DRAFT BITOU MUNICIPALITY'S
ENTERPRISE RISK MANAGEMENT POLICY

INDEX

DESCRIPTION   PAGE

1. PURPOSE

The purpose of this policy is to formalise Bitou Municipality's Enterprise Risk Management (ERM) program and to articulate the roles and responsibilities of council, management, employees and relevant committees in risk management.

2. BACKGROUND

The concept of risk management is not new to the public service as the basic principles of service delivery (Batho Pele, 1997) clearly articulate the need for prudent risk management to underpin the achievement of government objectives.

In most instances risk management is practiced but not formalized and properly monitored. Risk management, other than being a best practice, it is also legislated. The code of corporate governance (KING III) also put more emphasis on risk management as an integral part of governance.

Section 62 (1) (c)(i) of the MFMA states that:

"(1) The Municipal Manager of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all responsible steps to ensure –

(c) that the municipality has and maintains effective, efficient and transparent systems -
- (i) of financial and **risk management** and internal control"

Furthermore the extension of general responsibilities in terms of Section 78 of the MFMA to all senior managers and other officials of municipalities implies that responsibility for risk management vests at all levels of management and that it is not limited only to the Municipal Manager.

There is a further requirement on the Internal Audit, in terms of section 165(2)(a), b(iv) to prepare a risk based audit plan and an internal audit program for each financial year and advise the Municipal Manager and report to the audit committee on the implementation of the internal audit plan and matters relating to risk and *risk management*.

3. DEFINITIONS

Risk	Risk is the possibility that an event will occur and adversely affect the achievement of objectives. *COSO - The Committee of Sponsoring Organizations of the Treadway Commission*
Risk appetite	Amount and type of risk an organization is prepared to pursue or take.
Risk tolerance	Organization's readiness to bear the risk, after treatments (efforts to bring down residual risks) in order to achieve its objectives.
Risk management framework	Set of components that provide the foundations and organizational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management processes throughout the organization.
ERM	Enterprise Risk Management
Risk Champion	A Risk Champion is usually an existing member of management within the institution. He/she works closely with Chief Risk Officer in co-ordinating risk management activities.
CRO	Chief Risk Officer
Risk management process	"A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organisations objectives." *The Institute of Internal Auditors Professional Practices Framework January 2004*

4. OBJECTIVES

The objective of ERM is to help management make informed decisions and includes:

- Promoting a risk management culture in Bitou Municipality and improving risk transparency to tax payers.

- Integrating risk management into the culture and strategic decision making of Bitou Municipality.

- Improving business performance by managing risks in accordance with best practice and demonstrating due diligence in decision making.

- Balancing the cost of managing risk with the benefits anticipated.

- Promoting and encouraging a more innovative, less risk adverse culture when taking calculated risks in pursuit of opportunities that will benefit the organisation.

- Providing a sound basis for ERM and internal control as components of good corporate governance by raising awareness of the need for risk management.

5. POLICY STATEMENT

The Municipal Manager is ultimately responsible and accountable for directing and monitoring Bitou Municipality's risk management activities and related performance in a structured framework.

The Municipal Manager has committed Bitou Municipality to a process of risk management that is aligned to the principles of good corporate governance, as supported by the Municipal Finance Management Act (MFMA), Act no 56 of 2003.

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

The implementation of this policy will be outlined on the Municipality's Risk Management Strategy to be developed. The strategy will include amongst other things the implementation plans, establishment of Risk committee, reporting lines, risk management activities to facilitate the Implementation of this policy. All departments, operations and processes will be subjected to the risk management strategy. The departments will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practical.

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

The realisation of our strategic plan depends on us being able to take calculated risks in a way that does not jeopardise 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 take 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 minimising risks and costs in the interest of all stakeholders;

- Education and training of all our staff to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent conformance to the stakeholders expectations; and

- Maintaining an environment, that promotes the highest applicable standards and sensitivity towards internal and external stakeholder satisfaction.

An entity-wide approach to risk management will be adopted by the Municipality, which means that every key risk in each part of the organisation 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 Institution's systems and processes, ensuring that our responses to risk remain current and dynamic. All risk management efforts will be focused on supporting the Institution's objectives. Equally, they must ensure compliance with relevant legislation, and fulfill the expectations of employees, communities and other stakeholders in terms of corporate governance.

Risk management shall be considered in all project approvals in a manner appropriate to the nature and scope of the project as described.

6. ROLE PLAYERS AND RESPONSIBILITIES

ERM is most effective when performance expectations are clearly defined, communicated and integrated into performance agreements, and the responsible persons perform to these expectations.

The people responsible for ERM can be categorized into three distinct categories, namely implementers, support and oversight.

6.1 IMPLEMENTERS

6.1.1 The Municipal Manager

The Municipal Manager is ultimately responsible for risk management within the institution. The Municipal Manager facilitate the approval of the risk management policy and strategy for the institution and provides leadership and guidance for their implementation. The Municipal Manager is accountable to the Council regarding the effectiveness of the risk management process.

