
# RISK MANAGEMENT MANUAL 2024/2025

**BY: Dr RUTH S. MOMPATI RISK MANAGEMENT UNIT SHARED SERVICES**

**PART A: RISK MANAGEMENT FRAMEWORK & POLICY**

**PART B: RISK MANAGEMENT STRATEGY**

**PART C: RISK APPITITE AND TOLERANCE FRAMEWORK**

**PART C: RISK MANAGEMENT, FRAUD & ANTI-CORRUPTION COMMITTEE CHARTER**

**GREATER TAUNG LOCAL MUNICIPALITY**

**RISK MANAGEMENT MANUAL 2024/2025**

| | |
|---|---|
| **Document Ref No:** | RMM/ABS/24-25 |
| **Resolution No:** | |
| **Authors / Created by:** | RISK MANAGEMENT UNITSHARED SERVICES<br>DR. RUTH S. MOMPATI DISTRICT MUNICIPALITY |
| **Revision/Last updated:** | |
| **Applicability:** | DR RUTH S MOMPATI DISTRICT MUNICIPALITY<br>GREATER TAUNG LOCAL MUNICIPALITY |
| **Effective Date:** | 1 July 2024 – 30 June 2025 |
| **Approved by:** | RISK MANAGEMENT, FRAUD & ANTI-CORRUPTION COMMITTEE, AUDIT & PERFORMANCE COMMITTEE & MUNICIPAL COUNCIL |

***PART A:***

# RISK MANAGEMENT FRAMEWORK & POLICY 2024/2025

| Contents | Page |
|---|---|

# 1 Introduction and Purpose

Risk Management is defined as:

*"a continuous, proactive and systematic process, effected by a Municipality's executive authority, accounting officer, management and other personnel, applied in strategic planning and across the Municipality, designed to identify potential events that may affect the Municipality and manage risks to be within its risk tolerance, to provide reasonable assurance regarding the achievement of municipal objectives."*

Risk Management is designed to identify potential events that may significantly affect the Municipality's ability to achieve its strategic objectives or maintain its operations. Risk is a chance or an event, either positive or negative, that will have significant impact on operations and /or achievement of its objectives. It is measured in terms of impact and likelihood

Risk management forms a critical part of any municipality's strategic management. It is the process whereby a municipality both methodically and intuitively addresses the risk attached to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of activities. Risk management is therefore recognized as an integral part of sound organizational management and is being promoted internationally and in South Africa as good practice applicable to the public and private sectors.

The underlying premise of risk management is that every governmental body exists to provide value for its stakeholders. Such value is based on the quality of service delivery to the citizens. All municipalities face uncertainty, and the challenge for management is to determine how much **uncertainty** the municipality is prepared to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance **value**.

***Uncertainty***

Municipalities operate in environments where factors such as technology, regulation, restructuring, changing service requirements and political influence create uncertainty. Uncertainty emanates from an inability to precisely determine the likelihood that potential events will occur and the associated outcomes.

***Value***

Value is created, preserved or eroded by management decisions ranging from strategic planning to daily operations of the municipality. Inherent in decisions is the recognition of risk and opportunity, requiring that management consider information about the internal and external environment deploys precious resources and appropriately adjusts municipal activities to changing circumstances. For municipalities, value is realised when constituents recognize receipt of valued services at an acceptable cost. Risk management facilitates management's ability to both create sustainable value and communicate the value created to stakeholders.

The following factors require consideration when integrating risk management into municipal decision making structures:

- Aligning risk management with objectives at all levels of the municipality;
- Introducing risk management components into existing strategic planning and operational practices;
- Communicating municipal directions on an acceptable level of risk;
- Including risk management as part of employees' performance appraisals; and
- Continuously improving control and accountability systems and processes to take into account risk management and its results.

Risk management increases the probability of success, and reduces both the probability of failure and the uncertainty of achieving the Municipality's overall objectives. Risk management should be a continuous and developing process which runs throughout the Municipality's strategy and the implementation of that strategy. It should address methodically all the risks surrounding the Municipality's activities past, present and future.

The purpose of this framework and policy is to:

- Provide a comprehensive and consistent approach to the implementation of risk management;
- Provide guidance for the accounting officer, the executive authority, managers and staff when overseeing or implementing the development of processes, systems and techniques for managing risk;
- Provide management with proven risk management tools that support their decision-making responsibilities and processes, together with managing risks, which impact on the objectives and key value drivers of the municipality;

- Support the objectives of municipalities in enhancing their systems of risk management to protect against adverse outcomes and optimize opportunities;
- Assist in embedding risk management process into the day to day activities of the municipalities and integrating risk into institutional processes.

## 2 Benefits of Risk Management

The benefits of risk management are as follows:

- **Increasing probability of achieving objectives -** As risk management is participatory and proactive it helps management achieve the municipality's performance and financial targets and assists with the prevention of loss of resources. Controls and risk interventions will be chosen on the basis that they increase the likelihood that the municipality will fulfil its intentions / commitments to its stakeholders.
- **Aligning risk appetite and strategy-** Management considers their risk appetite in evaluating strategic alternatives, setting related objectives and developing mechanisms to manage related risks. Risk management thus assists management to take the right decisions in an uncertain environment. Focusing on risk analysis and responses improves the quality of strategic plans. It generates plans, which are comprehensive and analytical.
- **Enhancing risk response decisions-** Risk management provides the rigour for management to identify alternative risk responses – risk treatment, transfer, terminate and tolerate.
- **Reducing operational surprises and losses -** The municipality gains enhanced capability to identify potential events and establish responses thereby reducing surprises and associated costs or losses i.e. meeting targets and reducing over / under spending of the budget.
- **Identifying and managing multiple and cross - enterprise risks -** Municipalities face a myriad of risks affecting multiple parts. Risk management facilitates coordinated responses to the interrelated impacts and enhances an integrated response to multiple risks.
- **Seizing opportunities -**By considering a full range of potential events, management is positioned to identify and proactively realise opportunities.
- **Ensuring proper financial and asset management -** Risk management contributes to ensuring that there is proper financial and asset management within the municipality.

- **Ensuring compliance with laws and regulations -** Risk management contributes to effective reporting and monitoring of compliance with laws and regulations and assists with the limitation of damage to the municipality's reputation and associated consequences.

# 3 Legal Mandate

## *3.1 Accounting Officer/Municipal Manager*

Section 62 (1) (c) (i) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) requires that: The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all responsible steps to ensure –

(c) that the municipality has and maintains effective, efficient and transparent systems -

(i) of financial and risk management and internal control."

## *3.2 Management*

Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA).The extension of general responsibilities in terms of Section 78 of the MFMA to all senior managers and other officials of municipalities implies that responsibility for risk management vests at all levels of management and that it is not limited to only the Accounting Officer and Internal Audit.

## *3.3 Internal Audit*

Section 165 (2) (a), (b) (iv) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) states that: The internal audit unit of a municipality or municipal entity must –

prepare a risk based audit plan and an internal audit program for each financial year. Advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to risk and risk management.

## *3.4 Audit Committee*

Section 166 (2) (a) (ii) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) states that an audit committee is an independent advisory body which must advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and management staff of the municipal entity, on matters relating to risk management.

# 4 Scope and Goals

The realisation of the Municipality's strategic plan depends on Management being able to take calculated risks in a way that does not jeopardise the direct interest of stakeholders. Sound management of risk(s) will enable Management to anticipate and respond to changes in the service delivery environment, as well as make informed decisions under conditions of uncertainty.

This Policy addresses key elements of the risk management framework to be implemented and maintained by the Municipality, which will allow for the management of risks within defined risk/return parameters, risk appetite and tolerances as well as risk management standards. As such, it provides a framework for the effective identification, evaluation, management, measurement and reporting of the Municipality's risks.

Risk is often created by:

- Changes that takes place within the Municipality (i.e. people, systems, processes, technology, legislation and regulations);
- External influences (i.e. economics, availability of human resources and damages);
- Operations and complexity of processes;
- Volume of activities within a Municipality; and
- The nature of the control environment.

By defining risk in terms of an impact upon the achievement of business objectives, the Municipality's risk management framework should recognise the need to manage risk so that the Municipality is sustainable as well as able to timeously meet its obligations to the broader stakeholders (i.e. the community, financiers, and service providers).

The primary goals of the Municipality's Risk Management Program are to support the overall mission of the Municipality by:

- Supporting balance sheet protection;
- Supporting business continuity;
- Supporting reputation risk;
- Defining risk management roles and responsibilities within the Municipality and outlining procedures to mitigate risks so as to ensure a dynamic and demonstrable process in which responsibility rests with line management with overall responsibility vested in the Accounting Officer and the Risk Management Unit.

- Ensuring pro-active, consistent, integrated and acceptable management of risk throughout the Municipality;
- Defining a reporting framework to ensure regular communication of pre-defined risk management information to Council, Audit and Executive Committees, senior management and officials engaged in risk management activities;
- Remaining flexible to accommodate the changing risk profile and management needs of the Municipality while maintaining control of the overall risk position;
- Document the approved methodology for risk measurement; and
- Providing a system or process to accommodate the central accumulation of risk data such as the development and maintenance of a risk register, which must form part of operational support and procedures.

## 5 Objective of the risk framework

The objective of this policy document is to provide guidance to the risk management function within the Municipality on how to:

- Develop and implement risk management as an integral part of all Municipal activities; and
- Identify and develop core capabilities to identify and manage risk.

Risks are assessed on their **current** and **desired** impact and likelihood.

Current Risk is defined as the likelihood that a risk may materialise, given current controls and risk responses in place, and the impact thereof if a risk materialises.

Desired Risk is defined as Management and stakeholders of an organisation determining the risk appetite of an organisation i.e. the level of risk exposure within which the organisation may operate and function. The desired risk is the contemplated future risk exposure, set within the risk appetite of an organisation, after taking into account:

- Available resources;
- The effectiveness of current controls and risk responses; and
- The effectiveness of future (planned) additional controls and risk responses.

Each of these risks must be assessed and the likelihood and the frequency of the cause of the risk occurring and the resulting impact severity of the risk on the functions and sustainability of the Municipality must be documented and facilitated by the Risk

Management Unit and considered by the Accounting Officer, Management and the Audit And Executive Committees. This should be done on an annually and quarterly basis.

# 6 Policy Statement

It is the policy of the Municipality to adopt a common approach to the management of risk. This approach involves a clearly stipulated strategy defining the risks that the Municipality is exposed to and the manner in which the risks shall be managed. The Municipality will identify and manage its risk in support of its vision, mission, goals and aims as set out in the Integrated Development Plan (IDP), Service Delivery and Budget Implementation Plan (SDBIP) and its operations.

The risk policy guides the development of a strategic plan that should address the following:

- An effective risk management architecture;
- A reporting system to facilitate risk reporting; and
- An effective culture of risk assessment.

The Municipality will promote the risk management language and culture in all sections of the Municipality and aim to demonstrate quality improvement resulting from effective risk management.

All risk management efforts will be focused on supporting the Municipality's objectives. Equally, they must ensure compliance with the MFMA, other relevant legislation, and fulfil the requirements of the King III report on Corporate Governance. This policy is based on minimum requirements and best practices as contained in the *COSO Enterprise Risk Management – Integrated Framework*, considered to be a globally accepted best practice methodology guideline on the topic of enterprise risk management, and *National Treasury – Final Risk Management Framework*, accepted within the South African Public Service as a definitive guideline and source of best
practices on the topic of enterprise risk management in the Public Sector and the Standards for Professional Practice of Internal Auditors (SPPIA).

The risk manager drives and oversees the implementation of, and monitoring of compliance to the policy by facilitating and coordinating the process of:

- Identifying risks;

- Reviewing and ranking of risks;
- Assigning responsibility to manage identified risks;
- Tracking and monitoring of risks; and
- Reporting on the status of risk management initiatives to the Accounting Officer, Management, Council and Audit Committee.

# 7 Risk Management Methodology and Framework

The components of the Risk Management process are as follows:

7.1 Internal Environment

7.2 Objective Setting

7.3 Risk Identification

7.4 Risk Assessment

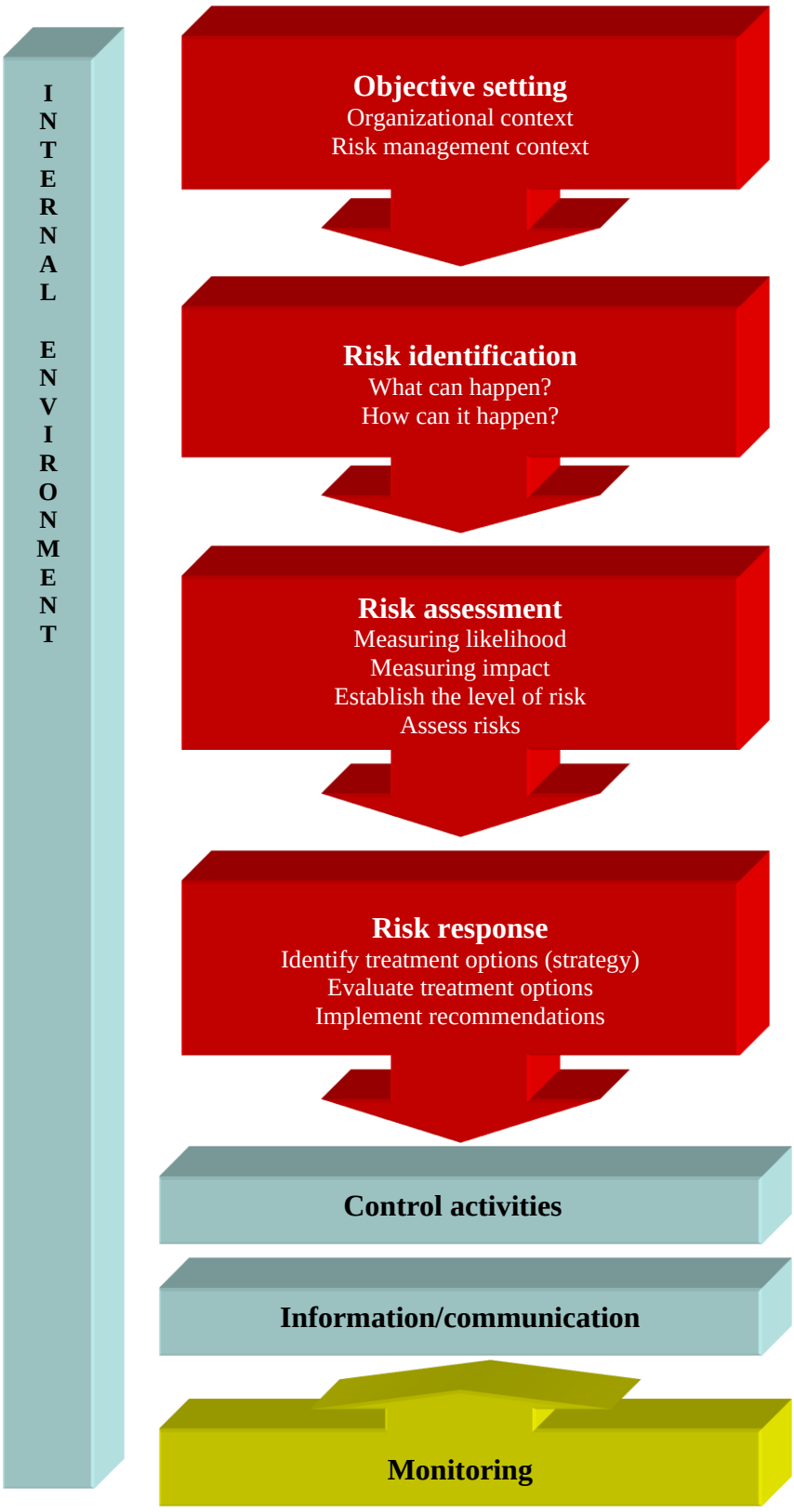
7.5 Risk Responses

7.6 Control Activities

7.7 Information and Communication

7.8 Monitoring

**Components of the Risk Management Process**



### *7.1 Internal Environment*

The municipality's internal environment is the foundation of risk management, providing discipline and structure. The internal environment influences how strategy and objectives are established, the municipality's activities are structured, and risks are identified, assessed and acted upon. It influences the design and functioning of control activities, information and communication systems, and monitoring activities.

