



# **Tswelopele**

## Local Municipality

### **TSWELOPELE LOCAL MUNICIPALITY RISK MANAGEMENT POLICY & STRATEGY**

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## 1. DEFINITIONS

**1.1 Risks:** Any threat or event that has a reasonable chance of occurrence in the future, which could undermine the Municipality's pursuit of its goals and objectives. Risk Manifest as negative impacts on goals and objectives or as missed opportunities to enhance Municipality performance.

**1.2 Risk Management:** Risk management is a continuous, proactive and systematic process, affected by a TLM's Major Mayor, Municipal Manager, Management and other personnel, applied in strategic planning and across the TLM, designed to identify potential events that may affect the TLM, and manage risks to be within its risk tolerance, to provide reasonable assurance regarding the achievement of TLM objectives.

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

**1.4 Risk Analysis:** It is a process that involves identifying the most probable threats to the TLM and analyzing the related vulnerability of the TLM to the threats. This includes risk assessment, risk characteristics, risk communication, risk management, and policy relating to risk.

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

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

**1.7 Inherent Risks:** The probability of risk occurring or existing in the TLM in the absence of any action to control or modify the circumstances.

**1.8 Residual Risk:** The risk that remains after all efforts have been made to mitigate or to eliminate the risk that the TLM is exposed to.

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

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

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

**1.12 Risk Champions:** The Risk Champion is a person with the skills, knowledge and leadership required to champion the risk management cause.

**1.13 Executive Authority:** The Member of the Council of a Municipality who is accountable to the provincial legislature for the TLM.

## **2. PURPOSE**

The policy is intended to outline the Municipality's commitment on risk management activities in order to promote a risk cautious culture and sound risk management practices. To further ensure that risk management activities are incorporated into day to day actives of the Municipality's processes which will assist management to make sound decisions.

## **3. RISK AND RISK MANAGEMENT**

**3.1 Risk** refers to an unwanted outcome (actual/potential) to the Tswelopele local municipality's (TLM's) service delivery and other performance objectives, caused by the risk factor(s).Some risk factor(s) also present upside potential, which management must be aware of and be prepared to exploit.

**Risk management** is a systematic and formalized process instituted by the TLM to identify, assess, manage and monitor risk.

### **3.2 Benefits of Risk Management**

The TLM implements and maintains effective, efficient and transparent systems of risk management and internal control. The risk management will assist the municipality to achieve, among other things, the following outcomes needed to underpin and enhance performance:

- more sustainable and reliable delivery of services;
- informed decisions underpinned by appropriate rigour and analysis;
- innovation;
- reduced waste;
- prevention of fraud and corruption;
- better value for money through more efficient use of resources; and
- better outputs and outcomes through improved project and programme management.

#### **4. POLICY STATEMENT**

4.1 The Municipal Manager has committed Tswelopele Local Municipality (TLM) to a process of risk management that is aligned to the principles of good governance in terms of the Municipal Finance Management Act (MFMA), Act no 56 of 2003 Section 62 (1) (c) (i) and Section 95 (c) (i).

4.2 The Municipality's risk management process is also supported and guided by the following legislations and best practices of good governance:

- Public Sector risk Management framework;
- King Code;
- COSO internal Control Framework 2013;
- ISO31000; and
- Treasury Regulations.

4.3 The approach of executing this policy is outlined in the Tswelopele Municipality risk management strategy. It is therefore expected that all departments and all personnel (top-down) adopt and adapt to the risk management strategy.

4.4 Effective risk management process is vital to the municipality to fulfil its vision and mission, service delivery commitments to TLM's Community and overall performance of the Municipality.

4.5 Tswelopele Municipality subscribes to the fundamental principles that all resources will be applied economically to ensure:

- The highest standards of service delivery;
- A management system containing the appropriate elements aimed at minimising risks and costs in the interest of all stakeholders;
- Education and training of all our staff to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent conformance to the stakeholders expectations; and
- Maintaining an environment, that promotes the right attitude and sensitivity towards internal and external stakeholder satisfaction.

4.6 An entity-wide approach to risk management is adopted by TLM, which means that every key risk in each part of the municipality will be included in a structured and systematic process of risk management.

4.7 It is expected that the risk management processes will become embedded into the municipality's systems and processes, ensuring that our responses to risks remain current and dynamic. All risk management efforts will be focused on supporting the departmental objectives. Equally, they must ensure compliance with relevant legislation, and fulfil the expectations of employees, communities and other stakeholders in terms of corporate governance.

## 5. POLICY OBJECTIVES

1. To explain TLM's approach to risk management and ensure that it has a consistent and effective approach to risk management;
2. To ensure that the TLM's culture and processes encourage the identification assessment and treatment of risks that may affect its ability to achieve its objectives;
3. To explain key aspects of risk management;
4. To clearly indicate the risk management reporting procedures;
5. To hold Council, management and officials accountable for the implementation of risk management on their area of responsibility;
6. To create an environment where all the TLM's employees take responsibility for managing risk;
7. To create a more risk aware organizational culture through enhanced communication and reporting of risk;
8. To improve corporate governance and compliance with relevant legislation;
9. The implementation of this policy will provide the TLM with a basis and a framework for:
  - a) more confident and rigorous decision-making and planning;
  - b) better identification of opportunities and threats;
  - c) pro-active rather than re-active management;
  - d) more effective allocation and use of resources;
  - e) improved management and reduction in loss and cost of risk;
  - f) improved stakeholder confidence and trust;
  - g) Clear understanding by all staff of their roles, responsibilities and authorities for managing risk.

