BITOU
MUNICIPALITY

ENTERPRISE RISK MANAGEMENT POLICY

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CHAPTER 1: ENTERPRISE RISK MANAGEMENT POLICY

VERSION

Description	Version Number	Date	Changes
Enterprise risk management policy	**3.0**	**17 06 2022**	**Approved by Council**
ERM Policy	**4.0**	**26 04 2023**	**Revised for Council approval**

GLOSSARY OF TERMS

BATHO PELE PRINCIPLES:	Similarly, the principles of Batho Pele clearly articulate the need for prudent risk management to underpin government objectives. Batho Pele strives to instill a culture of accountability and caring by public servants. Further objectives of Batho Pele include supporting the governments' governance responsibilities, improving results through more informed decision-making, strengthening accountability and enhancing stewardship and transparency, all of which resonate well with the principles of risk management.
BM:	Bitou Municipality
Compliance:	Conforming with laws and regulations applicable to an entity.
Control:	1. A noun, denoting an item, e.g., existence of a control – a policy or procedure that is part of internal control. A control can exist within any of the eight components. 2. A noun, denoting a state or condition, e.g., to effect control – the result of policies and procedures designed to control; this result may or may not be effective internal control. 3. A verb, e.g., to control – to regulate; to establish or implement a policy that effects control.
CORPORATE GOVERNANCE:	Institutions are encouraged to adhere to the principles espoused in the King IV Report on Corporate Governance (King IV) given its promotion of an advanced level of institutional conduct.
Criteria:	A set of standards against which BM risk management can be measured in determining effectiveness. The eight BM risk management components, taken in the context of inherent limitations of BM risk management, represent criteria for BM risk management effectiveness for each of the four objectives categories.
CRO (Chief Risk Officer)	Manager: Risk Management. The CRO is thus the custodian of the ERM framework, the coordinator of the risk management throughout the local municipality and the institutional advisor on all risk management matters.
EXECUTIVE AUTHORITY:	The Mayoral Executive Committee (MAYCO) is accountable to the Council in terms of the achievement of the goals and objectives of the BM
IDP:	Integrated Development Plan
Institution/Entity:	Municipality
Likelihood:	The possibility that an event will occur
MFMA:	Municipal Finance Management Act (Act 56 of 2003) (MFMA)
NTR:	National Treasury Regulations
Operations:	Used with "objectives" or "controls": having to do with the effectiveness and efficiency of an entity's activities, including performance and profitability goals, and safeguarding resources.
Other personnel:	Other personnel are accountable to line management to integrate the principles of risk management into their daily routines to enhance the achievement of their functional objectives.
Policy:	Management's dictate of what should be done to effect control. A policy serves as the basis for procedures for its implementation.
Procedure:	An action that implements a policy.

Reporting:	"Used with objectives": having to do with the reliability of the entity's reporting, including both internal and external reporting.
Residual Risk:	The remaining risk after management has taken action to alter the risk's likelihood or impact.
RMC	The Risk Management Committee is responsible for oversight of the quality, integrity and reliability of the BM's risk management processes and risk responses.
Risk:	The possibility that an event will occur and adversely affect the achievement of IDP objectives.
Risk Appetite:	The broad-based amount of risk a company or other entity is willing to accept in pursuit of its mission or vision.
Risk Management:	The identification, assessment and response to risk to a specific objective.
RISK MANAGEMENT FRAMEWORK:	The Bitou Municipality Risk Management Framework (Framework) represents the pre-eminent source of reference and guidance on risk management practices in the public sector.
RISK MANAGEMENT POLICY:	The risk management policy formally sets out the BM's stance on ERM. The risk management policy generally addresses what the local municipality will do about ERM
RISK MANAGEMENT STRATEGY:	The risk management strategy guides the BM on how to implement its risk management policy.
Risk Tolerance:	The acceptable variation relative to the achievement of objectives.
Stakeholders:	Parties that are affected by the entity, such as shareholders, the communities in which the entity operates, employees, customers and suppliers.
Strategic:	"Used with objectives": having to do with high-level goals that are aligned with and support the entity's mission.

