



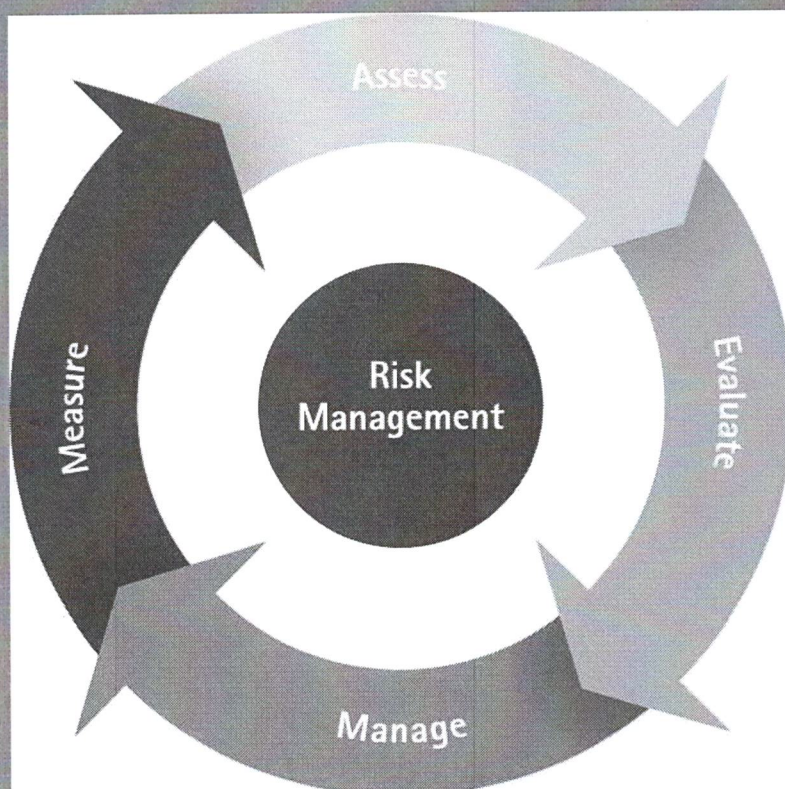
FETAKGOMO – GREATER TUBATSE  
LOCAL MUNICIPALITY



*The GTM*  
**GREATER TUBATSE  
MUNICIPALITY**

South Africa's first democratic platinum city

## ENTERPRISE RISK MANAGEMENT POLICY



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## 1. DEFINITIONS

In this policy, unless the context indicates otherwise,

**“Architecture”** means a framework that incorporates various interrelated and interdependent components into a risk management system;

**“Municipal Manager”** refers to the Accounting Officer as defined in terms of the Local Government: Municipal Finance Management Act 56 of 2003 in relation to a municipality; Council refers to the council of Fetakgomo- Greater Tubatse Municipality as established in terms of section 18 of the Local Government: Municipal Structures Act 117 of 1998,

**“Enterprise Risk Management”** means a process, effected by the Municipality and its entities, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the Municipality and its entities, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of its objectives;

**“Municipality”** means Fetakgomo- Greater Tubatse Municipality, promulgated in terms of Section 12(1) of the Local Government: Municipal Structures Act 117 of 1998, for the municipal area described in such Notice;

**Risk** is “any uncertain event or set of circumstances that, should it occur or fail to occur, would have an effect on the ability to meet the organisation’s objectives”.

**“Risk appetite”** means the amount of risk which the Municipality is generally willing to accept in striving for value;

**“Risk assessment”** means the process of determining the probability, as well as the impact of the identified risk as a basis of determining how these risks should be managed;

**“Risk management”** means a method of identifying, analysing, assessing, treating, monitoring and communicating risks associated with any activity, function or process that will enable the Municipality to maximise opportunities and minimise losses;

**“Risk register”** means a record of all relevant information relating to the identification and management of risks;

**“Risk response”** means a set of actions – avoiding, accepting, reducing, or sharing risk developed in order to mitigate the identified risks.

## 2. ENTERPRISE RISK MANAGEMENT POLICY STATEMENT

The Municipal Manager commits the Municipality to a process of risk management that is aligned to the principles of good corporate governance, as supported by the Municipal Finance Management Act 56 of 2003 (MFMA) and various other pieces of legislation applicable to local government.

