RISK POLICY

2018/19

STELLENBOSCH MUNICIPALITY

Adopted 18 November 2018

CONTENTS

DOCUMENT REVIEW AND APPROVAL

Previous Updates

	Reviewer	Date of Review	Council Adoption Date
1.	Nigel Abrahams	June 2012	
2.	Nigel Abrahams	December 2013	December 2013
3.	Helena Priem	June 2015	
4.	Helena Priem	March 2017	
5.	Helena Priem	September 2017	
6.	Shireen de Visser & Helena Priem	October 2018	28 November 2018
7.			

1.   PREAMBLE / POLICY STATEMENT

The overall objective of *reducing risk* and *optimizing opportunities*, as far as reasonably practical, is to ensure that the municipality successfully realises the strategic objective set to the benefit of the broader community.

The concept of risk in the municipal environment is complex and diverse. The success of a risk management strategy is therefore dependent on all departments working together in a consistent and integrated manner to optimally tackle risk and optimise opportunities for success.

The Stellenbosch Municipality is committed to effective risk management in order to achieve the municipality's vision, service delivery, and strategic objectives and to ensure appropriate outcomes for the community. The municipality is committed to a process of risk management that is aligned to the principles of Leading Practice and recognised Governance Frameworks applicable to local government.

The Risk Management Policy of Stellenbosch Municipality outlines the following:
- mandatory environment for risk management;
- an integrated approach to the management of risk;
- mechanisms to bring the management discipline together;
- management of risks consistent with the approved risk acceptance level; and
- annual risk management framework to identify, report and review prevailing risks.

As part of the risk management framework different risk related or assurance provider functions will align their various goals and reporting processes into one cohesive and structured framework. The municipality's key business risks exposures, whether they are insurable or not, will be identified, assessed, and appropriately managed. The framework considers various risk functions as it determines concepts such as risk tolerance and appetite limits.

Effective risk management is imperative to the municipality, with its diverse key processes and an intrinsic risk profile. The realisation of the municipality's Integrated Development Plan (IDP), strategic goals and objectives depends on all role-players being able to take calculated risks in a way that does not jeopardise service delivery. Sound management of risk will enable all role-players to anticipate and respond to changes in our environment, as well as make informed decisions under conditions of uncertainty and inherent risk.

Management is responsible for the execution of risk management in the achievement of the municipality's strategy. Every employee, partner, contractor and specialist has a part to play in this important endeavour.

MUNICIPAL MANAGER

Geraldine Mettler

2.   INTRODUCTION

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 an impact (usually a threat rather than an opportunit) upon the achievement of the municipality's business objectives. No municipality has the luxury of functioning in a risk-free environment and municipalities are especially vulnerable to risks associated with fulfilling their mandates.

Risk management is the process whereby the Municipal Manager, the Risk Management team and other key members of the senior management proactively, purposefully and regularly identify and define current as well as emerging *business*, *financial* and *operational* risks. This allows them to either simultaneously or with due expedition, identify appropriate and cost effective methods of mitigating and the exposure to such risk. 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 termination, transfer, acceptance (tolerance) or mitigation 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.

Risk management cuts across all levels, functions and process in a municipality, incorporating human health and safety, security, legal and regulatory compliance, public acceptance, environmental protection, product quality, project management, efficiency in operations, governance and reputation. Risk management is part of the responsibilities of, not only management, but of all municipal personnel and an integral part of all municipal processes, including strategic planning and all project and change management processes.

The process and practice of risk management should aim to optimise the cost benefits and aim to go beyond compliance for the sake of compliance to a greater focus on value creation. Risk management addresses strategic risks that will prevent the achievement of the objectives of the municipality.

Effective risk management requires a cultural shift in favour of continuous risk identification and mitigation. This requires risk management to be culturally mainstreamed into the general practice of local government at all levels.

Through this revised policy Stellenbosch Municipality puts into practice its commitment to implement risk management and institutionalise a culture of IRM within the municipality. This policy forms the basis for the accompanying IRM Framework and Implementation Plan which is designed to help achieve the objective of implementing an effective IRM process and to ensure compliance with the legislative framework.

