

JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY

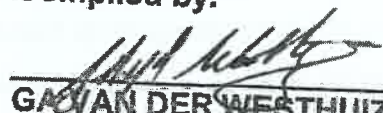


RISK MANAGEMENT FRAMEWORK

ABSTRACT

This Framework was developed to provide both an understanding of risk management as it applies to the John Taolo Gaetsewe District Municipality and to provide guidelines for the establishment and maintenance of a risk management system. Risk Management functions and principles are discussed. The risk management process, roles and responsibilities of stakeholders, a possible methodology and outputs are also outlined.

Compiled by:


GAVIN DER WESTHUIZEN
MANAGER: STRATEGIC PLANNING &
ORGANISATIONAL PERFORMANCE
MANAGEMENT

Reviewed by:

DH MOLAOLE
MUNICIPAL MANAGER

Ms P Q Mogatle
Speaker,

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1. INTRODUCTION

The Management of the John Taolo Gaetsewe District Municipality embarked on a journey to entrench risk management in the daily operations of the Municipality. It seems logical to ask why the Municipality should bother with risk management. In order to respond to this question this Framework sets out to (1) understand the nature of risk and the necessity for risk management, (2) conceptualising risk management, and (3) develop a framework or model for risk management in the Municipality and in the process position the Municipality to take advantage of risks – to turn it into an ally rather than an adversary.

2. LEGAL CONTEXT

The Local Government: Municipal Finance Management Act (Act 56 of 2003) (MFMA) assigns the Accounting Officer (Municipal Manager) to be responsible for the management of the financial administration of the Municipality and to this extent to take reasonable steps to ensure (Section 62(1)(c)):

“that the municipality has and maintains effective, efficient and transparent systems –

- (i) of financial and risk management and internal control; and*
- (ii) of internal audit operating in accordance with any prescribed norms and standards.”*

The National Treasury developed a public sector risk management framework that is also applicable to municipalities. It provides principles and guidelines to implement and maintain a risk management system. The Framework also incorporates the requirements of the Batho-Pele principles and King III report in so far as it concerns risk management, SALGA (2017, p.15)

Risk management
is everybody's
responsibility!

“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,” National Treasury (Undated 5, p.1). This is notwithstanding the fact that the MFMA assigns specific roles and responsibilities to the Municipal Manager and Internal Audit.

Section 165 (2) (a), (b)(iv) of the MFMA requires that, National Treasury (Undated 5, p.2):

- “(2) The internal audit unit of a municipality or municipal entity must -*
- (a) prepare a risk based audit plan and an internal audit program for each financial year;*

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(b) advise the accounting officer and report to the audit committee on the implementation on the internal audit plan and matters relating to:

- (iv) risk and risk management."

National Treasury (Undated 5, p.3) quotes from Section 2110 of the Risk Management of the International standards for the Professional Practice of Internal Auditing as follows:

"The internal audit activity should assist the organisation by identifying and evaluating significant exposures to risk and contributing to the improvements of risk management and control systems.

2110. A1 – The internal audit activity should monitor and evaluate the effectiveness of the organisation's risk management system.

2110. A2 – The internal audit activity should evaluate risk exposures relating to the organisation's governance, operations, and information systems regarding the:

- *Reliability and integrity of financial and operational information;*
- *Effectiveness and efficiency of operations;*
- *Safeguarding of assets;*
- *Compliance with laws, regulations, and contracts.*

2110. C1 – During consulting engagements, internal auditors should address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2110. C2 – Internal Auditors should incorporate knowledge of risks gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organisation."

Section 166 (2) of the MFMA assigns the following responsibilities to the Audit, Performance and Risk Committee, National Treasury (Undated 5, p.4):

"(2) An audit committee is an independent advisory body which must –

(a) 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 -

- *(ii) risk management."*

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3. UNDERSTANDING RISK AND RISK MANAGEMENT

3.1. Origins of Risk

"Risk is part of every human endeavour. From the moment we get up in the morning, drive or take public transportation to get to school or to work until we get back into our beds (and perhaps even afterwards), we are exposed to risks of different degrees," New York University (NYU)(1) (2018, p.1).

NYU (1) (2018, p.1) argues that risk and survival goes hand in hand and is evident in most of human history. Early humans were exposed to the danger of preying animals and weather in their search for food and shelter and consequently lived short and brutal lives. More established and developed communities were later faced with other risks such as war and disease, which is rampant to this day. Even in prehistoric society there were different approaches to risk. The risk-taking caveman was rewarded with food, whilst the risk-averse one starved to death (2).

The advent of shipping and with it shipping trades created new equations of risk. It further allowed for the segregation of physical and economical risk NYU (1) (2018, p.2). The poor literally bet/risked their lives, whilst the rich bet/risked their wealth. In modern times an example of physical risk is somebody that bungee jumps. It poses significant physical risk with no economic payoff. On the other hand purchasing stocks on the open market has no potential for physical risk, but poses significant economic risk.

Risk is no stranger in the municipal environment. Risk is central to service delivery. Mogatle (2014, p.15) referring to Ross & Bodapati (2006) argues that public sector organisations must manage resources sensibly and in doing so must be accountable. It follows that they are responsible for their own risky behaviour. SALGA (2017, p.16) states that:

- (1) *"Institutions are bound by their Constitutional mandates to provide services or products in the interest of the public good.*
- (2) *No organisation has the luxury of functioning in a risk-free environment and public institutions are especially vulnerable to risks associated with fulfilling their mandates.*
- (3) *The public sector environment is fraught with unique challenges such as inadequate capacity, excessive bureaucracy and silo mentality, limited resources, competing priorities and infrastructure backlogs to mention a few."*

It seems logical to deduce from the above that: ***"To live is to risk and to risk is to live."*** Further, the municipal environment by its very nature is fraught with risk and as such calls for risk management.

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3.2. Definition of Risk and Risk Management

3.2.1. Defining Risk

"Risk is defined as the potential for loss in the future," University of Wisconsin (2015, p.1). Mogatle (2014, p.4) in referring to Hood et.al. (2007) states that: "...it goes far beyond financial risks to the diverse internal and external needs of societal uncertainties related to service delivery and the public servants employed by these organisations."

The Australian Government (2010, p.1) indicated that the definition of risk has changed with the 2009 risk standard. *"The definition of risk has changed from 'the chance of something happening that will have an impact on objectives' to 'the effect of uncertainty on objectives'."*

According to Spikin (2013, p.90) (referring to Hillson, 2006): *"The word 'risk' has become a common and widely used part of today's vocabulary, considering personal circumstances (health, pensions, insurance, investments, etc.), society (terrorism, economic performance, food safety, etc.) and also business (corporate governance, strategy, business continuity, etc.). Many of the institutions that humanity has built as well, could be viewed as a way to address uncertainty, including politics, religion, philosophy, technology, laws, ethics and morality."*

It is clear from the above that the following elements are related to risk: (1) potential loss or destruction in future, (2) is found everywhere (ubiquitous in nature), and (3) societal uncertainties in relation to service delivery objectives. Risk within the context of a municipality may therefore be defined as ***"the ever present and dynamic uncertainty related to service delivery objectives and its concomitant potential for loss, injury, damage and destruction in future"***.

3.2.2. Defining Risk Management and Enterprise Risk Management

Risk Management is a core special management function. Literature differentiates between Risk Management and Enterprise Risk Management. It is therefore defined separately as discussed below:

3.2.2.1. Risk Management

SALGA (2017, p.17) defines risk management as *"...valuable management tool which increases an Institution's prospect of success through minimising negative outcomes and optimising opportunities."* Rouse (2018) on the other hand defines risk management as *"Risk management is the process of*

identifying, assessing and controlling threats to an organization's capital and earnings. These threats, or risks, could stem from a wide variety of sources, including financial uncertainty, legal liabilities, strategic management errors, accidents and natural disasters."

Von Wagenheim et.al. (2010) in Mogatle (2014, p.11) outlines *"...risk management as a systematic process of identifying, analysing and responding to risk. It includes maximising the probability and consequences of positive events and minimising the probability and consequences of adverse events to objectives."*

3.2.2.2. Enterprise Risk Management (ERM)

ERM is a more holistic approach to risk management. SALGA (2017, p.24) defines ERM as follows:

- (1) "ERM is a broad-based application of risk management in all major functions and activities of the Institution, rather than only in selected areas, to isolate the material risks.*
- (2) ERM represents a response to the dilemma that risks (including opportunities) are dynamic and often highly interdependent and need to be managed through a portfolio approach rather than as separate and static events, to achieve comprehensive and integrated attention.*
- (3) ERM calls for the Institution to look beyond itself, requiring the consideration of risks on performance regardless of whether risk is internally or externally generated."*

Mogatle (2014, p.12) quotes the definition of Alviniussen & Jankensgaard (2009) of ERM. It is *"...about taking a holistic, company-wide approach to managing ...risk and aggregating information centrally in the organisation regarding various different risk exposures."* The essential difference between risk management and ERM is that the latter does not follow a "silo approach" but identify, assess and treat risk in an integrated, aggregate and central manner and not independently from each other.

According to Kreiser (2013, p.1) COSO (2004) defines ERM as *"...a process, effected by the entity's board of directors, management, and other personnel, applied in strategy-setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within the risk appetite, to provide reasonable assurance regarding the achievement of objectives."* He simplifies it as follows: *"...ERM is a way to effectively manage risk across the*

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organization through the use of a common risk management framework. This framework can vary widely among organizations but typically involves people, rules, and tools. This means individuals with defined responsibilities use established, repeatable processes (rules), and the appropriate level of technology (tools) to mitigate risk." The South African National Treasury similarly defines risk management within the context of ERM as "...a systematic process to identify, evaluate and address risks on a continuous basis before such risks can impact negatively on the institution's service delivery capacity," National Treasury (undated, p. 2) (1).

It is deduced from the above that risk management and enterprise risk management contains the following elements: (1) it is a systematic, continuous and repeatable process, (2) it is a response to and attempt at gaining control over or mitigating the impact of uncertain future events, (3) it is an integrated and holistic approach and process, and (4) it considers and responds to both internal and external factors and how it may impact on organisational performance.

In light of the above it is therefore proposed that a risk management definition for the John Taolo Gaetsewe District Municipality should be a combination of the elements of risk- and enterprise risk management. It is proposed that risk management be defined as follows:

"It is an integrated, flexible repeatable and systematic process and concerted effort to identify, assess/ evaluate and respond to possible and uncertain future events, called risks, from both internal and external sources on the performance of the John Taolo Gaetsewe District Municipality in carrying out its service delivery mandate and in doing so to either gain control over, or to manage the impact of such uncertain future events."

