



Reference: T5/13/1

TREASURY CIRCULAR MUN NO. 35/2012

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RISK MANAGEMENT POLICY GUIDANCE TEMPLATE

1. PURPOSE

The risk management policy guidance template is the first stride towards assisting municipalities develop all the relevant risk management frameworks and methodologies and attain a level 2+ financial management capability maturity rating by 2014 and subsequently a level 3+ by 2015.

2. BACKGROUND

The need for developing this guidance template was first realised during the Municipal Risk Management Fora in 2011/12. The necessity of this document was strengthened after assessing municipalities during the Local Government Financial Governance Review and Outlook (LG FGRO) process.

In terms of s62(1)(c)(i) of the MFMA "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 that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control"

To assist in giving effect to the above mandate, the accounting officer/ Municipal Manager should ensure that the municipal environment supports the effective functioning of risk management

To assist municipalities, The Provincial Treasury stepped up to the plate and drafted a Risk Management Policy guidance template.

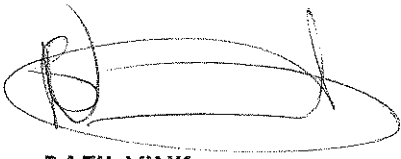
3. REQUIRED ACTIONS

This guidance document is a conceptual structure that must be **adapted** to the complexity and capability of each municipality.

4. CONCLUSION

Development and implementation of the risk management policy will contribute to the attainment of a level 2+ financial management capability.

Yours faithfully

A handwritten signature in black ink, consisting of a large, stylized 'B' followed by a series of loops and a final vertical stroke.

BAZIL VINK

SENIOR MANAGER: CORPORATE GOVERNANCE

DATE: 24/7/2012

APPENDIX A

GLOSSARY OF TERMS

Accounting Officer refers to the Municipal Manager.

Event *means* an incident or occurrence from internal or external sources that affects the achievement of the municipality's objectives.

Framework *refers* to the National Treasury Public Sector Risk Management Framework, 1 April 2010.

Impact *means* a result or effect of and event. The impact of an event can be positive or negative. A negative event is termed a "risk".

Inherent *refers* to the impact that the risk will have on the achievement of objectives if the current controls in place are **not** considered.

Key risks - Risks that are rated high on an inherent level. It is risks that possess a serious threat to the municipality.

Likelihood / Probability *means* the probability of the event occurring.

Management refer to all levels of management, other than the MM and the CRO.

Mitigation / Treatment - After comparing the risk score (severity rating = impact X likelihood) with the risk tolerance, risks with unacceptable levels of risk will require treatment plans (additional action to be taken by management)

Operations are a term used with "objectives", having to do with the effectiveness and efficiency of the municipality's activities, including performance and safeguarding resources against loss.

Residual *means* the remaining exposure after the controls/treatments has been taken into consideration. (The remaining risk after management has put in place measures to control the inherent risk).

Risk Appetite *means* the amount (level) of risk the municipality is willing to accept.

Risk Owner *means* the person responsible for managing a particular risk.

Risk Management Strategy includes the detailed risk management implementation plan, fraud prevention policy and fraud prevention strategy and implementation plan.

Risk Profile / Register - Also known as the risk 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 Tolerance *means* the acceptable level of risk that the municipality has the ability to tolerate.

Strategic is a term used with "objectives", it has to do with high-level goals that are aligned with and support the municipality's mission or vision.

APPENDIX B

IMPACT RATING SCALE

The impact of occurrence will be assessed as follows:

SCORE	GRADING	FINANCIAL	SERVICE DELIVERY	REPUTATION & IMAGE	EMPLOYEE WELLNESS	LEGAL/REGULARITY/ COMPLIANCE
	Descriptions	Impacts of a financial nature and directly affects the institutions budget.	Impacts on the ability to provide maximum services to the stakeholders with existing resources.	Impact is of a reputational nature stemming from bad publicity of the institution.	Impact stems from employees not being in the best mental, emotional and physical state to perform duties.	Impact is on the ability to comply with acts, laws, regulations or contracts as well as with policies and procedures.
10	Catastrophic	Loss of assets, adverse impact on annual revenues. Financial loss of 80 – 100% of budget.	Threatens on-going existence of the component/sub-directorate (Total disruption of service rendered by component/ sub-directorate).	Total loss of confidence within stakeholders. Sustained negative publicity or damage to reputation from a national, sector or community perspective – long term.	Multiple deaths more than 20% unit capacity. Destruction of the institution.	Total shut down of the component or external intervention required
9	Critical	Loss of assets, adverse impact on annual revenues.	Permanent loss of critical information, substantial disruption to component	Critical breakdown in key relationship with primary	Multiple deaths less than 20% unit capacity. Temporary	

SCORE	GRADING	FINANCIAL	SERVICE DELIVERY	REPUTATION & IMAGE	EMPLOYEE WELLNESS	LEGAL/REGULARITY/ COMPLIANCE
		Financial loss of 70 – 79% of budget.	or external intervention extending over 6 months or more (Total disruption of service rendered by component/ sub-directorate). Major KRA's not achieved.	stakeholders.	destruction of the institution.	
8	Severe/Major	Loss of assets, adverse impact on annual revenues. Financial loss of 60 – 69% of budget.	Permanent loss of critical information, substantial disruption to component or external intervention extending over 3 to 6 months (Total disruption of service rendered by component/ sub-directorate). All major KRA's not achieved.	Widespread negative reporting in media. Leads to a high-level independent investigation with adverse findings. Short term breakdown in key relationship with stakeholders.	Death. Entrenched morale problems. Inability to recruit employees with necessary skills. Employee walkout.	
7	Significant	Loss of assets, adverse impact on annual revenues.	Considerable remedial effort required with widespread disruption to the component extending for period up to 3 months	Short term breakdown in key relationship with stakeholders. Widespread negative reporting in media.	Serious permanent injury – inability to return to work. Ongoing widespread morale issues. Extreme	Serious failure to comply with legal or regulatory requirements that may result in legal action

SCORE	GRADING	FINANCIAL	SERVICE DELIVERY	REPUTATION & IMAGE	EMPLOYEE WELLNESS	LEGAL/REGULARITY/ COMPLIANCE
		Financial loss of 50 – 59% of budget.	More than 50% of major KRA's will not be achieved.	Premier or Ministerial involvement. Leads to a preliminary investigation with limited findings.	employee turnover.	taken against the institution due to non-compliance with laws, acts, regulations or contracts.
6	Moderate	Loss of assets, adverse impact on annual revenues. Financial loss of 40 – 49 % of budget.	Considerable remedial effort required with limited disruption to the component extending for period 3 months or more Less than 50% of major KRA's will not be achieved.	Limited breakdown in key relationship with stakeholders. Widespread negative reporting in media. Premier or Ministerial involvement.	Serious permanent injury but able to return to work. Ongoing widespread morale issues. High employee turnover.	
5	Marginal	Loss of assets, adverse impact on annual revenues. Financial loss of 30 – 39% of budget.	Considerable remedial effort required with limited disruption to the component extending for period of less than 3 months. Some KRA's will not be achieved.	Widespread negative reporting in media. Premier or Ministerial involvement. No breakdown in key relationship.	Lost time iro temporary injury (incapacity leave). Local but lingering poor morale. Serious skills mix issues. Medium employee turnover.	
4	Immaterial	Loss of assets, adverse impact on annual revenues.	Easily remedied, some impact on external stakeholders	Temporary negative impact on reputation. Media coverage in	Lost time iro temporary injury (normal sick leave) Local but	Non-compliance with policy and procedures results in ineffective