## 6. GENERAL PRINCIPLES

1. All risk management activities will be aligned to the Municipality's goals, objectives and the priorities, and aims to protect and enhance performance of the Municipality.
2. Risk analysis will form part of the Municipality strategic and operational processes.
3. Risk management is established on a risk based approach to internal control which will be embedded into day- to- day operations of the Municipality.
4. Managers and staff at all levels will have the responsibility to identify, evaluate and manage or report risks, and will be equipped to do so.
5. Risk management in the Municipality should take a proactive approach and where possible avoid risks rather than dealing with their consequences.
6. In determining an effective response to risk, the cost of controls and the impact of risks occurring will be balanced with the benefits of reducing the risk. This is to ensure that there are no situations where the cost or effort of implementing or putting in place controls is higher than the impact or expected benefits.



## 7. ROLES AND RESPONSIBILITIES

It is the responsibility of every TLM official to integrate risks management processes in their area of responsibility as outlined in the risk management strategy.

ROLE PLAYERS	RESPONSIBILITIES
<b>RISK MANAGEMENT OVERSIGHT</b>	
<b>Council</b>	The Council takes an interest in risk management to the extent necessary to obtain comfort that properly established and functioning systems of risk management are in place to protect the Municipality against significant risks.
<b>Audit, Performance and risk Committee</b>	The Committee is an independent committee responsible for oversight of the Municipality's control, governance and risk management. The Committee provides an independent and objective view of the Municipality's risk management effectiveness.
	The Committee's role is to review the risk management progress and maturity of the Municipality, the effectiveness of risk management activities, the key risks facing the Municipality, and the responses to address these key risks. The responsibilities of the Audit, Performance and Risk Committee are formally defined in its charter.
<b>RISK MANAGEMENT IMPLEMENTERS</b>	
<b>Municipal Manager</b>	The Municipal Manager is the ultimate Chief Risk Officer of the Municipality and is accountable for overall governance of risk within Tswelopele Municipality. By setting the tone at the top, the Municipal Manager promotes accountability, integrity and other factors that will create a positive control environment.
<b>Management</b>	Management is responsible for executing their responsibilities outlined in the risk management strategy and for integrating risk management into their operational routines.

<b>Other Officials</b>	Other officials are responsible for integrating risk management into their day-to-day activities. They must ensure that their delegated risk management responsibilities are executed and continuously report on progress.
<b>RISK MANAGEMENT SUPPORT</b>	
<b>Risk &amp; Compliance Officer</b>	The Risk Officer is the custodian of the Risk Management Strategy, and coordinator of risk management activities throughout the Municipality. The primary responsibility of the Risk Officer is to bring to bear his/her specialist expertise to assist the Municipality to embed risk management and leverage its benefits to enhance performance.
<b>Risk champions</b>	The Risk Champion's responsibility involves intervening in instances where the risk management efforts are being hampered, for example, by the lack of co-operation by Management and other officials and the lack of departmental skills and expertise.
<b>RISK MANAGEMENT ASSURANCE PROVIDERS</b>	
<b>Internal Audit</b>	The role of the Internal Auditing in risk management is to provide an independent, objective assurance on the effectiveness of the Municipality's system of risk management. Internal Auditing must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.
<b>External Audit</b>	The external auditor (Auditor-General) provides an independent opinion on the effectiveness of risk management.

## 8. REPORTING

### 8.1 REPORTING BY THE RISK OFFICER

8.1.1 The Risk Officer will communicate with Risk Owners on a monthly basis for reporting on risk management activities within their departments. The Risk Officer will then report to the Accounting Officer.

8.1.2 The Risk Officer will submit a quarterly report to Audit, Performance and Risk Committee.

## **8.2 REPORTING BY THE AUDIT, PERFORMANCE AND RISK MANAGEMENT COMMITTEE**

- The Audit, Performance and Risk Committee will submit a quarterly reports to Council (copy of which will be provided to the MM) that will outline the work performed by the committee in that specific quarter and must consider the responsibilities outlined in the Audit, Performance and Risk Committee charter.
- Furthermore the Audit, Performance and Risk Committee will evaluate the Risk Management disclosure in the annual financial statement to ensure that it is in line with the reporting requirements.

## **9. POLICY REVIEW**

The effectiveness of the policy will be reviewed annually.

The amendments will be sent to the Audit, Performance and Risk Committee for recommendation and to Council for approval.

## **SECTION B – RISK MANAGEMENT STRATEGY**

### **1. INTRODUCTION**

The Municipality risk management strategy is directed at outlining the process of implementing TLM risk management policy which informs the strategy. It further articulates a plan of action to enhance the Municipality's risk profile. It is imperative to read the strategy in conjunction with the Risk management Policy which aims to comply with Public Sector Risk Management Framework.

The Municipal Finance Management Act 2003 (No. 56 of 2003) defines the Municipal Manager as the accounting officer of the Municipality and MFMA sec 62(1)(c)(i) requires the Municipal Manager to take reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent system of financial risk management and internal controls. Risk management is integral to planning, organizing, directing and coordinating systems aimed at achieving Municipality's goals and objectives.

