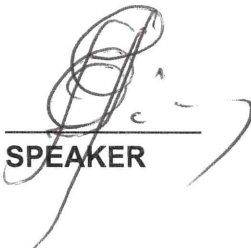




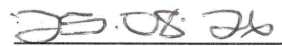
RISK MANAGEMENT POLICY

JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY

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SPEAKER



DATE

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1. PURPOSE

The purpose of this Policy is to provide guidance and direction as to the management of risk within John Taolo Gaetsewe District Municipality (JTGDM). This policy provides guidance in relation to a transparent and consistent consideration of risk and uncertainty when these opportunities are pursued and decisions are made. This includes risks related to unethical, unprofessional, dishonest and corrupt behaviour.

Risk management must be embedded across the Municipality and integrated into strategic planning, budgeting, service delivery, infrastructure delivery, supply chain management, project implementation, performance management and compliance monitoring.

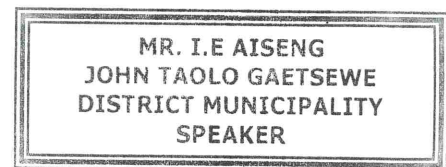
2. THE POLICY OBJECTIVES

The Risk Management Policy aims to address multiple objectives.

2.1. Inform and Facilitate

Effective risk management affects everyone in the Municipality. To ensure a widespread understanding, executive management and all departmental managers should be familiar with, and all staff and councillors aware of, the principles set out in this policy.

2.2. Strategic Alignment



Risk management activities will be aligned to the integrated development plan projects, plans, objectives and priorities. It will encompass all strategic and operational risks that may prevent the municipality from fulfilling its objectives. This includes risks related to dishonest and corrupt activities as contained in the Fraud and Corruption Management and Promotion of Ethics and Professionalism Policy and Plan.

2.3. Mitigate

The Municipality will anticipate and take preventative action to avoid risks rather than dealing with the consequences. A consistent approach to the identification, assessment and management of risks will be embedded throughout the Municipality.

Risk control and mitigation measures will be effective, appropriate, proportionate, affordable and flexible. Risk controls will not be implemented where the cost and effort is disproportionate to the expected benefits. The Municipality will commit the necessary resources to implement risk management consistent with the above principles.

2.4. Sets Risk Management Standards

The policy sets the standard at which Municipality intends and expects risk to be managed and accordingly ensures that such a required standard is known and set for the organisation.

2.5. Monitor and Review

The policy sets standards, processes and responsibilities to make it is possible to monitor the extent that risk management responsibility is met. This includes assessment of whether the risk management strategy is producing the sustainable outcomes as originally envisaged.

The Municipality should review the effectiveness of its risk management arrangements on a continuous basis, with formal policy review undertaken at

least every two years, or sooner where there are material legislative, governance or institutional changes.

2.6. Compliance

This policy aims to achieve compliance and to implement best practices in support of Section 62 (1) (c) (i) of the Municipal Finance Management Act. The Act stipulates that: "The Municipal Manager has and maintains effective, efficient and transparent systems : i) of financial and risk management and internal control. In terms of Section 79 of the MFMA, to all Top Management is a cornerstone in the institutionalisation of risk management in the Local Government. It establishes responsibility for the risk management at all levels of management, extending it beyond the roles of the Accounting Officer, the internal units or the Audit Committee in this regard. To avoid future audit findings risk management must be performed to at minimum a compliance level which includes the adoption and implementation of a Risk Management Policy.

This Policy is intended to ensure compliance with the applicable legislative and regulatory framework and to promote the adoption of sound and effective risk management practices within John Taolo Gaetsewe District Municipality. It is premised on section 62(1)(c)(i) of the Municipal Finance Management Act, 56 of 2003, which places a duty on the Municipal Manager to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

In addition, section 79 of the MFMA provides for the delegation of powers and duties, which supports the institutionalisation of risk management across all levels of management. Risk management is therefore not the sole responsibility of the Accounting Officer, Internal Audit, or the Audit Committee, but a management responsibility that must be embedded throughout the municipality.

