



KAAP AGULHAS MUNISIPALITEIT  
CAPE AGULHAS MUNICIPALITY  
U MASIPALA WASECAPE AGULHAS

# **CAPE AGULHAS MUNICIPALITY RISK MANAGEMENT STRATEGY**

**2021/2022**

**CONTENTS**

GLOSSARY OF TERMS ..... 3

1. INTRODUCTION ..... 5

1.2. LEGISLATIVE MANDATE ..... 5

2 BACKGROUND ..... 5

2.1 WHAT IS RISK? ..... 5

2.2 ENTERPRISE-WIDE RISK MANAGEMENT ..... 5

2.3 MISSION OF RISK MANAGEMENT ..... 6

2.4 OBJECTIVES OF RISK MANAGEMENT ..... 6

3 ACCOUNTABILITY, ROLES AND RESPONSIBILITY OF THE OPERATING RISK MANAGEMENT STRUCTURES ..... 6

3.1 MUNICIPAL COUNCIL ..... 7

3.1.1 LEGAL MANDATE AND FRAMEWORKS ..... 7

3.1.2 ROLE AND RESPONSIBILITIES ..... 7

3.2 MUNICIPAL MANAGER ..... 7

3.2.1 LEGAL MANDATE AND FRAMEWORKS ..... 7

3.2.3 ROLE AND RESPONSIBILITIES ..... 8

3.3 OVERBERG RISK MANAGEMENT SHARED SERVICES CENTRE (SSC) ..... 9

3.3.1 LEGAL MANDATE ..... 9

3.3.2 ROLE AND RESPONSIBILITIES ..... 9

3.4 CHIEF RISK OFFICER (CRO) ..... 10

3.4.1 LEGAL MANDATE AND FRAMEWORKS ..... 10

3.4.2 ROLE AND RESPONSIBILITIES ..... 10

3.5 FRAUD AND RISK MANAGEMENT COMMITTEE ..... 11

3.5.1 LEGAL MANDATE AND FRAMEWORKS ..... 11

3.5.2 ROLE AND RESPONSIBILITIES ..... 11

3.6 AUDIT & PERFORMANCE AUDIT COMMITTEE ..... 12

3.6.1 LEGAL MANDATE AND FRAMEWORKS ..... 12

3.6.2 ROLE AND RESPONSIBILITIES ..... 12

3.7 MANAGEMENT ..... 13

3.7.1 LEGAL MANDATE AND FRAMEWORKS ..... 13

3.7.2 ROLE AND RESPONSIBILITIES ..... 13

3.8 INTERNAL AUDIT ..... 14

3.8.1 LEGAL MANDATE AND FRAMEWORKS ..... 14

3.8.2 ROLE AND RESPONSIBILITIES ..... 14

4 IMPROVEMENT OF RISK MATURITY ..... 15

5 REPORTING ..... 15

6 REVIEW AND REVIEW HISTORY ..... 15

**CAPE AGULHAS MUNICIPALITY RISK MANAGEMENT STRATEGY 2021/22**

**GLOSSARY OF TERMS**

<b>Terminology</b>	<b>Definition</b>
Chief Risk Officer	A senior official who is the head of the risk management unit.
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.
Internal Audit	An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
King I, II, III, IV	The King Code of Corporate Governance of South Africa 2009
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 appetite	The amount of residual risk that the Institution is willing to accept.
Risk assessment	The overall process of identifying, analysing and evaluating risks.
Risk champion	A person who by virtue of his/her expertise or authority champions a particular aspect of the risk management process, but who is not the risk owner.
Risk management	A systematic and formalised process to identify, assess, manage and monitor risks.
Fraud and Risk Management Committee	A committee appointed by the Accounting Officer / Authority to review the Institution's system of risk management.
Risk management unit	A business unit responsible for coordinating and supporting the overall Institutional risk management process, but which does not assume the responsibilities for management for identifying, assessing and managing risks.
Risk owner	The individual who is ultimately accountable for ensuring the <b>risk</b> is managed appropriately. (Director)

**CAPE AGULHAS MUNICIPALITY RISK MANAGEMENT STRATEGY 2021/22**

Risk policy	Serves as a foundation for the Municipality's ERM activities, as it encapsulates the municipality's philosophy and approach to risk management.
Risk ratings	The analysis of risks identified in terms of impact and likelihood to obtain an inherent risk rating. The final rating assessment relates to control confidence and offset against the inherent risk assessment leaves the residual risk assessment exposure rating.
Risk strategy	The approach adopted for associating and managing risks based on the municipality's objectives, strategies and programmes.
Risk tolerance	The amount of risk the Institution is capable of bearing (as opposed to the amount of risk it is willing to bear).

