

1. RISK MANAGEMENT UNIT SHARED SERVICES: RISK MANAGEMENT MANUAL 2022/2023

1.1 PURPOSE

To table before Council the Risk Management Manual 2022/2023.

1.2 BACKGROUND

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

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

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

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

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

1.3 MOTIVATION

The purpose of this Risk Management Manual 2022/2023 is to:

- To provide and maintain a working environment where everyone is following sound risk management practices and is held accountable for achieving results;
- To provide Municipality with the Manual on which the employees will utilize to implement risk management;

- To provide the facilities and create a conducive working environment in ensuring that everyone has the capacity and resources to carry out his or her risk management responsibilities;
- To ensure that risk management activities are fully integrated into the planning, monitoring and reporting processes and into the daily management of program activities.
- Provide a comprehensive and consistent approach to the implementation of risk management;
- Provide guidance for the accounting officer, the executive authority, managers and staff when overseeing or implementing the development of processes, systems and techniques for managing risk;
- Provide management with proven risk management tools that support their decision-making responsibilities and processes, together with managing risks, which impact on the objectives and key value drivers of the municipality;
- Support the objectives of municipalities in enhancing their systems of risk management to protect against adverse outcomes and optimize opportunities;
- Assist in embedding risk management process into the day to day activities of the municipalities and integrating risk into institutional processes.
- To be utilised as an umbrella for the whole District regarding reporting lines; and

Council have the responsibility to review the Risk Management Manual annually.

1.4 RECOMMENDATION

That Council approves the Risk Management Manual 2022/2023 as attached.

1.5 DISTRICT RISK MANAGEMENT, FRAUD & ANTI-CORRUPTION COMMITTEE OUTCOME

That Council approves the Risk Management Manual 2022/2023 as attached.

1.6 AUDIT COMMITTEE OUTCOME

That Council approves the Risk Management Manual 2022/2023 as attached.

1.7 ADDENDUM

ATTACHED THE RISK MANAGEMENT MANUAL 2022/2023 FOR MAMUSA LOCAL MUNICIPALITY.



RISK MANAGEMENT

MANUAL 2022/2023

DR RUTH SEGOMOTSI MOMPATI DISTRICT MUNICIPALITY

BY: RISK MANAGEMENT UNIT

PART A: RISK MANAGEMENT FRAMEWORK & POLICY

PART B: RISK MANAGEMENT STRATEGY

PART C: RISK MANAGEMENT, FRAUD & ANTI-CORRUPTION

COMMITTEE CHARTER



**DR RUTH SEGOMOTSI MOMPATI DISTRICT MUNICIPALITY RISK
MANAGEMENT UNIT:
RISK MANAGEMENT MANUAL 2022/2023**

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PART A:

**RISK MANAGEMENT
FRAMEWORK & POLICY
2022/2023**



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1 Introduction and Purpose

Risk Management is defined as:

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

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

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

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

Uncertainty

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

Value

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

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

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

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

The purpose of this framework and policy is to:

- Provide a comprehensive and consistent approach to the implementation of risk management;
- Provide guidance for the accounting officer, the executive authority, managers and staff when overseeing or implementing the development of processes, systems and techniques for managing risk;

- Provide management with proven risk management tools that support their decision-making responsibilities and processes, together with managing risks, which impact on the objectives and key value drivers of the municipality;
- Support the objectives of municipalities in enhancing their systems of risk management to protect against adverse outcomes and optimize opportunities;
- Assist in embedding risk management process into the day to day activities of the municipalities and integrating risk into institutional processes.

2 Benefits of Risk Management

The benefits of risk management are as follows:

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

- **Ensuring proper financial and asset management** - Risk management contributes to ensuring that there is proper financial and asset management within the municipality.
- **Ensuring compliance with laws and regulations** - Risk management contributes to effective reporting and monitoring of compliance with laws and regulations and assists with the limitation of damage to the municipality's reputation and associated consequences.

3 Legal Mandate

3.1 Accounting Officer/Municipal Manager

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

- (c) that the municipality has and maintains effective, efficient and transparent systems -
- (i) of financial and risk management and internal control.”

3.2 Management

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

3.3 Internal Audit

Section 165 (2) (a), (b) (iv) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) states that: The internal audit unit of a municipality or municipal entity must – prepare a risk based audit plan and an internal audit program for each financial year. Advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to risk and risk management.

3.4 Audit Committee

Section 166 (2) (a) (ii) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) states that an audit committee is an independent advisory body which must advise the municipal council, the political office-bearers, the accounting officer and the

management staff of the municipality, or the board of directors, the accounting officer and management staff of the municipal entity, on matters relating to risk management.

4 Scope and Goals

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

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

Risk is often created by:

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

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

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

- Supporting balance sheet protection;
- Supporting business continuity;
- Supporting reputation risk;

- Defining risk management roles and responsibilities within the Municipality and outlining procedures to mitigate risks so as to ensure a dynamic and demonstrable process in which responsibility rests with line management with overall responsibility vested in the Accounting Officer and the Risk Management Unit.
- Ensuring pro-active, consistent, integrated and acceptable management of risk throughout the Municipality;
- Defining a reporting framework to ensure regular communication of pre-defined risk management information to Council, Audit and Executive Committees, senior management and officials engaged in risk management activities;
- Remaining flexible to accommodate the changing risk profile and management needs of the Municipality while maintaining control of the overall risk position;
- Document the approved methodology for risk measurement; and
- Providing a system or process to accommodate the central accumulation of risk data such as the development and maintenance of a risk register, which must form part of operational support and procedures.

