BEAUFORT WEST MUNICIPALITY

Fraud and Risk Management Strategy 2023

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1. INTRODUCTION

The risk management strategy of the Beaufort West Municipality deals with the major intended and emergent initiatives taken by and involving the utilisation of its resources to reduce risk in the Municipality.

These strategies may include acceptance, avoidance, mitigating and transferring of risk.

The risk management strategy outlines a high level plan on how the Municipality will go about implementing its risk management policy.

<u>The risk management strategy contains the following five main elements:</u>

1. Structural configuration

This element describes how the institution will be structured in terms of committees and reporting lines to give effect to the risk management policy;

2. Accountability, roles and responsibilities

This element describes the authority and delegation of responsibilities to give effect to the risk management policy.

3. Risk management activities

This element includes the risk assessment processes and methodologies, monitoring activities and risk reporting standards to give effect to the risk management policy.

4. Monitoring of the achievement of the risk management strategy

This element includes assessment of whether or not key milestones are achieved. More importantly it is also monitoring whether the risk management strategy is producing the sustainable outcomes as originally envisaged.

5. Assurance activities

This element considers all assurance providers available to the institution and integration of their scope of responsibility.

2. RISK MANAGEMENT STRATEGY

Structural configuration

The Municipality will implement the following structure to give effect to its Risk Management Policy:

- Council**:**

  The Council will strive within its capacity to achieve the objectives set out in Section 152 of the Constitution.

- The Executive Authority:

  For the Municipality: The Accounting Officer and the Directors (Section 57 employees) of the Municipality

- The Accounting Officer::

  For the Municipality: The Municipal Manager

- <u>The Chief Risk officer:</u>

  Will be appointed by the Municipal Manager, be it an employee with the designation of Chief Risk Officer or an employee with the delegated responsibilities of a Chief Risk Officer.

- <u>The Risk Management committee will consist of:</u>

A member of the Audit Committee (not in the employ of the Institution);
Representatives of senior management:
The Municipal Manager
The Director: Financial Services
The Director: Corporate Services
The Director: Infrastructure Services
The Director: Community Services

Standing invitees to the Committee shall be:
Chief Risk Officer;
Any other person who may be co-opted to provide specialist skills, advice and counsel.

The Risk Champions will be at least one designated Section Head from each of the Directorates of the Municipality.

The Audit Committee will be the Committee Members as appointed by Council.

The Internal Audit service will be provided by the Municipality's Internal Audit Unit or an external service provider (co-sourced / outsourced function).

Other staff, who also have a role in Risk Management, are employees within the Municipality with non-specific risk management responsibilities.

3. ACCOUNTABILITY, ROLES AND RESPONSIBILITIES

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

ACCOUNTING AUTHORITY

1) Legal Mandate

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

For the Municipality

Section 62 (1) (c) (i) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA).

For Municipal Entities

Section 95 (c) (i) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA).

2) Role and Responsibilities

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

The Accounting Officer must ensure that the responsibility for risk management vests at all levels of management and that it is not only limited to the Accounting Officer. The Accounting Officer must also ensure that a risk assessment is conducted regularly to identify emerging risks.

High level responsibilities of the Accounting Officer include:

- Setting the tone at the top by supporting ERM and allocating resources towards the implementation thereof;
- Establishing the necessary structures and reporting lines within the institution to support ERM;
- Approving the risk management strategy, risk management policy, risk management implementation plan and fraud risk management policy;
- Approving the institution’s risk appetite and risk tolerance;
- Influencing an institutional “risk aware” culture;
- Approving the code of conduct for the institution and holding management and officials accountable for adherence;
- Place the key risks at the forefront of the management agenda and devote personal attention to overseeing their effective management;
- Hold management accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities;
- Holding the structures responsible for risk management activities accountable for adequate performance;
- Ensuring that a conducive control environment exists to ensure that identified risks are proactively managed;
- Leverage the Audit Committee, Internal Audit, Risk 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 Committee, Internal Audit, 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.

