BUFFALO CITY METROPOLITAN MUNICIPALITY

ENTERPRISE RISK MANAGEMENT FRAMEWORK

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ENTERPRISE- WIDE RISK MANAGEMENT FRAMEWORK

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ENTERPRISE- WIDE RISK MANAGEMENT FRAMEWORK

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1.1 DEFINITION OF TERMS

1.1.1 Accounting Officer – The City Manager

1.1.2 Audit Committee - An independent committee constituted to review the effectiveness of control, governance and risk management within the municipality, established in terms of section 166 of the MFMA.

1.1.3 Chief Risk Officer - A Senior official who is the head of the risk management unit.

1.1.4 Controls - A control is any measure or action that modifies risk. Controls include any policy, procedure, practice, process, technology, technique, method, or device that modifies or manages risk. Risk treatments become controls, or modify existing controls, once they have been implemented. The ultimate purpose of controls is to minimize the potential impact of identified emerging risks.

1.1.5 COSO- Commission of Sponsoring Organization of the Tread way Commission.

1.1.6 COSO Framework- It is an internal control integrated framework which was commissioned by the Committee of Sponsoring organization of the Treadway Commission; to give guidance on enterprise risk management, internal control and fraud deterrence designed to improve organizational performance and governance.

1.1.7 Enterprise Risk Management

Enterprise risk management is a continuous, proactive and systematic process, effected by a municipality's executive authority, accounting officer, management and other personnel, applied in strategic planning and across the municipality, 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 and optimize opportunities to enhance performance.

1.1.8 Inherent Risk-This is the product of the probability of occurrence and the severity of outcome, prior to control measures.

1.1.9 Internal Audit

Internal Audit refers to an independent, objective assurance and consulting activity designed to add value and improve BCMM's operations.

1.1.10 ISO- International Organization for Standardization.

1.1.11 ISO 3100- is an international standard published in 2009 and updated in 2018 that provides principles and guidelines for effective risk management. The application of these guidelines can be customized to any organization and its context. It provides a common approach to managing any type of risks and is not industry or sector specific.

1.1.12 Operational and related risks:

Operational risk is any risk, which impacts on the achievement of the objectives of any individual project's programmes, or sub- into Programme of the municipality. These will be tactical or operational by nature. It is important to appreciate that risks do not always conveniently fit into one category and that the importance and relevance of a good system is to include a mechanism to those risks whose nature has changed.

1.1.13 Residual Risk- is the risk after considering the effectiveness of management's risk responses (controls).

1.1.14 Risk: Risk is uncertainty of the outcome, whether positive opportunity or negative threat, of actions and events with a possible impact on the achievement of the municipality's objectives.

1.1.15 Risk Appetite Statement- It is a written articulation of the aggregate level and types of risks that the City is willing to accept, or to avoid in order to achieve its objectives.

1.1.16 Risk Assessment - The overall process of identifying, analyzing and evaluating risk. The risk assessment process should consider risks that are significant to the achievement of the Municipality's objectives. This is a continuous process, requiring regular reviews, as and when internal and external changes influence the Municipality's strategies and objectives.

1.1.17 Risk Champion- A person who by virtue of his/her expertise or authority champions an aspect of the risk management process, but who is not the risk owner.

1.1.18 Risk Owner - The person accountable for managing a particular risk.

1.1.16 Risk Management – is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding acting on and communicating risk issues and opportunities.

1.1.17 Risk Management Committee: is a committee appointed by the accounting officer responsible for overseeing risk management activities within the city.

1.1.18 Risk Management Policy- serves as a foundation for the City's enterprise - wide risk management activities, as it encapsulates Management's philosophy and approach to risk management.

1.1.19 Risk Profile:

The documented risk assessment creates the risk profile for the municipality and the risk profile entails the following:

- Facilitates identification of risks (to identify the most significant risk issue with which management should consider).
- Captures the reasons for decisions made about what is and is not acceptable exposure.
- Facilitates the recording of the way in which it is decided to address risk.
- Facilitates the reviews and monitoring of risks.
- The highest-level risks will be considered by the management as specific risks priorities will change over time and prioritization will consequently change.

1.1.20 Strategic/ Corporate Risks:

Risks that impact directly upon the achievement of the overall objectives of the Municipality rather than any discrete part of it. It is a risk that cuts across operational and Programme objectives. i.e., Risk that impact the nature and viability of the institution's existence. Some of these risks may include internal and external risks. These risks are regarded as significant, requiring reference to and monitoring by Senior management.

SECTION 1: INTERPRETATION AND BACKGROUND

1.2 RISK MANAGEMENT FRAMEWORK

1.3 PREMABLE

Every organization function within an environment which both influences the risks faced and provides a context within which risk has to be managed. Buffalo City Metropolitan Municipality (BCMM), in common with other Municipalities depends on other governmental entities for the delivery of its objectives. As such, effective risk management needs to consider the context in which the Municipality/Metro functions.

The need for a Risk Management Framework is mandated by the Municipal Finance Management Act (MFMA) section 62 and 95, National Treasury Public Sector risk management framework, King report on corporate governance, ISO:31000 as well as COSO framework. Therefore, this framework is aligned to the principles of COSO, ISO and the public sector Risk Management framework published by National Treasury.

Risk Management is a central part of any organization's strategic management. It is a process whereby an organization both methodically and intuitively addresses the risk attached to their activities, with the goal of achieving a sustained benefit within each activity and across the portfolio of activities.

Risk management is recognized as an integral part of sound organizational management and is being promoted internationally and in South Africa as good business practice applicable to both private and public sectors.

Risk management considers the risks involved with any business activity of BCMM and measures the impact and extent of the risk on the achievement of BCMM'S objectives.

The increased awareness by citizens of their return on investment by government (who act as service providers and trustee of their resources) has also contributed to this management focus. The application of the framework is wider spread because it makes sound business sense to manage risk effectively and for risk management to be embedded in the internal controls of the municipality's business processes.

The management of risk at strategic, Programme, project and operational levels needs to be integrated so that the levels of activity within the municipality support each other.

The Risk management plan of the municipality will be embedded in the strategic planning process and embedded in the normal working routines and activities of the municipality at operational level.

Municipal staff should be aware of the relevance of risk to the achievement of the municipal objectives. The municipal process for the preparation of the Human Resource Plan and Programme Business Plans should take into account the risk management priorities as stated in the risk management plan. The Risk management process is an integral part of these broader BCMM processes as it identifies key business risk as well as key business priorities.

1.4 LEGAL MANDATES AND REGULARORY FRAMEWORK

Section 62 of the Municipal Finance Management Act (MFMA) Act no 56 of 2003, states that the Accounting officer of a Municipality must ensure that the municipality maintains: -

- *An effective, efficient and transparent system of financial and risk management and internal control.*
- *A system of internal audit under the control and direction with of an audit committee complying with and operating in accordance with regulations and instructions prescribed in Municipal Finance Management Act.*

Therefore, according to the above section of the MFMA, the City Manager (as the Accounting Officer) has the responsibility for ensuring that a well – defined and documented assessment of processes, systems and outputs which give result to key risks is conducted. The assessment must be conducted on a regular basis (e.g., annually or as per project)

Section 78 of the MFMA places risk management responsibility upon other officials and states that an official in a Municipality: -

a) Must ensure that the system of financial management and internal control established for the municipality is carried out within the area responsibility of that official.
b) Is responsible for the effective, economical and transparent use financial and other resources within that official's responsibility.
c) Must take effective and appropriate steps to prevent within that official's responsibility, any unauthorized expenditure, irregular expenditure and fruitless and wasteful expenditure and any under collection of revenue due.
d) Must comply with the provisions of this act to the extent applicable to that official, including delegations and instructions in terms of **section 44** and
e) Is responsible for the management, including the safeguarding, of assets and the management of the liabilities within that official's area of responsibilities.

The King IV Report on Corporate Governance also reflects on risk management as an integral part of strategic and operational activities. The King III code states "*The Board is responsible for the total process of risk management, as well as for forming its own opinion on the effectiveness of the process.*"

In addition, King IV recommends that the Municipal Council should appreciate that the core purpose of the municipality, its risks and opportunities, strategy, business model, performance and sustainable development (as should be captured in the municipality's Integrated Development Plan) are all inseparable elements of the value creation process. Council should:

a. Assume responsibility for municipal performance by steering and setting the direction for the realization of the core purpose and values through its strategy.

b. Delegate the formulation and development of short, medium and long-term strategy to management.

c. Approve the strategy by considering:

    i. The timelines and parameters of the short, medium and long term.

    ii. The risks and opportunities relating to the municipal environment; and

    iii. The various forms of capital supporting the strategy.

d. Oversee whether the municipality frequently and continuously assess the negative consequences of its activities and outputs; and

e. Be alert to the general viability of the municipality regarding its capital resources, its solvency and liquidity and its status as a going concern.

ISO 31000/2009 (International Standards for Risk Management) Clause 5 “Risk Management process includes communication and consulting, establishing the context, risk assessment, risk treatment and monitoring and review, and should be an integral part of management, be embedded in culture and practices and tailored to the business process of the organization.”