### **2. PURPOSE**

To support the implementation of the risk management activities this strategy provides:

- Clear roles and responsibilities;
- A culture awareness of risks;
- Standard methodologies for the management of risks
- A consistent view of the risk profile within the Municipality

### **3. OBJECTIVES**

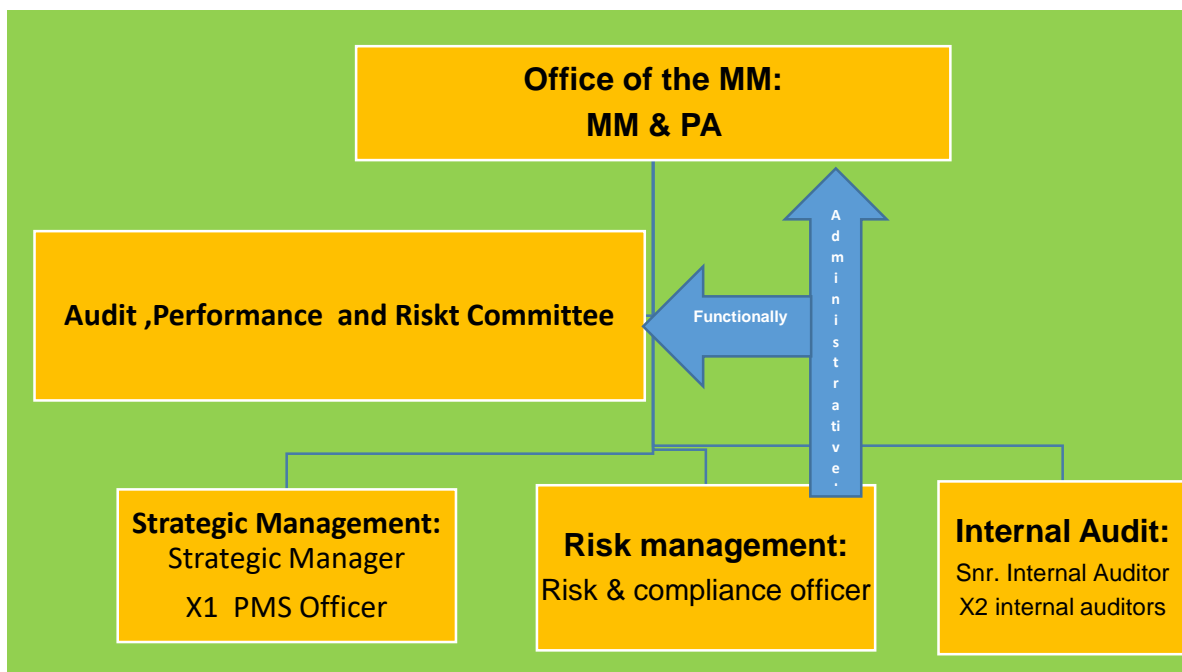
The objectives of Risk Management Strategy are as follows:

1. To provide and maintain a working environment where everyone is following sound risk management practices and is held accountable for achieving results;

2. To provide with the framework on which the employees will utilise to implement risk management;
3. 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;
4. To ensure that risk management activities are fully integrated into the planning, monitoring and reporting processes and into the daily management of program activities.

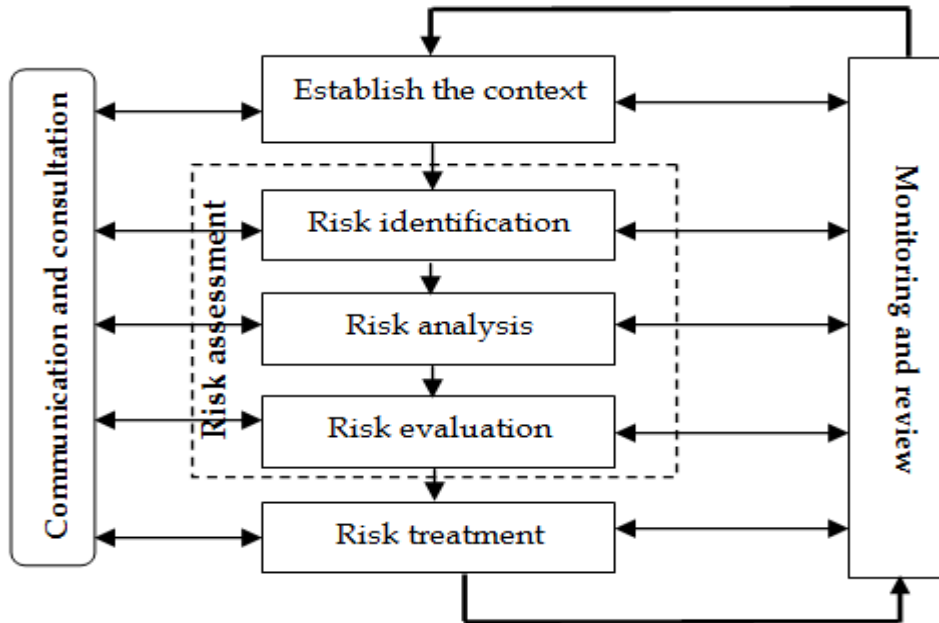
#### 4. STRUCTURAL CONFIGURATION

The risk management unit is placed in the office of the MM and the Risk & Compliance Officer reports directly to the Municipal Manager, and reports functionally to the Audit, Performance and Risk Committee quarterly.



## 5. RISK MANAGEMENT METHODOLOGY

The risk management process of the TLM will be depicted as follows:



*(ISO 31000:2009 Chart)*

### 5.1 DETAILED RISK MANAGEMENT APPROACH

#### 5.1.1 ESTABLISHING CONTEXT

The municipality sets the tone at the top by ensuring that all policies and procedures that guides business processes are in place. The risk appetite and tolerance are considered in improving a risk cautious culture within the Municipality. This involves establishing both strategic and operational objectives which are embedded in the IDP & SDBIP and Municipal hierarchy. The Municipality also considers the external factors such as social, cultural, political and economy, and the alignment with internal factors such as strategy, resources and capabilities. Criteria against which risk will be evaluated needs to be established and defined which will assist Management to make informed decisions.