The internal environment comprises many elements, including the municipality's ethical values, competence and development of personnel, management's operating style and how it assigns authority and accountability.

As part of the internal environment management establishes the risk management philosophy, establishes the risk tolerance levels, inculcates a risk culture and integrates risk management with related initiatives.

The internal environment consists of ten different layers that should all be present and functioning. The layers are discussed in detail below:

**Risk Management Philosophy** – The risk management philosophy is the set of shared beliefs and attitudes that characterise how the municipality considers risk in everything it does from strategy development and implementation to its day to day activities. The risk management philosophy reflects the municipality's values, influencing its culture and operating style, and affects how the risk management components are applied, including how risks are identified, what risks are accepted and how they are managed.

The overall risk philosophy of the municipality is to identify, assess and manage its risks so as to preserve its strategic objectives and create value for all its stakeholders

**Risk Appetite** - The risk appetite can be defined as the amount of risk that the municipality is willing to accept in pursuit of its mission / vision. The risk appetite guides resource allocation. Management allocates resources across functional areas with consideration of the municipality's risk appetite and units' plans for ensuring that objectives are met and expenditure remains within budget. Management considers its risk appetite as it aligns the municipality, its people and processes and designs the infrastructure necessary to effectively respond to and monitor risks.

The risk appetite enables an improved consistency of decision making at all levels through improving risk understanding and also provides a framework for knowingly taking risk within defined boundaries. The risk appetite derives real value from the assessment of risk over and above compliance purposes. The risk appetite decided upon should be formally considered as part of the setting of strategy, with capital expenditure and other strategic decisions reviewed against it as they arise.

The key determinants of risk appetite are as follows:

- Expected performance;
- The capital needed to support risk taking;
- The culture of the municipality;
- Management experience along with risk and control management skills;
- Longer term strategic priorities;

The formulation of the risk appetite is typically closely aligned to the strategic planning process and is also inclusive of budgeting; as such it should be reviewed by management and the accounting officer on an annual basis.

**Risk Tolerance** - Risk tolerances are the acceptable levels of variation relative to the achievement of objectives. Risk tolerances can be measured, and often are best measured in the same units as the related objectives. Performance measures are aligned to help ensure that actual results will be within the acceptable risk tolerances. In setting risk tolerances, management considers the relative importance of the related objectives and aligns risk tolerances with risk appetite. Operating within risk tolerances provides management greater assurance that the municipality remains within its risk appetite and, in turn, provides a higher degree of comfort that the entity will achieve its objectives.

**Council** - The municipality's Council is a critical part of the internal environment and significantly influences other internal environment elements.

**Integrity and Values** - Management integrity is a prerequisite for ethical behaviour in all aspects of a municipality's activities. The effectiveness of risk management cannot rise above the integrity and ethical values of the people, who create, administer and monitor the municipality's activities.

Integrity and ethical values are essential elements of a municipality's internal environment affecting the design, administration and monitoring of components of the risk management process.

**Commitment to competence** - Competence reflects the knowledge and skills needed to perform assigned tasks. Management should decide how well these tasks need to be accomplished weighing the municipality's strategy and objectives against plans for strategy implementation and the achievement of objectives.
The competency levels for particular jobs should be specified and translated into requisite knowledge and skills. The necessary knowledge and skills in turn may depend on individuals training and experience. Factors considered in developing knowledge and skill levels include the nature and degree of judgement to be applied to a specific job.

**Organisational structure** - The municipality's organisational structure provides the framework to plan, execute, control and monitor its activities. A relevant organisational structure includes defining key areas of authority and responsibility and establishing the appropriate reporting lines
The organisational structure should be organised to enable effective risk management and to carry out its activities so as to achieve its objectives.

**Authority and responsibility** - This includes establishing the reporting relationships and authorisation protocols as well as policies that describe appropriate practices, knowledge and experience of key personnel as well as the resources for carrying out duties.
A critical challenge is to delegate to the extent required to achieve objectives, this means ensuring that decision making is based on sound practices for risk identification and assessment. Another challenge is ensuring that all personnel understand the municipality's objectives and how their actions interrelate and contribute to the achievement of the objectives.

**Human resource policies and procedures** - Human resource policies and practices pertaining to hiring, orientation, training, evaluating, counselling, and promoting, compensating and taking remedial actions send messages to employees regarding the expected levels of integrity, ethical behaviour and competence. Furthermore it is essential that employees be equipped to tackle new challenges as risks throughout the municipality change and become more complex. Education and training must help employees to deal effectively with a changing environment.

### *7.2 Objective Setting*

Objectives must exist before management can identify events potentially affecting their achievement. Risk management ensures that management has a process in place to both set objectives and align the objectives with the municipality's mission, vision, and organisational values and is consistent with the municipality's risk appetite and tolerance levels. The setting of these objectives is usually completed during the, Strategic planning and Budgetary process.

The municipality's objectives can be viewed in the context of four categories:

**Strategic** – relating to high-level goals, aligned with and supporting the municipality's mission/vision;

**Operations** – relating to effectiveness and efficiency of the municipality's operations, including performance and service delivery goals. They vary based on management's choices about structure and performance

**Reporting** – relating to the effectiveness of the municipality's reporting. They include internal and external reporting and may involve financial or non-financial information;

**Compliance** – relating to the municipality's compliance with applicable laws and regulations.

Having confirmed and clearly documented the municipality's objectives, it is necessary to identify all potential risks and threats relating to processes, assets and strategy. These are the possible problems and situations that may hinder the achievement of the objectives of the municipality.

### *7.3 Risk Identification*

The risk identification phase is a deliberate and systematic effort to identify and document the municipality's key risks. The objective of risk identification is to understand what is at risk within the context of the municipality's objectives and to generate a comprehensive list of risks based on the threats and events that might prevent, degrade, delay or enhance the achievement of the objectives.

The municipality should adopt a rigorous and ongoing process of risk identification that also includes mechanisms to identify new and emerging risk timeously. The risk identification process should cover all risks, regardless of whether or not such risks are within the direct control of the municipality.

Risk workshops and interviews are useful for identification, filtering and screening risks but it is important that these judgment based techniques be supplemented by more robust and sophisticated methods where possible, including quantitative techniques.

Relevant and up to date information is important in identifying risks. Risk identification should be strengthened by supplementing management's perceptions of risk with:

- Review of external and internal audit reports;
- Review of the reports of the Standing Committee on Public Accounts and the relevant Parliamentary Committee(s);
- Financial analyses;
- Historic data analyses;
- Actual loss of data;
- Interrogation of trends in key performance indicators;
- Benchmarking against peer groups or quasi peer groups;
- Market and sector information;
- Scenario analyses; and
- Forecasting and stress testing

To ensure comprehensiveness of risk identification the municipality should identify risks through considering both internal and external factors, through appropriate processes of:

**Strategic risk identification**

To identify risks emanating from the choices made by the municipality, specifically with regard to whether such choices weaken or strengthen the municipality's ability to execute its constitutional mandate:

- Strategic risk identification should precede the finalization of strategic choice to ensure that potential risk issues are factored into the decision making process for selecting the strategic options;
- Risks inherent to the selected strategic choice should be documented, assessed and managed through the normal functioning of the system of risk management; and
- Strategic risks should be formally reviewed concurrently with changes in strategy, or at least once a year to consider new and emerging risks

**Operational risk identification**

To identify risks concerned with the municipality's operations:

- Operational risk identification seeks to establish vulnerabilities introduced by employees, internal processes and systems, contractors, regulatory authorities and external events;
- Operational risk identification should be an embedded continuous process to identify new and emerging risks and consider shifts in known risks through mechanisms such as management and committee meetings, environmental scanning, process reviews and the like; and
- Operational risk identification should be repeated when changes occur such as significant environmental or institutional changes, or at least once a year, to identify new and emerging risks.

**Project risk identification**

To identify risks inherent to particular projects:

- Project risk should be identified for all major projects, covering the whole lifecycle; and
- For long term projects, the project risk register should be reviewed at least once a year to identify new and emerging risks.

### *7.4 Risk Assessment*

Risk assessment is a systematic process to quantify or qualify the level of risk associated with a specific threat or event. The main purpose of risk assessment is to help management to prioritise the identified risks. This enables management to spend more time, effort and resources to manage risks of higher priority than risks with a lower priority. The output of the risk assessment is a risk register enriched by the addition of ratings for each risk.

Risks should be assessed on the basis of the likelihood of the risk occurring and the impact of its occurrence on the particular objective it is likely to affect. The risk assessment is performed using a 3 step process.

***Step 1: Develop the scoring system for Impact and Likelihood before the actual assessment.***

The following is a rating table that is utilized to assess the Impact of risks:

| Rating | Impact | Definition |
|---|---|---|

| | | |
|---|---|---|
| **5** | **Critical** | Negative outcomes or missed opportunities that are of critical importance to the achievement of the objective.<br>It is very unlikely that this objective will be achieved 1-29%. |
| **4** | **Major** | Negative outcomes or missed opportunities that are likely to have a relatively substantial impact on the ability to meet objectives.<br>It is very unlikely that this objective will be achieved 30-49%. |
| **3** | **Moderate** | Negative outcomes or missed opportunities that are likely to have a relatively moderate impact on the ability to meet objectives.<br>The objective maybe achieved 50-69%. |
| **2** | **Minor** | Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet the objectives.<br>It is likely that this objective will be achieved 70-89%. |
| **1** | **Insignificant** | Negative outcomes or missed opportunities that are likely to have a negligible impact on the ability to meet objectives<br>The objective will certainly be achieved 90-100%. |

The following is a rating table that is utilised to assess the Likelihood of risks:

| Rating | Assessment | Definition |
|---|---|---|
| **5** | **Almost certain** | The risk is already occurring, or is likely to occur more than once within the next 12 months.<br>There's a 90-100% chance that this risk will definitely occur. |
| **4** | **Likely** | The risk could easily occur, and is likely to occur at least once within the next 12 months.<br>There's a 70-89% chance that this risk will occur. |
| **3** | **Moderate** | There is an above average chance that the risk will occur at least once in the next three years.<br>There's a 50-69% chance that this risk may occur. |
| **2** | **Unlikely** | The risk occurs infrequently and is unlikely to occur within the next 3 years.<br>There's a 30-49% chance that this risk will not occur. |
| **1** | **Rare** | The risk is conceivable but is only likely to occur in extreme circumstances<br>There's a 1-29% chance that this risk will not occur. |

**Illustrated quantitative and quantitative measurement criteria:**

Impact is the potential loss to the organisation or the service delivery failure should the risk materialise. The following **impact** criteria will be used:

| Details | Insignificant | Minor (Low) | Moderate | Major | Critical |
|---|---|---|---|---|---|
| Value (Rand value) | R0 – R5,000 | R5,001 – R20,000 | R20,001 – R100,000 | R100,001 - R500,000 | Above R500,000 |
| Reputation | Internal | Local press | Provincial press | National press | International press |
| Time | 1-2 days | 1-4 weeks | 1 -3 months | 3 – 6 months | > 6 months |

Likelihood is the probability that an event, which could have an impact on the organisation achieving its objectives, may occur. The following **likelihood** criterion will be used:

| Details | Minimum | Low | Medium | High | Maximum |
|---|---|---|---|---|---|
| Percentage | < 10% | 10%-25% | 25%-50% | 50%-90% | > 90% |

***Step 2: Apply the scores to the risk matrix to indicate what areas of the risk matrix would be regarded as high, medium or low risk.***

**Risk index = Impact x Likelihood**

| | | | | | | |
|---|---|---|---|---|---|---|
| I | 5 | 5 | 10 | 15 | 20 | 25 |
| M | 4 | 4 | 8 | 12 | 16 | 20 |
| P | 3 | 3 | 6 | 9 | 12 | 15 |
| A | 2 | 2 | 4 | 6 | 8 | 10 |
| C | 1 | 1 | 2 | 3 | 4 | 5 |
| T | | 1 | 2 | 3 | 4 | 5 |
| | | LIKELIHOOD | | | | |

| Risk index | Risk Magnitude |
|---|---|
| 12.5 – 25 | High |
| 6 – 12 | Medium |
| 1 – 5 | Low |

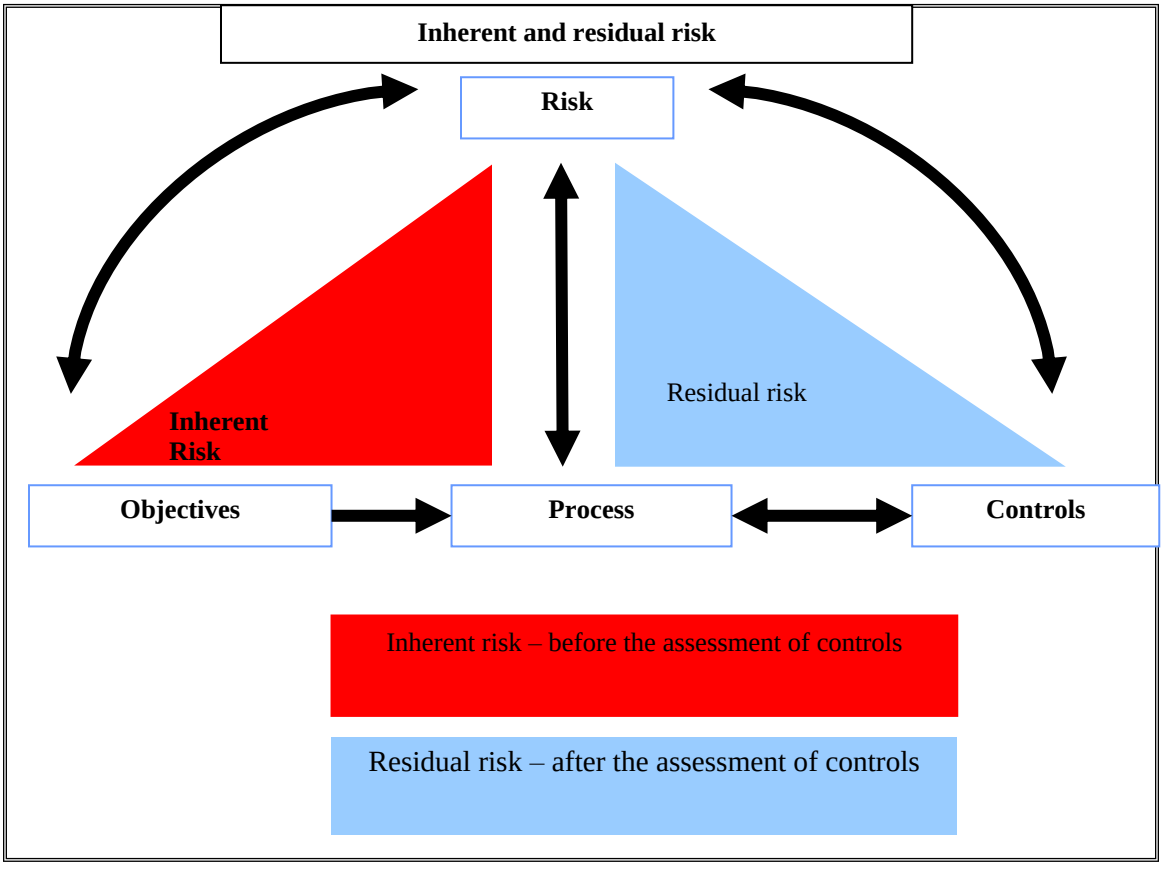
***Step 3: Determine the acceptability of the risk and what action will be proposed to reduce the risk.***

| Risk index | Risk magnitude | Risk acceptability | Proposed actions |
|---|---|---|---|
| 15-25 | High risk | Unacceptable | High level of control intervention required to achieve an acceptable level of residual risk. |

| | | | |
|---|---|---|---|
| **8-14** | **Medium risk** | Unacceptable | Unacceptable except under unique circumstances or conditions. Moderate level of control intervention required to achieve an acceptable level of residual risk |
| **1 – 7** | **Low risk** | Acceptable | Low level of control intervention required, if any. |

Risk assessment is applied first to inherent risk – the risk to the municipality in the absence of any action management might take to alter either the risk's likelihood or impact. Then the residual risk is established to determine the actual level of risk after the mitigating effects of management actions to influence the risk.