COSO (The Committee of Sponsoring Organizations of the Treadway Commission) defines risk management as: *“a continuous, proactive and systematic process, effected by an entity’s executive authority Accounting Officer, management and other personnel, applied in strategic planning and across the e designed to identify potential events that may affect the* *department, and manage risks to be within its tolerance, to provide reasonable assurance regarding the achievement of entity's objectives.*

All officials should ensure that they carry out the financial and internal control system within their areas of responsibility.

All officials should ensure that they carry out the financial and internal control system within their areas of responsibility. Employees within sections should also participate in the risk management process by attending workshops on risk management and providing the necessary data (e.g., questionnaires).

1.5 PURPOSE

The BCMM Risk Management framework specifically addresses the structures, processes and standards implemented to manage risks on an institution – wide bases in a committed and consistent manner.

It provides a mechanism for mangers to make informed management decisions, through the development, monitoring and review of internal control mechanisms and tools. It also aims to ensure a widespread understanding by Senior/Top management and all departmental managers and Programme managers awareness and familiarity with the framework.

1.6 STRATEGIC OBJECTIVES OF THIS FRAMEWORK

The risk Management framework is to allow a structured approach to the effective management of risk in pursuit of the following business objectives:

- Financial, operational and, management systems directly support the management of risk that threaten the achievement of the municipal objectives.
- The management has an active, structured and commonly shared knowledge of the whole range, and the relative priority of risks that they have to manage. Staff objectives are set in terms that reflect the municipal strategic and operational risk priorities.
- Responsibility for the management of risks is assigned to staff members who have the authority to ensure that they are managed.
- Resources are assigned to the management of risks in such a way to optimize value for money.
- Senior Management priorities in respect of management of risks are fully communicated to the operational staff.

- Senior Management's view is informed by upward reporting of risks throughout the municipality/metro.

1.7 FRAMEWORK PRINCIPLES

This framework operates under the following guiding principles.

1.7.1 Application at both Corporate and Operational Levels:

The principles contained in this framework will be applied at both corporate and operational levels within BCMM and will be applied to all operational aspects of the Municipality and consider external strategic risks arising from or related to other municipalities, other spheres of government and the public, as well as wholly internal risks.

1.7.2 Alignment with corporate Aims, objectives, Priorities and Operations of BCMM:

All risk management activities will be aligned to corporate aims, objectives and the priorities of BCMM, and aims to protect and enhance the reputation and standing of the municipality. Risk analysis will form part of the BCMM strategic planning, business planning and investment/project appraisal procedures.

Risk Management will be founded on a risk-based approach to internal control embedded in day-to-day operations of the municipality. Risk Management should be integrated (and aligned) with all BCMM objectives, processes, strategies, programmes, projects, operations, systems, and organizational decision-making and with BCMM's vision and mission, at all levels of BCMM, with the introduction of risk management components into existing strategic planning and operational practices.

1.7.3 Positive Approach:

This framework ensures that BCMM adopts a positive approach to Risk Management to ensure that BCMM not only looks at the risk of things going wrong, but also the impact of not taking opportunities and not capitalizing on corporate strengths.

1.7.4 Inclusiveness:

Managers and staff at all levels throughout BCMM will have the responsibility to identify, evaluate and manage or report risks, and will be equipped to do so. Risk Management will be included as part of employees' performance appraisals.

1.7.5 Acceptance Risks:

All officials should be willing and able to take calculated risks to achieve the BCMM objectives and to benefit BCMM. The associated Risks of proposed actions and decisions should be properly identified, evaluated and managed to ensure that exposures are acceptable.

BCMM officials must take care to avoid any action which could:

- Impact on the reputation of BCMM
- Impact on Performance of the Municipality
- Undermine the independent and objective reviews of activities.
- Result in fines by regulatory bodies or
- Result in financial loss

1.7.6 Contingent:

The Framework has been developed with due recognition of the development of contingency plans.

1.7.7 Balance:

The Risk Management Framework also pays cognizance to the need to balance the impact of risks occurring with the benefits of reducing and or managing risk.

1.7.8 Compliance:

It is crucial for the BCMM to comply, in terms of Risk Management with the relevant mandatory processes and procedures.

1.8 BENEFITS OF RISK MANAGEMENT

The following are the benefits of effective risk management that can be derived by the City:

I. **Improved decision-making** risk management allows those charged with governance to take informed decisions which protect the interests of the organization and take the City forward to the realization of its vision and achievement of its strategic objectives**.**

II. **Efficient allocation and use of resources**: risk management affords an opportunity for the optimal use and allocation of resources. Since the City's business is more service delivery driven, risk management plays a significant role in optimizing resources, reducing the likelihood & severity of potential project risks and maximize opportunities of achieving the City's strategic objectives.

III. **Reducing operational surprises and losses:** in pursuit of business there are several risks facing the organization either internally or externally, effective risk management facilitates effective responses to the interrelated impacts and enhances integrated response to multiple risks.

IV. **Seizing opportunities:** risk management is not solely focused on identification of events that may have adverse impacts on the achievement of the City's objectives but affords an opportunity of exploring available opportunities that can contribute to taking the city closer to realization of its vision and achievement of its strategic objectives.

V. **Increased Stakeholder confidence**: risk management provides stakeholders with data on the risks facing the City and the leadership's commitment to addressing these risks. Being transparent about the City's risk management processes helps in building trust and credibility with stakeholders.

1.9 SCOPE OR APPLICABILITY OF THE FRAMEWORK

This framework applies to all positive opportunities or negative threats, of actions and events with a possible impact on the achievement of the municipality's objectives, including the following categories of risk:

- Human resources risk
- Knowledge and Information Management
- Litigation
- Loss/theft/damage of assets and resources
- Material Resources (Procurement Risk)
- Service Delivery
- Information Technology
- Third party performance
- Health and Safety
- Disaster Recovery Business Continuity
- Compliance/ Regulatory
- Financial
- Economic Environment
- Political Environment

SECTION 2: PROCESS FRAMEWORK

2 CREATING AN ENABLING ENVIRONMENT

2.1 Creating an enabling environment for the management of risks:

The Accounting Officer is responsible for ensuring that the institutional environment supports the effective functioning of risk management. The institution's environment is the foundation of risk management, providing the underpinning culture, discipline and structure that influence how strategy and objectives are established, how institutional activities are planned and executed and how risks are identified and acted upon. The Accounting officer in giving effect to 2.1 should:

I. Facilitate the revision of this Risk Management Framework when required.
II. Communicate and make this Risk Management Framework accessible to all BCMM Officials
III. Monitor and regularly report on the Risk Management of BCMM
IV. Be responsible for the interpretation and administration of the Risk Management Framework.
V. Adopt management practices that embrace the concept of delegation of authority, personal responsibility, accountability and performance management.
VI. Have an appropriate organizational structure supported by basic financial management systems underpinned by risk management and internal controls.

2.2 ESTABLISHMENT OF THE RISK MANAGENT UNIT

A component should be established for the following functions: -

I. To engineer a joined-up planning and risk management process.
II. To develop a municipal wide infrastructure to support the process.
III. To ensure an ongoing basis that the process works and continues to work, i.e., to monitor the implementation of the risk management strategy.

2.3 RISK MANAGEMENT POLICY

BCMM operates within the terms of an approved enterprise-wide risk management policy which:

I. Communicates BCMM's risk management philosophy in the context of how risk management is expected to support the institution in achieving its objectives.
II. Incorporates a statement committing BCMM to implementing and maintaining an effective, efficient and transparent system of risk management.
III. Defines risk and risk management as they apply within the institution's context.
IV. Spells out the objectives of risk management.
V. Outlines the risk management approach and.
VI. Identifies the key role players and their responsibilities.Importantly is the communication of the risk management policy to all staff of BCMM.

2.4 RISK MANAGEMENT STRATEGY

BCMM will maintain a "**Corporate Risk Profile"** as the basis for implementing and monitoring the risk management activities. This profile must:

I. Include details of the impact and likelihood of each of the risk identified in the high level and operational registers.
II. Risk matrix depicting the risk cause, Indicate Ownership/Responsibility and
III. Specify an Action Plan for treatment,
IV. Be reviewed and updated yearly.

Progress of the risk management Programme will be a standing Top Management Meeting agenda item. All managers should maintain:

I. An Area/Divisional Risk Profile which outlines the priority (impact and likelihood) and ownership within the Area/Division

II. A risk management action plan.

III. A record of regular reviews and monitoring of the profile and action plan

2.5 ORGANISATIONAL & RISK MANAGEMENT STRUCTURE

The Accounting Officer should delegate roles and responsibilities in a manner that ensures effective coordination and synergy of risk management activities. The work of business units, working groups and committees should be structured and coordinated in a way that provides a complete perspective of the institution's risk exposures and opportunities. The Accounting Officer should ensure that:

I. The Chief Risk Officer and his/her staff should possess the necessary skills, competencies and attitudes to execute the functions of risk management.

II. Training and support should be provided to everyone involved in risk management activities to equip them to optimally execute their responsibilities for risk management.

III. Internal processes should be established to sensitize all employees of the relevance of risk management to the achievement of their performance goals.

Adequate human resources capacity, represented by the requisite number of people with the right skills, is fundamental to implementing the risk management strategy.

