



# **ENTERPRISE RISK MANAGEMENT POLICY**



## ENTERPRISE RISK MANAGEMENT POLICY – CEDERBERG MUNICIPALITY (WC025)

INDEX	page
1. RISK MANAGEMENT PHILOSOPHY	3
2. OVERVIEW	4
3. THE DEFINITIONS OF RISK AND ENTERPRISE RISK MANAGEMENT	6
4. BENEFITS OF ENTERPRISE RISK MANAGEMENT	7
5. ROLES AND RESPONSIBILITIES	8
6. RISK PROFILES	10
7. ENTERPRISE RISK MANAGEMENT PROCESS	13
8. AWARENESS, TRAINING AND DEVELOPMENT	26
9. REVIEW AND APPROVAL OF THE POLICY	26



## 1. RISK MANAGEMENT PHILOSOPHY

The management of risks has always been a fundamental element of Cederberg Municipality's strategic business execution in order to protect the Municipality's core public service values, vision, objectives and the service delivery expectations of the public as stipulated in section 152 the constitution of the Republic of South Africa, the Municipal Finance Management Act (MFMA) and various other pieces of legislation applicable to local government.

Risk management is recognized as an integral part of responsible management and the Municipality therefore adopts an approved enterprise wide risk management methodology and philosophy to ensure adequate and effective risk management. The features of this process are outlined in the Municipality's Risk Management Strategy. It is expected that all departments / sections, operations and processes will be subject to the risk management strategy. It is the intention that these departments/sections will work together in a consistent and integrated manner, with the overall objective of mitigate risk, as far as reasonably practicable.

The realization of our strategic plan depends on us being able to take calculated risks in a way that does not jeopardize the direct interests of stakeholders. Sound management of risk will enable us to anticipate and respond to changes in our service delivery environment, as well as make informed decisions under conditions of uncertainty. In the course of conducting the day-to-day business operations, we are exposed to a variety of risks. These risks include operational and other risks that are material and require comprehensive controls and on-going oversight.

### 1.1 Our Commitment

We subscribe to the following fundamental principles that all resources will be applied economically, efficiently and effectively to ensure the highest standards of service delivery:

- A management system containing the appropriate elements aimed at minimizing risks and costs in the interest of all stakeholders;
- Clear assignment of responsibilities and accountabilities;
- Common enterprise-wide risk management framework and process;
- Education and training of all our staff to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent conformance to the stakeholder's expectations;
- The identification of uncertain future events that may influence the achievement of business plans and strategic objectives;
- The integration of risk management activities within the Municipality and across its value chain; and
- The responsibility to ensure effective management of risk in Cederberg Municipality rests with all employees.



## 1.2 Risk Responsibility

Council is responsible for the overall governance of risk within the Municipality. Council has however delegated this responsibility to the Municipal Manager / Accounting Officer and the risk management oversight committee.

Page | 4

The Municipal Manager, who is ultimately responsible for the Municipality's risks, has delegated this role to the Manager: Integrated Risk Management and Management.

The Manager: Integrated Risk Management will ensure that the framework is implemented and that the Council, the Risk Management Committee, the Audit Committee and the Municipal Manager receive appropriate reporting on the Municipality's risk profile and risk management process. The appropriate reporting's on the risk management related matters will be provided during Management meetings and other structural alignment of reporting.

Our commitment to risk management is an expression of our commitment to the following:

- Batho Pele principles;
- Compliance to applicable legislation;
- Zero tolerance to fraud and corruption;
- Training and Development; and
- Creating an enabling environment for Employment and Poverty eradication.

## 2. OVERVIEW

The overview of this document is to set out the Municipality's Risk Management Policy and amongst other things it includes the following:

- The objectives of the risk management policy;
- Definitions of relevant terms;
- Risk management principles;
- Roles and responsibilities;
- The Municipality's 'Risk Tolerance';
- The Risk Framework and how it will work; and
- How risk management contributes to providing an Assurance.

Risk Management in the Municipality provides a framework to identify, assess and manage potential risks and opportunities. It provides a way for managers to make informed management decisions. Effective Risk Management affects everyone in the Municipality. To ensure a widespread understanding, Management and all operational/business units should be familiar with, and all staff and councilors are aware of, the principles set out in this document.



## 2.1 Objective

The objectives of this Risk Management policy are to assist management and council to make informed decisions which will:

- Improve the Municipality's performance on decision making and planning;
- Provide a sound basis for integrated risk management and internal control as components of good corporate governance;
- Assist management in ensuring more effective reporting and compliance with applicable laws, regulations and other corporate governance requirements.
- Foster a culture of good governance, ethical conduct, discourage inefficiencies and counter fraud and corruption.

## 2.2 Scope

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

## 2.3 Background

Risk is part of every human effort, and an integral part of both financial and non-financial business undertakings. Organizations and leaders of these organizations are routinely exposed to risks of different degrees towards the attainment of goals and objectives.