The following diagram differentiates between inherent and residual risk.




### *7.5 Risk Responses*

Risk response is concerned with developing strategies to reduce or eliminate the threats and events that create risks. Risk response involves identifying and evaluating the range of possible options to address risks and implementing the chosen option.

Management should develop response strategies for all material risks, prioritising the risks exceeding or nearing the risk appetite level. Response strategies should be documented together with the responsibilities and timelines.

Risk responses fall within the following categories:

| Category | Description |
|---|---|
| Avoid | Refrain from engaging in activities that may result in loss exposure. |
| Treat | Manage the risk. Management undertakes to implement actions that are designed to reduce the likelihood, impact or both. |
| Transfer | Steps taken to shift the loss of liability to third parties such as insuring and outsourcing. |
| Terminate | Management takes action to remove the activities that gave rise to the risks. |
| Tolerate | Management accepts the risk. Informed decision to accept both the impact and likelihood of risk events. |

***The Residual risk exposure (inherent risk x control effectiveness)***

| Risk Rating | Residual risk magnitude | Response |
|---|---|---|
| **15-25** | **High** | Unacceptable level of residual risk. Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation). Controls require substantial redesign or a greater emphasis on proper implementation |
| **8-14** | **Medium** | Unacceptable level of residual risk. Implies that the controls are either inadequate (poor design) or ineffective (poor implementation). Controls require some redesign, or a more emphasis on proper implementation. |
| **1-7** | **Low** | Mostly acceptable level of residual risk. Requires minimal control improvements |

## *7.6 Control Activities*

Risk responses serve to focus attention on control activities needed to help ensure that the risk responses are carried out properly and in a timely manner. Control activities are part of the process by which a municipality strives to achieve its objectives.

Control activities are the policies and procedures that help ensure that management responses are properly executed. They occur throughout the municipality, at all levels and in all functions.

Management is responsible for designing, implementing and monitoring the effective functioning of system internal controls. Without derogating from the above, everyone in the municipality should also have responsibilities for maintaining effective systems of internal controls, consistent with their delegated authority.

Management should develop the internal control architecture through:

- **Preventative controls** to prevent errors or irregularities from occurring e.g. physical security of assets to prevent theft;
- **Detective controls** to find errors or irregularities after they have occurred e.g. performance of reconciliation procedure to identify errors; and
- **Corrective controls** that operate together with detective controls to correct errors and irregularities.

The internal control architecture should include:

a) **Management controls** to ensure that the municipality's structure and systems support its policies, plans and objectives, and that it operates within laws and regulations;
b) **Administrative controls** to ensure that policies and objectives are implemented in an efficient and effective manner;
c) **Accounting controls** to ensure that resources are accounted for fully and transparently and are properly documented; and
d) **Information technology** controls to ensure security, integrity and availability of information.

Perceived control effectiveness.

| Effectiveness category | Category definition | Factor |
|---|---|---|
| **Very good** | Risk exposure is effectively controlled and managed | **20%** |

| | | |
|---|---|---|
| **Good** | Majority of risk exposure is effectively controlled and managed | **40%** |
| **Satisfactory** | There is room for some improvement | **65%** |
| **Weak** | Some of the risk exposure appears to be controlled, but there are major deficiencies | **80%** |
| **Unsatisfactory** | Control measures are ineffective | **90%** |

### *7.7 Information and Communication*

Relevant information, properly and timeously communicated is essential to equip the relevant officials to identify and assess and respond to risks.

Effective information and communication is intended to support enhanced decision making and accountability through:

- Relevant, timely, accurate and complete information;
- Communicating responsibilities and actions.

### *7.8 Monitoring*

Risk management should be regularly monitored – a process that assesses both the presence and functioning of its components and the quality of their performance over time. Monitoring can be done in two ways: through ongoing activities or separate evaluations. This will ensure that risk management continues to be applied at all levels across the municipality.

Monitoring activities should focus on:

- Monitoring of risk action plans - Risk action plans need to be monitored on an ongoing basis to ensure the necessary actions are implemented on schedule and as intended.
- Monitoring of controls - The effective operation of existing controls as well as their cost effectiveness needs to be evaluated regularly. Evaluations may include management reviews, self-assessment reviews and third party reviews as appropriate. Internal audit should also perform periodic reviews on existing controls as well as the implementation of necessary additional controls on a periodic basis.
- Monitoring of new and emerging risks - The risk profile of any organisation will change over time. Thus there is a need to monitor and review the risk profile of the municipality to ensure that it remains relevant and complete. Changes in strategy, the legal and

regulatory environment, restructuring, loss of key personnel, significant control deficiencies, fraud, changes in business objectives will require an immediate review of municipal risk profiles.

- Monitoring of the effectiveness of the risk management process - The efficiency of the entire risk management process should be monitored periodically. A positive correlation should exist between improvements in the system of risk management as well as institutional performance.

**Incident reporting**

Incident reporting is another means of risk monitoring and reviewing the effectiveness of controls. Certain disciplines such as Safety, Health Environmental and Quality may already have in place incident reporting systems. Such reporting systems should be integrated into the broader risk management incident reporting systems in order to avoid duplication of effort.

**Performance measurement**

Management's performance with the processes of risk management will be measured and monitored through the following performance management activities:

- Monitoring of progress made by management with the implementation of the risk management framework;
- Monitoring of loss and incident data;
- Management's progress made with risk mitigation action plans; and
- An annual quality assurance review of risk management performance.

# 8 Accountability for Risk Management

The detailed line accountability for risk management is fully aligned with the Municipality's management structure. Accordingly, the approvals, responsibilities and accountabilities applicable to the identification, evaluation/analysis, treatment, and results and reporting of the Municipality's risks are attributed to the Accounting Officer, the Risk Management Unit and Risk Management Fraud & Anti-Corruption Committee.

The Accounting Officer and the Chief Risk Officer and/or Risk Management Unit, the Risk Management Fraud & Anti-Corruption Committee the Risk Owner / Delegate / Champion are responsible for ultimate sign off of all risk information to the Council and Audit Committee and review prior to any sign-off.

# 9 Reporting

New risks and changes to existing risks will be captured into the risk management system in the month they are identified. The information relating to new risks and / or changes to existing risks should be communicated by the Risk Owner to the Risk Management Unit.

The Risk Management Unit will collect and aggregate the information and will report to the Accounting Officer, monthly, regarding the risk profile of the Municipality.

The Accounting Officer, assisted by the respective Head of Departments will report to the Risk Management, Fraud & Anti-Corruption Committee and the Council on a regular basis, both the current risk profile of the Municipality and a summary of any major changes since the last report.

# 10 Review

The Risk Management Unit lead by the Chief Risk Officer and the Risk Management, Fraud & Anti-Corruption Committee will coordinate an annual review of the effectiveness of this framework as well as all organisational risks, uninsured and uninsurable risks together with the key managers in the Municipality. This annual review will take place immediately prior to the development of the annual business and integrated development plans so that it can have due regard to the current as well as the emerging risk profile of the business.

Internal Audit Shared Services will monitor key controls identified in the risk management system as part of the annual audit plan developed in conjunction with the Accounting Officer and approved by the Audit Committee.

The Municipality will review the risk profile in developing their recommendations to the Council regarding the Municipality's risk financing (insurance) policy and strategy.

# 11 Liabilities and Risks payable in foreign currencies

The Municipal Management Finance Act No 56 of 2003 determines that no municipality or municipal entity may incur a liability or risk payable in a foreign currency. This however does not apply to debt regulated in Section 47 of the Municipal Management Finance Act or to the procurement of goods or services denominated in a foreign currency, but the

Rand value of which is determined at the time of the procurement, or where this is not possible and risk is low, at the time of payment.

## 12 Evidence of compliance

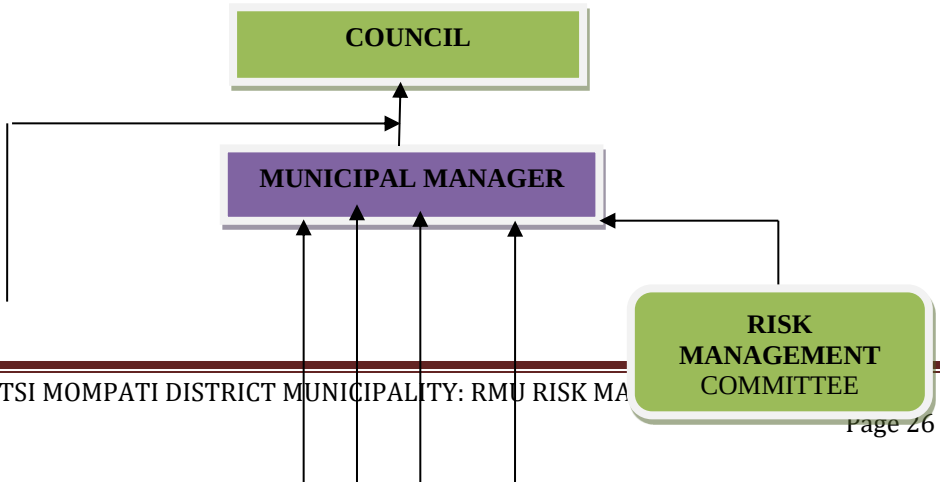
To demonstrate compliance with this Policy, the following documentation will be prepared by the stakeholders and risk owners:

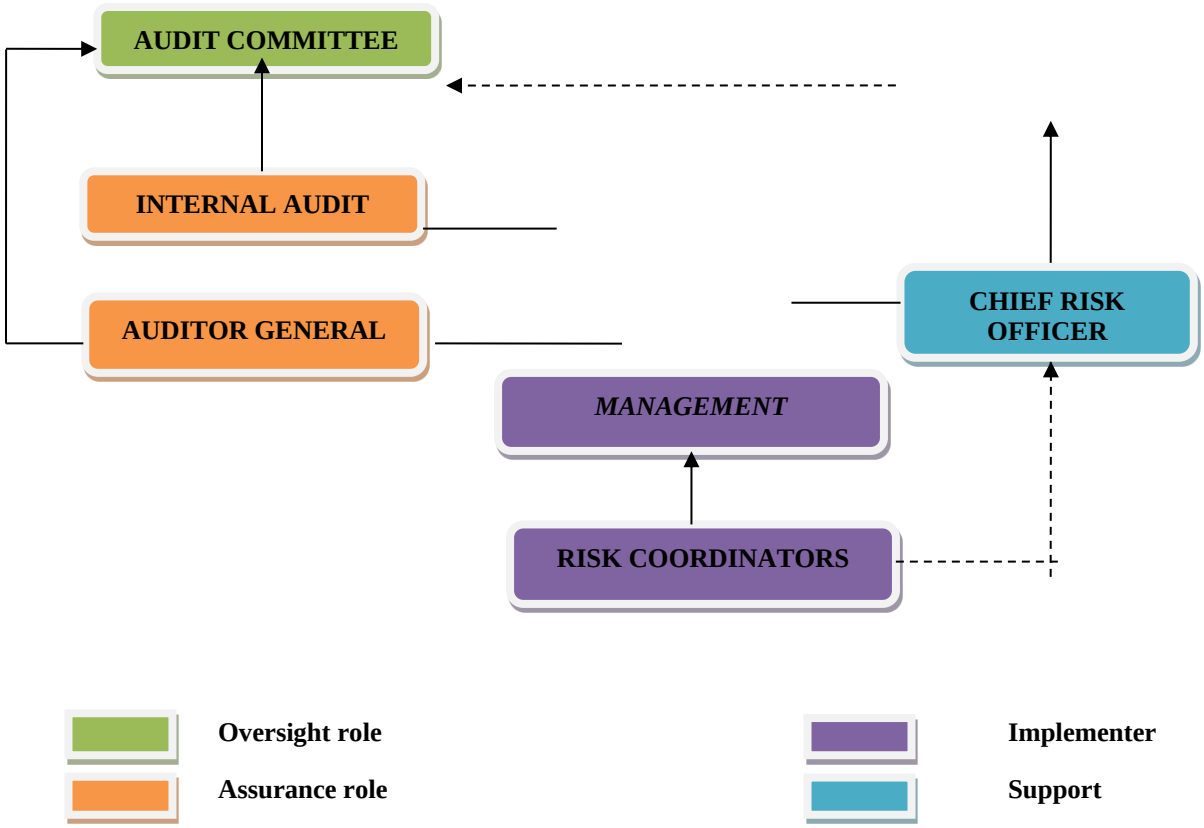
- Annual risk management framework and policy review;
- Annual risk assessment reports and registers;
- Risk Management Strategy;
- Risk Management, Fraud and Anti-Corruption Committee Charter
- Documented evidence to demonstrate compliance with this policy need to be maintained by all responsible officials;
- Risk register(s) updated on a continuous basis as per quarter
- Quarterly Risk Reports submitted to stakeholders and
- Quarterly Minutes of the Risk Management Committee.

## 13 Roles and Responsibilities

Every employee is responsible for executing the risk management process and adhering to the risk management procedures laid down by the Management in their areas of responsibilities.

The parties that have a significant role to play in the process of risk management are set out below:






The following roles and responsibilities relate to the various committees and officials responsible for risk management within the Municipality.