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 Strategy. It is expected that all Directorates, Sub-directorates, units, operations and processes will be subject to the Risk Management Strategy. It is the intention that these Directorates, Sub-directorates and Units 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 institution itself. The realisation of the Municipality's strategic plan depends on the institution being able to take calculated risks in a way that does not jeopardize 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 make informed decisions under conditions of uncertainty.

The Municipality therefore 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 minimizing risks and costs in the interest of all stakeholders.
- Education and training of all our staff to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent conformance to the stakeholders' expectations.
- Maintaining an environment that promotes the right attitude and sensitivity towards internal and external stakeholder satisfaction.

An entity-wide approach to risk management will be adopted by the Municipality, which means that every key risk in each part of the 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 thus ensuring that our 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 good corporate governance.

The effectiveness of our efforts to entrench a culture of risk management entity-wide rests entirely on the commitment of all political office bearers, municipal officials and agents acting on behalf of

Council. Commitment to risk management is a sure expression of commitment to Batho Pele principles.

### **3. REGULATORY FRAMEWORK**

#### **3.1 Constitution of the Republic of South Africa, Act 108 of 1996 (Constitution)**

Section 195 of the Constitution emphasises the values and principles underpinning public administration, which include the efficient, economic and effective use of resources in the public sector.

Planning is very important in clarifying the intentions of Government in the medium term; facilitating the allocation of budgets according to priorities; monitoring results and enforcing accountability in the whole of Government. Embedded within this planning framework is an internal control and risk management framework that serves to ensure that public service organisations achieve their outcomes. Risk management is undoubtedly one of the most important management tools during an era of public service reforms.

#### **3.2 Public Service Regulations**

In addition to the constitutional provisions, the National Treasury's Public Sector Risk Management Framework provides for the implementation of an enterprise risk management framework for the entire public service.

#### **3.3 Local Government: Municipal Finance Management Act 56 of 2003 (MFMA)**

The MFMA sets out the roles and responsibilities of the key stakeholders within the risk management process as follow:

##### **3.3.1 Accounting Officer**

Section 62 of the MFMA requires that:

- (1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-*
- (c) that the municipality has and maintains effective, efficient and transparent systems-*
- (i) of financial and risk management and internal control"*

##### **3.3.2 Management, Chief Risk Officer, Risk Officers and Other Personnel**

In terms of section 78 management responsibilities are extended to all senior managers and other officials of municipalities. This implies that responsibility for risk management vests at all levels of management and personnel and is not limited to only the Municipal Manager, the Risk Management Unit or Internal Audit Division.

##### **3.3.3 Internal Audit**

Section 165 of the MFMA requires that:

- "(2) The internal audit unit of a municipality or municipal entity must –*



- (a) prepare a risk based audit plan and an internal audit program for each financial year;*
- (b) advise the accounting officer and report to the audit committee on the implementation on the internal audit plan and matters relating to:*
  - (iv) risk and risk management."*

### 3.3.4 Audit Committee

Section 166 (2) of the MFMA states:

"(2) An audit committee is an independent advisory body which must–

- (a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and management staff of the municipal entity, on matters relating to –
  - (ii) risk management."

## 4. POLICY PRINCIPLES

The policy will enable the Municipality to effectively deal with uncertainty and associated risk and opportunity to enhance the capacity to build value. Enterprise risk management encompasses:

- (a) **Aligning risk appetite and strategy** – Management considers the Municipality's risk appetite in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks.
- (b) **Enhancing risk response decisions** – Enterprise risk management provides the rigor to identify and select among alternative risk responses – risk avoidance, reduction, sharing, and acceptance.
- (c) **Reducing operational surprises and losses** – The Municipality will gain enhanced capability to identify potential events and establish responses, reducing operational surprises and associated costs or losses.
- (d) **Identifying and managing multiple and cross-enterprise risks** – The Municipality faces a myriad of risks affecting different parts of the institution, and enterprise risk management facilitates effective responses to the interrelated impacts, and integrated responses to multiple risks.
- (e) **Seizing opportunities** – By considering a full range of potential events, management is positioned to identify and proactively realise opportunities.
- (f) **Improving deployment of capital** – Obtaining robust risk information allows management to effectively assess overall capital needs and enhance capital allocation.

These capabilities inherent in enterprise risk management will help the Municipality to achieve its performance and service delivery targets, and prevent loss of resources. Enterprise risk management will ensure effective reporting and compliance with laws and regulations, and help to avoid damage to the Municipality's reputation and associated consequences.

