POLICY

INTEGRATED RISK MANAGEMENT – (POLICY NUMBER 13195)

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City of Cape Town

Integrated Risk Management
Policy

October 2015
Document review and approval

Revision history

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RISK MANAGEMENT PHILOSOPHY

The City of Cape Town (the City) is committed to the optimal management of risk in order to achieve our vision, deliver on our core business and key objectives and protect our values as a “Well-run City”.

In the course of conducting our day-to-day business operations, we are exposed to a variety of risks that are significant and require comprehensive controls and on-going oversight.

In order to ensure business success we have adopted an integrated approach to the management of risk. By institutionalising risk management processes throughout the City, we will be better equipped to identify events affecting our objectives and to manage risks in ways that are consistent with the approved Risk Acceptance Level (RAL).

The City has taken a number of steps to reinforce a culture of disciplined risk-taking.

Council is responsible for oversight of the Integrated Risk Management (IRM) process and has delegated its day-to-day implementation to the City Manager (CM). A Risk Management Committee (RiskCo) has been appointed to provide the appropriate advisory forum and governance structure to assist the CM and management in discharging their risk management responsibilities and providing an enabling environment to ensure that the City complies with laws, regulations and recognised governance frameworks.

I, as the City Manager and Council are responsible for ensuring that a comprehensive IRM Framework and Implementation Plan is established, consisting of policies, procedures, methodologies and processes. To enhance corporate governance within the City and to ensure that appropriate focus is placed on this important task, I have delegated this role to the Executive Director: Corporate Services and Compliance and to the Chief Risk Officer who will ensure that the IRM Framework and Implementation Plan is implemented and that Council and RiskCo receive appropriate reports on the City’s risk profile and IRM process.

There are many business units working at managing risk exposures. It is the intention that these business units will work together in a consistent and integrated manner, with the overall objective of reducing risk and optimising opportunities and the economic use of scarce resources, as far as is reasonably practical.

Management is responsible for IRM execution, in the achievement of the City’s Integrated Development Plan and every employee has a part to play with regard to this important task.

Achmat Ebrahim
City Manager

Date
1. DEFINITIONS

‘Assessment’ means the identification, analysis and evaluation of risks when used in a risk management context, as set out in the City’s IRM Framework and Implementation Plan;

‘Assurance’ means an objective examination of evidence for the purpose of providing an assessment on governance, risk management and control processes for the City;

‘City’ means the City of Cape Town, a municipality established by the City of Cape Town Establishment Notice No. 479 of 22 September 2000, issued in terms of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998), or any structure or employee of the City acting in terms of delegated authority;

‘Controls’ means any actions (such as reviews, checks and balances, methods and procedures) taken by officials, management and Council to manage risk and increase the possibility that the established objectives and goals will be achieved;

‘Council’ means the Municipal Council of the City;

‘Emerging risks’ means uncertain circumstances / events that could pose a risk in the future, but should not cause loss, harm or damage to the City within the next 18 months. Due to uncertainties regarding the impact on the City, it is added on the risk radar as an emerging risk;

‘Impact’ means the extent of the consequences or the effect on the City, should a risk actually materialise;

‘Integrated Risk Management’ means the processes effected by the CM, management and officials, across the City, designed to identify potential events that may affect the City and identify ways of managing these, in order to provide reasonable assurance regarding the City being able to achieve its objectives;

‘Likelihood’ means the probability that the risk will materialise;

‘Management’ includes staff of the City who controls or directs any directorate, department, unit, division, process or resources of the City;

‘Other officials’ include all employees of the City to whom no specific reference is made in this policy;

‘Risk’ means uncertain future events (threats and opportunities) that could influence the achievement of the objectives of the City as set out in the IDP;

‘Risk acceptance level’ means the amount of risk taken in pursuit of value, the council approved risk acceptance level (risk appetite) guides resource allocations within the City;

‘Risk Management’ means the systematic approach to setting the best course of action under uncertainty, by assessing, understanding, acting on and communicating risk issues and opportunities;

‘Risk Owner’ means the person accountable for managing a particular risk;

‘Risk Profile’ means identification and listing of risks, typically in order of highest to lowest, in accordance with the risk ratings;

‘Risk Ratings’ means the evaluation of risks identified in terms of impact and likelihood;

‘Risk Response/ Risk Treatment’ means the strategies or actions developed by management to, where possible and cost effective, reduce or eliminate the threats and events that create risks and managing risks to an acceptable level;

‘Risk Tolerance level’ means the City’s readiness to bear risk after the risk response in order to achieve its objectives;
‘Significant Risk’ means a risk that is likely to have a significant or material impact on the achievement of the City’s objectives; and

‘Strategic’ means high-level aspects that need to be managed by the City’s Executive Management Team due to having a direct influence on the City’s mission and/or vision.