## **1. INTRODUCTION**

Cape Agulhas Municipality has undertaken to embed a culture of Enterprise Risk Management (ERM) within the municipality and to identify, assess, manage, monitor and report risks to ensure the achievement of objectives as identified in the Integrated Development Plan (IDP).

The ultimate aim of the Municipality's risk management is to create value for customers and the Cape Agulhas community in a sustainable manner. To this end, risk management will also be used to improve the efficiency of Cape Agulhas Municipality's support functions.

### **1.2. LEGISLATIVE MANDATE**

Section 62(1)(c)(i) and 95(c)(i) of the Municipal Finance Management Act, No 56 of 2003, 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."

The authority and purpose for risk management is established in the MFMA and the Public Sector Risk Management Framework released by the National Treasury in 2010.

Good governance practices such as the King Code of Governance for South Africa, 2009 is also applicable – Governance Element 4: The governance of risk is the primary focus with the other governance elements actively contributing to an integrated risk management approach.

## **2 BACKGROUND**

### **2.1 WHAT IS RISK?**

According to the National Treasury, risk is an:

*"...unwanted outcome, actual or potential, to the Institution's service delivery and other performance objectives, caused by the presence of risk factor(s)."*

Risk manifest as negative impacts on goals and objectives or as missed opportunities to enhance performance. Stakeholders expect the municipality to anticipate and manage risks in order to eliminate waste, inefficiencies, reduce unplanned events/crises and to continuously improve capacity for delivering on their mandates/commitments as depicted in the IDP. Risk management also has the responsibility to drive the Business continuity and Combined assurance initiatives.

### **2.2 ENTERPRISE-WIDE RISK MANAGEMENT**

The municipality's risk management framework is based on the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Framework along with the guidelines set out in the National Treasury's Public Sector Risk Management Framework.

## **CAPE AGULHAS MUNICIPALITY RISK MANAGEMENT STRATEGY 2021/22**

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

Enterprise-wide Risk Management (ERM) is the application of risk management throughout the municipality rather than only in selected business areas or disciplines. ERM recognises that risk (including opportunities) is dynamic, often highly interdependent and ought not to be considered and managed in isolation. ERM responds to this challenge by providing a methodology for managing municipal wide risks in a comprehensive and integrated way.

### **2.3 MISSION OF RISK MANAGEMENT**

- To ensure that the strategic objectives are achieved and without compromising our stakeholders' trust and quality of our service, an effective approach to management of risks must be taken to minimise losses and maximise opportunities.
- To identify and prioritise potential risk events and use established risk management methods, tools and techniques to assist the Municipality.
- To inform and assist the executive and personnel on their roles and responsibilities to guarantee that the risks relating to their particular area of control are managed to ensure that the best outcome is achieved.

### **2.4 OBJECTIVES OF RISK MANAGEMENT**

The objectives of risk management are to assist management in making more informed decisions which includes:

- Aligning the risk-taking behaviour with the risk appetite to better achieve the goals and related objectives
- Providing a level of assurance that significant risks are effectively being managed
- Improving operational performance by assisting and improving decision making and planning
- Promoting a risk awareness ethic in all departments/directorates and improve risk transparency to stakeholders
- Promoting a more innovate, less risk averse culture in which the taking of calculated risks in pursuit of opportunities, to benefit the municipality, is encouraged.
- Providing a sound basis for risk management and internal control as components of good corporate governance

## **3 ACCOUNTABILITY, ROLES AND RESPONSIBILITY OF THE OPERATING RISK MANAGEMENT STRUCTURES**

Legislating the implementation of risk management in public sector institutions is part of a macro strategy of National Government towards ensuring the achievement of national goals and objectives.

Cape Agulhas Municipality has opted to implement a risk management unit jointly with other municipalities as it is not cost effective to establish a sole risk management unit. The joint risk management unit took the form of a shared services centre (SSC). The SSC acts as Cape Agulhas Municipality's risk management unit.