The Cederberg Municipality, as the third sphere of government, provides a range of municipal services to the local communities. In its recognition of the critical service delivery mandate, recognized that innovation and accountability are essential in the pursuit of its mandate. To ensure that the stated objectives of the Municipality in the Integrated Development Plan (IDP) are achieved in the complex and dynamic environment within which the Municipality operates, and without compromising the stakeholders trust and high standard of service delivery, an effective approach to management of risks that are faced on an ongoing basis is needed.

Council and Management must therefore embrace risk and in so doing, actively consider it in strategy and objective setting, as well as in undertaking and performing their day to day duties and responsibilities.

Section 62(1)(c)(i) and 95(c)(i) of the MFMA state that: "... The accounting officer of the Municipality and municipal entity is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."



Section 3.2.1 of the Treasury Regulations states the following:

“The accounting officer must ensure that a risk assessment is conducted regularly so as to identify emerging risks of the institution. A risk management strategy, which must include a fraud prevention plan, must be used to direct the internal audit effort and priority...”

## 2.4 Legislative Instruments

Legislation and guidelines that is aimed at the implementation of enterprise risk management is as follows, but not limited to:

- Municipal Finance Management Act no.56 of 2003;
- Public Sector Risk Management Framework, 1 April 2010;
- Treasury Regulations (issued in terms of the MFMA);
- King Code of Governance for South Africa 2009;
- Committee of Sponsoring Organization of the TreadWay Commission (COSO) Enterprise Risk Management – Integrated Framework 2004;
- COSO – Strengthening Enterprise Risk Management for Strategic Advantage, 2009;
- International Organization for Standardization – ISO31000, 2009;
- Framework for Managing Programme Performance Information 2007;
- International Standards for the Professional Practice of Internal Audit;
- The Orange Book, Management of Risk – Principles and Concepts, October 2004;
- Public Service Regulations, 2001;
- Companies Act No. 71 of 2008.

## 3. THE DEFINITIONS OF RISK AND ENTERPRISE RISK MANAGEMENT

- **Risk** is an uncertain future event that could influence the achievement of the Municipality's strategic and business objectives.
- **Risk Management** is a systematic and formalized process instituted by the Municipality to identify, assess, manage, monitor and report risks to ensure the achievement of objectives.
- **Enterprise Risk Management (ERM)** is a process, effected by the Municipality Accounting Officer, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the Municipality, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of the Municipality's objectives.

or

- **Enterprise Risk Management (ERM)** is the application of risk management throughout the Municipality rather than only in selected business areas or disciplines and needs to be managed



in a comprehensive and integrated way. ERM recognizes that risks (including opportunities) are dynamic, often highly interdependent and ought not to be considered and managed in isolation.

#### 4. BENEFITS OF ENTERPRISE RISK MANAGEMENT

Page | 7

- **Service Delivery**

The overall benefit of risk management is effective and efficient service delivery.

- **Organisational alignment**

The risk management process is designed to complement effective strategic and operational planning. It will assist in ensuring that management and staff understand, and are committed to the Strategic Focus Areas which have been defined in the IDP and the SDBIP. This will include an understanding of the key performance indicators (KPI's) against which our success is measured.

- **Improved ability to manage risks**

The formal identification and evaluation of risks will improve management and staff understands of the risks which need to be managed. Furthermore, it will enable the analyses and understanding of the causes of risks to ensure effective internal controls to manage these causes.

- **Improved ability to achieve objectives**

By proactively identifying risks, the Municipality will have a better understanding of risks and be more anticipatory and therefore able to achieve its objectives with greater certainty.

- **Improved ability to seize opportunities**

By understanding its risk profiles, the risk management process will enable management to seize and execute new opportunities successfully.

- **Cost Effective Internal Controls**

The risk management process will ensure that the system of internal control is cost effective. Areas of over control should be identified and removed.



- **Sustainability**

The risk management process is a means to educate all management and staff on their responsibility for risk management and the effective application of internal controls. Risk management will be embedded at all levels within the Municipality.

## **5. ROLES AND RESPONSIBILITIES**

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

### **Risk Management Oversight (Council)**

Council is responsible for the governance of risk. Council takes an interest in risk management to the extent necessary to obtain comfort that properly established and functioning systems of risk management are in place to protect the Cederberg Municipality against significant risks.

Council has to report to the community, on the Municipality's system of internal control. This provides comfort that the Municipality is protected against significant risks to ensure the achievement of objectives as detailed in the Service Delivery and Budget Improvement Plan (SDBIP).

### **Risk Management Oversight (Audit Committee)**

The Audit Committee is an independent committee, responsible to oversee the Municipality's control, governance and risk management. This committee is vital to, among other things, ensure that financial, IT and fraud risk related to financial reporting are identified and managed.