5 Objective of the risk framework

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

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

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

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

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

- Available resources;
- The effectiveness of current controls and risk responses; and

- The effectiveness of future (planned) additional controls and risk responses.

Each of these risks must be assessed and the likelihood and the frequency of the cause of the risk occurring and the resulting impact severity of the risk on the functions and sustainability of the Municipality must be documented and facilitated by the Risk Management Unit and considered by the Accounting Officer, Management and the Audit And Executive Committees. This should be done on an annually and quarterly basis.

6 Policy Statement

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

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

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

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

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

practices on the topic of enterprise risk management in the Public Sector and the Standards for Professional Practice of Internal Auditors (SPPIA).

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

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

7 Risk Management Methodology and Framework

The components of the Risk Management process are as follows:

- 7.1 Internal Environment
- 7.2 Objective Setting
- 7.3 Risk Identification
- 7.4 Risk Assessment
- 7.5 Risk Responses
- 7.6 Control Activities
- 7.7 Information and Communication
- 7.8 Monitoring

Components of the Risk Management Process



7.1 Internal Environment

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

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

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

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

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

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

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

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

The key determinants of risk appetite are as follows:

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

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

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

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

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

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

Commitment to competence - Competence reflects the knowledge and skills needed to perform assigned tasks. Management should decide how well these tasks need to be accomplished weighing the municipality's strategy and objectives against plans for strategy implementation and the achievement of objectives.

The competency levels for particular jobs should be specified and translated into requisite knowledge and skills. The necessary knowledge and skills in turn may depend on individuals training and experience. Factors considered in developing knowledge and skill levels include the nature and degree of judgement to be applied to a specific job.

Organisational structure - The municipality's organisational structure provides the framework to plan, execute, control and monitor its activities. A relevant organisational structure includes defining key areas of authority and responsibility and establishing the appropriate reporting lines

The organisational structure should be organised to enable effective risk management and to carry out its activities so as to achieve its objectives.

Authority and responsibility - This includes establishing the reporting relationships and authorisation protocols as well as policies that describe appropriate practices, knowledge and experience of key personnel as well as the resources for carrying out duties.

A critical challenge is to delegate to the extent required to achieve objectives, this means ensuring that decision making is based on sound practices for risk identification and assessment. Another challenge is ensuring that all personnel understand the municipality's objectives and how their actions interrelate and contribute to the achievement of the objectives.

Human resource policies and procedures - Human resource policies and practices pertaining to hiring, orientation, training, evaluating, counselling, and promoting, compensating and taking remedial actions send messages to employees regarding the expected levels of integrity, ethical behaviour and competence. Furthermore it is essential that employees be equipped to tackle new challenges as risks throughout the

municipality change and become more complex. Education and training must help employees to deal effectively with a changing environment.

7.2 Objective Setting

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

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

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

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

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

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

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

7.3 Risk Identification

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

The municipality should adopt a rigorous and ongoing process of risk identification that also includes mechanisms to identify new and emerging risk timeously. The risk

identification process should cover all risks, regardless of whether or not such risks are within the direct control of the municipality.

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

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

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

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

Strategic risk identification

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

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

Operational risk identification

To identify risks concerned with the municipality's operations:

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

Project risk identification

To identify risks inherent to particular projects:

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

7.4 Risk Assessment

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

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

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

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

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

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

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

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		There's a 1-29% chance that this risk will not occur.
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Illustrated quantitative and qualitative measurement criteria:

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

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

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

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

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

Risk index = Impact x Likelihood

I	5	5	10	15	20	25
M	4	4	8	12	16	20
P	3	3	6	9	12	15
A	2	2	4	6	8	10
C	1	1	2	3	4	5
T		1	2	3	4	5
12.5 – 25	High (Red)					
6 – 12	Medium (Yellow)					
1 – 5	Low (Green)					