2.5.1 TOOLS AND TECHNOLOGY

Tools and technology can produce considerable efficiencies by simplifying complex processes and accelerating otherwise time-consuming tasks in the risk management process. As technology is fast growing, it is therefore necessary and imperative that the city automates its risk management processes to capture, organize, store and interrogate data, as well as communicating and tracking information.

2.5.2 FUNDING THE RISK MANAGEMENT ACTIVITIES

Funding is required to cover the cost of implementing, maintaining and continuously improving the state of risk management and control. The cost of implementing and improving controls should be the responsibility of the respective Risk Owners, who should for such costs in their capital or operational budgets as the case may be. Investments in risk management and control should be considered based on cost versus benefit.

2.6 INTEGRATION OF RISK MANAGEMET ACTIVITIES

Enterprise-wide risk management is a broad-based application of risk management in all major functions and activities of BCMM, rather than only in selected areas, to isolate the material risks. ERM represents a response to the dilemma that risks (including opportunities) are dynamic and often highly interdependent and need to be managed through a portfolio approach rather than a separate and static event, to achieve comprehensive and integrated attention.

The institution must be aware of and comply with various legislation that prescribes the specific treatment of risk within their ambit, for example, Occupational Health and Safety Act, Disaster Management Act, Prevention of fraud and corruption Act, etc.

2.7 RISK IDENTIFICATION

Risk identification is a deliberate and systematic effort to identify and document the institution's key risks. The objective of risk identification is to understand what is at risk within the context of the institution's explicit and implicit objectives and to generate a comprehensive inventory of risks based on the threats and events that might prevent, degrade, delay or enhance the achievement of the objectives. Importantly the risk identification process should be able to:

I. Be inclusive, not overly rely on inputs of a few Senior officials.

II. Draw as much as possible on unbiased independent sources, including the perspectives of important stakeholders.

III. Be an ongoing process that also includes mechanisms to identify new and emerging risks timeously.

IV. Cover all risks, regardless of whether such risks are within direct control of the institution.

2.7.1 Focus points of risk identification

Risk identification should consider and concentrate on both internal and external factors. The risk profile of an institution may be affected by risks emanating or emerging from an external environment. Risks identification can be at a strategic level, operational level and project management level:

I. **Strategic risk identification** is to identify risks emanating from the strategic choice made by the institutions, specifically with regard whether such choices weaken or strengthen the institution's ability to execute its Constitutional mandate.

II. **Operational risk identification** should be an embedded continuous process to identify new and emerging risks and consider shifts in known risks through mechanisms such as management and committee meetings, environmental scanning and process reviews.

III. **Project risk identification** to identify risks inherent to projects, it is important that risks are identified for all major projects, covering the whole Lifecyle. All major projects should have a risk log.

2.7.2 RISK ASSESSMENT

The main purpose of risk assessment is to help the institution to priorities the most important risks as the Institution is not expected to have the capacity to deal with all risk in an equal manner.

Risks are assessed based on the likelihood of the risk occurring and the impact of the occurrence on the institutional objectives. Risks are assessed on a three-stage process:

I. Firstly, risks are assessed inherently, which means establishing the level of exposure in the absence of deliberate management actions to influence the risk.

II. Secondly, a residual risk assessment is established considering the remaining risk exposure after effectiveness of internal controls is considered.

III. Thirdly, the residual risk should be benchmarked against the institution's risk appetite to determine the need for further intervention, if any.

2.7.3 INFORMATION COMMUNICATION TECHNOLOGY RISK ASSESSMENT

The world of information technology is rapidly evolving, and thus the city needs to be acquainted with latest developments, possible threats and available opportunities which can take the city forward. It is therefore important for the city to continuously assess its information technology risks developing strategies to effectively manage those risks. BCMM has developed an information communication technology (ICT) risk framework has been developed to set a context in which ICT related risks are identified, analyzed, controlled, monitored and reviewed.

2.7.4 RISK APPETITE AND RISK TOLERANCE

It is a stark reality that a municipality will never operate in a risk-free environment, and it will not always be efficient to manage risks to zero residual risk or very low residual risk threshold because of the time, funds, capacity and effort required to create such environment. As the accepted, it is also poor management practices to accept risks which create unnecessary exposure for a municipality. Given the afore mentioned cost, time and effort dynamics; it is important for municipality to make informed decisions on how much risk is acceptable as part of normal management practice.

The amount of risk an organization is willing to take is known as a "risk appetite "and this establishes the benchmark for determining the institution's risk tolerance and risk levels. In thus becomes imperative that the municipality develop, implement, and improve risk tolerance/risk threshold levels, which must be embedded in their risk management process. The Municipality determines its inherent risk appetite implements and improves its residual risk appetite.

There is no "one -size fits all" approach to setting the right levels. Practices will differ amongst municipalities based on risk maturity, current risk management practices, available data, management expertise, sector specific dynamics, etc. Thus, it is advisable to rather follow certain guiding principle rather than prescribed principles. The following guiding principles could be useful in this regard:

I. Risk tolerance and appetite levels should be expressed in the same indicators as related objectives.
II. In setting the risk tolerance and appetite levels, management should consider the relative importance of the related objectives.
III. Risk tolerance and appetite levels must not be out of line with the materiality limits of the municipality.
IV. Without exception, all tolerance and appetite levels should be supported by rigorous analysis and expert management judgement.
V. Risk appetite levels may be established or individual material risks as well as aggregate tolerance for categories of risk.
VI. Risk tolerance may also be established per individual business activity.

BCMM is committed to providing quality services to its people in a cost-effective manner that does not undermine the progress made by the country and further seeks to advance its MGDS goals (refer to **annexure B**- risk appetite and tolerance framework).

2.7.4 BCMM's RISK APPETITE

Buffalo City Metropolitan Municipality has no appetite for non-compliance to laws/ regulations that can result to:

I. Reputational damage
II. Financial loss
III. Injury or loss of life to the public or our workforce
IV. Compromised service delivery.

Further, Buffalo City Metropolitan Municipality has established the following risk tolerance thresholds to provide guidance to Management in managing risks:

No.	Risk Categories	Risk Appetite	Risk Tolerance
1.	Fraud and Corruption	Zero	Zero Tolerance
2.	Non- Compliance with Supply Chain Management Regulations	Zero	Low Tolerance
3.	Financial Reporting- Adverse & Disclaimer Audit Outcomes	Zero	Zero Tolerance
4.	Non-Financial Reporting (Audit of Performance Objectives/ Organizational performance)	Zero	Zero Tolerance
5.	Service delivery Risks	Approved Annual target	Low Tolerance

2.7.5 RISK RESPONSE

An important part of risk management is not only identifying risks but how risks are responded to. Risk response is concerned with developing strategies to reduce or eliminate threats and events that create risks. Risk response should also make provision for the exploitation of opportunities to improve the performance of the institution. In responding to risks, it is important that:

I. Responding to risks involves identifying and evaluating the range of possible options to mitigate risks and implementing the chosen option.

II. Management develops response strategies for all material risks, whether that the management thereof is within the direct control of the institution, prioritizing the risks nearing the inherent risk appetite level.

III. Where the management of the risks is within the control of the institution, the response strategies should consider:

- Avoiding the risk, for example, choosing a different strategy or terminating the activity that produces the risk.
- Treating the risk, for example, implementing or improving the internal control system.
- Transferring the risk to another party more competent to manage it by, for example. Contracting out services, establishing strategic partnerships and buying insurance.
- Accepting the risk where cost and strategy considerations rule out alternative strategies.
- Exploiting the risk factors by implementing strategies to take advantage of the opportunities presented by such risk factors.

The appropriate risk treatment option to be taken should consider the City's mandate, obligations, available resources and most importantly the strategic objectives. In instances where the management of risk is not within the control of the institution, the response strategies should consider measures such as forward planning and lobbing. Response strategies should be documented, and the responsibilities and timeliness attached thereto should be communicated to the relevant persons.

2.8 COMMUNICATION AND REPORTING

The management of risk is reviewed and reported for the following reasons:

I. To monitor whether the risk profile of the municipality is changing.

II. To gain assurance that risk management within the municipality is effective and to identify when further actions is necessary.

III. Designated managers at various levels report upwards (on either a quarterly or bi-annually) on the work done to manage risks and control procedures up to date and appropriate to circumstances within their area of responsibility.

2.9 MONITORING

To ensure that risk management is effective, it is important that there is ongoing monitoring. Monitoring concerns checking on a regular basis to confirm the proper functioning of the entire risk management system**.** Monitoring activities should focus on evaluating whether:

I. Allocated responsibilities are being executed effectively.
II. Response strategies are producing the desired result mitigating risks or exploiting opportunities.
III. A positive correlation exists between improvements in the system of risk management and institutional performance.

For every strategy to be effective it needs key role players to implement; risk management is not a function of a particular level or rather the Top Management, but it is everybody's business.

3.ROLES & RESPONSIBILITIES

3.1 MUNICIPAL COUNCIL

The executive authority should take 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 the institution against significant risks.