### **3.1 MUNICIPAL COUNCIL**

#### **3.1.1 LEGAL MANDATE AND FRAMEWORKS**

The following legislative instruments provide the legal foundation for the Municipal Council's responsibility for risk management:

- Section 44 (2) of the Municipal Structures Act (No. 117 of 1998)
- Section 52 (b), (e) and 58 of the Municipal Finance Management Act (No. 56 of 2003)

The following frameworks provide the recommended practice guidelines for the Municipal Council regarding risk management:

- Chapter 10 of the Public Sector Risk Management Framework

#### **3.1.2 ROLE AND RESPONSIBILITIES**

As risk management is an important tool to support the achievement of this goal, it is important that the Municipal Council provides leadership to governance and risk management. To derive optimal benefits, risk management ought to be conducted in a systematic manner, using proven methodologies, tools and techniques, while taking into account the unique circumstances of the Municipality.

**High level responsibilities of the Municipal Council in risk management include:**

- Providing oversight and direction to the Municipal Manager on the risk management related strategy and policies;
- Having knowledge of the extent to which the Municipal Manager and management has established effective risk management in their respective departments;
- Awareness of and concurring with the Municipality's risk appetite and tolerance levels;
- Reviewing the Municipality's portfolio view of risks and consider it against the Municipality's risk tolerance and risk appetite;
- Influencing how strategy and objectives are established, institutional activities are structured, and risks are identified, assessed and acted upon;
- Requiring that management should have an established set of values by which every employee should abide by; and
- Insist on the achievement of objectives, effective performance management and value for money.
- Approve all risk related documents: Risk Management Strategy, Policy, FARMCO Charter, Implementation Plan, Business Continuity, Anti-Corruption and Fraud, Code of Ethics and Combined Assurance.
- Awareness of Combined Assurance activities on the Municipality's highest residual risk exposures and above the appetite risks.

### **3.2 MUNICIPAL MANAGER**

#### **3.2.1 LEGAL MANDATE AND FRAMEWORKS**

## **CAPE AGULHAS MUNICIPALITY RISK MANAGEMENT STRATEGY 2021/22**

The following legislative instruments provide the legal foundation for the Municipal Manager's responsibility for risk management:

- Section 62 (1)(c)(i) of the Municipal Finance Management Act (No 56 of 2003)

The following frameworks provide the recommended practice guidelines for the Municipal Manager regarding risk management:

- Chapter 11 of the Public Sector Risk Management Framework
- Principle 4 of the King III Code of Governance Principles

### **3.2.3 ROLE AND RESPONSIBILITIES**

To derive optimal benefits, risk management is conducted in a systematic manner, using proven methodologies, tools and techniques, while taking into account the unique circumstances of the Municipality. The Municipal Manager ensures that the responsibility for risk management vests at all levels of management and that it is not only limited to the Municipal Manager. The Municipal Manager also ensures that a risk assessment is conducted regularly to identify emerging risks.

#### **High level responsibilities of the Municipal Manger include:**

- Set the tone at the top by supporting ERM and allocating resources towards the implementation thereof;
- Establishing the necessary structures and reporting lines within the Municipality to support ERM;
- Influencing an institutional "risk aware" culture;
- Approving the code of conduct for the Municipality and holding management and officials accountable for adherence;
- Place the key risks at the forefront of the management agenda and devote personal attention to overseeing their effective management;
- Hold management accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities;
- Holding the structures responsible for risk management activities accountable for adequate performance;
- Ensuring that a conducive control environment exists to ensure that identified risks are proactively managed;
- Leverage the Audit & Performance Audit Committee, Internal Audit, Fraud and Risk Management Committee and other appropriate structures for assurance on the effectiveness of risk management;
- Provide all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored;
- Consider and act on recommendations from the Audit & Performance Audit Committee, Internal Audit, Fraud and Risk Management Committee and other appropriate structures for improving the overall state of risk management;
- Provide appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management.



### **3.3 OVERBERG RISK MANAGEMENT SHARED SERVICES CENTRE (SSC)**

#### **3.3.1 LEGAL MANDATE**

The following legislative instruments provide the legal foundation for the SSC's responsibility for risk management:

- Service Level Agreement

#### **3.3.2 ROLE AND RESPONSIBILITIES**

The primary role of the SSC is to provide standardised, competitive range of risk management support services to its customer municipalities, including Cape Agulhas Municipality.