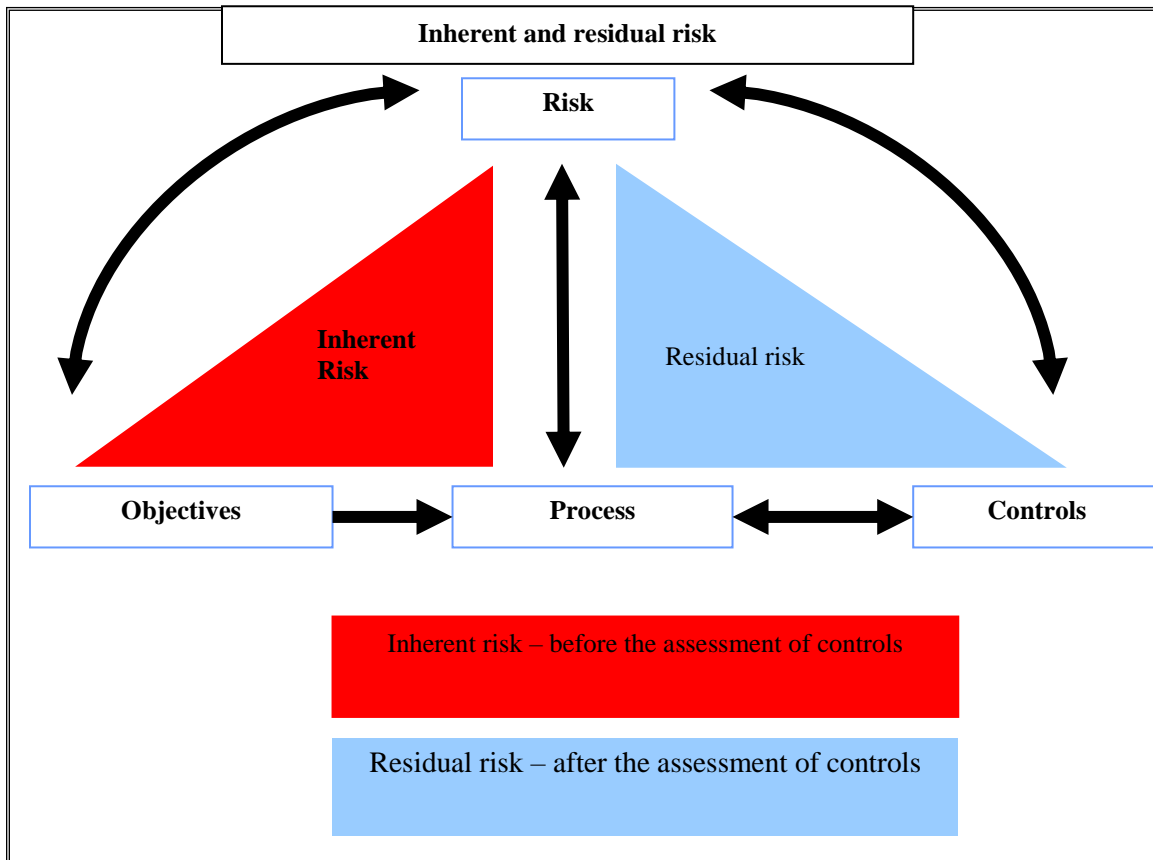
LIKELIHOOD

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

Risk index	Risk magnitude	Risk acceptability	Proposed actions
15-25	High risk (Red)	Unacceptable	High level of control intervention required to achieve an acceptable level of residual risk.
8-14	Medium risk (Yellow)	Unacceptable	Unacceptable except under unique circumstances or conditions. Moderate level of control intervention required to achieve an acceptable level of residual risk
1 – 7	Low risk (Green)	Acceptable	Low level of control intervention required, if any.

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

The following diagram differentiates between inherent and residual risk.



7.5 Risk Responses

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

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

Risk responses fall within the following categories:

Category	Description
Avoid	Refrain from engaging in activities that may result in loss exposure.
Treat	Manage the risk. Management undertakes to implement actions that are designed to reduce the likelihood, impact or both.
Transfer	Steps taken to shift the loss of liability to third parties such as insuring and outsourcing.

Terminate	Management takes action to remove the activities that gave rise to the risks.
Tolerate	Management accepts the risk. Informed decision to accept both the impact and likelihood of risk events.

The Residual risk exposure (inherent risk x control effectiveness)

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

7.6 Control Activities

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

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

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

Management should develop the internal control architecture through:

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

The internal control architecture should include:

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

Perceived control effectiveness.

Very good	Risk exposure is effectively controlled and managed	20%
Good	Majority of risk exposure is effectively controlled and managed	40%
Satisfactory	There is room for some improvement	65%
Weak	Some of the risk exposure appears to be controlled, but there are major deficiencies	80%
Unsatisfactory	Control measures are ineffective	90%

7.7 Information and Communication

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

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

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

7.8 Monitoring

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

Monitoring activities should focus on:

- Monitoring of risk action plans - Risk action plans need to be monitored on an ongoing basis to ensure the necessary actions are implemented on schedule and as intended.
- Monitoring of controls - The effective operation of existing controls as well as their cost effectiveness needs to be evaluated regularly. Evaluations may include management reviews, self-assessment reviews and third party reviews as appropriate. Internal audit should also perform periodic reviews on existing controls as well as the implementation of necessary additional controls on a periodic basis.
- Monitoring of new and emerging risks - The risk profile of any organisation will change over time. Thus there is a need to monitor and review the risk profile of the municipality to ensure that it remains relevant and complete. Changes in strategy, the legal and regulatory environment, restructuring, loss of key personnel, significant control deficiencies, fraud, changes in business objectives will require an immediate review of municipal risk profiles.
- Monitoring of the effectiveness of the risk management process - The efficiency of the entire risk management process should be monitored periodically. A positive correlation should exist between improvements in the system of risk management as well as institutional performance.

Incident reporting

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

Performance measurement

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

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

8 Accountability for Risk Management

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

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

9 Reporting

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

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

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

10 Review

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

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

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

11 Liabilities and Risks payable in foreign currencies

The Municipal Management Finance Act No 56 of 2003 determines that no municipality or municipal entity may incur a liability or risk payable in a foreign currency. This however does not apply to debt regulated in Section 47 of the Municipal Management Finance Act or to the procurement of goods or services denominated in a foreign currency, but the Rand value of which is determined at the time of the procurement, or where this is not possible and risk is low, at the time of payment.