## *13.1 Audit Committee*

| Number | Responsibilities | Accountability | Frequency |
|---|---|---|---|
| 1 | To meet at least 4 times a year with risk management as a standard agenda item. | Chairperson | Quarterly |
| 2 | Monitor the Municipality's risk management processes. | Chairperson | Annually |
| 3 | Assessment on the effectiveness of risk management for inclusion in the annual report MFMA, Section 166 (2) (a) (ii). | Chairperson | Continuous |

## *13.2 Municipal Manager ("MM)*

| Number | Responsibilities | Accountability | Frequency |
|---|---|---|---|
| 1 | Accountable for the total process of risk management, MFMA Section 62.1 (c) (i), in the Municipality, which includes:<br>Ensure that management has identified key business risks;<br>Assess the appropriateness of management responses to high priority risks;<br>Assess adequacy of assurance efforts by management, internal audit, external audit and ensure that appropriate action is taken to address identified areas for improvement;<br>Keep abreast of changes to risk management and control systems; and<br>Ensure that risk profile is updated. | MM with assistance of Executive Management | Continuous |
| 2 | Approve the Risk Management Policy. | MM with assistance of Executive Management | Initial and approval of amendments |
| 3 | Establish and implement a risk management strategy. | MM with assistance of Executive Management | Continuous |
| 4 | Approve the risk management report. | MM with assistance of Executive Management | Annually |
| 5 | Make decisions on strategic risk issues. | MM with assistance of Executive Management | Quarterly |
| 6 | Report to the Audit Committee on the management of risks. | MM with assistance of Executive Management | Quarterly |
| 7 | Provide stakeholders with assurance on risk management. | MM with assistance of Executive Management | Annually |
| 8 | Set the nature, role, responsibility and authority of risk management unit and outline scope of risk management work. | MM with assistance of Executive Management | Continuous |

| Number | Responsibilities | Accountability | Frequency |
|---|---|---|---|
| 9 | Ensure that Risk Management is a standing item in all Management Meetings and that Heads of Departments report on risks within their departments | MM with assistance of Management | Continuous |

## *13.3 Chief Financial Officer ("CFO")*

| Number | Responsibilities | Accountability | Frequency |
|---|---|---|---|
| 1. | Annual review of the Disaster Recovery and Business Continuity Plan | CFO / Executive managers | Annual |
| 2 | Same duties and/or responsibilities which are assigned to management as mentioned below. | CFO | Continuous |

## *13.4 Risk Management Committee ("RMC")*

| Number | Responsibilities | Accountability | Frequency |
|---|---|---|---|
| 1 | Review and evaluate the significant risks faced by the Municipality. | Chairperson with assistance of RMC | Monthly / Ad hoc |
| 2 | Discuss instances where management has accepted a higher residual risk than the risk appetite. | Chairperson with assistance of RMC | Monthly / Ad hoc |
| 3 | Address and discuss matters where managements response to issues raised is not considered appropriate. | Chairperson with assistance of RMC | Monthly / Ad hoc |
| 4 | Discuss the status of current risks at directorate level. | Chairperson with assistance of RMC | Monthly / Ad hoc |
| 5 | Discuss issues raised by directorates, EM and the audit committee with regard to risk management. | Chairperson with assistance of RMC | Monthly / Ad hoc |

## *13.5 Executive Management ("EM")*

| Number | Responsibilities | Accountability | Frequency |
|---|---|---|---|
| 1 | Monitor, control and report on risk under their control in line with the risk management methodology. | EM | Continuous |

| Number | Responsibilities | Accountability | Frequency |
|---|---|---|---|
| 2 | Report on risk management within the directorates at Risk Management Committee. | EM | Quarterly |
| 3 | Appoint Risk Champions. | MM with assistance of EM | Annually |
| 4 | Ensure that controls lying in other units that affect own unit is discussed. | Managers with assistance of Risk Champions | Monthly |

## *13.6 Risk Manager / Risk Management Unit*

| Number | Responsibilities | Accountability | Frequency |
|---|---|---|---|
| 1 | Facilitate the development, communication, coordination and monitoring of risk management within the Municipality. | Risk Manager | Continuous |
| 2 | Accountable to the Accounting Officer for implementing, and monitoring the process of Risk Management. | Risk Manager | Continuous |
| 3 | Develop and implement a plan to integrate risk management into the day-to-day operations of the Municipality. | Risk Manager | Continuous |
| 4 | Develop and roll-out ongoing risk awareness programmes throughout the Municipality. | Risk Manager | Continuous |
| 5 | Establish and maintain risk management policies and procedures and ensure compliance. | Risk Manager | Continuous |
| 6 | Facilitate annually risk assessment and assist management to complete the Risk Assessment and Registers. | Risk Manager & Management | Continuous |
| 7 | Maintain and regularly update the risk register. | Risk Manager & Management | Continuous |

| Number | Responsibilities | Accountability | Frequency |
|---|---|---|---|
| 8 | Develop risk related performance measures and indicators. | Risk Manager | Continuous |
| 9 | Report to EM and Audit Committee on proposed changes to the risk profile. | Risk Manager | Continuous |
| 10 | Report quarterly to EM and Audit Committee on the progress of risk management within the Municipality. | Risk Manager | Continuous |
| 11 | Review the Risk Management progress regularly. | Risk Manager | Continuous |
| 12 | Provide strategic direction and support to the Municipality on risk management. | Risk Manager | Continuous |
| 13 | Develop standard risk management reporting templates, and collate risk management information for submission at all levels. | Risk Manager | Continuous |
| 14 | Facilitate annual risk assessment with Management and prepare annual risk assessment report | Risk Manager | Annually |
| 15 | Submit all risk register / reports and/or information to the Internal Audit Department. | Risk Manager | Continuous |
| 16 | Perform specific risk assessments on request by management. | Risk Manager | Ad Hoc |
| 17 | Provide support to directorates and facilitate Risk Management within their directorates. | Risk Manager & Management | Continuous |

## *13.7 Risk Champions / Delegates*

| Number | Responsibilities | Accountability | Frequency |
|---|---|---|---|
| 1 | Assist in facilitating directorate risk awareness programmes. | Managers with assistance of Risk Champions | Ad hoc |
| 2 | Act as first contact at directorate level in risk related issues. | Managers with assistance of Risk Champions | Continuous |

| | | | |
|---|---|---|---|
| 3 | Ensure risk management is a standard idem on the agenda of monthly meetings. | Managers with assistance of Risk Champions | Monthly |
| 4 | Assist in the process of risk identification and evaluation. | Managers with assistance of Risk Champions | Ad hoc |
| 5 | Assist in the process of risk ownership allocation. | Managers with assistance of Risk Champions | Ad hoc |
| 6 | Administer risk management in the directorate:<br>Update or risk register on the status of action plans and dates; and<br>Draw reports as required by management. | Managers with assistance of Risk Champions | Monthly |
| 7 | Assist the risk manager / internal auditor in facilitating and coordinating annual risk assessment and quarterly risk management reviews within the directorate. | Managers with assistance of Risk Champions | Annually |
| 8 | An Official from each department will be delegated to the Risk Champion for the said department by the Head of the Department. The name and contact details of the department's risk champion will be communicated to the Risk Management Unit. | Head of Departments | Annually |

### *13.8 Internal Audit ("CAE")*

| Number | Responsibilities | Accountability | Frequency |
|---|---|---|---|
| 1 | Utilise risk assessment report to compile its strategic and operational audit plans. | Internal Audit | Annually |
| 2 | Provide inputs to the risk manager for the annual risk assessment. | Internal Audit | Annually |
| 3 | Formally review the effectiveness of risk management processes. | Internal Audit | Annually |

## 14 Governance requirements

### *14.1 Establish an organisational framework of assurance for key risks and controls*

A framework of assurance must be developed for the municipality's risks. Key players in the organisation will combine to provide assurance to Council that risks are being appropriately managed. This combined approach to assurance normally involves external auditors, internal auditors and management working together through the Audit Committee. Other experts must be chosen to provide assurance regarding specialised

categories of risk, such as environmental management and Information technology risks. The assurance framework must be formalised and must incorporate appropriate reporting processes.

### *14.2 The outputs of risk assessments are used to direct internal audit plans.*

Internal audit plans depend greatly on the outputs of risk assessments. Risks from risk assessments must be incorporated into internal audit plans according to management and audit committee priorities. The risk assessment process is useful for internal audit staff, because it provides the necessary priorities regarding risk as opposed to using standardised audit sheets. The audit activities will focus on adherence to controls for the key risks that have been identified. In addition, internal audit staff may direct management towards the need for better controls around key risks.

### *14.3 Safety, Health and Environment*

A formal safety management programme is essential for Municipalities. The scope of the safety management programme should include administrative aspects, safety awareness and training, health, hygiene, electrical safety, physical safety, micro environmental exposures and legislative requirements.

### *14.4 Compliance*

Compliance is a key element of the risk management process. All statutory compliance obligations must be managed to a minimum level.

### *14.5 Business Continuity Management*

It is expected that Municipalities will have a Business Continuity Management Plan in place, which will be revised and tested at least annually. The results of such testing and simulations should be reported to the Risk Management Committee.

### *14.6 Fraud Prevention Manual*

The DR Ruth S Mompati District Municipality Risk Management Unit and the Risk Management, Fraud & Anti-Corruption Committee of the Municipality is responsible for the establishment of the Fraud Prevention Manual. Confidential reporting of potential bridges and actual investigations should be reported to the Chief Risk Officer and the Risk Management, Fraud & Anti-Corruption Committee.

## 15 ICT Risk Management

Information Management primary role is the proper management of the ICT infrastructure. All risk related to ICT should be mitigated and controlled. The ICT Risk Management is

applied in the context of ICT in order to mitigate the risk of OCT associated with the use, ownership, operation, involvement, influence and the adoption of ICT within the Municipality, The ICT Risk Management is a component of a wider Enterprise Risk Management System. The ICT Risk Management will cover all municipal information resources whether managed internally or hosted externally. All stakeholders are expected to operate within the permissible parameters and implement Risk Management Programs including the remediation of the identified risks in a timely manner.

Identification of the municipality's ICT risks shall include, but is not limited to the following categories:

- Information Security Risk;
- Facilities and Environmental Control Risk;
- Change Control Risk;
- Firewall Risk;
- Internet Connection Risk;
- Password Risk;
- Patch Management Risk;
- User Access Risk;
- Vulnerability Risk
- Disaster Recovery Risk

A documented risk analysis process is used as the basis for the identification, definition and prioritization of risks. In the case of Information Security, the risk analysis process includes the following:

- Identification & prioritization of the threats to Information Resources;
- Identification & prioritization of the vulnerabilities of information resources
- Identification of a threat that may exploit a vulnerability;
- Qualitative identification of the impact to the confidentiality, integrity and availability of Information Resources if a threat exploits a specific vulnerability; and
- Identification and definition of measures and/or controls used to protect the confidentiality, integrity and availability of Information Resources

## 16 Review

This framework and underlying strategies including the Risk Management Manual will be reviewed at least annually to ensure its continued application and relevance. Amendments

will, as soon as reasonably possible, be submitted for approval and brought to the attention of all users.

***PART B:***

# RISK MANAGEMENT STRATEGY

# 2024/2025

**Table of Contents**

## 1. INTRODUCTION

The adoption of the Dr Ruth S Mompati District Municipality Risk Management Manual 2018/2019, the Municipal Finance Management Act in 2003 and the Treasury Regulations issued in terms of the Act infused the public service with Municipality culture, which must add to its emphasis on external sanctions and include stronger internal controls with anticipatory management systems to assess the abuse of power, which is the central principle of risk management. This aforesaid manual is applicable to Dr Ruth S Mompati District Municipality Local Municipality.

This is why risk management is central to managing the Municipality as a whole, and why risk management is integral to planning, organising, directing and coordinating systems aimed at achieving Municipality's goals and objectives.

A major challenge for any Public Service is to develop and implement strategies to deliver on mandates and policies decided on by the Council.

One of the most important mandates is the development and implementation of an integrated risk management strategy whose major objective is to encourage best practice within an evolving government service delivery strategy, while minimising the risks and ensuring that Dr Ruth S Mompati District Municipality Local Municipality meets its objective.

## 2. THE NEED

The need to manage risk systematically applies to all components and to all functions and activities within the Dr Ruth S Mompati District Municipality.

**2.1 An effective risk management strategy helps the Municipality to meet its objectives by ensuring that everyone has a clear understanding of:**

- The objectives of the Municipality.
- Factors that could impact on the Municipality's ability to meet those objectives, the actions necessary to ensure objectives are met.

**2.2 An effective Risk Management Strategy can:**

- Improve accountability by ensuring that risks are explicitly stated and understood by all parties, that the management of risks is monitored and reported on, and that action is taken based on the results.
- Focus on planning to deal with factors that may impact on the objectives of the Municipality and provide an early warning signal,
- Ensure opportunities are not missed and surprise costs don't arise.

## 3. OBJECTIVES

- To provide and maintain a working environment where everyone is following sound risk management practices and is held accountable for achieving results;
- To provide Municipality with the framework on which the employees will utilise to implement risk management;
- To provide the facilities and create a conducive working environment in ensuring that everyone has the capacity and resources to carry out his or her risk management responsibilities;
- To ensure that risk management activities are fully integrated into the planning, monitoring and reporting processes and into the daily management of program activities.

## 4. DEFINITIONS

**Risks**: Any threat or event that has a reasonable chance of occurrence in the future, which could undermine the institution's pursuit of its goals and objectives. Risk Manifest as negative impacts on goals and objectives or as missed opportunities to enhance institutional performance. Stakeholders expect Municipality institutions to anticipate and manage risks in order to eliminate waste and inefficiency, reduce shocks and crises and to continuously improve capacity for delivering on their institutional mandates.

**Risk Management:** Risk management is a continuous, proactive and systematic process, affected by a Municipality Council, accounting officer, management and other personnel, applied in strategic planning and across the Municipality, designed to identify potential events that may affect the Municipality, and manage risks to be within its risk tolerance, to provide reasonable assurance regarding the achievement of Municipality objectives.

**Enterprise Risk Management**: Enterprise risk management (ERM) is the application of risk management throughout the Municipality rather than only in selected business areas or disciplines.

**Risk Analysis:** A process that involves identifying the most probable threats to the Municipality and analysing the related vulnerability of the Municipality to the threats. This includes risk assessment, risk characteristics, risk communication, risk management, and policy relating to risk.

**Risk Assessment:** The process concerned with determining the magnitude of risk exposure by assessing the likelihood of the risk materialising and the impact that it would have on the achievement of objectives.

**Risk Identification:** The process concerned with identifying events that produce risks that threaten the achievement of objectives.

**Inherent Risks:** A risk that is intrinsic (a risk which it is impossible to manage) to Municipality activity and arises from exposure and uncertainty from potential events. It is evaluated by considering the degree of probability and potential size of an adverse impact on strategic objectives and other activities.

**Residual Risk:** The risk remaining after management took action to reduce the impact and likelihood of an adverse.

**Strategic Risks:** Any potential obstacles that may impact on the ability of the Municipality to achieve its strategic objectives

**Risk Response:** The process concerned with determining how the Municipality will mitigate the risks it is confronted with, through consideration of alternatives such as risk avoidance, reduction, risk sharing or acceptance.