1. OVERVIEW

1.1 INTRODUCTION

To ensure the efficient and effective practice of risk management across the Municipality and compliance with relevant legislature, Council has approved the establishment of Enterprise Risk Management Unit within the Bitou Municipality in **2013.** Risk management affects everyone and should therefore be practiced across the entire Municipality. Directorates that manage their risks across the entire directorate increase the likelihood of achieving their units' aims, objectives and priorities. Therefore enabling the Directorate to prioritize the allocation of resources in such a way to alert management and officials of potential problems and providing everyone with skills to be confident risk takers.

1.2 BACKGROUND

Risk management is a process of identifying potential events that could have an impact on the achievement of the entity's objectives. This includes measuring or assessing risk and developing strategies to manage the risk. The strategies include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences attached to a particular risk.

Risk is the threat that an event or action will adversely affect the Municipality's ability to achieve its objectives and to execute its strategies successfully. Uncertainty of events or variability of outcomes have the potential to undermine the achievement of IDP objectives in the most effective, efficient and economical manner. Also, missing out on opportunities to optimize effectiveness, efficiency and economy when pursuing set objectives

In terms of section 62 (1) (c) (i) of the Municipal Finance Management Act (MFMA) *"the accounting officer of a municipality must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."*

The risk management policy for the municipality has been drafted to give effect to section 62 (1) (c) (i) of the MFMA.

The Bitou Municipality is governed by specific regulations and Governance Codes, which shape and drive its risk management process. The Council and its Administration are in the process to formally adopt the King IV Code of Corporate Practices and Conduct 2010 (King IV Code). The Municipal Finance Management Act (MFMA) places further obligations on local government with regards to risk management by making it mandatory that a sustainable risk management programme be embedded in the management practices of all public sector enterprises.

The Bitou Municipality follows an integrated approach to the management of risk. Integrated risk management assists the Bitou Municipality to comply with the requirements of the MFMA and the King IV Code as well as identifying risks (threats and opportunities) that may influence the achievement of the goals and objectives of the Bitou Municipality.

The Municipality's policy must have a positive approach to risk management, which means that it will not only look at the risk of things going wrong, but also the impact of not taking opportunities or not capitalizing on municipal strengths / external opportunities. By adopting this positive approach and taking into consideration the Integrated Development Plan, it will enable the Municipality to fulfill its performance expectations.

The policy is applicable to and covers the entire Bitou Municipality as a local government structure. Risk management is governed through the Risk Management Policy Statement and the Enterprise Risk Management Framework & Strategy guides its implementation.

1.3 POLICY STATEMENT

1.3.1 Policy

The Municipality's policy is to fulfill the performance expectations for the public and relevant stakeholders (community, staff, suppliers, other business units) and monitoring bodies (Internal Audit, Auditor-General and Audit Committee).

The Council recognizes the wide range of risks to which the Bitou Municipality is exposed. The Municipality is committed to effective risk management to achieve its goals and objectives, moreover identifying opportunities that create value for all stakeholders. To develop and implement risk management is an integral part of good management practices within the organization as an essential component of good corporate governance.

It is therefore a strategic objective to adopt a process of integrated risk management that will assist the Municipality in meeting its key goals, most specifically to:

- Ensure risk management for efficient delivery of its goals and related objectives;
- Mitigate risks by appropriate cost-effective action plans which are reviewed and monitored regularly;
- Promote a risk awareness culture across all Directorates, Branches, Divisions and Sections aimed at improving risk transparency to stakeholders;
- Create, protect and enhance stakeholder value and net worth by managing risks that may impact on the development and success indicators;
- Identify risk improvement opportunities that will maximize business opportunities and sustainable delivery of services and programs;
- Improve value for money through more efficient use of resources;
- Enhance outputs and outcomes by managing risks inherent to projects, programs and business units;
- Foster a risk-based management decision-making process;
- Aid sustainable and reliable service delivery;
- Prevent fraud and corruption by developing and implementing policies and structures;
- Reduce waste of resources; and
- Support innovation.

