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# UTHUKELA DISTRICT MUNICIPALITY

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ENTERPRISE RISK MANAGEMENT POLICY  
& STRATEGY

2021/2022

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## **1. PURPOSE**

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

Risk management is recognised as an integral part of responsible management and the Municipality therefore adopts a comprehensive approach to the management of risk. The features of this process are outlined in the Municipality's Risk Management Framework. It is expected that all departments, operations and processes will be subject to the risk management framework. It is the intention that these departments will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable.

Effective risk management is imperative to the Municipality to fulfil its mandate, the service delivery expectations of the public and the performance expectations within the Municipality. The realisation of the Municipality's strategic plan depends on the Municipality being able to take calculated risks in a way that does not jeopardise the direct interests of stakeholders. Sound management of risk will enable the Municipality to anticipate and respond to changes in its service delivery environment, as well as take informed decisions under conditions of uncertainty. The Municipality subscribes to the fundamental principles that all resources will be applied economically to ensure:

- The highest standards of service delivery;
- A management system containing the appropriate elements aimed at minimising risks and costs in the interest of all stakeholders;
- Education and training of all staff to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent conformance to the stakeholders expectations; and
- Maintaining an environment which promotes the right attitude and sensitivity towards internal and external stakeholder satisfaction.

The Municipality is adopting a wide approach to risk management, which means that every key risk in each part of the Municipality will be included in a structured and systematic process of risk management. It is expected that the risk management processes will become embedded into the Municipality's systems and processes, ensuring that the Municipality's responses to risk remain current and dynamic. All risk management efforts will be focused on supporting the Municipality's objectives. Equally, they must ensure compliance with relevant legislation, and fulfil the expectations of employees, communities and other stakeholders in terms of corporate governance.

## **2. LEGISLATIVE FRAMEWORK**

The Municipal Manager has committed Uthukela District Municipality to a process of risk management that is aligned to the principles of good corporate governance, as supported by the following:

- Municipal Finance Management Act (MFMA), Act no 56 of 2003.
- Public Sector Risk Management Framework
- Municipal-Wide Risk Management Framework
- COSO Enterprise-Wide Risk Management Framework

## **3. DEFINITIONS**

### **Risk**

The Institute of Risk Management defines risk as “...*the uncertainty of an event occurring that could have an impact on the achievement of objectives*. Risk not only manifests as negative impacts on the achievement of goals and objectives, but also as a missed opportunity to enhance organisational performance. Risk is measured in terms of consequences of impact and likelihood.”

This definition applies to each and every level of the enterprise and the overriding policy and philosophy is that the management of risk is the responsibility of management at each and every level in the municipality and its entities. The management of risk is no more or less important than the management of organisational resources and opportunities and it simply forms an integral part of the process of managing those resources and opportunities.

### **Enterprise Risk Management**

Enterprise Risk Management (ERM) is the application of risk management throughout the institution rather than only in selected business areas or disciplines. ERM recognises that risks (including opportunities) are dynamic, often highly interdependent and ought not to be considered and managed in isolation. ERM responds to this challenge by providing a methodology for managing institution-wide risks in a comprehensive and integrated way.

ERM deals with risks and opportunities affecting value creation or preservation and is defined as follows with reference to COSO (The Committee of Sponsoring Organisations of the Treadway Commission):

## **4. BENEFITS OF ENTERPRISE RISK MANAGEMENT**

The Municipality expects the following benefits in adopting this enterprise risk management policy and effectively implementing the Enterprise Risk Management Framework:

- Aligning risk appetite and strategy
- Pursuing institutional objectives through transparent identification and management of acceptable risk
- Providing an ability to prioritise the risk management activity
- Enhancing risk response decisions
- Reducing operational surprises and losses
- Identifying and managing multiple and cross-enterprise risks
- Seizing opportunities
- Improving deployment of capital
- Ensuring compliance with laws and regulations
- Increasing probability of achieving objectives

