



LANGEBERG

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RISK MANAGEMENT POLICY

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1. RISK MANAGEMENT PHILOSOPHY

Langeberg Municipality is committed to the optimal management of risks in order to achieve our vision, deliver on our core business and key objectives.


In the course of conducting our 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.

To ensure business success we have adopted an enterprise-wide integrated approach to the management of risks. By embedding the risk management process into key business processes such as planning, operations and new projects, we will be better equipped to identify events affecting our objectives and to manage risks in ways that are consistent with the approved risk appetite.

To further implement the enterprise-wide approach, we have taken a number of steps to reinforce a culture of disciplined risk-taking.

Council is responsible for oversight of the risk management process and has delegated its day-to-day implementation to the Accounting Officer. The Accounting Officer, who is accountable for the overall governance of the municipality's risks, has delegated this role to the Compliance Officer (CO) who act as a designated Enterprise Risk Management official (ERM) official and Management. The CO will ensure that the framework is implemented and that council and the Risk Management Committee (RMC) receive appropriate reporting on the municipality's risk profile and risk management process. Management will execute their responsibilities outlined in the Risk Management Strategy. All other officials are responsible for incorporating risk management into their day-to-day activities.

As the Accounting Officer of Langeberg Municipality, I am responsible for enhancing corporate governance within the municipality and to ensure that appropriate focus is placed on important tasks.



SIGNATURE OF ACCOUNTING OFFICER:

S A MOKWENI
Name in Print

DATE: 21/05/2014

1.1 INTRODUCTION

The Accounting Officer has committed Langeberg Municipality in implementing and maintaining an effective, efficient and transparent system of risk management. The process of risk management is aligned to the principles as set out in the King III Report on Governance for South Africa and as supported by the Municipal Finance Management Act (MFMA), Act no 56 of 2003.

1.2 KEY DEFINITIONS

Enterprise Risk Management

A process, affected 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.

Risk

The uncertainty of an event occurring that could have impact on the achievement of objectives. The risk is measured in terms of its impact and likelihood to happen.

Risk Management

The culture processes and structures that are directed towards the effective management of potential opportunities within the Municipality.

Risk Management Framework

Set of components that provide the foundations and organizational arrangement for designing, implementing, monitoring, reviewing and continually improving risk management processes throughout the organization.

Risk Profile/Register

The risk profile will outline the number of risks, type of risk and potential effects of the risk. This outline will allow the municipality to anticipate additional costs or disruptions to operations. Also describes the willingness of a company to take risks and how those risks will affect the operational strategy of the municipality.

Risk Assessment

The overall process of analysing and evaluating risks.

Risk measurement

The impact and the likelihood of risk to happen

Risk appetite

Amount of risk the organization is prepared to take

Risk Response

The strategies developed by management to reduce or eliminate the threats and events that create risks

Risk tolerance

Organization's readiness to bear the risk, after treatments in order to achieve its objectives

Inherent Risk

The impact that the risk will have on the achievement of objectives, if the current controls that are in place are not considered and implemented to mitigate the risk.

Residual Risk

The remaining exposure of the risk after the controls/ treatment has been taken into consideration. (The remaining risk after the management has put in place measures to control the inherent risk.

Risk Assurance

The functions that are performed by the Internal Audit Unit and the Auditor General in providing assurance with regard to risk management.

Risk Owner

The person responsible and accountable for a particular risk

Risk Officer

The driver of the risk management process

Risk Champion

The official nominated by the Executive director of a specific directorate to co-ordinate and manages risks within the directorate.

1.3 LEGISLATIVE BACKGROUD

S62(1)(a) of the MFMA Act states that "the accounting officer of the municipality is responsible for managing the financial administration of the municipality and for this purpose take all reasonable steps to ensure the municipality has and maintains effective and efficient and transparent systems of financial and risk management and internal control"

Chapter 4 of the Executive guide to KING III of Corporate Governance also give emphasis on the accountability of the leadership structure to ensure that it is satisfied with management of risk.

The above is further supported by other sections of the Act, viz. Section 165 (2)(a); (2)(b)(iv) and Section 166 (2)(a)(ii).

4.3 The Public Sector Risk Management Framework published on 01 April 2010 also requires that an organization must have a Risk Management Unit with the entire Risk Management infrastructure listed on the framework.

4.4 Section 41 of the Municipal Supply Chain Management Regulations states inter alia that, a supply chain management policy must provide for an effective system of risk management for the identification, consideration and avoidance of potential risks in the supply chain management system.

2. PURPOSE OF THE RISK MANAGEMENT

Through this policy Langeberg Municipality puts into practice its commitment to implement risk management and embed a culture of risk management within the municipality. This policy forms the basis for the accompanying Risk Management Strategy which is designed to help achieve the objective of implementing an effective Enterprise Risk Management (ERM) process.