Executive authority is accountable to Council, which provides oversight. The Council has a major role in defining what it expects in integrity and ethical values and can confirm with its expectations through oversight activities. The Council provides oversight with regards to risk management by:

I. Approving the risk appetite set for the municipality.

II. Approving risk tolerance and risk profiles.

III. Understanding priority risks

IV. Understanding the extent to which management has established effective risk management.

V. Ensuring risk response for priority risk are effective, and.

VI. Ensuring that the municipality's risk management framework is effectively implemented and maintained.

3.2 ACCOUNTING OFFICER

The ultimate responsibility for risk management in the municipality lies with the accounting officer. The Accounting Officer must promote a culture of risk management that affects the integrity and other factors of a positive control environment. The Accounting Officer must:

I. Ensure that risk management is integrated into all strategic management processes and
that the significant risks are addressed.

II. Ensure that the strategic plan of the municipality indicates specific outputs and services delivery targets and that all significant risks are taken into consideration in the development of strategic plan.

III. Ensure that the risk assessments are carried out in accordance with the relevant
legislation and best practices.

IV. Set the risk tolerance level.

V. Approve risk management strategy and know the extent to which management has established effective risk management in Council, and

VI. Ensure that s/he is informed of the significant risks, along with actions taken by management in ensuring effective risk management.

VII. The Accounting Officer will provide Council and other stakeholders with assurance that.
key risks are properly identified, assessed, mitigated and monitored.

I. The Council deliberate on the risk profile of the municipality as presented by the accounting officer and provide stakeholders with assurance that key risks are properly identified, assessed, mitigated and monitored.

II. The Accounting Officer will set an appropriate tone by supporting and being seen to be.

supporting the institutions aspirations for effective management of risks.

III. The Accounting Officer will ensure that Council maintains a formal risk management.

policy for the Municipality.

IV. The Accounting Officer will formally evaluate the effectiveness of the Municipality's risk assessment process once a year and report to Council.

V. The Accounting Officer will confirm that the risk management process is accurately aligned to the strategy and performance objectives of the municipality and report to Council.

VI. The Accounting Officer will delegate responsibilities for risk management to management and internal formations such as the risk management Committee, Fraud Prevention, Finance Committee, Information and communication Technology Committee.

VII. The Accounting Officer will hold Management accountable for designing, implementing,

monitoring and integrating risk management into their day-to-day activities.

VIII. The Accounting Officer will approve the risk management policy, strategy, and implementation plan.

IX. The Accounting Officer will approve the fraud prevention policy, strategy and implementation plan.

X. The Accounting Officer will leverage the Audit Committee, Internal Audit, External Audit and Risk Management Committee for assurance on the effectiveness of risk management.

XI. The Accounting Officer will ensure appropriate action in respect of the recommendations of the Audit Committee, Internal Audit, External Audit and Risk Management Committee to improve risk management.

3.3 THE AUDIT COMMITTEE

The Audit Committee is an independent committee responsible for oversight of the institution's control, governance and risk management. The Audit Committee should provide an independent and objective view of the institution's risk management effectiveness. Responsibilities of the Audit Committee, where there is a separate Risk Management Committee should include.

I. Reviewing and recommending disclosures on matters of risk in the annual financial statements.

II. Reviewing and recommending disclosures on matters of risk and risk management in financial statements.

III. Provide regular feedback to the Accounting Officer on the adequacy and effectiveness of risk management in the institution, including recommendations for improvement.

IV. Ensuring that the internal and external audit plans are aligned to risk profile of institution.

V. Satisfy itself that it has appropriately addressed the following areas.

a) Financial reporting risk
b) Fraud risks
c) Internal financial controls, and
d) IT risks as they relate to financial reporting.

VI. Evaluate the effectiveness of internal audit in its responsibilities for risk management.

3.5 RISK MANAGEMENT COMMITTEE

The risk management committee is appointed by the Accounting Officer to assist in discharging his responsibilities for risk management. The membership of the risk management committee should comprise of both management and external members with the necessary blend of skills, competencies and attributes including the following critical aspects:

I. An intimate understanding of the institution's mandate and operations.

II. The ability to act independently and objectively in the interest of the institution, and

III. A thorough knowledge of risk management principles and their application.

The Chairperson of the Risk Management Committee should be an independent external person, appointed by the Accounting Officer.

The responsibilities of the Risk Management Committee should be formally defined in a charter approved by the Accounting Officer. In discharging its governance responsibilities related to risk management, the risk management committee should:

- Review risk management framework and strategy and recommend for approval by the Accounting Officer:
- Review the risk inherent risk appetite and tolerance/ risk thresholds set by the institution and recommend for approval by the Accounting Officer.
- Review the Institution'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 risk of the Institution.
- Report to the Accounting Officer any material changes to the risk profile of the Institution.
- Review the fraud prevention policy and recommend for approval by the Accounting Officer.

- Evaluate the effectiveness of the implementation of 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 to measure the effectiveness of risk management activity.
- Develop goals, objectives and key performance indicators to measure the effectiveness of risk management activity.
- Set out the nature, role, responsibility and authority of risk management function within the Institution for approval by the Accounting Officer and oversee the performance of 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.

3.6 MANAGEMENT

Management is responsible for executing their responsibilities and for integrating risk management into the operational routines. High level responsibilities of Management include:

I. Empowering officials to perform effectively in their risk management responsibilities, comprehensive orientation and ongoing opportunities for skills development.

II. Aligning the functional risk management methodologies and processes with the area of
responsibility.

III. Devoting personal attention to overseeing the management of key risks within the area of
responsibility.

IV. Maintain a co-operative relationship with the Risk Management Unit and Risk Champion. V. Provide risk management report.

VI. Presenting to the Risk Management and Audit Committees and requested.

VII. Maintain proper functioning of the control environment within their area of responsibility.

VIII. Monitoring risk management within their area of responsibility, and

IX. Holding officials accountable for their specific risk management responsibilities.

3.7 CHIEF RISK OFFICER

The primary responsibility of the Chief Risk Officer is to bring his/her specialist expertise to assist the institution to embed risk management and leverage its benefits to enhance performance. The high-level responsibilities of the Chief Risk Officer should include:

I. Working with senior management to develop the institution's vision for risks management.

II. Develop in consultation with management, the Institution's risk management framework.

incorporating, inter alia, the.

a) Risk Management policy
b) Risk Management strategy
c) Risk Management Implementation plan
d) Risk identification and assessment methodology
e) Risk appetite and tolerance
f) Risk classification

III. Communicating the institution's risk management framework to all stakeholders in the

institution and monitoring its implementation.

IV. Facilitating orientation and training for the Risk Management Committee.

V. Training all stakeholders in their risk management functions.

VI. Continuously driving risk management to higher levels of maturity.

VII. Assisting management with risk identification, assessment and development of response strategies.

VIII. Monitoring the implementation of the response strategies

IX. Collating, aggregation, interpreting and analyzing the results of risk assessments to extract risk intelligence.

X. Report risk intelligence to the Accounting Officer, Management, and the Risk Management Committee, and

XI. Participating with internal Audit, Management and Auditor – General in developing the combined assurance plan for the institution.

3.8 RISK CHAMPION

The Risk Champion is a person with the skills, knowledge, leadership qualities and power of office required to champion an aspect of risk management.

The key part of the Risk Champion's responsibility should involve intervening in instances where the risk management efforts are being hampered, for example. By lack of co-operation by management and other officials and lack of institutional skills expertise.

The Risk champion should add value to the risk management process by proving guidance and support to manage "problematic" risks and risks of transversal nature that require a multiple participant approach.

In order to fulfil his/her function, Risk Champion should possess:

a) A good understanding of risk management concepts, principles and processes. b) Good analytical skills

c) Expert power

d) Leadership and motivational qualities, and

e) Good communication skills

The Risk Champion should not assume the role of the Risk Owner but should assist the Risk Owner to resolve problems.

3.9 RISK FORUM

The Chief Risk Officer and the risk champions shall form a risk forum. The risk forum shall meet bimonthly to monitor effective embedding of enterprise-wide risk management within the municipality.

High level responsibilities to achieve this include:

i) Monitoring the implementation of the risk management strategy in the different directorates. ii) Support the departmental meetings by monitoring actions on the operational risk register. iii) Reports to the risk management committee meetings.

3.10 INTERNAL AUDIT

The role of the Internal audit in risk management is to provide an independent, objective assurance on the effectiveness of the Institution's system of risk management. Internal Audit must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.

Internal Audit must develop its internal audit plan based on the key risk areas. In terms of the International Standards for the Professional Practice of Internal Audit, determining whether risk management processes are effective is a judgement resulting from the Internal auditor's assessment that:

a) Institutional objectives support and align with institution's mission.
b) Significant risks are identified and assessed.
c) Risk responses are appropriate to limit risk to an acceptable level.
d) Relevant risk information is captured and communicated in a timely manner to enable the Accounting Officer, Management, the Risk Management Committee and other officials to carry out their responsibilities.

3.11 STAFF OF BCMM

All staff of BCMM have a responsibility to ensure that they take all reasonable steps within their respective areas of responsibility to ensure:

a) That the system of financial Management and internal control established for the Municipality is carried out diligently.
b) That the financial and other resources of the Municipality are utilized effectively, efficiently, economical and transparently.
c) That any unauthorized, irregular or fruitless and wasteful expenditure and any other losses are prevented.

d) Implement risk management processes in their day-to-day work.

e) Monitoring progress in managing job-related risks, reporting to the line Manager, Section Head or Head of Department.