The roles of the Municipal Manager include the following:

- 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 institution to support ERM;
- Facilitating the approval of the risk management strategy, risk management policy, risk management implementation plan and fraud risk management policy and present them to council for adoption;
- Approving the institution's risk appetite and risk tolerance;
- Influencing an institutional risk awareness culture by setting the tone from the top.
- 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.

6.1.2 Management

Management owns the risks, thus in taking that ownership they are also accountable to the Municipal Manager for integrating the principles of risk management into their daily routines to enhance the achievement of their service delivery objectives

In discharging their high level responsibilities relating to risk management, management:

- Acknowledges the "ownership" of risks within their functional areas and all responsibilities associated with managing such risks;
- Cascades risk management into their functional responsibilities;
- Empowers officials to perform adequately in terms of risk management responsibilities through proper communication of these responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- Holds officials accountable for their specific risk management responsibilities;
- Maintains the functional risk profile within the institution's risk tolerance and appetite;
- Provides reports on the functional risk management consistent with the institution's reporting protocols (including appearing before committees);
- Aligning the functional and institutional risk management methodologies and processes;
- Implements the directives of the Municipal Manager concerning risk management;

- Maintains a harmonious working relationship with the CRO and supports the CRO in matters concerning the functions risk management;
- Maintains a harmonious working relationship with the Risk Champion and supports the Risk Champion in matters concerning the functions of risk management;
- Keeps key functional risks at the forefront of the management agenda and devote personal attention in overseeing the management of these risks.

6.1.3 Employees

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.

High level responsibilities include:

- Familiarity with the overall enterprise risk management vision, risk management strategy, fraud risk management policy and risk management policy;
- Applying the risk management process to their respective roles;
- Focusing upon identifying risks and reporting these to the relevant risk owner. Where possible and appropriate, manage these risks;
- Acting within the risk appetite and tolerance levels set by the business unit;
- Adhering to the code of conduct for the institution;
- Maintaining the functioning of the control environment, information and communication as well as the monitoring systems within their delegated responsibility;
- Providing information and cooperation with other role players;
- Participation in risk identification and risk assessment within their business unit;
- Implementation of risk responses to address the identified risks;
- All personnel who suspect that some kind of fraud has been attempted or committed, to immediately report their suspicion using the available reporting channels;
- Should the employee wish to remain anonymous, they may make use of the provision outlined on our Fraud and Anti-corruption framework.

6.2 SUPPORT

6.2.1 Chief Risk Officer (CRO)

The CRO provides specialist expertise in providing a comprehensive support service to ensure systematic, uniform and effective enterprise risk management. The CRO plays a vital communication link between operational levels, management, senior management, risk management committee and other relevant committees. The CRO is thus the custodian of the ERM framework, the co-coordinator of the risk management throughout the institution and the institutional advisor on all risk management matters.

High level responsibilities to achieve this include:

- Working with senior management to develop the overall enterprise risk management vision, risk management strategy, risk management policy, as well as risk appetite and tolerance levels for approval by the Municipal Manager;
- Communicating the risk management policy, risk management strategy and risk management implementation plan to all stakeholders in the institution;
- Setting up of the risk management structure and risk management reporting lines within the institution;
- Continuously driving the risk management process towards best practice;
- Developing a common risk assessment methodology that is aligned with the institution's objectives at strategic, tactical and operational levels for approval by the Municipal Manager;
- Coordinating risk assessments within Bitou Municipality on a regular basis;
- Sensitising management timeously of the need to perform risk assessments for all major changes, capital expenditure, projects, institutional restructuring and similar events, and assist to ensure that the attendant processes, particularly reporting, are completed efficiently and timeously;
- Assisting management in developing and implementing risk responses for each identified material risk;
- Participating in the development of the combined assurance plan for the institution, together with internal audit and management;
- Ensuring effective information systems exist to facilitate overall risk management improvement within the institution;
- Continuously transferring risk management principles and practices, through training interventions, to all stakeholders within the institution;
- Advising management in the development of financing structures;
- Collating and consolidating the results of the various assessments within the institution;

- Analysing the results of the assessment process to identify trends, within the risk and control profile, and develop the necessary high level control interventions to manage these trends;
- Compiling the necessary reports to the Risk Management Committee;
- Providing input into the development and subsequent review of the fraud prevention strategy, business continuity plans, occupational health, safety and environmental policies and practices and disaster management plans.

6.2.2 Risk Champions

A Risk Champion is usually an existing member of the management within the institution. Bitou Municipality will have a Risk Champion for each and every department who will closely work with the CRO. A department can have more than one Risk Champion where appropriate. Risk Champions support the risk management process in specific allocated areas or functions.

A Risk Champion has sufficient authority to drive ERM as required by the institution's risk management policy and strategy. A key part of the Risk Champion's responsibility involves escalating instances where the risk management efforts are stifled, such as when individuals try to block ERM initiatives.

The Risk Champion also adds value to the risk management process by providing guidance and support to manage "problematic" risks and risks of transversal nature.

