HARRY GWALA DEVELOPMENT AGENCY (PTY) LTD

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RISK MANAGEMENT POLICY

AND

PROCEDURE MANUAL

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1. INTRODUCTION

Enterprise Risk Management forms a critical part of the Agencies Strategic Management. It is the process whereby an entity both methodically and intuitively addresses the risk attached to their activities with the goal of achieving sustained benefit within each activity and across a portfolio of activities. Enterprise Risk Management is therefore recognised as an integral part of sound organisational management and is being promoted internationally and in South Africa as good business practice applicable to the public and private sectors.

The underlying premise of enterprise risk management is that every entity exists to provide value for its stakeholders. All entities face uncertainty and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity with the potential to erode or enhance value.

Enterprise Risk Management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value. Value is maximised when management sets strategy and objectives to strike an optimal balance between growth and return goals and related risks and efficiently and effectively deploys resources in pursuit of entity's objectives.

The framework provides a basis for management to effectively deal with uncertainty of associated risk and opportunity thereby enhancing its capacity to build value. The following factors require consideration when integrating enterprise risk management into organisational decision-making structures:

- Aligning risk management with objectives at all levels of the organisation.

- Introducing risk management components into existing strategic planning and operational practices.

- Including risk management as part of employee's performance appraisals.

- Continuously improving control and accountability systems and processes to consider risk management and its results.

The Enterprise Risk Management Framework specifically addresses the structures, processes and standards implemented to manage risks on an enterprise-wide basis in a consistent manner. The standards further address the specific responsibilities and accountabilities for the Enterprise Risk Management process and reporting of risks and incidences at various levels within Harry Gwala Development Agency. As the field of risk management is dynamic, this policy and framework document is expected to change from time to time.

RISK MANAGEMENT POLICY STATEMENT

Current trends in good corporate governance have given special prominence to the process of Enterprise Risk Management and reputable businesses are required to demonstrate that they comply with expected risk management standards. Harry Gwala Development Agency must ensure that the processes of risk management receives special attention throughout the organisation and that all levels of management know, understand and comply with the framework document.

2.   PURPOSE OF THE POLICY

The purpose of the Enterprise Risk Management policy is to:

- Advance the development and implementation of modern management practices and to support innovation throughout HGDA.

- Contribute to building a risk-smart workforce and environment that allows for innovation and responsible risk taking while ensuring legitimate precautions are taken to protect the public interest, maintain public trust and ensure due diligence.

- Provide guidance for Executive Authority, Accounting Officer, Managers and staff when overseeing or implementing the development of processes, systems and techniques for managing risk, which are appropriate to the context of HGDA.

The overall purpose of this policy document is providing guidance to the Board, Management, and staff of HGDA on the management of risks facing the Agency. The contents must therefore be read and understood by all staff who will be responsible for implementing the relevant parts of the policy in their areas of responsibility. In addition, this policy serves as a base to set the goals, regarding the level of risk management responsibility and performance that the Harry Gwala Development Agency (HGDA) will strive to achieve and against which all the Agency's operations and activities can be evaluated.

3. LEGAL COMPLIANCE

The word Municipality in respect to legislative compliance must be understood to be used interchangeably with reference to Agency as legislation is not written specific to District Development Agency's.

3.1 MUNCIPAL FINANCIAL MANAGEMENT ACT (MFMA)

Section 62(1)(a) of the MFMA states that *"the Accounting Officer of a municipality 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".*

3.2 TREASURY REGULATIONS

Section 3.2.1 of the Treasury Regulations states the following: *"The accounting officer must ensure that risk assessment is conducted regularly to identify emerging risks of the institution. A risk management strategy which Harry Gwala Development Agency must include a fraud prevention plan, must be used to direct the internal audit effort and priority".*

3.3 PUBLIC SECTOR RISK MANAGEMENT FRAMEWORK

The public sector risk management framework published on 01 April 2010 also requires that an organisation must have a risk management unit with the entire risk management infrastructure listed on the framework.

3.4 MUNICIPAL SUPPLY CHAIN MANAGEMENT REGULATIONS

Section 41 of the municipal supply chain management regulations states inter alia that, a Supply Chain Management Policy must provide for an effective system of risk management for the identification, consideration and avoidance of potential risks in the supply chain management system.