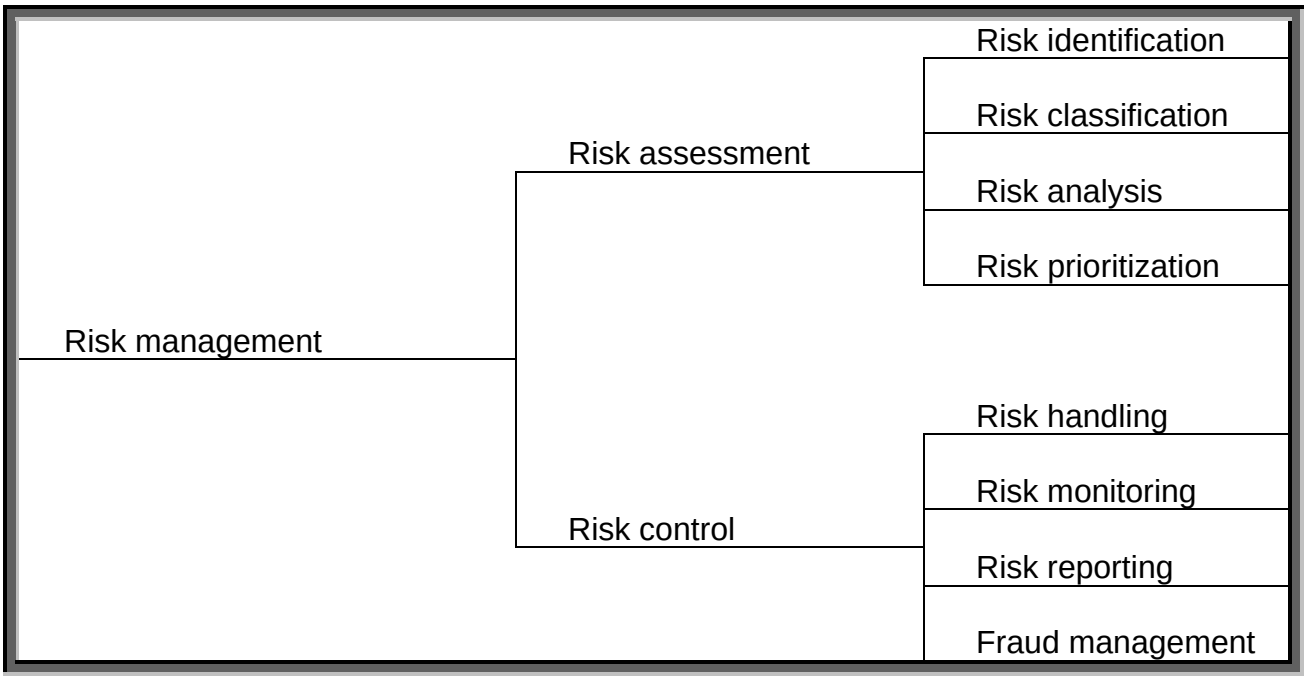
**Monitor:** The process of monitoring and assessing the presence and functioning of the various components overtime

**Risk Owners:** The Risk Owner is a person who supports the risk management process in a specific allocated component and ensures that the risk is managed and monitored over time.

**Executive Authority:** The Members Council of the Dr Ruth S Mompati District Municipality Local Municipality who is accountable to the provincial legislature for the Municipality.

## 5. RISK MANAGEMENT FRAMEWORK

**The risk management framework of the Municipality will be depicted as follows:**




## 5.1 Risk Identification

Using a business process approach, risks are identified in the Municipality. A business process approach involves identifying all the components or processes within a Municipality. Risks will be identified on component level by having structured interviews and / or workshops with key process staff.

**The following definition of a risk will be used by the Municipality:**

- Any event or action that hinders a process's achievement of its component (explicit and implicit) objectives.

**A risk has two attributes that must be articulated as following:**

- A cause (i.e. any event or action)
- An effect (i.e. impact on achievement of business objectives)

**The three constituent elements of risk are:**

- Inherent risk
- Control risk

- Detection risk

The Municipality is subject to its own inherent and control risks and these risks should be catalogued for use in risk assessment.

The Municipality have its own, unique inherent risks associated with its operations and management style. The risks are countered by installing controls. Since there is no way to reduce risk to zero, there will be some risk even after the best controls are installed (control risk). That degree of risk is control risk. A more detailed discussion of inherent risk, control risk and detection risk follows:

### *5.1.1 Inherent risk*

**Inherent risk** is defined as the "risk that is intrinsic (a risk which it is impossible to manage) to Municipality activity and arises from exposure and uncertainty from potential events. It is evaluated by considering the degree of probability and potential size of an adverse impact on strategic objectives and other activities." With the background of the Municipality broad outlook on risk, inherent risk also relates to the intrinsic susceptibility of operational and administrative activities to errors and/or fraud that could lead to the loss of Department/Entity resources or the non-achievement of Municipality objectives.

The importance of inherent risk evaluation is that it is an indicator of potential high-risk areas of the Municipality operations that would require particular emphasis and it is also an essential part of the combined risk assessment for each process. The identification of all risks pertaining to a process is also the starting point of the risk assessment exercise.

**Aspects that bear consideration when assessing the inherent risk are grouped into three categories, namely:**

- The operational risk
- The management environment
- The accounting environment

**Factors that could influence inherent risk under the three categories are:**

- Operation risk
- Management environment

- Control risk
- Detection risk

### *5.1.2 Operational risk*

Some programmes / mega processes may have more inherent risk attached to it. Some objectives, outputs and outcomes may have higher priority than others. The objective's outputs and outcomes as well as the programme operations may also be subject to variable factors outside the Municipality control that may make it more difficult to achieve the programme objectives. These variables outside the Municipality control increase the overall risk profile of the programme / mega process and therefore also the inherent risk.

### *5.1.3 The management environment*

The integrity of management and staff

The potential for internal control override, and deception, is always present. An assessment of management and staff's integrity is difficult. If there were past incidences of fraud or theft within a programme or sub process where personnel were involved and these personnel are still working there the possibility of a lack in integrity would be obvious. A wide range of reasons might tempt management to manipulate accounting records or misstate financial information.

### *5.1.4 Control Risk*

**Control risk** is defined as "the risk that an error which could occur and which, individually or when aggregated with other errors, could be material to the achievement of Municipality objectives, will not be prevented or detected on a timely basis by the internal controls." That risks that the Municipality controls (processes, procedures, etc) are insufficient to mitigate or detect errors or fraudulent activities. Control risk arises simply because the accounting system lacks built-in internal controls to prevent inaccurate, incomplete and invalid transaction

recording, or due to the intrinsic limitations of internal controls. These limitations are due to factors such as:

- The potential for management to override controls,
- Collusion circumventing the effectiveness of the segregation of duties;

- Human aspects such as misunderstanding of instructions, mistake make in judgment, carelessness, distraction or fatigue.

Control risk also arises when certain risks are simply not mitigated by any control activities.

### *5.1.5 Detection risk*

Detection risk is defined as "the risk that management's procedures will fail to detect error which, individually or when aggregated with other errors, could be material to the financial information as a whole." This would also include errors that could be material to the Department/Entity as a whole.

## 5.2 Risk classification

In order to integrate risk management into other management processes, the terminology should be easily understandable by program managers. By developing a common Municipality risk language, program managers can talk with individuals in terms that everybody understands.

An important step in developing a common Municipality risk language is to classify risks identified in various categories.

**The categories to be used by the Municipality are as follows:**

| | |
|---|---|
| **Natural hazards** | Risks arising out of natural hazards such as floods, wildfires, earthquakes, hurricanes, thunderstorms, or snowstorms. |
| **Contracts and legal relationships** | Risks arising out of the Municipality legal or contractual relationships. |
| **Financial operations** | Risks arising out of the Municipality financial affairs, including collection of own revenue, expenditure, and all internal and external control procedures |
| **Misconduct by public officials and employees** | Risk arising from public officials' or employees' deliberate misconduct. |
| **Acts or omissions by third parties** | Risks arising from the acts or omissions of those outside the government |

| | |
|---|---|
| **Acts, laws or regulations** | Risks arising from the implementation of laws and regulations that apply to the government and affect how it conducts its business. |
| **Economic conditions** | Risks arising from the general economic condition of the community. |
| **Dependence on outside suppliers** | Risks arising from the Municipality dependence on outside suppliers of goods, services, and utilities. |
| **Property loss** | Risks to the property that the government uses to conduct its business (owned, leased or borrowed). |
| **Workforce** | Risks arising from the government maintaining a workforce, including acts and omissions from employees. |

## 5.3 Risk analysis/assessment

Risk analysis allows the Municipality to consider how potential risks might affect the achievement of objectives. Management assesses events from two perspectives: likelihood and impact. Likelihood represents the possibility that a given event will occur, while impact represents the effect should it occur.

The following tables reflect the rating criteria that will be used by the Municipality:

### Risk rating:

| | |
|---|---|
| Extreme | |
| Medium | |
| Low | |

**Risk mapping that Municipality will use to plot risks:**

| | | | | | | |
|---|---|---|---|---|---|---|
| **LIKEHO** | **Almost Certain** | | | | | |
| | **Likely** | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | |
| | **Moderate** | | | | | |
| | **Unlikely** | | | | | |
| | **Rare** | | | | | |
| | | **Insignificant** | **Minor** | **Moderate** | **Major** | **Catastrophic** |
| | | **IMPACT** | | | | |

**Impact categories:**

**Per risk identified, the impacts are assessed for each of the following categories:**

| | |
|---|---|
| **Financial resources** | The impact of an event on the Municipality financial stability and ability to maintain funding for the activities that is critical to its mission. |
| **Material resources** | The impact of an event on the material resources—such as assets and property—that a government uses in the activities that are critical to its mission. |
| **Human resources** | The impact of an event on the Municipality workforce. |
| **Service delivery** | The impact of an event on the Municipality ability to deliver services. |
| **Public perception of entity** | The impact of an event on the public's perception of the Municipality and on the degree of cooperation the public is willing to give in conducting the activities that are critical to its mission. |
| **Liability to third parties** | The impact of an event on the Municipality liability to third parties. |
| **Environment** | The impact of an event on the environment and people who use it. |
| **Public** | The impact of an event on the public |

**Impact criteria that will be used by Municipality to rate risks:**

| Rating | Impact | Description |
|---|---|---|

| | | |
|---|---|---|
| 5 | **Critical** | Negative outcomes or missed opportunity that are of critical importance to the achievement of the objectives. |
| 4 | **Major** | Negative outcomes or missed opportunity that are likely to have a relatively substantial impact on the ability to meet objectives |
| 3 | **Moderate** | Negative outcomes or missed opportunity that are likely to have a relatively moderate impact on the ability to meet objectives. |
| 2 | **Minor** | Negative outcomes or missed opportunity that are likely to have a relatively low impact on the ability to meet objectives. |
| 1 | **Insignificant** | Negative outcomes or missed opportunity that are likely to have a negligible impact on the ability to meet objectives. |

**Likelihood criteria that will be used by Municipality to rate risks:**

| Rating | Likelihood | Description |
|---|---|---|
| 5 | **Common** | The risk is already occurring, or is likely to occur more than once within the next 12 months |
| 4 | **Likely** | The risk could easily occur, and is likely to occur at least once within the next 12 months |
| 3 | **Moderate** | There is an above average chance that the risk will occur at least once in the next 3 years |
| 2 | **Unlikely** | The risk occurs infrequently and is unlikely to occur within the next 3 years. |
| 1 | **Rare** | The risk is conceivable but is only likely to occur in extreme circumstance |

**Inherent risk exposure (impact x likelihood) and refer to risk mapping above:**

| Risk rating | Inherent risk magnitude | Response |
|---|---|---|
| **15 – 25** | **High** | **Unacceptable level of risk – High level of control intervention required to achieve an acceptable level of residual risk** |
| **8 – 14** | **Medium** | **Unacceptable level of risk, except under unique circumstances or conditions – Moderate level of control intervention required to achieve an acceptable level of residual risk** |
| **1 – 7** | **Low** | **Mostly acceptable – Low level of control intervention required, if any.** |

**Residual risk exposure (impact x likelihood) and refer to risk mapping above:**

| Risk rating | Residual risk magnitude | Response |
|---|---|---|
| **15 – 25** | **High** | **Unacceptable level of residual risk – Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation).**<br>**Controls require substantial redesign, or a greater emphasis on proper implementation.** |
| **8 – 14** | **Medium** | **Unacceptable level of residual risk – Implies that the controls are either inadequate (poor design) or ineffective (poor implementation).**<br>**Controls require some redesign, or a more emphasis on proper implementation.** |
| **1 – 7** | **Low** | **Mostly acceptable level of residual risk – Requires minimal control improvements.** |

**The qualitative criteria that will be used by Municipality to assess likelihood are:**

- Geographical dispersion of operations;
- Complexity of activities – management judgments
- Pressure to meet objectives;
- Frequency of losses;
- Competency, adequacy and integrity of personnel;
- Degree of computerised systems;
- Vague objectives/mandates;
- Time constraints;
- Potential of conflict of interest; and
- Susceptibility of the asset to misappropriation.

## 5.4 Risk prioritization

Within the risk management framework, risk prioritisation provides the link between risk assessment and risk control. Risks assessed as key risks will be introduced and managed within the control major-process Depending on the results of the risk analysis performed, risks will be prioritised for the Municipality and per component.

The prioritised risks will inform both the scope of internal audit and the risk management committee. Both these support structures will primarily focus on the risks assessed as high, medium and low successively.

## 5.5 Risk handling

The Municipality will use the following four strategies or risk response in dealing with risks:

### *5.5.1 Avoidance*

Risk avoidance involves eliminating the risk-producing activity entirely (or never beginning it). Although avoidance is highly effective, it is often impractical or undesirable, either because the Municipality is legally required to engage in the activity or because the activity is so beneficial to the community that it cannot be discontinued.

### *5.5.2 Reduction*

Risk reduction strategies reduce the frequency or severity of the losses resulting from a risk, usually by changing operations in order to reduce the likelihood of a loss, reduce the resulting damages, or both. An example of a risk reduction strategy is the preparation, before a loss occurs, of contingency plans to expedite recovery from the loss.

### *5.5.3 Control*

The Municipality will implement corrective action to manage risks identified while still performing the activity from the Municipality, e.g. after a loss has occurred, risk control strategies keep the resulting damages to a minimum.

### *5.5.4 Transfer*

Risk transfer strategies turn over the responsibility of performing a risky activity to another party, such as an independent contractor, and assign responsibility for any losses to that contractor. (When used as a risk financing method, such strategies transfer the liability for losses to another party),

The Municipality or component is responsible for choosing a suitable strategy for dealing with a key risk. The implementation and eventual operation of this strategy is the responsibility of program managers and must be within above risk response strategies.

## 5.6 Risk monitoring

The Risk Management Committee must monitor the handling of key risks by programme managers as in line with the charter.

### 5.7 Risk reporting

The risk management committee will report to the Accounting Officer as depicted in the risk management policy.

### 5.8 Fraud management

The Risk Management Unit will develop and review the Fraud Prevention Manual as per the Risk Management Manual 2018/2019.

The Risk Management, Fraud & Anti-Corruption Committee will approve the fraud prevention manual of the Municipalities and recommend it for tabling at the respective Councils.

**This fraud prevention manual covers the following minimum requirements:**

- Executive Summary by Accounting Officer / Accounting Authority;
- Objective of the fraud prevention plan;
- Definition of fraud that the Department subscribes to;
- Fraud prevention and detection measures;
- Fraud implementation plan;
- Fraud indicators and warning signs;
- Fraud risk management;
- Fraud reporting and
- Fraud response plan.

The plan should be submitted for review and recommendation to the Risk Management Committee and approval by the Accounting Officer / Accounting Authority.

## 6. ESTABLISHMENT OF RISK MANAGEMENT, FRAUD & ANTI-CORRUPTION COMMITTEE

The Municipality have established Risk Management, Fraud & Anti-Corruption Committee and be appointed in writing by the Accounting Officer / Accounting Authority.

Risk Management includes but is not limited to minimising fraud, corruption and waste of government resources.