SCORE	GRADING	FINANCIAL	SERVICE DELIVERY	REPUTATION & IMAGE	EMPLOYEE WELLNESS	LEGAL/REGULARITY/ COMPLIANCE
		Financial loss of 20 – 29% of budget.	KRA's delayed.	city/provincial level for less than a week.	lingering poor morale. Skill mix issues.	procedures that impact on the KRA's.
3	Minor	Loss of assets, adverse impact on annual revenues. Financial loss of 10 – 19% of budget.	Easily remedied, some impact on internal stakeholders KRA's delayed.	One off media coverage in city/provincial level only.	Lost time injury 2 days or less. Local but lingering poor morale. Minor skill mix issues.	
2	Insignificant	Insignificant loss of assets or insignificant adverse impact on annual revenues. Financial loss of 5 – 9% of budget.	Small delay, internal inconvenience only. Can be remedied internally immediately.	Once off media coverage in community circulation only.	Minor injury. Temporary poor morale within the component.	Slight deviation from prescripts. Can be remedied internally immediately.
1	Negligible	Insignificant loss of assets or insignificant adverse impact on annual revenues. Financial loss of 0 – 4% of budget.	Internal inconvenience only. Can be remedied internally immediately.	Customer complaint received.	Minor injury Minor morale issues.	

APPENDIX C

LIKELIHOOD RATING SCALE

The assessment of the likelihood of occurrence of a specific risk evaluates the probability of a specific risk occurring.

In simple terms: How likely is it that the risk or event will occur.

The likelihood of occurrence assesses the inherent likelihood of the event occurring **in the absence of any processes, which the institution may have in place to reduce** that likelihood.

The likelihood of occurrence will be assessed as follows:

RATING	GRADING	DESCRIPTION
10	Certain	Adverse event/opportunity will definitely occur.
9	Almost Certain	There is little doubt that the event will occur. History of occurrence internally and/or at similar institutions.
8	Probable	Highly likely that adverse event/opportunity will occur.
7	Expected	The adverse event/opportunity can be expected to occur.
6	Possible	It is more likely that adverse event/opportunity will occur than not.
5	Potential	There is a 50% probability of occurrence.
4	Occasional	Unlikely, but can reasonably be expected to occur.
3	Remote	Unlikely, but there is a slight possibility that the event will occur.
1-2	Improbable	Highly unlikely that adverse event/opportunity will occur.



**Western Cape
Government**

Provincial Treasury

RISK MANAGEMENT POLICY TEMPLATE

XYZ Municipality

Risk Management Policy

<Insert Date>

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Version	Reviewed By	Comments	Date Reviewed
<u>e.g.</u> 1	Risk Management Committee	Recommended with minimal changes to be made by CRO.	<insert date reviewed>

Recommended/Approved By:

Version	Approval By	Date Approved
<u>e.g.</u> 1	Municipal Manager: <Insert full name>	<insert date approved>

Approved By:

Version	Approval By	Date Approved
<u>e.g.</u> 1	Council (Resolution No.)	<insert date approved>

TABLE OF CONTENTS

PAGE NO.

	RISK MANAGEMENT PHILOSOPHY	
1.	OVERVIEW	
1.1.	Policy Objective	
1.2.	Policy Statement	
1.3.	Policy Scope	
1.4.	Background	
1.4.1.	Legislative Mandate	
1.4.2.	Legislative Compliance	
1.4.3.	Objectives of Enterprise Risk Management	
1.4.4.	Benefits of Enterprise Risk Management	
1.5.	Key Concepts	
1.5.1.	Risk	
1.5.2.	Risk Management	
1.5.3.	Enterprise Risk Management (ERM)	
2.	ROLES AND RESPONSIBILITIES	
2.1.	Risk Management Oversight	
2.1.1.	Council	
2.1.2.	Audit Committee (AC)	
2.1.3.	Risk Management Committee (RMC)	
2.2.	Risk Management Implementers	
2.2.1.	Municipal Manager (MM)	
2.2.2.	Management	

2.2.3.	Other Officials	
2.3	Risk Management Support	
2.3.1.	Chief Risk Officer (CRO)	
2.3.2.	Risk Champions	
2.4.	Risk Management Assurance Providers	
2.4.1.	Internal Audit	
2.4.2.	External Audit	
3.	ENTERPRISE RISK MANAGEMENT PROCESS	
3.1.	Internal Environment	
3.2.	Objective Setting	
3.3.	Event Identification	
3.4.	Risk Assessment	
3.4.1.	Risk Appetite	
3.5.	Risk Response	
3.6.	Control Activities	
3.7.	Information and Communication	
3.8.	Monitoring	
4.	POLICY REVIEW	
5.	APPROVAL	

APPENDIX A	Glossary of terms
APPENDIX B	Impact rating scale <i>(Example)</i>
APPENDIX C	Likelihood rating scale <i>(Example)</i>

RISK MANAGEMENT PHILOSOPHY

XYZ Municipality is committed to the optimal management of risk in order to protect our core public service values, achieve our vision, objectives and deliver on our core business.