##### **High level responsibilities of the SSC include:**

- Review of risk management policies / frameworks for completeness and compliance;
- Drive the Business continuity, Anti-Corruption and Fraud Prevention, Code of Ethics and Combined assurance initiatives
- Investigate risk management best practices and develop risk management procedures accordingly;
- Develop criteria to evaluate impact and likelihood and ensure the Risk Management Policy of the Municipality is updated accordingly;
- Formulation of standards to be used in risk management;
- Implementation of a computerised risk management system;
- Support the Municipality with the establishment of internal structures to determine risk management responsibilities;
- Integration of risk management processes and key risks with the IDP and budget process;
- Provide assurance on the risk management processes that all critical risks and its impact have been identified and correctly evaluated;
- Prepare a consolidated risk register of the municipalities in the SSC to benchmark risks and identify best practices;
- Monitor critical risks and its impact;
- Organise training for municipal officials;
- Continuous risk assessments and reporting;
- Substance verification;
- Monitoring of risk management processes and reporting;
- Maintenance of risk registers;
- Facilitate meetings and procedures of the Fraud and Risk Management Committee;
- Advise the Municipality on risk management;
- Provide support to Internal Audit;
- Maintain a loss control system and procedures.

### **3.4 CHIEF RISK OFFICER (CRO)**

#### **3.4.1 LEGAL MANDATE AND FRAMEWORKS**

The following legislative instruments provide the legal foundation for the CRO:

- Employment Contract
- Performance Agreement

The following frameworks provide the recommended practice guidelines for the CRO regarding risk management:

- Chapter 14 of the Public Sector Risk Management Framework
- Principle 4.4 of the King III Code of Governance Principles

#### **3.4.2 ROLE AND RESPONSIBILITIES**

The primary responsibility of the CRO is to bring to bear his / her specialist expertise to assist the Municipality to embed and leverage the benefits of risk management to achieve its stated objectives. To derive optimal benefits, risk management ought to be conducted in a systematic manner, using proven methodologies, tools and techniques, while taking into account the unique circumstances of the Municipality. Focusing on enterprise-wide risk management programmes, the CRO is tasked with the overall efficiency of the ERM function. This is inclusive of the embedding of risk management practices and fostering a risk aware culture within the Municipality.

##### **High level responsibilities of the CRO include:**

- Communicating the risk management policy, risk management strategy and risk management implementation plan to all stakeholders in the Municipality;
- Continuously driving the risk management process towards best practice;
- Developing a common risk assessment methodology that is aligned with the Municipality's objectives at strategic, tactical and operational levels for approval by the Municipal Manager;
- Coordinating risk assessments within the municipality / directorate / department / section on a regular basis;
- Sensitising management timeously of the need to perform risk assessments for all major changes, capital expenditure, projects, institutional restructuring and similar events, and assist to ensure that the attendant processes, particularly reporting, are completed efficiently and timeously;
- Assisting management in developing and implementing risk responses for each identified material risk;
- Participating in the development of the combined assurance plan for the Municipality, together with internal audit and management;
- Ensuring effective information systems exist to facilitate overall risk management improvement within the Municipality;
- Continuously transferring risk management principles and practices, through training interventions, to all stakeholders within the Municipality;
- Advise on the financing of risk action plans;

## **CAPE AGULHAS MUNICIPALITY RISK MANAGEMENT STRATEGY 2021/22**

- Collating and consolidating the results of the various assessments within the Municipality;
- Analysing the results of the assessment process to identify trends, within the risk and control profile, and assess the adequacy of the control interventions.
- Compiling the necessary reports to the Fraud and Risk Management Committee;
- Providing input into the development and subsequent review of the fraud prevention strategy, business continuity plans, occupational health and safety, environmental policies and practices and disaster management plans.

### **3.5 FRAUD AND RISK MANAGEMENT COMMITTEE**

#### **3.5.1 LEGAL MANDATE AND FRAMEWORKS**

The following legislative instruments provide the legal foundation for the Fraud and Risk Management Committee:

- Section 79 of the Municipal Structures Act (No 117 of 1998)
- FARMCO Charter

The following frameworks provide the recommended practice guidelines for the Fraud and Risk Management Committee regarding risk management:

- Chapter 13 of the Public Sector Risk Management Framework
- Principle 4.3 of the King III Code of Governance Principles

#### **3.5.2 ROLE AND RESPONSIBILITIES**

The Fraud and Risk Management Committee is responsible for assisting the Municipal Manager in addressing its oversight requirements of risk management and evaluating and monitoring the Municipality's performance with regards to risk management. The role of the Fraud and Risk Management Committee is to formulate, promote and review the Municipality's ERM objectives, strategy and policy and monitor the process at strategic, management and operational levels.