### 5.1.2. RISK ASSESSMENTS

Risk assessment process allows the Municipality to consider how potential risks might affect the achievement of set objectives in the IPD & SDBIP. Management will assess both positive (opportunities) and negative (threats) risk events as follows:

**a) Risk identification:** a process that the Municipality use to identify and describe risks that may affect achievement of the set objectives. The Municipality will use the following methods to identify risks:

- **Historical data** – AGSA, Internal Audit, Provincial Treasury, COGTA, and Management reports will be considered. Inputs from the Audit, Performance and Risk committee and all stakeholders will also be considered.
- **Meetings/workshops** – risk assessment one-on-one meetings or workshops will be conducted as and when the operational risk register is reviewed for update with the relevant officials.
- **SWOT analysis** – this method might be used to identify strategic risks when IDP & SDBIP are being reviewed.

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

- **Strategic risk identification:** Involves identifying risks emanating from the strategic goals formulated by the Municipality. The strategic risks will be reviewed concurrently with any changes in the IDP at least annually to consider emerging risks using analysis (e.g. SWOT) and should precede the finalization of strategic choices annually. Risks should be documented, assessed and managed through the normal functioning of the system of risk management and risk register updated accordingly.

- **Operational risk identification:** Involves identifying risks associated with the Municipality's operations. It 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 emerging risks and consider shifts in known risks through mechanisms such as management and committee meetings, environmental scanning, process reviews, etc. Risk register is updated regularly.
  
- **Project risk identification:** Project risks should be identified for all projects and the project risk register should be reviewed at least once a year to identify emerging risks if its lifecycle is more than a period of 12 months. The head of the department will be the custodians of project risks register and risk Officer will advise the relevant department on the process.

## b) Risk Classification

The identified risks are classified according to the following risk categories:

NO.	Risk Category	Description
1	Human Resources	<p>Risks that relate to the human resources of an organization.</p> <p>These risks can have an effect on an entity's human capital with regard to:</p> <ul style="list-style-type: none"> <li>- Integrity and honesty</li> <li>- Skills and competence</li> <li>- Retention</li> <li>- Motivation and morale</li> </ul>



2	Knowledge/Information Management	<p>Risks related to an organisation's management of knowledge and information</p> <p>Example:</p> <ul style="list-style-type: none"> <li>- Availability of information</li> <li>- Integrity of information and data</li> <li>- Retention</li> <li>- Safeguarding</li> </ul>
3	Litigation	<p>Risk that an organisation might suffer losses due to litigation and lawsuits against it.</p> <p>Losses from litigation can emanate from:</p> <ul style="list-style-type: none"> <li>- Claims by employees, the public, service providers and other third parties.</li> <li>- Failure by an organisation to exercise certain rights that are to its advantage</li> </ul>
4	Asset Management	<p>Risks associated with the misuse, physical damage, theft and under-utilisation and wastage of an organization's assets.</p>
5	Service Delivery	<p>Risks related to the disruption, quality, denial, non-availability or quality of service delivery to the public.</p>
6	Technology/IT	<p>The risk that relate specifically to an organization's IT objectives, infrastructure and requirements.</p> <p>Relevant aspects include:</p> <ul style="list-style-type: none"> <li>- Security concerns</li> <li>- Technology availability (uptime)</li> <li>- Technology effectiveness</li> <li>- Hardware obsolescence</li> <li>- Changes in technology</li> </ul>

7	Third Party Performance	<p>Risks related to an organization's dependence on the performance of a third party.</p> <p>Risk in this regard is the likelihood that a service provider might not perform according to an agreement entered into with an organization.</p> <p>Non-performance could include:</p> <ul style="list-style-type: none"> <li>- Outright failure to perform</li> <li>- Not rendering the required service in time</li> <li>- Not rendering the correct service</li> <li>- Inadequate/poor quality of performance</li> </ul>
8	Health and Safety	<p>Risks related to occupational health and safety issues and concerns (e.g. deaths and injuries on duty, accessibility of facilities to persons with disabilities, etc.)</p>
9	Disaster Recovery	<p>Risks related to an organization degree of preparedness or absence thereto, natural disasters that could impact the normal functioning and continuity of the business operations e.g. natural disasters, acts of terrorism etc.</p> <p>- Factors to consider include:</p> <ul style="list-style-type: none"> <li>- Disaster management and business continuity procedures, and</li> <li>- Contingency planning</li> </ul>
10	Compliance/regulatory	<p>Risks related to possible breaches to legislation, prescripts and regulations that an organization should comply with.</p> <p>Aspects to consider in this regard are:</p> <ul style="list-style-type: none"> <li>- Failure to monitor or enforce compliance</li> <li>- Monitoring and enforcement mechanisms</li> </ul>

		- Consequences of non-compliance
<b>11</b>	Fraud and corruption	<p>Risks associated with fraud and corruption practices, both by staff and external parties.</p> <p>These include:</p> <ul style="list-style-type: none"> <li>- Misrepresentation for the purposes of concealing illegal acts</li> <li>- Collusion</li> <li>- Offering and/or acceptance of kickbacks</li> <li>- Nepotism</li> </ul>
<b>12</b>	Financial	<p>Risks encompassing the entire scope of general financial management.</p> <p>Potential factors to consider include:</p> <ul style="list-style-type: none"> <li>- Cash flow adequacy and management thereof</li> <li>- Financial losses</li> <li>- Financial statement integrity</li> <li>- Revenue collection</li> <li>- Financial planning</li> </ul>
<b>13</b>	Cultural	<p>Risks relating to an organisation's overall culture and control environment.</p> <p>The various factors related to organisational culture include:</p> <ul style="list-style-type: none"> <li>- Communication channels (the existence and the effectiveness &amp; efficiency thereof)</li> <li>- Cultural integration</li> <li>- Entrenchment of ethics and values</li> <li>- Goal alignment</li> <li>- Leadership and management style</li> </ul>