The Audit Committee's primary responsibility is providing an independent and objective view of the effectiveness of the Municipality's risk management process to council and to provide recommendations to the Municipal Manager for continuous improvement and management of risks. The responsibilities of the Audit Committee with regard to risk management are formally defined in its charter.

### **Risk Management Oversight (Risk Management Committee)**

The committee's role is to review the risk management progress and maturity of the Municipality, the effectiveness of risk management activities, the key risks facing the Municipality and the responses to address these key risks.



### **Risk Management Implementers (Municipal Manager)**

The Municipal Manager is ultimately responsible for risk management within the Municipality. This includes ensuring that the responsibility for risk management vests at all levels of management. The Municipal Manager sets the tone at the top by promoting accountability, integrity and other factors that will create a positive control environment.

### **Risk Management Implementers (Management)**

All other levels of management, support the Municipality's risk management philosophy, promote compliance with the risk appetite and manage risks within their areas of responsibility.

Management takes ownership for managing the Municipality's risks within their areas of responsibility and is accountable to the Municipal Manager for designing, implementing, monitoring and integrating ERM into their day-to-day activities of the Municipality. This should be done in a manner that ensures that risk management becomes a valuable strategic management tool.

### **Risk Management Implementers (Other Officials)**

Other officials are responsible for integrating risk management into their day-to-day activities i.e. by ensuring conformance with controls and compliance to procedures.

### **Risk Management Support (Chief Risk Officer)**

The Manager: Integrated Risk Management is the custodian of the Risk Management Strategy and Implementation Plan and the coordinator of Enterprise Risk Management activities throughout the Cederberg Municipality.

The primary responsibility of the Manager: Integrated Risk Management is to use his/her specialist expertise to assist the Municipality to embed the Enterprise Risk Management and leverage its benefits to enhance performance.

The Manager: Integrated Risk Management plays a vital communication link between senior management, operational level management, the Risk Management Committee and other relevant committees.



### **Risk Management Support (Risk Champions)**

A Risk Champion would generally hold a senior position within the Municipality and possess the skills, knowledge and leadership qualities required to champion a particular aspect of risk management.

The Risk Champion assists the Manager: Integrated Risk Management to facilitate the risk assessment process and manage risks within their area of responsibility to be within the risk appetite. Their primary responsibilities are advising on, formulating, overseeing and managing all aspects of the Municipality's entire risk profile, ensuring that major risks are identified and reported upwards.

Page | 10

### **Risk Management Assurance Providers (Internal Audit)**

The core role of Internal Audit in risk management is to provide an independent, objective assurance to council and the Audit Committee on the effectiveness of the risk management process.

Internal Audit also assists in bringing about a systematic, disciplined approach to evaluate and improve the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.

### **Risk Management Assurance Providers (External Audit)**

External Audit (Auditors-General South Africa) provides an independent opinion on the effectiveness of Enterprise Risk Management.

