



KAAP AGULHAS MUNISIPALITEIT  
CAPE AGULHAS MUNICIPALITY  
U MASIPALA WASECAPE AGULHAS

**CAPE AGULHAS MUNICIPALITY**  
**RISK MANAGEMENT POLICY**  
**2019/2020**



# CAPE AGULHAS MUNICIPALITY RISK MANAGEMENT POLICY 2019/20

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## GLOSSARY OF TERMS

**Event** - An incident or occurrence from internal or external sources that affects the achievement of Cape Agulhas Municipality's objectives.

**Impact** - The magnitude of the impact on the municipality should the risk materialise.

**Inherent Risk** - The risks to Cape Agulhas Municipality in the absence of any actions management might take to alter either the risk's impact or likelihood. In other words, the likelihood and impact of the risk if the current controls that are in place are not considered.

**Likelihood / Probability** - The probability of the event occurring.

**Operational** - used with "objectives", having to do with the effectiveness and efficiency of the municipality's activities, including performance and safeguarding resources against loss.

**Priority / Key Risks** - Risks that are rated high on an inherent level. Risks that need to be acted upon. Risks that poses a serious threat to the municipality.

**Project Risks** - Risks that are identified for all major projects, covering the whole lifecycle and for long-term projects.

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

**Risk** - The effect of uncertainty regarding an event, its impact and its likelihood on the objectives of the Municipality. An unwanted outcome, actual or potential, to the Institution's service delivery and other performance objectives, caused by the presence of risk factor(s). Some risk factor(s) also present upside potential, which management must be aware of and be prepared to exploit. This definition of risk also encompasses such opportunities.

**Risk Owner** - The individual who is ultimately accountable for ensuring the **risk** is managed appropriately. (Director)

**Risk Register** - The risk register 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.

**Risk Profile** - The municipality's risk management processes, systems, structures, resources, data, information, staff and related activities and initiatives. In other words, the entire risk management function of the municipality

**Risk Response** - Plans to manage and mitigate risks, based on the information obtained during the risk assessment.

**Stakeholders** - Parties that are affected by the municipality, such as the communities in which the municipality operates, employees, suppliers etc.

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**Strategic** – used with “objectives”, it has to do with high-level goals that are aligned with and support the municipality's mission and vision.

**Treatment / Mitigation** – Addressing the cause, impact and/or likelihood of the risk based on the information obtained during the risk assessment, to either decrease or increase the risk level to below the risk appetite of the municipality.

### RISK MANAGEMENT PHILOSOPHY

Cape Agulhas Municipality is committed to the optimal management of risks in order to achieve our vision, deliver on our core business and key objectives.

In the course of conducting our day-to-day business operations, we are exposed to a variety of risks. These risks include strategic, operational and other material risks that 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 the enterprise-wide approach, we have taken a number of steps to reinforce a culture of disciplined risk-taking.

Council is responsible for oversight of the risk management process and has delegated its day-to-day implementation to the Accounting Officer. The Accounting Officer, who is accountable for the overall governance of the municipality's risks, has delegated this role to the Chief Risk Officer (CRO) (or the Municipal Risk management Champion in the case of a combined Risk management service) and Management.

The CRO will ensure that the framework is implemented and that council and the Fraud and Risk Management Committee (FARMCO) receive appropriate reporting on the municipality's risk profile and risk management process. Management will execute their responsibilities outlined in the Risk Management Strategy.

All other officials are responsible for incorporating risk management into their day-to-day activities.

The Municipal Code of ethics plays a pivotal role to ensure that all officials maintain a good ethical standard within the municipality.

Cape Agulhas Municipality subscribes to the principles of good corporate governance, which require that business be conducted in an honest, ethical and transparent fashion.

Consequently, the Municipality is committed to fighting corrupt and fraudulent behaviour at all levels within the Municipality. Therefore, the municipality has an Anti-Corruption and Fraud prevention Strategy, Policy and Plan in place.

Combined assurance is another function adopted by risk management that aims to inform, in a simple manner, on the effectiveness of assurance providers and to create confidence in the assurance provided over key organisational risks.