6. Awareness of and concurring with the institution's risk appetite and tolerance levels;

7. Reviewing the institution's portfolio view of risks and considers it against the institution's risk tolerance;

8. Influencing how strategy and objectives are established, institutional activities are structured, and risks are identified, assessed and acted upon;

9. Requiring that management should have an established set of values by which every employee should abide by;

10. Insist on the achievement of objectives, effective performance management and value for money.

- The design and functioning of control activities, information and communication systems, and monitoring activities;
- The quality and frequency of reporting;

- The way the institution is managed including the type of risks accepted;
- The appropriateness of reporting lines;
- Assign responsibility and authority;
- Insist on accountability.

3) Evaluation

To measure the Accounting officer's effectiveness in leading the institution's ERM in contributing to the institution's goals and objectives, clear objectives and key performance indicators have been set for the Officer in respect of risk management, as included in his Performance Contract. The Accounting Officer will be evaluated in terms of the requirements set out in the Performance Regulations for Municipal Managers and Managers accountable to Municipal Managers.

CHIEF RISK OFFICER (CRO)

a) Legal mandate

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

The CRO is bound by the legislation applicable to "other Personnel", as set out below.

The following legislative instruments provide the legal foundation for risk management for "Other Personnel".

For Municipalities

Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA)

a) Role and Responsibilities

The primary responsibility of the CRO is to bring to bear his / her specialist expertise to assist the institution 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. 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 institution.

The CRO effectively assumes the role of institutional advocate for ERM and brings specialist expertise to assist in integrating risk management throughout the institution.

High level responsibilities to achieve this include:

- Working with senior management to develop the overall enterprise risk management vision, risk management strategy, risk management policy, as well as risk appetite and tolerance levels for approval by the Accounting Authority / Officer;

- Communicating the risk management policy, risk management strategy and risk management implementation plan to all stakeholders in the institution;

- Setting up of the risk management structure and risk management reporting lines within the institution;
- Continuously driving the risk management process towards best practice;
- Developing a common risk assessment methodology that is aligned with the institution's objectives at strategic, tactical and operational levels for approval by the Accounting Authority / Officer;
- Coordinating risk assessments within the institution / 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;
- Ensuring effective information systems exist to facilitate overall risk management improvement within the institution;
- Continuously transferring risk management principles and practices, through training interventions, to all stakeholders within the institution;
- Advising management in the development of financing structures;
- Performing an analysis to identify emerging risks facing the institution for further action and intervention;
- Collating and consolidating the results of the various assessments within the institution;

- Analysing the results of the assessment process to identify trends, within the risk and control profile, and develop the necessary high level control interventions to manage these trends;
- Compiling the necessary reports to the Risk Management Committee;
- Providing input into the development and subsequent review of the fraud prevention strategy, business continuity plans, occupational health, safety and environmental policies and practices and disaster management plans.

In addition to the above mentioned high level responsibilities the CRO needs to possess certain attributes to function effectively and efficiently.

b) Evaluation

To measure the CRO's effectiveness in leading the institution's ERM in contributing to the institution's goals and objectives and key performance indicators will be set for the CRO in respect of risk management. The following key performance indicators for the CRO will be considered:

- Maturity on the implementation of the ERM Framework;
- Risk management structures active and credible;
- Realistic risk management implementation plan achieved;
- Proactive identification of emerging risks to minimize unforeseen risks;
- Implementation progress achieved of Loss prevention Programme;
- Lack of surprises
- Updated risk profile of the institution;

- Updated action plans for all material risks.

Evaluation will be performed by the Accounting Officer on an annual basis.