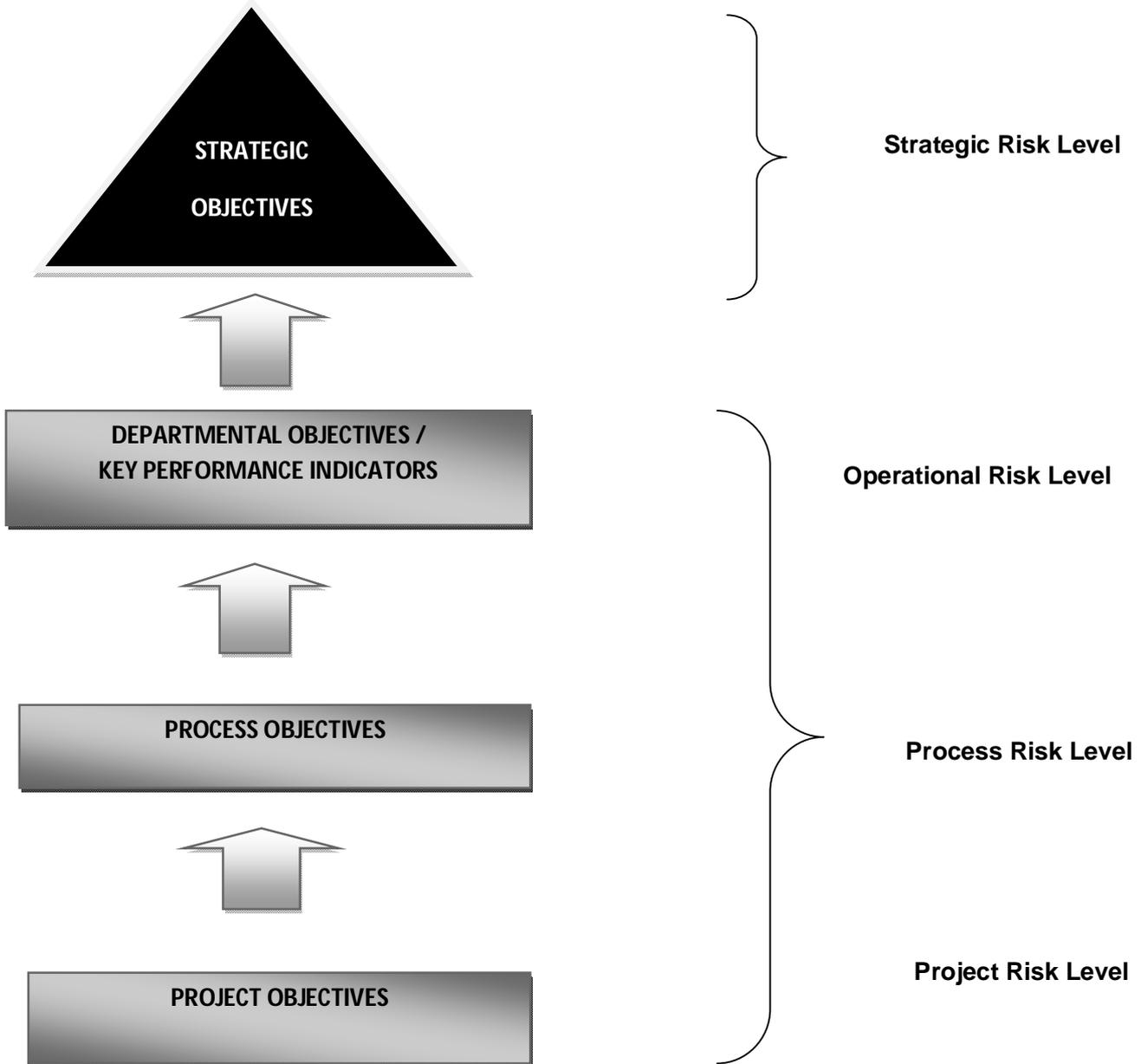
## **6. RISK PROFILES**

Risk profile plans shall be developed and reviewed on an annual basis.

Four levels of risk profiles need to be developed and maintained at the Municipality (this will also depend on the capacity level within the Municipality, for example the Municipality may opt to perform the strategic and operational assessment as a start).



These are different levels:



### Strategic level

- Top-down risk assessments at strategic level should be performed when the vision, long-term development priorities and objectives are determined as part of the Integrated Development Plan;



- Strategic risk identification should precede the finalisation of strategic choices, and related budgetary processes, to ensure that potential risk issues are factored into the decision making process for selecting the strategic options;
- In order to achieve this, the strategic risk assessment activities should be aligned to the activities in the IDP process plan and budget timetable and there should be a clear link between the challenges documented in the IDP and the key risks included in the strategic risk profile;
- Strategic risk assessments should be updated during the annual review of the Integrated Development Plan and budgetary processes;
- In performing the strategic level risk assessment, risk owners assess the extent to which current management controls and strategies effectively mitigate identified risks to within the risk tolerance and overall risk appetite of the organisation;
- Actions are implemented to respond to key gaps in risk mitigation. The monitoring of strategic risks, existing controls and actions should be integrated into the day-to-day business.

### **Operational level**

- Operational risk identification should seek to establish vulnerabilities introduced by employees, internal processes and systems, contractors, regulatory authorities and external events;
- Operational risk assessments should be performed during the annual departmental planning and budgeting processes, and be continually monitored for new and emerging risks;
- Specific operational risk assessments may need to be performed in certain areas using specialist skills, such as fraud risk assessments, information technology risk assessments, compliance risk assessments, safety and health risk assessments;
- In performing operational risk assessments, risk owners assess the extent to which current management controls and strategies effectively mitigate identified risks to within the risk tolerance;
- Actions are implemented to respond to gaps in risk mitigation. The monitoring of operational risks, controls and actions should be integrated into the operational day-to-day business.

### **Process level**

- Process risk identification should seek to establish risks to the achievement of the specific process objectives;
- In performing process level risk assessments, risk owners assess the extent to which current management controls and strategies effectively mitigate identified risks to within the risk tolerances;
- Actions are implemented to respond to gaps in risk mitigation. The monitoring of process level risks, controls and actions should be integrated into process level operations.



### Project level

- This involves the identification of risks inherent to particular projects;
- Risks should be identified for all major projects, covering the whole project lifecycle;
- It is aimed to facilitate risk owners in ensuring that adequate and effective strategies and controls are implemented and monitored throughout the project lifecycle;
- Risks are documented in the project risk register, monitored and regularly reviewed to identify new and emerging risks.