Risk management also drives the Business Continuity plan which aims to prepare the Municipality in the event of extended service outages caused by factors beyond our control (e.g. natural disasters, man-made events) and to restore services to the widest extent possible

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in a minimum time frame. All Municipal departments are expected to implement preventive measures whenever possible to minimise operational failure and to recover as rapidly as possible when a failure occurs.

The plan identifies vulnerabilities and recommends necessary measures to prevent extended service outages. It is a plan that encompasses all Municipal systems, Departments and operation facilities.

The Accounting Officer and the Council of Cape Agulhas Municipality are responsible for enhancing corporate governance within the municipality and to ensure that appropriate focus is placed on risk management activities.

## **1 OVERVIEW**

### **1.1 INTRODUCTION**

The Accounting Officer has committed Cape Agulhas Municipality to implementing and maintaining an effective, efficient and transparent system of risk management. The process of risk management is aligned to the principles as set out in the King III Report on Governance for South Africa and as supported by the Municipal Finance Management Act (MFMA), No. 56 of 2003 (supplemented by the relevant Treasury Regulations).

### **1.2 PURPOSE**

The purpose of this policy is to formalise The Cape Agulhas Municipality's Enterprise Risk Management (ERM) program and to articulate the roles and responsibilities of the risk implementers, oversight bodies, risk management unit and assurance providers in risk management. Through this policy Cape Agulhas Municipality puts into practice its commitment to implement risk management and embed a culture of risk management within the municipality.

### **1.3 SCOPE**

The scope of this policy applies throughout Cape Agulhas Municipality in as far as risk management is concerned.

### **1.4 AUTHORITY**

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."

### **1.5 OBJECTIVES OF RISK MANAGEMENT POLICY**

The objectives of risk management are 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 adverse 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.

## **2 BENEFITS OF RISK MANAGEMENT**

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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 rigor and analysis;
- reduced waste;
- prevention of fraud and corruption;
- fewer surprises and crises;
- help avoid damage to the municipality's reputation and image;
- help ensure effective reporting and compliance with laws and regulations;
- better value for money through more efficient use of resources; and
- better outputs and outcomes through improved project and programme management.

### 3 PROFICIENCY AND DUE PROFESSIONAL CARE

Risk management activities must be performed with proficiency and due professional care.

The CRO and risk champions:

- Should apply the care and skills expected of reasonably prudent and competent risk management officials
- Must exercise due professional care by considering the cost of managing the risk in relation to the value of the objective, that management define and implement controls to manage risk and reduce the probability of significant errors, irregularities or non-compliance
- Must be alert to the significant risks that might affect objectives, operations or resources, but cannot guarantee that all significant risks will be identified
- Should enhance their knowledge, skills and other competencies through continuing professional development. This is an interactive process and it is expected to develop as risk management matures and becomes embedded within the municipality.

### 4 CAPE AGULHAS MUNICIPALITY'S RISK MANAGEMENT APPROACH

The risk management principles contained in this policy will be applied at both strategic and operational levels within the Municipality.

Our positive approach to risk management means that we will not only look at the risk of activities that could go wrong, but also the impact of not taking opportunities or not capitalising on corporate strengths. All risk management activities will be aligned to Municipality's aims, objectives and priorities, and aims to protect and enhance the reputation and standing of the Municipality.

The policy should be read in conjunction with the Risk Management Strategy and Risk Management Implementation Plan.

### 5 OPERATING STRUCTURES IN THE RISK MANAGEMENT PROCESS

Every person within Cape Agulhas Municipality has a role to play in the risk management process. The primary responsibility for identifying and managing risks lies with Management. The

responsibilities of each role player are formally defined in the risk management strategy of Cape Agulhas Municipality.

### 5.1 RISK MANAGEMENT OVERSIGHT

#### ○ **Municipal Council**

The Municipal 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 Cape Agulhas Municipality against significant risks.

#### ○ **Audit & Performance Audit Committee (APAC)**

The APAC is an independent committee responsible for oversight of the municipality's control, governance and risk management. The APAC's primary responsibility is providing an independent and objective view of the effectiveness of the Municipality's risk management process.