2. ABBREVIATIONS

‘AC’ means the Audit Committee of the City;

‘CA’ means Combined Assurance;

‘CM’ means City Manager;

‘CRO’ means Chief Risk Officer;

‘IDP’ means Integrated Development Plan of the City;

‘IRM’ means Integrated Risk Management;

‘ISO’ means the International Organization for Standardization;

‘KPI’ means the Key Performance Indicators;

‘MFMA’ means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

‘PAC’ means Performance Audit Committee of the City;

‘RAL’ means Risk Acceptance Level;

‘RiskCo’ means the Risk Management Committee of the City; and

‘SDBIP’ means Service Delivery Budget Implementation Plan;

‘ToR’ means Terms of Reference.

3. PROBLEM STATEMENT

Through this revised policy the City puts into practice its commitment to implement risk management and institutionalise a culture of IRM within the City. This policy forms the basis for the accompanying IRM Framework and Implementation plan which is designed to help achieve the objective of implementing an effective IRM process and to ensure compliance with the legislative framework.

4. DESIRED OUTCOMES

The City is committed to implementing and maintaining an effective, efficient and transparent system of risk management. This policy is designed to assist management in—

(a) developing a mutual understanding of IRM;
(b) speaking a common language in relation to IRM;
(c) assessing risks; and
(d) putting corrective action plans in place,

to manage the risk exposure in a consistent manner.
The objectives and benefits of IRM include:

4.1 A more sustainable and reliable delivery of services in order to achieve the strategic goals and objectives as set out in the City’s IDP;

4.2 Enhanced decision making, by promoting a more innovative, less risk averse culture in which calculated risks are taken in pursuit of opportunities to the benefit of the City;

4.3 Reduced redundancies, inconsistencies and gaps in the City’s policies, procedures and guidelines;

4.4 The minimisation of fraud and corruption;

4.5 Improved performance, outputs and outcomes;

4.6 The achievement of better value for money through more effective, efficient and economic use of scarce resources;

4.7 Decreasing surprises and crises by placing management in a position to effectively deal with new and emerging risks that may create uncertainty;

4.8 Avoiding damage to the City’s reputation;

4.9 Assisting management in ensuring more effective reporting, compliance with applicable laws, regulations and other corporate governance requirements.

5. STRATEGIC INTENT

The Policy seeks to assist the City in ensuring that Good Governance principles with regards to risk management are applied throughout the City, thereby establishing an efficient and productive administration that can focus on delivery.

6. REGULATORY CONTEXT

6.1 The policy is informed by the following pieces of legislation:


   6.1.2 Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

   6.1.3 MFMA; and


6.2 This policy is also informed by:

   6.2.1 The King III Report on Corporate Governance for South Africa, 2009;

   6.2.2 King III Code of Corporate Governance for South Africa, 2009;

   6.2.3 King III Practice Notes;

   6.2.4 ISO 31000; and

   6.2.5 Public Sector Risk Management Framework (RKCO 07/12/08).

7. SCOPE

This policy applies throughout the City.
8. **ROLES AND RESPONSIBILITIES**

All officials within the City have a responsibility for maintaining good internal controls and managing risks in order to achieve the City’s objectives. The primary responsibility for the identification and management of risk however lies with Management.

The IRM Framework and Implementation Plan provides guidance on the steps required in order to comply with the policy directives set out below.

8.1 **Risk Management Oversight**

8.1.1 **Council**

Council takes an interest in risk management to the extent necessary to obtain comfort that properly established and functioning systems of IRM are in place to protect the City against significant risks and to ensure the achievement of objectives as detailed in the IDP.

8.2 **Risk Management Advisory Bodies**

8.2.1 **Audit Committee and Performance Audit Committee**

The AC and PAC are independent and objective committees responsible for advising the Executive Director: Corporate Services and Compliance, CM, the Executive Mayor and Municipal Council on the City’s controls, governance and IRM. The responsibilities of the AC and PAC are formally defined in the AC’s TOR.

8.2.2 **Risk Management Committee**

RiskCo has been constituted by the CM to provide the appropriate forum and governance structure to assist the CM and management in discharging their risk management responsibilities and providing an enabling environment to ensure that the City complies with laws, regulations and recognised governance frameworks. The responsibilities of RiskCo are formally defined in RiskCo’s TOR.

8.3 **Risk Management Implementers**

8.3.1 **City Manager**

The CM is ultimately accountable for risk management and the institutionalisation of IRM in the City. The CM is accountable for the overall governance of risk within the City. By setting the tone at the top, the CM promotes accountability, integrity and other values that will create a positive control environment.

8.3.2 **Management**

Management at all levels within the City must support the City’s Risk Management Philosophy (Strategic Intent), promote compliance with the risk acceptance level and risk tolerance level and manage risk within their areas of responsibility. Management as risk owners, are accountable to ensure that:

(a) Risk assessments are to the best of their knowledge correct and complete;

(b) Appropriate decisions are made and appropriate reporting is done timeously.
8.3.3 Other Officials
Other officials are responsible for integrating risk management into their day-to-day activities by for e.g. ensuring conformance with controls.

8.4 Risk Management Support
The CRO is the custodian of the IRM Policy, IRM Framework and Implementation Plan and coordinating the IRM activities throughout the City. The primary responsibility of the CRO is to assist the City in institutionalising risk management and leveraging its benefits to enhance performance.