3. STRATEGIC INTENT

This Policy seeks to assist Stellenbosch Municipality in ensuring that Good Governance principles with regards to risk management are applied throughout the municipality, thereby establishing an efficient and productive administration that can focus on service delivery. The fundamental principles underpinning this Risk Management Policy will assist the municipality to achieve, among other things:

- 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

4. OBJECTIVES OF RISK MANAGEMENT

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

- provide a level of assurance that significant risks are effectively managed;
- enhanced decision making, by promoting a more innovative, less risk averse culture in which calculated risks are taken in pursuit of opportunities to the benefit of the municipality;
- minimisation of fraud and corruption;
- promote a risk awareness ethic in all Departments/Directorates and improve risk transparency to stakeholders;
- transparency to stakeholders;
- improved performance, outputs and outcomes;
- improving the early detection of risks thereby placing management in a better position to effectively deal with new and emerging risks;
- assist management in ensuring more effective reporting, compliance with applicable laws, regulations and other corporate governance requirements; and
- provide a sound basis for integrated risk management and internal control as components of good corporate governance.

5. REGULATORY CONTEXT

In terms of Section 62 (1) (c) (i) of the Local Government: Municipal Finance Management Act (Act 56 of 2003) (MFMA):-

(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose 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;

The above risk management responsibilities can be delegated to municipal officials in terms of Section 79 (1) (b) of the MFMA.

The above is furthered by MFMA Section 165 regarding internal audit. Section 165:-

(a) requires internal audit to follow a risk based audit plan and Section 165 (2)(b)

(iv) requires internal audit to advise the Accounting Officer and report to the Audit Committee on risk and risk management.

The risk management practices of Stellenbosch Municipality is furthermore guided by the following frameworks:

- Committee of Sponsoring Organizations of the Treadway Commission: Enterprise Risk Management – Integrated Framework (COSO ERM Framework)

- Public Sector Risk Management Framework (PSRMF)

- King Codes of Governance Principles

- International Organization for Standardization – Standard 31000 (ISO 31000)

The Municipality is continuously implementing new initiatives and redesigning systems and processes to align with the best practices espoused by the risk management frameworks and improve risk management maturity.

6. MUNICIPALITY'S RISK MANAGEMENT APPROACH

The risk management principles contained in this policy will be applied at both strategic and operational levels within the Municipality.

Our positive approach to risk management means that we will not only look at the risk of activities that could go wrong, but also the impact of not taking opportunities or not capitalising on corporate strengths. All risk management activities will be aligned to the Municipality's aims, objectives and priorities, and aims to protect and enhance the reputation and standing of the Municipality.

The Integrated Risk Management (IRM) Approach consist of 5 key steps, including:

i. Communication and consultation;
ii. Context establishment;
iii. Risk assessment;
iv. Risk Treatment; and
v. Report, monitor and review.

Illustration 1: Integrated Risk Management Approach
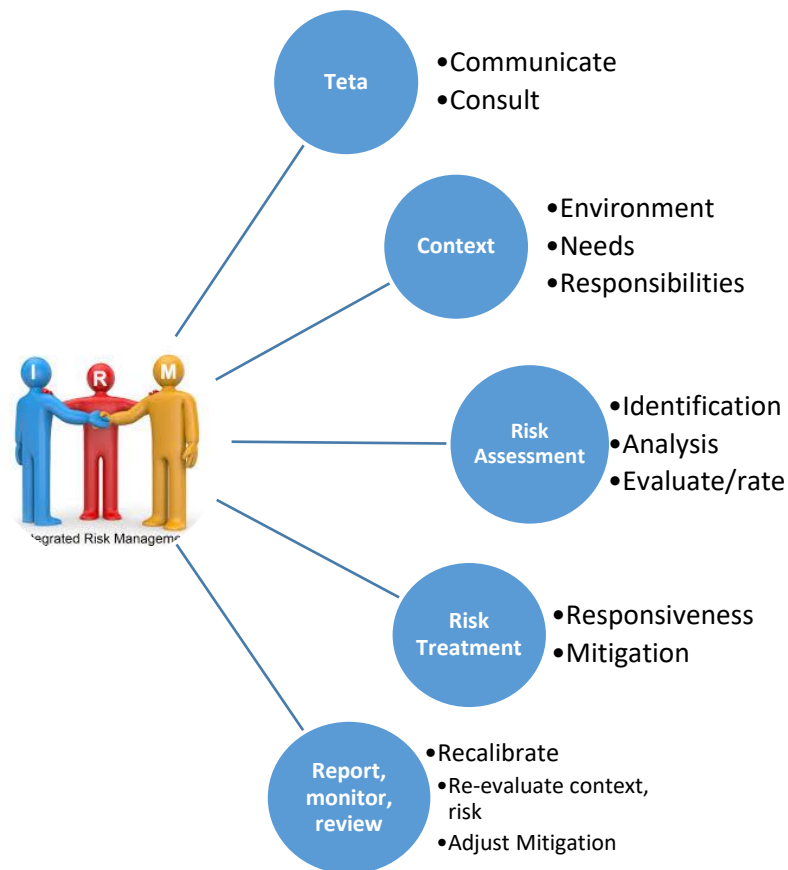
6.1   Communication and Consultation

Communication and consultation with external and internal stakeholders should take place during all stages of the risk management process.