#### ○ **Fraud and Risk Management Committee (FARMCO)**

The FARMCO is appointed by the Accounting Officer to assist him in the discharge of his risk management responsibilities. The committee consists of an independent external person (Chairperson), the Directors, Chief Internal Auditor (Invitee) and the Chief Risk Officer (Standing Invitee) and its 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.

### 5.2 RISK MANAGEMENT IMPLEMENTERS

#### ○ **Municipal Manager (Accounting Officer)**

The Accounting Officer is ultimately responsible for risk management within the Municipality. By setting the tone at the top, the Accounting Officer promotes accountability, integrity and other factors that will create a positive control environment.

#### ○ **Directors (Risk Owners)**

The Directors supports the Municipality's risk management philosophy and manages and monitors risk within their areas of responsibility and integrating it into operational routines of the Municipality.

The Directors are also the risk owners. They are ultimately accountable for the risk management of the risks in their directorates.

#### ○ **Management (Risk Champions)**

Senior Management has the responsibility to integrate the risk management strategy and policy into their department's operational routines. To do this they must champion risk management in their department, thus they are the Risk Champions.

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The Risk Champion's primary responsibilities are to intervene when risk management efforts are being hampered and to provide guidance and support on the management of problematic risks and risks of a transversal nature that require the involvement of multiple people to address.

- **Senior Officials (Action Owners)**

Senior officials have the responsibility to implement the plans to mitigate the risks, known as risk action plans. They are therefore the action owners.

Action Owners implement the responses to the risks identified in the risk assessment.

### 5.3 RISK MANAGEMENT UNIT

- **Overberg Risk Management Shared Services Centre**

The Overberg Risk Management Shared Services Centre (SSC) is a cooperative municipal entity that functions as the risk management unit for Cape Agulhas Municipality and four other municipalities. The risk management unit is also responsible to drive Business Continuity and Combined assurance.

The primary responsibility of the SSC is to provide the services of a fully functioning risk management unit to Cape Agulhas Municipality.

- **Chief Risk Officer**

The Chief Risk Officer is the custodian of the risk management strategy and coordinator of risk management activities throughout Cape Agulhas Municipality.

The primary responsibilities of the Chief Risk Officer are to bring to bear his/her specialist expertise to assist Cape Agulhas Municipality to embed risk management and leverage its benefits to enhance performance.

- **Risk Officer**

The Risk Officer Intern's primary responsibilities are to communicate with the risk managers, action owners and risk champions on risk related matters of Cape Agulhas Municipality and use his/her fresh academic knowledge for new ideas and inputs on the risk management of the Municipality.

### 5.4 RISK MANAGEMENT ASSURANCE PROVIDERS

- **Internal Audit**

The core role of Internal Audit in risk management is to provide an independent, objective assurance to the Accounting Officer, Municipal Council, Fraud and Risk Management Committee and the Audit & Performance 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 determine whether the risk management process is efficient and effective.

- o **External Audit**

The Auditor General provides an independent opinion on the effectiveness of risk management.

In providing an opinion, the Auditor General focuses on:

- o Determining whether the risk management strategy, policy and implementation plan are in place and appropriate;
- o Assessing the implementation of the risk management strategy, policy and implementation plan;
- o Reviewing the risk assessment process to determine if it is sufficiently robust to facilitate timely and accurate risk rating and prioritisation;
- o Determining whether management action plans to mitigate the key risks are appropriate and being implemented effectively.

## 6 RISK MANAGEMENT PROCESS

The risk management process consists of eight (8) components.



Figure 1: Risk Management Process (COSO ERM Integrated Framework)

### 6.1 INTERNAL ENVIRONMENT

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

- o **Risk Appetite**

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The term “risk appetite” can be defined as the acceptable level or amount of risk that the municipality is willing to accept, before action is needed to reduce it.

The risk appetite shall be clearly stated and articulated so that it informs management decisions.

The risk appetite for 2019/20 has been determined at 40.

The Municipality's risk appetite will be reassessed on a yearly basis, based on the annual risk assessment exercise results and adjusted if required. The ultimate goal is to reduce the risk level of the Municipality to acceptable levels.

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.