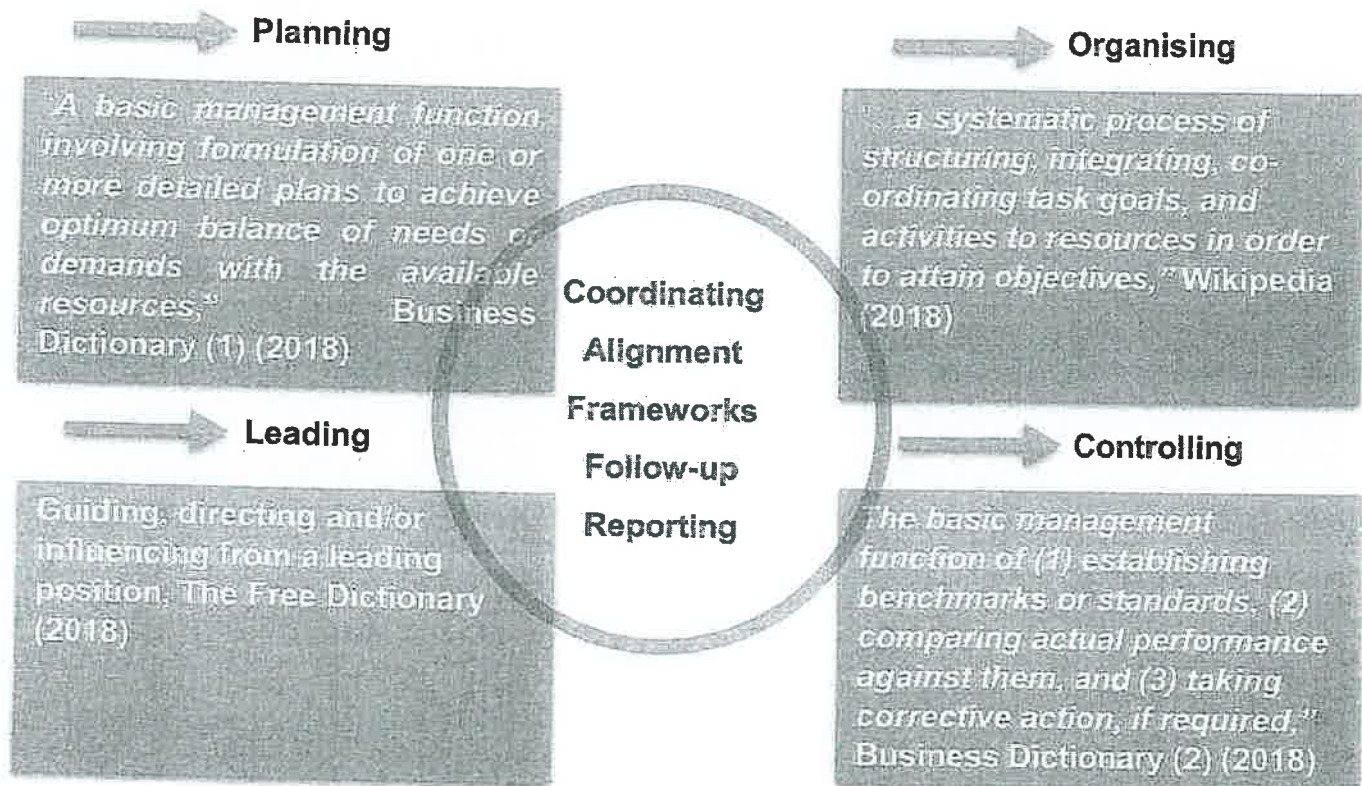
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3.3. Components of Risk Management

If the above definition of risk management is to be considered, the following aspects or components may be identified in the management of risk in the John Taolo Gaetsewe District Municipality:

Figure 1: Components of Risk Management



Risk management is therefore cross cutting in the planning, implementation, controlling and monitoring process and can be viewed as follows: **"...(1) identifies the goals or objectives to be achieved, (2) formulates strategies to achieve them, (3) arranges or creates the means required, and (4) implements, directs, and monitors all steps in their proper sequence,"** Business Dictionary (1) (2018).

3.4. Some Advantages of Risk Management

SALGA (2017, p.17) and Kreiser (2013, p.2) highlights some advantages or outcomes of risk management needed to promote performance:

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- creation of a more risk focused culture for the organization;
 - improved focus and perspective on risk;
 - more sustainable and reliable delivery of services;

- informed decisions underpinned by appropriate rigour and analysis;
- innovation;
- reduced waste;
- prevention of fraud and corruption;
- better value for money through more efficient use of resources;
- standardized risk reporting;
- effective coordination of regulatory and compliance matters; and
- better outputs and outcomes through improved project and programme management.

3.5. Principles of Risk Management

The Australian Government (2010, p.2) identifies and discusses 11 principles of risk management

- (1) Creates and protects value
- (2) Be an integral part of organisational processes
- (3) Be part of decision making
- (4) Explicitly address uncertainty
- (5) Be systematic, structured and timely
- (6) Based on the best available information

Good risk management contributes to the achievement of an agency's objectives through the continuous review of its processes and systems.

Risk management needs to be integrated with an agency's governance framework and become a part of its planning processes, at both the operational and strategic level.

The process of risk management assists decision makers to make informed choices, identify priorities and select the most appropriate action.

By identifying potential risks, agencies can implement controls and treatments to maximise the chance of gain while minimising the chance of loss.

The process of risk management should be consistent across an agency to ensure efficiency, consistency and the reliability of results.

To effectively manage risk it is important to understand and consider all available information relevant to an activity and to be aware that there may be limitations on that information. It is

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(7) Be tailored

(8) Take into account human and cultural factors

(9) Be transparent and inclusive

(10) Be dynamic, iterative and responsive to change

(11) Facilitate the continual improvement of organisations

then important to understand how all this information informs the risk management process.

An agency's risk management framework needs to include its risk profile as well as take into consideration its internal and external operating environment.

Risk management needs to recognise the contribution that people and culture have on achieving an agency's objectives.

Engaging stakeholders, both internal and external, throughout the risk management process recognises that communication and consultation is key to identifying, analysing and monitoring risk.

The process of managing risk needs to be flexible. The challenging environment we operate in requires agencies to consider the context for managing risk as well as continuing to identify new risks that emerge, and make allowances for those risks that no longer exist.

Agencies with a mature risk management culture are those that have invested resources over time and are able to demonstrate the continual achievement of their objectives.

The following key words can be deduced from the above:

- | | | |
|-------------------------|-----------------------|----------------------|
| → Accountability | → Inherency | → Integral |
| → Decision-making | → Address uncertainty | → Systematic |
| → Structured | → Timely | → People driven |
| → Transparent | → Inclusive | → Dynamic |
| → Repeatable | → Tailored | → Information based |
| → (iterative) | | |
| → Continual improvement | → Flexible | → Invested resources |

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3.6. Functions/Purpose/Objectives/Outcomes of Risk Management

The question is now what should risk management do? In other words what are the functions/purpose or objectives of risk management? The University of Adelaide (undated, p.2) states that: *"Organisations manage risk by anticipating, understanding and deciding whether to modify it. Throughout this process they communicate and consult with stakeholders and monitor and review the risk and the controls that are modifying the risk."*

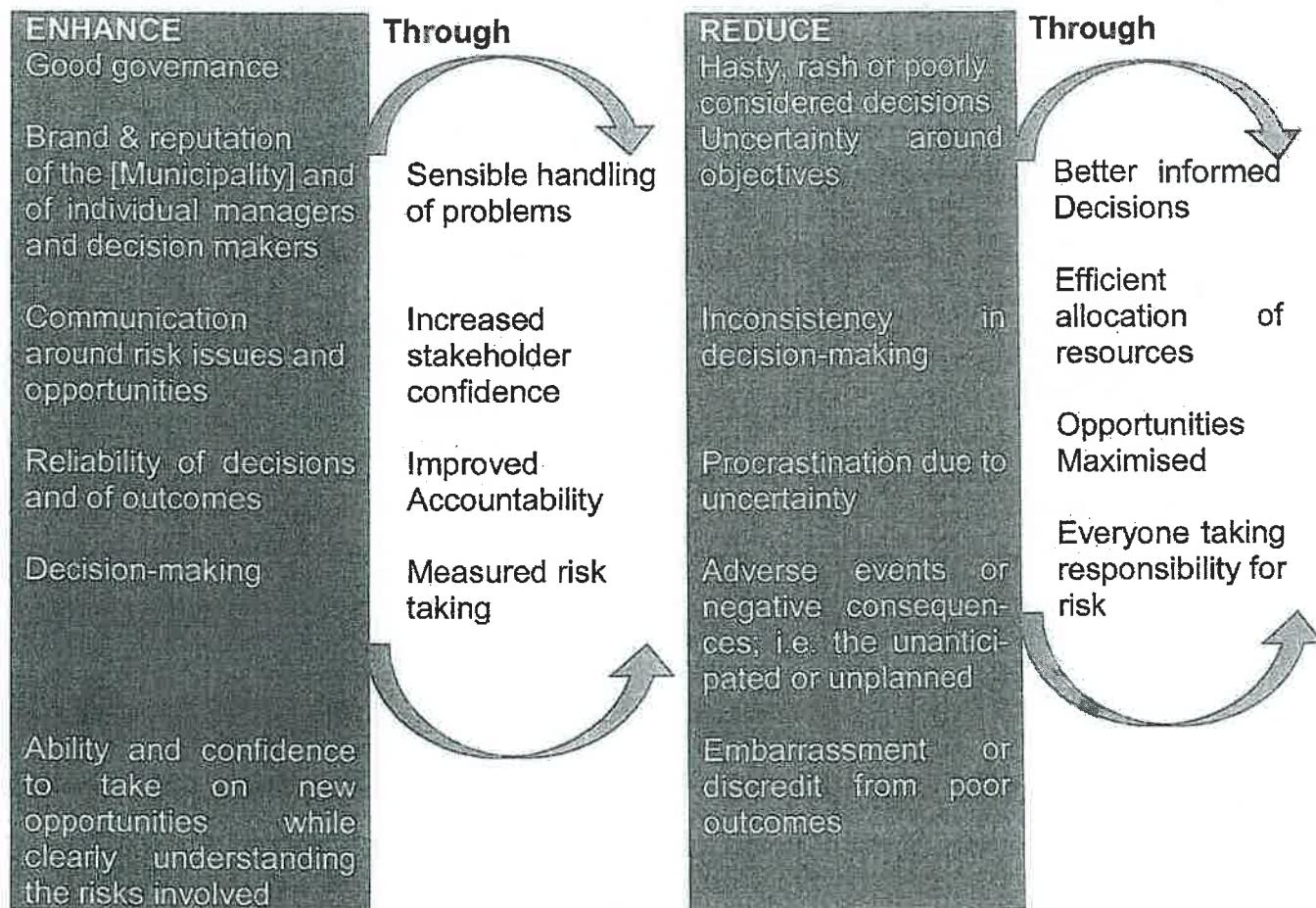
The operating environments of organisations may be confronted by a number of challenging influences. These may include natural, political, socio-economic and cultural influences, University of Adelaide (undated, p.4). It is against this backdrop that risk management is seeking to ***"direct and control risk and ... by value enhancing or value protecting or both."***

The outcome or purpose of risk management according to the University of Adelaide (undated, p.7) is to:

Figure 2: Functions of Risk Management

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What can risk management do to help?