Accordingly, top management plays a critical role in establishing and sustaining an effective risk management culture. To minimise exposure to risks and avoid recurring audit findings, the municipality must implement risk management at least at a compliance level, including the approval, adoption, and consistent implementation of this Risk Management Policy.

3. POLICY STATEMENT

The John Taolo Gaetsewe District Municipality regards risk management as a critical cornerstone of good corporate governance and essential for the achievement of its business objectives. The starting point of the Municipality's Risk Management Policy implementation is to acknowledge that our strategic planning depends on us being able to take calculated risks in a way that does not jeopardise the direct interest of stakeholders.

The Municipality further commits to maintaining a common risk language, clear governance roles, documented risk ownership, and consistent escalation and reporting arrangements for material and emerging risks.

To ensure that the Municipality's strategy and, subsequently, its mandate as outlined in the Constitution of the Republic of South Africa are fulfilled, the Municipality's Risk Management (enterprise risk management) programme arms the Municipality's employees with tools and capabilities to overcome barriers that arise in striving to exceed customer and stakeholder expectations. By realising that risk and control is everyone's responsibility, the Municipality's employees will proactively identify risk in delivering products, services and projects to its customers in an efficient and effective manner. Focus shall be given to the management of risks associated with the business strategies, financial management, compliance, operations, programmes and projects of the Municipality. Effective responsibility mechanisms will be provided to enable internal information flow, reporting stakeholders.

MR. I.E AISENG
JOHN TAULO GAETSEWE
DISTRICT MUNICIPALITY
SPEAKER

4. LEGAL CONTEXT

The Risk Management Framework of the John Taolo Gaetsewe District Municipality forms the basis of this Policy.

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 /IV report in so far as it concerns risk management.

“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;

(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.”*

The contents of this Policy must be read together with Risk management strategy including the local Government Risk Management Framework, Public sector risk management framework adopted by Council. The Framework forms the basis of this Policy. Both the Framework and the Policy is aligned to the Public Sector Risk Management Framework of the National Treasury. This Policy must also be read with the Fraud and Corruption Management and Promotion of Ethics and Professionalism Policy and Plan.

The Risk Management Framework of John Taolo Gaetsewe District Municipality provides the foundation for this Policy and must be read together with it. The Framework sets out the Municipality’s overall approach to risk management, while this Policy gives effect to that approach by defining the principles, responsibilities, and institutional arrangements for the management of risk within the Municipality. The Local Government: Municipal Finance Management Act, 56 of 2003, assigns responsibility for the financial administration of the Municipality to the Accounting Officer, being the Municipal Manager. In terms of section 62(1)(c) of the MFMA, the Accounting Officer must take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management, internal control, and internal audit operating in accordance with any prescribed norms and standards.

The National Treasury Public Sector Risk Management Framework, which is applicable to municipalities, provides the guiding principles and requirements for the implementation and maintenance of an effective risk management system. The Framework further incorporates the principles of good governance reflected in Batho Pele and the King governance principles, insofar as these relate to risk management within the public sector environment.

The Risk Management Framework of John Taolo Gaetsewe District Municipality provides the foundation for this Policy and must be read together with it. The Framework sets out the Municipality's overall approach to risk management, while this Policy gives effect to that approach by defining the principles, responsibilities, and institutional arrangements for the management of risk within the Municipality.

The Local Government: Municipal Finance Management Act, 56 of 2003, assigns responsibility for the financial administration of the Municipality to the Accounting Officer, being the Municipal Manager. In terms of section 62(1)(c) of the MFMA, the Accounting Officer must take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management, internal control, and internal audit operating in accordance with any prescribed norms and standards.

The National Treasury Public Sector Risk Management Framework, which is applicable to municipalities, provides the guiding principles and requirements for the implementation and maintenance of an effective risk management system. The Framework further incorporates the principles of good governance reflected in Batho Pele and the King governance principles, insofar as these relate to risk management within the public sector environment.

The extension of responsibilities to senior managers and other officials within the Municipality underscores that risk management is not the sole responsibility of the Accounting Officer, Internal Audit Activity, or the Audit, Performance and Risk Committee. Rather, risk management is a management responsibility that must be embedded at all levels of the institution and integrated into planning, decision-making, implementation, and oversight processes.