- **Risk Tolerance**

Risk tolerance refers to the maximum level or amount of risk that the Municipality can bear, before action is needed to reduce it. All risks above the Municipality's risk tolerance will receive attention from the top management team until it is mitigated to below the risk tolerance level.

### 6.2 OBJECTIVE SETTING

Objectives are set at the strategic level, establishing a basis for operations, reporting and compliance objectives. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the Municipality's mission and are consistent with its risk appetite.

### 6.3 EVENT IDENTIFICATION

Event identification is the process of identifying potential events affecting Cape Agulhas Municipality's ability to successfully implement strategies and achieve objectives. Internal and external events affecting the achievement of objectives must be identified, distinguishing between risks and opportunities.

- **Risk Classification**

Cape Agulhas Municipality classifies risks in accordance with the regulations and frameworks applicable to government institutions.

- **Risk Types**

The Municipality can be exposed to different types of risks, which may be internal or external to the Municipality. Internal risks are risks emanating from within the Municipality and over which the Municipality to a large extent has control over its occurrence.

External risks are risks emanating from outside the Municipality and the Municipality has little or no control over its occurrence.

- **Risk Levels**

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Risks have been arranged into five main levels: Strategic Risks, Operational Risks, Project Risks, Incident Risks and Emerging Risks.

- **Strategic Risks:** risks that affect the Municipality's ability to achieve its strategic goals, based on strategic planning, corporate or operating structure or business models.
  - **Operational Risks:** risks associated with the functioning of operational processes, people, information systems and management involved in the daily operations of the Municipality.
  - **Project Risks:** specific risks associated with the implementation and completion of projects regulated by provincial or national government departments or state agencies. Not all capital projects' risks are project level risks.
  - **Incident Risks:** risks with a critical or catastrophic impact that occurred during the year, but were not identified in the initial annual risk assessment and if it materialise, it could hamper the operations of the Municipality.
  - **Emerging Risks:** global or national announcements/events that directly influence any type of decision-making by the Municipality and as a consequence impact on the Municipality's service delivery and operations.
  - **Fraud Incident Reporting:** It is expected for any instances of fraud and corruption to be reported to FARMCO and to be followed up by the Risk Management unit to identify control weaknesses or any type of process deficiencies. The identified unforeseen risks will be captured in the Risk Register. The nature and impact of the risks will indicate how the risks will be classified (Strategic or Operational). These risks relate to illegal or improper acts by employees resulting in a loss of the Municipality's assets or resources.
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- **Risk Identification**

Two processes are followed to identify risks:

1. Structured interviews Municipal officials are interviewed about the risks they are aware of and the emerging risks they can think of.
2. Benchmarking – Top 10 Risks in the annual IRMSA Risk Report (A new IRMSA report was released for 2018) and risk registers of the other Municipalities within the district. The risks in this IRMSA report and risk registers of the other municipalities within the district are used as a guideline. It is then established whether the risks are applicable to Cape Agulhas Municipality.

- **Risk description**

A short, to the point description of the risk must be articulated. For ease, the cause of risk should be established first and secondly the background information related to the risk. The risk description can then be articulated using the cause and background information.

### 6.4 RISK ASSESSMENT

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Annual risk assessments allow the Municipality to consider the extent to which potential events might have an impact on the achievement of objectives. Annual risk assessments will be done on both operational and strategic levels.

Cape Agulhas Municipality assess events from two perspectives, namely impact and likelihood and normally uses the quantitative method i.e. risk rating scales for both the inherent and residual basis.

### o Risk Rating Scale / Inherent Risks

A risk's impact and likelihood is separately assessed on a 10X10 scale. The inherent risk rating is calculated by multiplying the impact rating and likelihood rating of the risk. The inherent risk exposure is determined by the inherent risk rating.