3.12 EXTERNAL AUDIT

The External Auditor (Auditor General) provides an independent opinion on the effectiveness of risk management, usually focusing on:

a) Determining whether the risk management policy, strategy and implementation plan are in place and are appropriate.

b) Assessing the implementation of the risk management policy, strategy and implementation plan.

c) Reviewing the risk identification process to determine if it is sufficiently robust to facilitate the timely, correct and complete identification of significant risks, including new and emerging risks.

d) Determining whether management action plans to mitigate the risks are appropriate and are being effectively implemented.

4. EVALUATION OF RISK MANAGEMENT EFFECTIVENESS

EVALUATION OF VALUE ADD

I. The evaluation of risk management effectiveness is vital to maximize the value created through risk management practices.

II. The institution should strive to incrementally and sustainably achieve a mature risk management regime in order to realize enhanced performance through the risk management process.

- More sustainable and reliable delivery of service
- Informed decisions underpinned by appropriate rigor and analysis.
- Innovation
- Reduced waste
- Prevention of fraud and corruption
- Better value for money through efficient use of resources, and

- Better outputs and outcomes through improved project and Programme management.

III. Institutions is utilizing the Financial Management Maturity Capacity Model developed by National Treasury to evaluate their current and progressive risk management.

5. PERFOMANCE INDICATORS

Everyone in the institution has a part to play in achieving and sustaining a vibrant system of risk management and to the extent must function within a framework of responsibilities and performance indicators. The Accounting Officer should evaluate its own performance in leading the risk management process in the institution through the following and other relevant indicators:

I. The risk management maturity trend as measured in terms an appropriate index such as the financial capability maturity model.
II. The institution's performance against key indicators, including comparison of year-on-year performance.
III. The institution's avoided risk record when compared against the peer group or quasi-peer group.
IV. Percentage change in unauthorized expenditure based on year-on-year comparison.
V. Percentage change in incidents and quantum of fraud based on year -on-year comparison.
VI. Progress in securing improved audit outcomes in regularity and performance audits.

The Accounting Officer should evaluate the performance of the Audit Committee for risk management through the following and other relevant indicators.

I. The Auditor General 's report on the effectiveness of the Audit Committee.

II. The results of the Audit Committee's own assessment
III. The Committee's co-ordination of the work of Internal Audit, External Audit and other assurance providers in respect of risk management and
IV. The quality and timeliness of the Audit Committee's counsel and recommendations on matters concerning the system of risk management.

The Accounting Officer should evaluate the performance of the Risk Management Committee through the following and other relevant indicators:

I. the results of the Risk Management Committee's own assessment,
II. the pace and quality of the implementation of the risk Management framework
III. internal Audit report on the state of risk management
IV. the Auditor General's report on effectiveness of the Risk Management Committee and
V. the quality and timeliness of the risk management Committee's counsel and recommendations.

The Accounting officer his/ her representative should evaluate the performance of the chief Risk Officer through the following and other relevant indicators:

I. development and implementation of the risk management policy, strategy and implementation plan
II. the institution's collective awareness, skill and participation in risk management.
III. Risk management maturity
IV. Quality and timeless of support to risk management, other officials and the risk management committee,
V. Quality and timelines of risk intelligence, and
VI. year-on-year reduction in adverse incidents and realized losses.

VII. Elimination of unauthorized expenditure, fruitless and wasteful expenditure and irregular expenditure.

VIII. Reduction in fraud, and

IX. Progress in securing improved Internal Audit and Auditor General Outcomes in regularity and performance audits.

The Accounting Officer should evaluate the performance of Internal Auditing for risk management through the following and other relevant indicators.

I. Timeliness and quality of assurance on risk management.

II. Timeliness and quality of recommendations to improve risk management, and

III. Adoption of risk-based auditing

Management should evaluate the performance of their staff and risk Champions through the following and other relevant indicators:

I. For Risk Champions – resolution of delegated problems

II. For staff – implementation of risk management action plans

ANNEXURE B: ENTERPRISE-WIDE RISK MANAGEMENT STRATEGY

1. INTRODUCTION AND BACKGROUND TO RISK MANAGEMENT STRATEGY

The Risk Management strategy has been developed in line with the risk management framework. The Accounting Officer is responsible and accountable for directing and monitoring the institution risk management activities and related performance in a structured framework. The Risk Management Strategy is of necessity and is an evolving document. The contents of the strategy reflect the current risk management requirements of Buffalo City Metropolitan Municipality.

King Report on corporate governance and the Municipal Finance Management Act (MFMA) address a much wider spectrum of risks than in the past and corporate governance drivers behind risk management require new ways of reporting and monitoring risk exposure.

2. RISK MANAGEMENT POLICY

The risk management strategy seeks to realize the Risk management policy and it is therefore important that this strategy is read in conjunction with the policy.

3. PURPOSE OF THE RISK MANAGEMENT STRATEGY

The purpose of the risk management strategy is to:

I. Have a well-defined and integrated approach to risk management.
II. Define the roles and responsibilities of all key role players to ensure effective risk management within Buffalo City Metropolitan Municipality.
III. To provide clarity and direction to role players on what is expected from them in order to reach the risk strategic objectives.

4. STRATEGIC OBJECTIVE OF THE RISK MANAGEMENT UNIT

The risk management unit plays a crucial role in the effective implementation of the risk management policy, and it is for this reason that it is important that this unit outlines its strategic objective as follows:

'To embed risk management into organizational culture in order to assist Council, City Manager and Management to ensure that there is effective risk management thus increasing the chances of achieving objectives.'

5. BCMM' S ENTERPRISE RISK MANAGEMENT STRATEGY

BCMM subscribes to the principles of good governance and further is committed to delivering services in an effective and efficient manner through ensuring that risks are minimized, and opportunities are explored. Risk management forms part of management's core responsibilities and is an integral part of the internal processes of the municipality.

Risk Management is perceived as a systematic process to identify, evaluate and mitigate risks on a continuous basis before they could negatively impact on the organization. Risk management also affords management a platform to identify opportunities which they can explore to improve their operations and chances of achieving the desired outcomes. It is believed that when properly executed, risk management provides a reasonable but not absolute assurance that the Municipality will be successful in achieving its goals and objectives. In order to ensure that BCMM has an effective risk management, a strategy which consists of different phases have been developed, each phase is outlined below:

a. Phase One (Risk Awareness)

An assessment of the risk maturity level of BCMM had been taken through the tool developed by the National Treasury and the culture is not yet at the desired level. For risk management to be effective, it should be embedded into systems and the culture of the Municipality. Awareness about the importance of risk management should be continuously communicated amongst all role players to ensure a positive contribution of all risk management processes.

b. Phase Two (Review of the Risk Management Framework)

All documents that form part of the Risk Management Framework should be kept updated and in line with applicable legislation and guiding frameworks.

c. Phase Three (Identification of risks for the following financial year)

Risk Management unit has a responsibility to ensure that there are sessions arranged with the respective directorates to:

I. Decide which risks from the current financial year, must be transferred to the departmental risk register and identify any emerging risks there may which will be on the register for the next financial year.
II. Assist with identification of new risks that need to be mitigated during the following year.
III. Facilitate that directorates submit their risk registers to the risk management unit.

d. Phase Four (Risk Tolerance/Thresholds)

Through a process of rigorous analysis and expert judgement, establish the Municipality's risk tolerance level with regard to every risk.

e. Phase Five (Risk Rating)

Once all possible risks have been identified, the risks will be rated in terms of the risk rating tables. Based on ratings of risks, the Strategic and unacceptable risks registers will be compiled.

f. Phase Six (Develop mitigation action plan)

An important aspect of risk management is ensuring that risks are mitigated, it is therefore vital that risk owners develop mitigation plans. When developing the action plan, it is important to ensure:

I. Committed actions are '**SMART.'**
II. The actions plans can reduce or mitigate the risk exposure.
III. Risk treatment options are thoroughly explored.
IV. Availability of resources is considered.

g. Phase Seven (Reporting)

Quarterly progress reports must be submitted by Risk Owners to the Risk Management unit. These reports will be included in the agenda of the risk management committee, where after the risk management committee will submit them to the Audit Committee.

h. Phase Eight (Evaluation and Monitoring)

It is expected from risk owners, the risk management committee, the accounting officer, Section 79 committees and Council to monitor and evaluate progress regarding the mitigation of risks.

i. Phase Nine (Assurance)