## 7. ENTERPRISE RISK MANAGEMENT PROCESS

To fulfill its philosophy and implement an enterprise-wide integrated approach, the Cederberg Municipality will ensure that the eight (8) components of the ERM process are implemented and operating effectively, efficiently and economically (**Refer to figure 1**). These components of the ERM process are discussed in further detail in the Risk Management Strategy and Implementation plan.

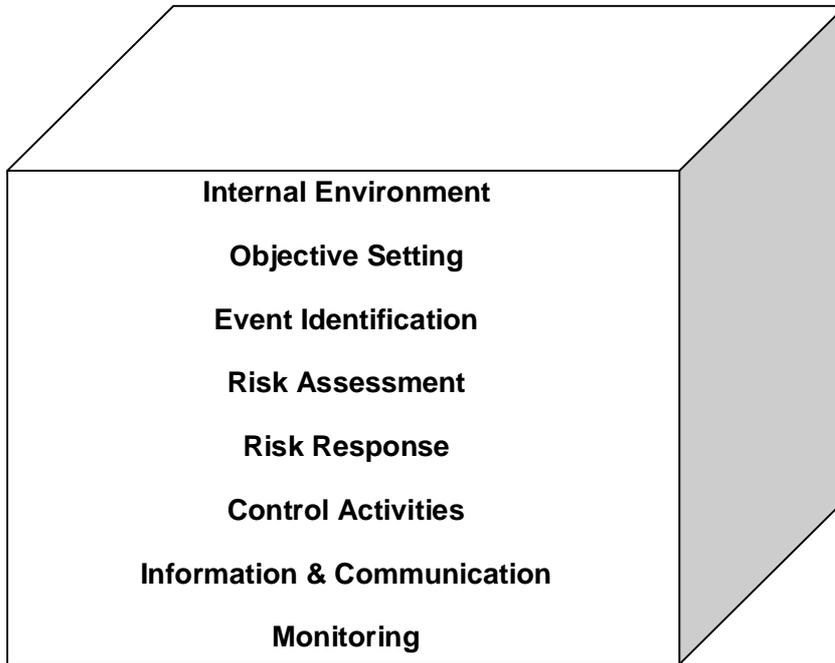


Figure 1: Enterprise Risk Management Process – Enterprise Risk Management Integrated Framework – September 2004 (Committee of Sponsoring Organizations of the Treadway Commission)



## **Internal Environment**

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

## **Objective Setting**

Objective setting is a precondition to event identification, risk assessment, and risk response. There must first be objectives before management can identify risks to their achievement and take necessary actions to manage the risks.

## **Event Identification**

An event is an incident or occurrence emanating from internal or external sources that could affect implementation of strategy or achievement of objectives. Events may have positive or negative impacts, or both.

As part of event identification, management recognizes that uncertainties exist, but does not know when an event may occur, or its outcome should it occur. To avoid overlooking relevant events, identification is best made apart from the assessment of the likelihood of the event occurring, which is the topic of risk assessment.

Event / Risk identification should be strengthened by:

- Review of internal and external audit reports;
- Financial analyses;
- Historic data analyses;
- Actual loss data;
- Interrogation of trends in performance data;
- Benchmarking against peer groups;
- Market and sector information;
- Scenario analyses; and
- Forecasting and stress testing.

There are a number of techniques that can be used for risk identification. The following options have been identified that can be used to assist role players in identification and recording of perceived risks.



Technique	Advantages	Disadvantages
Individual Interview	Ensures consistent drawing out of issues. Personal interaction can be useful in generating a better understanding of risks.	Takes up a considerable amount of time for both interviewer and interviewee. May miss significant risks unless a well-qualified interviewer is used.
Workshops	Generates a shared understanding and “ownership”. Promotes team working through a process of brainstorming.	Team dynamics may take over (e.g. risks not identified because the “boss” is present which inhibits discussion).
A Combination of the Above	Risks from interviews can be discussed and agreed. New risks can be brought out in a team environment.	Takes up officers’ time and largely depends upon the skills of the interviewer / facilitator.
Staff Surveys	Consistent questions asked and documented responses. Can identify risks, evaluate them and capture action plans.	Could be a better use of resources or be seen as bureaucratic and generate little “buy-in” from teams. Could there be some collation / analysis issues when results received.
Selected Groupings	If senior managers are involved they should quickly identify key strategic risks and the process can help to generate corporate working.	Fairly cost effective but the opinion of those “already converted” or risk educated may be sought which may not adequately capture or address a holistic approach.

### Risk Assessment

Risk assessment allows the Municipality to consider the extent to which potential events might have an impact on the achievement of objectives. Management assess events from two perspectives, viz impact and likelihood to determine their risk score or severity rating and normally uses the quantitative method.

Risk Assessments are performed through a three stage process:

- Firstly, inherent risk should be assessed;
- Secondly, residual risk should be assessed;
- Thirdly, the residual risk should be benchmarked against the risk appetite to determine the need for further intervention.