In order to be an effective and efficient risk champion, he / she must:

- Have a good understanding of risk concepts, principles and processes;
- Have good analytical skills to assist with the analysis of root causes to risk problems;
- Leadership and motivational qualities;
- Have good communication skills.

6.3 OVERSIGHT

6.3.1 Internal Audit

Internal Audit is responsible for providing independent assurance on the effectiveness of risk management in the institution. This involves providing reasonable assurance that material risks have been identified and assessed and that control systems implemented to treat such risks are both adequate and effective.

Although, best practice indicates that Internal Audit should not be in direct control of the risk management function, Internal Audit may perform advisory and consulting engagements on risk management in accordance with applicable standards.

Responsibilities of Internal Audit in risk management include:

- 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;
- Providing assurance over the institution's risk identification and assessment processes;
- Utilising the results of the risk assessment 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.

In terms of Bitou Municipality structure, Risk Management Section is within the Internal Audit and Risk Management Unit. Therefore the assurance responsibility on Risk Management will have to be outsourced to safeguard objectivity and Independency. The Municipality may request the services of other neighbouring Municipal Internal Audit Units or Provincial and National teams to provide assurance on Bitou Municipality's Risk Management Processes.

6.3.2 Risk Management Committee

The Risk Management Committee is responsible for oversight of the quality, integrity and reliability of Bitou Municipality's risk management processes and risk responses. An important part of the Committee's mandate is to provide recommendations to the Municipal Manager to continuously improve the management of specific risks as well as the overall process of risk management.

Permanent members of the Committee shall be formally appointed by the Municipal Manager. The members, as a collective, shall possess the blend of skills, expertise and knowledge of the Institution, including familiarity with the concepts, principles and practice of risk management, such that they can contribute meaningfully to the advancement of risk management within the Institution.

Membership shall comprise:

- A member of the Audit Committee,
- A member not in the employ of the Institution;
- Representatives of senior management.

In discharging its oversight responsibilities relating to risk management, the Risk Management Committee has the following high level responsibilities:

- Review the risk management policy and strategy and recommend for approval by the Council;
- Review the risk appetite and tolerance and recommend for approval by the Municipal Manager;
- Review the institution's risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register;
- Evaluate the effectiveness of mitigating strategies to address the material risks of Bitou Municipality;
- Report to the Municipal Manager any material changes to the risk profile of the Institution;
- Review the fraud prevention policy and recommend for approval by the Council;
- Evaluate the effectiveness of the implementation of the fraud prevention policy;
- Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses;
- Develop goals, objectives and key performance indicators for the Committee for approval by the Municipal Manager;
- Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management activity;
- Set out the nature, role, responsibility and authority of the risk management function within the Institution for approval by the Municipal Manager,
- Provide proper and timely reports to the Municipal Manager on the state of risk management, together with aspects requiring improvement accompanied by the Committee's recommendations to address such issues.

6.3.3 Auditor-General

The Auditor-General is responsible for providing an opinion on:

- o The reasonability of the financial statements of the institution;
- o Compliance with applicable legislation.

In addition the Auditor-General is required to highlight weaknesses or deficiencies in the performance reporting of the institution. In providing an opinion on compliance with legislation the Auditor-General will provide independent assurance on the effectiveness of the risk management activities of the institution.

6.3.4 Council

Council is responsible for overseeing the complete spectrum of governance within Bitou Municipality. This responsibility would therefore also include an interest in the effectiveness of the process of risk management within the institution. Council should adopt the risk management strategy, risk management policy, risk management implementation plan and fraud risk management policy;

6.3.5 Audit Committee

The Audit Committee is responsible for assisting the council in addressing its oversight requirements of risk management and evaluating and monitoring the institution's performance with regards to risk management.

In discharging its oversight responsibilities relating to risk management, the audit committee:

- Gains thorough understanding of the risk management policy, risk management strategy, risk management implementation plan, and fraud risk management policy of the institution enable the committee 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 Municipal Manager;
- Reviews the completeness of the risk assessment process implemented by management to ensure that all possible categories of risks, both internal and external to 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 Municipal Manager on the effectiveness of the risk management process implemented by the institution;
- Reviews the process implemented by Management in respect of fraud prevention and ensures 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;

- Reviews the effectiveness of the internal audit assurance activities and recommends appropriate action to address any shortcomings.

6.3.6 National and Provincial Treasury

The National Treasury's role is to monitor and assess the systems of risk management in municipalities and assist with building risk management capacity.

7. FRAUD RISK MANAGEMENT

Fraud risk is a special category of risk which is regulated by separate policy guidelines.

It should be mitigated by pro-active preventative measures as well as an appropriate fraud response strategy, including disciplinary steps. Fraud risk management will analyse the risks and fraud opportunities in especially procurement, housing and human resource systems.

8. POLICY REVIEW

This policy will be reviewed on annual basis.

9. POLICY APPROVAL

This policy has been considered and adopted by the Council of Bitou Municipality on the dd mm yy.