RISK COMMITTEE

a. Legal Mandate

There is currently no legal mandate for the establishment of a Risk Management committee. However, National Treasury determines that the role of the Risk Management Committee is to develop goals, objectives and key performance indicators for the committee for approval by the Accounting Officer.

b. Role and Responsibilities

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

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

- Review the risk management policy and strategy and recommend for approval by Council;
- Review the risk appetite and tolerance and recommend for approval by -Council;
- 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 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 Integrity management framework and recommend for approval by Council;
- Evaluate the effectiveness of the implementation of the Fraud prevention policy and Integrity management framework;
- Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses;
- Develop goals, objectives and key performance indicators for the Committee for approval by the Accounting Officer;
- Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management activity;
- Set out the nature, role, responsibility and authority of the risk management function within the 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.

c. Evaluation

To measure the Risk Management committee's effectiveness in the institution's ERM in contribution to the institution's goals and objectives, clear objectives and key performance indicators have been set for the Risk Management Committee in respect of Risk management. The key performance indicators for the Risk Management committee are:

- Risk Management Policy and Risk Management Strategy and Framework approved for the financial year;
- Risk Management Implementation Plan approved;
- Annually report on the submission of risks equal or > risk appetite to Risk Committee;
- Review the Risk Appetite as per the Risk Management Policy;
- Quarterly progress report of the approved Implementation Plan;
- Submission of approved Risk Committee minutes to the Audit Committee on a quarterly basis;
- Submission of a statement / report from Risk Committee Chair to the Audit Committee regarding the Risk Committee's performance as per the Key Performance Indicators on an annual basis.

AUDIT COMMITTEE

a) Legal Mandate

Legislating the implementation of risk management in public sector institutions is part of a macro strategy of Government towards ensuring the achievement of national goals and objectives. The following legislative instruments provide the legal foundation for the Audit Committee's responsibility for risk management:

Municipality

Section 166 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA)

b) Role and Responsibilities

The Audit Committee is responsible for providing the Accounting Officer with independent council, advice and direction in respect of risk management. The stakeholders rely on the Audit Committee for an independent and objective view of the institution's risks and effectiveness of the risk management processes.

In this way, the Audit Committee provides valuable assurance that stakeholder interests are protected.

In discharging its oversight responsibilities relating to risk management, the audit committee:

Gains thorough understanding of the fraud and risk management policy, fraud and risk management strategy, and fraud and risk management implementation plan of the institution to enable them to add

- value to the risk management process when making recommendations to improve the process;
- Reviews and critiques the risk appetite and risk tolerance, and recommends this for approval by Council;
- Reviews the completeness of the risk assessment process implemented by management to ensure that all possible categories of risks, both internal and external to the institution, have been identified during the risk assessment process. This includes an awareness of emerging risks pertaining to the institution;

- Reviews the risk profile and management action plans to address the risks;
- Reviews the adequacy of adapted risk responses;
- The audit committee must monitor the progress made with the management action plan;
- Reviews the progress made with regards to the implementation of the risk management strategy of the institution;
- Facilitates and monitors the coordination of all assurance activities implemented by the institution;
- Reviews and recommends any risk disclosures in the annual financial statements;
- Provides regular feedback to the Accounting Officer on the effectiveness of the risk management process implemented by the institution;
- Review the process implemented by Management in respect of fraud prevention and ensure that all fraud related incidents have been followed up appropriately;
- Reviews and ensures that the internal audit plans are aligned to the risk profile of the institution;
- Review the effectiveness of the internal audit assurance activities and recommends appropriate action to address any shortcomings.
- Review the combined assurance model.

RISK CHAMPIONS

(i) Legal Mandate

Legislating the implementation of risk management in public sector institutions is part of a macro strategy of Government towards ensuring the achievement of national goals and objectives. The Risk Champions are bound by the legislation applicable to “Other Personnel”, as set out below.

For Municipalities

Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA).

(ii) Role and Responsibilities

The Risk champion is a person with the skills, knowledge and leadership required to champion the risk management cause.

A key part of the Risk Champion’s responsibility involves escalating instances where the risk management efforts are stifled, such as when individuals try to block ERM initiatives. The Risk champion also adds value to the risk management process by providing guidance and support to manage “problematic” risks and risks of a transversal nature.

The Risk Champion acts as a change agent in the ERM process and is distinguished from risk co-ordinators as they are trouble shooters that facilitate resolution of risk related problems.