Section 165(2)(a) and (b)(iv) of the MFMA requires the internal audit unit of a municipality or municipal entity to prepare a risk-based audit plan and an internal audit programme for each financial year, and to advise the Accounting Officer and report to the Audit Committee on matters relating to risk and risk management. In this regard, Internal Audit plays an important assurance role by assessing the adequacy and effectiveness of risk management and internal control systems, and by making recommendations for improvement where necessary.

In addition, the Internal Audit Activity must perform its functions in accordance with the Global Internal Audit Standards issued by The Institute of Internal Auditors. These Standards are principle-based and are organised into five domains, including governance of the internal audit function, management of the internal audit function, and the performance of internal audit services. In the municipal context, the Internal Audit Activity must provide independent assurance on the adequacy and effectiveness of governance, risk management and control processes, while also providing advisory services where appropriate and where such services do not impair independence or objectivity. This includes evaluating significant risk exposures relating to the Municipality's governance, operations, information systems, safeguarding of assets, reliability and integrity of financial

and operational information, effectiveness and efficiency of operations, and compliance with applicable laws, regulations and policies.

Section 166(2)(a)(ii) of the MFMA further provides that the Audit Committee is an independent advisory body that must advise the municipal council, political office-bearers, the Accounting Officer, and management staff on matters relating to risk management. The Audit, Performance and Risk Committee therefore has an important oversight and advisory role in monitoring the effectiveness of risk management processes and supporting sound governance within the Municipality.

Accordingly, this Policy must be read together with the Risk Management Framework adopted by Council, as the Framework forms the basis of this Policy. Both the Framework and this Policy are aligned to the National Treasury Public Sector Risk Management Framework. This Policy must furthermore be read in conjunction with the Municipality's Fraud and Corruption Management Policy and the Promotion of Ethics and Professionalism Policy and Plan, in order to promote an integrated approach to governance, ethics, fraud prevention, internal control, and risk management.

5. DEFINITIONS

Risk	Risks <i>"...the ever present and dynamic uncertainty related to service delivery objectives and its concomitant potential for loss, injury, damage and destruction in future"</i> .
Risk Management (Enterprise Risk Management)	<i>"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."</i>
Risk Assessment	The overall process of identifying, analyzing and evaluating risk. The risk assessment process should consider risks that are significant to the achievement of the Municipality's objectives.

	This is a continuous process, requiring regular reviews, as and when internal and external changes influence the Municipality's strategies and objectives.
Risk Mitigation	The process of selecting and implementing measures to modify risk (encompasses risk avoidance, risk reduction, risk retention and risk transfer).
Risk Profile	Identification and listing of risks, typically in order of highest to lowest based on a qualitative or quantitative measurement.
Risk Strategy	The approach adopted for associating and managing risks based on the Municipality's objectives and strategies. The primary objective of risk management strategy or implementation plan is to facilitate the execution of risk management.
Risk Attitude	<i>"The amount and type of risk that the Municipality is willing to pursue or retain."</i>
	<i>the municipality's overall approach to assessing and eventually pursuing, retaining, taking or turning away from risk.</i>
Risk Appetite	<i>"The amount and type of risk that the Municipality is willing to pursue or retain."</i>
Risk tolerance	<i>"The Municipality's readiness to bear the risk after risk treatment in order to achieve its objectives."</i>
Inherent risk	<i>"Inherent risk represents the amount of risk that exists in the absence of controls."</i>
Residual Risk	<i>"Residual risk is the amount of risk that remains after controls are accounted for."</i>

Qualitative	<i>"A qualitative risk analysis prioritizes the identified project risks using a pre-defined rating scale. Risks will be scored based on their probability or likelihood of occurring and the impact on project objectives should they occur... A qualitative risk analysis will also include the appropriate categorization of the risks, either source-based or effect-based."</i>
Quantitative	<i>"A quantitative risk analysis is a further analysis of the highest priority risks during ... which a numerical or quantitative rating is assigned in order to develop a probabilistic analysis of the project."</i> <i>A quantitative analysis:</i> • <i>Quantifies the possible outcomes for the project and assesses the probability of achieving specific project objectives</i> • <i>Provides a quantitative approach to making decisions when there is uncertainty</i> • <i>Creates realistic and achievable cost, schedule or scope targets"</i>

6. SCOPE OF THE POLICY

This Policy applies throughout the Municipality and guides the risk management process in order to identify, assess and mitigate risks in reaching the objectives of the Municipality. It includes the risks associated with unethical-, unprofessional-, dishonest- and corrupt activities.