The purpose of the Enterprise Risk Management Framework also includes:

- Contributing in building a risk-smart workforce and environment that allows for innovation and responsible risk-taking while ensuring legitimate precautions are taken to protect the public interest, maintain public trust, and ensure due diligence;
- Providing a comprehensive approach to better integrate risk management into strategic decision making;

And also

- Providing guidance to the Accounting Officer, the management when overseeing or implementing the development of processes, systems and techniques for managing risk, which are appropriate to the context of Langeberg Municipality

3. BENEFITS OF THE RISK MANAGEMENT

The benefits of the Risk Management Framework are as follows:

- **Aligning risk appetite and strategy** – The Langeberg Municipality management will consider their risk appetite in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks.
- **Providing an ability to prioritise the risk management activity** – Risk quantification techniques assist management in prioritizing risks to ensure that resources and capital are focussed on standard and significant risks faced by the Municipality.
- **Enhancing risk response decisions** – Enterprise Risk Management provides the basis for management to identify and select alternative risk responses –transfer the risk, tolerate, treat, or terminate.
- **Seizing opportunities** - By considering a full range of potential events, Langeberg management will be in a position to identify and proactively realize opportunities.
- **Ensuring compliance with laws and regulations** – Risk Management helps to ensure effective reporting and compliance with laws and regulations, and helps to avoid damage to Langeberg Municipality reputation and associated consequences.

4. DETAILED ROLES AND RESPONSIBILITIES

All personnel within the Langeberg Municipality have a responsibility for maintaining good internal control and managing risks in order to achieve the Municipality's objectives; however the primary responsibility for the identifying and management of risk lies with Management.

4.1 RISK MANAGEMENT OVERSIGHT

4.1.1 Council

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 Langeberg Municipality against significant risks.

4.1.2. Audit Committee

The Audit Committee is responsible for the independent oversight of:

- The process of risk management, which includes a related system of internal control;
- For forming its own opinion on the effectiveness of the process;
- Providing the accounting officer with the independent monitoring, advice and direction in respect of risk management

4.1.3 Risk Committee

The Risk Committee is appointed by the Accounting officer and is responsible for the oversight of:

- Reviewing of risk management policy and strategy and recommend for approval by the Accounting officer and Council,
- Review the risk management progress which includes a related system of internal control;
- Assess the effectiveness of the risk management activities;
- Providing monitoring, guidance and direction in respect of Enterprise Risk Management;
- Ensuring that appropriate systems are implemented to manage the identified risks, by measuring the risks in terms of impact and probability, together with proactively managing the mitigating actions to ensure that Langeberg Municipality assets and reputation are suitably protected

4.2 RISK MANAGEMENT IMPLEMENTERS

4.2.1 Accounting Officer

High-level responsibilities of the Accounting Officer include:

- Setting the tone at the top by supporting risk management and allocating resources towards the implementation thereof.
- Promotes accountability, integrity and other factors that will create a positive control environment
- Approving the risk management strategy, risk management policy, risk management implementation plan and fraud risk management policy.
- Influencing a municipal "risk awareness" culture.
- Approving the code of conduct for the municipality and holding management and officials accountable for adherence.

4.2.2 Strategic Management Team

The SMT is responsible for:

- Designing an Enterprise Risk Management programme in conjunction with the Risk Officer;
- Deciding on the manner in which risk mitigation will be embedded into management processes;
- Updating risk registers and providing risk management reports to the Risk Officer pertaining to risk and control;
- Ensuring that adequate and cost effective risk management structures are in place;
- Identifying, evaluating and measuring risks and where possible quantifying and linking each identified risk to key risk indicators;
- Implementing and maintaining adequate internal controls and monitoring the continued effectiveness thereof;
- Implementing those measures as recommended by the internal and external auditors, which, in their opinion, will enhance control at a reasonable cost
- Reporting to the Audit and Risk Committee on the risk process and resultant risk/ reward profiles;

4.2.3 Other Officials

Supervisors and managers are responsible for ensuring that all risks in their areas of operations are identified and managed appropriately also responsible for integrating risk management into their day-to-day activities by e.g. ensuring conformance with controls.

4.3 RISK MANAGEMENT SUPPORT

4.3.1 Chief Risk Officer

The Chief Risk Officer is the custodian of the Risk Management Strategy and a coordinator of risk management activities for the Langeberg Municipality.