Inherent risks are rated, assuming that there are no controls in place to mitigate the risk. Risk assessment is applied first to inherent risks. Once risk controls and responses have been identified and/or developed, the residual risk is then determined.

The risk management, assessment process will be conducted in the following processes, to ensure alignment: Page | 17

1. Strategic Objectives (Council);
  - a. Strategic Key Performance Indicators;
    - i. Strategic Risks Identified;
      1. Response Strategy (Action plan).
2. Departments – Departmental Objectives (Mayoral)
  - a. Departmental Key Performance Indicators;
    - i. Operational Risk Identified;
      1. Response Strategy (Action Plan).

The following tables provide the risk ratings:

**Potential Impact / Consequence**

Rating	Continuity of Service	Safety & Environmental	Technical Complexity	Financial	Achievement of objectives
<b>Catastrophic (5)</b>	Risk event will result in widespread and lengthy reduction in continuity of service delivery to customer for a period greater than 48 hours	Major environmental damage. Serious injury (permanent disability) or death of personnel or members of the Public. Major negative media coverage.	Use of unproven technology for critical systems / project components. High level of Technical Interdependencies between system components.	Disaster with potential to lead to collapse of business and is fundamental to the achievement of objectives.	Negative outcomes of missed opportunities that are of critical importance to the achievement of objectives.
<b>Major (4)</b>	Reduction in service delivery or disruption for a period ranging between 24 & 48 hours over a significant area	Significant injury of personnel or public. Significant environmental damage. Significant negative media coverage.	Use of new technology not previously utilized by the organization for critical systems / project components.	Critical event which can be endured but which may have a prolonged negative impact and extensive consequences.	Negative outcomes or missed opportunities that are likely to have a relatively substantial impact on the ability to meet objectives.
<b>Moderate (3)</b>	Reduction in service	Lower level of environmental,	Use of unproven or emerging	Major events, which can be	Negative outcomes or missed opportunities



	delivery or disruption for a period between 8 & 24 hours over a significant area.	safety or health impacts. Negative media coverage	technology for critical systems / project components.	managed but requires additional resources and management effort.	that are likely to have a relatively moderate impact on the ability to meet objectives
<b>Minor (2)</b>	Brief local inconvenience (work around possible). Loss of an asset with minor impact on operations	Little environmental, safety or health impacts. Limited negative media coverage.	Use of unproven or emerging technology for systems / project components.	Event, which can be managed under normal operating conditions.	Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives
<b>Insignificant (1)</b>	No or minimal impact on business or core systems	No environmental, safety or health impacts and/or negative media coverage	Use of unproven or emerging technology for non-critical systems / project components	Consequences can be readily absorbed under normal operating conditions.	Negative outcomes or missed opportunities that are likely to have a relatively negligible impact on the ability to meet objectives

**Likelihood/Probability of occurrence**

Rating	Level	Description
5	Almost certain	The risk is already occurring, or is likely to occur more than once within the next 12 months
4	Likely	The risk will easily occur, and is likely to occur at least once during the next 12 months.
3	Moderate	There is an above average chance of the risk occurring more than once during the next 3 years
2	Unlikely	The risk has a low likelihood of occurring during the next 3 years
1	Rare/Remote	The risk is unlikely to occur during the next 3 years



### Control Effectiveness

Rating	Level	Description
5	Excellent	Could not be more effectively implemented to mitigate the risk.
4	Good	Most risks are effectively controlled and mitigated.
3	Average	There is room for some improvement in the control system.
2	Unsatisfactory	Some risks appear to be controlled but there are major deficiencies.
1	Poor	The control system is ineffective.

Page | 19

### Risk Appetite

It is not always efficient to manage risks to zero residual risk or very low residual threshold because of the time, cost and effort that will be required, and which could result in the cost / benefit dynamics to become skewed. On the other hand it is also poor management practice to accept risks which create unnecessary exposure for the institution. The risk appetite should be directly related to the strategy setting of the Municipality.

The risk appetite should enable consistency in decision making at all levels through improving risk understanding.

It should also improve the ability of the Audit Committee and the Risk Management Committee to challenge recommendations and/or action plans of management/risk champions by providing a benchmark of what level of risk is defined as acceptable, and therefore should derive real value from the assessment of risk over and above compliance purposes.

The Cederberg Municipality has set its risk appetite level at Impact X Likelihood = 10 rating.

The Municipality has committed itself to aggressively pursue managing risks to be within its risk appetite to avoid exposures to losses and to manage actions that could have a negative impact on the reputation of the Municipality.