14	Reputation	Factors that could result in the tarnishing of an organisation's reputation, public perception and corporate image.
15	Economic	Risks related to an organisation's economic environment
16	Political	Risks emanating from political factors and decisions that have an impact on an organisation's mandate and operations
17	Natural environment	Risks related to the adverse natural environment consequences of executing an organisation's strategy.  Factors to consider include: - Depletion of natural resources - Environmental degradation - Environmental contamination

**c) Risk Analysis:** a process used to understand root causes (the nature, sources, and causes) of the identified risks. It is also used to study impacts and consequences of risks as well as existing controls.

**d) Risk evaluation:** a process used to rate risks in terms of likelihood and impact using risk scoring criteria to determine whether risk is within appetite or tolerance level for both inherent and residual risks. Risk evaluation involves the measurement (quantifying) and assessment (qualifying) of the inherent risks. The inherent risks are evaluated to determine the potential severity and the likelihood of risk events, as well as the adequacy of the risk control and different types of controls should be considered by management as follows; but not limited:

- Preventative controls
- Detective controls
- Corrective controls
- Management controls

The result of the evaluation process is the residual risks, which are the risks that remain after taking control measures into account.

**(i) Risk Evaluation should be performed through a three stage process outlined below:**

- Firstly, the inherent risk should be assessed to establish the level of exposure in the absence of deliberate management actions to influence the risk;
- Secondly, a residual risk should be evaluated to determine the actual remaining level of risk after mitigating effects of management actions to influence the risk; and
- Thirdly, the residual risk should be benchmarked against the Municipality’s risk appetite to determine the need for further management interventions if any.

**(ii) The following tables will be used to evaluate risks:**

**Table 1: Risk Rating Matrix**

High	15 -25
Medium	8 – 14
Low	1 – 7

**Table 2: Impact Rating Guide**

RATING	ASSESSMENT	DEFINITION
1	Insignificant	Negative outcomes or missed opportunities that are likely to have a <b>negligible impact</b> on the ability to meet objectives
2	Minor	Negative outcomes or missed opportunities that are likely to have a relatively <b>low impact</b> on the ability to meet objectives
3	Moderate	Negative outcomes or missed opportunities that are likely to have a relatively <b>moderate impact</b> on the ability to meet objectives
4	Major	Negative outcomes or missed opportunities that are likely to have a relatively <b>substantial or high impact</b> on the ability to meet objectives
5	Critical	Negative outcomes or missed opportunities that are of <b>critical importance or significant impact</b> to the achievement of the objectives

**Table 3: Likelihood Rating Guide**

<b>RATING</b>	<b>ASSESSMENT</b>	<b>DEFINITION</b>
<b>1</b>	<b>Rare</b>	The risk is conceivable but is only likely to occur in extreme circumstances.
<b>2</b>	<b>Unlikely</b>	The risk occurs infrequently and is unlikely to occur within the next 3 years
<b>3</b>	<b>Moderate</b>	There is an above average chance that the risk will occur at least once in the next 3 years
<b>4</b>	<b>Likely</b>	The risk could easily occur, and is likely to occur at least once within the next 12 months
<b>5</b>	<b>Common</b>	The risk is already occurring, or is likely to occur more than once within the next 12 months

**Table 4: RISK MAPPING THE MUNICIPALITY WILL USE TO PLOT RISKS:**

<b>L I K E L I H O O D</b>	Almost Certain	5	10	15	20	25
	Likely	4	8	12	16	20
	Moderate	3	6	9	12	15
	Unlikely	2	4	6	8	10
	Rare	1	2	3	4	5
		Insignificant	Minor	Moderate	Major	Critical
<b>IMPACT</b>						

**Table 5: INHERENT RISK EXPOSURE (Impact X Likelihood) AND REFER TO RISK MAPPING ABOVE:**

Risk rating	Risk magnitude	Inherent Response	Residual Response
15 – 25	High	Unacceptable level of risk – High level of control intervention required to achieve an acceptable level of residual risk.	Unacceptable level of residual risk – Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation). Controls require substantial redesign, or a greater emphasis on proper implementation.
8 – 14	Medium	Unacceptable level of risk, except under unique circumstances or conditions – Moderate level of control intervention required to achieve an acceptable level of residual risk.	Unacceptable level of residual risk – Implies that the controls are either inadequate (poor design) or ineffective (poor implementation). Controls require some redesign, or a more emphasis on proper implementation.
1 – 7	Low	Mostly acceptable – Low level of control intervention required, if any.	Mostly acceptable level of residual risk – Requires minimal control improvements.

## **e) Risk prioritization**

The Municipality will consider its risk appetite and tolerance levels to determine which risks should take priority. Residual risks rated high will be prioritized and the residual risks with critical impact should be given priority.