This Policy applies to all councillors, committees, management, officials, and any other parties acting on behalf of the Municipality where their activities may expose the Municipality to risk.

7. RISK AND RISK MANAGEMENT

The Risk Management Framework of the John Taolo Gaetsewe District Municipality, 2019 defines risk as ***“the ever present and dynamic uncertainty related to service delivery objectives and its concomitant potential for loss, injury, damage and destruction in future”***.

The Framework defines risk management 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.”***

Risk management is a management responsibility and must be incorporated into day-to-day decision-making, strategic planning, resource allocation and performance management across the Municipality

Risk management is as much about identifying opportunities as avoiding or mitigating losses. It is a logical and systematic process of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process, in a way that enables an organisation to minimise losses and maximise opportunities.

8. RISK MANAGEMENT PROCESS AND METHODOLOGY

The risk management process is discussed in detail in the Risk Management Framework, 2019. The steps in the process and associated methodology are as follows:



8.1. Step 1: Establishing the Context

This step is largely based on the information contained in the Integrated Development Plan (IDP) and more specifically the objectives and key performance indicators contained therein. Both internal and external environmental factors are identified. Stakeholders and role-players are also identified during this process.

In establishing the context, the Municipality should also consider budget assumptions, infrastructure plans, project pipelines, audit outcomes, community expectations, regulatory developments, ICT dependencies and key service delivery commitments.

8.2. Step 2: Identifying Risk

Identification of risk include any and all risk associated with the performance objectives and key performance indicators of the Municipality. It includes risk related to dishonesty and corruption, as well as unethical behaviour and non-professionalism. Guiding questions may include but are not limited to:

Risk identification should also cover governance, ethics, fraud and corruption, infrastructure and asset management, ICT and cyber security, SCM and contract management, legal and regulatory compliance, financial sustainability, disaster or business continuity, and other emerging risk themes relevant to the municipal environment

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



It is important to drill down until the real risk is identified. This will simplify the identification of root causes and resultant responses.

8.3. Step 3: Analysing Risk

It is important to understand identified risk. This will assist to formulate proper risk mitigation and responses. It is therefore important to identify root causes, contributing factors and actual or potential consequences. The likelihood and impact/consequences is then assessed to determine the risk rating. In order to mitigate any risk it is imperative that the cause be determined. The focus at this point is on Extreme and High risk types. A cause underpinning a risk may be any of the following or a combination thereof:

It is important that identified risks are properly understood, as this enables the Municipality to formulate appropriate mitigation measures and responses. Risk analysis must therefore include the identification of root causes, contributing factors, and actual or potential consequences. The likelihood and impact of each identified risk must then be assessed in order to determine the overall risk rating.

- ✓ A legislative nature
- ✓ A political nature
- ✓ Management capacity, skill, structure, mechanism or lack thereof
- ✓ Employee capacity or skill or lack thereof
- ✓ Financial capacity or viability
- ✓ The communities expectation, perception, action or lack of action
- ✓ Social change
- ✓ Economic change or development
- ✓ Environmental factors
- ✓ A third parties action (such as Eskom tariff increases)



- ✓ A partners/entity/ public private partnership /shared service action or lack of action
- ✓ A competitors action
- ✓ A deteriorating relationship
- ✓ Changing technology or methodology
- ✓ A product or current service level
- ✓ Technological capacity of the municipality
- ✓ Ageing, inappropriate or insufficient infrastructure
- ✓ Outdated or absent process, policy or systems and methodology/approaches
- ✓ Material availability, quality or quantity
- ✓ Plant, fleet or equipment capacity of the organisation



Unless the real cause of the risk is understood, suitable and appropriate avoidance, preventative, and remedial action cannot be taken. Failing correct identification of the cause, the result would be of a symptomatic remedial approach and the actual cause of the risk will remain unattended. ng.