Responsibilities of the CRO in risk management include:

- Develop and implement the Municipality's Risk Management Policy and procedures in a manner that fulfils the mission and strategic goals of the organisation while complying with legislative requirements.
- Develop and implement systems, policies and procedures for the identification, collection and analysis of risk related information. .
- Facilitate risk identification and assessment process.
- Maintain risk register, indicating risk responses and risk owners.
- Monitor all risk mitigating controls
- Report to the Risk Committee and Accounting officer in predetermined format and content.
- Educate and train the leadership, staff and business associates as to the risk management program, and their respective responsibilities in carrying out the risk management program.
- Lead, facilitate and advise departments in designing ERM programs within their own departments.
- Helps to identify and implement corrective action where appropriate.
- Educate staff and promote risk awareness throughout the Municipality.
- Liaise closely with the internal audit to devise a risk

4.3.2 Risk Champions

The Risk Champion is an official with skills, knowledge, leadership qualities which is required to champion a particular aspect of risk management.

Responsibilities of the Risk Champion in risk management include:

- Intervening in instances where the risk management efforts are being hampered, for example, by the lack of co-operation by Management and other officials.
- add value to the risk management process by providing guidance and support to manage "problematic" risks and risks of a transversal nature that require a multiple participant approach.
- Assist the Risk Owner to resolve problems

4.4 RISK MANAGEMENT ASSURANCE PROVIDERS

4.4.1 Internal Audit Unit

The responsibilities of the Internal Audit Unit include:

- Providing assurance that management processes are adequate to identify and monitor significant risks;
- Using the outputs of risk assessments to direct internal audit plans;
- Providing on-going evaluation of the risk management processes;
- Providing objective confirmations that the MM and Audit and Risk Committee receive the right quality of assurance and reliable information from management regarding risk;
- providing assurance regarding the effectiveness and efficiency of risk responses and related control activities; and
- Further providing assurance as to the completeness and accuracy of Risk Management reporting.

4.4.2 External Auditors

Auditor-General of South Africa highlights weaknesses and deficiencies with regards to controls and provides an independent opinion on the effectiveness of the risk management activities of the Langeberg Municipality.

5. RISK MANAGEMENT METHODOLOGY

5.1 Object Setting

- This is the strategic, organizational and risk management context against which the risk management process in the Langeberg Municipality will take place.
- Risk management ensures that management has a process in place to both set objectives and align the objectives with Langeberg's mission and vision.
- The setting of these objectives is usually completed during the, "Strategic planning and Budgetary process."

5.2 Risk Identification

- Risk identification is a deliberate and systematic effort to identify and document the Institution's key risks.
- The objective of risk identification is to understand what is at risk within the context of the Institution's explicit and implicit objectives and to generate a comprehensive inventory of risks based on the threats and events that might prevent, degrade, delay or enhance the achievement of the objectives.
- The Institution should adopt a rigorous an on-going process of risk identification that also includes mechanisms to identify new and emerging risks timeously.
- The risk identification process should cover all risks, regardless of whether or not such risks are within the direct control of the Institution.
- Risk workshops and interviews are useful for identifying, filtering and screening risks but it is important that these judgement based technique be supplemented by more robust and sophisticated methods where possible, including quantitative techniques.
- Risk identification should be strengthen by supplementing Management's perceptions of risks, inter alia, with:
 - (a) Review of external and internal audit reports;
 - (b) Financial analyses;

- (c) Historic data analyses;
- (d) Actual loss data;
- (e) Interrogation of trends in key performance indicators;

The categories of Risks:

Strategic Risks - These are risks of a strategic nature, which include the following issues:

- Corporate governance
- Business continuity planning
- Service delivery
- Management responsibility
- Streamlined procedures
- Communication / Public Relations / Reputational Management
- Organisational Structure / Change Management

Operational Risks - Operational risk is the risk that there is a loss as a result of failures/inadequacies in e.g., procedures, office space, personnel, electricity supply, and business relations. This includes losses as a result of errors, omissions and delay. The risk can be due to the following actions:

- Service delivery
- Business processes
- Regulatory trends
- Procurement / Budgeting / Funding / Project Management
- Fraud
- Methods and techniques
- Standards and Education

5.3 Risk Assessment

- Risk assessment is a systematic process to quantify or qualify the level of risk associated with a specific threat or event, to enrich the risk intelligence available to the Institution.
- The main purpose of risk assessment is to help the Institution to prioritise the most important risks as the Institution is not expected to have the capacity to deal with all risks in an equal manner.
- Risks should be assessed on the basis of the likelihood of the risk occurring and the impact of its occurrence on the particular Institutional objective(s) it is likely to affect.

Inherent Risk

The exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors.

Inherent Risk = Impact x likelihood of risk to happen

Residual risk

The remaining exposure after management has considered and taking into account the adequacy of the risk mitigating controls

Residual Risk = Inherent Risk – control adequacy

5.4 Risk Response

- Management identifies risk response strategy options hereafter referred to more specifically as risk responses, and consider their effect on event likelihood and impact, in relation to risk tolerances, costs versus benefits, and thereafter design and implement response options.