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 this approach, all roles players involved in the risk management process were identified and their responsibilities clearly documented to enforce a culture of disciplined risk-taking.

Council is responsible for the overall governance of risk within the municipality. Council has however delegated this responsibility to the Municipal Manager (MM) and the risk management oversight committee. The MM, who is ultimately responsible for the municipality's risks, has delegated this role to the Chief Risk Officer (CRO) and Management. The CRO will ensure that the framework is implemented and that council, the RMC, the Audit Committee and the MM receive appropriate reporting on the municipality's risk profile and risk management process. Management will execute their responsibilities outlined in the Risk Management Strategy and Implementation Plan. All other officials are responsible for incorporating risk management into their day-to-day operations.

As the MM of the municipality, council and I are responsible for enhancing corporate governance. Entrenching Enterprise Risk Management (ERM) into the municipality is only but one component of governance, but together we will ensure that appropriate focus is placed on important tasks and key risks.

SIGNATURE OF MUNICIPAL MANAGER:

<Insert name in print>

DATE:

1. OVERVIEW

1.1. Policy Objective

The objective of this policy is to safeguard XYZ Municipality's property, interests and safeguard people.

1.2. Policy Statement

Through this policy, the MM puts into practice his/her commitment to implement and maintain an effective, efficient and transparent system of risk management. This policy forms the basis for the accompanying Risk Management Strategy and Implementation Plan which is designed to help achieve the objective of implementing an effective ERM process and embedding a culture of risk management within the municipality.

1.3. Policy Scope

This is an enterprise-wide policy. It applies throughout XYZ municipality in as far as risk management is concerned as all personal within the municipality has a role to play in the identification and management of risk.

1.4. Background

1.4.1. Legislative Mandate

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

1.4.2. Legislative Compliance

This policy is aligned to the principles set out in the National Treasury Public Sector Risk Management Framework, published on 1 April 2010 and to some extent King III. This policy is also supported by the MFMA, Act no. 56 of 2003.

1.4.3. Objectives of Enterprise Risk Management

The objective of risk management is to assist management in making more informed decisions which:

- provide a level of assurance that current significant risks are effectively managed;

- improve operational performance by assisting and improving decision making and planning;
- promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities, to benefit the municipality is encouraged; and
- provide a sound basis for integrated risk management and internal control as components of good corporate governance.

1.4.4. Benefits of Enterprise Risk Management

The risk management process can make major contributions towards helping the municipality achieve its objectives. The benefits include:

- more sustainable and reliable delivery of services;
- enhance decision making underpinned by appropriate rigour and analysis;
- reduced waste;
- prevention of fraud and corruption;
- fewer surprises and crises by placing management in a position to effectively deal with potential new and emerging risks that may create uncertainty;
- help avoid damage to the municipality's reputation and image;
- helps ensure effective reporting and compliance with laws and regulations;
- better value for money through more effective, efficient and economical use of scarce resources; and
- better outputs and outcomes through improved project and programme management.

1.5. Key Concepts

1.5.1. Risk is an uncertain future event that could influence the achievement of the municipality's strategic and business objectives.

1.5.2. Risk Management is a systematic and formalised process instituted by the municipality to identify, assess, manage, monitor and report risks to ensure the achievement of objectives.

1.5.3. Enterprise Risk Management (ERM) is a process, effected by the municipality Accounting Officer, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the municipality, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of the municipality's objectives.

Or

ERM is the application of risk management throughout the municipality rather than only in selected business areas or disciplines and needs to be managed in a comprehensive and integrated way. ERM recognises that risks (including opportunities) are dynamic, often highly interdependent and ought not to be considered and managed in isolation.