#### **High level responsibilities of the Fraud and Risk Management Committee include:**

- Review the risk management strategy, risk management policy and risk management implementation plan, and recommend for approval by Council;
- Review the risk appetite and risk tolerance and recommend for approval by Council;
- Review the progress made with the implementation of the risk management strategy of the Municipality;
- Review the Municipality's risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register, to ensure that all possible categories of risks, both internal and external, have been identified during the risk assessment process, including an awareness of emerging risks;
- Evaluate the effectiveness of mitigating strategies to address the material risks of the Municipality;
- Report to Council any material changes to the risk profile of the Municipality;
- Review the fraud prevention strategy, policy and plan and recommend for approval by the Council;

## **CAPE AGULHAS MUNICIPALITY RISK MANAGEMENT STRATEGY 2021/22**

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

### **3.6 AUDIT & PERFORMANCE AUDIT COMMITTEE**

#### **3.6.1 LEGAL MANDATE AND FRAMEWORKS**

The following legislative instruments provide the legal foundation for the Audit & Performance Audit Committee's responsibility for risk management:

- Section 166 (2)(a)(ii) of the Municipal Finance Management Act (No 56 of 2003)

The following frameworks provide the recommended practice guidelines for the Audit & Performance Audit Committee regarding risk management:

- Chapter 12 of the Public Sector Risk Management Framework
- Principle 3.8 of the King III Code of Governance Principles

#### **3.6.2 ROLE AND RESPONSIBILITIES**

The Audit & Performance Audit Committee is responsible for providing the Municipal Manager with independent counsel, advice and direction in respect of risk management. The stakeholders rely on the Audit & Performance Audit Committee for an independent and objective view of the Municipality's risks and effectiveness of the risk management processes. In this way, the Audit & Performance Audit Committee provides valuable assurance that stakeholder interests are protected.

#### **High level responsibilities of the Audit & Performance Audit Committee include:**

- Gain a thorough understanding of the risk management policy, risk management strategy, risk management implementation plan and fraud risk management policy of the Municipality to enable them to add value to the risk management process when making recommendations for improvement of the process;
- Review the completeness of the risk assessment process implemented by the Municipality to ensure that all possible categories of risks, both internal and external, have been identified during the risk assessment process, including an awareness of emerging risks;
- Review the risk profile;

## **CAPE AGULHAS MUNICIPALITY RISK MANAGEMENT STRATEGY 2021/22**

- Review the adequacy of adapted risk responses;
- Review the adequacy of management action plans to address risks and monitor the implementation thereof;
- Review the progress made with the implementation of the risk management strategy of the Municipality;
- Facilitate and monitor the coordination of all assurance activities implemented by the Municipality;
- Review and recommend any risk disclosures in the annual report;
- Provide regular feedback to the Municipal Manager on the effectiveness of the risk management process implemented by the institution;
- Review the process implemented by Management in respect of the fraud prevention policy and ensure that all fraud related incidents have been followed up appropriately;
- Review and ensure that the internal audit plans are aligned to the risk profile of the Municipality;
- Review the effectiveness of the internal audit assurance activities and recommend appropriate action to address any shortcomings;

### **3.7 MANAGEMENT**

#### **3.7.1 LEGAL MANDATE AND FRAMEWORKS**

The following legislative instruments provide the legal foundation for Management's responsibility for risk management:

- Section 78 (1)(a) of the Municipal Finance Management Act (No 56 of 2003) (MFMA)
- Section 62 (1)(c)(i) of the MFMA, delegated in terms of Section 79 (1)(b)(ii) of the MFMA

The following frameworks provide the recommended practice guidelines for Management regarding risk management:

- Chapter 15 of the Public Sector Risk Management Framework
- Principle 4.4 of the King III Code of Governance Principles

#### **3.7.2 ROLE AND RESPONSIBILITIES**

Management is accountable to the Municipal Manager for designing, implementing and monitoring risk management, and integrating it into the day-to-day activities of the Municipality. This needs to be done in such a manner as to ensure that risk management becomes a valuable strategic management tool for underpinning the efficacy of service delivery and value for money.