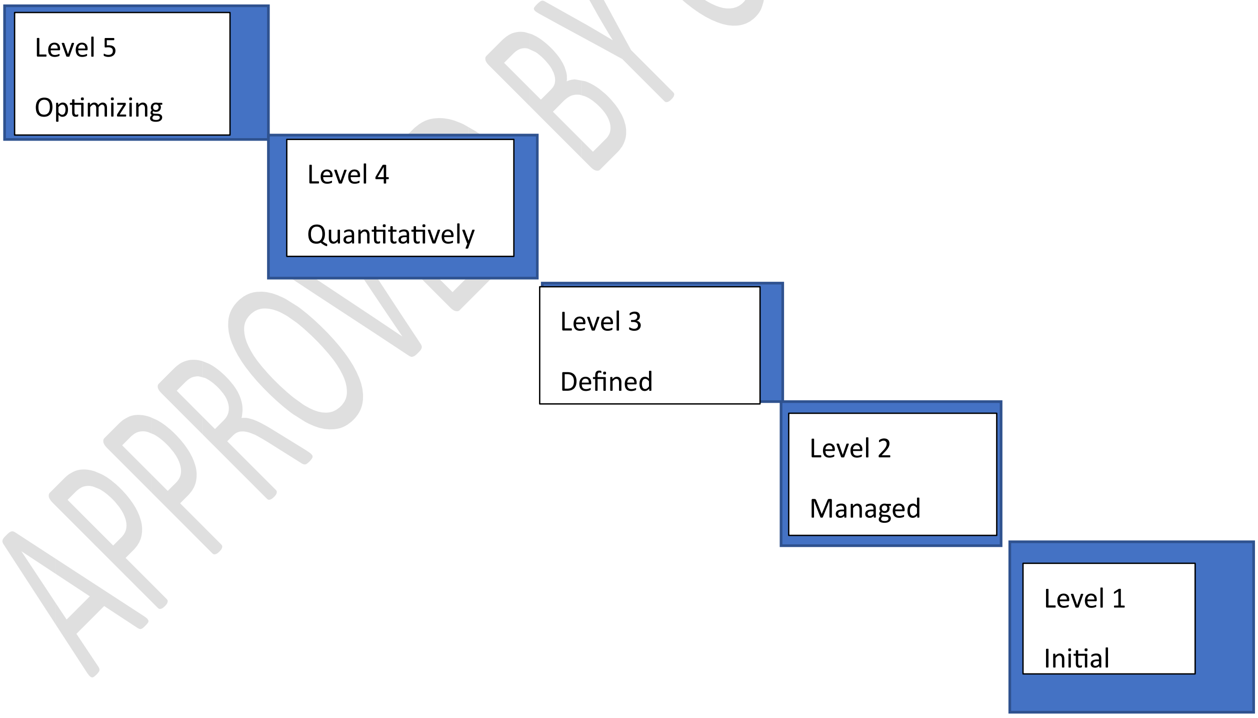
The Internal Audit unit has a responsibility to review the effectiveness of the risk management processes and to provide the necessary assurance to the City Manager, audit committee and consequently to Council.

j. Phase 10 (Benchmarking and continuous development)

It is important that BCMM is always keep abreast, the risk management unit has a responsibility to research and benchmark the City's ERM processes against best practices. Furthermore, the risk management unit should undertake continuous professional development to maintain an acceptable professional standard in execution of their work.

6. PLAN OF ACTION TO IMPROVE RISK MATURITY

The desired level is 5 i.e., institution – wide risk assessment had been completed and necessary institutional capacity and structures to support risk management are in place. Risk management processes, practices and systems satisfy all legislative requirements at stage but have limited influence on the internal controls. Characteristics of maturity levels are as follows:



Management will assess the maturity – level to enable the identification of strengths and weaknesses from which an organization can derive measures in order to fill the existing gaps and improve the corporate governance and risk management. All the eight interrelated framework components are analyzed, and these will form the basis for establishing the maturity – level evaluation criteria.

Level one is whereby the City is at the conception stage, introducing the risk management concept and setting all the building blocks to enable an effective risk management system. The second level depicts a level wherein the initial stage has been passed, risk management is heading to a stage where there is a level of awareness and appreciation however, at this level risk management culture has not properly matured yet. In the third level risk management is defined, risk management processes, practices and systems satisfy all legislative requirements but have limited influence on the internal control environment.

The fourth and fifth levels of maturity means or rather depicts a picture of a matured risk management culture, wherein risk management is integrated to planning, reporting, decision making and all processes of the city. At level five the impact of risk management on the achievement of organizational goals can be measured and quantified.

7. PREVENTION OF FRAUD AND CORRUPTION

The Accounting Officer is ultimately responsible for the institution of system and mechanisms for the prevention and detection of fraud. This discount is formalized in the Fraud/ Corruption policy statement.

The policy statement is a short summary setting out the policy on dealing with fraud. This statement sets an aggressive and firm attitude towards fraud and corruption.

As fraud is difficult to detect and there may be a tendency to t the possibility of it occurring, fraud mitigation requires active management participation. The effectiveness of fraud mitigation largely depends on the successful integration of an appropriate mix of prevention and detection measure.

Buffalo City Metropolitan Municipality concentrates its efforts on preventing fraud, rather than responding to fraud. To achieve this objective a fraud mitigation strategy [“FMS”] has been developed and a Fraud.

Hotline for Whistle Blowers has been established. The emphasis is on proactive preventative techniques.

8. COMMON LANGUAGE

Given that the enterprise risk management process will strive to integrate various participants and specialist from disparate risk professionals, it is vital that the process does not confuse all concerned by using disjointed terminology. Frequently used risk management terminology should be defined in such a way that it ensures different disciplines have a common interpretation of the terminology in question.

9. REVIEW OF THE STRATEGY

The Committee review the strategy as and when there are changes in the strategic objectives of the municipality and every three years from the date of last review to ensure that it remains relevant with the Institution's objectives, the Committees authority and responsibilities. All changes or amendments to the strategy will be discussed and approved by the Accounting Officer.

ANNEXURE C: THE ENTERPRISE RISK MANAGEMENT PROCESS & METHODOLOGY

1. RISK MANAGEMENT PROCESS

Risk management is an ongoing process at every level, and consists of eight interrelated components, as outlined below: Strategy formulation and Strategy implementation.

I. **Control environment:** the control environment encompasses the "tone at top of the municipality and sets the basis for how risk is viewed and addressed by the municipality, including risk management philosophy and risk tolerance/appetite, integrity and ethical values, and the environment in which the municipality operates.

II. **Objective setting:** objectives must exist before identification of potential events affecting their achievement. The risk management process is to ensure that management has a mechanism in place to both set objectives and align the objectives with the municipality's vision and mission and should be consistent with the municipality's risk tolerance and appetite.

III. **Event identification:** an event may be defined as an incident or occurrence, from sources internal or external to the municipality that may affect the achievement of an objective. Management should identify potential events affecting implementation of strategic goals and objectives including those that may have positive or negative impacts, or both. Management should also consider events with a relatively low possibility of occurrences if the impact on achieving an important objective is great.

IV. **Risk assessment**: Management must analyses risks in terms of their likelihood and impact, as a basis for determining how they should be managed. Risks are assessed on an inherent and residual basis.

V. **Risk Response**: Management selects the best viable and available risks are assessed on
an inherent and a residual basis.

- **Risk management strategy:** management selects the best viable and available risk responses from the ones listed below:

- **Risk acceptance**: action is taken to affect likelihood or impact because it is such a minimal risk, or the cost to implement the risk mitigation plan is too high relative to the cost of the risk likelihood, impact, or both;
- **Risk sharing:** sharing responses reduce risk likelihood or impact by transferring or otherwise sharing a portion of the risk
- **Risk transfer:** transferring the risk associated with the activity to another party i.e. outsourcing such function;
- **Risk avoidance:** avoidance responses take action to remove the activities that give rise to the risks i.e. cessation of such risky functions;
- **Monitoring** the likelihood or impact; and
- **Controlling** likelihood or impact

For each identified risk, an appropriate and viable risk management strategy option will be selected. Upon which action plans will be developed to affect the selected strategy option.

I. **Information and communication:** relevant information should be identified, captured, and communicated in a manner and time lines that enable people to carry out their responsibilities.

Communication within the Municipality about risk issue is important to ensure that:

- Every official understands what municipality risk management strategy is; the risk priorities and how their responsibilities fit into the framework.
- Transferable lessons are learned and communicated to those who can benefit from them.
- Each level of management receives regular assurance about the management of risk within their area of control.
- Communication to another government entities especially those responsible for direct delivery of set to remove any potential misunderstanding about risk priorities.
- Communication is important in relation to risks which affect the public and where the public depend on government to respond to those risks.