To achieve this risk policy statement, an integrated risk management program must be implemented and regularly reviewed to improve its adequacy and efficacy.

1.3.2 Aim

- The MFMA no.56 of 2003 defines the Municipal Manager as the accounting officer of the Municipality. Section 62 of the MFMA requires the accounting officer to 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, of internal audit as well as of effective, efficient and economical use of the municipal resources. The purpose of this risk management policy is to enable the Bitou Municipality to comply with legislation.
- Furthermore, the aims of this policy are to provide a risk framework within which the Directorates and management operate to promote a strong risk management culture throughout the Bitou Municipality.
- The aim is continual improvement of risk management to enhance the degree of certainty in achieving BM's objectives, fostering a fuller understanding of the rewards/risk relationship which would reduce the likelihood and impact of adverse incidents to acceptable levels.
- The policy is based on international best risk management practice and is aimed at enhancing value for all stakeholders.

1.3.2 Policy Ownership

- Ownership of this policy vests with the Council. The policy is recommended by the Risk Management Committee (RMC) to the Mayoral Committee (MAYCO). There after the policy is recommended by the MAYCO, approved by the Council and implemented by its Administration.
- The RMC is an integral function to all Directorates and has in equal proportion the qualities of independence and authority ensuring that the committee is an effective governance structure.
- Risk management forms an integral and fundamental part of the day to day decision-making processes throughout the Municipality and the RMC strives to support the Council to achieve its goals as agreed upon in the IDP.
- The policy is reviewed at least annually. The RMC submits proposed changes or additions for consideration and recommendation to the Council for approval.
- The Risk Management Unit is available as risk management specialists equipped to facilitate and provide critical risk management techniques required for identifying, assessing, managing and treating risks; and transfers risk management knowledge to Directorates and its Sub-Directorates. The Risk Management Unit annually recommends to the RMC the updating and approval of the policy document.

The policy is to give full and due consideration to the balance of risk and reward, as far as is practicable and to optimize the rewards gained from municipal activities. Furthermore, the policy is to foster a culture, which provides for spreading best practice, lessons learned and expertise acquired from risk management activities across the Municipality for the benefit of all.

1.4   TYPES OF RISKS

1.4.1 Strategic Risks

Strategic objectives are high-level goals, aligned with and supporting the entity's mission and vision. Strategic objectives reflect management's choices as to how the entity will seek to create value for its stakeholders.

Strategic risks are those events which could have a negative effect on the achievement of the Municipality's strategic objectives.

1.4.2 Operational Risks

Operational objectives pertain to the effectiveness and efficiency of the entity's operations, including performance and revenue goals and safeguarding resources against loss. They vary based on management's choices about structure and performance.

Operational risks are those events that may affect the achievement of the directorates' operational objectives.

1.4.3 Reporting Risks

Reporting objectives pertain to the reliability of reporting. They include internal and external reporting and may involve financial or non-financial information.

Reporting risks are those events that may affect the achievement of the Municipality's reporting objectives.

1.4.4 Compliance Risks

Compliance objectives pertain to adherence to relevant laws and regulations. They are dependent on external factors, such as environmental regulation, and tend to be similar across all entities in some cases and across an industry in others.

Compliance risks are those events that may affect the achievement of the Municipality's compliance objectives and usually involve fines, penalties and/or criminal charges as consequences of non-compliance. Non-compliance may also lead to the loss of grant funding negatively impacting BM's service delivery and programs benefiting communities.