Risk is inherent in all business activities and every official must continuously manage risks within their respective area of responsibility. Harry Gwala Development Agency recognises that the aim of risk management is not to eliminate risk totally, but rather to provide the structural means to identify, assess, manage and monitor the risks involved in all its activities. It requires a balance between the cost of managing risks and the anticipated benefits that will be derived.

The Agency acknowledges that risk management is an essential element in the framework of good corporate governance and is an integral part of good management practice. The intent is to embed risk management in a very practical way into business process and functions and not to impose risk management as an extra requirement.

4.   **DEFINITIONS**

4.1   Risk refers to the uncertainty that's an event could occur that could have a negative impact on the achievement of objectives.

Risk is characterised and rated by considering two characteristics:

1. Probability or likelihood (L) of occurrence; and
2. Consequence (C) of occurrence.

This is expressed as R (risk) = L (likelihood) x C (consequence).

4.2   Likelihood is a quantitative description of probability or frequency.

4.3   Impact is the outcome of an event, being a loss, disadvantage or gain. There may be a range of possible outcomes associated with an event.

4.4   Control means taking action to first eliminate risks so far as is reasonably practicable, and if that is not possible, minimising the risks so far as is reasonably practicable.

4.5 **Risk Assessment** is the process of evaluating and comparing the level of risk against predetermined acceptable levels of risk.

4.6 **Risk Management** is the application of a management system to risk and includes identification, analysis, treatment and monitoring.

4.7 **Risk Owner** is the person(s) responsible for managing risks and is usually the persondirectly responsible for the strategy, activity or function that relates to the risk.

5. PRINCIPLES

Risk management is a key governance and management function. The HGDA has the primary duty to promote sustainable economic development within the Harry Gwala District Municipality by eliminating risks so far as is reasonably practicable, if it is not reasonably practicable to eliminate the risks, by minimising those risks so far as is reasonably practicable, if it is not reasonably practicable to eliminate the risks, by minimising those risks so far as is reasonably practicable.

Deciding what is 'reasonably practicable' to mitigate risks requires weighing up certain matters, including the likelihood of a hazard or risk occurring and the degree of harm that would result, and then making a judgement about what is reasonable in the circumstances.

Effective risk management involves:
- Objective setting
- Identify inherent risks
- Evaluation and assessment of risk
- Residual risks
- Risk response
- Documentation of the risk management process

6. FUNCTIONS AND DELEGATIONS

Position	Delegation/Task
Board of Directors	The HGDA Board sets the tone and culture of the agency and also the strategy and objectives. in addition, it is a vital oversight role. Given this, it is important that it's role and responsibilities in strategic risk are clearly articulated and understood the board should: • Approve the operational risk policy • Periodically assess the effectiveness of its operational risk governance practices and oversight • Make sure the information it receives is appropriate and you have sufficient quality to support and not hinder its risk oversight role • Implements a program of ongoing education in operational risk for board members.
Audit Committee	Is responsible for providing the Accounting Officer with independent counsel, advice and direction and report to Council 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 process, in discharging its oversight responsibilities relating to risk management.
Accounting Officer	The Accounting Officer is accountable for the institution's risk management in terms of legislation. It is important that the Accounting Officer sets the right tone for risk management in the institution, this will ensure that the institution operates in a conducive control environment where the overall attitude, awareness, and actions of management regarding internal controls and their importance to the institution is at par with the stated vision, values and culture of the institution.
Internal Audit	Will assess how well the policy has been implemented and use the risk registers for input in preparing a risk-based audit plan. Internal Audit will assess the effectiveness of the risk management process.

Position	Delegation/Task
Other Officials	Are responsible for integrating risk management into their day-to-day activities. Officials are responsible for preventing and communicating risks such as problems in operations, non-compliance with legislations or policy or illegal actions. Everyone in the municipality has a role in the effective management of risk. All employees should actively participate in identifying potential risks in their area and contribute to the implementation of appropriate treatment actions.

7. POLICY IMPLEMENTATION

Risk management forms part of strategic, operational and line management responsibilities, and is integrated into strategic and service planning processes.