6.2   Establishing Context

The environment in which Stellenbosch Municipality functions sets the foundation for the other components of risk management. By understanding the needs, responsibilities and environment in which the municipality operates, objectives are set. Management then sets goals and objectives to assist in achieving the overall strategic objectives.

6.3   Risk Assessment

The risk assessment stage include three steps, including, *risk identification, risk analysis and risk evaluation.*

6.3.1 Risk Identification

Risk identification aims to identify future uncertain events from internal or external sources that could affect implementation of the municipality's strategy or achievement of the objectives. These events may have positive or negative impacts, or both. Events do not occur in isolation. One event can trigger another and events can occur concurrently.

Management should understand how events interrelate. By assessing the interrelationships, one can determine where risk management efforts are best directed.

6.3.2 Risk Analysis

Risk analysis assesses management's confidence in the effectiveness of the control mechanisms driving the various systems (including the IT environment) and processes practiced within the municipality. Internal Controls can be preventative, detective or corrective by nature.

Note: Management evaluates controls to ensure they are still appropriate, relevant, economical (cost effective) and efficient.

6.3.3 Risk Evaluation (Ratings)

Uncertainty around potential future events relevant to Stellenbosch Municipality and its activities are evaluated from two perspectives, namely likelihood and impact which helps to determine the **risk exposure (risk rating)** to the municipality. By calculating the risk exposure (risk rating), management gets to understand the extent to which potential events might impact on their objectives. Stellenbosch uses a 5 by 5 rating scale for likelihood and impact to determine the extent of the risk exposure (risk rating).

Table 1: Likelihood Rating

#	Grading	Description
5	Almost certain	Is expected to occur in most circumstances
4	Likely	Will probably occur
3	Possible	Might occur at some time in the future
2	Unlikely	Could occur but doubtful
1	Rare	May occur but only in exceptional circumstances

Table 2: Impact Rating

#	Grading	Description
5	Catastrophic	Loss of ability to sustain ongoing operations.
4	Major	Significant impact on achievement of strategic focus areas of the IDP.
3	Moderate	Disruption of normal operations with a limited effect on the strategic focus areas of the IDP
2	Minor	No material impact on achievement of the municipality's strategy or objectives.
1	Insignificant	Negligible impact.

The rating determines the risk exposure. Through this management gets to understand the extent to which potential events might impact on their objectives on a scale from 1 as a minimum and 25 as a maximum.

Table 2: Risk Exposure

Critical 20-25	act immediately
High 16-19	action plan needed
Moderate 9-15	monitor/transfer
Low 1-8	disregard

It is very important for a management to understand the risk exposure to the municipality in order to base decisions on calculated risks. This assists the municipality to continuously deliver services in spite of risks. However, a management must also decide how much risks the municipality is able to absorb when deciding an appropriate mitigations strategy.