12 Evidence of compliance

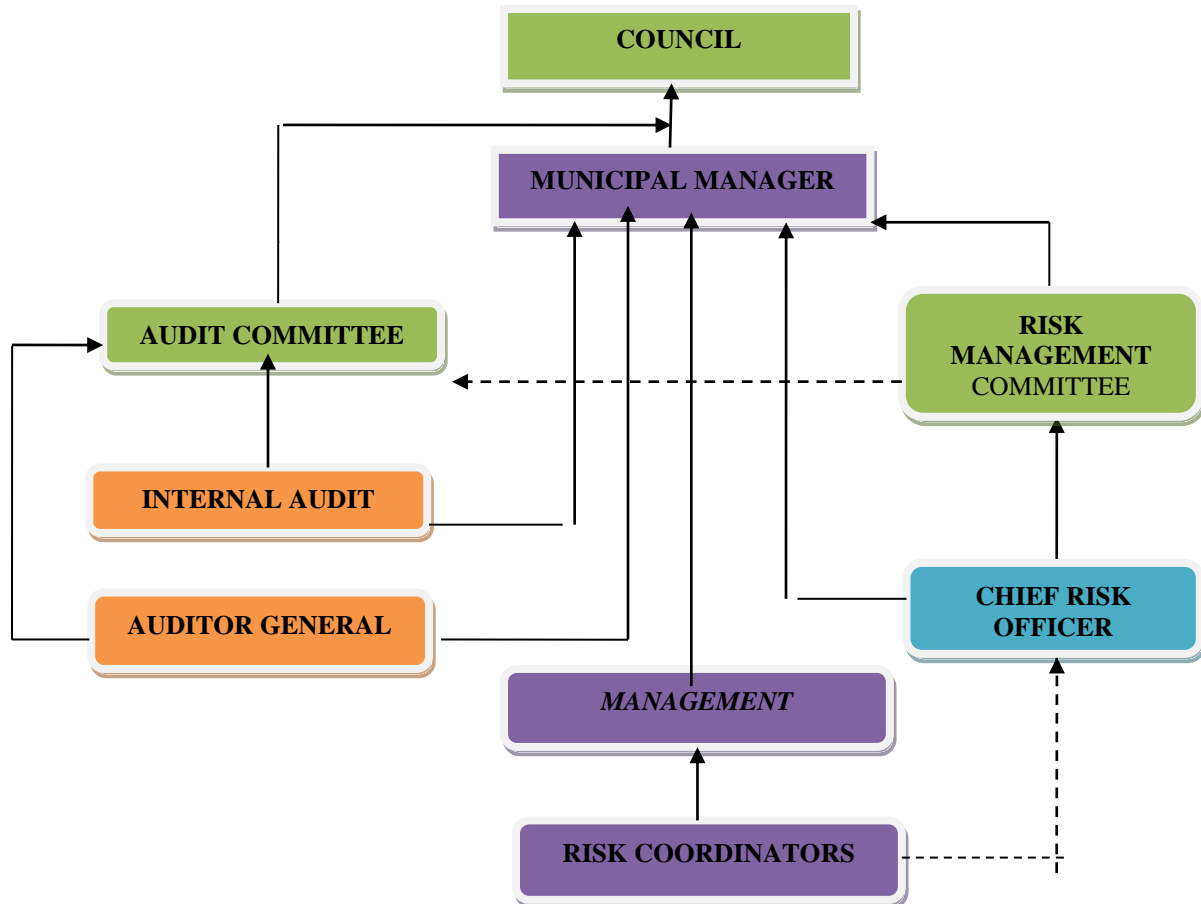
To demonstrate compliance with this Policy, the following documentation will be prepared by the stakeholders and risk owners:

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

13 Roles and Responsibilities

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

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





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

13.1 Audit Committee

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

13.2 Municipal Manager (“MM)

Number	Responsibilities	Accountability	Frequency
1	Accountable for the total process of risk management, MFMA Section 62.1 (c) (i), in the Municipality, which includes: Ensure that management has identified key business risks; Assess the appropriateness of management responses to high priority risks; Assess adequacy of assurance efforts by management, internal audit, external audit and ensure that appropriate action is taken to address identified areas for improvement;	MM with assistance of Executive Management	Continuous

Number	Responsibilities	Accountability	Frequency
	Keep abreast of changes to risk management and control systems; and Ensure that risk profile is updated.		
2	Approve the Risk Management Policy.	MM with assistance of Executive Management	Initial and approval of amendments
3	Establish and implement a risk management strategy.	MM with assistance of Executive Management	Continuous
4	Approve the risk management report.	MM with assistance of Executive Management	Annually
5	Make decisions on strategic risk issues.	MM with assistance of Executive Management	Quarterly
6	Report to the Audit Committee on the management of risks.	MM with assistance of Executive Management	Quarterly
7	Provide stakeholders with assurance on risk management.	MM with assistance of Executive Management	Annually
8	Set the nature, role, responsibility and authority of risk management unit and outline scope of risk management work.	MM with assistance of Executive Management	Continuous
9	Ensure that Risk Management is a standing item in all Management Meetings and that Heads of Departments report on risks within their departments	MM with assistance of Management	Continuous

13.3 Chief Financial Officer (“CFO”)

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

13.4 Risk Management Committee (“RMC”)

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

13.5 Executive Management (“EM”)

Number	Responsibilities	Accountability	Frequency
1	Monitor, control and report on risk under their control in line with the risk management methodology.	EM	Continuous
2	Report on risk management within the directorates at Risk Management Committee.	EM	Quarterly
3	Appoint Risk Champions.	MM with assistance of EM	Annually
4	Ensure that controls lying in other units that affect own unit is discussed.	Managers with assistance of Risk Champions	Monthly

13.6 Risk Manager / Risk Management Unit

Number	Responsibilities	Accountability	Frequency
1	Facilitate the development, communication, coordination and monitoring of risk management within the Municipality.	Risk Manager	Continuous