**5. ACCOUNTABILITIES, ROLES AND RESPONSIBILITIES**

<b>Role Player</b>	<b>Role</b>
<b>Council/EXCO</b>	<ul style="list-style-type: none"> <li>• Define the mission, vision and strategic objectives</li> <li>• Identify strategic risks threatening the achieving of strategic objectives (ERM at strategic setting).</li> <li>• Approve the strategic and departmental risk registers.</li> <li>• Delegate the responsibility to identify and manage risks to management (MM).</li> <li>• Monitor the adequacy and effectiveness of the risk management processes through the Audit Committee and internal audit.</li> <li>• Report on the effectiveness of risk management in the annual report.</li> </ul>
<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>• They review the strategic and departmental risk registers and recommend to Council.</li> <li>• They approve the three-year audit plan as well as the annual audit plan of the municipality's internal audit department.</li> <li>• They review reports submitted by internal audit regarding the control environment.</li> <li>• They manage the relationship between the internal auditors and Auditor-General</li> </ul>
<b>Risk Management Committee</b>	<ul style="list-style-type: none"> <li>• Responsible for the RM oversight function including business continuity throughout the municipality.</li> <li>• Reports quarterly to Audit committee on the implementation of risk management policy and strategy.</li> </ul>

<b>Management</b>	<ul style="list-style-type: none"> <li>• Functions on the basis of an approved charter (Terms of Reference)</li> <li>• Take responsibility for strategic and operational risks facing the municipality through their departments.</li> <li>• Put measures in place to mitigate unacceptable risks (risk action plans).</li> <li>• Monitor the effectiveness of risk management processes through the Risk Management Officer and review of internal audit and other operational reports.</li> <li>• React quickly on recommendations for corrective action by internal audit and auditor-general.</li> </ul>
<b>Chief Risk Officer (CRO)</b>	<ul style="list-style-type: none"> <li>• Coordinates the development, implementation, monitoring and measurement and reporting of the entire risk management process within the municipality.</li> <li>• Reports monthly to the Municipal Manager on the implementation of risk management policy and strategy.</li> <li>• Reports quarterly to the risk committee on the implementation of risk management policy and strategy.</li> </ul>
<b>Risk Management Officer (RMO)</b>	<ul style="list-style-type: none"> <li>• To assist the municipality to embed and leverage the benefits of risk management to achieve its stated objectives.</li> <li>• Reviews the risk management process to improve the existing process.</li> <li>• Facilitates annual risk management assessments and risk assessments for all major changes and incidents.</li> <li>• Develop systems to facilitate risk monitoring and risk improvements.</li> <li>• Ensure all risk categories are included in the assessment.</li> <li>• Ensure that key risk indicators are included in the risk register.</li> <li>• Monitor progress on action plans identified in the risk register.</li> </ul>
<b>Operational Risk Committee</b>	<ul style="list-style-type: none"> <li>• Coordinates operational risk management activities.</li> <li>• Monitors the implementation of risk management strategy within departments.</li> <li>• Monitors the implementation of mitigation strategies within departments.</li> <li>• Monitors reporting of emerging risks in departments.</li> <li>• Reports to the municipal risk committee through the Risk Management Officer.</li> </ul>
<b>Risk Champion</b>	<ul style="list-style-type: none"> <li>• Coordinates risk management activities within the department.</li> <li>• Reports to Head of Department on implementation of risk mitigation strategies.</li> <li>• Attend meetings of operational risk committee (a committee of risk champions)</li> </ul>
<b>Internal Audit</b>	<ul style="list-style-type: none"> <li>• Transfers high risks with controls to the internal audit plan for approval by the Audit Committee.</li> <li>• Conducts internal audit assignments to test the effectiveness of internal controls put in place by management.</li> </ul>