- ➔ Assist in demonstrating that decision making is effective by providing formalised and structured evidence and assurance.
- ➔ Make it easier to keep track of risks, associated controls & treatments and to monitor progress over time.
- ➔ Improve decision making by applying a common sense approach.
- ➔ Assist in formulating more convincing and better substantiated proposals to secure funding and approval of activities or initiatives.
- ➔ Assist in allocating time and resources more effectively to address concerns by providing a practical approach to deal with problems or issues.
- ➔ Assist in better managing activities where adverse events may arise.
- ➔ Assist to be better prepared in future by learning from previous experience and/or mistakes.

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4. TOWARDS A RISK MANAGEMENT METHODOLOGY

The nature and definition of risk management as discussed in Chapter 3 above implies both a process and methodology. In this Chapter the Risk Management Process is described and a possible methodology is proposed for the Municipality.

4.1. Risk Management Process (Steps) or Cycle

The risk management process or cycle according to ENISA (2006, p.7) contains the following: plan, implement, monitor, control, identify and assess. It is an elementary understanding of the risk management process and can be illustrated as follows:

Figure 3: Elementary Risk Management Cycle:



The University of Adelaide (undated, p.12) identify the steps in the risk management process as indicated below. This is based on the International, Risk Management Standard - AS/NZS ISO 31000:2009 Risk Management – Principles and guidelines:

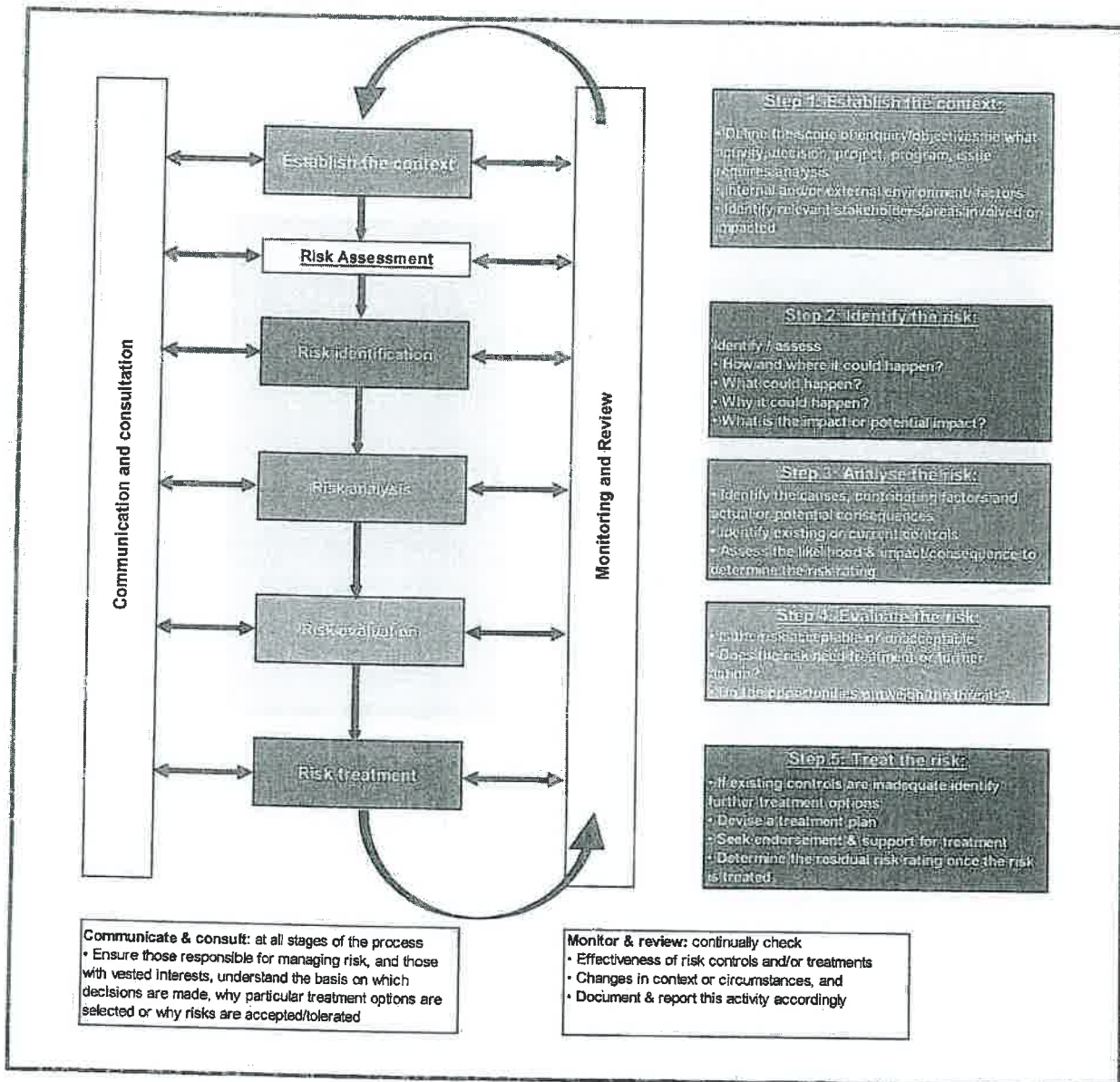
- | | | |
|---------------------------------|---|----------------------------|
| ➤ Step 1: Establish the context | ➤ Step 2: Identify the risk (Identify/assess) | ➤ Step 3: Analyse the risk |
| ➤ Step 4: Evaluate the risk | ➤ Step 5: Treat the risk | ➤ Communicate & consult |
| ➤ Monitor & Review | | |

The last two steps are not indicated as separate steps, because they apply to all stages of the process. The above is a more comprehensive and integrated approach to the risk management process. It can be graphically summarised as follows:

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Figure 4: Risk Management Process:



Source: University of Adelaide (undated, p.12)

The following paragraphs is a pragmatic application of the risk management process as discussed in the Risk Management Handbook of the University of Adelaide (undated, page 13 onwards). This handbook was chosen as a basis for the ensuing discussion because not only is it based on international standards, but it is also in line with South African Standards and guidelines as discussed in Chapter 2. This is done in order to develop a methodology that will be suitable for the Municipality, as discussed in the ensuing paragraphs.

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4.1.1. Establishing the Context (Strategically and Operationally)

It is of critical importance to properly understand the context within which risk management is taking place. It is to this extent that as much information as possible should be gathered about and relevant to the Municipality, even though it may not be utilised immediately. Internal and external influences/factors should be considered. This may include documents such as the Integrated Development Plan (IDP), Medium Term Revenue and Expenditure Framework (MTREF), Service Delivery and Budget Implementation Plan (SDBIP), Sector and other Strategic Plans, Audit Reports and Audit Management Letters and Legislation. Corporate memory and experience may also be of great value in assessing and treating risk. It is therefore equally important to identify stakeholders.

Risk assessment should be aligned to the strategic objectives and key performance indicators of the Municipality as contained in the IDP. This will assist to assess and treat strategic risk. However, the operational context should also be considered to ensure that risk assessment is based on a complete picture. Analysis tools such as SWOT, PESTLIE, Force Field, etcetera may prove to be valuable in understanding the municipal context and should be utilised in the planning stages of the organisational objectives.

4.1.2. Risk Assessment

The main elements of the risk assessment phase are identification, analysis and evaluation:

4.1.2.1. Risk Identification

Risk

"Risk identification involves identifying sources of risk, areas of impact, events and their causes and consequences."

During this step in the risk assessment phase possible uncertain future events (risks) are identified and with it the possible causes (root causes), areas of impact and possible consequences on the performance of the Municipality. Alignment to the strategic objectives of the Municipality is therefore critically important. Factors that may create, enhance, prevent, degrade, accelerate or delay the achievement of municipal objectives should be described here.

Typical questions that may assist here include *inter alia*:

- ✓ What could happen?
- ✓ How could it happen?
- ✓ Where could it happen?
- ✓ Why might it happen?

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- ✓ What might be the impact?
- ✓ Who does or can influence achievement of objectives?
- ✓ How much is within the control or influence of the Municipality?

Issues related to not pursuing an opportunity should also be identified. In other words the risk of doing nothing and missing an opportunity.

4.1.2.2. Risk Analysis



Do we have controls and how effective are they?

How likely is it to happen?

What is the level of impact that it will have if it happens?

How do we rate it?

A detailed understanding of the risk should be developed once a risk with its context, causes, contributing factors and possible consequences is identified. First is to identify the controls that are in place to mitigate the risk and secondly to determine its perceived effectiveness. Controls may be strong or weak and may also be measurable and repeatable.

Once the controls and control effectiveness has been identified, the likelihood of the risk occurring needs to be determined. The likelihood of a risk occurring is described as either *rare, unlikely, likely, or almost certain to occur*.

Assessment of consequences, just like determining the likelihood of a risk occurring, is mostly subjective. However, both play an important role in the rating the level of risk and proceeding to the evaluation of the risk and the eventual treatment of it. The consequences of a risk may be described as "*insignificant, minor, moderate, major or extreme*."

Finally, the risk level needs to be rated. A risk matrix used to assess likelihood and consequence levels will then proceed to determine whether the risk rating is *low, medium, high or extreme*. (Note: The risk matrix that may be used is discussed at the end of the risk assessment process).

4.1.2.3. Risk Evaluation

Decisions about future actions should be based on the understanding that was developed of the risk (context, identification, analysis). The Municipality should firstly decide whether the risk is acceptable or unacceptable. Decisions in this regard may include:

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- ➔ "not to undertake or proceed with the event, activity, project or initiative"
- ➔ actively treat the risk
- ➔ prioritising the actions needed, if the risk is complex and treatment is required
- ➔ accepting the risk"

Risk attitude

The Municipality's approach to assess and eventually pursue, retain, take or turn away from risk.