PART A: RISK MANAGEMENT FRAMEWORK & POLICY 2022/2023

Number	Responsibilities	Accountability	Frequency
2	Accountable to the Accounting Officer for implementing, and monitoring the process of Risk Management.	Risk Manager	Continuous
3	Develop and implement a plan to integrate risk management into the day-to-day operations of the Municipality.	Risk Manager	Continuous
4	Develop and roll-out ongoing risk awareness programmes throughout the Municipality.	Risk Manager	Continuous
5	Establish and maintain risk management policies and procedures and ensure compliance.	Risk Manager	Continuous
6	Facilitate annually risk assessment and assist management to complete the Risk Assessment and Registers.	Risk Manager & Management	Continuous
7	Maintain and regularly update the risk register.	Risk Manager & Management	Continuous
8	Develop risk related performance measures and indicators.	Risk Manager	Continuous
9	Report to EM and Audit Committee on proposed changes to the risk profile.	Risk Manager	Continuous
10	Report quarterly to EM and Audit Committee on the progress of risk management within the Municipality.	Risk Manager	Continuous
11	Review the Risk Management progress regularly.	Risk Manager	Continuous
12	Provide strategic direction and support to the Municipality on risk management.	Risk Manager	Continuous
13	Develop standard risk management reporting templates, and collate risk management information for submission at all levels.	Risk Manager	Continuous
14	Facilitate annual risk assessment with Management and prepare annual risk	Risk Manager	Annually

Number	Responsibilities	Accountability	Frequency
	assessment report		
15	Submit all risk register / reports and/or information to the Internal Audit Department.	Risk Manager	Continuous
16	Perform specific risk assessments on request by management.	Risk Manager	Ad Hoc
17	Provide support to directorates and facilitate Risk Management within their directorates.	Risk Manager & Management	Continuous

13.7 Risk Champions / Delegates

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

13.8 Internal Audit (“CAE”)

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

14 Governance requirements

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

A framework of assurance must be developed for the municipality’s risks. Key players in the organisation will combine to provide assurance to Council that risks are being appropriately managed. This combined approach to assurance normally involves external auditors, internal auditors and management working together through the Audit Committee. Other experts must be chosen to provide assurance regarding specialised categories of risk, such as environmental management and Information technology risks. The assurance framework must be formalised and must incorporate appropriate reporting processes.

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

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

14.3 Safety, Health and Environment

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

14.4 Compliance

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

14.5 Business Continuity Management

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

14.6 Fraud Prevention Manual

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

15 ICT Risk Management

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

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

- Information Security Risk;
- Facilities and Environmental Control Risk;
- Change Control Risk;
- Firewall Risk;
- Internet Connection Risk;
- Password Risk;

- Patch Management Risk;
- User Access Risk;
- Vulnerability Risk
- Disaster Recovery Risk

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

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

16 Review

This framework and underlying strategies including the Risk Management Manual will be reviewed at least annually to ensure its continued application and relevance. Amendments will, as soon as reasonably possible, be submitted for approval and brought to the attention of all users.

PART B:

RISK MANAGEMENT STRATEGY

2022/2023



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1. INTRODUCTION

The adoption of the Dr Ruth S Mompoti District Municipality Risk Management Manual 2022/2023, the Municipal Finance Management Act in 2003 and the Treasury Regulations issued in terms of the Act infused the public service with Municipality culture, which must add to its emphasis on external sanctions and include stronger internal controls with anticipatory management systems to assess the abuse of power, which is the central principle of risk management. This aforesaid manual is applicable to Dr Ruth S Mompoti District Municipality Local Municipality.

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

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

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

2. THE NEED

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

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

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

2.2 An effective Risk Management Strategy can:

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

3. OBJECTIVES

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

4. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

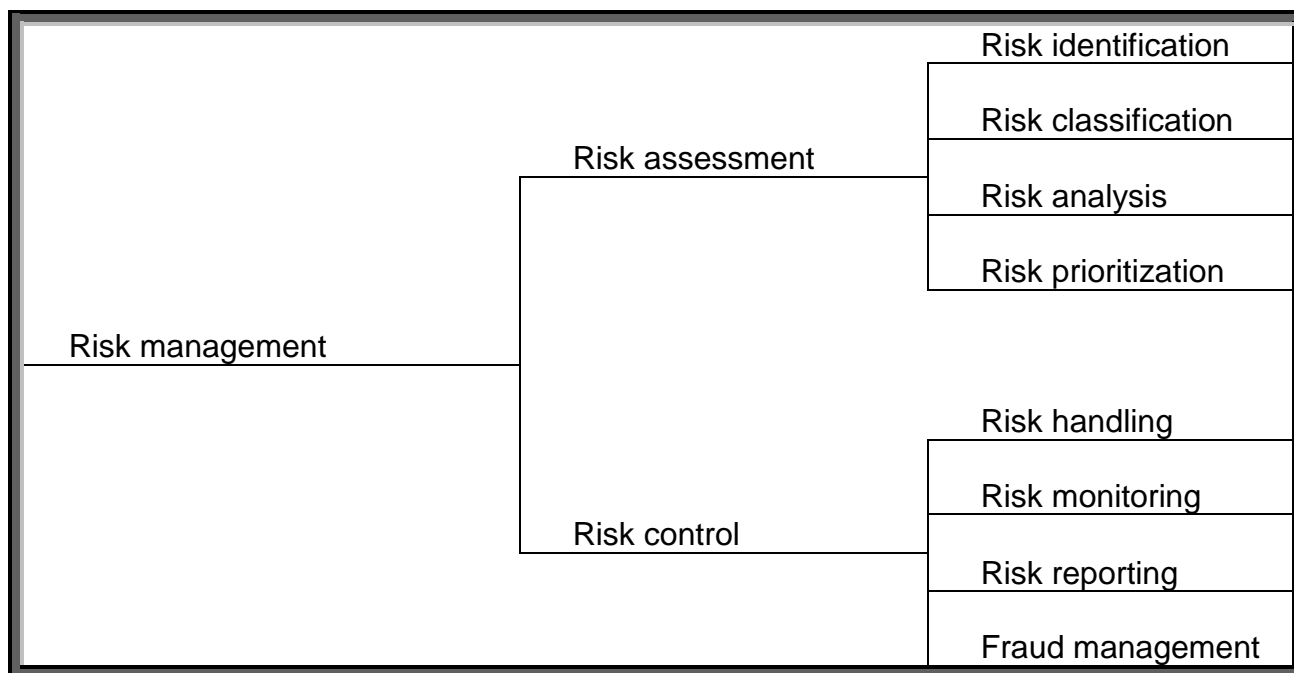
Monitor: The process of monitoring and assessing the presence and functioning of the various components overtime