In order to be an effective and efficient risk champion, he / she must:

- Have a good understanding of risk concepts, principles and processes;
- Have good analytical skills to assist with the analysis of root causes to risk problems;
- Leadership and motivational qualities;

- Have good communication skills.

(iii) Evaluation

To measure the Risk Champion's effectiveness in the institution's ERM in contributing to the institution's goals and objectives, clear objectives and key performance indicators should be set for the Risk Champion in respect of risk management. The key performance indicators for the Risk Champion are:

- Resolution of problems identified.

MANAGEMENT

(1) Legal Mandate

Management are bound by the legislation applicable to "other Personnel", as set out below.

For Municipalities

Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA)

(2) Role and Responsibilities

Management is accountable to the Accounting Officer for designing, implementing and monitoring risk management, and integrating it into the day-to-day activities of the institution. 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.

In discharging their high level responsibilities relating to risk management, Management:

- Acknowledges the “ownership” of risks within their functional areas and all responsibilities associated with managing such risks;
- Cascades risk management into their functional responsibilities;
- Empowers officials to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- Holds officials accountable for their specific risk management responsibilities;
- Maintains the functional risk profile within the institution’s risk tolerance and appetite;
- Provides reports on the functional risk management consistent with the institution’s reporting protocols (including appearing before committees);
- Aligns the functional and institutional risk management methodologies and processes;
- Implements the directives of the Accounting Officer concerning risk management;
- Maintains a harmonious working relationship with the CRO and supports the CRO in matters concerning the functions of risk management;

- Maintains a harmonious working relationship with the Risk Champion and supports the Risk Champion in matters concerning the functions of risk management;
- Keeps key functional risks at the forefront of the management agenda and devote personal attention in overseeing the management of these risks.

(3) Evaluation

To measure the Management's effectiveness in the institution's ERM in contributing to the institution's goals and objectives, clear objectives and key performance indicators should be set for the Management in respect of risk management. The key performance indicators for the Management are:

- The business unit's performance against key service delivery indicators, including comparison of year-on-year performance;
- Implementation level of the ERM Framework within their business unit;
- Implementation of credible risk management structures within their business unit;
- Proactive identification of emerging / new risks to avoid surprises;
- Zero contravention notices served by authorities;
- Service delivery performance and improvement;
- Improvement in efficiency ratios for service delivery;
- % achievement of KPI's;
- Updated risk registers;
- Updated action plans;

- Actual effectiveness of controls validated;
- Year-on-year reduction in incidents/losses;
- Implementation progress achieved of Loss Prevention Programme;
- Reduction in fraud;
- Reduction in stakeholder complaints.

OTHER STAFF

1) Legal Mandate

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

For Municipalities

Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA)

2) Role and Responsibilities

Other Personnel are accountable to their Management for implementing and monitoring the process of risk management and integrating it into their day-to-day activities.

High level responsibilities include:

- Familiarity with the overall enterprise risk management vision, risk management strategy, fraud risk management policy and risk management policy;
- Acting in terms of the spirit and letter of the above;
- Acting within the risk appetite and tolerance levels set by the business unit;

- Adhering to the code of conduct for the institution;
- Maintaining the functioning of the control environment, information and communication as well as the monitoring systems within their delegated responsibility;
- Providing information and cooperation with other role players;
- Participation in risk identification and risk assessment within their business unit;
- Implementation of risk responses to address the identified risks.

INTERNAL AUDIT

1) Legal Mandate

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

Municipalities

- Section 165(2)(b)(iv) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA);
- International standards for the Professional Practice of Internal Auditing – Performance standard 2110.

2) Role and Responsibilities

Responsibilities of Internal Audit in risk management include:

- Reviewing the risk philosophy of the institution. This includes the risk management policy, risk management strategy, fraud prevention plan, integrity management framework, risk management reporting lines, the values that have been developed for the institution;

- Reviewing the appropriateness of the risk tolerance levels set by the institution taking into consideration the risk profile of the institution;
- Providing assurance over the design and functioning of the control environment, information and communication systems and the monitoring systems;
- Providing assurance over the institution's risk identification and assessment processes;
- 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, fraud prevention plan and the integrity management framework have been effectively implemented within the institution;
- 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.