2. PARTIES RESPONSIBLE FOR MANAGING RISK

2.1 Accounting Officer / Municipal Manager

In terms of Section 62 (1) (c) (i) of the MFMA, "the accounting officer is responsible for effective, efficient and transparent systems of financial and risk management and internal control". Therefore making the Accounting Officer ultimately responsible for risk management within the Municipality.

2.2 Management

- Managers are responsible for managing the risks including the identification of risks and controls pertinent to the section or area directly under their control.

Management must take responsibility for managing the risks that have a material impact on the achievement of their objectives through integrating the principles of risk management into their operational responsibilities.

2.3 Risk Manager / Chief Risk Officer

- Formulates a risk management policy and procedures on behalf of the Accounting Officer and Council.

- Provides support tools and procedures to management.
- Facilitates identification of key risks and develops common risk language.

2.4 Enterprise Risk Management Unit

- Plays an oversight role in the risk management process within the Municipality.
- Develops and implements risk management methodologies, systems, policies and frameworks within the BM.
- Facilitates risk and control identification, its improvement.
- Maintains the risk management database and reporting mechanisms.
- Analyses and reports on directorate risk profiles.

2.4.1 Authority

The Risk Manager is authorized to:

- Have unrestricted access to all BM directorates, branches, divisions, sections, offices, activities, records, information, properties and personnel, relevant to the performance of the risk management function.
- Determine scope of work and apply the techniques required to accomplish ERM objectives.
- Obtain the necessary assistance of personnel in various departments / offices of BM where they perform their work.
- Obtain assistance of specialists/ professionals where considered necessary from within or outside BM.
- The Risk Manager must have unfettered access to Council and management, Council/ management platforms (such as Council/management meetings, planning sessions and committees) and documents.
- The Risk Manager should enjoy sufficient "power of office" such that his or her influence does not become diluted, conscious of the fact that the Risk Manager needs to work with and through the S57 senior management and be enabled to provide real-time advice;
  The Risk Manager can best provide timely support and guidance when he/she is able to engage with management and issues without unnecessary restraints and restrictions.

2.4.2 Accountability

The Risk Manager / Chief Risk Officer, in the discharge of his/her duties, shall be accountable to the Risk Management Committee to:

- Drive the ERM process by ensuring that the ERM Policy and Strategy is adopted and effectively implemented.
- Facilitate the identification, recording and assessment of all risks.
- Facilitate the identification of the existing controls that mitigate the risks identified.
- Ensure that the controls identified are adequate to address the risks.
- Make recommendations where deficiencies are found and monitor their application via action plans' progress reports
- Develop and maintain a Municipal Risk Profile and ensure it is regularly updated.
- Provide reports to the Risk Management Committee and interested stakeholders as and when required.
- Ensure that the Risk Management Committee meets regularly as per the terms of reference.
- Chair / Lead the BM Risk Champion Forums on a quarterly basis.

- Provide information on the status and results of the annual risk implementation plan on a quarterly basis.
- Ensure that management is properly capacitated to perform their ERM responsibilities by facilitating or providing requested training.
- Promote ERM awareness amongst all staff by following an integrated Top-Down Approach.

2.4.3 Objectivity

- To maintain the independence / objectivity of ERM Unit from other BM departments and offices, its personnel shall report to the Risk Manager, who shall report administratively to Senior Manager: Governance and Compliance and functionally to the Risk Management Committee with dotted lines to the Audit Committee.
- The person tasked with risk management responsibilities must report directly to the Accounting Officer / Municipal Manager, given the latter's responsibility in terms of the MFMA for risk management. The Accounting Officer must be able and willing to provide the necessary direction, support and guidance for the risk management function;
- It must be clear throughout the municipality that the risk management function is an institutional resource and not an extension of the function under which it is placed for reporting purposes.
- ERM Unit shall exercise its assignment on its own initiative in all departments, offices and functions of BM.
- The Risk Manager shall be authorized to communicate directly, and on own initiative, to the Council and the members of risk management and audit committee.
- The risk management function should be subject to an independent review as and when required: at least annually by Internal Audit and once every five years by an external party.