Risk appetite

The amount and type of risk that the Municipality is willing to pursue or retain.

Risk tolerance

The Municipality's readiness to bear the risk after risk treatment in order to achieve its objectives.

Deciding if the risk is acceptable or unacceptable will depend on the risk attitude, risk appetite and risk tolerance of the Municipality. Risk tolerance refers to the willingness to bear the risk after treatment in order to reach objectives.

It should be noted that risk attitude, appetite and tolerance may vary over time and across the Municipality.

Circumstances that may cause the Municipality to evaluate the risk as

acceptable may include:

- ➔ There is no treatment option available
- ➔ Treatment costs are prohibitive. The cost to treat the risk outweighs the importance of the risk. This is especially relevant for lower ranked risks.
- ➔ The level of risk is low and does not warrant using resources to treat it.
- ➔ The opportunities involved significantly outweigh the threats.

A risk is acceptable or tolerable when it is decided not to treat it. However, this does not mean the risk is insignificant or that it should not be monitored.

The following risk matrix may be used to assess risk and is adapted from the University of Adelaide (2016) Risk Matrix:

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Figure 5: Risk Assessment Matrix

Score	Description of likelihood
A Almost Certain	Highly likely to happen, possibly frequently
B Likely	Will probably happen, but not a persistent issue
C Possible	May happen occasionally
D Unlikely	Not expected to happen, but is a possibility
E Rare	Very unlikely this will ever happen

RISK RATING - MANAGEMENT ACTION REQUIRED
• Extreme risk = immediate attention & response needed; requires a risk assessment & management plan prepared by relevant senior managers
• High risk = risk to be given appropriate attention & demonstrably managed;
• Medium risk = assess the risk; determine whether current controls are adequate or if further action or treatment is needed; monitor & review regularly
• Low risk = manage by routine procedures; report to Heads of Department; monitor & review as necessary

RISK MATRIX					
LIKELIHOOD \ CONSEQUENCE	1	2	3	4	5
	Insignificant	Minor	Moderate	Major	Extreme
A - Almost Certain (frequent)	M	M	H	E	E
B - Likely (probable)	L	M	H	H	E
C - Possible (occasional)	L	M	M	H	H
D - Unlikely (uncommon)	L	L	M	M	H
E - Rare (Remote)	L	L	L	L	M

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Table 1: Risk Matrix: Area Of Impact - Description of Consequences

Score	Generic Impact Description	Basic Services and Infrastructure Development	Good Governance and Public Participation	Local Economic Development	Municipal Financial Viability and Management	Institutional Transformation and Development
5 Extreme	Event or circumstance with potentially disastrous impact on business or significant material adverse impact on a key area					
4 Major	Critical event or circumstance that can be endured with proper management					
3 Moderate	Significant event or circumstance that can be managed under normal circumstances					
2 Minor	Event with consequences that can be readily absorbed but requires management effort to minimise the impact					
1 Insignificant	Some loss but not material; existing controls and procedures					

Score	Generic Impact Description	Basic Services and Infrastructure Development	Good Governance and Public Participation	Local Economic Development	Municipal Financial Viability and Management	Institutional Transformation and Development
	should cope with event or circumstance					

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4.1.3. Treat the Risk

The Municipality should ensure that effective strategies are in place to minimise the frequency and severity of the risk concerned. In other words actions should be put in place that is aimed at controlling the risk. Upon completion of the risk assessment process, treatment options should be identified. If none is available the risk should be tolerated. If treatment appropriate options are available it should be recorded as part of the risk treatment plan, University of Adelaide (undated, p.17).

Treatment that is not based on the root cause is likely to be both ineffective and to promote a false belief that the risk is controlled, University of Adelaide (undated, p.17). Deciding on and designing a desirable treatment option will depend on the goal of the treatment. The goal may be to:

- reduce the likelihood or possibility of the risk occurring.
- reduce the consequence or impact of the risk.
- share the risk.

Goal:
Reduce likelihood
Reduce impact
Share the risk

Once the goal of the treatment is determined treatment options can be decided on and may include:

Treatment Options:

Avoid
Pursue opportunity
Remove source
Change likelihood
Change consequences
Share
Retain

- Avoid the risk by not starting or continuing an activity
- Take or increase risk in order to pursue an opportunity
- Remove the risk source
- Change the likelihood
- Change the consequence
- Share the risk e.g. through Insurance, contracts, financing
- Retain the risk by informed decision

Treatment (controls) should be evaluated to determine if they:

- Will have the desired effect.
- Will trigger other risks.
- Are beneficial and cost effective.

Risk treatment should be documented in a treatment plan. The plan should provide detail on responsibilities for action, timeframes, budget and other resource implications, performance measures and review process. The latter should monitor progress against critical implementation milestones.

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The residual risk level should be assessed once the risk has been treated. Residual risk refers to the remaining risk after treatment, University of Adelaide (undated, p.18).

4.1.4. Monitor and Review

Monitoring and review is a planned part of the risk management process. Management should put processes in place to review and report on risks regularly, University of Adelaide (undated, p.19). A reporting regime needs to be put in place in order to provide assurance that treatment is effective and helps to control the risk.

The roles and responsibilities of stakeholders are discussed elsewhere in the document. It should be noted that the Internal Audit Unit of the Municipality provides for review of systems, policies and process assurance and compliance. A risk-based approach is applied to the audit programme. The Municipality is annually audited externally by the Auditor General of South Africa. Management and staff may be required to respond to risk management activities involved with audits.

Formal risk reporting is an important part of being able to demonstrate the effectiveness of the risk management program, University of Adelaide (undated, p.20). Formal risk reporting takes place by means of the Municipal Risk Register on a monthly basis to Management and on a quarterly basis to the Audit, Performance and Risk Committee of Council. The Risk Register provides a risk profile, which is a description of a set of risks at a given time.

"records provide the foundation for improvement in methods and tools, as well as in the overall process," University of Adelaide (undated, p.20).

The Risk Register is a documented record of identified risks, their significance rating and how they are treated. It is important that emerging risks also be recorded, assessed and treated.

4.1.5. Communicate and Consult

It is essential to ensure that those that are responsible for implementing risk management and those with vested interest understand the basis on which decisions are made and reasons for selecting particular treatment options. Effective communication and consultation is therefore imperative, University of Adelaide (undated, p.22). A collaborative co-creation team approach will promote the risk

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management process and people are likely to take better ownership of the process.

Communication and consultation options may include such as:

- Meetings and minutes of meetings.
- Risk Register updates and reports.
- Staff awareness and training sessions.

4.2. Roles and Responsibilities

Risk management is simply put everybody's business. Specific roles and responsibilities are however assigned to various roleplayers in the Municipality.



4.2.1. Council

Council plays a major role in defining its expectations in terms integrity and ethical values, by appointing the Accounting Officer. Council confirms this through its oversight activities. It plays a role in setting strategy, formulating high-level objectives and broad based resource allocation. It does so by reserving authority on certain key decisions. It provides oversight with regard to risk management by:

- Being aware of and concurring with the Municipality's risk appetite.
- Reviewing the Municipality's risk portfolio against the risk appetite.
- Understanding the priority risks, SALGA (undated, p.3).

Council should take an interest in risk management to the extent that it has comfort that functioning risk management systems are in place to protect the Municipality against significant risks, SALGA (2017, p.37). Council's responsibilities should include:

- Ensuring that municipal strategies are aligned to the government mandate.
- Ensuring that Management provides assurance that strategic choices are based on a rigorous assessment of risk.
- Obtaining assurance that risks inherent to municipal strategies are identified, assessed and are being properly managed.
- Assisting the Accounting Officer to deal with risk beyond the direct control and influence of the Administration, such as fiscal, inter-governmental and other risks.
- Insisting on the achievement of objectives, effective performance management and value for money.

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- Approve the risk management policy, strategy and implementation plan.
- Approve the fraud prevention policy, strategy and implementation plan.

4.2.2. Audit, Performance and Risk Committee

The Audit, Performance and Risk Committee as an independent committee of Council is responsible for oversight over the Municipality's control, governance and risk management. The Committee's responsibilities should be formally defined in its charter, SALGA (2017, p.41). If the Municipality has no separate Risk Management Committee the responsibilities normally associated with the Risk Management Committee should be assumed by the Audit, Performance and Risk Committee (APRC).

- Provide an independent and objective view on the effectiveness of risk management.
- Reviewing and recommending disclosures on matters of risk in the annual financial statements and annual report.
- Providing regular feedback to the AO on the adequacy and effectiveness of risk management and to make recommendations for improvement.
- Ensuring that internal and external audit plans are aligned to the risk profile of the Municipality.
- Addressing:
 - Financial reporting risks, including the risk of fraud.
 - Internal financial controls.
 - IT risks as it relates to financial reporting.
- Evaluate effectiveness of Internal Audit in its responsibilities for risk management.

4.2.3. Accounting Officer

The Accounting Officer (AO) is accountable for the Municipality's overall governance of risk and is also the ultimate Chief Risk Officer. Responsibilities of the AO should include:

- Setting the tone and being seen to be supporting the Municipality's aspirations for effective management of risks.
- Delegating responsibilities to Management and internal committees such as the Risk Management Committee, Budget Steering Committee, IT Steering Committee and Training Committee.
- Holding Management accountable for designing, implementing, monitoring and integrating risk management into their daily activities.

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- ➔ Holding internal committees responsible for performance in terms of their responsibilities for risk management.
- ➔ Provide leadership and guidance on various aspects of risk management.
- ➔ Ensuring the control environment supports effective functioning of risk management.
- ➔ Ensuring that the appropriate policies, strategies and implementation plans are in place.
- ➔ Signing off on the Municipality's risk appetite and risk tolerance.
- ➔ Devoting personal attention to overseeing of significant risks.
- ➔ Leveraging the Audit, Performance and Risk Committee, Internal Audit, Auditor General and Risk Management Committee for assurance on the effectiveness of risk management.
- ➔ Ensuring appropriate action to ensure that recommendations from assurance providers are implemented.
- ➔ Providing assurance to relevant stakeholders that risks are properly identified, assessed and mitigated – especially key risks.

4.2.4. Risk Management Committee (RMC)

The RMC is appointed by the Accounting Officer in order to assist him/her to discharge his/her responsibilities for risk management. Membership of the Committee is comprised of both management and external members with the necessary blend of skills, competencies and attributes. Critical considerations are: an intimate understanding of the Municipality's mandate and operations; the ability to act independently and objectively in the interest of the Municipality; and a thorough knowledge of the risk management principles and their application, SALGA (2017, p.43). The responsibilities of the Committee should be formalised in a charter, approved by the Accounting Officer. The chairperson should be an independent external person.