## 7. RESPONSIBILITIES & FUNCTIONS OF THE RISK MANAGEMENT , FRAUD & ANTI-CORRUPTION COMMITTEE

**Risk Management, Fraud & Anti-Corruption Committee Charter** serves as a reference for explanation of detailed functions and responsibility of Risk Management, Fraud & Anti-Corruption Committee.

## 8. RESPONSIBLILITIES OF MEMBER OF COUNCIL

As risk management is an important tool to support the achievement of this goal, it is important that the Council should provide leadership to governance and risk management.

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

- Providing oversight and direction to the Accounting Officer on risk management related strategy and policies;
- Having knowledge of the extent to which the Accounting Officer and management has established effective risk management in their respective institutions;
- Awareness of and concurring with the department's risk appetite and tolerance levels;
- Reviewing the municipality's portfolio view of risks and considers it against the institution's risk tolerance;
- Influencing how strategy and objectives are established, departmental activities are structured, and risks are identified, assessed and acted upon;
- Requiring that management should have an established set of values by which every employee should abide by;
- Insist on the achievement of objectives, effective performance management and value for money.

**In addition the Council should consider the following aspects below which if not considered could affect the institution's risk culture:**

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

- The quality and frequency of reporting;
- The way the department is managed including the type of risks accepted;
- The appropriateness of reporting lines.

**In addition the Council should:**

- Assign responsibility and authority;
- Insist on accountability.

## 9. RESPONSIBILITIES OF ACCOUNTING OFFICER

**The Accounting Officer shall be responsible for the following:**

9.1 Setting the tone at the top by supporting Risk Management, Fraud & Anti-Corruption and allocating resources towards Establishing the necessary structures and reporting lines within the institution to support Enterprise Risk Management(ERM);

9.2 Place the key risks at the forefront of the management agenda and devote attention to overseeing their effective management,

9.3 Approves the institution's risk appetite and risk tolerance,

9.4 Hold management accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities,

9.5 Leverage the Audit Committee, Internal Audit, Risk Management, Fraud & Anti-Corruption Committee and other appropriate structures for assurance on the effectiveness of risk management,

9.6 Provide all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored,

9.7 Provide appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management.

## 10. RESPONSIBILITIES OF MANAGEMENT:

10.1 Integrating risk management into planning, monitoring and reporting processes, and the daily management of programs and activities,

10.2 Creating a culture where risk management is encouraged, practised, rewarded and risk management infrastructure is provided.

10.3 Aligns the functional and institutional risk management methodologies and processes,

10.4 Implements the directives of the Accounting Officer concerning risk management,

10.5 Maintains a harmonious working relationship with the CRO and supports the CRO in matters concerning the functions risk management.

## 11. RESPONSIBILITIES OF INTERNAL AUDIT

The role of internal audit is, but not limited, to provide assurance of the Municipality on the risk management process.

**These include:**

11.1 Provides assurance over the design and functioning of the control environment, information and communication systems and the monitoring systems around risk management,

11.2 Provides assurance over the Municipality risk identification and assessment processes,

11.3 Utilises the results of the risk assessment to develop long term and current year internal audit plans,

11.4 Provides independent assurance as to whether the risk management strategy, risk management implementation plan and fraud prevention plan have been effectively implemented within the institution.

## 12. RESPONSIBILITIES OF THE CHIEF RISK OFFICER

12.1 Develop risk management implementation plan of the Municipality

12.2 Works with senior management to develop the overall enterprise risk management vision, strategy, policy, as well as risk appetite and tolerance levels for approval by the Accounting Officer,

12.3 Communicates the risk management policy, strategy and implementation plan to all stakeholders in the institution,

12.4 Continuously driving the risk management, fraud & anti-corruption process towards best practice,

12.5 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 Officer.

12.6 Coordinating risk assessments within the Municipality / component / sub-component as outlined in the policy,

12.7 Sensitising management timeously of the need to perform risk assessments for all major changes, capital expenditure, projects, Municipality restructuring and similar events, and assist to ensure that the attendant processes, particularly reporting, are completed efficiently and timeously.

12.8 Assisting management in developing and implementing risk responses for each identified material risk,

12.9 Participating in the development of the combined assurance plan for the institution, together with internal audit and management,

12.10 Ensuring effective information systems exist to facilitate overall risk management improvement within the institution,

12.11 Collates and consolidates the results of the various assessments within the institution,

12.12 Analyse 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,

12.13 Compiles the necessary reports to the Risk Management, Fraud & Anti-Corruption Committee

12.14 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,

12.15 Report administratively to Accounting Officer and functionally to Risk Management, Fraud & Anti-Corruption Committee.

## 13. ROLE OF THE STRATEGIC PLANNING COMPONENT MANAGER

The adoption of the MFMA of 2003 and the Treasury Guidelines, issued in terms of the Act pushed the need for intelligent decisions on resource allocation down through the administrative chain to the point at which services are delivered. This forced managers at every level to focus on the Governments objectives, to manage the risks and become more responsive to the requirements of the recipients of their services.

**Within the context of the Risk Management Strategies of the office, Strategic Planning Component Manager will be responsible for:**

13.1 Familiarity with the overall enterprise risk management vision, risk management strategy, fraud risk management policy and risk management policy,

13.2 Acting within the tolerance levels set by the component,

13.3 Maintaining the functioning of the control environment, information and communication as well as the monitoring systems within their delegated responsibility,

13.4 Participation in risk identification and risk assessment strategic risks,

13.5 Implementation of risk responses to address the identified risks,

13.6 Reporting any risks to chief risk officer on a periodic and timely basis, and taking action to take advantage of, reduce, mitigate and adjusting plans as appropriate.

13.7 Incorporating risk managing into project management planning process.

## 14. ROLE OF ALL OFFICIALS

**Each official will be responsible for:**

14.1 Identifying and controlling risks appropriate to his/her position.

14.2 Reporting any risks to his/her immediate supervisor on a timely basis.

14.3 Ensuring that proper and sound system of internal controls is appropriately maintained to ensure that all risks identified are alleviated to tolerable levels through risk mitigation / treatment plan approved by Accounting Officer / Authority.

## 15. ROLE OF RESPONSIBILITY MANAGERS OR RISK OWNERS

Risks should be identified at a level where a specific impact can be identified and a specific action or actions to address the risk can be identified. All risks, once identified, should be assigned to an owner who has responsibility for ensuring that the risk is managed and monitored over time. A risk owner, in line with their accountability for managing the risk, should have sufficient authority to ensure that the risk is effectively managed. The risk owner need not be the person who actually takes the action to address the risk. Risk owners should however ensure that the risk is escalated where necessary to the appropriate level of management.

**It is the responsibility of the Risk Owner to:**

15.1 Ensure that divisions are effectively implementing the Risk Management Strategy,

15.2 Identify and report fraudulent activities within their Unit,

15.3 Conduct preliminary inquiry on any alleged incident that is on conflict with the Code of Conduct for the Public Service and draft a report for the investigators,

15.4 Provide support on investigations by facilitating the obtaining of information in any form [electronic, documentary, etc] by investigators, in line with the applicable regulations,

15.5 Be a point of entry for investigators and risk management officials within their respective units.

## 16. DISCLOSURE

In order for risk management to work, it must be embedded into everyday activities of the Municipality. It should be integrated into the reporting process. Risk should be part of every decision that is made, every objective that is set and every process that is designed. Risk management will be integrated into the reporting process of managers in strategic planning meetings of the Municipality hat are held on a quarterly basis.

16.1 Every Senior Managers shall, on a quarterly basis and during the strategic planning meetings of the Municipality, disclose that:

- he /she is accountable for the process of risk management and the systems of internal control which are regularly reviewed for effectiveness, and in establishing appropriate risk and control policies and communicating this throughout the office.
- There is an on-going process for identifying, evaluating and managing the significant risks faced by the component concerned.
- There is an adequate and effective system of internal control in place to mitigate the significant risks faced by the component concerned to an acceptable level.
- There is a documented and tested process in place which will allow the component to continue its critical business process in the event of disastrous incident impacting on its activities. This is commonly known as business continuity plan and should cater for worst-case scenario.
- That the component complies with the process in place, established to review the system of internal control for effectiveness and efficiency.

16.2 Where the Accounting Officer cannot make any of the disclosures set out above he/she should state this fact and provide a suitable explanation.

## 17. INTEGRATING RISK MANAGEMENT PLANNING PROCESS

The developed risk management planning process includes a sequence of activities that will occur every year. The risk management planning process is a limited but focused set of strategic objectives that inform the risk management planning process. The planning process links risk management with the day-to-day activities of Units within Municipality.

## 18. CONCLUSION

Risk Management is a powerful management tool to deal with uncertainties in the environment, and to establish pre-emptive mechanism to enhance service delivery, while narrowing the scope of corruption, misconduct and unethical professional behaviour.

It is also an effective decision making tool, to assist management to take the correct decisions in an uncertain environment. The development of a culture of risk management and specific procedures for implementation will assist public servants to focus on risk analysis and response. This will improve the quality of strategic plans, which will assume both predictive and preventative dimensions.

To this end, the Municipality takes full responsibility to ensure that implementation of risk management takes place in all components

# *PART C:*

# RISK APPETITE AND TOLERANCE FRAMENTWORK 2024/2025

# Table of Contents

# GLOSSARY

| Terminology | Definition |
|---|---|
| ERM<br><br>*Enterprise Risk Management* | Enterprise Risk Management is a structured and consistent approach across the municipality that aligns strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the risks |
| Process | Structured set of activities within the municipality, designed to produce a specified outcome |
| Risk | The uncertainty of an event occurring that could have an effect on the achievement of objectives |
| Risk Appetite | The amount of risk, on a broader level that the municipality is willing to accept in pursuit of value. |
| Risk Tolerance | Acceptable levels of variation relative to the set appetite. |
| Risk Appetite Framework | The overall approach including policies, processes, controls and systems through which risk appetite is established, communicated and monitored. It includes a risk appetite statement, risk limits and an outline of the roles and responsibilities of those seeing the implementation and monitoring of the framework. |
| Risk Appetite Statement | The articulation in a written form of the aggregate level and types of risks that a municipality is willing to accept, or to avoid, in order to achieve its business objectives. It includes qualitative statements as well as quantitative measures expressed relative to |

| | |
|---|---|
| | risk measures and other relative measures as appropriate. |
| Risk Capacity | The maximum level of risk the municipality can assume given its current level of resources, the operational environment (technical infrastructure, risk management capabilities and expertise) and obligations, also from a conduct perspective to all stakeholders. |
| Risk Universe | Pool of risk categories from which the risk appetite and tolerance levels are derived |
| Risk limits | Quantitative measures based on forward looking assumptions that allocate the municipality's aggregate risk appetite statements (e.g. measure of loss or negative events) to business lines. |
| Risk Management | Risk Management is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk issues and opportunities |
| Risk Policy | Serves as a foundation for the municipality's ERM activities, as it encapsulates management's philosophy and approach to risk management |
| Risk Profile | Identification and listing of risks, typically in order of highest to lowest based on qualitative or quantitative measurement approved by management |
| Risk Rating | The analysis of risks identified in terms of impact and likelihood to obtain an inherent risk rating. The final rating assessment relates to control confidence and offset against the inherent risk assessment which |

| | |
|---|---|
| | will then give us the residual exposure rating. |
| Risk Strategy | The approach adopted for associating and managing risks based on the municipality's objectives, strategies and programmes |
| Risk Supporter | The support structure is the backbone to the success of risk management in the organisation e.g. National Treasury provides structures in which to work, but the work needs to be planned, coordinated, organised and controlled |
| Risk Management Committee | The municipal risk management oversight committee |

# 1. Background

### 1.1. Why risk appetite framework

The development and establishment of an effective Risk Appetite Framework is an iterative and evolutionary process that requires ongoing dialogue throughout the municipality and to attain buy-in across the municipality. The framework sets the municipality's risk profile and forms part of the process of development and implementation of the municipality's strategy and determination of the risks undertaken in relation to the municipality's risk capacity.

An effective framework should provide a common framework and comparable measures across the municipality for senior management and Council to communicate, understand, and assess the types and level of risk that they are willing to accept. It explicitly defines the boundaries within which management is expected to operate when pursuing the municipality's strategy.

The risk appetite framework facilitates the determination, review and oversight of risk appetite. It acts as a key bridge between the municipality's strategy and its risk management framework. The risk appetite should be updated in line with changes to

the strategy of the organisation (and vice versa, as neither the strategy nor the risk appetite should be developed in isolation from the other but rather as part of a unified process) and should also evolve in line with the development of its risk management framework.

The assessment of the municipality's consolidated risk profile against its risk appetite should also be an ongoing and iterative process. Implementing an effective framework requires an appropriate combination of policies, processes, controls, systems and procedures to accomplish a set of objectives.

### 1.2. Definition of risk appetite

The Treadway Commission *COSO Enterprise Risk Management – Risk Appetite Framework*, states the following-

*"The amount of risk, on a broad level, an entity is willing to accept in pursuit of value. It reflects the entity's risk management philosophy, and in turn influences the entity's culture and operating style. … Risk appetite guides resource allocation. … Risk appetite [assists the organization] in aligning the organization, people, and processes in [designing the] infrastructure necessary to effectively respond to and monitor risks".*

### 1.3. Benefits of a risk appetite framework

According to *COSO* the following benefits flow from an effective risk appetite framework:

- it is strategic and is related to the pursuit of organizational objectives;
- forms an integral part of corporate governance;
- guides the allocation of resources;
- guides the municipality's infrastructure, supporting its activities related to recognizing, assessing, responding to, and monitoring risks in pursuit of organizational objectives;
- influences the municipality's attitudes towards risk;
- is multi-dimensional, including when applied to the pursuit of value in the short term and the longer term of the strategic planning cycle; and
- requires effective monitoring of the risk itself and of the municipality's continuing risk appetite; and
- enhanced risk management strategy decisions through quantification of risk appetite.

### 1.4. Objectives of a risk appetite framework

The objective of a framework is to help management make informed decisions and includes:

- establish a process for communicating the Risk Appetite Framework across and within the municipality;
- be driven by both top-down and bottom-up involvement of management at all levels, and embedded and understood across the municipality;
- facilitate embedding risk appetite into the municipality's risk culture;
- evaluate opportunities for appropriate risk taking and act as a defence against excessive risk-taking;
- allow for the risk appetite statement to be used as a tool to promote robust discussions on risk and as a basis upon which risk management and internal audit functions can effectively and credibly debate and challenge management recommendations and decisions;
- be adaptable to changing business and market conditions so that, subject to approval by senior management and Council as appropriate, opportunities that require an increase in the risk limit could be met while remaining within the agreed municipal wide risk appetite;
- cover activities, operations and systems of the municipality that fall within its risk landscape but are outside its direct control, including suppliers; and
- be consistent with the principles in this document.

### 1.5. Characteristics of a risk appetite framework

A well-defined risk appetite should have the following characteristics:

- Reflective of strategy including organisational objectives, business and stakeholder expectations;
- Reflective of all key aspects of the business;
- Documented as a formal risk appetite statement;
- Acknowledges a willingness and capacity to take on risk;
- Considers the skills, resources and technology required to manage and monitor risk exposures in the context of risk appetite; and
- Has been approved by Council.

## 2. Methodology

Risk management is a process, not an event and requires the municipality to pay closer attention to the developments both in the external and control environments. Top management's strategic direction and commitment are also regarded as very important, if risk management processes are to be successful and effective.