Risk management is embedded in all policies and procedures, with employees contributing to risk management systems.

8. ENTERPRISE RISK MANAGEMENT STANDARDS

The standards constitute the main tasks of the enterprise risk management process. These standards are non-negotiable.

NO	STANDARD	RESPONSIBILITY	FREQUENCY
Oversight Responsibilities			
1	The Audit Committee will review risk management progress at least quarterly.	Chairperson	Quarterly
Reporting Responsibilities			
2	The internal audit unit will submit risk management reports to the Audit Committee & Risk Committee on a quarterly basis. These reports will focus on the following: • The strategic risks • Progress with implementing corrective actions per risks • Any new and emerging risks, risks development, including incidents	Internal Auditor	Quarterly

NO	STANDARD	RESPONSIBILITY	FREQUENCY
Risk Assessment Responsibilities			
3	The Accounting Officer will ensure that a complete review of the risks of HGDA is done at least once a year.	Accounting Officer	Annually
4	Managers will review the risk registers and update the registers contents to reflect any changes without the need to formally reassessment of the risks.	Managers	Monthly
Risk Mitigation Responsibilities			
5	The Audit Committee will receive and consider management's report concerning the effectiveness of internal controls on a quarterly basis.	Chairperson	Quarterly
6	The risk register will contain action plans for improving risk controls and risk interventions. Progress in implementing these actions should be monitored.	Internal Audit	Monthly
Governance Responsibilities			
7	Each risk will have a nominated action owner, who will be responsible for the following: • Updating the risk information • Providing assurance regarding the risk controls • Coordinate the implementation of action plans for managing the risk • Reporting on any developments regarding the risk	Managers	Monthly
8	Internal Audit will use the outputs of risk assessments to compile the internal audit plan and will investigate the effectiveness of risk mitigating controls.	Internal Audit	Per approved Internal Audit Plan
9	The Audit Committee will facilitate a review of the effectiveness of the entity's risk management processes.	Audit Committee	Annually
10	The Fraud Prevention and Anti-corruption plan should be implemented and monitored. Monthly incidents should be reported to the Municipal Manager.	CFO	Monthly

9. RISK MANAGEMENT APPROACH

An organisation wide approach to risk management will be adopted by Harry Gwala Development Agency, which means that every key risk in each part of Agency will be considered and reviewed in a structured and systematic process of risk management. The Accounting Officer commits Harry Gwala Development Agency to a process of risk management that is aligned to the principles of good governance, the Municipal Finance Management Act and Risk Management Framework prescribed by the National Treasury. In implementing our risk management policy, we undertake to do the following: Listed below are the Risk Management Strategic Objectives, as well as the related operational objectives:

Strategic Objective	Measurable Operation Objective
To implement, embed and continuously enhance effective and efficient risk management processes and culture	• Develop a risk management plan for approval by the Risk Committee • Develop a risk management strategy and policy for approval by the Council • Assist with the implementation of the anti-fraud and corruption strategy and plan and monitoring thereof • Review and monitor compliance to set risk management policy and processes • Ensure health and Safety policies are integrated into the holistic risk. • Facilitate strategic and operational risk assessments for all departments on an annual basis • Monitor progress on the formulation and implementation of control improvement action plans
To ensure that risk management consistently aligns with the organization's strategic direction and any environmental factors as applicable.	Conduct annual reviews of the risk management strategic plan, framework and policy to ensure on-going alignment with strategy and environmental changes.
To ensure on-going compliance with risk management standards of performance and good corporate governance principles.	• Ensure that the internal audit unit attend technical update and training sessions on risk management • Facilitate reporting on risk management activities to the Harry Gwala Development Audit Committee on a quarterly basis • Ensure that risk management is a standing item on the agenda for all Executive Committee (EXCO) meetings • Facilitate a complete review of all risks of the Agency at least once a year. The risk re-evaluation process shall include both strategic and operational risks • Facilitate an ICT risk assessment process at least once a year • Facilitate a fraud risk assessment process at least once a year • Follow up on implementation of action plans for improving risk controls and risk interventions by risk owners; • Ensure each risk is assigned to a nominated risk action owner • Facilitate an evaluation of the effectiveness of the municipality's risk management processes at least once a year by National Treasury or external service provider • Ensure that risk management becomes an integral part of the employee and Agency performance management system • Develop a risk management master register and framework aligned to the National Treasury Risk Management Framework • Develop a Fraud Prevention Plan

