BEST PRACTICE FOR MUNICIPALITIES ON THE ENTERPRISE RISK MANAGEMENT ROLES AND RESPONSIBILITIES
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1. Introduction

Improved risk management directly impacts on improved service delivery. Thus, everyone in the municipality has a responsibility for risk management and this responsibility should therefore be an explicit or implicit part of everyone's job description. Virtually all personnel produce information used in risk management or take other actions needed to manage risks. Employees are responsible for communicating risks such as problems in operations, non-compliance with the code of conduct, other policy violations or illegal actions.

The roles and responsibilities stated below are not intended to be prescriptive. Instead, these are intended to serve as a guidepost to management and staff as the Municipality implements Enterprise Risk Management. It is recognised that full compliance with these key principles will evolve as the Municipality’s risk maturity improves. The roles and responsibilities also provide the basis for creating the Municipality’s Risk Management Infrastructure.

2. What Is Risk Management?

The COSO Framework defines risk management as

“... a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”

According to the King Report, 2002 Risk Management is:

“The identification and evaluation of actual and potential areas of risk as they pertain to a company, followed by a procedure of termination, transfer, acceptance (tolerance) or mitigation of each risk.”

Risk Management is therefore a process that utilises internal controls as a measure to mitigate and control risks.

The process follows the following steps in the implementation of this risk management process:

2.1.

“A probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through pre-emptive action.
3. Mandate for Risk Management in Municipalities

Risk Management is a requirement that has been set by my government in its effort to ensure efficient and effective governance and ultimately service delivery to the people. Section 62 of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) states that the Municipal Manager is responsible for managing the Municipality’s financial administration. For this purpose the Municipal Manager must take all necessary steps to ensure, amongst others that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. King Report on Corporate Governance for South Africa, states that:

“The board should implement a comprehensive system of controls to ensure that risks are mitigated and that the company’s objectives are attained.”

4. Roles and Responsibilities

Reference should be made to each Municipality’s Risk Management Framework for comprehensive information in respect of roles and responsibilities. The following are the basic roles and responsibilities of municipal officials but are not limited to these:

4.1. Council

By appointing the Accounting Officer, Council has a major role in defining what it expects in integrity and ethical values and can confirm its expectations through oversight activities. By reserving authority in certain key decisions, the council plays a role in setting strategy, formulating high-level objectives and broad-based resource allocation. The executive authority provides oversight with regard to risk management by:

Being aware of and concurring with the Municipality’s risk appetite; Reviewing the Municipality’s risk portfolio and considering it against the Municipality’s risk appetite; and Understand the priority risks.
4.2. Audit Committee

The Audit Committee should be active and possess an appropriate degree of management, technical, and other expertise, coupled with the mind-set necessary to perform its oversight responsibility.

It should be prepared to question and scrutinize management’s activities, present alternative views and act in the face of wrongdoing.

It should provide oversight to the municipality’s risk management process and it should be aware of and concur with the municipality’s risk appetite.

The Audit Committee members should be independent outside members.

4.3. The Accounting Officer

The Accounting Officer is accountable to the Council, who is to provide governance, guidance and oversight. The Accounting Officer is ultimately responsible for and should assume “ownership” of risk management. More than any other individual, the Accounting Officer sets the “tone at the top” that affects integrity and ethics and other factors of the control environment. In any municipality, the Accounting Officer fulfils this duty by providing leadership and direction to top and senior managers and reviewing the way they manage the programmes and components within the municipality. The Accounting Officer provides leadership by:

Reviewing the risk management policy / framework, taking into account recommendations by the Audit and Risk Management Committee and signing it off as proof of accountability;

Approving the Municipality’s risk appetite and risk profile;
Ensuring alignment of the strategic objectives and risk appetite;
Responsible for setting the risk strategy;
Being aware of the Municipality’s risk tolerances and risk profile;
Knowing the extent to which management has established effective risk management in the municipality;
Being aware of the most significant and strategic risks and whether management is responding appropriately.

4.4. Risk Management Committee

The Municipal Risk Management Committee (MRMC) is responsible for the oversight of the implementation of Enterprise Risk Management (ERM) process. The Municipality should delegate the day to day implementation process to the risk management unit. In addition, the Municipality will be responsible for ensuring that a comprehensive risk management policy framework is established and updated. The policy framework should consist of risk management policies, procedures, processes and generally accepted methodologies. The responsibilities of the Risk Management Committee are two-fold:

a) Ensure that the Municipality’s organisation’s risk management framework is efficiently implemented and maintained; and

b) Provide the Accounting Officer with assurance that the risks, to which the department is exposed, are being efficiently managed in compliance with the policy / framework and that strategies dealing with abnormal events have been implemented.

To achieve these responsibilities, the Municipality should ensure that:

The statement of the municipality’s risk appetite is appropriately translated into risk tolerances;

The risk management policy framework is established, efficiently implemented and continuously updated to remain relevant to the department’s activities;

Recommend the contents and frequency of risk reporting;

Facilitate and promote communication of risk related matters to the Accounting Officer;

Review the aggregate risk profile.
4.5. Chief Financial Officer

The Chief Financial Officer is accountable to the Accounting Officer, who has ultimate responsibility for the Department’s risk management. The Chief Financial Officer should assist the Accounting Officer by:

- Providing administrative support and leadership to the risk management unit / function;
- Reviewing the risk management policy / framework;
- Assisting in the approval of the department’s risk appetite and risk profile;
- Ensuring alignment of the strategic objectives and risk appetite;
- Assisting in determining the department’s risk tolerances and risk profile;
- Being aware of the most significant and strategic risks and whether management is responding appropriately.