2. ROLES AND RESPONSIBILITIES

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

2.1. Risk Management Oversight

2.1.1. Council

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

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

Council *must* perform the following tasks, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
01	Understand, determine and approve the risk appetite with guidance from the CRO and the RMC.	i.e. Annually
02	Ensure that frameworks and methodologies are developed and implemented.	
03	Ensure that IT, fraud & corruption and Occupational Health and Safety (OHS) risks are considered as part of the municipality's risk management activities.	
04	Ensure that risk assessments (strategic and operational) are performed by reviewing the RMC reports.	
05	Ensure that assurance regarding the effectiveness of the ERM process is received from the MM, RMC and the Audit Committee	

Ref.	Activity	Frequency
06	Disclose how they have satisfied themselves that risk assessments, responses and interventions are effective as well as undue, unexpected or unusual risks and any material losses (the annual report to include a risk disclosure).	
07	Ensure that management implements, monitors and evaluates performance through the RMC reports.	

2.1.2. Audit Committee (AC)

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

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

The Audit Committee *must* perform the following tasks, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
08	Formally define its responsibility with respect to risk management in its charter.	i.e. Annually
09	Ensure that combined assurance is given to address all the significant risks facing the municipality.	
10	Advise council on risk management. (This will be clearly defined in the charter)	
11	Review the internal and external audit plans and ensure that these plans address the risk areas of the municipality.	
12	Review and recommend disclosures on matters of risk and risk management in the Annual Financial Statements (AFS).	
13	Include statements regarding risk management performance in the annual report to stakeholders.	
14	Evaluate the effectiveness of Internal Audit in its responsibilities for risk management.	

Ref.	Activity	Frequency
15	Provide regular feedback to the MM on the adequacy and effectiveness of risk management in the municipality.	
16	Ensure that internal and external audit plans are aligned to the risk profile of the municipality.	
17	Ensure that all risk including, IT, fraud & corruption and OHS risks have been properly addressed.	
18	Provide an independent and objective view of the municipality's risk management effectiveness.	

2.1.3. Risk Management Committee (RMC)

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

The RMC *must* perform the following tasks, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
19	Formally define its roles and responsibilities with respect to risk management in its charter.	i.e. Annually
20	Review and recommend approval of the Risk Management Policy to the MM.	
21	Review and recommend approval of the Risk Management Strategy to the MM.	
22	Provide guidance to the MM, CRO and other relevant risk management stakeholders on how to manage risks to an acceptable level.	
23	Provide timely and useful reports to the MM on the state of ERM, together with recommendations.	
24	Share risk information with the Audit Committee.	
25	Evaluate the extent and effectiveness of integration of ERM within the municipality.	
26	Assess implementation of the Risk Management Policy and Strategy.	

Ref.	Activity	Frequency
27	Review material findings and recommendations by assurance providers on the system of risk management and monitor implementation of such recommendations.	
28	Develop KPIs for the MMs approval.	
29	Measure and understand the municipality's overall exposure to fraud and corruption and ensure that proper processes are in place to prevent these risks from materialising.	
30	Measure and understand the municipality's overall exposure to IT and ensure that proper processes are in place to prevent these risks from materialising.	
31	Measure and understand the municipality's overall exposure to Occupational Health & Safety (OH&S) and ensure that proper processes are in place to prevent these risks from materialising.	

2.2. Risk Management Implementers

2.2.1. Municipal Manager

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

The MM *must* perform the following tasks, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
32	Understand and determine the risk appetite with guidance from the CRO and the RMC.	i.e. Annually
33	Ensure that frameworks and methodologies are developed and implemented.	
34	Appoint adequate staff capacity to drive the ERM activity.	i.e. As the need arises
35	Appoint a RMC with the necessary skills, competencies and attributes.	
36	Ensure that the control environment supports the effective functioning of ERM.	