## 5. POLICY OBJECTIVES

The objectives of the Policy are to:

- (a) Promote the Public Sector Risk Management Framework in order to create a favourable risk management culture at all levels within the Municipality and to improve risk transparency.
- (b) Maximise value and net worth by managing risks that may impact on the defined financial and performance drivers of the Municipality.
- (c) Assist the Municipality in enhancing and protecting those opportunities that represent the greatest service delivery benefits.
- (d) Provide clarity in respect of the roles and responsibilities of the various key stakeholders in the Enterprise Risk Management value chain.
- (e) Provide a framework for Enterprise-wide Risk Management

## 6. POLICY SCOPE AND APPLICATION

The effectiveness of the Municipality's efforts to entrench a culture of risk management applies to all municipal officials, political office bearers and agents acting on behalf of the Municipality. Therefore the Policy applies to all these key stakeholders.

### 6.1 Risk management within the context of business objectives

The enterprise risk management framework contained in the Policy is geared to achieve the Municipality's objectives as determined in the following five categories:

- (a) Strategic** – High-level goals, aligned with and supporting its mission
- (b) Operations** – Effective and efficient use of its resources
- (c) Safeguarding** – Safeguarding of assets.
- (d) Compliance** – Compliance with applicable laws and regulations.
- (e) Reporting** – Reliability of reporting.

This categorisation of municipal objectives allows a focus on separate aspects of enterprise risk management and a distinction between what can be expected from each category of objectives.

### 6.2 Enterprise risk management process

The Municipality's enterprise risk management framework focuses on the following components:

- (a) **Internal environment** – The internal environment encompasses the risk tone of the Municipality and sets the basis for how risk is viewed and addressed by its key stakeholders. The Municipality will set the risk management philosophy and risk appetite, integrity and ethical values (Code of Ethics) and appropriate structures within which risk management will operate.

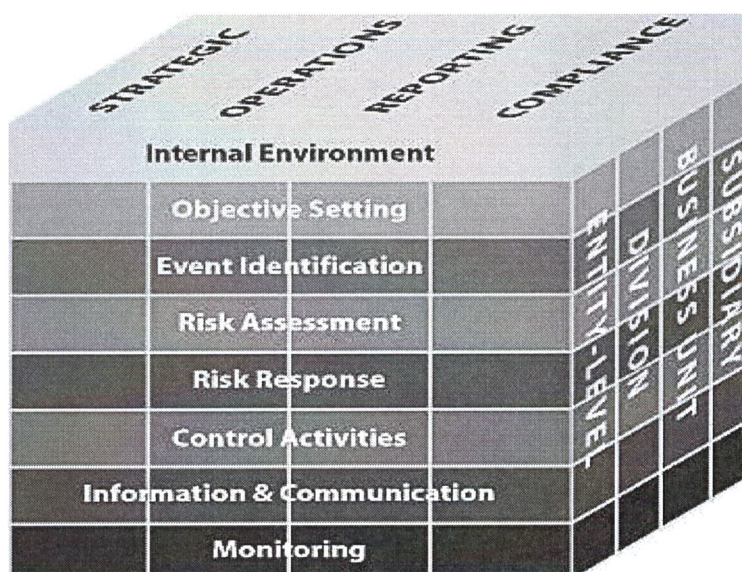
- (b) **Objective setting** – Objectives must support and align with the Municipality’s mission and must be consistent with its risk appetite. Objectives must exist before management can identify potential events affecting their achievement.
- (c) **Event identification** – Internal and external events affecting achievement of the Municipality’s objectives must be identified, distinguishing between risks and opportunities. Opportunities should be channelled back to management’s strategy whereas risks should be assessed.
- (d) **Risk assessment** – Risks must be analysed, considering likelihood and impact, as a basis for determining how they should be managed. Risks should be assessed on an inherent and a residual basis.
- (e) **Risk response** – Management should select risk responses – avoiding, accepting, reducing, or sharing risk – and develop mitigating strategies to align risks with the Municipality’s risk tolerances and risk appetite.
- (f) **Control activities** – Policies and procedures should be established and implemented to help ensure that risk responses are effectively carried out.
- (g) **Information and communication** – Relevant information must be identified, captured, and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication should also occur in a broader sense, flowing down, across, and up the Municipality.
- (h) **Monitoring** – The entirety of enterprise risk management should be monitored and modifications made as necessary. Monitoring should be accomplished through on going management activities, separate evaluations, or both.