## **f) Risk Appetite**

- I. Risk Appetite is the amount of risk that Municipality is willing to accept in pursuit of risks. TLM has adopted a quantitative approach in determining the risk appetite, reflecting and balancing goals for growth, return and risk. Risk appetite is directly related to strategy. It is considered in strategy setting, where the desired return from strategy should be aligned with the risk appetite.
- II. Defining a risk as acceptable does not imply that the risk is insignificant. The assessment should take into account of the degree of control over each risk, the cost impact, benefits and opportunities presented by the risk and the importance of the policy, project, function or activity.
- III. Risk appetite is defined as the extent of willingness to take risks in the pursuit of the business objectives.
- IV. TLM may consider risk appetite qualitatively, with such categories as high, moderate or low, or they may take a quantitative approach, reflecting and balancing goals for capital expenditure, budgets and risk. TLM's risk appetite guides resource allocation.
- V. Management allocates resources across departments and functional areas with consideration to TLM's risk appetite and individual strategy for ensuring that expenditure remains within the budget of TLM and that the objectives are met. Management considers its risk appetite as it aligns its resources and designs infrastructure necessary to effectively respond to and monitor risks:



- Enables an improved consistency of decision making at all levels through improving risk understanding;
  - Provides a framework for knowingly taking risk within defined boundaries;
  - Improves the ability of the Audit & Risk Committee to challenge recommendations of management by providing a benchmark of what level of risk is defined as acceptable; and
  - Derives real value from the assessment of risk over and above compliance purposes.
- VI. The risk appetite decided upon should be formally considered as part of the setting of business strategy, with capital expenditure and other strategic decisions reviewed against it as they arise. As risk appetite is unlikely to be reduced to a single measurement, TLM needs to decide on the key measurements of risk that are best aligned to its business objectives and in most cases risk appetite will be defined by a mixture of quantitative and qualitative elements.
- VII. The key determinants of risk appetite are as follows:
- Expected performance;
  - The resources needed to support risk taking;
  - The culture of TLM;
  - Management experience along with risk and control management skills;
  - Longer term strategic priorities;
- VIII. The formulation of the risk appetite is typically closely aligned to the strategic planning process and is also inclusive of budgeting, and as such is something that should be reviewed by management annually.
- IX. TLM's risk appetite then represents the amount of risk TLM is willing to accept as it seeks to achieve its business objectives.

- X. Risk appetite is communicated through the strategic and implementation plans at both strategic and operational levels. The Audit & Risk Committee and management will monitor the risk appetite of TLM relative to TLM's actual results and communicate any actions required as a result. TLM reflects its Risk Appetite at an operational level through its Delegations of Authority to management.
  
- XI. These delegated limits are made in respect of both financial and non-financial matters, which are then further delegated within each department and functional area. The following risk appetite diagnostics may be considered:
  - a) Cash flow;
  - b) Development events;
  - c) Clarity of strategy;
  - d) Risk-taking propensity of management;
  - e) Resources at risk;
  - f) Exposure to market forces; Investment in Information Technology; Stagnation corrections/interventions;
  - g) Customer orientation of service design; and
  - h) Internal and external rate of change.

**h) Risk Tolerance Level**

TLM's Risk Tolerance can be defined as the amount of risk the municipality can actually accept:

- 1. Acceptable risks
  - a) All personnel should be willing and able to take calculated risks to achieve their own and TLM's objectives and to benefit TLM. The associated risks of proposed actions and decisions should be properly identified, evaluated and managed to ensure that exposures are acceptable.
  - b) Within the TLM, particular care is needed in taking any action which could:
    - i. Impact on the reputation of TLM;
    - ii. Impact on performance;
    - iii. Undermine the independence and objective review of activities;

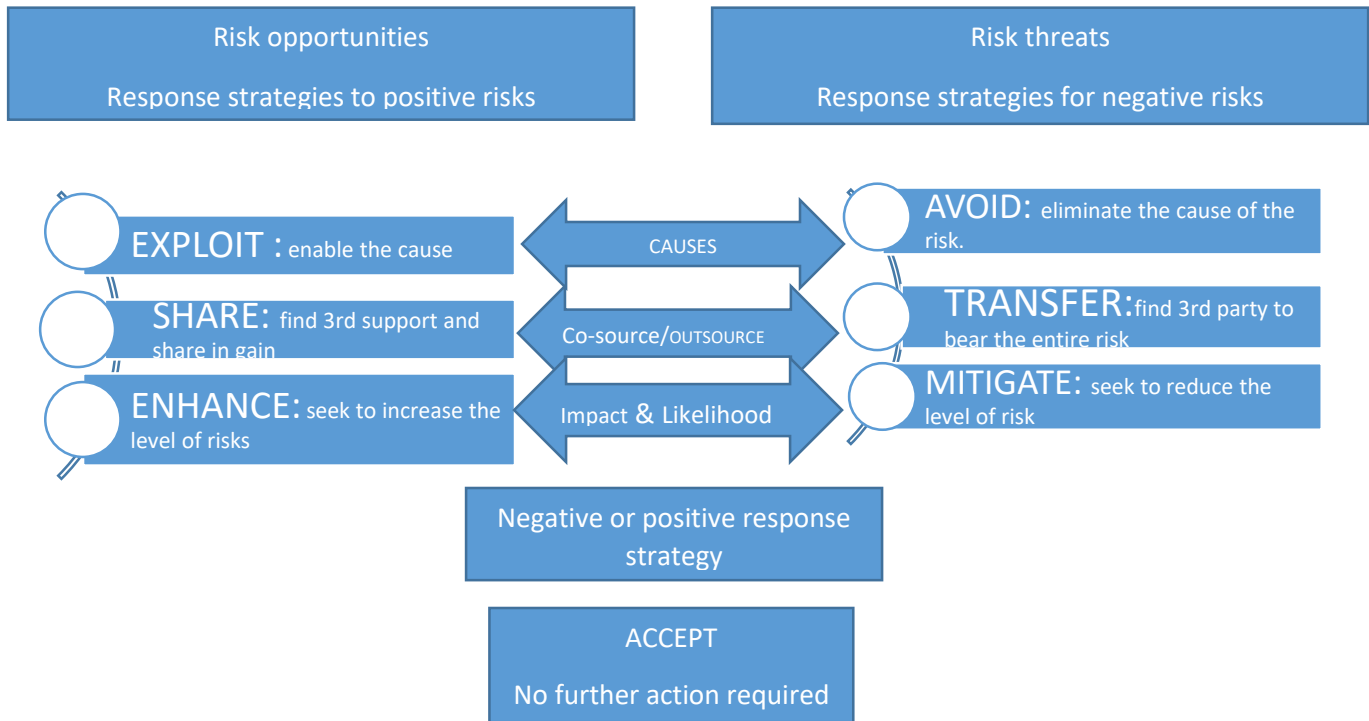
- iv. Result in fine by regulatory bodies and
  - v. Result in financial loss
- c) Any impact or opportunity which has a sizeable potential impact on any of the above should be examined, its exposures defined and it should be discussed with the appropriate line manager. Where there is significant potential and high likelihood of occurrence it should be referred to the Audit, Performance and Risk committee.