Ref.	Activity	Frequency
37	Hold officials accountable for their specific risk management responsibilities.	
38	Devote personal attention to overseeing management of significant risks.	
39	Ensure appropriate action in respect of recommendations of the AC, Internal Audit, External Audit and RMC to improve ERM.	
40	Evaluate the value add of risk management. (NT financial management maturity capability model)	
41	Provide assurance to relevant stakeholders that key risks are properly identified, assessed and mitigated.	
42	Provide leadership and guidance.	i.e. Daily

2.2.2. Management

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

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

Management **must** perform the following tasks, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
43	Execute their responsibilities as set out in the approved Risk Management Strategy.	i.e. Daily
44	Report to the RMC regarding the performance of internal controls for those risks in the operational risk registers.	
45	Devote personal attention to overseeing the management of key risks within their area of responsibility.	
46	Empower officials to perform effectively in their risk management responsibilities.	

Ref.	Activity	Frequency
47	Maintain a co-operative relationship with the CRO and Risk Champions.	
48	Maintain the proper functioning of the control environment within their area of responsibility.	
49	Hold officials accountable for their specific risk management responsibilities.	
50	Continuously monitor the implementation of risk management within their area of responsibility.	

2.2.3. Other Officials

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

Other officials **must** perform the following tasks, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
51	Take the time to read and understand the content in the Risk Management Policy, but more importantly understanding their roles and responsibilities in the risk management process.	i.e. Constantly
52	Apply the risk management process in their respective functions.	
53	Inform their supervisors and/or the risk management unit (CRO) of new risks and significant changes.	
54	Co-operate with other roles players in the risk management process.	
55	Provide information to role players in the risk management process as required.	

2.3. Risk Management Support

2.3.1. Chief Risk Officer

The CRO is the custodian of the Risk Management Strategy and Implementation Plan and the coordinator of ERM activities throughout XYZ municipality. The primary responsibility of the CRO is to use his/her specialist expertise to assist the municipality to embed ERM and leverage its benefits to enhance performance. The CRO plays a vital communication link

between senior management, operational level management, the RMC and other relevant committees.

The CRO *must* perform the following task, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
56	Assist the MM and senior management develop the municipality's vision for risk management. (Philosophy)	i.e. Annually
57	Develop, in consultation with management, the municipality's risk management framework and methodologies.	
58	Research and develop the risk rating scales.	
59	Communicate the municipality's risk management framework and methodologies to all stakeholders.	
60	Facilitate orientation and training for RMC.	
61	Train all stakeholders in their ERM responsibilities.	
62	Continuously drive ERM to higher levels of maturity.	
63	Coordinate and facilitate the assessments.	
64	Prepare ERM registers, reports and dashboards for submission to the RMC and other roles players.	
65	Coordinate the implementation of response strategies.	
66	Ensure that all IT, fraud, OHS risks are considered as part of the municipality's ERM activities.	
67	Avail the approved risk registers to Internal Audit on request.	
68	Consolidate risk identified by the various Risk Champions.	
69	Participate with Internal Audit, Management and AG in developing the combined assurance plan.	

2.3.2. Risk Champions

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

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

Risk Champions **must** perform the following tasks, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
70	Facilitate operational risk workshops for their area of responsibility with the assistance of the CRO.	
71	Co-ordinate the implementation of action plans for the risk and report on any developments regarding the risk.	
72	Populate the risk registers/dashboard.	
73	Ensure that all risk information is updated regularly and submitted to the CRO.	
74	Provide assurance regarding the risk's controls.	

2.4. Risk Management Assurance Providers

2.4.1. Internal Audit

The core role of Internal Audit in risk management is to provide an independent, objective assurance to council and the Audit Committee on the effectiveness of risk management. Internal Audit also assists in bringing about a systematic, disciplined approach to evaluate and improve the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.

Internal Audit **must** perform the following tasks, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
75	Provide assurance on the ERM process design and its effectiveness.	i.e. Annually
76	Provide assurance on the management of "key risks" including, the effectiveness of the controls and other responses to the "key risks.	
77	Provide assurance on the assessment and reporting of risk and controls.	
78	Prepare a rolling three (3) year Internal Audit plan based on its assessment of key areas of risk.	