#### IMPACT

Rating	Assessment	Description
1	Negligible	Impact of adverse event has little (if any) impact on services
2	Insignificant	Impact of adverse event is minimal.
3	Minor	Impact will be coped with in short term through normal operational processes performed by staff.
4	Immaterial	<ul style="list-style-type: none"> <li>- Irritation in rendering or receiving services.</li> <li>- No material impact on achievement of the Municipality's strategy and objectives.</li> <li>- Can be dealt with by senior staff.</li> </ul>
5	Marginal	<ul style="list-style-type: none"> <li>Disruption of normal operations/services.</li> <li>- Limited effect on the achievement of the Municipality's strategy and objectives.</li> <li>- Requires intervention from the Line Manager.</li> </ul>
6	Moderate	<ul style="list-style-type: none"> <li>- Short/medium term disruption of services.</li> <li>- Reduced ability to achieve the Municipality's strategy and objectives.</li> <li>- Requires intervention from the Head of Department.</li> </ul>
7	Significant	<ul style="list-style-type: none"> <li>- Significant long-term disruption of services.</li> <li>- Significantly reduced ability to achieve the Municipality's strategy and objectives.</li> <li>- Requires intervention from the Director.</li> </ul>
8	Major	<ul style="list-style-type: none"> <li>- Major event resulting in the long-term cessation of a core organisational activity.</li> <li>- Severely reduced ability to achieve the Municipality's strategy and inability to achieve certain objectives.</li> <li>- Material at organisation level.</li> <li>- Requires intervention from the Municipal Manager and Audit Committee involvement.</li> </ul>
9	Critical	<ul style="list-style-type: none"> <li>- Critical event resulting in the long-term cessation of several core organisational activities.</li> <li>- Drastically reduced ability to achieve the Municipality's strategy and inability to achieve the majority of objectives.</li> <li>- Requires intervention from Council.</li> </ul>

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10	Catastrophic	<ul style="list-style-type: none"> <li>- Critical event resulting in the long-term cessation of the majority or all core organisational activities.</li> <li>- Inability to achieve the Municipality's strategy and objectives.</li> <li>- Requires intervention from Provincial and/or National Government.</li> </ul>
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### LIKELIHOOD

Rating	Assessment	Description
1	Rare	0%-10% chance of occurring
2	Improbable	11-20% chance of occurring
3	Remote	21%-30% chance of occurring
4	Occasional	31%-40% chance of occurring
5	Potential	41%-50% chance of occurring
6	Possible	51%-60% chance of occurring
7	Expected	61%-70% chance of occurring
8	Probable	71%-80% chance of occurring
9	Almost Certain	81%-90% chance of occurring
10	Certain	91%-100% chance of occurring

### INHERENT RISK EXPOSURE

Inherent Risk Rating	Magnitude	Definition
0 – 39.99	Low	Mostly acceptable - Low level of control intervention required, if any.
40 – 59.99	Medium	Unacceptable level of risk, except under unique circumstances or conditions - Moderate level of control intervention required to achieve an acceptable level of residual risk.
60 – 100	High	Unacceptable level of risk - High level of control intervention required to achieve an acceptable level of residual risk.

#### o **Current Control effectiveness / Residual risks**

Current controls' effectiveness in mitigating risks is assessed on a 0-1 reduction scale. The more effective the control, the more it mitigates the inherent risk and the less is the residual risk.

The residual risk rating is calculated by multiplying the inherent risk rating with the control effectiveness rating.

The residual risk exposure is determined by comparing the residual risk rating to the risk appetite of the Municipality.

**CURRENT CONTROL EFFECTIVENESS**

	<b>Effectiveness</b>	<b>Qualification Criteria</b>	<b>Rating</b>
1	Very effective	Controls are pro-actively managing the risk causes and impacts, mitigating the risk as much as economically possible.	0.2
2	Effective	Controls are managing the risk causes and impacts as planned and result in effective risk mitigation.	0.4
3	Moderately effective	Controls are managing the risk causes and impacts to some extent, but its risk mitigation effect is inadequate.	0.75
4	Ineffective	Controls do not manage the risk causes or impacts adequately, resulting in ineffective risk mitigation.	0.9
5	Inherent controls in place	Common, non-designed controls that exist in the normal course of operations. (e.g. lock outside door at end of work day)	1

o **Cost of Controls**

The cost of controls includes all costs associated with maintaining the current controls for the financial year. Costs associated with replacing the controls when it reaches the end of its useful life are apportioned across financial years according to the expected useful life of the control components. Implementation costs are not included in the cost of controls. The current controls are already in place and the implementation costs have been incurred in the past

o **Cost of Control vs Cost of Risk**

The cost of controls are adjusted for its effectiveness and compared to the financial exposure of the risk as indicated by the following formula:

$$\text{Financial exposure} - [\text{cost of controls} \times (1 + \text{current controls effectiveness rating})]$$