**EXAMPLE:**

Both the inherent and residual risks shall be measured as Low, Medium, High and Extreme. This can be illustrated in the Heat Map, below:

<b>LIKELIHOOD</b>	5	LOW	MEDIUM	HIGH	EXTREME	EXTREME
	4	LOW	MEDIUM	HIGH	HIGH	EXTREME
	3	LOW	MEDIUM	MEDIUM	HIGH	HIGH
	2	LOW	LOW	MEDIUM	MEDIUM	MEDIUM
	1	LOW	LOW	LOW	LOW	LOW
<b>Risk Matrix</b>		1	2	3	4	5
<b>IMPACT / CONSEQUENCE</b>						

Figure 2: Heat Map



Risk Appetite Level  
3 X 3 = 9 Level

**Risk Response**

After assessing the risk scores, an appropriate mitigation strategy is selected. These responses may fall within the categories of avoid, reduce, share and accept.

Risk responses fall within the following four categories:

- **Avoid** – Action is taken to exit the activities giving rise to risk. Risk avoidance may involve exiting a product line, declining expansion to a new geographical market, or selling a division. Example The best way to avoid flood risk is to locate the development outside areas of Flood Zones.
- **Reduce** – Action is taken to reduce the risk likelihood or impact, or both. This may involve any of a myriad of everyday business decisions.
- **Share** – Action is taken to reduce risk likelihood or impact by transferring or otherwise sharing a portion of the risk. Common risk sharing techniques include purchasing insurance products, pooling risks, engaging in hedging transaction, or outsourcing an activity.
- **Accept** – No action is taken to affect likelihood or impact.



## **Control Activities**

Control activities are the policies and procedures that help ensure that management's risk responses are carried out. Control activities occur throughout the Municipality, at all level and in all functions.

They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. Page | 21

## **Types of Control Activities**

Many different descriptions of types of control activities have been put forth. Internal Controls can be preventative, detective or corrective by nature.

Preventative Controls are designed to keep errors or irregularities from occurring in the first place. Detective Controls are designed to detect errors or irregularities that may have occurred. Corrective Controls are designed to correct errors or irregularities that have been detected.

## **Information and Communication**

Pertinent information is identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also occurs, flowing down, across and up in the Municipality. All personnel receive a clear message from top management that risk management responsibilities must be taken seriously. They understand their own role in risk management, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There is also effective communication with external parties.

## **Monitoring**

Monitoring risk management is a process that assesses the presence and functioning of its components over time. This is accomplished through on-going monitoring activities, separate evaluations or a combination of the two. On-going monitoring occurs in the normal course of management activities. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of on-going monitoring procedures.



## RISK CATEGORIES

**A Risk Framework** is a master list that enables the categorization of all risks identified, but not limited. The risk identification process should cover all risks, regardless of whether or not such risks are within the direct control of the institution. These might include external and internal factors:

RISK CATEGORIES	DEFINITION OF RISK CATEGORIES
<p><b>Political Risks</b></p>	<p>Risks relating to newly elected government officials, political agendas; new legislation and regulations or amendments thereof;            The influence of international governments and other Governing bodies on the institutional strategy;            Risks emanating from political factors and decisions, which have an impact on the institution's mandate and operations;            Possible factors to consider include:</p> <ul style="list-style-type: none"> <li>• Political unrest; Local, Provincial and National Strikes; and</li> <li>• Changes in office bearers</li> </ul>
<p><b>Financial</b></p>	<p>Potential factors on financial risks:</p> <ul style="list-style-type: none"> <li>• Financial Statements / Financial Reporting Integrity;</li> <li>• Revenue Collection / Debt Management</li> <li>• Budgets/ budgeting;</li> <li>• Working Capital Management;</li> <li>• Cash Management;</li> <li>• Asset Management;</li> <li>• Increasing OPEX &amp; CAPEX expenditure;</li> <li>• Supply Chain Management / Procurement.</li> </ul>
<p><b>Service Delivery</b></p>	<p>Risks that have an effect of hindering service delivery due to inefficient, ineffective and uneconomical use of resources:</p> <ul style="list-style-type: none"> <li>• Water Services;</li> <li>• Refuse &amp; Waste Removal;</li> <li>• Housing Development &amp; Maintenance services;</li> <li>• Civil Engineering Services;</li> <li>• Electrical Engineering Services;</li> <li>• Public Roads Works &amp; Maintenance;</li> <li>• Local Economic Development;</li> <li>• Sustainable Development;</li> </ul>



	<ul style="list-style-type: none"> <li>• Healthcare Management services;</li> <li>• Safety &amp; Security Services</li> </ul>
<b>Human Resources</b>	<p>Risks associated with staff capacity in relation to:</p> <ul style="list-style-type: none"> <li>• Specialist Skills</li> <li>• Staff Retention</li> <li>• Training and Development / Skills Development</li> <li>• Remuneration / Employee Benefits</li> <li>• Employee Relations</li> <li>• Employee Wellness</li> <li>• Occupational health and safety</li> </ul>
<b>Occupational Health and Safety/Fire, Disaster &amp; Security Risks</b>	<ul style="list-style-type: none"> <li>• These risks relate to fire, disaster and security;</li> <li>• Risks that may hamper the Municipality to ensure a safe, healthy, clean and sustainable external environment for all the Cederberg people;</li> <li>• Provide security on networks, systems and information; and Safeguarding of Assets.</li> </ul>
<b>Regulatory Risks</b>	<ul style="list-style-type: none"> <li>• Compliance with legal requirements such as legislation, regulations, contractual requirements and internal policies and procedures.</li> <li>• This category also extends to compliance with additional 'rules' such as policies, procedures or expectations, which may be set by service providers or customers.</li> </ul>