2.4.2. External Audit

External Audit (Auditor-General) provides an independent opinion on the effectiveness of ERM.

External Audit *must* perform the following tasks, to fulfil its mandate with regard to ERM.

Ref.	Activity	Frequency
79	Determine whether the risk management framework and methodologies are in place and appropriate.	i.e. Annually
80	Assess the implementation of the risk management framework and methodologies.	
81	Review the risk identification process to determine if it is sufficiently timely, correct and complete identification of significant risks.	
82	Review the risk assessment process to determine if it is sufficient to facilitate timely and accurate risk rating and prioritisation.	
83	Determine whether management action plans to mitigate the key risks are appropriate and are being effectively implemented.	

3. ENTERPRISE RISK MANAGEMENT PROCESS

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



Figure 1: Enterprise Risk Management Process

3.1. Internal Environment

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

3.2. Objective Setting

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

3.3. Event Identification

An event is an incident or occurrence emanating from internal or external sources that could affect implementation of strategy or achievement of objectives. Events may have positive or negative impacts, or both. As part of event identification, management recognises that uncertainties exist, but does not know when an event may occur, or its outcome should it occur. To avoid overlooking relevant events, identification is best made apart from the assessment of the likelihood of the event occurring, which is the topic of risk assessment.

3.4. Risk Assessment

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

Risk Assessments are performed through a three stage process:

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

3.4.1. Risk Appetite

XYZ Municipality has set its risk appetite level at <Insert the risk appetite for the municipality> e.g. Impact X Likelihood = 25 % (*Refer to figure 2*).

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

EXAMPLE:

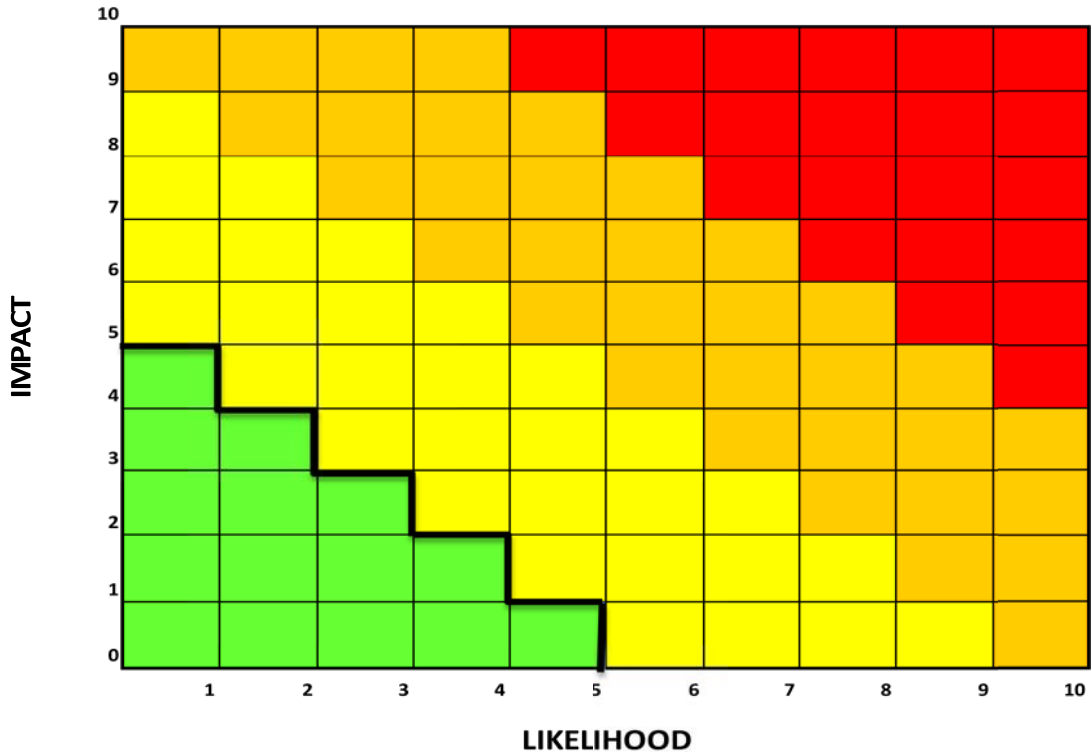



FIGURE 2: Heat Map

 Risk Appetite Level
5 X 5 = 25%

3.5. Risk Response

After assessing the risk scores an appropriate mitigation strategy is selected. These responses may fall within the categories of avoid, reduce, share and accept. (Refer to figure 3).

