

<b>APPROVED/AMENDED</b>	<b>MEETING</b>	<b>DATE</b>
APPROVED	Council	24/11/2010



Enterprise Risk Management Policy:  
Drakenstein Municipality

**DRAKENSTEIN**

MUNISIPALITEIT • MUNICIPALITY • UMASIPALE WASE

# INDEX

	<b>DESCRIPTION</b>	<b>PAGE NO</b>
1.	PURPOSE	3
2.	BACKGROUND TO ENTERPRISE RISK MANAGEMENT POLICY	3
3.	DEFINITIONS	4
4.	OBJECTIVES OF ENTERPRISE RISK MANAGEMENT	4
5.	POLICY STATEMENT	5
6.	MEMBERS OF RISK COMMITTEE	6
7.	RESPONSIBILITIES	6
7.1.	STAFF	6
7.2.	SUPERVISORS AND MANAGERS	6
7.3.	HEAD OF DEPARTMENTS	6
7.4.	EXECUTIVE MANAGEMENT	7
7.5.	ACCOUNTING OFFICER	7
7.6.	CHIEF RISK OFFICER	8
7.7.	RISK COMMITTEE	9
7.8.	INTERNAL AUDIT	10
7.9.	AUDIT COMMITTEE	10
8.	FRAUD RISK MANAGEMENT	11
9.	POLICY APPROVAL	11

## **1. PURPOSE**

**The purpose of this policy is to formalize Drakenstein Municipality's Enterprise Risk Management (ERM) program and to articulate the roles and responsibilities of council, management and employees, and relevant committees.**

## **2. BACKGROUND TO ENTERPRISE RISK MANAGEMENT POLICY**

It is acknowledged that risk management in the King II and III Codes of Corporate Governance (King II & III) and the Municipal Finance Management Act, no 56 of 2003 (MFMA), section 62 (1)(c)(i) addresses a much wider spectrum of risk than in the past. In addition, the corporate governance drivers behind risk management today require new ways of reporting and monitoring Drakenstein Municipality's risk exposures.

Risk exists in all activities and cannot be avoided. However, the risks taken and accepted on behalf of Drakenstein Municipality must be tolerable; risks must be identified and controls put in place to manage it.

The Municipal Manager is responsible and accountable for directing and monitoring Drakenstein Municipality's risk management activities and related performance in a structured framework. All core/support services support the Municipal Manager in maintaining an effective system of risk management.

Best practices for risk management set out the principles embedded within this policy. These principles are the mandatory requirements established by the Municipal Manager for the management of risk in the municipality. The practices are based on current recognised business practices, standards and corporate governance principles.

It is important to note that the Enterprise Risk Management Policy Framework is, of necessity, an evolving document. The contents of the framework reflect the current risk management requirements of Drakenstein Municipality. Future versions of this document will reflect advances and developments in risk management strategies and processes. The document must be reviewed and updated annually.

### 3. DEFINITIONS

<b>Risk</b>	Effect of uncertainty on objectives.
<b>Risk appetite</b>	Amount and type of risk an organization is prepared to pursue or take.
<b>Risk tolerance</b>	Organization's readiness to bear the risk, after treatments in order to achieve its objectives.
<b>Risk management</b>	Coordinated activities to direct and control an organization with regard to risk.
<b>Risk management framework</b>	Set of components that provide the foundations and organizational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management processes throughout the organization.
<b>Risk management process</b>	Systematic application of management policies, procedures and practices to the tasks of communication, consultation, establishing the context, identifying, analysing, evaluating, treating, monitoring and reviewing risk.

### 4. OBJECTIVES OF ENTERPRISE RISK MANAGEMENT

**The objectives of ERM are to help management make informed choices which:**

- Integrates risk management into the culture and strategic decision making of Drakenstein Municipality.
- Improve business performance by managing risks in accordance with best practice, and demonstrating due diligence in decision making.
- Balance the cost of managing risk with the benefits anticipated.
- Promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefit the organisation is encouraged.
- Provide a sound basis for ERM and internal control as components of good corporate governance by raising awareness of the need for risk management.