- After the risks have been identified and the contributing factors or root causes have been established, the control strategy should be identified for the various risk exposures. Risk responses fall within the categories of risk avoidance, active management and acceptance.
- The following should be used to identify the control strategies considered by management:
 - Transfer through insurance cover;
 - Tolerate;
 - Treat/ mitigate through rigorous management practices; or
 - Terminate the risk by eliminating a process, a product, or a geographical zone.
- After the control strategy decision, the current controls to manage the risk in question are identified. It is necessary to assess the adequacy of these controls. This is a measure of how well management perceives the identified controls to be designed to manage the risks.

5.5 Designing Control Activities to mitigate the risks

5.5.1 Risk Appetite

The term "Risk Appetite" can be defined as the acceptable level or amount of risk the Langeberg Municipality is willing to accept, before action is needed to reduce it. The Langeberg Municipality will set the risk appetite level and commit to aggressively pursue managing risk to be within the risk appetite to avoid exposure to losses and to manage actions that could have a negative impact on the reputation of the Municipality.

5.5.2 Control Activities

This is determination of the current controls (systems and processes) and the analysis of risks in terms of the impact and likelihood in the context of those controls. The analysis should consider the range of potential consequences and how likely those consequences are to occur. Impacts and likelihood of the event to happen be combined to produce an estimated level of risk.

Internal controls are instituted by management and personnel to achieve their objectives by:

- Conducting their business in an orderly, ethical, economic, efficient and effective manner.
- Safeguarding their assets and resources against loss, misuse and damage.
(Deterring and detecting errors, fraud and theft).
- Fulfilling accountability obligations by:
 - Ensuring accuracy and completeness of its accounting and performance data.
 - Producing reliable and timely financial and performance management information.
- Complying with applicable laws, regulations and policies.

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.

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

5.6 Communication and Consultation

- Relevant information which is properly and timely communicated is essential to equip the relevant officials to identify, assess and respond to risks.

- Effective external and internal communication and consultation should take place to ensure that those accountable for implementing the risk management process and stakeholders understand the basis on which decisions are made, and the reasons why particular actions are required.
- Communication and consultation should facilitate truthful, relevant, accurate and understandable exchanges of information, taking into account confidential and personal integrity aspects.
- Management must keep the executive authority up-to-date on performance, developments, risks and the functioning of risk management, and other relevant events and issues. The more effective the communication, the more successful the executive authority will be in carrying out its oversight responsibilities, in acting as a sounding executive authority on critical issues and in providing advice, counsel and direction.

5.7 Risk Monitoring

- Monitoring concerns checking on a regular basis to confirm the proper functioning of the entire risk management system.
- Monitoring should be effected through on-going activities or separate evaluations to ascertain whether risk management is effectively practised at all levels and across the Langeberg Municipality in accordance with the risk management policy, strategy and the implementation plan.

6. REPORTING

The following minimum reports will be compiled and presented to council, Audit Committee and the RMC:

- A summary of risk broken down into operating units. (Risk Register)
- A summary of existing gaps in the capabilities for managing significant risks. (Risk Assessment)
- A report of emerging issues or risks that requires immediate attention. (Action Plans)
- Integrated reporting and disclosure (Quarterly Reports)

FRAUD PREVENTION PLAN

Langeberg Municipality is responsible for developing and implementing its own Fraud Prevention and Anti-Corruption Plan. Confidential reporting of potential breaches and actual investigations should be reported to the Accounting Officer and the Risk Management Committee.

7. IMPLEMENTATION OF THE POLICY

The Risk Management Strategy gives the guidelines on the implementation of the policy and the activities planned for the current year. The policy will be communicated throughout the Langeberg Municipality by means of posters, emails and circulars. The policy will also be publicised on the Municipal website for purpose of ease of accessibility by the users.

8. POLICY REVIEW

The policy shall be reviewed annually to reflect the current stance on the risk management within the Langeberg Municipality.

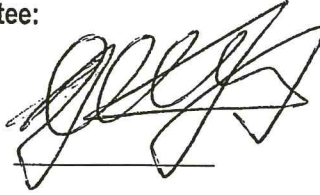
9. APPROVAL OF THE POLICY

The approval of this policy lies with the Langeberg Municipality council on the recommendations of the Risk Management Committee and the Accounting Officer.

ACKNOWLEDGEMENT OF APPROVAL

Recommended by the Risk Management Committee:

Signature:



Name in Print:

TAB VAN DER WESTHUIZEN

Date:

21/05/2014

Position:

Chairperson

Recommended by the Accounting Officer:

Signature:



Name in Print:

S AMOWENI

Date:

21/05/2014

Position:

Accounting Officer

Approved by Council Resolution:

Report No.:

A3012

Date:

24/06/2014