#### **High level responsibilities of Management include:**

- Acknowledge the "ownership" of risks within their functional areas and all responsibilities associated with managing such risks;
- Cascade risk management into their functional responsibilities;
- Empower officials to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- Hold officials accountable for their specific risk management responsibilities;

## **CAPE AGULHAS MUNICIPALITY RISK MANAGEMENT STRATEGY 2021/22**

- Maintain the functional risk profile within the Municipality's risk tolerance and appetite;
- Provide reports on the functional risk management, consistent with the Municipality's reporting protocols (including appearing before committees);
- Align the functional and institutional risk management methodologies and processes;
- Implement the directives of the Municipal Manager concerning risk management;
- Maintain a harmonious working relationship with the CRO and support the CRO in matters concerning the functions of risk management;
- Maintain a harmonious working relationship with the Risk Champion and support the Risk Champion in matters concerning the functions of risk management;
- Keep key functional risks at the forefront of the management agenda and devote personal attention to overseeing the management of these risks.

### **3.8 INTERNAL AUDIT**

#### **3.8.1 LEGAL MANDATE AND FRAMEWORKS**

The following legislative instruments provide the legal foundation for Internal Audit's responsibility for risk management:

- Section 165 (2) (a) and (b)(iv) of the Municipal Finance Management Act (No 56 of 2003)

The following frameworks provide the recommended practice guidelines for Internal Audit regarding risk management:

- Chapter 18 of the Public Sector Risk Management Framework
- Principle 4.9 and Recommended Practice 4.9.2 of the King III Code of Governance Principles
- International Standards for the Professional Practice of Internal Auditing – Performance Standard 2120.

#### **3.8.2 ROLE AND RESPONSIBILITIES**

Internal Audit acts as an assurance provider and consultant for the Municipality regarding risk management.

##### **High level responsibilities of Internal Audit include:**

- Reviewing the risk philosophy of the Municipality. This includes the risk management strategy, risk management policy, fraud prevention strategy, policy and plan, business Continuity, Combined Assurance, Code of Ethics, risk management reporting lines, the values that have been developed for the Municipality;
- Reviewing the appropriateness of the risk tolerance levels set by the Municipality taking into consideration the risk profile of the Municipality;
- Providing assurance over the design and functioning of the control environment, information and communication systems and the monitoring systems;
- Providing assurance over the Municipality's risk identification and assessment processes;

## **CAPE AGULHAS MUNICIPALITY RISK MANAGEMENT STRATEGY 2021/22**

- Utilising the results of the risk assessment to develop long term and current year internal audit plans;
- Providing independent assurance as to whether the risk management strategy, risk management implementation plan and fraud prevention plan have been effectively implemented within the Municipality;
- Providing independent assurance over the adequacy of the control environment. This includes providing assurance over the effectiveness of the internal controls implemented to mitigate the identified risks.

### **3.7.3 AUDITOR-GENERAL**

The Auditor-General is responsible to provide assurance to stakeholders that financial statements are fairly represented and compliant with relevant laws and regulations. The Auditor-General therefor provides an independent opinion on the effectiveness of risk management as part of the audit process.

## **4 IMPROVEMENT OF RISK MATURITY**

Risk management should be integrated into the culture of Cape Agulhas Municipality and this will include mandate, leadership and commitment. It should translate risk strategy into tactical and operational objectives, and assign risk management responsibilities throughout the Municipality. It should support accountability, performance measurement and reward the promoting of operational efficiency at all levels.

Risk management is a central part of the strategic management of any organisation. It is the process whereby organisations methodically address the risks attached to their activities. A successful risk management initiative should be proportionate to the level of risk in the organisation, aligned with other corporate activities, comprehensive in its scope, embedded into routine activities and dynamic by being responsive to changing circumstances.

## **5 REPORTING**

The following minimum reports will be compiled and presented to Council, the Audit Committee and the FARMCO:

- A summary of risk broken down into operating units.
- A summary of existing gaps in the capabilities for managing significant risks.
- A report of emerging issues or risks that requires immediate attention.
- Integrated reporting and disclosure (Combined Assurance)

## **6 REVIEW AND REVIEW HISTORY**

The Risk Management Strategy will be reviewed and approved by Council on an annual basis.

**CAPE AGULHAS MUNICIPALITY RISK MANAGEMENT STRATEGY 2021/22**

<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
Review	25 June 2020	28 July 2020	110/2020
Review	23 April 2021	25 May 2021	106/2021

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Municipal Manager

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Date