The role of the Risk Management Unit should be clear to all officials to prevent them from shirking their own responsibilities for risk management.

2.5   Internal Audit

Provide independent assurance services on the controls implemented to mitigate risks, the risk management and governance processes.

2.6   External Audit

Provides assurance to stakeholders that financial statements are fairly presented and compliant with relevant laws and regulations.

2.7   Audit Committee

Provides an oversight role in the Municipality's risk management process.

2.8   Risk Management Committee (RMC)

- Consists of all those officials as stipulated in the RMC Terms of Reference including Enterprise Risk Management unit. The Committee oversees risk management and approves the basic risk management principles.
- Reviews implementation and appropriateness of the Municipality's risk management framework in respect of risk strategies.

- Evaluates the bases on which the BM determines the overall risk tolerance and the risk appetite for the most significant risk taking activities and reviews the Municipality's integrated portfolio of risk management activities.

2.9 Other Officials

All officials are responsible for carrying out the system of financial and operational risk management for the BM.

2.10 Risk Champions

- The Municipal Manager must appoint at least one, but preferably two officials in a directorate as a risk champion of the municipality as primary and secondary risk champions to ensure continuity of and capacitation for the risk champion function in each directorate.
- Meet quarterly with the CRO at the BM Risk Champion Forums.
- The Risk Champion's responsibility involves intervening in instances where the risk management efforts are being hampered, for example, by the lack of co-operation from Management and other officials and the lack of departmental skills and expertise.

3. WHY RISK MANAGEMENT SHOULD BE PRACTISED

We recognize that no Municipality operates in a risk-free environment, and practicing risk management does not create such an environment. Rather, the risk management process enables management to operate more effectively in environments filled with risks.

Effective risk management provides enhanced capability to:
- Align risk appetite and strategy
- Avoid risks rather than dealing with its consequences
- Link growth, risk and return
- Enhance risk response decisions
- Minimize operational surprises and losses
- Identify and manage cross-BM risks
- Provide integrated responses to multiple risks
- Seize opportunities
- Rationalize capital

(Further information on the above points can be obtained in the BM Risk Management Strategy)

Risk management helps the Municipality to achieve its performance targets and to prevent loss of resources. It helps ensure effective reporting and compliance with laws and regulations, avoiding damage to its reputation and other consequences. In sum, it helps the municipality get to where it wants to go and to avoid unforeseen pitfalls and surprises along the way.

4.   THE RISK MANAGEMENT PROCESS

4.1   Event Identification

Event identification is the process of recognizing that a particular risk exists. It also includes the gathering of information in order to understand a risk and trying to define its characteristics.

Risks must be identified within the specific risk management context concerned and with due consideration to the organizational resources involved and the objectives or outputs to be achieved. Risk identification must result in a documented list of risks where each risk is identified in principle and described in order to capture its qualitative characteristics.

4.2   How often should risk assessments be conducted?

Risk assessments workshops should be conducted at least quarterly due the size of the BM and ERM Unit. However ongoing assessments are encouraged. Written approval must be obtained from the Accounting Officer / Municipal Manager if the Municipality fails to comply with this condition.

The controls implemented to mitigate risks should be regularly assessed, analyzed and reviewed by the risk owner to evaluate if the control is still adequate to mitigate the risk.

The level of the risk owner should be equivalent to that of the sub-program manager.

4.3   Analyzing Identified Risks

All risks will be categorized in terms of the standardized municipal categorization commonly referred to as the risk universe.

4.4   Evaluating Identified Risks

Risk assessment allows the Municipality to consider the extent to which potential events might have an impact on achievement of objectives. Management should assess events from two perspectives, likelihood and impact. In order to achieve this management normally uses a combination of qualitative and quantitative methods. The positive and negative impacts of potential events should be examined, individually or by category, across the Municipality. Potential negative events are assessed on both inherent and residual basis.