The responsibilities of the RMC should be to:

- ➔ Review and recommend for approval of the Accounting Officer, the:
 - Risk management policy.
 - Risk management strategy.
 - Risk management implementation plan.
 - Municipality's risk appetite ensuring that limits are:
 - ✓ supported by a rigorous analysis and expert judgement.
 - ✓ expressed in the same values as the key performance indicators to which they apply;
 - ✓ set for all material risks individually, as well as in aggregate for particular categorisations of risk.

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- ✓ consistent with the materiality and significance framework.
- The Municipality's risk tolerance, ensuring that limits are supported rigorous analysis and expert judgement of:
 - ✓ The Municipality's ability to withstand significant shocks; and
 - ✓ The Municipality's ability to recover financially and operationally from significant shocks.
- The Municipality's risk identification and assessment methodologies, after satisfying itself of their effectiveness in timeously and accurately identifying and assessing the Municipality's risks.
- Evaluate the extent and effectiveness of integration of risk management within the Municipality.
- Assess implementation of the risk management policy and strategy (including plan);
- Evaluate the effectiveness of the mitigating strategies implemented to address the material risks of the Municipality.
- Review the material findings and recommendations by assurance providers on the system of risk management and monitor the implementation of such recommendations.
- develop its own key performance indicators for approval by the Accounting Officer.
- Interact with the Audit, Performance and Risk Committee to share information relating to the material risks of the Municipality.
- Provide timely and useful reports to the Accounting Officer on the state of Risk Management, together with accompanying recommendations to address any deficiencies identified by the Committee.

4.2.5. Chief Risk Officer (CRO)

The CRO is tasked with the overall efficiency of the risk management function. This is inclusive of the embedding of risk management practices and fostering a risk aware culture within the institution. The CRO effectively assumes the role of institutional advocate for risk management and brings specialist expertise to assist in integrating risk management throughout the institution, National Treasury (undated, p.4) (2).

High level responsibilities to achieve this include:

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

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- Communicating the risk management policy, risk management strategy and risk management implementation plan to all stakeholders in the institution;
- Setting up of the risk management structure and risk management reporting lines within the institution;
- Continuously driving the risk management process towards best practice;
- Developing a common risk assessment methodology that is aligned with the institution's objectives at strategic, tactical and operational levels for approval by the Accounting Authority / Officer.
- Coordinating risk assessments within the institution / department / division / business unit on a regular basis.
- Sensitising management timeously of the need to perform risk assessments for all major changes, capital expenditure, projects, institutional restructuring and similar events, and assist to ensure that the attendant processes, particularly reporting, are completed efficiently and timeously.
- Assisting management in developing and implementing risk responses for each identified material risk;
- Participating in the development of the combined assurance plan for the institution, together with internal audit and management;
- Ensuring effective information systems exist to facilitate overall risk management improvement within the institution;
- Continuously transferring risk management principles and practices, through training interventions, to all stakeholders within the institution;
- Advising management in the development of financing structures;
- Performing a PEST(EL) analysis to identify emerging risks facing the institution for further action and intervention;
- Collating and consolidating the results of the various assessments within the institution;
- Analysing the results of the assessment process to identify trends, within the risk and control profile, and develop the necessary high level control interventions to manage these trends;
- Compiling the necessary reports to the Risk Management Committee;
- Providing input into the development and subsequent review of the fraud prevention strategy, business continuity plans, occupational health, safety and environmental policies and practices and disaster management plans.

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4.2.6. Management

In discharging their high level responsibilities relating to risk management, Management, National Treasury (undated, p.5) (3):

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

4.2.7. Other Personnel

Responsibilities of other personnel should include, National Treasury (undated, p.6) (4):

- Familiarity with the overall risk management vision, risk management strategy, fraud risk management policy and risk management policy;
- Acting in terms of the spirit and letter of the above

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

4.2.8. Reporting Lines

The Municipal Manager should delegate roles and responsibilities in a manner that will ensure effective coordination and synergy of risk management activities, SALGA (2017, p.21). The work of the various business units, working groups and committees should be structured and coordinated in such a way that it provides a complete perspective of the Municipality's risk exposures and opportunities.

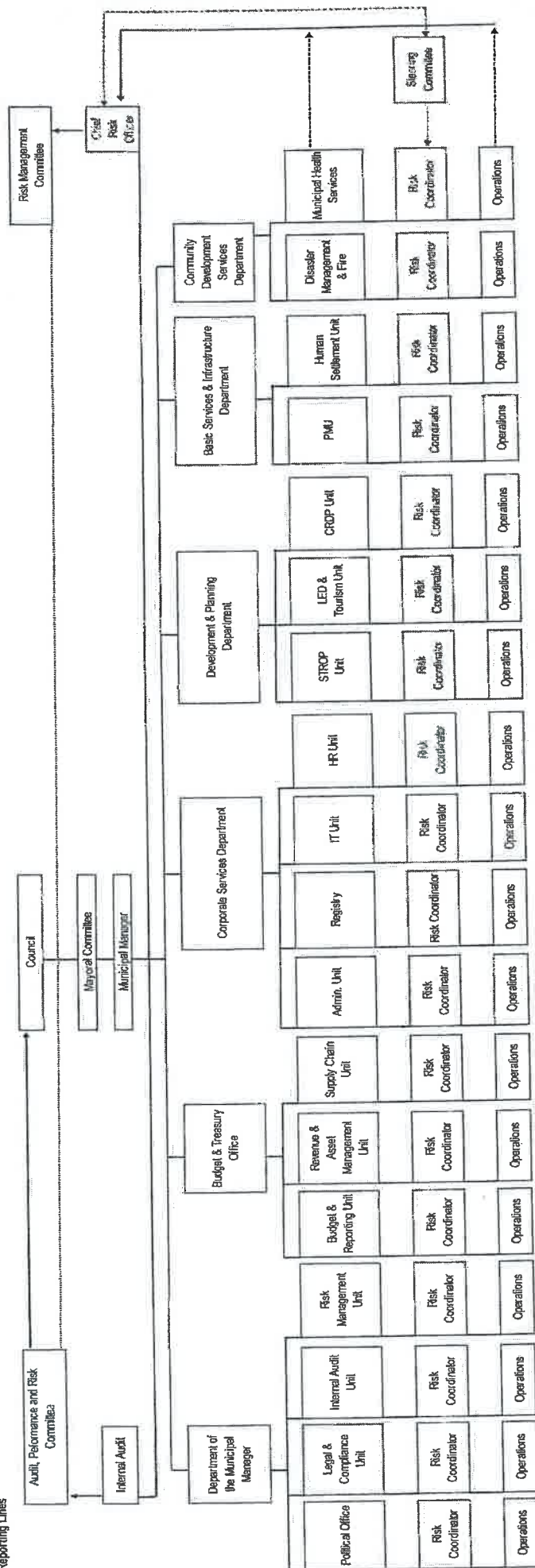
Reporting lines could be as is depicted in the figure below:

Figure 6: Reporting Lines

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Figure 6: Reporting Lines



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4.3. Outputs

The risk management process should produce a framework of documents including:

4.3.1. Risk Management Policy

The Municipality should operate within the terms of its risk management policy, SALGA (2017, p.20). The Risk Management Policy should at least:

- Communicate how the Municipality's risk management philosophy is expected to support the Municipality in achieving its objectives;
- Commit the Municipality to implement and maintain an effective, efficient and transparent risk management system;
- Define risk and risk management within the context of the Municipality;
- Stipulate the objectives of risk management in the Municipality;
- Outline the risk management approach; and
- Identify the key role players and their responsibilities.

The risk management policy should outline the Municipality's commitment to protecting the Municipality against adverse outcomes, which may impact negatively on service delivery. It should also confirm the Municipality's commitment to legal and regulatory compliance, National Treasury (Undated, p.1) (6).

The risk management policy communicates the Municipality's stance with regard to risk management. It is informed by the Municipality's risk profile, appetite for risk, loss tolerance levels, regulatory compliance expectations, safety and health demands, sustainability management, corporate governance requirements etc. The risk management policy may state the accountability for risk management, as well as responsibilities for risk management at various levels within the Municipality. The risk management policy is drafted in consultation with key stakeholders and should be communicated to all officials, National Treasury (Undated, p.2) (6).

4.3.2. Fraud Risk Management Policy

The Municipal Manager should ensure that a Fraud Risk Management Policy is in place and properly communicated to all officials in the Municipality. It is important to set the right tone for the prevention and

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management of fraud in the Municipality, National Treasury (Undated, p.1) (7).

The policy should include "...a statement that declares the institution's commitment to effective fraud risk management. It should explain that all key fraud risks identified are to be managed appropriately. The fraud risk management policy will outline the institution's commitment to the reduction and possible eradication of incidences of fraud and misconduct. It will also confirm a commitment to legal and regulatory compliance."

The fraud and misconduct risk policy or strategy will encompass the identification of exposures to fraud and misconduct in the everyday operations of the institution and the effective reduction or eradication of those identified exposures by the adoption of an awareness and education campaign applicable to all stakeholders," National Treasury (Undated, p.1) (7).

"The contents of a fraud risk management policy and strategy document should emphasise the institution's zero tolerance for any forms of fraud. The fraud risk management policy should be the introduction to the institution's fraud and misconduct strategy, National Treasury (Undated, p.2) (7).

A combination of the Risk Management Policy and the Fraud Risk Management Policy may be considered.

4.3.3. Risk Management Implementation Plan or Strategy

An approved Risk Management Strategy or Implementation Plan should guide the implementation of the Risk Management Policy and Fraud Risk Management Policy, or combination of the two, SALGA (2017, p.21). The Strategy or Plan should include:

- A plan of action to improve the Municipality's risk management maturity;
- A focus on the prevention and management of fraud and corruption;
- The Municipality's risk management architecture and reporting lines;
- A description of the risk management modality (way of managing risk);
- User guidelines; and
- Details of review and assurance of the risk management process.

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The primary objective of risk management strategy or implementation plan is to facilitate the execution of risk management.

4.3.4. Audit, Performance and Risk Committee Charter

The Audit, Performance and Risk Committee (APRC), operating as a committee of Council, National Treasury (2012, p.3):

- Performs the responsibilities assigned to it by the MFMA (sections 165 and 166); and
- The corporate governance responsibilities delegated to it under its charter by Council.

The Charter is the written terms of reference which outlines the mandate of the APRC. It becomes the policy of the APRC which then informs the contracts of the respective members of the APRC.