<p><b>Economic Risks</b></p>	<p>Factors to be considered:</p> <ul style="list-style-type: none"> <li>• Foreign exchange fluctuation;</li> <li>• Interest Rate;</li> <li>• Inflation;</li> <li>• Investments;</li> <li>• Credit Ratings</li> </ul>
<p><b>Third party performance</b></p>	<p>Risks related to the Municipality's dependence on the performance of a third party.</p> <p>Risk in this regard could be that there is the likelihood that a service provider might not perform according to the service level agreement entered into with the Municipality. Non- performance could include:</p> <ul style="list-style-type: none"> <li>• Outright failure to perform;</li> <li>• Not rendering the required service on time;</li> <li>• Not rendering the correct service; and</li> <li>• Inadequate / poor quality performance</li> </ul>
<p><b>Litigation</b></p>	<p>Risks that the Municipality might suffer due to litigation and lawsuits against it. Losses from litigation can possibly emanate from:</p> <ul style="list-style-type: none"> <li>• Claims by employees, the public, service providers and other third parties;</li> <li>• Failure by the Municipality to exercise certain rights that is to its advantage.</li> </ul>



<p><b>Information Technology</b></p>	<p>Areas in which risks associated with information Technology may arise from are:</p> <ul style="list-style-type: none"> <li>• IT Governance;</li> <li>• Security Management;</li> <li>• IT Service Continuity;</li> <li>• Program Change Control;</li> <li>• User Account Management;</li> <li>• Integration / interface of the systems;</li> <li>• Effectiveness of technology;</li> <li>• Obsolescence of Technology;</li> <li>• Succession planning of applications;</li> <li>• Disaster recovery;</li> <li>• Systems development and testing; and</li> <li>• Software and hardware.</li> </ul>
<p><b>Environmental Risks</b></p>	<p>Socio –Economic factors: Industries; Globalization risks (effect) – Global Warming, World markets; Inflation; Unemployment Pollution, Spillages, Depletion of Natural Resources</p>
<p><b>Fraud and Corruption</b></p>	<p>These risks relate to illegal or improper acts by employees, Councilor's and/or community members resulting in a loss of the Municipality's assets or resources. Fraud by Internal &amp; External Stakeholders</p> <ul style="list-style-type: none"> <li>• Fraud by Service Provider;</li> <li>• Corporate Image;</li> <li>• Corporate Governance</li> </ul>
<p><b>Cultural</b></p>	<p>Risks relating to the Municipality's overall culture, various factors related to organizational culture include:</p> <ul style="list-style-type: none"> <li>• Lack of Ownership;</li> <li>• Low Moral;</li> <li>• Cultural integration;</li> <li>• Entrenchment of ethics and values;</li> <li>• Goal alignment; and</li> <li>• Diversity</li> </ul>



<p><b>Communication</b></p>	<p>Internal Communication;          External Communication (Marketing);          Media Liaison;          Intergovernmental Relations;          Public Participation in the affairs of the Municipality</p>
<p><b>Reputational Risks</b></p>	<p>The reputation risks exposures due to the conduct of the Municipality as a whole, the viability of products or services, or the conduct of employees or other individuals associated with the Municipality. Risks associated with reputations include:</p> <ul style="list-style-type: none"> <li>• Public Perceptions;</li> <li>• Poor Images;</li> <li>• Lack of Integrity;</li> <li>• Lack of transparency</li> </ul>

**8. AWARENESS, TRAINING AND DEVELOPMENT**

Risk Management activities must be performed with proficiency and due professional care. Continuous education and awareness through formal and informal training to all Council and municipal staff members is needed to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent conformance to the stakeholder's expectations and high standard of services throughout the Cederberg Municipality.

Management must exercise due professional care by considering the cost of managing the risk in relation to the value of the objective. Management defines and implements controls and actions to manage risk to reduce the probability of significant errors, irregularities or non-compliance.

The establishment and maintenance of an **enabling environment** includes information sharing processes; awareness and training on risk management; communication; change management; and continuous improvement.

**9. REVIEW AND APPROVAL OF THE POLICY**

The Risk and Ethics Management Committee must review this Policy every three (3) years and determine its adequacy and effectiveness for current circumstances and recommend to Council for approval.