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

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

5. RISK MANAGEMENT FRAMEWORK

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



5.1 Risk Identification

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

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

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

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

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

The three constituent elements of risk are:

- Inherent risk
- Control risk
- Detection risk

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

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

5.1.1 *Inherent risk*

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

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

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

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

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

- Operation risk
- Management environment
- Control risk
- Detection risk

5.1.2 Operational risk

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

5.1.3 The management environment

The integrity of management and staff

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

5.1.4 Control Risk

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

- The potential for management to override controls,
- Collusion circumventing the effectiveness of the segregation of duties;
- Human aspects such as misunderstanding of instructions, mistake make in judgment, carelessness, distraction or fatigue.

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

5.1.5 *Detection risk*

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

5.2 Risk classification

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

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

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

Natural hazards	Risks arising out of natural hazards such as floods, wildfires, earthquakes, hurricanes, thunderstorms, or snowstorms.
Contracts and legal relationships	Risks arising out of the Municipality legal or contractual relationships.
Financial operations	Risks arising out of the Municipality financial affairs, including collection of own revenue, expenditure, and all internal and external control procedures
Misconduct by public officials	Risk arising from public officials’ or

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

5.3 Risk analysis/assessment

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

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

Risk rating:

Extreme	RED
Medium	YELLOW
Low	GREEN

Risk mapping that Municipality will use to plot risks:

LIKEHOOD	Almost Certain					
	Likely					
	Moderate					
	Unlikely					
	Rare					
		Insignificant	Minor	Moderate	Major	Catastrophic
		IMPACT				

Impact categories:

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

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

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

Rating	Impact	Description
5	Critical (Red)	Negative outcomes or missed opportunity that are of critical importance to the achievement of the objectives.
4	Major (Orange)	Negative outcomes or missed opportunity that are likely to have a relatively substantial impact on the ability to meet objectives
3	Moderate (Yellow)	Negative outcomes or missed opportunity that are likely to have a relatively moderate impact on the ability to meet objectives.
2	Minor (Green)	Negative outcomes or missed opportunity that are likely to have a relatively low impact on the ability to meet objectives.
1	Insignificant (Blue)	Negative outcomes or missed opportunity that are likely to have a negligible impact on the ability to meet objectives.

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

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

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

Risk rating	Inherent risk magnitude	Response
15 – 25	High (Red)	Unacceptable level of risk – High level of control intervention required to achieve an acceptable level of residual risk
8 – 14	Medium (Yellow)	Unacceptable level of risk, except under unique circumstances or conditions – Moderate level of control intervention required to achieve an acceptable level of residual risk

1 – 7	Low (Green)	Mostly acceptable – Low level of control intervention required, if any.
-------	----------------	-------------------------------------------------------------------------

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

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

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

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

5.4 Risk prioritization

Within the risk management framework, risk prioritisation provides the link between risk assessment and risk control. Risks assessed as key risks will be introduced and managed within the control major-process

Depending on the results of the risk analysis performed, risks will be prioritised for the Municipality and per component.

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

5.5 Risk handling

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

5.5.1 Avoidance

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

5.5.2 Reduction

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

5.5.3 Control

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

5.5.4 Transfer

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

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

5.6 Risk monitoring

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

5.7 Risk reporting

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

5.8 Fraud management

The Risk Management Unit will develop and review the Fraud Prevention Manual as per the Risk Management Manual 2022/2023.

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

This fraud prevention manual covers the following minimum requirements:

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

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

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

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

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

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

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

8. RESPONSIBILITIES OF MEMBER OF COUNCIL

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

High level responsibilities of the Council in risk management include:

- Providing oversight and direction to the Accounting Officer on risk management related strategy and policies;
- Having knowledge of the extent to which the Accounting Officer and management has established effective risk management in their respective institutions;
- Awareness of and concurring with the department's risk appetite and tolerance levels;
- Reviewing the municipality's portfolio view of risks and considers it against the institution's risk tolerance;
- Influencing how strategy and objectives are established, departmental activities are structured, and risks are identified, assessed and acted upon;

- Requiring that management should have an established set of values by which every employee should abide by;
- Insist on the achievement of objectives, effective performance management and value for money.

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

- The design and functioning of control activities, information and communication systems, and monitoring activities;
- The quality and frequency of reporting;
- The way the department is managed including the type of risks accepted;
- The appropriateness of reporting lines.

In addition the Council should:

- Assign responsibility and authority;
- Insist on accountability.