10. WHEN SHOULD A RISK MANAGEMENT APPROACH BE USED?

Managing risks is an ongoing process that is triggered when changes affect the Harry Gwala Development Agency's work activities – changes such as:

- New program start-up

- Changing work practices, procedures or the work environment

- Purchasing Property Plant and Equipment

- Planning to improve productivity or reduce costs

- New information about workplace risks becomes available

- Responding to workplace incidents

- Responding to concerns raised by employees or others at the Harry Gwala Development Agency workplace.

11. HOW TO IDENTIFY RISKS

Identifying risks involves challenges that threaten the Agency from reaching its objectives. This section will identify a few press categories that could affect an organization:

- Process risk
- Management of people
- Information technology
- Fraud
- Natural disasters
- Geopolitical risks
- Financial risk

11.1 Review the business process

Observing how things are done can help predict what could or might go wrong. Look at how the agency works, how resources are deployed, what safe or unsafe work practices exist as well as the general state of housekeeping.

Things to look out for include:

- Does the work environment enable employees to carry out work without risks to health and safety (for example, space for unobstructed movement, adequate ventilation, lighting)?

- How suitable are the tools and equipment for the task and how well they are maintained?

- Have any changes occurred in the workplace which may affect the organisation.

Make a list of all the threats you can find, including the ones you know are already being dealt with, to ensure that nothing is missed.

11.2 Consult your employees

Ask your employees about any adverse situations they have encountered in doing their work and any near misses or incidents that have not been reported.

Employee surveys can also be undertaken to obtain information about risks that threaten the organization.

11.3 Review available information

Annual reports provide a wealth of information that assist the internal auditor in identifying aspects the Agency is exposed to.

11.4 Review incident records and data

Analyse your records of workplace incidents, near misses, worker complaints, sick leave and the results of any Auditor General and investigations to identify hazards.

12. HOW TO ASSESS RISKS

A risk assessment involves considering what could be an impact if a particular risk materialized. A risk assessment can help you determine:

- How severe a risk is

- Whether any existing control measures are effective

- What action you should take to control the risk, and

- How urgently the action needs to be taken.

A risk assessment can be undertaken with varying degrees of detail, depending on the type of risks and the information, data and resources that you have available.It can be as simple as a discussion with staff or involve specific risk analysis tools and techniques.

12.1 When should a risk assessment be carried out?

A risk assessment conducted be done when:
- There is uncertainty about how a risk could affect the Agency

- The work activity involves a number of different complex processes and there is a lack of understanding about how risks may interact with each other to produce a new or greater risks.

A risk assessment is not necessary in the following situations:

- Legislation requires some risks to be controlled in a specific way – these requirements must be complied with.

- A code of practice or other guidance set out a way of controlling a risk that is applicable to your situation and you choose to use the recommended controls. In these instances, the guidance can simply be followed.

12.2 Determine the impact

In most cases, incidents occur because of a chain of events and a failure of one ormore links in that chain. If one or more of the events can be stopped or changed, the risk may be eliminated or reduced.

One way of working out the chain of events is to determine the starting point wherethings begin to go wrong and then consider: 'If this happens, what may happen next? This will provide a list of events that sooner or later causes harm.

To estimate the amount of harm that could result from each hazard you shouldconsider the following questions:

- What is the impact?

- How severe is the impact?

- Could the risk cause financial loss, reputational damage or underperformance from the entity?

- What factors could influence the severity of the risk?

- Which functions or processes of the Agency are exposed to the risk?

12.3 Likelihood of harm occurring

The likelihood that a risk will occur will estimated by considering the following:
- How often is the task done – does this make the risk more or less likely?

- Has it ever happened before, either at the Agency or somewhere else? How often?