4. RISK MANAGEMENT ACTIVITIES

The following are the risk management activities that the Municipality will implement together with the methodology that will be applied in each case:

RISK ASSESSMENT

The Municipality will as far as possible conduct formal enterprise risk assessment every three years and informal risk assessments at the Risk Committee of the top risks, i.e. one that will include every directorate, department and section, however small or seemingly insignificant and no such directorate, department or section may exclude them from the assessment. Due to the limited resources available to the contracted internal auditors, the project would in all likelihood be conducted by an external service provider. Workshops will be held, per directorate, to be attended by the relevant Director and all his Managers.

After conclusion of the workshops and scrutiny of the draft result of the assessment, copies of the final document will be distributed to each directorate.

It goes without saying that such an Assessment must be conducted in accordance with the IIA Standards.

RISK TOLERANCE

It is important for the institution to make an informed decision on how much risk it accepts as part of normal management practice. Setting risk tolerance is a collective senior management responsibility. The output is a clearly defined tolerable level of risk established through a rigorous process of analysis and expert management judgement. Depending on the nature of the risk the tolerance may be expressed either in qualitative of quantitative terms.

RISK MITIGATION

After the risk tolerance has been determined, those risks that exceed the level are to receive immediate attention by:

- Revisiting the existing controls that are inadequate;

- Designing / redesigning processes that provide controls that will mitigate the risk;
- Obtain expert advice from knowledgeable persons / companies, etc.;
- To obtain the best possible result, actions taken in redesigning controls should be done through a collective process by the Director / Manager with their staff who can often make valuable contributions to finding solutions.

MONITORING OF RISK MITIGATION

The Accounting Officer is ultimately responsible in ensuring that risks that require mitigation receive the necessary attention by enhancing existing / designing new control measures. However, the directors assume delegation of this duty and ensure that risk management is carried through to the managers and all other staff. The Risk committee has the responsibility of monitoring the increase in the level of the control environment. The Chief Audit Executive also has the responsibility in the development of the combined assurance plan for the Municipality. Factors inhibiting the implementation of new or revised controls to reduce the risk exposure should be reported to the Risk Committee.

RISK REPORTING STANDARDS

Over and above the annual enterprise risk assessment, risks need to be identified and reported as soon as possible. This will assist in curbing potential and actual loss.

5. MONITORING OF AND REPORTING ON THE ACHIEVEMENT OF THE RISK MANAGEMENT STRATEGY

As already mentioned above, this element includes the assessment of whether or not key milestones are achieved. More importantly it is also monitoring whether the risk management strategy is producing the sustainable outcomes as originally envisaged. This falls within the scope of the responsibilities of the Chief Risk Officer, Accounting Authority, and the Audit Committee. During the initial stages of implementation of the RM Strategy, a brief report should be prepared to serve before the Accounting Authority on a monthly basis of which the frequency can be extended to quarterly and eventually biannually.

The Accounting Authority must evaluate the progress as contained in the report and endeavour to resolve hurdles that are inhibiting the RM implementation plan. The report plus the Accounting Authority's comment / recommendation should then be submitted to the Audit Committee.

6. ASSURANCE

This process is inseparable from ERM and is as important as the aforementioned. A combined assurance plan must be compiled from the risk analysis. This will enable management to assign resources efficiently to mitigate the risks to an acceptable level and to identify who is responsible for each risk. The Municipality will also on a continuous basis be informed of assurance (or not) that risks are being managed efficiently, effectively and economically.

7. RISK MANAGEMENT IMPLEMENTATION PLAN

This document will be known as the Risk Management Strategy. The Risk Management Strategy focuses on the broad principles and depending on the merit a separate risk management implementation plan may be developed for a risk activity.

These plans will form part of the monitoring of the achievement of the Risk Management Strategy.

8. REVIEW OF RISK MANAGEMENT STRATEGY

The Committee shall review the risk management strategy and recommend to Council for approval any amendments that may be required.