### 6.3 Alignment of objectives and Enterprise-wide Risk Management components

There is a direct relationship between objectives, which are what the Municipality strives to achieve, and enterprise risk management components, which represent what is needed to achieve them. The relationship is depicted in a three-dimensional matrix, in the form of a cube as illustrated in Figure 1 below.



Figure 1: Enterprise-wide Risk Management Matrix



The objectives categories – strategic, operations, reporting, and compliance – are represented by the vertical columns; the eight components by horizontal rows; and the Municipality’s units by the third dimension. This depiction portrays the ability to focus on the entirety of the Municipality’s enterprise risk management, or by objectives category, component, directorate, or any municipal unit or entity.

#### 6.4 Risk appetite

The Municipality will establish a risk appetite in its various areas of operation. The Chief Risk Officer and senior management will determine the risk appetite of each directorate, unit or entity as part of effective risk management.

As a principle, and in accordance with the MFMA, the Municipality must have a low risk appetite for all forms of loss resulting from negligence and wasteful or fruitless expenditure. The risk appetite must be clearly stated and articulated so that it informs management decisions.

#### 6.5 Risk architecture

The Municipality’s risk management processes will be based on the following interrelated and interdependent components:

- (a) Process framework.
- (b) Drivers.
- (c) Enablers.
- (d) Human resource capacity consisting of Implementers; support specialists; and assurance providers.
- (e) Tools and technology.
- (f) Oversight framework.

Any successful enterprise risk management implementation is reliant and dependent on the various interrelated and inter-dependent components. To this end, the Municipality risk management processes will be based on the above listed components.

## **6.6 Risk assessment**

Risk assessment provides a basis whereby the Municipality understands the extent to which potential events may impact on the achievement of objectives.

Risks must be assessed from two perspectives: likelihood and impact. A combination of both qualitative and quantitative risk assessment methodologies must be utilised in analysing the likelihood and impact of identified risks. Risks must be assessed on both an inherent and a residual basis.

## **6.7 Risk protocols**

Various documentation tools must be utilised for analysing and reporting risk management activities. These tools include:

### **(a) Risk Management Information System**

In order to ensure that risk management is facilitated effectively, the Risk Management Unit is to acquire a risk management software tool for use throughout the Municipality.

### **(b) Risk Registers**

The results of the risk assessment process must be documented in a Risk Register. Each directorate must, in the first instance, conduct a risk assessment, facilitated by the Chief Risk Officer, and record the identified risks in the Risk Register. Audit findings from the audits conducted by Internal Audit and the Auditor General must also be recorded in the Risk Register by Directorates.

Executive Directors must maintain risk registers insofar as risks impact on their respective responsibilities. Information from these registers is to be given to the Chief Risk Officer, who will develop and maintain a Municipality enterprise-wide Risk Register. This process must be supplemented by an electronic risk management tool.

### **(c) Combined assurance plan**

The Chief Risk Officer must, together with the Chief Audit Executive and the Chief Operating Officer, develop a combined assurance plan of identified risks, as required by the National Treasury Framework. This process is inseparable from enterprise risk management and is as important as the aforementioned risk information tools.

A combined assurance plan must be compiled from the risk analysis performed. This will enable management to assign resources efficiently to mitigate the risks to an acceptable level and to identify who is responsible for each risk. The Municipality will also, on a continuous basis, be informed of assurance that risks are being managed efficiently, effectively and economically.

**(d) Risk management reports**

A risk information management system must be used to produce various risk management reports supported by graphs and charts depicting the risk profile of the Municipality. These reports must be produced quarterly.

**6.8 Risk response**

In order to mitigate the identified risks, management must select risk responses –and develop a set of actions to align risks with the Municipality’s risk tolerances and risk appetite. This must encompass the following:

- (a) Identification and evaluation of possible responses to risk.
- (b) Evaluation of options in relation to entity’s risk appetite, cost vs. benefit of potential risk responses, and degree to which a response will reduce impact and/or likelihood.
- (c) Selection and execution of response, based on evaluation of the portfolio of risks and responses.

**6.9 Roles and responsibilities**

Everyone in the Municipality has some responsibility for enterprise risk management. The Municipal Manager is ultimately responsible and should assume ownership. The Directors and other managers should support the Municipality’s risk management philosophy, promote compliance with its risk appetite, and manage risks within their spheres of responsibility consistent with risk tolerances.

The Chief Operating Officer, Chief Risk Officer and the Chief Audit Executive must provide key support responsibilities to the various directorates.