A positive value indicates that the cost of controls is less than the financial consequences of the risk (value creation). A negative value indicates the cost of controls is more than the financial consequences of the risk (value destruction) and a review of controls is required to align the cost of controls with the cost of risk.

o **Controls Cost Effectiveness**

The controls cost effectiveness is calculated by comparing the value of the cost of controls vs cost of risk against the financial exposure and expressing it as a percentage.

This figure can be seen as the Municipality's return on investment in the control environment, since the Municipality is investing money to maintain the control environment and expecting a return in the form of prevented financial losses.

The controls cost effectiveness figure allows the Municipality to compare the costs of controls of risks of different magnitude to determine whether the controls are cost effective in relation to the cost of the risk. This can be used to allocate funds to improve the control environment where it will reap the most financial benefits.



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### RESIDUAL RISK EXPOSURE

Residual Risk Rating	Magnitude	Definition
0 – 20	Low	Acceptable level of residual risk – Requires no or minimal control improvements. Residual risk is below or within the risk appetite level.
20.01 – 40	Medium	Unacceptable level of residual risk – Implies that the controls are either inadequate (poor design) or ineffective (poor implementation). Controls require some redesign, or more emphasis on proper implementation.
40.01 – 100	High	Unacceptable level of residual risk – Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation). Controls require substantial redesign, or a greater emphasis on proper implementation. Residual risk is above the risk appetite level.

o Risk Categories

Category	Description	Internal / external
<b>1. Litigation</b>	Risks that the institution might suffer losses due to litigation and lawsuits against it. Losses from litigation can possibly emanate from: - Claims by employees, the public, service providers and other third parties - Failure by the Municipality to exercise certain level of compliance to legislative requirements	Internal
<b>2. Material Resources</b>	Risks relating to the Municipality's material resources. Possible aspects to consider include: - Availability of material - Costs and means of acquiring resources - The wastage of material resources	Internal
<b>3. Service Delivery</b>	Every institution exists to provide value for its stakeholders. The risk will arise if the appropriate quality of service is not delivered to the citizens.	Internal
<b>4. Information Technology</b>	Risks related to the Municipality's IT infrastructure, including hardware, software and the processes involved with the use of IT.	Internal
<b>5. Third Party Performance</b>	Risks related to the Municipality's dependence on the performance of a third party. Risk in this regard could be that there is the likelihood that a service provider might not perform according to the service level agreement entered into with the Municipality.	Internal
<b>6. Economic Environment</b>	Risks related to the Municipality's economic environment. Factors to consider include: - Inflation; - Foreign exchange fluctuations; and - Interest rates.	External