Root-cause analysis should inform the design of risk responses and action plans, and treatment plans should specify the responsible official, due date, required resources and monitoring arrangements

A qualitative analysis of identified risk is done to evaluate and document the likelihood/probability and impact of risk against the scale explained below:

(a) Determine the risk category.

The risk category is based on the five key performance areas for local government:

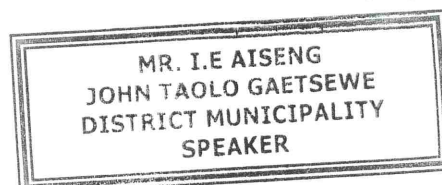
- ✓ Basic Services and Infrastructure Development;
- ✓ Good Governance and Public Participation;

- ✓ Local Economic Development;
- ✓ Municipal Viability and Management; and
- ✓ Institutional Transformation and Development.

(b) Determine the risk type as follows:

- ✓ Strategic: Short Term – Consequences may impact on the organisation as a whole and needs Top Management intervention. The risk is applicable to the next 12-36 months.
- ✓ Strategic: Medium to Long Term - Consequences may impact on the organisation as a whole and needs Top Management intervention. The risk is applicable in the period 3 years to 25 years.
- ✓ Strategic: Short Term & Compliance - Consequences may impact on the organisation as a whole and needs Top Management intervention. The risk is applicable to the next 12-36 months and has a legislative compliance requirement.
- ✓ Strategic: Medium to Long Term & Compliance - Medium to Long Term - Consequences may impact on the organisation as a whole and needs Top Management intervention. The risk is applicable in the period 3 years to 25 years and has a legislative compliance requirement.
- ✓ Operational: Is usually applicable to the next 12 months, relates to the daily operations of a specific department and/or unit. It requires action from unit members and management by unit heads.
- ✓ Operational & Compliance: Is usually applicable to the next 12 months, relates to the daily operations of a specific department and/or unit. It requires action from unit members and management by unit heads and has a legislative requirement.

(c) Determine the impact rating on a scale of 1-5 as follows:



RISK MATRIX					
CONSEQUENCE \ LIKELIHOOD	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Extreme
A - Almost Certain (frequent)	5 (L)	10 (M)	15 (H)	20 (E)	25 (E)
B - Likely (probable)	4 (L)	8 (L)	12 (M)	16 (H)	20 (E)
C - Possible (occasional)	3 (L)	6 (L)	9 (L)	12 (M)	15 (H)
D - Unlikely (uncommon)	2 (L)	4 (L)	6 (L)	8 (L)	10 (M)
E - Rare (Remote)	1 (L)	2 (L)	3 (L)	4 (L)	5 (L)

IMPACT CLASSIFICATION	IMPACT RATING
Extreme	5
Major	4
Moderate	3
Minor	2
Insignificant	1

(d) Determine and rate the likelihood of the risk occurring on a scale of 1-5 as follows:

IMPACT CLASSIFICATION	IMPACT RATING
A - Almost Certain (frequent)	5

B - Likely (probable)	4
C - Possible (occasional)	3
D - Unlikely (uncommon)	2
E - Rare (Remote)	1

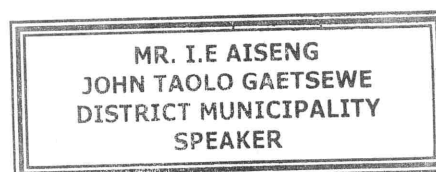
(e) Determine the inherent risk rating

The inherent risk rating is determined from 1-25 by multiplying the likelihood and impact ratings as illustrated in the matrix below:

Inherent risk is classified based on the rating as follows:

RISK INDEX	RISK MAGNITUDE
0-9	Low
10-14	Medium
15-19	High
20-25	Extreme

(f) Identify existing control measures and determine control effectiveness



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

Control effectiveness is rated and weighted as follows:

CONTROL RATING	CONTROL STRENGTH	DESCRIPTION	CONTROL WEIGHT
1	Very strong	Controls/management activities are properly designed and operating as intended	10% (0.1)
2	Strong	Controls and/management activities are properly designed and operating with limited opportunities for improvement	25% (0.25)
3	Moderate	Controls and /management activities are in place with significant opportunities for improvement identified.	50% (0.5)
4	Weak	Limited controls and or management activities are in place	75% (0.75)
5	No controls	Controls /management activities not existing and / or major deficiencies and don't operate as intended	100% (1)

(g) Determine residual risk rating:

The residual risk is determined by multiplying the inherent risk rating with the control weight as illustrated in the example/s below:

INHERENT RISK RATING	RISK MAGNITUDE	CONTROL STRENGTH	CONTROL RATING	CONTROL WEIGHT	RESIDUAL RISK RATING (Inherent Risk Rating X Control Weight)	RESIDUAL RISK MAGNITUDE
1	Low	Very strong	1	0.1	0.1	Low
2	Low	No Controls	5	1	2	Low

10	Medium	Very strong	1	0.1	1	Low
11	Medium	No Controls	5	1	11	Medium
12	Medium	Weak	4	0.75	9	Low
16	High	Strong	2	0.25	4	Low
17	High	Moderate	3	0.5	8.5	Low
22	Extreme	Moderate	3	0.5	11	Medium
23	Extreme	Weak	4	0.75	17.25	High

The residual risk classification (magnitude) is done in the same manner as inherent risk. The risk magnitude is classified upon completing the calculation for the residual risk rating. It is based on the table below.

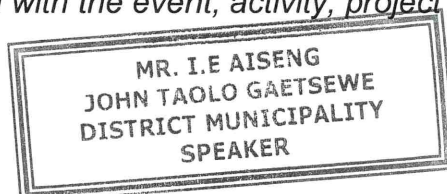
RISK INDEX	RISK MAGNITUDE
0-9	Low
10-14	Medium
15-19	High
20-25	Extreme

Decisions can now be taken based on the understanding of each risk developed through the identification and analysis steps.

8.4. Step 4: Evaluate the Risk

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:

- ✓ *“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”*

The Municipality views all risk with an inherent risk rating above nine (9) as unacceptable and thus for risk classified as medium, high or extreme. This is referred as the risk tolerance of the Municipality.

The Municipality has the following risk appetite statements:

RISK INDEX	RISK MAGNITUDE	RISK TOLERANCE	RISK APPETITE STATEMENTS
0-9	Low	Acceptable	Low inherent risk will be managed by routine procedures. Reporting will be to Heads of Departments. The risk will be monitored and reviewed as is necessary.
10-14	Medium	Unacceptable	Medium inherent risk will be assessed in order to determine whether current controls are adequate, or if further action or treatment is needed. Monitoring and review will be done regularly.
15-19	High	Unacceptable	High inherent risk will be given appropriate attention & demonstrably managed. Unit Managers and Senior Management will pay close attention to these risks, will monitor progress and take action to manage this risk. The Accounting Officer will monitor these risks.
20-25	Extreme	Unacceptable	Extreme inherent risk will be given immediate attention & response. Senior Management will conduct a risk assessment & management plan. The Accounting Officer will closely monitor progress with the management of these risks.

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.

8.5. 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.

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. Deciding on and

designing a desirable treatment option will depend on the goal of the treatment. The goal may be to:

The Municipality must ensure that effective risk treatment strategies are in place to reduce the likelihood and impact of identified risks. In other words, appropriate actions must be implemented to control, mitigate, transfer, avoid or tolerate risk, depending on the nature and significance of the risk concerned.

Upon completion of the risk assessment process, suitable treatment options must be identified. Where no appropriate treatment option is available, the risk may be tolerated, subject to informed management decision-making. Where treatment options are available, such options must be documented as part of the risk treatment plan.