## 2. Prohibited Risks

TLM policies and guidelines and other control procedures are mandatory and must be complied with e.g. MFMA. Full compliance with these standards is required and confirmation of compliance. Non-compliance constitutes an unacceptable risk.

### 5.1.3 RISK TREATMENT

In responding to risks the Municipality will use the following four strategies to mitigate risks to an acceptable level as indicated in the table below. This process will guide management in documenting action plans and implementation target dates which will further treat residual risk.



#### 5.1.4 RISK MONITORING

Risk Monitoring will be conducted monthly to track progress on the implementation of action plans employed to further reduce risks or enhance opportunities. The risk management will communicate the risk monitoring template to all departments' heads (risk owners) for completion of progress made for that specific quarter. Then return the completed templates on the due date indicated to risk management unit for consolidation and updating of the risk profile.

There will be no session for this activity unless the head of the department request the Risk and Compliance Officer to facilitate or provide guidance regarding the activity process.

#### 5.1.5 RISK COMMUNICATION AND CONSULTATION

To ensure that risk management process are carried out effectively within the municipality the Risk and Compliance Officer will regularly communicate and consult will all relevant parties. This process calls for management buy-in to risk management process as it is

depended on the availability of personnel at all levels and provision of pertinent information. Every risk management activities will be communicated with management to ensure that the risk profile is complete, relevant, and accurate.

Management can also consult with risk management unit as and when assistance is sought and can communicate and consult with the Risk and Compliance Office should such need arise. This includes emerging risks that are identified and any changes in processes, policies, structure, etc. should also be communicated.

## **6. FRAUD MANAGEMENT**

The Risk and Compliance Officer will review fraud prevention plan annually which will be reviewed and recommended by Audit, Performance and Risk committee for approval by Council.

## **7. ACCOUNTABILITY, ROLES, AND RESPONSIBILITIES**

Section 3 of the Public Sector Risk Management Framework (PSRMF) outlines the roles and responsibilities of different stakeholders and the Municipality complies as follows:

### **7.1 Members of Council**

In line with PSRMF section 3(10)(25) the Council should take interest in risk management to the extent necessary to obtain comfort that properly established and functioning systems of risk management are in place to protect the Municipality against critical risks. Therefore Council responsibilities are as follows:

- Ensuring that the Municipality strategies are aligned to the government mandate;
- Obtaining assurance from management that the Municipality's strategic choices are based on the rigorous assessment of risk;
- Obtaining assurance that key risks inherent in the Municipality's strategies were identified and assessed, and are being properly managed;

- Assisting the Municipal Council to deal with fiscal, political and other risk beyond their direct control and influence; and
- Insisting on the achievement of objectives, effective performance and value for money.

## **7.2 Accounting Officer**

The PSRMF states that the Accounting Officer is the ultimate Chief Risk Officer and is accountable for overall governance of risk. Thus the risk management responsibilities of the Municipal Manager are as follows as per PSRMF 3(11) (26):

- Setting an appropriate tone by supporting and being seen to be supporting the Municipality's aspiration for effective management of risks;
- Delegating responsibilities for risk management to Management and internal formation such as the Audit, Performance and Risk committee and other Committees that deal with finance and IT matters within the municipality;
- Holding Management accountable for designing, implementing and integrating risk management into their day – to –day activities;
- Ensuring that the Municipal Manager approves the risk management policy, strategy and implementation plan;
- Ensuring that the Municipal Manager approves the fraud prevention policy and plan;
- Ensuring that the Municipal Manager approves the Municipality's risk appetite and risk tolerance.

## **7.3 Audit, Performance and Risk Committee**

The Audit, Performance and Risk committee is an independent Committee responsible for oversight of the Municipality's control, governance and risk management of which is governed by its charter. Therefore it is responsible for the following:

- Reviewing and recommending disclosures on matters of risks in the annual financial statements;
- Reviewing and recommending disclosures on matters of risks and risk management in the annual report;
- Providing regular feedback to the Municipal Manager on the adequacy and effectiveness of risk management in the Municipality, including recommendations for improvement;
- Ensuring that the internal and external audit plans aligned to the risk profile of the Municipality;
- Be satisfied that the following areas are appropriately addressed;
  - Financial reporting risk, including the risk of fraud
  - Internal financial controls; and
  - IT risks as they relate to financial reporting
- The Municipal Manager established a combined the Audit, Performance and Risk committee and its other roles and responsibilities with regard to risk management activities are outlined in the Audit, Performance and Risk committee charter paragraph 12. .