Inherent risk – the risk to an entity in the absence of any actions management might take to alter either the risk's likelihood or impact.

Residual risk – the risk that remains after management responds (actions taken by management to alter risk likelihood or impact) to risk.

RISK RATING CRITERIA:

a) Impact Ratings

	Impact	
Score	**Grading**	**Description**
5	Extreme	Loss of ability to sustain ongoing operations.
4	Major	Reduced ability to achieve business objectives (i.e. loss of key operations, reduction in quality of delivery.)
3	Moderate	Disruption to normal operations with a limited effect on achievement of business unit strategy and objectives.
2	Minor	Limited impact on ongoing operations and on the achievement of business strategy and objectives.
1	Negligible	No material impact on ongoing operations and on the achievement of business strategy and objectives.

b) Likelihood Rating

	Likelihood	
Score	**Grading**	**Description**
5	Certain	Certain to occur / materialise within twelve months
4	Likely	Likely to occur within the next twelve months
3	Possible	Could occur in the next one to two year time period
2	Unlikely	Not likely to occur within the next two years
1	Rare	Not likely to occur within a three year time frame

5. MANAGING THE IDENTIFIED RISKS

5.1 Delegating Risks to Appropriate Levels

Careful consideration should be given to the appropriate levels to which the management of the types of risks should be delegated. It must form part of the systems of delegations and there should be clear lines of communication. Delegating identified risks and the management thereof to a responsible manager/s will ensure accountability, responsibility and compliance to the risk management process.

Strategic risk - Should be delegated to the relevant S57 Senior Manager.
Operational risk – Should be delegated to the Senior Manager and Managers.
Compliance risk - Should be delegated to the Senior Manager and Managers.
Reporting risk - Should be delegated to the Senior Manager and Managers.

5.2 Risk appetite

- Risk appetite is the amount of risk the Municipality is willing to accept in pursuit of goals and objectives.
- Management should consider its risk appetite as it aligns the Municipality, officials and processes risks, and design infrastructure necessary to effectively respond to and monitor risks.

6. MONITORING

- Risks that have been identified, assessed and treated must be subject to continuous monitoring and review in order to ensure that the results of the risk treatment approach are and remain acceptable.
- Monitoring also results in the risk management cycle being repeated periodically.
- Monitoring the risk management process can be effected through ongoing activities or by separate evaluations.

6.1 Ongoing activities

- Ongoing activities include regular management and supervisory activities, variance analysis, comparisons, reconciliations and other routine actions.
- The Internal Control component in the Municipality plays an integral part in the monitoring process. Internal Audit will test the effectiveness of controls implemented to mitigate risks, report their findings and make recommendations to management by means of ongoing internal control inspections.
- The Enterprise Risk Management component develops, implements and advises on risk management processes, facilitates identification of risk, control and quality improvement.
- It is compulsory that management assess the adequacy of the controls which they implement.

6.2 Separate Evaluations

Separate evaluations performed by the Internal Audit department and/or Auditor-General will provide an independent review on the effectiveness of controls implemented to mitigate risks.

7. COMMUNICATING RESULTS

The Risk Manager / Chief Risk Officer must submit a report on the strategic risks of the Municipality to the Accounting Officer / Municipal Manager, , Risk Management Committee, Audit Committee and Council quarterly.

Results of risk assessments should be communicated to the process and risk owners on an ongoing basis (minimum quarterly). Process and risk owners should on a regular basis communicate to the Enterprise Risk Management any new processes, controls and risks that have been added to their areas of responsibilities. Managers and officials at all levels have a responsibility to identify, evaluate and manage or report risks, and must be equipped to do so.

All reports used by management for planning, decision-making and any other purpose must be made available to the Chief Risk Officer for the effective management of the Risk Management process, if so requested by the Chief Risk Officer.

8.   IMPLEMENTATION
This revised policy is implemented with effect from 01 July 2023.