Treatment measures that are not based on the root cause of the risk are likely to be ineffective and may create a false impression that the risk is adequately controlled. The treatment plan must therefore indicate responsibilities, implementation timeframes, budget and resource implications, performance indicators, and review mechanisms for monitoring progress

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

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

- ✓ 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; and
- ✓ Retain the risk by informed decision

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

- ✓ Will have the desired effect;
- ✓ Will trigger other risks; and
- ✓ 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.

The residual risk level should be assessed once the risk has been treated. The assessment of residual risk is discussed in paragraph 6.3(g) above.

8.6. Monitor and Review

A formal risk reporting and review process will be used to demonstrate the effectiveness of risk management in the Municipality. 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. A reporting regime needs to be put in place in order to provide assurance that treatment is effective and helps to control the risk.

Formal risk reporting takes place by means of the Municipal Risk Register on a monthly basis by Risk Champions to Management and on a quarterly basis to the Risk Management Committee. The Risk Register provides a risk profile, which is a description of a set of risks at a given time.

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.

The reporting cycle should provide for monthly updates at departmental or unit level, quarterly consolidation and analysis by the Chief Risk Officer, quarterly review by the Risk Management Committee and quarterly oversight reporting to the Audit, Performance and Risk Committee.

The occurrence of risk incidents must be reported to the Risk Champion of the unit concerned and submitted to via the management of the Department concerned to the Chief Risk Officer. The Chief Risk Officer is responsible to maintain a risk incident register that will be submitted to the Risk Management Committee on a quarterly basis.

Significant incidents, control failures, fraud allegations, regulatory changes or major project developments should trigger reassessment of the affected risks without waiting for the next scheduled review.

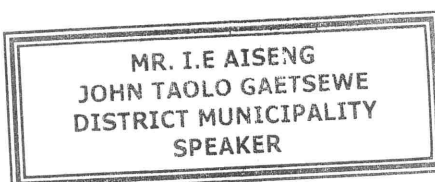
Monitoring and review must not be seen as a separate step, but is an ongoing process throughout the risk management year.

8.7. Communicate and Consult

It is important that all stakeholders understand risk, risk management and what forms the basis for decisions and treatment options taken. Risk Management is a collective responsibility and it is therefore critical that communication and consultation takes place regularly. This will ensure that employees take better ownership of the risk management process.

Communication and consultation is not a separate step, but an integral part of the risk management process. It should also take place on a continuous basis.

9. The Role Players



This policy requires **all employees** to take responsibility for the cost effective management of risk in all aspects. Every employee is responsible for executing risk management processes and adhering to risk management procedures laid down by the Municipality's Management in their areas of responsibilities. Employees are accountable to Management for implementing and monitoring the process of risk management and integrating it into their day-to-day activities.

The role players in risk management in the Municipality are as follows:

- ✓ Council;
- ✓ Audit, Risk and Performance Committee;
- ✓ Risk Management Committee;
- ✓ Accounting Officer;
- ✓ Chief Risk Officer;
- ✓ Internal audit
- ✓ Combined Assurance
- ✓ Other Personnel; and
- ✓ Risk Champions

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

9.1. 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; and

- ✓ Understanding the priority risks.

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. Council's responsibilities should include:

Council should provide oversight by approving the policy and related governance arrangements, considering significant institutional risks and obtaining assurance that material risks are being managed within approved parameters.

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

9.2. 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 APRCs role is independent oversight and advice. It should review the adequacy of risk management processes, the status of material risks and the quality of assurance provided, without assuming management responsibility for risk ownership or treatment

The Committee's responsibilities should be formally defined in its charter. 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.

9.3. 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:

While the Accounting Officer remains ultimately accountable, risk ownership rests with management in their respective areas of responsibility, and accountability for implementing agreed controls and treatment plans should be clearly assigned

- ✓ 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;
- ✓ 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; and
- ✓ Ensuring that the Risk Management Unit is adequately staffed and provided with resources.

9.4. 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. 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 Risk Management Committee should review institutional and strategic risks, monitor the implementation of treatment plans, consider emerging risks and recommend matters requiring escalation to the Accounting Officer and the Audit, Performance and Risk Committee.

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.
 - 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.