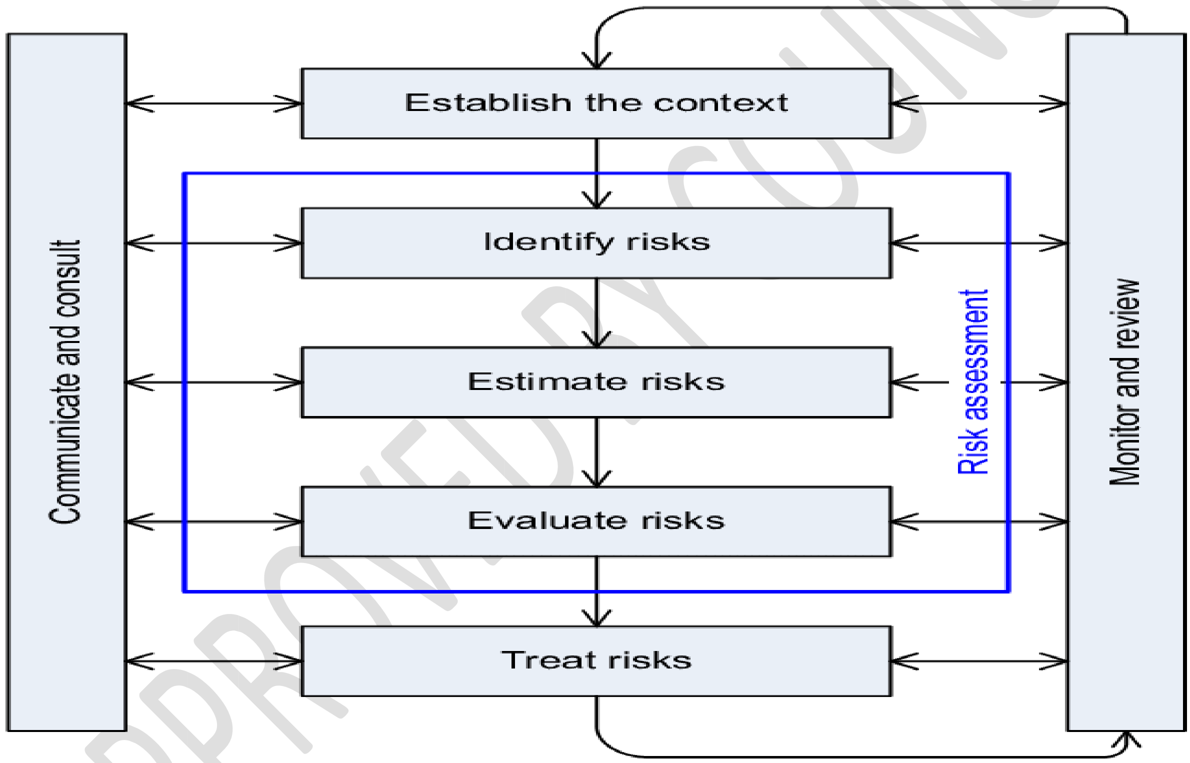
II. **Control activities:** are the policies, process and procedures designed and implemented to help ensure that risk management strategies are properly implemented. They usually involve two elements: a policy establishing what should be done and procedures to effective the policy (implementation plan)

III. **Monitoring:** risk management initiatives need monitoring through ongoing activities,

separate evaluations, or both.

2. RISK ASSESSMENT METHODOLOGY

Risk assessment is the overall process of risk identification, risk analysis and risk evaluation. Risk Assessment is a systematic process to qualify the level of risk associated with a specific threat or event, to enrich the risk intelligence available to the institution. Once every year, the Institution will undertake a thorough re-assessment of its risks at all levels using the following methodology:



There are many different processes and methodologies in use by which risks can be identified i.e. risk workshops, interviews, questionnaires and surveys, research, control and risk assessments. Risk assessment should be performed through a three-stage process:

I. Firstly, the inherent risk should be assessed to establish the level of exposure in the absence of deliberate management actions to influence the risk.

II. Secondly, a residual risk assessment should follow a process described in 16(4)(a) of ISO 31000 ("risk should be expressed in the same unit of measure used for the key performance indicators concerned")

III. Thirdly, the residual risk should be benchmarked against the institution's inherent risk appetite to determine the need for further management intervention, if any.

At a minimum a risk assessment should result in:

- Identification of relevant risk towards the achievement of objectives, and;
- The prioritization of risks, which often necessitates estimating the timing magnitude and probability of risk occurrence.

RISK ASSESSMENT APPROACH

2.1 IDENTIFYING POTENTIAL AND/OR ROOT CAUSE OF RISK ASSOCIATED WITH THE MUNICIPALITY'S PROFILE

Having established the municipality's risk profile, the risk assessment process must then identify the potential causes of risk associated with each element of it. The Municipality will follow a top-down approach. Risk is apparent in potential sudden and unforeseen events, in variances, volatility and failure.

Risk will be apparent in non-linear change, weakness and non-performance. Risk will also be reflected in dimensions of non-conformance. Source of risk will be classified into external and internal factors. The risk assessment process must select a time period within which will be risks will be considered. The process must have a future orientation as well as examining the facts of today's operational profile.

2.2 ASSESS THE IMPACT OF RISK ACROSS THE MUNICIPALITY

Risks do not normally exist in isolation. They usually have a potential knock -on effect on other functions, processes and risk categories. These cause and effect relationships must be identified and understood. This principle must become a deliberate and formal part of the risk assessment process and the result of the process must be documented, the aggregated effect of these risk groupings and linkages should be profiled. Many cross functional effects of risk may not be immediately apparent without deliberate and systematic analysis, so formal approach is required.

2.3 CALCULATE THE PROBABILITY (LIKELIHOOD) OF RISK EVENTS

This is the probability that the identified risk/threat will occur within a specified period (between 1 and 3 years) on the basis that management have no specific/focused controls in place to address the risk/threat. The probability of occurrence must be assessed for every risk identified. Different methods of calculating probability can be considered dependent upon the nature of the risk, but the tables below should be in the risk assessment protocol.

A realistic evaluation of risk probability is essential, because it guides the allocation of resources in the Municipality. When deciding upon a probability factor from the table, the following guidelines should be considered:

i) Consider how many similar incidents have occurred in the Municipality.

ii) Consider and research, if necessary, how many similar incidents have occurred at other municipalities; and

iii) Consider the effectiveness of the existing preventative controls for the risk.

2.4 CALCULATE THE POTENTIAL IMPACT OF THE IDENTIFIED RISK SCENARIOS

This is the potential magnitude of the impact on the Municipality's operations should the risk/threat occur. This is assessed on the basis that management has no specific/focused controls in place to address the risk/threat.

The consequences of risk are not only characterized in financial terms, management must consider the various scales of impact that are relevant according to the prevalent categories of risk. These may include the scales for reputation damage, personal injuries and fatalities, media coverage and operational impact.

2.5 RANKS THE RISKS IN ORDER OF PRIORITY (INHERENT RISK)

Inherent risk is the risk to the municipality in the absence of any actions management might take to alter either the risk's likelihood or impact. Inherent risk is the product of the impact of a risk probability of that risk occurring before the implementation of any direct controls. The score for inherent risk assists management and internal audit to establish relativity between all the risks/threats identified.

The ranking of risk in terms of inherent risk provided management with some perspective of priorities. This should assist in the allocation of capital and resources in the operations. Although the scale of qualification will produce an automated ranking of risks, management may choose to raise the profile of certain risks for other reasons.

This may be justified because of non-financial influence such as media implications, social responsibilities or regulatory pressure. The ranking of risk should be shaped by strategic and operational objectives.

2.6 IDENTIFY THE KEY CONTROLS CURRENTLY IMPLEMENTED FOR THE IDENTIFIED RISK

Every risk will have several existing controls, mitigations or interventions that have been designed to contain the potential impact or likelihood of the risk. The existing controls implemented for the identified risks must be documented. Controls may be Managerial in nature such as compliance procedures, policies and levels of Authority. Controls could also be legal such as contracts and indemnities and all these controls need to be identified and evaluated as they will form basis of an assurance plan to the Council and Accounting Officer and may be tested by the internal audit process or other independent means of evaluation.

It is vital that all the existing controls for identified risks are in turn identified and evaluated. Such controls may take the form of policies, procedures, management activities and instructions. The controls must be evaluated in two essential ways.

Firstly, an evaluation of the appropriateness and adequacy of the existing controls for the risk must be undertaken. Secondly, the performance of the existing controls must be evaluated. Management must analyses risk in terms of likelihood and impact, as a basis for determining how they should be managed. Risks are expressed inherent and a residual risk appetite respectively. The municipality would use ratings of 1 to 5 for the assessment of both impact and likelihood as outlined below:

IMPACT

Rate	Impact	Consequence	Enhanced Rating Scales
5	Critical (Catastrophic impact)	Negative outcomes or missed opportunities that are of critical importance to the achievement of the objectives.	**Extremely High Significance** Strategic objectives cannot be achieved, resulting in significant financial impact and questions about future viability.
4	Major (Very material impact)	Negative outcomes or missed opportunities that are likely to have a relatively substantial impact on the ability to meet objectives.	**Highly Significant** Difficult to achieve strategic objectives and /or material financial impact.
3	Moderate impact	Negative outcomes or missed or missed opportunities that are likely to have a relatively moderate impact on the ability to meet objectives.	**Moderately Significant** Noticeable challenges to a strategic objective.
2	Minor impact	Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives.	**Slightly Significant** Small material impact.
1	Insignificant	Negative outcomes or missed opportunities that are likely to have a negligible impact on the ability to meet objectives.	**Not Significant** No discernible impact. Neither a strategic nor financial impact.