	<ul style="list-style-type: none"> <li>• Prepares internal audit reports with opinions on the extent of effectiveness of the internal controls and risk management processes.</li> <li>• Recommends to management for corrective action where controls are not followed or not working.</li> <li>• Prepares reports quarterly to the audit committee regarding the effectiveness of the control environment and risk management processes within the municipality.</li> </ul>
<b>External Audit</b>	<ul style="list-style-type: none"> <li>• Provides independent assurance on the effectiveness of risk management.</li> </ul>
<b>Staff</b>	<ul style="list-style-type: none"> <li>• Comply with municipal legislation, policies and procedures.</li> <li>• Embed risk management on their day-to-day activities.</li> <li>• Participate in risk management processes such as operational and process risk assessments.</li> </ul>

**6. FRAUD PREVENTION**

All institutions are obliged to appoint a Fraud Prevention Committee, to consist of members of staff drawn from a variety of levels of the institution. The Fraud Prevention Committee must ensure the implementation of the fraud and misconduct strategy, creating fraud awareness amongst all stakeholders and accepting responsibility for considering any reports of fraud or misconduct and for taking appropriate action in consultation with the Head of institution.

The Accounting Officer establishes the right tone for the prevention and management of fraud and misconduct in the institution. This is achieved through developing and publishing a fraud and misconduct risk management policy. UThukela District Municipality will not establish a separate Committee to deal with fraud prevention matters, however it will be incorporated with the Risk management Committee.

**7. RISK MANAGEMENT STRATEGY**

The basis of the risk management process is a continuous cycle anchored in the five steps of identifying, analysing, responding, monitoring and reporting risks as described in the COSO framework (Committee of Sponsoring Organisations). Within each step of the process, regular and meaningful communication is essential to improve the likelihood of success. The following key COSO elements of the risk management process should be followed in ensuring full implementation of the risk management policy of UDM.



### **Internal Environment**

The internal environment in risk management relates to the establishment of the risk management infrastructure and becomes the foundation for effective risk management. The internal environment should include:

- The integrity and ethical values of council and executive management;
- Management philosophy and operating style;
- Policies and risk management strategy;
- Risk management awareness;
- Risk management accountability (risk management KPIs in performance agreements of managers);
- Risk management committees for oversight;
- Definition of roles and responsibilities;
- Definition of the risk appetite of the municipality in line with recent prior auditor-general materiality levels and prevailing control environment of the municipality based on auditor-general reports and internal audit reports;

### **Objective Setting**

The starting point for risk management is a clear understanding of what the UDM is set to achieve (objectives). The objectives of UDM are outlined in its IDP, SDBIP and SOPs. Risk Management is about managing threats that might hinder the delivery of services and maximizing opportunities that will help deliver them.

This requires that effective risk management should be aligned to the planning processes and should take into account the environment (internal and external) within which the municipality operates. To this end, when identifying risks objectives should be considered at four levels, namely:

**Strategic:** high-level goals aligned with and supporting UDMs mission (e.g. IDP objectives per key performance area)

**Operations:** effective and efficient use of UDM resources (assets, budget, people, etc);

**Reporting:** reliability of reporting (credibility of financial and performance information);



**Compliance:** compliance with applicable laws, regulations and policies (e.g. MFMA, MSA, OHS, etc)

### **Event Identification**

#### **Systematically and continuously identify risks faced in meeting objectives**

Annually and for each business objective management and councilors should identify events (key business risks and opportunities) at three levels, namely;

- **First level, strategic risks** against each strategic objective contained in the IDP, council and management should identify key risks that might impede the achievement of the business objectives. This should be done by way of a risk assessment attended by heads of departments and where possible members of the mayoral committee.
- **Second level, operational risks** should be identified following the identification of the strategic risks. The operational risks are based on the operational plans/SDBIPs of departments and are focused on key business functions of departments. This operational risks can also be done by way of risk assessment workshop, either as part of the strategic risk assessment or a separate departmental risk assessment workshop attended by section heads
- **Third level, process risks** should be identified for each business process linked to the operational risks of the department. This should be done through interviews with key process custodians within the department, and the results collaborated with section heads and where possible, head of departments.