4.6. Chief Risk Officer (CRO)

To enhance the department’s institutional governance responsibility internally and to ensure that appropriate focus is placed on this important task, the Municipality should delegate the responsibility of the day to day implementation and management of the risk management activities to the Chief Risk Officer (CRO) of the risk management unit.

The CRO must ensure that the risks management policy is implemented and that the Accounting Officer and Risk Management Committee receive the appropriate reports on the department’s risk profile and the implementation of the risk management process.

The CRO should monitor the organisation’s overall risk profile, ensuring that major risks are identified and reported upwards. The CRO should provide and maintain the risk management infrastructure to assist the Accounting Officer and Municipality fulfil its responsibilities.
The CRO is responsible for managing the Municipality’s risk management unit in terms of:

Working with senior management in establishing and communicating the Municipality’s risk management philosophy / policy statement;

Ensuring that the Audit Committee, Risk Management Committee and senior management are adequately informed and trained on current and emerging Enterprise Risk Management principles and concepts;

Determining, implementing and maintaining an appropriate risk management infrastructure, policies, procedures and processes;

Establishing, communicating and facilitating the use of the appropriate risk management methodologies, tools and techniques;

Facilitating enterprise–wide risk evaluation and monitoring of the capabilities around the management of significant risks.

Working with other management and staff in establishing and maintaining effective risk management in their areas of responsibility.

The CRO is responsible for drafting risk management report and maintaining the main risk register.

Providing the accounting officer, senior management and the audit and risk committees with consolidated reports of risk exposures and the progress on mitigation plans.

**4.7. Management**

In a cascading responsibility, a manager or risk co-ordinator is effectively an accounting officer of his or her sphere of responsibility. They are leaders of staff functions such as compliance, finance, human resources and information technology, whose monitoring and control activities cut across, as well as up and down, the operating and other units of the department.
4.8. Unit/Programme / Sub-Programme Risk Owner

Preferably, the Unit/Programme or Sub-Programme Risk Owner should be:

A member of the senior management team within a programme or sub-programme.

Prepared to acquire or have an understanding of Enterprise Risk Management (ERM) concepts, principles and processes as outlined in this policy framework.

Furthermore, the Unit/Programme or Sub-Programme Risk Owner should:

Support the risk management processes and initiatives of the particular programme;

Have sufficient authority to drive risk management as required by the municipality’s risk management philosophy, policy, strategy, and other risk management initiatives.

A key part of the Unit/Programme or Sub-Programme Risk Owner’s responsibility involves escalating instances where the risk management efforts are stifled, such as when individuals try to block appropriate risk management initiatives. The Unit/Programme or Sub-Programme Risk Owner also adds value to the ERM process by providing guidance and support to manage “problematic” risks and risks of a transversal nature.
4.9. Risk Co-ordinators

A Risk Co-ordinator is a manager or staff member of a unit/programme, sub-programme or sub-sub programme allocated specific risk management support functions within a programme/sub-programme/unit.

In a cascading responsibility, risk co-ordinator is effectively an accounting officer of his or her sphere of responsibility. They are leaders of staff functions such as compliance, finance, human resources and information technology, whose monitoring and control activities cut across, as well as up and down, the operating and other units of the department.

The responsibilities of the risk co-ordinators includes, but not entirely limited to:
Compilation and maintenance of unit/programme/sub-programme/unit risk registers
Monitor and report regularly on risks within the unit/programme/sub-programme/unit
Monitor and report on response plans within the unit/programme/sub-programme/unit
Update Unit/Programme or Sub-Programme Risk Owner on the status of Enterprise Risk Management within the unit/programme/sub-programme/unit.

4.10. Internal Auditors

Internal auditors play an important role in the monitoring of risk management and the quality of performance as part of their regular duties or upon special request of top management, which is approved by the audit committee. They may assist both management and the accounting officer or audit committee by monitoring, examining, evaluating, reporting on and recommending improvements to the adequacy and effectiveness of management’s risk management processes. Such request should however be routed through the audit committee to ensure that such involvement does not effect the completion of the approved audit plan.
The purpose of internal audit is to provide independent, objective assurance designed to add value and improve the operations of the organisation. Internal audit assists in bringing about a systematic, disciplined approach to evaluating and improving the effectiveness of systems and processes, which control the management of risk.

The responsibilities of internal audit include:

Giving assurance on the risk management process, including compliance with policy.

Giving assurance that risks are correctly evaluated as per the risk framework.

Confirming that controls for major risks are operating as assessed by management.

4.11. Auditor General

The Auditor General, as the external auditor, brings an independent and objective view in respect of the risk management, contributing, on the one hand, directly through the financial statement audit and internal control examinations, and indirectly by providing additional information useful to management and the accounting officer in carrying out their responsibilities, on the other. External auditors, however, are not responsible for the department's risk management.
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