## **7.5 Risk and Compliance Officer**

The primary responsibility of the Risk Officer is to bring to bear his / her specialist expertise to assist the Municipality to embed risk management and leverage its benefits to enhance performance; others include the following:

- working with senior management to develop the Municipality's vision for risk management;
- Developing, in consultation with management the Municipality's risk management framework incorporating, inter alia, the :
  - Risk Management Policy;
  - Risk Management Strategy;
  - Risk Management Implementation Plan;
  - Risk Appetite and Tolerance.

- Communicating the Municipality’s risk management framework to all stakeholders in the Municipality and monitoring its implementation;
- Assisting Management with risk identification, assessment and development of response strategies;
- Monitoring the implementation of the response strategies;
- Reporting to the Municipal Manager, Management and Audit, Performance and Risk committee; and
- Participating with Internal Audit, Management and Auditor-General in developing the combined assurance plan for the Municipality.
- Providing assurance to relevant stakeholders that key risks are properly identified, assessed and mitigated.

## **7.6 Management**

Management is responsible for executing their responsibilities outlined in the strategy and for integrating risk management into their operational routines as follows:

- Executing their responsibilities as set out in the risk management strategy;
- Empowering officials to perform effectively in their risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- Providing risk management reports
- Presenting to the Audit, Performance and Risk committee as requested;
- Maintaining the proper functioning of the control environment within their area of responsibility; and Holding officials accountable for their specific risk management responsibilities.
- Implementation of risk responses to address the identified risks,

## **7.7 Risk Champion**

- The Risk Champion is a person with the skills, knowledge, leadership qualities and power of office required to champion a particular aspect of risk management.



- A key part of the Risk Champion's responsibility should involve intervening in instances where the risk management efforts are being hampered, for example, by the lack of co-operation by Management and other officials and the lack of institutional skills and expertise.
- The Risk Champion should also add value to the risk management process by providing guidance and support to manage "problematic" risks and risks of a transversal nature that require a multiple participant approach.
- In order to fulfil his/her function, the Risk Champion should possess:
  - a) a good understanding of risk management concepts, principles and processes;
  - b) good analytical skills;
  - c) expert power;
  - d) leadership and motivational qualities; and
  - e) good communication skills.
- The Risk Champion should not assume the role of the Risk Owner but should assist the Risk Owner to resolve problems.

## **7.8 Other Officials**

Other Officials are responsible for integrating risk management into their day-to-day activities.

High level responsibilities of other officials should include:

- Applying the risk management process in their respective functions;
- Implementing the delegated action plans to address the identified risks;
- Informing their supervisors and/or the Risk Management Unit of new risks and significant changes in known risks; and
- Co-operating with the role players in the risk management process and providing information as required

## **7.9 Internal Audit**

The role of Internal Audit in risk management is to provide an independent, objective assurance on the effectiveness of the Municipality's system of risk management.

- Internal Audit must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.
- Internal Audit must develop its internal audit plan on the basis of the key risk areas.

## **7.10 External Auditors**

The external Auditor (Auditor-General) provides an independent opinion on the effectiveness of risk management; amongst others it focus on the following:

- Determining whether the risk management policy, strategy and implementation plan are in place and are appropriate;
- Assessing the implementation of the risk management policy, strategy and implementation plan;
- Reviewing the risk identification process to determine if it sufficiently robust to facilitate the timely, correct and complete identification of significant risks, including new and emerging risks;
- Reviewing the risk assessment process to determine if is sufficiently robust to facilitate timely and accurate risk rating and prioritization; and
- Determining whether the management action plans to mitigate the key risks are appropriate, and are being effectively implemented.

## **8. STRATEGIC PLANNING UNIT**

Within the context of the Risk Management Strategies of the office, Strategic Planning Unit together with the directorate(s) will be responsible for:

- a) Familiarity with the overall enterprise risk management vision, risk management strategy, fraud risk management policy and risk management policy,

- b) Acting within the tolerance levels set by the directorate,
- c) Maintaining the functioning of the control environment, information and communication as well as the monitoring systems within their delegated responsibility,
- d) Participation in risk identification and risk assessment strategic risks,
- e) Reporting any risks to risk officer on a periodic and timely basis, and taking action to take advantage of, reduce, mitigate and adjusting plans as appropriate.
- f) Incorporating risk managing into project management planning process.

## **9. DISCLOSURE**

9.1 In order for risk management to work, it must be embedded into everyday activities of the TLM. 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 TLM that are held on a quarterly basis.

9.2 Every manager shall on a quarterly basis and during the strategic planning meetings of TLM disclose that:

- a) 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.
- b) there is an on-going process for identifying, evaluating and managing the significant risks faced by the directorate concerned.
- c) there is an adequate and effective system of internal control in place to mitigate the significant risks faced by the directorate concerned to an acceptable level.
- d) there is a documented and tested process in place which will allow the directorate 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.

- e) that the directorate complies with the process in place, established to review the system of internal control for effectiveness and efficiency.

9.3 Where the Manager cannot make any of the disclosures set out above he should state this fact and provide a suitable explanation.

## **10. CONCLUSION**

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

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 TLM takes full responsibility to ensure that implementation of risk management takes place in all directorates. This strategy will be reviewed annually or when the need arise.

Developed by:

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**D Doyi**  
**RISK AND COMPLIANCE OFFICER**

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**DATE**

Recommended by:

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**MRE MOGOPODI**  
**MUNICIPAL MANAGER**

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**DATE**

Approved by APR Committee:

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**CHAIRPERSON: APR COMMITTEE**

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**DATE**