You can rate the likelihood as one of the following:
- Certain to occur - expected to occur in most circumstance

- Very likely - will probably occur in most circumstance

- Possible – might occur occasionally

- Unlikely – could happen at some time

- Rare – may happen only in exceptional circumstances

The level of risk will increase as the likelihood of harm occurring and its severity increases.

12.4 How to control risks

The most important step in managing risks involves:

- Eliminating them so far as is reasonably practicable.

- Minimising the risks so far as is reasonably practicable.

In deciding how to control risks the Agency must consult employees and their representatives who will be directly affected by this decision. Their experience will help you choose appropriate control measures, and their involvement will increase acceptance of any changes that may be needed to the way they do their job.

There are many ways to control risks. Some controls are more effectivethan others.

You should consider various control options and choose the control that most effectively eliminates minimises the risk in the circumstances. This may involve single control measure or a combination of different controls that together provide the highest level of protection that is reasonably practicable.

Some problems can be fixed easily and should be done straightaway, while others will need moreplanning to resolve. Of those requiring more effort, you should prioritise areas for action, focusing first on those hazards with the highest level of risk.

12.5 How to review controls

The controls that you put in need monitoring and reviewing regularly to make sure they work as planned.

There are certain situations where you will be required to review your control measures, if necessary, revise them. A review is required when:

- A significant change occurs to the workplace, work process or system of work.

- There is evidence that a risk control measure does not adequately control the risk.

- A notifiable incident occurs.

You can use the same methods as in the initial risk identification step to monitor controls. Consult and consider the following questions:

- Are the control measures working effectively in both their design and operation?

- Have the control measures introduced new problems?

- Have all risks been identified?

- Are safety procedures being followed?

- Has instruction and training provided to employees on how to manage risks been effective?

- Are employees actively involved in identifying risks and possible control measures?

- Are the frequency and severity of high risks reduced overtime?

- If new legislation or new information becomes available, does it indicate current controls may no longer be the most effective?

If problems are found, go back through the risk management steps, review your information and make further decisions about risk control.

12.6 How to ensure controls remain effective

The following actions will help you monitor the control measures you have implemented and ensure that they remain effective:

- *Accountability* – accountability must be clearly allocated to ensure procedures are followed and maintained. Where managers and supervisors have oversight responsibly, they must have the authority and resources to meet them. Management should ensure that responsibilities are carried out.

- *Regular review* – risk controls are more effective where there is regular review of work procedures and consultation with employees and their representatives

- *Effective communication* – risk controls are more effective where procedures are communicated effectively

- *Up-to-date training and competency* – risk controls, particularly lower level controls, depend on all employees and supervisors having the appropriate

- *Competencies.* Training should be provided to maintainc competencies and to ensure new employees can work effectively.

12.7 How to keep records

Keeping records of the risk management process demonstrates compliance. It also helps when undertaking subsequent risk assessments.

Keeping records of the risk management process has the following benefits. It:

- Allows the Agency to demonstrate how decisions about controlling risks were made

- Assists in targeting training at key hazards.

- Provides a basis for preparing work procedures.

- Allows you to review risks following any changes more easily to legislation or business activities

- Allows new staff to understand why risk control decisions have been made,and

- Demonstrates to others (regulators, investors, shareholders, customers) that risks are being managed.

The detail and extent of recording will depend on the size of your workplace and the potential for major work. It is useful to keep information on:

- The identified risks and chosen control measures (including any hazard checklists, worksheets and assessment tools used in working through the risk management process

- How and when the control measures were implemented, monitored andreviewed

- Who you consulted with

- Relevant training records; and

- Any plans for changes.

13. POLICY COMMUNICATION

This will serve to ensure effective communication of the purpose, role, and processes of risk management to stakeholders and to ensure accessibility of the services of the risk management unit by other departments/sections. The internal audit unit will perform the following duties:
- Arrange risk management training sessions for all staff at regular intervals.

- Conduct quarterly risk awareness sessions on topics of interest to management and staff.

- Communicate to management the availability of the risk management strategy, policy and framework.

- Monitoring and Reporting of progress on the risk management The internal auditor will prepare a quarterly report on the progress made towards the attainment of the risk management objectives and implementation The Audit Committee will evaluate all risk management reports submitted to by management, monitor the progress made towards the implementation of the risk management strategic plan.