6.4   Risk Treatment

This component aims to identify and evaluate possible responses to the risk exposures or risk incidents that are rated equal or above the municipality's risk acceptance level. The risk acceptance level (RAF) helps determine the most appropriate response to bring risks back to an acceptable level.
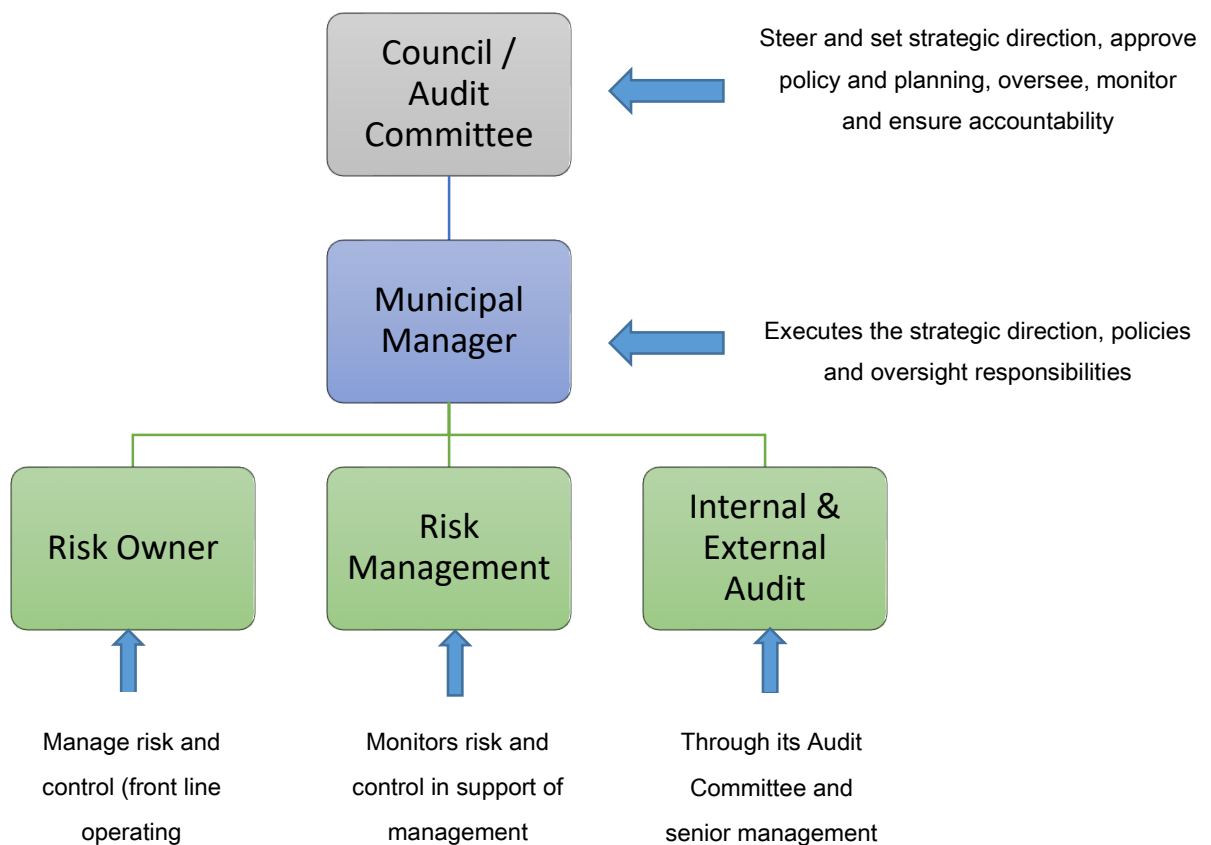
6.5   Reporting, Monitoring and Review

Risk management changes over time. Risk responses that were once effective may become irrelevant; control activities may become less effective, or no longer be performed; or the municipality's objectives may change. This can for example be due to the arrival of a new Council or new officials, changes in the municipality's organisational structure or direction, or the introduction of new processes and even external changes. In the face of such changes, management needs to determine whether the functioning of each risk management component continues to be effective.

7.   LINES OF ASSURANCE

In principle there are 5 lines of assurance applicable in a municipal risk management context. Each of the five lines plays a distinct role within the municipality's wider governance framework. When each performs its assigned role effectively, it is more likely the municipality will be successful in achieving its overall objectives. Everyone in a municipality has some responsibility for internal control, but to help assure that essential duties regarding risk management are performed as intended. Effective assurance mechanisms ultimately places Council in a position to increasingly receive unbiased information about the municipality's most significant risks and about how management is responding to those risks.

Illustration 1:   The five lines of assurance:


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                  ┌─────────────┐
                  │  Council /  │ ◄──  Steer and set strategic direction, approve
                  │    Audit    │          policy and planning, oversee, monitor
                  │  Committee  │              and ensure accountability
                  └─────────────┘
                         │
                  ┌─────────────┐
                  │  Municipal  │ ◄──  Executes the strategic direction, policies
                  │   Manager   │          and oversight responsibilities
                  └─────────────┘
         ┌───────────────┼───────────────┐
  ┌─────────────┐ ┌─────────────┐ ┌─────────────┐
  │ Risk Owner  │ │    Risk     │ │ Internal &  │
  │             │ │ Management  │ │  External   │
  │             │ │             │ │   Audit     │
  └─────────────┘ └─────────────┘ └─────────────┘
         ▲               ▲               ▲
  Manage risk and  Monitors risk and  Through its Audit
  control (front line  control in support of  Committee and
  operating        management         senior management
```

8.   ETHICS IN RISK MANAGEMENT

Risk management, even when software is used, is performed by humans. 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.

9. ROLE PLAYERS IN RISK MANAGEMENT PROCESS

Every person within Stellenbosch Municipality has a role to play in the risk management process. The primary responsibility for identifying and managing risks lies with management.

9.1 Municipal 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 Stellenbosch Municipality against significant risks.

9.2 Audit & Performance Audit Committee

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

The chairperson of the Risk Management Committee takes responsibility for reporting risks management within Stellenbosch Municipality to the Audit & Performance Audit Committee on a quarterly basis.

9.3 Risk Management Committee (RMC)

The Risk Management Committee is headed up by the Accounting Officer of the Municipality. The members of the RMC is appointed by the Accounting Officer (chairperson) and consists of the Directors (members), Senior Manager Governance, Chief Risk Officer and the Chief Audit Executive (invitee).

The role of the Risk Management Committee (RMC) is to review the risk management progress and risk management maturity, the effectiveness of risk management activities, the key risks facing the municipality and the responses to address these key risks.

The role of the RMC is to:

- adopt a strategic risk register annually outlining the key risks the municipality is exposed to and collectively determine the risk exposure prevalent and recommend acceptable levels of risk;
- consider the operational risks of each department;
- consider risks identified on a quarterly basis and advise the committee on necessary changes to the identified risk, mitigation strategy to the strategic risks;
- recommend financial consideration to Finance in the identification of critical investment needs when managing identified risks;
- advise Council on the strategic and operational risks prevalent.

9.4 Risk Management Implementers

The risk implementers occupy key positions at all levels throughout the organisation, owning various processes in the realisation of the strategic goals of the municipality and providing different roles of assurance.

9.4.1 Accounting Officer (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.

9.4.2 Directors / Risk Owners

Directors support the Municipality's risk management philosophy, integrating it into operational routines of their directorates and manage and monitor risk within their areas of responsibility.

The play a critical role as risk owners as well as risk champions. They are ultimately accountable for the risk management at a strategic (corporate) level and of the risks in their directorates.

9.4.3 Senior Management / Risk Champions

Senior Management has the responsibility to integrate the risk management strategy and policy into their department's operational routines. To do this they must champion risk management in their respective departments.

The risk champion's 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.

9.4.4 Middle Management / Senior Officials / Action Owners

Middle management and senior officials have the responsibility to implement the plans to mitigate the risks, known as risk action plans. They are therefore the action owners.

Action Owners implement the responses to the risks identified in the risk assessment.

9.5   Integrated Risk Management Unit

The Risk Management Unit resides within the office of the Municipal Manager, who is also the chairperson of the Risk Management Committee. The Senior Manager Governance and the Chief Risk Officer has delegated authority for ensuring that risk management functions at all levels of the municipality, on behalf of the Municipal Manager.

The Risk Management Unit is therefore responsible for:

- Implementing a framework of risk management within the municipality;
- Supporting the Risk Management Committee to implement, review and provide effective oversight into the implementation of the risk management framework at all levels of the municipality;

- Providing coordination and facilitation support to all departments in the development and implementation of the risk management framework;
- Reporting on the implementation of the strategic and operational risk registers to the RMC on a quarterly basis.

9.5.1 Chief Risk Officer

The Chief Risk Officer is the custodian of the risk management strategy and coordinator of risk management activities throughout Stellenbosch Municipality. The Chief Risk Officer supports the municipality to structure and embed risk management and leverage its benefits to enhance performance.

The primary responsibilities of the Chief Risk Officer is to bring to bear his/her specialist expertise to assist Stellenbosch Municipality to embed risk management and leverage its benefits to enhance performance. With reference to the risk governance, this will more specifically include:

a. Working with senior management to develop the vision for risk management and risk management philosophy;
b. Developing, in consultation with management, the municipality's risk management framework incorporating:
    i. Risk management strategy;
    ii. Risk management policy;
    iii. Risk identification and assessment methodology;
    iv. Risk appetite and tolerance; and