## **5. POLICY STATEMENT**

Risk management is an integral part of management, not a separate function for specialists. It forms part of strategic planning, business planning and project approval procedures.

Risk management shall be considered in all project approvals in a manner appropriate to the nature and scope of the project as described.

Risk management should be considered early in the project planning process.

Preventing a loss from occurring should be emphasized over decreasing the impact of a loss.

Where feasible, risks should be contractually transferred to other parties.

In circumstances where risks cannot be eliminated, the Municipality will ensure that existing and emerging risks are identified and managed within acceptable limits.

External risks shall be considered as well as internal risks.

Drakenstein Municipality will foster a culture of spreading best practices and expertise acquired from our risk management activities across the board for the benefit of the entire organization.

Drakenstein Municipality will maintain a risk register identifying the critical risks.

A formal statement of risk tolerance will be reviewed annually by the Risk Committee and approved by Executive management. Activities that are outside this risk tolerance shall not be undertaken unless specifically approved by the Municipal Manager and/or their designate.

Drakenstein Municipality will establish and maintain a Risk Committee.

The Accounting Officer shall formally appoint permanent members of the Committee.

## **6. MEMBERS OF RISK COMMITTEE**

**The members, as a collective, shall possess the blend of skills, expertise and knowledge of the Municipality, including familiarity with the concepts, principles and practice of risk management, such that they can contribute meaningfully to the advancement of risk management within the Municipality.**

Membership shall comprise:

- A member of the Audit Committee.
- A member not in the employment of the Municipality.
- Representatives of senior management.

Standing invitees to the Committee shall be:

- Chief Audit Executive.
- Chief Risk Officer.
- Municipal Manager.
- Other members of Executive Management.
- Any other co-opted person to provide specialist skills and advice.

## **7. RESPONSIBILITIES**

### **7.1 STAFF**

**All staff has a responsibility for maintaining good internal controls and managing risk. Everyone shall be aware of the risks that are present in their activities. As new risks are identified they shall be identified to their supervisor or staff member concerned, where possible with recommended risk management strategies.**

### **7.2 SUPERVISORS AND MANAGERS**

**Supervisors and managers are responsible for ensuring that all risks in their areas of operations are identified and managed appropriately.**

### **7.3 HEAD OF DEPARTMENTS**

**Head of Departments are responsible for identifying, evaluating and managing risks within their departments and operational units.**

## **7.4 EXECUTIVE MANAGEMENT**

**Executive Directors shall ensure that everyone in their directorate understands their risk management responsibilities and must make it clear the extent to which staff is empowered to accept risks, within the risk tolerance of the Municipality.**

## **7.5 ACCOUNTING OFFICER**

**The Accounting Officer must ensure that the responsibility for risk management vests at all levels of management and that it is not only limited to the Accounting Officer.**

**The Accounting Officer must also ensure that a risk assessment is conducted regularly to identify emerging risks.**

High-level responsibilities of the Accounting Officer include, but not limited to:

- Setting the tone at the top by supporting ERM and allocating resources towards the implementation thereof.
- Establishing the necessary structures and reporting lines within the municipality to support ERM.
- Approving the risk management strategy, risk management policy, risk management implementation plan and fraud risk management policy.
- Approving the municipality's risk appetite and risk tolerance.
- Influencing a municipal "risk aware" culture.
- Approving the code of conduct for the municipality and holding management and officials accountable for adherence.
- Place the key risks at the forefront of the management agenda and devote personal attention to overseeing their effective management.
- Hold management accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities.
- Holding the structures, responsible for risk management activities, accountable for adequate performance.