9.5. 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.

The Chief Risk Officer coordinates, facilitates, consolidates and reports on risk management activities, but does not assume ownership of operational risks on behalf of management.

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;

- ✓ 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 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;
- ✓ Collating and consolidating the results of the various assessments within the institution;

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- ✓ 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;
- ✓ Compiling an annual Risk Management Strategy/Implementation Plan to guide the risk management process; and
- ✓ 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.

9.6. Internal Audit

Internal Audit shall provide independent assurance on the adequacy and effectiveness of governance, risk management and internal control processes within the Municipality. Internal Audit may provide advisory input on risk management matters where appropriate, provided that its independence and objectivity are not impaired. The internal audit plan should be informed by the Municipality's risk assessment process and institutional risk profile.

9.7. Combined Assurance

The Municipality shall apply a combined assurance approach to coordinate and optimise assurance activities across governance, risk management, compliance and control processes. Combined assurance should bring together management, the Chief Risk Officer, compliance-related functions, Internal Audit, the Audit, Performance and Risk Committee, and external assurance providers, where applicable, to provide a coordinated view of significant risks, controls and assurance coverage.

The purpose of combined assurance is to reduce duplication, address assurance gaps, strengthen the control environment, and support the integrity of information used for decision-making and reporting. Internal Audit shall contribute to combined assurance in a manner that preserves its independence and objectivity and does not result in the assumption of management responsibility.

9.8. Management

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

In discharging their responsibilities relating to risk management, management must assume ownership of risks within their functional areas and ensure that such risks are identified, assessed, managed, monitored and reported in accordance with the Municipality's approved risk management processes.

- ✓ 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; and
- ✓ Keeps key functional risks at the forefront of the management agenda and devote personal attention in overseeing the management of these risks.

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9.9. Other Personnel

Responsibilities of other personnel include, National Treasury:

- ✓ 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;
- ✓ 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;
- ✓ Reporting risk incidents to risk champions;
- ✓ Participation in risk identification and risk assessment within their business unit; and
- ✓ Implementation of risk responses to address the identified risks.

9.10. Risk Champions

Senior Management, in consultation with unit heads, will identify a risk champion for each administrative unit in the Municipality. In addition to the roles and responsibilities of other personnel, risk champions will be expected to:

Risk Champions should support line management with risk identification, maintenance of risk registers, progress tracking on action plans and timely submission of monthly updates to the Chief Risk Officer.

- ✓ Record risk incidents reported to them;



- ✓ Submit risk incident forms via departmental management concerned to the CRO;
- ✓ Contribute and participate in the risk assessment process;
- ✓ Report emerging risk to departmental management and CRO;
- ✓ Integrate risk management in the daily operations of the unit concerned;
- ✓ Prepare monthly risk implementation progress reports and submit such reports via unit and departmental management to the CRO;
- ✓ Act as ethics champion in the unit to promote ethics awareness and report dishonest and corrupt activities to the CRO;
- ✓ Attend risk management and ethics meetings, awareness and/or training sessions; and
- ✓ Assist with ethics awareness and ethics surveys.

10. RISK MANAGEMENT APPROACH AND CYCLE

Risk management will be conducted and guided by an annual risk management strategy/implementation plan and will contain at least the following:

- ✓ Development of a risk register through the risk management process discussed earlier in this document;
- ✓ Annual risk assessment and awareness workshop/s;
- ✓ Quarterly institutional risk awareness, review and implementation progress reporting workshops;
- ✓ Monthly unit risk reports to Management and CRO;
- ✓ Quarterly Risk Management Committee meetings;
- ✓ Alignment of internal audit plans and audits with risk register;
- ✓ Quarterly oversight by Audit Performance and Risk Committee;

- ✓ Review of the Risk Management Policy when circumstances dictate, but at least every five years.

To remain responsive to the evolving risk environment, the Policy should be reviewed at least every two to three years, or earlier where there are significant legislative, governance, audit or organisational changes.

- ✓ Review of the Fraud and Corruption Management and Promotion of Ethics and Professionalism Policy and Plan when circumstances dictate, but at least every five years.

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