Management is expected to lead the process and ensure that everybody within the municipality understands the benefits of risk management. This represents the challenge to management to set the tone or to establish a supportive internal environment.

Involvement of all personnel and at all levels of management ensures that risk management activities are applied consistently across all levels within the municipality. Again, the philosophy that everybody is a risk manager, ensures that everybody is involved in risk management process.

Implementation of risk appetite can take place via the following two approaches:

- it can be developed from the top down (in which case risk appetite is set by the Council and then implemented across the municipality); or
- from the bottom up, which would typically involve individual departments determining their own appetites towards various types of risk and then aggregating these appetites throughout the organisation to arrive at an aggregated risk appetite for the entire municipality.
- Ultimately, it will be a matter for Council to approve the final risk appetite regardless of whether a top down or bottom up approach is adopted.
- The municipality will follow a top down approach and the methodology to be followed will be:

## *2.1 Criteria*

Risk appetite should be evolved from and support the strategic planning and objectives of the municipality. The risk appetite framework helps articulate the risk to the municipality that could potentially impact on the achievement of the strategic goals (positively or negatively). The municipality should take into account:

- The municipality's core strategy;
- If the municipality has a zero tolerance approach regarding compliance, it should be clearly documented in policies and other related instruments and as such enforced;
- Before setting risk appetite, it helps to classify risk into different categories that the municipality is, or may be, exposed to in the pursuit of its objectives;
- It is important to have a holistic view of all the risks to which the municipality is exposed, including what approach it will take in managing them; and
- Capacity and maturity of the risk management function.

## *2.2 Stakeholder engagement*

The municipality should engage with all stakeholders to ensure that both risk taking and control activities are aligned and that possible differences are identified at this stage. All stakeholders need to be at least considered when setting risk appetite.

## *2.3 Development of the risk appetite*

The development of the risk appetite takes the following into account:

- Obtain all the risk registers for the municipality;
- Combine the risk registers into one global risk register;
- Sort the risk as per the global risk register from high to low;

- Determine from the stakeholders how much risk taking capacity the municipality is willing to take i.e. top risks only;
- Once agreed on the number of the risk that the municipality is willing to take, this becomes the risk appetite; and
- Finally the municipality will need to formalise the results of the above process through the documentation of the municipality's risk appetite in a formal risk appetite statement.

Significant risk is taken at strategic level, while at operational and activity levels focus is on reliable internal control systems to ensure that risks are managed to acceptable levels. Risk tolerance represents the application of risk appetite to specific objectives. Risk tolerance can be defined as the acceptable levels of variation relative to the achievement of objectives.

Risk appetite and tolerance levels for different categories are as follows (both qualitative and quantitative):

| **Risk Category/Type** | **Risk Appetite Level** | **Definition of the Appetite Level (Appetite Statement)** | **Tolerance Level**<br><br>*Threshold/ target of variance the municipality is prepared to accept.* |
|---|---|---|---|
| Fraud and Corruption | Zero | The municipality is not prepared to tolerate any fraud and corruption – "Zero tolerance to fraud and Corruption" | 0% |
| Non Compliance / Regulatory | Zero | The municipality is not prepared to violate any prescribed law – "Zero tolerance to Non-Compliance" | 0% |
| Financial Performance | Low | The municipality is prepared to accept/tolerate a small margin of variation from the planned/budgeted financial performance - low tolerance | 10% or less |
| Service Delivery (Right of access to Water – mandatory in terms of the constitution) | Zero | The municipality is not prepared to tolerate any violation of customer right to | 0% |

| | | | |
|---|---|---|---|
| | | access to water – Zero tolerance | |
| Service Delivery | Low | The municipality is prepared to accept small margin of variation from the municipal objectives/performance targets – low tolerance | 10% or less |
| Health and Safety | Low | The municipality is prepared to accept small margin of variation from the OHS Act and COVID19 regulations – low tolerance | 10% or less |
| Municipal Infrastructure Grant | Zero | The municipality is not prepared to lose any of the allocated MIG funds which could have been used to improve provision of basic services for our communities – Zero tolerance | 0% |
| Information and Technology | Low | The municipality is prepared to accept small margin of variation from the municipal ICT framework – low tolerance | 10% or less |
| Human Resources | Low | The municipality is prepared to accept small margin of variation from its HR strategy | 10% or less |
| Disaster Recovery and Business Continuity | Low | The municipality is prepared to accept small margin of variation from the continued municipal operations in an event of disaster – low tolerance | 10% or less |
| Financial reporting – Unqualified audit (with no findings) | Low | The municipality is prepared to accept small margin of variation from the desired Audit Opinion with minimal findings – low tolerance | 10% or less |

*Table 1: Risk Appetite and Tolerance*

The thresholds provided in the table above will be applied to each risk in the municipal risk registers to ensure that risk mitigation and response thereof is informed by the adopted risk appetite and tolerance ranges.

## *2.4 Approve*

The risk appetite statement should then be approved by Council prior to communicating the document to the wider municipality.

## *2.5 Implement*

Once the risk appetite has been approved by Council, it should be:

- Clearly communicated and cascaded through the municipality:
- Integrated into the risk management framework; and
- Actively used in the strategic management of the municipality.

## *2.6 Reporting*

Reporting on the risk appetite should take place both internally and externally. The internal reports will require reporting to management on a frequency basis and externally reporting via the annual report. Reporting can include the following:

- Compliance with approved risk appetite
- Trends in data over time
- Compliance (or non-compliance) with approved risk policies

The overall reporting process needs to be facilitated by a comprehensive governance framework in order to ensure that an appropriate escalation process is in place and that appropriate actions are taken in response to risk appetite breaches. It is important that these actions also include an effective feedback loop into the setting of the risk appetite so that the risk appetite framework can continue to be appropriate to the municipality.

## *2.7 Review*

The Risk Appetite Statement should be reviewed annually, or whenever there is a significant change to the municipality's operating environment to ensure alignment with the ever evolving municipal strategy, risk environment and the municipal performance.

An analysis could also be done taking into consideration of what worked well, what failed and what needs to be done differently next time.

# 3 Roles and responsibilities

The people responsible for risk appetite can be categorised into four distinct categories, namely implementers, support function, oversight and assurance providers.

## 3.1 Implementers

### 3.1.1 The Accounting Officer (Municipal Manager)

The Municipal Manager is ultimately responsible for risk management within the municipality. The Municipal Manager is accountable to the Council regarding the effectiveness of the risk management process. By setting the tone at the top, the Municipal Manager promotes accountability, integrity and other factors that create a positive control environment.

The roles of the Municipal Manager relating to the risk appetite include the following:

- establish an appropriate risk appetite for the municipality (in collaboration with the CRO) which is consistent with the municipality's short- and long term strategy, business and capital plans and risk capacity;
- be accountable, together with the CRO and managers for the integrity of the Risk
- Appetite Framework, including the timely identification and escalation of breaches in risk limits and of material risk exposures;
- ensure, in conjunction with the CRO, that the risk appetite is appropriately translated into risk limits for strategic and financial planning, decision-making processes and compensation decisions;
- ensure that the municipality's wide risk appetite statement is implemented by management;
- provide leadership in communicating risk appetite to internal and external stakeholders so as to help embed appropriate risk taking into the municipality's risk culture;
- set the proper tone and example by empowering and supporting the CRO in his/her responsibilities, and effectively incorporating risk appetite into the municipality's decision-making processes;
- ensure managers have appropriate processes in place to effectively identify, measure, monitor and report on the risk profile relative to established risk limits on a continual basis;
- dedicate sufficient resources and expertise to risk management, internal audit and IT
- infrastructure to help provide effective oversight of adherence to the framework;

- act in a timely manner to ensure effective management, and where necessary mitigation, of material risk exposures, in particular those that are close to or exceed the approved risk appetite statement and/or risk limits; and
- notifying Risk Management Committee and the Council of serious breaches of risk limits and unexpected material risk exposures.

### 3.1.2 Management

Management at all levels within the municipality owns the risks, thus in taking that ownership they also are accountable to the Municipal Manager for integrating the principles
of risk management into their daily routines to enhance the achievement of their service delivery objectives.
In discharging their high level responsibilities relating to risk appetite, management:

- ensure alignment between the approved risk appetite and planning, compensation, and decision-making processes of the municipality;
- embed the risk appetite statement and risk limits into management's activities so as to embed prudent risk taking into the municipality's risk culture and day to day management of risk;

- establish and actively monitor adherence to approved risk limits;
- implement controls and processes to be able to effectively identify, monitor and report against allocated risk limits;
- act in a timely manner to ensure effective management, and where necessary, mitigation of material risk exposures, in particular those that exceed or have the potential to exceed the approved risk appetite and/or risk limits; and
- escalate promptly breaches in risk limits and material risk exposures to the CRO and senior management in a timely manner.

### 3.2 Risk Management Support

#### 3.2.1 Chief Risk Officer (CRO)

Accountability for risk management in the municipality is assigned to the Accounting Officer (Municipal Manager) and is sub-delegated to the CRO to facilitate and coordinate the development and implementation of risk processes.
The CRO provides specialist expertise in providing a comprehensive support service to ensure systematic, uniform and effective enterprise risk management. The CRO plays a vital communication link between operational level, management, senior management, risk management committee and other relevant committees.
High level responsibilities to achieve this include:

- develop an appropriate risk appetite for the municipality that meets the needs of the municipality;
- obtain Council's approval of the developed risk appetite and regularly report to Council on the municipality's risk profile relative to risk appetite;
- actively monitor the municipality's risk profile relative to its risk appetite, strategy and risk capacity;
- establish a process for reporting on risk and on alignment (or otherwise) of risk appetite and risk profile with the municipality's risk culture;
- ensure the integrity of risk measurement techniques and information systems that are used to monitor the municipality's risk profile relative to its risk appetite;
- establish and approve appropriate risk limits for the municipality that are consistent with the municipality's risk appetite statement;
- independently monitor the municipality's risk limits aggregate risk profile to ensure they remain consistent with the municipality's risk appetite;
- act in a timely manner to ensure effective management, and where necessary mitigation, of material risk exposures, in particular those that are close to or exceed the approved risk appetite and/or risk limits; and
- escalate promptly to Council and the Accounting Officer any material risk limit breach that places the municipality at risk of exceeding its risk appetite, and in particular, of putting in danger the financial condition of the municipality.

### 3.3 Risk Management Oversight

### 3.3.1 Council

Council is responsible for overseeing the complete spectrum of governance within Dr Ruth Segomotsi Mompati District Municipality. This responsibility would therefore also includes:

- approve the municipality's Risk Appetite Framework and ensure it remains consistent with the municipality's short- and long-term strategy, business and capital plans, risk capacity as well as compensation programs;
- hold the Accounting Officer and management accountable for the integrity of the framework, including the timely identification, management and escalation of breaches in risk limits and of material risk exposures;

- discuss and monitor to ensure appropriate action is taken regarding “breaches” in risk limits;
- question management regarding activities outside the Council-approved risk appetite statement, if any;
- obtain an independent assessment (through internal assessors, third parties or both) of the design and effectiveness of the framework and its alignment with supervisory
- expectations;
- satisfy itself that there are mechanisms in place to ensure management can act in a timely manner to effectively manage, and where necessary mitigate, material adverse risk exposures, in particular those that are close to or exceed the approved risk appetite statement or risk limits;
- ensure adequate resources and expertise are dedicated to risk management as well as internal audit in order to provide independent assurances to Council and management
- that they are operating within the approved framework, including the use of third parties
- to supplement existing resources where appropriate; and
- ensure risk management is supported by adequate and robust information system to enable identification, measurement, assessment and reporting of risk in a timely and accurate manner.

### 3.3.2 Risk Management Committee (RMC)

In discharging its oversight responsibilities relating to the risk appetite framework:

- ensure that the risk appetite framework is approved by the Council;
- evaluate the effectiveness of mitigating strategies implemented to address the material risks of the municipality (treatment action plans);
- ensure that the committee is informed of all changes to the risk management strategy, implementation plan, policy and framework;
- review and monitor the effectiveness of risk control systems, the reliability and accuracy of risk management reporting and fraud prevention plan;
- 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; and
- provide guidance to the CRO and other relevant risk management stakeholders on how to manage risks within the risk appetite level;

## 3.4 Risk Management Assurance Providers

### 3.4.1 Internal Audit

Internal Audit is responsible for providing independent assurance on the effectiveness of risk management, controls and governance processes, as designed and represented by management, are adequate and function in a manner to ensure that amongst other

things risks are appropriately identified and managed, based on the scope of their coverage plan.

Responsibilities of Internal Audit in the risk appetite process include:

- routinely include assessments of the Risk Appetite Framework on a municipal basis;
- identify whether breaches in risk limits are being appropriately identified, escalated and reported, and report on the implementation of the framework to the Audit Committee and Council as appropriate;
- independently assess periodically the design and effectiveness of the framework and its alignment with management expectations;

- assess the effectiveness of the implementation of the framework, including linkage to organisational culture, as well as strategic and business planning, compensation, and decision-making processes;

- assess the design and effectiveness of risk measurement techniques and information systems used to monitor the municipality's risk profile in relation to its risk appetite;
- report any material deficiencies in the risk appetite framework and on alignment of risk appetite and risk profile with risk culture to Council, Audit Committee and management in a timely manner; and
- evaluate the need to supplement its own independent assessment with expertise from third parties to provide a comprehensive independent view of the effectiveness of the risk appetite framework.

# 4 Conclusion

It is clear that the process of determining an appropriate risk appetite is a challenging one. Apart from the many practical challenges which must be overcome, ranging from achieving a consistent understanding of risk management terminology to the identification of the range of risks being borne, there are many technical aspects to be tackled as well. These include how to measure risks and how to set appetite. Risk appetite needs to become embedded into the municipality. It does not stand alone, but rather fits into the fabric of the risk management process. It requires support from key control functions such as Internal Audit, Compliance, and Risk Management in order to operate effectively. Above all though, it needs to achieve buy-in from all stakeholders.

Greater understanding of risk and the risks being faced by the municipality is a powerful tool for aligning stakeholder interests and ultimately giving the municipality the best chance of achieving its strategic goals and objectives.

***PART D:***

# RISK MANAGEMENT, FRAUD & ANTI-CORRUPTION COMMITTEE CHARTER 2024/2025

## Table of Contents

## 1. CONSTITUTION

Dr Ruth S Mompati District Municipality has established a Risk Management, Fraud and Anti-Corruption Committee (RMFAC) in terms of the Local Government: Municipal Finance Management Act 56 of 2003. The RMFAC is guided by the following Committee Charter in conjunction with the Public Sector Risk Management Framework from the National Treasury Department and the adopted Dr Ruth S Mompati District Municipality Risk Management, Fraud and Anti-Corruption Manual 2024/2025.

The Committee further aims to assist the each Accounting Officer, Management and Council to ensure that policies, internal controls and procedures are in place that will create an appropriate culture and system, which include processes for risk management planning, identification, analysis, monitoring and control in a consistent manner.