- Ensuring that a conducive control environment exists to ensure that identified risks are proactively managed.
- Leverage the Audit Committee, Internal Audit, Risk Committee and other appropriate structures for assurance on the effectiveness of risk management.
- Provide all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored.
- Consider and act on recommendations from the Audit Committee, Internal Audit, Risk Committee and other appropriate structures for improving the overall state of risk management.
- Provide appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management.

## **7.6 CHIEF RISK OFFICER**

**To derive optimal benefits, risk management ought to be conducted in a systematic manner, using proven methodologies, tools and techniques.**

**Focusing on enterprise-wide risk management programs, the Chief Risk Officer (CRO) is tasked with the overall efficiency of the ERM function.**

**This is inclusive of the embedding of risk management practices and fostering a risk aware culture within the municipality.**

Responsibilities of the CRO in risk management include:

- Develop and implement the Municipality's ERM policy and procedures in a manner that fulfills the mission and strategic goals of the organisation while complying with legislative requirements.
- Develop and implement systems, policies and procedures for the identification, collection and analysis of risk related information.
- Develop appropriate risk methodologies for the Municipality.
- Facilitate risk identification and assessment process.
- Maintain risk register, indicating risk responses and risk owners.
- Monitor all risk mitigating projects.

- Report to the Risk Committee in predetermined format and content.
- Educate and train the leadership, staff and business associates as to the risk management program, and their respective responsibilities in carrying out the risk management program.
- Lead, facilitate and advise departments in designing ERM programs within their own departments.
- Helps to identify and implement corrective action where appropriate.
- Educate staff and promote risk awareness throughout the Municipality.

## **7.7 RISK COMMITTEE**

**The Risk Committee will oversee the management of risks at Drakenstein Municipality and is responsible for the risk register identifying the material risks and their management.**

To derive optimal benefits, risk management ought to be conducted in a systematic manner, using proven methodologies, tools and techniques.

In discharging its oversight responsibilities relating to risk management, the Risk Committee has the following high level responsibilities:

- Review the risk management policy and strategy and recommend for approval by council and the Accounting Officer.
- Review the risk appetite and tolerance and recommend for approval by and the Accounting Officer.
- Review the municipality's risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register.
- Evaluate the effectiveness of mitigating strategies to address the material risks of the Municipality.
- Report to the Accounting Officer any material changes to the risk profile of the Municipality.
- Review the Fraud Prevention policy and recommend for approval by Council.

- Evaluate the effectiveness of the implementation of the fraud prevention policy.
- Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses.
- Develop goals, objectives and key performance indicators for the Committee for approval by the Accounting Officer.
- Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management activity.
- Set out the nature, role, responsibility and authority of the risk management function within the Municipality for approval by the Accounting Officer, and oversee the performance of the risk management function.
- Provide proper and timely reports to the Accounting Officer on the state of risk management, together with aspects requiring improvement accompanied by the Committee's recommendations to address such issues.

## **7.8. INTERNAL AUDIT**

**The Office of Internal Audit will work to assess how well the policy has been implemented and use the risk registers, where appropriate, for input in preparing a risk-based audit plan. Internal Audit will assess the effectiveness of the risk management process.**

## **7.9. AUDIT COMMITTEE**

**The Audit Committee is responsible for providing the Accounting Officer with independent counsel, advice and direction in respect of risk management. The stakeholders rely on the Audit Committee for an independent and objective view of the municipality's risks and effectiveness of the risk management processes, in discharging its oversight responsibilities relating to risk management.**

## **8. FRAUD RISK MANAGEMENT**

**Fraud risks are a special category of risks which is regulated by a separate policy.**

**It should be mitigated by pro-active preventative measures as well as an appropriate fraud response strategy, including disciplinary steps. Fraud risk management will analyze the risks and fraud opportunities in especially procurement-, housing- and human resource systems.**

## **9. POLICY APPROVAL**

**This policy has been considered and approved by the Council of Drakenstein Municipality on the 24<sup>th</sup> of November 2010.**