8.5 Risk Management Assurance Providers
8.5.1 Internal Audit
The core role of Internal Audit in risk management is to provide an independent, objective assurance to Council on the effectiveness of risk management. Internal Audit also assists in bringing about a systematic, disciplined approach to evaluate and improve the effectiveness of the entire system of risk management and to provide recommendations for improvement where necessary.

8.5.2 External Audit
During audits the Auditor-General of South Africa highlights weaknesses and deficiencies with regards to controls and provides independent assurance on the effectiveness of the risk management activities of the City.

9. IRM METHODOLOGY
The IRM methodology consists of the following 5 steps:

9.1 Communication and consultation
Communication and consultation with external and internal stakeholders should take place during all stages of the risk management process.

9.2 Establishing context
The environment in which the City functions sets the foundation for the other components of risk management. By understanding the needs, responsibilities and environment in which the City operates, Council sets its objectives. Management then sets goals and objectives to assist in achieving the overall strategic objectives. Objectives are recorded in the City’s IDP; Directorate / Departmental Process and KPI’s; and Departmental SDBIP’s.
9.3 Risk assessment

9.3.1 Risk identification
Risk identification aims to identify future uncertain events from internal or external sources that could affect implementation of the City’s strategy or achievement of the objectives. These events may have positive or negative impacts, or both. Events do not occur in isolation. One event can trigger another and events can occur concurrently. Management should understand how events interrelate. By assessing the interrelationships, one can determine where risk management efforts are best directed.

9.3.2 Risk analysis
Risk analysis consists of the documentation of the “current controls” (systems and processes) that are in place to address the identified risks and contributing factors, as well as assessing management’s confidence in the effectiveness of the control mechanisms driving the various systems (including the IT environment) and processes practiced within the City. Internal Controls can be preventative, detective or corrective by nature.

**Note:** Management evaluates controls to ensure they are still appropriate, relevant, economical (cost effective) and efficient.

9.3.3 Risk evaluation (Ratings)
Uncertainty around potential future events relevant to the City and its activities are evaluated from two perspectives, namely likelihood and impact. By calculating the risk exposure (Risk rating), management gets to understand the extent to which potential events might impact on their objectives. The City uses a 10 by 10 rating scale. By calculating the risk exposure (Risk rating), management gets to understand the extent to which potential events might impact on their objectives. The City uses a 10 by 10 rating scale.

9.4 Risk treatment
This component aims to identify and evaluate possible responses to the risk exposures or risk incidents that are rated equal or above the City’s RAL.

9.5 Reporting, Monitoring and Review
Risk management changes over time. Risk responses that were once effective may become irrelevant; control activities may become less effective, or no longer be performed; or the City’s objectives may change. This can for example be due to the arrival of a new Council or new officials, changes in the City structure or direction, or the introduction of new processes and even external changes. In the face of such changes, management needs to determine whether the functioning of each risk management component continues to be effective.

Detailed Guidance with regards to the implementation of the above steps are set out in the IRM Framework and Implementation Plan.
10. MONITORING AND REVIEW OF POLICY

The IRM Department is responsible for the monitoring and revision of this policy.

The policy shall be revised and approved by Council when operational needs require this, but at least once during every term of Council.

Any queries or requests for amendments relating to this policy should be directed to the Chief Risk Officer, Tel No. 400 4031.
Annexure B

**Risk Acceptance Level**

The risk acceptance level (RAL) is informed by section 62(1)(c)(i) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), read with section 5(2)(d) of the MFMA and the Risk Management Framework of National Treasury (RKCO 07/12/08).

In accordance with RKCO 07/12/08, as well as the City’s IRM Policy, Framework and Implementation Plan, the RAL should annually be revised and submitted to Council for approval.

In accordance with Council decision C22/08/14 on 20 August 2014, the RAL for the City remained unchanged at 40%. To date no changes in circumstances having an influence on the RAL have been identified and the RAL thus remains unchanged at 40%.

**Risk Acceptance Level for Corporate Crime**

In accordance with section 11.3.1(c) of the Council approved Fraud Prevention Policy (Council decision C24/12/14 of 3 December 2014) the Executive Mayor, the Mayoral Committee and the City Manager, are jointly accountable to the Council, the community and other stakeholders, at a strategic level for promoting, developing and sustaining a culture of zero tolerance to corporate crime. For this reason the RAL with regards to corporate crime issues are set at Nil.

**Risk Tolerance Level**

The setting of a risk tolerance level is informed by the Risk Management Framework of National Treasury (RKCO 07/12/08). This concept is however based on the private sector. In a public sector environment, especially local government, the responsibility to deliver services is legislated and hence the City must endure/tolerate these services, while in the private sector such services could have been avoided. The City has thus obtained approval by Council not to set a risk tolerance level (Council decision C22/08/14 on 20 August 2014). By default this equates to a risk tolerance of 100%. No changes in circumstances having and influence on the risk tolerance level has been identified and the risk tolerance level thus remains at 100%.