Risk responses fall within the following four categories:

- **Avoid** – Action is taken to exit the activities giving rise to risk. Risk avoidance may involve exiting a product line, declining expansion to a new geographical market, or selling a division.
- **Reduce** – Action is taken to reduce the risk likelihood or impact, or both. This may involve any of a myriad of everyday business decisions.
- **Share** – Action is taken to reduce risk likelihood or impact by transferring or otherwise sharing a portion of the risk. Common risk sharing techniques include purchasing

insurance products, pooling risks, engaging in hedging transactions, or outsourcing an activity.

- **Accept** – No action is taken to affect likelihood or impact.

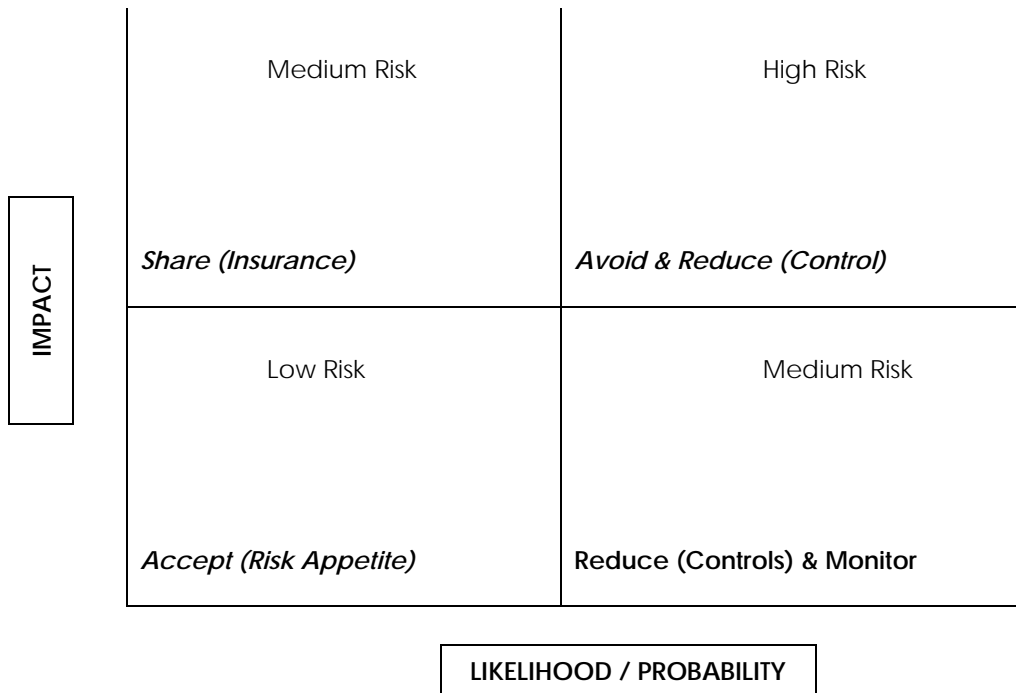


Figure 3: Risk Response Strategy

3.6. Control Activities

Control activities are the policies and procedures that help ensure that management's risk responses are carried out. Control activities occur throughout the municipality, at all levels and in all functions. They include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Types of Control Activities

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

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

3.7. Information and Communication

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

3.8. Monitoring

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

4. POLICY REVIEW

The content of the ERM policy will be reviewed annually to reflect the current stance on risk management within the XYZ Municipality.

5. APPROVAL

Recommended by the Risk Management Committee:

Signature: _____

Name in Print: _____

Date: _____

Position: Chairperson

Approved by the Municipal Manager:

Signature: _____

Name in Print: _____

Date: _____

Position: Municipal Manager