Other municipal officials are responsible for executing enterprise risk management in accordance with established directives and protocols. The Council must provide important oversight to enterprise risk management, in ensuring that all activities are performed within the Municipality’s risk appetite and tolerance levels.

The Audit Committee and the Risk Committee must monitor the effectiveness of risk implementation practices, as the well as the effectiveness of risk mitigation measures.



The specific details of responsibilities are summarised in Table 2 below.

**TABLE 2: SUMMARY OF RISK MANAGEMENT RESPONSIBILITIES**

<b>Risk management responsibilities for the Council / Municipal Manager / Chief Operating Officer</b>	
<ul style="list-style-type: none"> <li>• Determine strategic approach to risk and set risk appetite</li> <li>• Establish the structures for risk management</li> <li>• Understand the most significant risks</li> </ul>	
<b>Risk management responsibilities of the Directors</b>	<ul style="list-style-type: none"> <li>• Build risk aware culture within the department.</li> <li>• Agree on risk management performance targets.</li> <li>• Ensure implementation of risk improvement recommendations.</li> <li>• Identify and report changed circumstances / risks.</li> </ul>
<b>Risk management responsibilities of individual employees</b>	<ul style="list-style-type: none"> <li>• Understand, accept and implement risk management processes</li> <li>• Report inefficient, unnecessary or unworkable controls</li> <li>• Report fraud, theft, corruption and incidents of override of controls</li> <li>• Co-operate with management on incident investigations</li> </ul>
<b>Risk management responsibilities of Chief Risk Officer</b>	<ul style="list-style-type: none"> <li>• Develop and maintain risk management policy, strategy and framework</li> <li>• Document the internal risk policies and structures</li> <li>• Co-ordinate the various risk management activities</li> <li>• Compile risk information and prepare reports for senior management</li> </ul>

<b>Risk management responsibilities of Chief Audit Executive</b>	<ul style="list-style-type: none"> <li>• Develop a risk-based internal audit programme</li> <li>• Audit the risk processes across the organisation</li> <li>• Receive and provide assurance on the management of risk</li> <li>• Report on the efficiency and effectiveness of internal controls</li> </ul>
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#### 6.10 Limitations of risk management

While enterprise risk management provides important benefits, however limitations thereto exist. Limitations result from the realities that human judgment in decision making can be faulty; decisions on responding to risk and establishing controls need to consider the relative costs and benefits; breakdowns can occur because of human failures such as simple errors or mistakes; controls can be circumvented by collusion between two or more people; and management has the ability to override enterprise risk management decisions.

These limitations preclude Council, Senior Management the Chief Risk Officer and the Chief Audit Executive from having absolute assurance as to the achievement of the Municipality's objectives. Based on the limitations, the risk assurance provided by various assurance providers is therefore reasonable and not absolute.

#### 6.11 Learning and benchmarking

The Chief Risk Officer must ensure that the Municipality keeps abreast with best practices in risk management. Awareness campaigns must be conducted in this regard in order to enhance the risk management capacity of the Municipality.

### 7. IMPLEMENTATION PROCEDURES

Successful implementation of an enterprise risk management initiative is an ongoing process that involves working through the steps set out below on a continuous basis.

The steps are:

- a. Planning and designing.
- b. Implementing.
- c. Measuring and monitoring.

There should be effective integration of the efforts by all employees and other stakeholders in terms of the established architecture in the implementation of risk management practices.

**Table 3** provides an overview of the steps involved in the implementation of an enterprise risk management initiative.

**TABLE 3: Enterprise Risk Management Implementation Summary**

ACTIVITY	RESPONSIBLE PERSON	OUTPUTS / DELIVERABLES
<b>1. Planning and designing</b>		
Create awareness of the enterprise risk management initiative and gain management mandate and employee commitment	Chief Risk Officer	Benefits of ERM Embedding risk management
Establish the risk management strategy, policy, framework, structures and the roles and responsibilities of key stakeholders	Chief Risk Officer	Risk management Strategy Risk management Policy Risk management framework Risk management structures Risk architecture
<b>2. Implementing</b>		
Adopt suitable risk assessment procedures and an agreed risk classification system	Chief Risk Officer / Senior Managers	Risk description Risk assessment techniques Risk classification systems
Undertake risk assessments	Chief Risk Officer / Senior Managers	Risk matrix Risk profile/ register
Determine risk appetite and risk tolerance levels, and evaluate the existing controls	Chief Risk Officer / Senior Managers	Risk register Risk appetite
<b>3. Measuring and monitoring</b>		
Ensure cost-effectiveness of existing controls and introduce improvements	Chief Risk Officer / Senior Managers	Control improvement

## 8. MONITORING AND EVALUATION

### 8.1 Internal monitoring

Monitoring must focus on the effectiveness of the existing controls and the implementation of additional controls, as well as the cost-effectiveness of the existing controls. Additionally, monitoring and measuring must include the evaluation of the risk aware culture and the risk management framework, and an assessment of the extent to which risk management tasks are aligned with other corporate activities.