LIKELIHOOD

			Enhanced Rating Scale
Rate	**Likelihood**	**Occurrence**	
5	Maximum	the risk is already occurring or is likely to occur at least once within the next 12 months.	Highly likely already occurring or almost certainly will occur in specified time period (>90%)
4	High	The risk could easily occur and is likely to occur at least once within the next 12 months.	Likely More likely than to occur in the specified time period (>50%).
3	Medium	There is an above average chance that the risk will occur at least once in the next three years.	Possibly may occur during the specified time period (<50%)
2	Low	The risk occurs infrequently and is unlikely to occur within the next three years.	Unlikely Not likely to occur in the specified time period (<25%)
1	Minimum	The risk is conceivable but is only likely to occur in extreme circumstances	Very unlikely and Virtually no chance it will ever happen. (<5%)

2.7 <u>CONSIDER PERCIVED CONTROL EFFECTIVENESS</u>

Controls are the activities/policies/procedures that Council, Accounting Officer and Management have put in place, and rely upon to manage the strategic and significant risks. These controls may reduce the likelihood of occurrence of a potential risk, the impact of such risk, or both. Management needs to consider how control activities are related to one another and assess/ determine the desired level of control effectiveness based on their understanding of the control environment currently in place at the Municipality. The gap between existing control effectiveness and desired effectiveness must result in an action plan. Below is the control effectiveness rating table:

Control Effectives	Rating 1-5	Calculation of a control effectiveness Rating	Result used to calculate residual value
Non-existent (no controls in place)	5	5/5 (Rate for this effectiveness/maximum rate)	1
Weak	4	4/5	0.8
Satisfactory	3	3/5	0.6
Good	2	2/5	0.4
Very Good	1	1/5	0.2

2.8 CALCULATE RESIDUAL RISK STATUS

Residual risk reflects the risk remaining after management's intended actions to mitigate an inherent risk have been effectively implemented. Risks are now ranked, taking into consideration the inherent risk rating and control effectiveness rating. The ranking of risks in terms of potential effect provides management with some perspective of priorities and should assist in the allocation of capital and resources.

2.8.1 INTEPRETATION OF RISK EXPOSURE LEVELS

Exposure Rating	Rating	Assessment	Action Required
Extreme	18-25	Unacceptable	Requires immediate attention from management on implementation of corrective measures
High	12-16	Unacceptable	Implementation of improvement opportunities and validation of current controls.
Medium	6-10	Accepted with caution	Evaluation and improvement of current controls.
Low	1-5	Acceptable	Validation and optimization of controls

2.9 DOCUMENT ACTION PLANS FOR RISK MITIGATION

The action plans for improving risk mitigation measures must be documented in the risk register. This process is important for tracking progress made with risk interventions is followed as it provides a trail of information that may prove to be necessary at some future stage. The action plans must be unambiguous and provide target dates and names of responsible persons and a process of follow through must be used.

3. USE THE OUTPUTS OF RISK ASSESSMENT FOR BUDGETING AND CAPITAL ALLOCATION PROCESS

It is important that risk information is aligned with the budget. The variability of budgeted targets must be considered, and one must assume that the risk associated with key Municipal objectives in the budget have been evaluated as part of the risk assessment process. Considerations around budgeting should also be put in the context of cost-of-risk evaluations.

4. REPORT REQUIREMENTS

INTERNAL REPORTING PROCESS FOR RISK INFORMATION

A tiered structure of risk reporting should be followed and should include.

Amongst others:

I. Each directorate is required to submit and present the departmental risk register and relevant strategic risks to the Risk Management Committee on a quarterly basis.

II.

III. The Risk Management Committee is required to submit the top strategic risks to the Top Management monthly and to Audit Committee on a quarterly basis. These strategic risks should include residual risk status and actions to be taken to further mitigate the risk consequences, and

IV. The Chief Risk Officer will assist in the execution of the risk reporting process.

5. MEASURING AND MONITORING

The risk register should not be a static record of the significant risks faced by the organization. It should be viewed as a risk action plan that includes details of the current controls and details of any further actions that are planned.

These further actions should be written s auditable actions that must be completed within a defined timescale by identified individuals. This will enable the internal audit function to monitor the existing controls and monitor the implementation of any necessary additional controls. These resources required to implement the risk management policy/ framework should be clearly established at each level of management and within each Department.

Risk management should be embedded within the strategic planning and budget process.

Additional monitoring and measuring include evaluation of the risk aware culture and the risk management framework, and assessment of the extent to which risk management tasks are aligned with other corporate activities.

ANNEXURE D: RISK MANAGEMENT COMMITTEE CHARTER

1. INTRODUCTION

The Risk Management Committee has been established by the Buffalo City Metropolitan Municipality to assist the Accounting Officer to fulfil his/her risk management and control responsibilities in accordance with prescribed legislation and corporate governance principles.

2. OBJECTIVES

The primary objective of the Committee is to assist the Accounting Officer in discharging his / her accountability for risk management by reviewing the effectiveness of the institution's risk management systems, practices, and procedures, and providing recommendations for improvement.

3. COMPOSITION

Permanent members of the Committee shall be formally appointed by the Accounting Officer, this may include appointment of external members. The members, as a collective, shall possess the blend of skills, expertise and knowledge of the Institution, 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 Institution. The risk management committee shall be composed as follows:

a) An external chairperson

b) Two or more external risk committee management members, who not employees of the City nor its agency (s).
c) Top Management/ Head of Directorates

Standing invitees to the Committee shall be:

- Chief Audit Executive,
- Head Legal Services and Municipal courts
- Head Enterprise project management office (EPMO)
- Operations Manager
- Head ICT
- Compliance Officer
- Any other person who may be co-opted to provide specialist skills, advice and counsel.

4. AUTHORITY

The Accounting officer shall appoint the Chairperson from the permanent membership of the Committee. The Committee shall have the requisite authority to request management to appear before it to account for their delegated responsibilities in respect of risk management.

5. ROLES AND RESPONSIBILITIES

The duties of the Committee shall be to:

- Review the risk management policy and strategy and recommend for approval by the Accounting Officer.
- Review the risk appetite and tolerance and recommended for approval by the Accounting

  Officer;

- Review the Institution’s risk identification and assessment methodologies to obtain reasonable assurance of completeness and accuracy of the risk register;
- Evaluate the effectiveness of mitigating strategies to address the material risks of the

  Institution;
- Report to the Accounting Officer any material changes to the risk profile of the institution;
- Review the fraud prevention policy and recommend for approval be the Accounting Officer;
- 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 performances indicators to measure the effectiveness 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 institution 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

6. MEETINGS

- The Committee shall meet at least four times per annum in line with the approved institutional calendar.
- The Chairperson of the Committee or most of the permanent members of the Committee may convene additional meetings as circumstances may dictate.
- The secretariat shall circulate agenda and meeting pack to the members of the committee and invitees not later than seven (7) working days prior to the date of the meeting.
- All risk management committee meetings shall convene prior seating of the audit committee to allow space for reporting to the Audit committee.

Conflict of interest

Subject to the provisions of any Act, regulation or prescript, where a member of the Committee has an interest in a matter being considered, this interest shall be declared at the beginning of the proceedings of the meeting and the member must recuse him/ herself from the decision-making process.

7. REMUNERATION OF THE RISK COMMITTEE MEMBERS

- The external risk committee chairperson and members shall be remunerated for ordinary meetings at a fixed rate per seating as per the approved tariffs of Council for audit and risk management committee.
- Special meetings shall be remunerated according to time spent at the meeting in accordance with the approved Council tariffs for audit and risk management committee.
- External members who are in the employ of the state shall not be remunerated as per National Treasury guidelines but shall only be reimbursed for travelling costs in case of physical as per BCMM's substance and travel policy.

8. ADMINISTRATIVE DUTIES

The Chief Risk Officer, or such person as appointed by the Committee, shall be the secretary of the Committee. The secretary shall forward the notice of each meeting of the committee to all members no later than ten working days prior to the date of the meeting. The notice confirm the venue, time, date and agenda and include the documents for discussion.

The minutes of the meetings shall be completed by the secretary and sent to all relevant officials for comment within seven working days after the meeting. The minutes shall be approved at the immediately following meeting, whereupon the approved minutes will be circulated to all attendees within three working days.

9. QUORUM

50% plus one constitutes a quorum. A permanent member of the Committee may nominate a proxy on his / her behalf. This proviso shall lapse in the event that the permanent member fails to attend 50% or more of the Committee meetings held in that particular financial year in person.

10. PERFOMANCE EVALUATION

The Committee will annually undertake self-assessment on its performance. The Chairperson will provide each member with feedback on that member's contribution to the Committee's activities at least once during a member's term of office. The assessment will include training needs for each Committee member.

The Accounting Offer should evaluate the performance of the Risk Management Committee through the following and other relevant indicators:

a) The results of the Risk Management Committee's own assessment;
b) The pace and quality of the implementation of the risk management policy and strategy;
c) The Internal Audit report on the state of risk management;

d) The Auditor-General's report on the effectiveness of the Risk Management Committee; and
e) The quality and timeliness of the Risk Management Committee's counsel and recommendations.

10. TERM OF OFFICE

The term of risk management committee shall be effective from the date of appointment and shall be valid for three years. A Committee member should give two (2) months' notice prior to resignation. The date of resignation should be minuted by the secretariat of the risk management committee.

11. REVIEW OF THE CHARTER

The Committee will annually review its Charter to ensure that it remains relevant with the Committee's authority, objectives, and responsibilities. All changes or amendments to the charter will be discussed and approved by the Accounting Officer.

12. APPROVAL OF THE RISK MANAGEMENT COMMITTEE CHARTER

The risk Management committee charter shall be endorsed by the risk management committee and approved by the Accounting Officer.