9. RESPONSIBILITIES OF ACCOUNTING OFFICER

The Accounting Officer shall be responsible for the following:

- 9.1 Setting the tone at the top by supporting Risk Management, Fraud & Anti-Corruption and allocating resources towards Establishing the necessary structures and reporting lines within the institution to support Enterprise Risk Management(ERM);
- 9.2 Place the key risks at the forefront of the management agenda and devote attention to overseeing their effective management,
- 9.3 Approves the institution's risk appetite and risk tolerance,
- 9.4 Hold management accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities,
- 9.5 Leverage the Audit Committee, Internal Audit, Risk Management, Fraud & Anti-Corruption Committee and other appropriate structures for assurance on the effectiveness of risk management,
- 9.6 Provide all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored,

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

10. RESPONSIBILITIES OF MANAGEMENT:

- 10.1 Integrating risk management into planning, monitoring and reporting processes, and the daily management of programs and activities,
- 10.2 Creating a culture where risk management is encouraged, practised, rewarded and risk management infrastructure is provided.
- 10.3 Aligns the functional and institutional risk management methodologies and processes,
- 10.4 Implements the directives of the Accounting Officer concerning risk management,
- 10.5 Maintains a harmonious working relationship with the CRO and supports the CRO in matters concerning the functions risk management.

11. RESPONSIBILITIES OF INTERNAL AUDIT

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

These include:

- 11.1 Provides assurance over the design and functioning of the control environment, information and communication systems and the monitoring systems around risk management,
- 11.2 Provides assurance over the Municipality risk identification and assessment processes,
- 11.3 Utilises the results of the risk assessment to develop long term and current year internal audit plans,
- 11.4 Provides independent assurance as to whether the risk management strategy, risk management implementation plan and fraud prevention plan have been effectively implemented within the institution.

12. RESPONSIBILITIES OF THE CHIEF RISK OFFICER

- 12.1 Develop risk management implementation plan of the Municipality
- 12.2 Works with senior management to develop the overall enterprise risk management vision, strategy, policy, as well as risk appetite and tolerance levels for approval by the Accounting Officer,
- 12.3 Communicates the risk management policy, strategy and implementation plan to all stakeholders in the institution,
- 12.4 Continuously driving the risk management, fraud & anti-corruption process towards best practice,
- 12.5 Developing a common risk assessment methodology that is aligned with the institution's objectives at strategic, tactical and operational levels for approval by the Accounting Officer.
- 12.6 Coordinating risk assessments within the Municipality / component / sub-component as outlined in the policy,
- 12.7 Sensitising management timeously of the need to perform risk assessments for all major changes, capital expenditure, projects, Municipality restructuring and similar events, and assist to ensure that the attendant processes, particularly reporting, are completed efficiently and timeously.
- 12.8 Assisting management in developing and implementing risk responses for each identified material risk,
- 12.9 Participating in the development of the combined assurance plan for the institution, together with internal audit and management,
- 12.10 Ensuring effective information systems exist to facilitate overall risk management improvement within the institution,
- 12.11 Collates and consolidates the results of the various assessments within the institution,
- 12.12 Analyse the results of the assessment process to identify trends, within the risk and control profile, and develop the necessary high level control interventions to manage these trends,
- 12.13 Compiles the necessary reports to the Risk Management, Fraud & Anti-Corruption Committee
- 12.14 Providing input into the development and subsequent review of the fraud prevention strategy, business continuity plans occupational health, safety and environmental policies and practices and disaster management plans,
- 12.15 Report administratively to Accounting Officer and functionally to Risk Management, Fraud & Anti-Corruption Committee.

13. ROLE OF THE STRATEGIC PLANNING COMPONENT MANAGER

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

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

- 13.1 Familiarity with the overall enterprise risk management vision, risk management strategy, fraud risk management policy and risk management policy,
- 13.2 Acting within the tolerance levels set by the component,
- 13.3 Maintaining the functioning of the control environment, information and communication as well as the monitoring systems within their delegated responsibility,
- 13.4 Participation in risk identification and risk assessment strategic risks,
- 13.5 Implementation of risk responses to address the identified risks,
- 13.6 Reporting any risks to chief risk officer on a periodic and timely basis, and taking action to take advantage of, reduce, mitigate and adjusting plans as appropriate.
- 13.7 Incorporating risk managing into project management planning process.

14. ROLE OF ALL OFFICIALS

Each official will be responsible for:

- 14.1 Identifying and controlling risks appropriate to his/her position.
- 14.2 Reporting any risks to his/her immediate supervisor on a timely basis.
- 14.3 Ensuring that proper and sound system of internal controls is appropriately maintained to ensure that all risks identified are alleviated to tolerable levels through risk mitigation / treatment plan approved by Accounting Officer / Authority.

15. ROLE OF RESPONSIBILITY MANAGERS OR RISK OWNERS

Risks should be identified at a level where a specific impact can be identified and a specific action or actions to address the risk can be identified. All risks, once identified, should be assigned to an owner who has responsibility for ensuring that the risk is managed and monitored over time. A risk owner, in line with their accountability for managing the risk, should have sufficient authority to

ensure that the risk is effectively managed. The risk owner need not be the person who actually takes the action to address the risk. Risk owners should however ensure that the risk is escalated where necessary to the appropriate level of management.

It is the responsibility of the Risk Owner to:

- 15.1 Ensure that divisions are effectively implementing the Risk Management Strategy,
- 15.2 Identify and report fraudulent activities within their Unit,
- 15.3 Conduct preliminary inquiry on any alleged incident that is on conflict with the Code of Conduct for the Public Service and draft a report for the investigators,
- 15.4 Provide support on investigations by facilitating the obtaining of information in any form [electronic, documentary, etc] by investigators, in line with the applicable regulations,
- 15.5 Be a point of entry for investigators and risk management officials within their respective units.

16. DISCLOSURE

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

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

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

- That the component complies with the process in place, established to review the system of internal control for effectiveness and efficiency.