Monitoring and measuring must extend to the evaluation of culture, performance and preparedness of the Municipality. The scope of activities covered by monitoring and measuring must include the monitoring of risk improvement recommendations and evaluation of the embedding of risk management activities in the Municipality, as well as the routine monitoring of risk performance indicators.

Monitoring the preparedness of the Municipality to cope with major disruption is an important part of risk management. This activity must include the periodic testing of business continuity plans and disaster recovery plans. There is an overriding need to keep these plans up to date so that the preparedness of the Municipality to cope with the identified risk events is assured. The evaluation of the existing controls will lead to the identification of risk improvement recommendations. These recommendations must be recorded in the risk register by way of a risk action plan.

Monitoring activities must provide assurance that appropriate controls are in place and that the procedures are understood and followed. Monitoring and measuring processes must also determine whether:

- a. measures adopted achieved the intended result.
- b. procedures adopted were efficient.
- c. sufficient information was available for the risk assessments.
- d. improved knowledge would have helped to reach better decisions.
- e. lessons can be learned for future assessments and controls.

The various monitoring processes must be performed by management, the Risk Management Committee and the Audit Committee.

## **8.2 External monitoring**

Section 5(2)(c)(i) of the MFMA states that National Treasury may monitor and assess compliance by municipalities with the MFMA. Section 5(2)(f) empowers National Treasury to take any other appropriate measures to perform its functions effectively. These particular prescripts therefore permit National Treasury to monitor and assess risk management within the local sphere of government. Furthermore, National Treasury should assess the quality of implementation to ensure that implementation does not become an end in itself, but a means to help institutions to understand their risks and manage such risks in a prudent manner.

## **9. POLICY REVIEW**

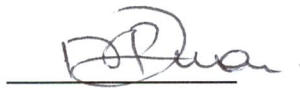
The Policy must be reviewed every three years, or sooner, if required.

## 10. REFERENCES

In the compilation of this Policy, extensive reliance is made on the National Treasury's Public Sector Risk Management Framework guidelines and templates; COSO Enterprise Risk Management – Integrated Framework; ISO 31000 'Risk management – Code of Practice'; King III Corporate Governance Code of Good Practices; and the IIA International standards for the Professional Practice of Internal Auditing.

**Every employee has a part to play in this important endeavour and we look forward to working with you in achieving these aims.**

Signed:



Accounting Authority / Officer:

Busawe NP

Date:

03/11/2017



# FETAKGOMO – GREATER TUBATSE LOCAL MUNICIPALITY



LC (FGTM) RESOLUTIONS		FILE NO. S															
TOWN	MEET NR	O C M	0	1	2017	TAKEN ON	2	6	1	0	2	0	1	7	ITEM	OC42	2017
JOB DISPOSAL							FOR INFORMATION										
	MUNICIPAL MANAGER																
	DIRECTOR : BUDGET & TREASURY																
	DIRECTOR : CORPORATE SERVICES																
	DIRECTOR : COMMUNITY SERVICES																
	DIRECTOR : INFRASTRUCTURE, DEVELOPMENT & TECHNICAL SERVICES																
	DIRECTOR : DEVELOPMENT & PLANNING																
	DIRECTOR : LAND ECONOMIC DEVELOPMENT & TOURISM																
SUBJECT																	
NR : OC42/2017	RESOLUTION Reviewed Risk Management Policies, Strategies and Plans																

## Resolved

1. that Council approved the reviewed Risk Management Policies, Strategies and Plans :
  - a) Risk Management Policy
  - b) Risk Management Strategy
  - c) Fraud Risk Management Policy
  - d) Risk Management Charter Policy
  - e) Security Policy
  - f) Anti-Fraud and Corruption Prevention Policy

Date : 31/10/2017 Chairperson of the Municipal Council