## 2. BACKGROUND

Section 62 (1) (a) of the Municipal Finance Management Act (hereafter referred to as “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:

i. of financial and risk management and internal controls; and
ii. of internal audit operating in accordance with any prescribed norms and standards. Section 95 of the Municipal Finance Management Act (hereafter referred to as “MFMA”) states that the Accounting Officer a municipal entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure—

a) that the resources of the entity are used effectively, efficiently, economically and transparently;
b) that full and proper records of the financial affairs of the entity are kept;
c) that the entity has and maintains effective, efficient and transparent systems
    i. of financial and risk management and internal control; and
    ii. of internal audit complying with and operating in accordance with and prescribed norms and standards;
d) that irregular and fruitless and wasteful expenditure and other losses are prevented;
e) that expenditure is in accordance with the operational policies of the entity; and
f) that disciplinary or, when appropriate, criminal proceedings, are instituted against any

official of the entity who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15.

The National Treasury has issued a number of guidelines aimed at assisting institutions to embed risk management into the culture and language of the affected institutions. One of those tools is requirement to establish a Risk Management, Fraud and Anti-Corruption Committee with defined and approved terms of reference.

The Terms of Reference are intended to guide the Committee when performing its functions; to engender proper corporate governance in terms of the King IV Report, the Municipal Finance Management Act, Dr Ruth S Mompati District Municipality Risk Management, Fraud and Anti-Corruption Manual 2018/2019 and to clarify the roles and the responsibilities of the Committee and the Management of Dr Ruth S Mompati District Municipality.

## 3. OBJECTIVES

The primary objective of the Committee is to assist each Accounting Officer in discharging his accountability for risk management by reviewing the effectiveness of the Municipality risk management systems, practices and procedures, and providing recommendations for improvement.

## 4. COMPOSITION

Permanent members of the Committee shall be formally appointed by the Municipality's Accounting Officer. The members, as a collective, shall possess the blend of skills, expertise and knowledge of the Municipality, including familiarity with the concepts, principles and practice of risk management, such that they can contribute meaningfully to the advancement of risk management within the Municipality.

***Membership shall comprise:***

- External Chairperson: an appointed member from the Audit and Performance Committee;
- Municipal Manager
- Risk Management Unit: Manager
- Risk Management Unit (Support staff)

***Standing invitees to the Committee shall be:***

- Departmental Risk Management Champions and/or Risk Owners;
- Delegate from Internal Audit Shared Service Department
- Delegate and/or Official from Municipality's Planning and Development Department
- Member of the Mayoral Committee responsible for Good Governance.
- Any other person who may be co-opted to provide specialist skills, advice and counsel. The need to manage risk systematically applies to all components and to all functions and activities within a Municipality.

The members shall serve for a period of three years, (except for the Chairperson and Deputy Chairperson as set out below) At the of the third year all members' term of office shall be deemed to have terminated, but they shall be eligible for re-appointment by Council for a further period of three years without the necessity to advertise the relevant vacancies.

A member who at the conclusion of his/her third year of membership holds office as Chairperson or Deputy Chairperson of the Risk Management, Fraud and Anti-Corruption Committee shall continue until the conclusion of their fourth year, when their membership shall terminate, but they shall be eligible for re-appointment by Council for a further period of two years without the necessity to advertise the relevant vacancies.

No person may hold office as Chairperson for more than three consecutive years, without a break of at least one year before he/she may be re-appointed as Chairperson.

The operating year of the Committee shall end on 30 June of each year and the period of memberships shall likewise run to 30 June of each year. In the case of membership appointments occurring during the course of a year, the first year shall be deemed to end on the 30 June following such appointment.

The contract of appointment shall specify the rate payable for the preparation of the reports as well as the rate of remuneration for attendance at meetings, and the rate for time spent in preparing for meetings (up to an agreed maximum) or a fixed remuneration per sitting.

The Council may on receipt of a report from the Chairperson or any other member of the Risk Management, Fraud and Anti-Corruption Committee acting as chairperson terminate the membership of any member(s) that have not attended three meetings in succession without

providing acceptable reasons in writing, provided that such member has been afforded an opportunity to submit reasons for non-attendance.

## 5. AUTHORITY

The Accounting Officer shall appoint the Chairperson from the membership of the Audit and Performance Committee.

The Committee shall have the requisite authority to request management to appear before it to account for their delegated responsibilities in respect of risk management.

For the purposes of the functioning of the Committee, in the event that the members of the Committee are of a more junior rank than the management that they request to appear before them, the traditional rank hierarchy in the Municipality shall not apply. This implies that in the context of the functioning of the Committee the Committee members will enjoy greater powers than management although the members themselves may be of a lower status.

A Risk Management, Fraud and Anti-Corruption Committee –

1. may communicate directly with the Council, Municipal Manager or the internal and external auditors of the municipality;
2. may access any municipal records containing information that is needed to perform its duties or exercise its powers;
3. may request any relevant person to attend any of its meetings, and if necessary, to provide information requested by the Committee; and
4. may investigate any matter it deems necessary for the performance of its duties and the exercise of its powers.
5. may not perform any management functions or assume any management responsibilities as this could prejudice the objectivity of the Committee. The Committee will mainly make recommendations to management in respect of the activities.

## 6. ROLES AND RESPONSIBILITIES

The duties of the Committee shall be to:

- Review the risk management policy and strategy and recommend for approval by the Council;

- Review the risk appetite and tolerance and recommend for approval by the Accounting Officer;
- Review the Municipality 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 Municipality
- Report to the Accounting Officer any material changes to the risk profile of the Municipality
- Review the fraud prevention policy and recommend for approval by the Council;
- Evaluate the effectiveness of the implementation of the fraud prevention policy;
- Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses;
- Develop goals, objectives and key performance indicators for the 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 Municipality 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.

## 7. ADMINISTRATIVE DUTIES

The Risk Officer or such person as appointed by the Manager: Risk Management Unit, shall be the secretary of the Committee.

***a) Meetings***

A minimum of four meetings shall be held during a financial year (one meeting per quarter).

Special meetings of the Risk Management, Fraud and Anti-Corruption Committee may be convened at the Chairperson's request or with the Chairperson's approval. Any member of the Risk Management, Fraud and Anti-Corruption Committee, or the Manager: Risk Management may request a special meeting if they consider it necessary.

***b) Notice of Meetings***

Notice of each meeting shall be given in writing to all members of the Risk Management, Fraud and Anti-Corruption Committee at least five working days prior to the date on which such meeting is to be held. The Risk Management Fraud and Anti-Corruption Committee dates of meetings will be aligned with the Audit and Performance Committee dates.

In the case of a special meeting, if the Chairperson deems the need for the meeting to be urgent and has the reasons recorded at such meeting, the period of notice may be reduced to three working days.

The notice shall confirm the venue, time, date and agenda and include the documents for discussion. Any person attending the meeting may add items to the agenda up to (3) three working days before the agenda is finalised. Such items must be provided to the secretary of the Risk Management Fraud and Anti-Corruption Committee.

The secretary shall keep minutes of all meetings and shall include the minutes with the agenda of the next Risk Management Fraud and Anti-Corruption Committee meeting. Minutes will be produced and circulated within (10) ten days after the meeting.

## 8. QUORUM

Fifty Percent (50%) plus one constitutes a quorum. A permanent member of the Committee may nominate a proxy on his / her behalf. This provision shall lapse in the event that the permanent member fails to attend fifty percent (50%) or more of the Committee meetings held in that particular financial year in person.

In extraordinary circumstances where a quorum has not been formed, the chairperson may continue with the meeting provided that a written ratification of the majority members would be obtained not later than the next ordinary meeting.

The Committee members may in their absence, delegate their roles and responsibilities to a designated official of their choice. The Committee members should submit to the Committee in writing their intention of delegating their powers to the designated official of their choice. The designated official mandated to act on the principal Risk Management Fraud and Anti-Corruption Committee member's behalf should abide by the relevant rules and regulations of the Committee.

## 9. PERFORMANCE EVALUATION

The Committee shall evaluate at least annually its performance in terms of its charter.

Refer to Annexure A for the Key Performance Indicators of the Risk Management Fraud and Anti-Corruption Committee.

## 10. REVIEW OF CHARTER

The Committee shall review the Charter annually and recommend to the Accounting Officer for approval any amendments that may be required.

## 11. RECOMMENDATION AND APPROVAL

The Manager: Risk Management recommends the approval of this Charter:

## 12. ANNEXURE A:

RISK MANAGEMENT, FRAUD & ANTI-CORRUPTION COMMITTEE: KEY PERFORMANCE INDICATORS

# RISK MANAGEMENT FRAUD & ANTI-CORRUPTION COMMITTEE

# KEY PERFORMANCE INDICATORS


**NAME OF THE MUNICIPALITY:** _____

## EVALUATION PERIOD: _____

| Subject | Reference | KPI's | Weight % | Evidence Required | REPLY BY MUNICIPALITY | | EVALUATION BY TREASURY | | Exception |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Yes / No | Evidence Attached Yes / No | Score Achieved | Comments/Record of work done | |
| **FIRST SEMESTER EVALUATION 2017/18 FINANCIAL YEAR** | | | | | | | | | |
| **A. Constitution** | **MFMA Sec 62** | **(1)** Has the Municipality established a Risk Management Committee? | 5% | Appointment Letters of all members signed by the Accounting Officer. | | | | | |
| **B. Risk Management Structure & Reporting Lines** | **PSRMF: GCRO, par 6**<br><br>**RMCC PAR1** | **(2)** Does the Risk Management Committee receive and review quarterly reports from the Risk Management Unit?<br><br>**(3)** Does the Risk Management | 5%<br><br>9% | Signed off Quarterly Risk Management Report and the Minutes where the reports were reviewed.<br><br>Report to the AO. | | | | | |

| Subject | Reference | KPI's | Weight % | Evidence Required | REPLY BY MUNICIPALITY | | EVALUATION BY TREASURY | | Exception |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Yes / No | Evidence Attached Yes / No | Score Achieved | Comments/Record of work done | |
| | | Committee fully participate in the integration of risk management into the municipality?<br><br>**(4)** Are replacements done immediately when a member resigns in writing from the Committee? | 3% | Appointment letter | | | | | |
| **C. <u>Composition</u>** | **RMCC PAR3 & 4** | **Does the committee comprise of the following officials as standing invitees:**<br><br>**(6)** Manager: Risk Management / Risk Coordinator?<br><br>**(7)** Chief Audit Executive?<br><br>**(8)** Has the Accounting Officer appointed the Chairperson from the permanent membership of the Committee? | 3%<br><br>3%<br><br>3%<br><br>3 | Appointment letters | | | | | |

| Subject | Reference | KPI's | Weight % | Evidence Required | REPLY BY MUNICIPALITY | | EVALUATION BY TREASURY | | Exception |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Yes / No | Evidence Attached Yes / No | Score Achieved | Comments/Record of work done | |
| | | (9) Has the Manager: Risk Management / RM Official been appointed as the secretary of the committee | | | | | | | |
| **D. <u>Authority</u>** | **RMCC PAR 5 and GFRMC PAR6** | Does the committee review Risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register?<br><br>Does the Committee evaluate the effectiveness of mitigating strategies to address the material risks of the institution? | 5%<br><br>5% | Reviewed risk identification and assessment methodologies by risk management committee and minutes when the review took place. Attendance Register.<br><br>Minutes where the evaluation of mitigating strategies or action plans were discussed. | | | | | |

| Subject | Reference | KPI's | Weight % | Evidence Required | REPLY BY MUNICIPALITY | | EVALUATION BY TREASURY | | Exception |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Yes / No | Evidence Attached Yes / No | Score Achieved | Comments/Record of work done | |
| | | | | | | | | | |
| **E. <u>Roles And Responsibilities</u>** | | Does the Committee report to the Accounting Officer any material changes to the risk profile of the institution? | 5% | Report to Accounting officer on material changes on risk profile. This will include emerging risks with significant impact on the achievement of dept's objectives. | | | | | |
| | | Does the Committee review any material findings by the assurance providers (Internal Auditors) on the system of risk management and monitor that appropriate action is instituted? | 5% | Internal Audit report on the effectiveness of risk management unit. | | | | | |
| | | Has the committee developed / reviewed goals and objectives for | 5% | RM Charter | | | | | |

| Subject | Reference | KPI's | Weight % | Evidence Required | REPLY BY MUNICIPALITY | | EVALUATION BY TREASURY | | Exception |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Yes / No | Evidence Attached Yes / No | Score Achieved | Comments/Record of work done | |
| | | the committee and for approval by the Accounting Officer? | | | | | | | |
| | | Has the Committee developed / reviewed key performance indicators to measure the effectiveness of the risk management activity? | 5% | Approved RMC KPI evaluation tool. | | | | | |
| | | Does the Committee set out the nature, role, responsibility and authority of the risk management function within the institution and is it approved by the Accounting Officer? | 5% | RM Charter | | | | | |
| | | Does the Committee provide the Accounting Officer with proper quarterly reports on the state of risk management activities? | 5% | Signed Risk Management report by committee to the Accounting Officer. | | | | | |
| | | Are the recommendations on | 5% | | | | | | |

| Subject | Reference | KPI's | Weight % | Evidence Required | REPLY BY MUNICIPALITY | | EVALUATION BY TREASURY | | Exception |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Yes / No | Evidence Attached Yes / No | Score Achieved | Comments/Record of work done | |
| | | the report made by the committee addressed by the Accounting Officer? | | Action Plan for implementation of recommendations by the committee. Signed by AO. | | | | | |
| **F. Meetings** | **RMCC PAR 6** | Does the Committee meet at least once per quarter? | 5% | Approved Minutes of the meetings or ( Schedule of meetings) | | | | | |
| **G. Administrative Duties** | **RMCC PAR 7** | Does the chairperson of the committee ensures that the secretary forward the notice of the meeting of the Committee no later than ten days prior to the meeting, which confirms venue, time, date and agenda including the documents for discussion?<br><br>Does the chairperson of the committee ensures that the secretary | 5%<br><br>3% | Notice of the meetings. Distribution List.<br><br>Minutes; distribution list signed by recipients or | | | | | |

| Subject | Reference | KPI's | Weight % | Evidence Required | REPLY BY MUNICIPALITY | | EVALUATION BY TREASURY | | Exception |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Yes / No | Evidence Attached Yes / No | Score Achieved | Comments/Record of work done | |
| | | complete the minutes and send them to all relevant officials within seven working days of the meeting?<br><br>Are the minutes approved immediately at the following meeting and circulated to attendees within three working days? | 3% | bulk e-mail to RMC members<br><br>None (Evidence already submitted in KPI 25 above) | | | | | |
| **H. Review of The Charter** | **RMCC PART10** | Does the Committee review the Charter annually, at least by the 15th June each year, and recommend to the Accounting Officer approval for any amendments? | 5 | None (Evidence already submitted in KPI 1 above | | | | | |
| **TOTAL** | | | **100%** | | | | | | |

## RECOMMENDATIONS AND APPROVAL OF THE RISK MANAGEMENT MANUAL

This Manual shall come into effect immediately upon approval by Council of the Greater Taung Local Municipality within the Dr. Ruth Segomotsi Mompati District**.** The Risk Management Manual 2024/2025 was approved by the Respective Local Municipality Fraud and Anti-Corruption Risk Management Committee (FARMCO) and the Audit and Performance Committee (APAC).

**16/10/2024**

_____ _____

**ADV. A. BAM** **DATE**
**CHIEF RISK OFFICER**

_____ _____

**MR. M. MAKUAPANE** **DATE**
**MUNICIPAL MANAGER**

**16/10/2024**

_____ _____

**MR. SAB NGOBENI** **DATE**
**FARMCO CHAIRPERSON**

_____ _____

**APC CHAIRPERSON** **DATE**