented to mitigate risks, report their findings and make recommendations to management by means of ongoing internal control inspections.

- Documentary evidence regarding the control activities (controls, assessments, shortcomings, treatment action plans and control owners) will be captured and maintained in the Unit Risk Registers (Barnowl software).

COMPONENT 7 – INFORMATION AND COMMUNICATION

- Pertinent information – both from internal and external sources, financial or non-financial – must be identified, captured and communicated in a form and timeframe that enable personnel to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across and up the municipality, as well as the exchange of relevant information with external parties, such as customers, suppliers, regulators and shareholders.

- Information is needed at all levels of the municipality to identify, assess and respond to risks, and to otherwise run the municipality and achieve its objectives. An array of information is used, relevant to one or more objectives categories. Information comes from many sources – internal and external, and in quantitative and qualitative forms – and allows risk management responses to changing conditions in real time.

- To support effective Enterprise Risk Management (ERM), the unit will maintain risk registers (alternatively known as risk portfolios) to record all risks. This risk management software provides an integrated process for the identification and control of all risks, including facilitating the recording, assessment, treatment, monitoring and reporting of risks across the municipality.

- The risk registers will serve as documentary evidence of the municipality's ERM process.

- The risk register will contain the following sets of risks:
  - ➲ Strategic: Strategic objectives are high-level goals, aligned with and supporting the municipality's vision and mission. Strategic objectives reflect management's choice as to how the municipality will seek to create value for its stakeholders. The term 'strategic' will include those risks that could impact on the municipality's entire business or have a significant cross-cutting impact across more than one programme.

  - ➲ Operational: Operational objectives pertain to the effectiveness and efficiency of the municipality's operations, including performance goals and safeguarding resources against loss. Events that may affect the achievement of the directorates' operational objectives are referred to as operational risks.

  - ➲ Project: Project objectives pertain to a task or planned program of work that requires substantial resources, effort, and planning to complete. Project risks are those events that could have a negative affect on the achievement of the objectives of a project and will ultimately affect its successful completion.

- The minimum information to be recorded in the risk registers are:

  - ➲ Risk Identification Number
  - ➲ Date entered into the register
  - ➲ Name of the risk and description
  - ➲ Inherent Impact and Likelihood Rating
  - ➲ Linked to Risk Universe
  - ➲ Linked to Process
  - ➲ Linked to Objective
  - ➲ Risk Identified By
  - ➲ Risk Owner
  - ➲ Risk Reviewed By and Date when last reviewed
  - ➲ Residual Impact and Likelihood Rating
  - ➲ Treatment Action Plans

- Risk owners will be granted access to the software and will be allowed to enter their own risks and assessments. Their access however, will be limited as they will only be permitted to add and not to delete any of the existing risks.

- Maintenance of the Risk Register will be the responsibility of the Enterprise Risk Management component.

- The ERM unit will issue monthly risk reports to each individual risk owner informing him/her on the status of his/her risk profile. The risk owner will also be instructed to update certain information on the risk profile. This will ensure that the risk data is current and will allow the ERM unit to produce an updated Consolidated Municipal Risk Profile on a monthly basis.

- The ERM unit will report on a quarterly basis to the Risk Management Committee on the Risk Profile of the municipality and on any other risk management related issue. Risk management information will also be communicated to the Audit Committee, Trade Union, Mayoral Committee, Council and to other external stakeholders.

- All reports used by management for planning, decision making and any other purpose, must be made available to the ERM unit for the effective management of the Risk Management process, if so requested by the Chief Risk Officer.

COMPONENT 8 – MONITORING

- The Enterprise Risk Management (ERM) system like any other system needs to be monitored and evaluated to ensure that it functions efficiently and effectively.

- Monitoring helps determine the effectiveness of the processes, technologies and personnel executing enterprise risk management. The municipality establishes minimum standards for each component of ERM. The municipality's performance against these standards can then be monitored objectively.

- Monitoring can be done in two ways: through ongoing activities or separate evaluations.

- Ongoing monitoring is built into the normal, recurring operating activities of the municipality. Ongoing monitoring is performed on a real-time basis, reacts dynamically to changing conditions and is ingrained in the municipality. As a result it is more effective than separate evaluations.

- The greater the degree and effectiveness of ongoing monitoring, the lesser need for separate evaluations. The frequency of separate evaluations is a matter of management's judgment. In making that determination, consideration is given to -
    - ➲ the nature and degree of changes occurring, from both internal and external events, and their associated risks;
    - ➲ the competence and experience of the personnel implementing risk responses and related controls; and
    - ➲ the results of the ongoing monitoring.

- Internal auditors contribute to the ongoing effectiveness of the enterprise risk management, normally by their participation in separate evaluations, but they do not have primary responsibility for establishing or maintaining ERM.

- Usually, some combination of ongoing monitoring and separate evaluations will ensure that ERM maintains its effectiveness over time.

- Deficiencies in the municipality's ERM system may surface from many sources, including ongoing monitoring procedures, separate evaluations and external parties. All ERM deficiencies that affect the municipality's ability to develop and implement its strategy and to achieve its established objectives should be reported to the Enterprise Risk Management unit to take the necessary action.

BM'S ERM IMPLEMENTATION ROADMAP

- A risk champion (Risk Manager / Chief Risk Officer) is appointed to drive the ERM process.

- A policy and strategy have been developed and approved by the Council.

- A Risk Management Committee is established to oversee the implementation of the ERM Policy and Strategy.

- Risks are identified and prioritized from all areas across the organisation and captured in a risk register.

- Each identified risk has a risk owner ensuring that the risk is effectively mitigated. The risk owner's ERM responsibilities are formalized in their respective performance agreements.

- The Risk Manager, involving the Risk Management Committee, monitors the ERM process on a regular basis. The ERM process is independently assessed by Internal Audit and an audit opinion is issued on its adequacy and effectiveness on a quarterly basis.

- Risk owners (process owners) as approved by Accounting Officer / Municipal Manager, reports to the Chief Risk Officer on a monthly basis on the status of their respective risk profiles. The Chief Risk Officer then reports to the Risk Management Committee, the Audit Committee, Trade Union, Mayoral Committee, Council and any other interested party.