The Charter should be used to guide the activities of the APRC on an ongoing basis. It should set out the objectives, roles and responsibilities, composition, structure and membership requirements, relationships with other stakeholders, authority for the committee to conduct enquiries and access municipality and municipal entity's records and personnel, outlines procedures for meetings, addresses the confidentiality and independence of committee members, and provides for ethical conduct and reporting, National Treasury (2012, p.3).

It should be used as the basis for, National Treasury (2012, p.3):

- Preparing the audit committee's annual work plan;
- Setting the agenda for meetings;
- Requesting skills and expertise;
- Making recommendations to the Accounting Officer and Municipal Council;
- Assessing the APRC performance by its members, municipal council, management, Auditor-General and internal auditors; and
- Contributions and participation at meetings.

The Charter should be reviewed on an annual basis to ensure that it remains relevant in terms of the appropriate legislation, circulars and guidelines.

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4.3.5. Internal Audit Charter

The Internal Audit mandate is outlined in the Internal Audit Charter. It serves as the statement of purpose, authority and responsibility. It must be in writing and at least address the following, National Treasury (2012, p.16):

- The internal audit's purpose, authority and responsibilities;
- The standards to be complied with;
- The position of the internal audit within the organisation;
- A description of assurance and nature of consulting services;
- The period of review of the charter;
- The appointment and the dismissal of the chief audit executive; and
- Access to information, properties and personnel

The Charter should be reviewed annually to ensure that it is line with the appropriate legislation, circulars and guidelines, as well as the APRC Charter. The Internal Audit Charter should be signed off by the Municipal Manager and approved.

4.3.6. Risk Management Committee Charter

The Risk Management Committee (RMC) is established by the Accounting Officer to assist him/her in fulfilling his/her risk management and control responsibilities in accordance with legislation and governance principles.

The activities of the RMC is guided by its charter. The RMC charter should at least address the following:

- The responsibilities of the RMC to assist the Accounting Officer to discharge his/her accountability for risk management by reviewing the effectiveness of the Municipality's:
 - ✓ Risk management systems;
 - ✓ Risk management practices and procedures;
 - ✓ Providing Recommendations for improvement; and
 - ✓ Reviewing risk assessment and implementation reports from Management.
- Composition of the Committee;
- Authority of the Committee;

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- Roles and responsibilities of the Committee which may include:
- ✓ Review the risk management policy and strategy and recommend for approval by the Accounting Officer;
 - ✓ Review the risk appetite and tolerance and recommend for approval by the Accounting Officer;
 - ✓ Review the institution's risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register;
 - ✓ Evaluate the effectiveness of mitigating strategies to address the material risks of the Institution;
 - ✓ Report to the Accounting Officer any material changes to the risk profile of the Institution;
 - ✓ Review the fraud prevention policy and recommend for approval by the Accounting Officer;
 - ✓ 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 Institution for approval by the Accounting Officer, and oversee the performance of the risk management function;
 - ✓ Provide proper and timely reports to the Accounting Officer on the state of risk management, together with aspects requiring improvement accompanied by the Committee's recommendations to address such issues.

- Meetings and quorums;
- Administrative duties and support;
- Performance evaluation of the RMC and
- Review of the Charter.

5. HUMAN RESOURCE CAPACITY

It is critical that risk management is provided with adequate human resource capacity. The requisite number of people with the right skills is fundamental to the implementation of the risk management strategy, SALGA (2017, p.22). It is therefore important that:

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- ➔ Internal processes is established to sensitise all employees of the relevance of risk management to the achievement of their performance goals;
- ➔ Everyone involved in risk management should be equipped to optimally execute their responsibilities for risk management through training and support.
- ➔ The Chief Risk Officer and supporting staff should possess the required skills, competencies and attitudes to execute the functions discussed earlier in this document.

6. TOOLS AND TECHNOLOGY

Consideration should be given to the use of automated tools for the capturing, organising, storing and interrogating of data. It should also be considered for communicating and tracking of information, SALGA (2017, p.22). Tools and technology can promote efficiency in the risk management process by simplifying complex processes and accelerating tasks that are normally time consuming. It is however not a substitute for the human intellect and effort required in the risk management process.

7. FUNDING RISK MANAGEMENT ACTIVITIES

Investments in risk management and control ought to be considered on a cost benefit basis, SALGA (2017, p23). The continuous implementation, maintenance and improvement of the state of risk management and control requires funding. The necessary funding should therefore be budgeted for the Risk Management Unit and controlled by the Municipal Manager.

It should be the responsibility of the respective heads of departments to provide for the cost of developing, implementing and improving controls. They should provide for such costs in their operational or capital budgets as the case may be, SALGA (2017, p23).

8. APPLICABILITY OF RISK MANAGEMENT CHARTER

The Risk Management Charter is applicable to and forms the basis for all the deliverables in terms of this Charter. It should also inform risk awareness initiatives.

9. CONCLUDING REMARKS

This Charter *inter alia* attempted to provide an understanding of and/or proposal for:

- ➔ Risk and the origins of risk;

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- Risk and enterprise risk management and its application to the Municipality;
- Functions and principles of risk management;
- Risk management process;
- Key stakeholders in the risk management process and their roles and responsibilities;
- Risk Management Methodology; and
- Key outputs or deliverables;

It should therefore be used as the basis and guidelines for deliverables, functions and performing risk management related responsibilities.

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JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY



RISK MANAGEMENT STRATEGY/ IMPLEMENTATION PLAN 2018

ABSTRACT

This plan contains actions and activities to guide the execution of risk management in the John Taolo Gaetsewe District Municipality.

Compiled by:

GA VAN DER WESTHUIZEN
MANAGER: STRATEGIC PLANNING &
ORGANISATIONAL PERFORMANCE
MANAGEMENT

Reviewed by:

DH MOLAOLE
MUNICIPAL MANAGER

Ms P Q Mogatle

Speaker.

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1. PURPOSE OF DOCUMENT

The purpose of this strategy or implementation plan is to outline the actions and activities that will be pursued during the Financial Year.

2. OBJECTIVE

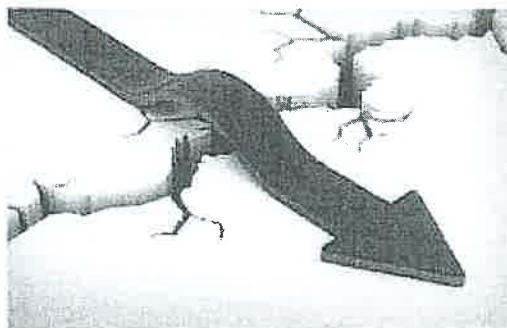
The primary objective of the Risk Management Strategy/Implementation is to facilitate or guide the execution of risk management in the John Taolo Gaetsewe District Municipality. It was prepared to give effect to the Risk Management Framework, including the Risk Management Charter and Risk Management Policy. It sets out all the risk management activities planned for the Financial Year.

To guide risk
management
execution

3. APPROACH

The following was inter alia considered during the compilation of this Strategy/Implementation Plan:

- Perceived risk management maturity level;
- Risk Management Charter;
- Risk and Fraud Risk Management Policy;
- National Treasury Public Sector Risk Management Framework;
- Available Resources; and
- Urgency, quick wins and sustainability.



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4. DETAILED RISK MANAGEMENT STRATEGY/IMPLEMENTATION PLAN

PLANNED ACTION	DETAILED ACTIONS	OUTPUTS	RESPONSIBLE PERSON	TIME FRAME	PROGRESS TO DATE
RISK ORIENTATION, AWARENESS AND RESPONSIBILITIES					
Review and/or compile the following documents: Risk Management Charter Risk and Fraud Risk Management Policy Risk Management Strategy/Implementation Plan Fraud Prevention Plan	<ul style="list-style-type: none"> ✓ Risk Management Committee (RMC) to review the policies and recommend to Council for approval. ✓ RMC to review Risk Management Charter and Strategy/Implementation Plan. ✓ RMC to review Fraud Prevention Plan 	<ul style="list-style-type: none"> ✓ Approved Risk and Fraud Risk Management Policy ✓ Approved Risk Management Charter ✓ Approved Risk Management Strategy/Implementation Plan ✓ Approved Fraud Prevention Plan 	Coordinator: Chief Risk Officer	31 May	
Completion of National Treasury Risk Management e-learning programme	<ul style="list-style-type: none"> ✓ Key officials to be identified to complete the Risk Management e-learning programme 	<ul style="list-style-type: none"> ✓ Skilled officials that are risk intelligent 	Municipal Manager and Senior Management	30 September	✓ Risk Coordinators to be identified in all departments to carry out the e-learning programme.
Provision of Risk Management training to other role players (raising awareness)	<ul style="list-style-type: none"> ✓ Capacitate all role players throughout the Municipality through training/awareness sessions. 	<ul style="list-style-type: none"> ✓ Role players generally aware of risk management. ✓ Risk management incorporated into the daily operations of the Municipality. 	Municipal Manager (MM) and Senior Management (SM)	30 June	
Orientation and/or induction of new appointments in the Risk Management Unit	<ul style="list-style-type: none"> ✓ Orientate and capacitate new appointments to the Risk Management Unit. 	<ul style="list-style-type: none"> ✓ Risk Management Unit capacitated to coordinate the implementation of 	Municipal Manager and CRO	When appointments are made	✓ All posts in the Risk Management Unit vacant.

PLANNED ACTION

DETAILED ACTIONS

OUTPUTS

RESPONSIBLE PERSON

TIME FRAME

PROGRESS TO DATE

Risk Management Responsibilities and duties assigned	✓ RMC Members appointed	risk management in the Municipality. ✓ Risk Management incorporated into the daily operations.	✓ MM	31 May	✓ RMC to be revived and external member to be appointed.
	✓ RMC Charter developed	✓ RMC Charter approved.	✓ Coordinator: CRO and RMC		✓ RMC Charter to be developed.
	✓ Risk Management Unit (RMU) Members appointed	✓ CRO and RMU members appointed.	✓ MM & Director: Corporate Services	31 May	✓ CRO and RMU members to be appointed.
	✓ Risk Champions assigned	✓ Risk Management Champions designated for each unit. ✓ Risk Steering Committee functional	✓ MM & SM ✓ Coordinator: CRO	31 May	✓ Risk Management Champions to be appointed/designated.
Risk Management provided for in planning and performance management	✓ Risk Management to be included in IDP and SDBIP	✓ Risk Management provided for in IDP and SDBIP	✓ RMC with support from CRO	31 May	✓ Risk Management provisions in IDP and SDBIP to be reviewed and/or amended.
	✓ Performance Contracts of the MM and SM to include risk management responsibilities	✓ Risk Management responsibilities included in performance contracts of MM & SM	✓ MM & SM with support from IPMS Officer	30 June	✓ Risk Management responsibilities to be included in performance contracts of MM & SM.
	✓ RMC key performance indicators to be developed by the RMC against which value added can be	✓ Approved RMC indicators ✓ RMC annual key performance indicator assessment report	✓ RMC with support from CRO	30 June	✓ Key performance indicators for RMC to be developed.