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<p><b>7. Political Environment</b></p>	<p>Risks emanating from political factors and decisions that have an impact on the Municipality's mandate and operations. Possible factors to consider include:</p> <ul style="list-style-type: none"> <li>- Political unrest</li> <li>- Local, Provincial and National Elections</li> <li>- Changes in office bearers, etc.</li> </ul>	<p>External/Internal</p>
<p><b>8. Social Environment</b></p>	<p>Risks related to the Municipality's social environment. Possible factors to consider include:</p> <ul style="list-style-type: none"> <li>- Unemployment</li> <li>- Migration of workers.</li> </ul>	<p>External</p>
<p><b>9. Natural Environment</b></p>	<p>Risks relating to the Municipality's natural environment and its impact on normal operations. Consider factors such as:</p> <ul style="list-style-type: none"> <li>- Depletion of natural resources</li> <li>- Environmental degradation</li> <li>- Spillage</li> <li>- Pollution.</li> </ul>	<p>External</p>
<p><b>10. Compliance</b></p>	<p>Risks relating to compliance with legislative requirements such as the Constitution, Municipal Structures Act, Municipal Systems Act, Municipal Finance Management Act, related regulations, Council By-Laws, etc.</p>	<p>Internal</p>
<p><b>11. Human Resources</b></p>	<p>Risks that relate to human resources of the Municipality. These risks can have an effect on human capital with regard to:</p> <ul style="list-style-type: none"> <li>- Ethics</li> <li>- Recruitment</li> <li>- Skills &amp; competence</li> <li>- Employee wellness</li> <li>- Employee relations</li> <li>- Retention</li> <li>- Occupational health &amp; safety</li> </ul>	<p>Internal</p>
<p><b>12. Knowledge and Information Management</b></p>	<p>Risks relating to the Municipality's management of knowledge and information. In identifying the risks consider the following aspects related to knowledge management:</p> <ul style="list-style-type: none"> <li>- Availability of information</li> <li>- Stability of the information</li> <li>- Integrity of information data</li> <li>- Relevance of the information</li> <li>- Retention</li> <li>- Safeguarding</li> </ul>	<p>Internal</p>
<p><b>13. Loss/Theft of Assets</b></p>	<p>Risks that the Municipality might suffer losses due to either theft or loss of an asset of the Municipality.</p>	<p>Internal</p>
<p><b>14. Occupational Health and Safety</b></p>	<p>Risks from occupational health and safety issues e.g. injury on duty; outbreak of disease within the Municipality.</p>	<p>Internal</p>
<p><b>15. Fraud and Corruption</b></p>	<p>These risks relate to illegal or improper acts by employees resulting in a loss of the Municipality's assets or resources.</p>	<p>Internal</p>
<p><b>16. Financial Environment</b></p>	<p>Risks encompassing the entire scope of general financial management. Potential factors to consider include:</p>	<p>Internal</p>

## CAPE AGULHAS MUNICIPALITY RISK MANAGEMENT POLICY 2019/20

	<ul style="list-style-type: none"> <li>- Cash flow adequacy and management thereof</li> <li>- Financial losses</li> <li>- Wasteful expenditure</li> <li>- Budget allocations</li> <li>- Financial statement integrity</li> <li>- Revenue collection</li> <li>- Increasing operational expenditure.</li> </ul>	
<b>17. Reputational Risks</b>	Factors that could result in the tarnishing of the Municipality's reputation, public perception and image.	Internal
<b>18. Technological Environment</b>	Risks emanating from the effects of advancements and changes in technology.	External
<b>19. Cultural Environment</b>	Risks arising from the cultural diversity of the citizens within the Municipality's boundaries, their values and beliefs and their attitude towards authority.	External
<b>20. Inter-departmental and interrelated functions</b>	<p>Risks arising from the interrelatedness and interdependence of the Municipality's directorates / departments on each other to seamlessly perform their functions and meet their objectives. Factors to consider include:</p> <ul style="list-style-type: none"> <li>- Lack of co-operation</li> <li>- Shifting of responsibilities</li> <li>- Directorate / Departmental decisions negatively impact on another directorate / department.</li> <li>- Inadequate / Unclear communication between directorates</li> <li>- Friction between directorates / departments</li> </ul>	Internal

### 6.5 RISK RESPONSE

Having assessed relevant risks, management determines how it will respond to align the risks with the Municipality's risk appetite and risk tolerance. Risk responses fall in one of the following categories:

- **Avoidance** – avoiding the risk by, e.g. choosing a different strategy or terminating the activity that produces the risk;
- **Treatment** – treating the risk by, e.g. implementing or improving the internal control system;
- **Transfer** – transferring the risk to another party more competent to manage it, e.g. contracting out services, establishing strategic partnerships and buying insurance;
- **Acceptance** – accepting the risk where cost and strategy considerations rule out alternative strategies;
- **Exploit** – exploiting the risk factors by implementing strategies to take advantage of the opportunities presented by such risk factors.

### 6.6 CONTROL ACTIVITIES

Policies and procedures are established and implemented to help ensure the risk responses are effectively 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.

## **6.7 INFORMATION AND COMMUNICATION**

Pertinent information should be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Information regarding risk management is communicated by email, telephone and in person. Effective communication also occurs, flowing down, across and up in the Municipality. There is also effective communication with external parties.