The following risk categories should be taken into consideration when identifying potential risks:

#### **Internal Environment**

- Human Resource
- Financial and reporting
- Regulatory/Compliance
- Project management/Service delivery
- Health and safety
- Information Technology and Communication
- Business Continuity

#### **External Environment**

- Environmental/Social
- Political
- Economical
- Reputational
- Legal and compliance

- Business Continuity

### **Risk Analysis and rating of Inherent Risk**

Assess the significance of risks to enable the development of Risk Responses

Once the risks have been identified, the likelihood of the risk occurring and the potential impact if the risk does occur should be assessed using a risk-rating table adopted as part of the risk management framework (*re-Municipal-Wide Risk Management Framework*).

Residual risk is calculated by multiplying the inherent risk score by the rating scale for control effectiveness.

<b>Effectiveness category</b>	<b>Category definition</b>	<b>Rating</b>
Very good	Risk exposure is effectively controlled and managed	0.20
Good	Majority of risk exposure is effectively controlled and managed	0.40
Satisfactory	There is room for some improvement	0.65
Weak	Some of the risk exposure appears to be controlled, but there are major deficiencies	0.80
Unsatisfactory	Control measures are ineffective	0.90

### **Risk Response or Treatment**

- Once risks have been analysed appropriate risk responses will be determined to mitigate risks to an acceptable level within reasonable costs. UDM's inherent and residual risk profile presented on the Risk Register should be monitored against the target profile (residual risks rating).
- Risk can be dealt with in various ways. The risk response options encompass all possible management responses to risk, whether viewed as opportunities, uncertainties or hazards. The risk response options and examples of activities under each option are outlined below:
  - **Mitigate** (steps taken to reduce either the likelihood or impact e.g. through policies, procedures, registers etc.);
  - **Transfer** (steps taken to shift the loss or liability to others i.e. Insurance on vehicles, computers etc);

- **Exploit** (steps taken to leverage opportunities e.g. strengthening relations with other departments to assist in management of the risk);
  - **Avoid** (steps taken to prevent the occurrence of hazards e.g. deciding not to embark on a project, activity because it is too risky and has a highly hazardous impact); or
  - **Acceptance** (an informed decision to accept both the impact and likelihood of risk event e.g. risks that UDM can do nothing about but live with them and just keep monitoring).
- c) Risk responses or treatment decisions will be deliberated by management during the risk assessment workshop. This will include the identification of further actions to achieve the desired residual risk. The risk committee has the ultimate oversight of the decision taken by management in this regard.
- d) Action steps should be identified for the risks where there are residual risk gaps. The actions should specify the responsibilities and due dates. Management should track to progress and completion of the actions.

TIMESCALE FOR ACTION		
Colour-code of risk	Timescale for action	Timescale for review
Green – insignificant	Action within 12 months or accept risk	Review controls within 12 months
Yellow – minor	Action within 6 months	Review within 9 months
Yellow – moderate	Action within 3 months	Review within 6 months
Red – major	Action within 1 month	Review within 3 months
Red – critical	Action immediately	Review within 1 month

**Control Activities**

After a decision has been taken control activities need to be considered. The fundamental approach in this regard is two-fold, namely;

- a) The determination of **existing control** activities in the form of policies, procedures, registers, council committees, legislation etc. This is then followed by the assessment of the strength of these controls in terms of mitigating the risk identified. The assessment is referred to as the “**current control effectiveness**” i.e. if applied/complied with 100% and diligently, will the control mitigate the risk identified? In other words, are there no deficiencies in these controls that may cause the risk to succeed? An example is a diligent and committed security guard safeguarding cash with no fire arm.
- b) The implementation of **additional controls**, if the residual risk is above the tolerable level of risk (targeted residual risk).