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PLANNED ACTION	DETAILED ACTIONS	OUTPUTS	RESPONSIBLE PERSON	TIME FRAME	PROGRESS TO DATE
	assessed, for approval by MM. ✓ RMC to undertake annual self-assessment in terms of key performance indicators				
Conduct strategic and operational risk assessment		RISK ASSESSMENT AND RESPONSE			
	✓ Determine risk context and gather information	✓ Draft Risk Register	✓ Coordinator: CRO	30 April	✓ Risk Register to be developed for 2018/19
	✓ Facilitate risk assessment sessions	✓ Draft Risk Register	✓ Coordinator: CRO	31 May	✓ Risk Register to be developed for 2018/19
	✓ Analyse information and develop risk assessment report/s	✓ Draft Risk Register	✓ Coordinator: CRO	31 May	✓ Risk Register to be developed for 2018/19
	✓ Risk Incident Register developed and maintained	✓ Historical incident maintained. ✓ Risk Register updated	✓ Coordinator: CRO	Ongoing	✓ Risk Incident Register to be developed and maintained. ✓ Risk Champions to report incidents to CRO through their respective Heads of Department.
Develop risk response strategies	✓ Identify new and emerging risks	✓ Risk Register updated	Coordinator: CRO	Ongoing	✓ Risk Register to be updated. ✓ Risk Champions to report new and emerging risks to CRO
	✓ Develop action plans ✓ Assign responsible parties ✓ Assign timeframes for implementation	✓ Risk Register updated	MM & SM with support from CRO.	31 May	✓ Risk Register to be developed for 2019/20
	✓ Submit risk register to RMC for review	Reviewed Risk Register	Coordinator: CRO	31 May	✓ Draft 2019/20 Risk Register to be submitted to RMC.
Approval of Risk Register					

Conduct strategic and operational risk assessment

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Develop risk response strategies

Approval of Risk Register

PLANNED ACTION	DETAILED ACTIONS	OUTPUTS	RESPONSIBLE PERSON	TIME FRAME	PROGRESS TO DATE
Develop Internal Audit Plans	✓ Submit Risk Register to Internal Audit, Performance and Risk Committee (APRC) for review	Reviewed Risk Register	Coordinator: CRO		✓ Draft 2019/20 Risk Register to be submitted to Internal Audit and APRC.
	✓ Submit Risk Register to Council for approval	✓ Approved Risk Register		31 May	✓ Draft 2019/20 Risk Register to be submitted to Council.
	✓ Risk based Internal Audit Plan to be developed and submitted to Management for review.	✓ Reviewed Internal Audit Plan	Coordinator: Chief Audit Executive	30 June	✓ Draft 2019/20 Internal Audit Plan/s to be developed.
	✓ Risk based Internal Audit Plan to be submitted to APRC for approval.	✓ Approved Internal Audit Plan/s	Coordinator: Chief Audit Executive	30 June	✓ Draft 2019/20 Internal Audit Plan/s to be developed.
	RISK MONITORING				
Monitoring and measuring of risk management progress	✓ Q1 Monthly risk management progress reports to be compiled and submitted to the respective departmental heads for each unit in the Municipality	✓ Monthly risk management progress reports	Risk Champions & Unit Heads	Monthly	✓ Monthly reports to be compiled by all units.
	✓ Management to actively manage actions and report on action plans to CRO	✓ Quarterly Management Progress Reports	MM & SM	15 October	✓ 2018/19 Q1 Progress Reports to be submitted.

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PLANNED ACTION	DETAILED ACTIONS	OUTPUTS	RESPONSIBLE PERSON	TIME FRAME	PROGRESS TO DATE
	✓ CRO to compile consolidated municipal Q1 Risk Management Progress Report for review by RMC	✓ Draft municipal Q1 Risk Management Progress Report	CRO	30 October	✓ 2018/19 Q1 consolidated progress report to be submitted.
	✓ RMC quarterly meeting	✓ Reviewed consolidated Management Progress Report Minutes of RMC	RMC supported by CRO	30 November	✓ RMC to review report and make recommendations to MM.
	✓ Internal Audit and APRC to review Q1 Risk Management Progress Report	✓ Reviewed Q1 Risk Management Progress Report	APRC supported by Internal Audit	30 November	✓ APRC to review report and make recommendations to Management
	✓ Q2 Monthly risk management progress reports to be compiled and submitted to the respective departmental heads for each unit in the Municipality	✓ Monthly management progress reports	Risk Champions & Unit Heads	Monthly	✓ Monthly reports to be compiled by all units.
	✓ Management to actively manage actions and report on action plans to CRO	✓ Quarterly Management Progress Reports for Q2	MM & SM	15 January	✓ 2018/19 Q2 Progress Reports to be submitted.
	✓ CRO to compile consolidated municipal Q2 Risk Management Progress Report for review by RMC	✓ Draft municipal Q2 Risk Management Progress Report	CRO	31 January	✓ 2018/19 Q2 consolidated progress report to be submitted.

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PLANNED ACTION

DETAILED ACTIONS		OUTPUTS	RESPONSIBLE PERSON	TIME FRAME	PROGRESS TO DATE
✓ RMC meeting quarterly	✓ Reviewed consolidated Management Progress Report Minutes of RMC	Q2 Risk	RMC supported by CRO	28 February	✓ RMC to review report and make recommendations to MM.
✓ Internal Audit and APRC to review Q2 Risk Management Progress Report	✓ Reviewed Q2 Risk Management Progress Report	Risk	APRC supported by Internal Audit	31 March	✓ APRC to review report and make recommendations to Management
✓ Q3 Monthly risk management progress reports to be compiled and submitted to the respective departmental heads for each unit in the Municipality	✓ Monthly risk management progress reports	risk	Risk Champions & Unit Heads	Monthly	✓ Monthly reports to be compiled by all units.
✓ Management to actively manage actions and report on action plans to CRO	✓ Quarterly Management Progress Reports for Q3	Risk	MM & SM	15 April	✓ 2018/19 Q3 Progress Reports to be submitted.
✓ CRO to compile consolidated municipal Q3 Risk Management Progress Report for review by RMC	✓ Draft municipal Q3 Risk Management Progress Report	Q3	CRO	30 April	✓ 2018/19 Q3 consolidated progress report to be submitted.
✓ RMC meeting quarterly	✓ Reviewed consolidated Management Progress Report Minutes of RMC	Q3 Risk	RMC supported by CRO	15 May	✓ RMC to review report and make recommendations to MM.

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PLANNED ACTION

DETAILED ACTIONS

OUTPUTS

RESPONSIBLE PERSON

TIME FRAME

PROGRESS TO DATE

✓ Internal Audit and APRC to review Q3 Risk Management Progress Report	✓ Reviewed Q3 Risk Management Progress Report	APRC supported Internal Audit	by 31 May	✓ APRC to review report and make recommendations to Management
✓ Q4 Monthly risk management progress reports to be compiled and submitted to the respective departmental heads for each unit in the Municipality	✓ Monthly risk management progress reports	Risk Champions & Unit Heads	Monthly	✓ Monthly reports to be compiled by all units.
✓ Management to actively manage actions and report on action plans to CRO	✓ Quarterly Management Progress Reports for Q4	MM & SM	15 July	✓ 2018/19 Q4 Progress Reports to be submitted.
✓ CRO to compile consolidated municipal Q4 Risk Management Progress Report for review by RMC	✓ Draft municipal Q4 Risk Management Progress Report	CRO	30 July	✓ 2018/19 Q4 consolidated progress report to be submitted.
✓ RMC quarterly meeting	✓ Reviewed consolidated Management Progress Report Minutes of RMC	RMC supported by CRO	31 August	✓ RMC to review report and make recommendations to MM.
✓ Internal Audit and APRC to review Q4 Risk Management Progress Report	✓ Reviewed Q4 Risk Management Progress Report	APRC supported Internal Audit	30 September	✓ APRC to review report and make recommendations to Management
✓ Internal Audit to review risk management and	✓ Internal Audit Risk Management progress review	Internal Audit	31 July	✓ Annual Review for 2018/19 to be performed.

Perform annual quality assurance review of risk management performance

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PLANNED ACTION	DETAILED ACTIONS	OUTPUTS	RESPONSIBLE PERSON	TIME FRAME	PROGRESS TO DATE
	provide assurance on its effectiveness				
	✓ APRC to advise on the effectiveness of risk management	✓ APRC risk management progress and effectiveness review	APRC supported by Chief Audit Executive	31 August	✓ Annual Review for 2018/19 to be performed.
RMC self-assessment performed	✓ RMC to assess its performance against the key performance indicators that it set for itself.	✓ RMC performance indicator self-assessment	RMC supported by CRO	31 August	✓ RMC to be revived and key performance indicators to be developed. ✓ RMC self-assessment for 2018/19 to be performed.
	✓ Submit self-assessment to MM				
Annual Report Risk Management comment developed	✓ Risk Management input and comment to the annual report to be developed.	✓ Risk Management Comment in Annual Report	CRO	31 July	✓ Risk Management Comment to be developed for 2018/19
	✓ Annual Report Risk Management comment reviewed by RMC	✓ Reviewed Risk Management comment	RMC supported by CRO	31 August	✓ RMC to review 2018/19 comment.

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(Note: Template to be coordinated by Chief Risk Officer)

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John Taolo
Gaetsewe District
Municipality

Incident No.	
Office Use	

ANNEXURE B: RISK INCIDENT REPORTING TEMPLATE

This template must be used to report risk incidents to the Chief Risk Officer, such as but not limited to:

Theft	Injury to persons	Vehicle accidents	Violence
Fraud and corruption	Building Incidents Security	IT related (e.g. network breaches, damage or loss of ICT equipment/ infrastructure, suspected breach of policies, virus or Trojan infections, breakdowns in services)	Damage to or loss of property
Disaster	Disease outbreaks	Financial losses	Interruption of or failures in the execution of performance
Non-compliance with legislation and policies	Breaches of contract	Claims and disputes against the Municipality	Civil Protest.

(Note: The above are examples and not meant to be all inclusive/comprehensive.)

Details of Person Reporting Incident

Pay Number:

Full Name:

Position:

Email:

Unit:

Department

Details of Incident

Date of Incident:

Time of Incident:

Location of Incident

Is Incident Still in Progress?