    v. Risk classification

9.6 Risk Management Assurance Providers

9.6.1 Internal Audit Services

The core role of Internal Audit Services in risk management is to provide an independent, objective assurance to the Accounting Officer, Municipal Council, Risk Management Committee and the Audit & Performance Audit Committee on the effectiveness of risk management. Internal Audit Services 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.

9.6.2 External Auditor / Auditor-General of South Africa (AGSA)

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. 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.

The Municipality's risk register is compared with the annual IRMSA Risk Report: South Africa Risks and the risk registers of the other municipalities that are part of the Cape Winelands District Municipality.

11. 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.

12. 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 strategic and operational risks 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 Framework.

13.   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, including impact analysis, plans, governance structures and quality assurance

14.   REPORTING, MONITORING & REVIEW

The IRM Department is responsible for the monitoring and revision of this policy. The policy shall be revised and approved by Council when operational needs require this, but at least once during every term of Council.

Any queries or requests for amendments relating to this policy should be directed to the Chief Risk Officer, Tel No. 021 – 808 8157 or e-mail helena.priem@stellenbosch.gov.za .

15. DEFINITIONS AND ABBREVIATIONS

Definition	Explanation
Accounting Officer	Municipal Manager
AGSA	Auditor General of South Africa
Audit Committee	An independent committee constituted to review the control, governance and risk management within the Institution, established in terms of section 77 of the PFMA, or section 166 of the MFMA
Chief Risk Officer	Senior official who is the head of the risk management unit
Combined Assurance	Integrating and optimising all assurance services and functions, so that taken as a whole, these enable an effective control environment, support the integrity of the information used for decision-making by management, the municipal council and it's committees to maximise risk and governance oversight and control efficiencies, and optimise overall assurance to the audit and risk committee, within the municipality's risk appetite.
Enterprise Risk Management	A process, effected by the municipality's accounting officer, management and other personnel, applied in strategy setting and across the enterprise. It is designed to identify potential events that may affect the municipality and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of municipal objectives.
Ethics	Ethics has to do with defining what is meant by right and wrong or good and bad, and with justifying according to some rational system.
Good Governance	The process whereby public institutions conduct public affairs, manage public resources, facilitate development and guarantee the realization of human rights in a manner essentially free of abuse and corruption, and with due regard for the rule of law and principles of ethics.
Internal Auditing	An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Definition	Explanation
Integrated Risk Management	A continuous, pro-active and systematic process to understand, manage and communicate risk from a municipal-wide perspective in a cohesive and consistent manner. It requires an ongoing assessment at every level and in every sector of the municipality, aggregating these results at the executive level, communicating them and ensuring adequate monitoring and review.
King IV Report	King 4 report on corporate governance in South Africa, 2016, and specifically part 6.2: Supplement for municipalities.
MFMA	Municipal Finance Management Act (Act No. 56 of 2003)
Operational Risks	Operational risks could include the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This would typically include risks associated with business continuity; fraud; people; processes and systems.
Risk	Risk is about the uncertainty of events, including the likelihood of such events occurring and its effects, both positive and negative, on the achievement of the municipality's objectives. Risks include uncertain events with a potential positive effect on the municipality (i.e. value creation opportunity) not being captured or not materialising.
Risk Acceptance Level (RAF)	Risk appetite can be defined as the amount and type of risk that a municipality is willing to accept in order to meet their strategic objectives. Municipalities will have different risk appetites depending on their maturity, location, culture and objectives. A range of appetites exist for different risks and these may change over time.
Risk Champion	A person who by virtue of his/her expertise or authority champions a particular aspect of the risk management process, but who is not the risk owner.
Risk Management	Risk management is a systematic process to identify, evaluate and address risks pro-actively and continuously before such risks can impact negatively on the municipality's service delivery.
Risk Management Unit	A business unit responsible for coordinating and supporting the overall Institutional risk management process, but which does not assume the responsibilities of Management for identifying, assessing and managing risk.

Definition	Explanation
Risk Management Committee	A committee appointed by the Accounting Officer / Authority to review the Institution's system of risk management.
Risk Owner	The person accountable for managing a particular risk.
Residual Risk	The remaining exposure after the mitigating effects of deliberate management intervention(s) to control such exposure (the remaining risk after Management has put in place measures to control the inherent risk).
Risk Policy	The statement of the overall intentions and direction of a municipality related to risk management.
Risk Tolerance	The amount of risk the Institution is capable of bearing (as opposed to the amount of risk it is willing to take).
Strategic Risks	Strategic risks are those internal and external events and scenarios that can inhibit a municipality's ability to achieve its strategic objectives. This would typically include risks associated with governance, the business model and the industry/ economic environment.