## **6.8 MONITORING**

The enterprise risk management is monitored and modifications made if necessary. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two.

Monthly monitoring occurs in the normal course of management activities. The risk management unit monitors the enterprise risk management of the Municipality on an ongoing basis.

The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. The risk management unit and internal audit can perform separate evaluations.

## **7 REPORTING**

The reporting requirements regarding risk management have been included in the responsibilities of the following role players. It can be found in these documents:

- District Coordinating Forum Technical (DCFTech) – Service Level Agreement
- Fraud and Risk Management Committee (FARMCO) Charter: Cape Agulhas Municipality
- Audit and Performance Audit Committee – Audit and Performance Audit Committee Charter: Cape Agulhas Municipality
- Overberg Risk Management Shared Services Centre – Service Level Agreement
- Chief Risk Officer – Service Level Agreement: Overberg Risk Management Shared Services Centre

Other role players not listed above are required to report as instructed by law, the Municipal Council or superiors. They must ensure their reporting is adequate for the risk management process to function properly.

## **8 RISK UNIVERSE**

Many risks are universal, affecting other institutions as well. The universal nature of these risks can enable the Municipality to compare its risk register with the risk registers of other institutions to identify risks that may have been missed in the initial risk assessment and learn more about the mitigation strategies of others, to incorporate it into the risk management of the Municipality.

## CAPE AGULHAS MUNICIPALITY RISK MANAGEMENT POLICY 2019/20

CAPE Agulhas Municipality's risk register is compared with the annual IRMSA Risk Report: South Africa Risks and the risk registers of the other four municipalities that are part of the SSC.

### 9 INTEGRATION OF RISK MANAGEMENT PLANS/POLICIES

There are many separate plans and policies available that individually deal with fraud, IT, occupational health and safety, disaster management and compliance. These plans and policies contain risk information and risk mitigation plans.

All the different risk information and mitigation plans should be integrated into a single risk register, to provide a detailed and complete profile of the Municipality's risks.

### 10 COMBINED ASSURANCE

Combined assurance will optimise and maximise the level of risk, governance and control oversight over the Municipality's risk landscape, by integrating, coordinating and aligning the risk management and assurance processes within the Municipality.

A Combined Assurance Model for the top 20 risks will be created and updated quarterly to ensure the Municipality's most significant risks receive adequate assurance.

The combined assurance activities of the Municipality will be conducted in accordance with the Combined Assurance Policy Framework.

### 11 BUSINESS CONTINUITY

Business continuity is an integral part of risk management.

In the event of extended service outages caused by factors beyond the Municipality's control, the Municipality must be able to restore services to the widest extent possible in a minimum time frame.

A Business Continuity Framework is in place to direct business continuity activities and a Business Continuity Committee has been established to oversee the execution of those activities.

### 12 ETHICS

Risk management, even when software is used, is performed by humans.

The effectiveness of risk management activities is directly influenced by the ethical behaviour of the people responsible for risk management, which includes their professionalism and commitment in executing their risk management responsibilities.

A lack of ethics is a contributing factor to a variety of risks, either being the cause of the risk itself or the cause of ineffective control measures.

Therefore, risk management initiatives can only be successful in an environment of ethical behaviour with adequate ethics risk management processes.

Cape Agulhas Municipality has a Code of Conduct and Code of Ethics for Municipal Staff in place to regulate the conduct and ethical behaviour expected in the workplace.

## CAPE AGULHAS MUNICIPALITY RISK MANAGEMENT POLICY 2019/20

### 13 POLICY REVIEW AND HISTORY

This policy shall be reviewed by the Fraud and Risk Management Committee annually to reflect the current stance on risk management.

<b>STATUS</b>	<b>FARMCO APPROVAL AND REVIEW</b>	<b>COUNCIL APPROVAL</b>	<b>RESOLUTION NUMBER</b>
First approval	N/A	28 June 2016	137/2016
Review	24 March 2017	31 March 2017	36/2017
Review	19 March 2018	25 September 2018	124/2018
Review	12 July 2019	23 July 2019	131/2019

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Municipal Manager

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Date

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Council Resolution