Yes

No

Incident Description:

Consequences/Impact of Incident:

Action Taken:

Suggested Corrective Action

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SIGNATURE OF REPORTER

Date:

Name of Unit Risk Champion: _____

SIGNATURE OF RISK CHAMPION

Date: _____

Name of Unit Manager: _____

SIGNATURE OF UNIT MANAGER

DATE: _____

Name of Head of Department: _____

SIGNATURE OF HEAD OF DEPARTMENT

DATE: _____

COMMENTS BY CHIEF RISK OFFICER:

SIGNATURE: CHIEF RISK OFFICER

DATE

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Speaker,

**JOHN TAOLO GAETSEWE DISTRICT
MUNICIPALITY**

RISK MANAGEMENT COMMITTEE



**RISK MANAGEMENT
COMMITTEE
CHARTER**

ABSTRACT

The Risk Management Committee Charter guides the Risk Management Committee in performing its duties.

Compiled by:

**GA VAN DER WESTHUIZEN
MANAGER: STRATEGIC PLANNING &
ORGANISATIONAL PERFORMANCE
MANAGEMENT**

Approved by:

**DH MOLAOLE
MUNICIPAL MANAGER**

Ms P Q Mogatle

Speaker

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1. PURPOSE

To assist the Risk Management Committee (RMC) in fulfilling its responsibilities to review risk related documentation such as the Risk and Fraud Risk Management Policy, Risk Register and Risk Strategy/Implementation Plan and to advise Management on risk management.

2. AUTHORITY

The RMC is appointed by the Accounting Officer in order to assist him/her to discharge his/her responsibilities for risk management. The RMC shall have the authority to perform functions, and to obtain any information and advice, from within or outside the municipality, in order to perform its functions. Appropriate resources will be made available to the Audit, Risk and Performance Committee to perform its functions.

The RMC is empowered, but not limited to:

- ✓ Make recommendations to the Accounting Officer on all risk management related matters;
- ✓ Seek any information it requires from all employees;
- ✓ Communicate with the Accounting Officer and Management of the Municipality;
- ✓ Have access to municipal records containing information that is needed to perform its duties or exercise its powers;
- ✓ Request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the committee; and
- ✓ Review any risk management related documentation submitted to it.

3. LEGAL CONTEXT

The Local Government: Municipal Finance Management Act (Act 56 of 2003) (MFMA) assigns the Accounting Officer (Municipal Manager) to be responsible for the management of the financial administration of the Municipality and to this extent to take reasonable steps to ensure (Section 62(1)(c)):

"that the municipality has and maintains effective, efficient and transparent systems –

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

The Risk Management Framework of the John Taolo Gaetsewe District Municipality (2018, p.35) provides for a charter to guide the activities of the RMC.

Other legislation, frameworks and policies that have bearing on risk management in general and the activities of the RMC include:

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- ✓ Local Government Municipal Systems Act No. 32 of 2000 as amended;
- ✓ Local Government Municipal Structure Act No. 117 of 1998 as amended;
- ✓ King IV report;
- ✓ John Taolo Gaetsewe District Municipality Risk Management Framework;
- ✓ Risk and Fraud Risk Management Policy.

Legislation, policies, rules and guidelines relevant to the activities of the various line functions may also be of relevance to the RMC when reviewing the risk register. Examples in this regard include *inter alia*, but are not limited to those applicable to:

- ✓ Municipal Health Services;
- ✓ Disaster and Fire Management;
- ✓ Occupational Health and Safety;
- ✓ Employment Equity;
- ✓ Skills Development;
- ✓ Financial-, Supply Chain, Revenue and Asset Management;
- ✓ Planning and Performance Management;
- ✓ Pension Fund Rules;
- ✓ Medical Aid Scheme Rules;
- ✓ Bargaining Council Collective Agreements; and
- ✓ Municipal Powers and Functions, etcetera;

4. APPOINTMENT OF MEMBERS

The Municipal Manager appoints members of the RMC in terms of Section 62(1)(c) of the MFMA, the Risk Management Framework, as well as the Risk and Fraud Risk Management Policy. The Chairperson of the RMC may be an independent person and is appointed at the discretion of the Municipal Manager.

Councillors are not allowed to be members of the RMC. External members should enter into a contract with the Municipality in line with this Charter. RMC responsibilities should be included in the annual performance agreements of internal members.

5. TERM OF OFFICE

Members of the RMC will be appointed for a minimum of three years and a maximum of five years. The Chairperson should be appointed for a minimum period of three years to ensure that he/she brings stability to the RMC and contributes most effectively.

The Accounting Officer supported by the Chief Risk Officer must maintain records of contracts entered into with external members of the RMC. An external member should give two calendar months' notice of termination of service and also be provided an opportunity to attend an exit meeting.

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6. MEMBERSHIP AND COMPOSITION

An external, independent person with the requisite skills and knowledge will be appointed by the Accounting Officer as chairperson of the RMC. An ordinary member of the Audit, Performance and Risk Committee (APRC) may be considered by the Accounting Officer for appointment as chairperson. This should be done in consultation with the Chairperson of the APRC.

Heads of Departments will be automatic members of the RMC. Additional members, if required, will be appointed by and at the discretion of the Accounting Officer. All members shall be required to co-sign the Charter.

7. MEETINGS AND QUORUMS

The RMC will meet at least four times during the Financial Year. All members will be required to avail themselves for the RMC meetings. The Chairperson plus any three members will form a quorum.

The Risk Management Unit will provide secretariat and support services to the RMC. Agendas and reports will be provided to members seven working days prior to the meeting concerned. Minutes will be distributed within seven working days after the meeting.

8. REMUNERATION

External members not holding office in the public sector shall be remunerated for services to the RMC based on meetings attended. Members that are employees of the Municipality shall not be entitled to remuneration.

External members shall be remunerated per meeting attended, as follows:

Chairperson – R6 138.00 per meeting

Member – R3 724.50 per meeting

Preparation fee – R1 000.00 per meeting only.

The reimbursement of all members for travel expenditure will be in accordance with the subsistence and travelling policy of Council of John Taolo Gaetsewe District Municipality. The Municipal Manager, in consultation with the Chief Financial Officer, is required to approve the reimbursement of all expenditure related to members of the committee based on the above mentioned rates.

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9. ANNUAL PERFORMANCE ASSESSMENT

The RMC will assess its own performance on an annual basis against its key performance indicators. The RMC will submit its assessment report to the Accounting Officer for approval.

10. KEY PERFORMANCE INDICATORS

The RMC key performance indicators (KPI) are as follows:

IDP OBJECTIVE	IDP KPI	RMC KPI	OUTPUTS	FREQUENCY
To manage risks to the Municipality	Number of annual strategic risk assessments completed for all municipalities by 30 June	Draft Strategic Risk Register Reviewed by 10 June.	✓ Reviewed strategic risk register	✓ Annually
To manage risks to the Municipality	Number of operational risk registers annually compiled for all departments in all municipalities by 30 June	Draft Operational Risk Register Reviewed by 10 June.	✓ Reviewed operational risk register	✓ Annually
To manage risks to the Municipality	Number of quarterly strategic risk register updates completed by 31 March	3 Quarterly risk register updates (risk reports) reviewed by 30 April.	✓ Reviewed quarterly risk progress reports	✓ Quarterly
To manage risks to the Municipality	-	Draft Reviewed Risk and Fraud Risk Management Policies annually reviewed by 31 March	✓ Reviewed Risk and Fraud Risk Management Policies	✓ Annually
To manage risks to the Municipality	-	RMC Charter reviewed by 31 May.	✓ Reviewed RMC Charter	✓ Triennially
To manage risks to the Municipality	-	RMC Key Performance Indicators Developed	✓ RMC Key Performance Indicators	✓ Triennially
To manage risks to the Municipality	-	RMC self-assessment annually performed	✓ Annual self-assessment report	✓ Annually
To manage risks to the Municipality	-	Risk Management Strategy/Implementation Plan annually reviewed by 31 May.	✓ Reviewed Risk Management Strategy/Implementation Plan annually reviewed	✓ Annually
To manage risks to the Municipality	-	Risk Management Strategy/Implementation Plan progress reports reviewed	✓ Reviewed Risk Management Strategy/Implementation Plan progress reports reviewed	✓ Quarterly

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IDP OBJECTIVE	IDP KPI	RMC KPI	OUTPUTS	FREQUENCY
To manage risks to the Municipality	-	Risk incident register reviewed.	✓ Reviewed Risk Incident Register	✓ Quarterly
		4 quarterly RMC meetings held	✓ Minutes of RMC meetings	✓ Quarterly
To manage risks to the Municipality	-	Annual Report risk management comment reviewed by 15 August	✓ Reviewed Annual Report risk management comment	✓ Annually

11. RESPONSIBILITIES OF RMC

The RMC is responsible to assist the Accounting Officer to discharge his/her accountability for risk management by reviewing the effectiveness of the Municipality's:

- ✓ Risk management systems;
- ✓ Risk management practices and procedures;
- ✓ Providing Recommendations for improvement;
- ✓ Reviewing risk assessment and implementation reports from Management;
- ✓ Reviewing the risk management policy and strategy and recommend for approval;
- ✓ Reviewing the risk appetite and tolerance and recommend for approval by the Accounting Officer;
- ✓ Reviewing the Municipality risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register;
- ✓ Evaluating the effectiveness of mitigating strategies to address the material risks of the Municipality;
- ✓ Reporting to the Accounting Officer any material changes to the risk profile of the Municipality;
- ✓ Reviewing the fraud prevention policy and recommend for approval;
- ✓ Evaluating the effectiveness of the implementation of the fraud prevention policy;
- ✓ Reviewing 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;
- ✓ Setting out the nature, role, responsibility and authority of the risk management function within the Municipality for approval by the Accounting Officer;
- ✓ Overseeing the performance of the risk management function;

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- ✓ Providing 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.

12. REVIEWING OF THE CHARTER

The Charter will be reviewed as and when circumstances dictate, but at least every three years.

13. REFERENCES

John Taolo Gaetsewe District Municipality. 2018. Risk Management Framework. Lexis Nexis. 2014. Local Government: Municipal Finance Management Act No 56 of 2003. Paarl Media.

CHAIRPERSON
DATE:

G. MOROANE
CHIEF FINANCIAL OFFICER

E. TSHABAEMANG
DIRECTOR: CORPORATE
SERVICES
DATE:

T.H. MATLHARE
DIRECTOR: COMMUNITY
DEVELOPMENT SERVICES
DATE:

M. MOLUSI
DIRECTOR: BASIC SERVICES
AND INFRASTRUCTURE
DATE:

K. TEISE
DIRECTOR: DEVELOPMENT
AND PLANNING
DATE:

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Speaker.