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

17. INTEGRATING RISK MANAGEMENT PLANNING PROCESS

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

18. CONCLUSION

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

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

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

PART C:

**RISK MANAGEMENT,
FRAUD & ANTI-CORRUPTION
COMMITTEE CHARTER 2022/2023**



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1. CONSTITUTION

Dr Ruth S Mompoti District Municipality has established a Risk Management, Fraud and Anti-Corruption Committee (RMFAC) in terms of the Local Government: Municipal Finance Management Act 56 of 2003. The RMFAC is guided by the following Committee Charter in conjunction with the Public Sector Risk Management Framework from the National Treasury Department and the adopted Dr Ruth S Mompoti District Municipality Risk Management, Fraud and Anti-Corruption Manual 2022/2023.

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

2. BACKGROUND

Section 62 (1) (a) of the Municipal Finance Management Act (hereafter referred to as “MFMA”) states that the Accounting Officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems:

- i. of financial and risk management and internal controls; and
 - ii. of internal audit operating in accordance with any prescribed norms and standards.
- Section 95 of the Municipal Finance Management Act (hereafter referred to as “MFMA”) states that the Accounting Officer a municipal entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure—
- a) that the resources of the entity are used effectively, efficiently, economically and transparently;
 - b) that full and proper records of the financial affairs of the entity are kept;
 - c) that the entity has and maintains effective, efficient and transparent systems
 - i. of financial and risk management and internal control; and
 - ii. of internal audit complying with and operating in accordance with and prescribed norms and standards;
 - d) that irregular and fruitless and wasteful expenditure and other losses are prevented;
 - e) that expenditure is in accordance with the operational policies of the entity; and
 - f) that disciplinary or, when appropriate, criminal proceedings, are instituted against any

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

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

The Terms of Reference are intended to guide the Committee when performing its functions; to engender proper corporate governance in terms of the King IV Report, the Municipal Finance Management Act, Dr Ruth S Mompoti District Municipality Risk Management, Fraud and Anti-Corruption Manual 2022/2023 and to clarify the roles and the responsibilities of the Committee and the Management of Dr Ruth S Mompoti District Municipality.

3. OBJECTIVES

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

4. COMPOSITION

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

Membership shall comprise:

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

Standing invitees to the Committee shall be:

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

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

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

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

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

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

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

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

5. AUTHORITY

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

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

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

A Risk Management, Fraud and Anti-Corruption Committee –

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

6. ROLES AND RESPONSIBILITIES

The duties of the Committee shall be to:

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

- Review the risk appetite and tolerance and recommend for approval by the Accounting Officer;
- Review the Municipality risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register;
- Evaluate the effectiveness of mitigating strategies to address the material risks of the Municipality
- Report to the Accounting Officer any material changes to the risk profile of the Municipality
- Review the fraud prevention policy and recommend for approval by the Council;
- Evaluate the effectiveness of the implementation of the fraud prevention policy;
- Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses;
- Develop goals, objectives and key performance indicators for the Committee for approval by the Accounting Officer;
- Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management activity;
- Set out the nature, role, responsibility and authority of the risk management function within the Municipality for approval by the Accounting Officer, and oversee the performance of the risk management function;
- Provide proper and timely reports to the Accounting Officer on the state of risk management, together with aspects requiring improvement accompanied by the Committee's recommendations to address such issues.

7. ADMINISTRATIVE DUTIES

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

a) Meetings

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

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

b) Notice of Meetings

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

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

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

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

8. QUORUM

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

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

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

the Committee.

9. PERFORMANCE EVALUATION

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

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

10. REVIEW OF CHARTER

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

11. RECOMMENDATION AND APPROVAL

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



02/08/2022

.....

.....

ADV. A. BAM-SMITH
CHIEF RISK OFFICER

DATE



02/08/2022

.....

.....

MR. S. A. B. NGOBENI
FARMCO CHAIRPERSON

DATE

12. ANNEXURE A:

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

RISK MANAGEMENT FRAUD & ANTI-CORRUPTION COMMITTEE

KEY PERFORMANCE INDICATORS



NAME OF THE MUNICIPALITY: _____

EVALUATION PERIOD: _____

Subject	Reference	KPI's	Weight %	Evidence Required	REPLY BY MUNICIPALITY		EVALUATION BY TREASURY		Exception
					Yes / No	Evidence Attached Yes / No	Score Achieved	Comments/Record of work done	
FIRST SEMESTER EVALUATION 2022/2023 FINANCIAL YEAR									
A. Constitution	MFMA Sec 62	(1) Has the Municipality established a Risk Management Committee?	5%	Appointment Letters of all members signed by the Accounting Officer.					
B. Risk Management Structure & Reporting Lines	PSRMF: GCRO, par 6	(2) Does the Risk Management Committee receive and review quarterly reports from the Risk Management Unit?	5%	Signed off Quarterly Risk Management Report and the Minutes where the reports were reviewed.					
	RMCC PAR1	(3) Does the Risk Management	9%	Report to the AO.					

PART C: RISK MANAGEMENT, FRAUD & ANTI-CORRUPTION COMMITTEE CHARTER 2022/2023

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

PART C: RISK MANAGEMENT, FRAUD & ANTI-CORRUPTION COMMITTEE CHARTER 2022/2023

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

PART C: RISK MANAGEMENT, FRAUD & ANTI-CORRUPTION COMMITTEE CHARTER 2022/2023

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

PART C: RISK MANAGEMENT, FRAUD & ANTI-CORRUPTION COMMITTEE CHARTER 2022/2023

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

PART C: RISK MANAGEMENT, FRAUD & ANTI-CORRUPTION COMMITTEE CHARTER 2022/2023

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

PART C: RISK MANAGEMENT, FRAUD & ANTI-CORRUPTION COMMITTEE CHARTER 2022/2023

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