## **Communication**

### **Communicating the risk management information and strategies to the rest of UDM**

The management of UDM should communicate the risk management framework, risk management policy and the risk register throughout the municipality, and ensure awareness by all role players. This should be done through planned workshops prioritizing all departments and sections of the municipality. Risk management information should be stored on local networks to ensure easy accessibility.

### **Risk Monitoring**

a) The purpose of the monitoring and review are to:

- Provide assurance that risks are being mitigated as expected (risk action plans are being implemented by risk owners);
- Assess whether the risk response plans remain relevant; and
- Ensure that the risk profile reflects emerging risks during the course of the financial year, i.e. new exposures through on-going of management reports, internal audit reports, auditor-general reports, media, etc.

b) Risk monitoring should consist of a combination of regular communication, periodic reviews and evaluation by independent assurance providers such as internal and external audits.

c) Key aspects of monitoring will be:

- Assessment of the quality and appropriateness of mitigating actions, in terms of adherence to the SMART principle.
- Regular monitoring reports from all departments within the municipality on a regular basis to the risk management unit.
- Verification of implementation of risk action plans by the risk management unit for review of the residual risk.

d) Possibilities of incorporating Risk Management Reporting as a standing agenda item at a management meeting (MANCO) after each quarter or establishing an Audit and Risk Committee should be considered by Council in consultation with Management.

### **Reporting**

a) UDM will ensure that information is received by the appropriate interested parties in risk management i.e.

- Municipal Council
- EXCO

- Audit Committee
- MANCO
- Risk Management Committee

b) On a timely basis, in a form and format that will aid the monitoring and control of the business.

c) Key reporting information will include:

- Critical risks facing, or potentially facing the municipality (e.g. top 10-30 risks from the risk register);
- Department risk registers
- Emerging risks from the ordinary business of UDM;
- Updated residual risks due to implementation of risk mitigation plans (e.g. quarterly updated risk register);
- Quarterly risk status on implementation of risk action plans across departments.

d) The information provided will allow council and the risk committee to determine that the implementation of the risk management strategy has been effective. An opportunity to identify inherent inefficiencies and bottlenecks will be identified timeously for decision making (i.e. review the risk management strategy and policy, etc).

## **8. ESTABLISH THE PROCESS OF ONGOING RISK MANAGEMENT**

Whilst every employee in the municipality is responsible for managing risks in their individual parts, some people have additional responsibilities. This strategy should be driven by the Municipal Manager and delegated to the Risk Management Officer and managed by the Risk Committee.

## **9. ADMINISTRATION**

The policy and strategy should be reviewed annually by the Risk Committee (through the Municipal Manager) in order to keep updated with the developments in risk management. The reviewed strategy will be approved by council by way of a resolution.

## 10. APPROVAL

### Approved by Council:

**Date Approved** : 30/06/2015

**Item Number** : A43/06/2015

**Resolution** : "The Risk Management Policy and Strategy be adopted"

**Review Date** : 30/06/2016

**Item Number** : A36/06/2016

**Resolution** :

1. Council approved the review of the Risk Management Policy and Strategy
2. A workshop be conducted to Council
3. Conduct awareness to all employees

**Review Date** : 30/06/2017

**Item Number** :

**Resolution** :

1. Council approved the review of the Risk Management Policy and Strategy
2. A workshop be conducted to Council
3. Conduct awareness to all employees

**Review Date** : 29/06/2018

**Item Number** : A33/06/2018

**Resolution** : 1. Council approved the review of the Risk Management Policies

**Review Date** : 28/06/2019

**Item Number** : A03/06/2019

**Resolution** : 1. Council approved the review of the risk Management polices

**Review Date** : 29/06/2020

**Review Date** : 25/06/2021

**Item Number** : A36/06/2021

**Resolution** : That the enterprise risk management policies & strategies for 2021/2022 financial year be adopted.