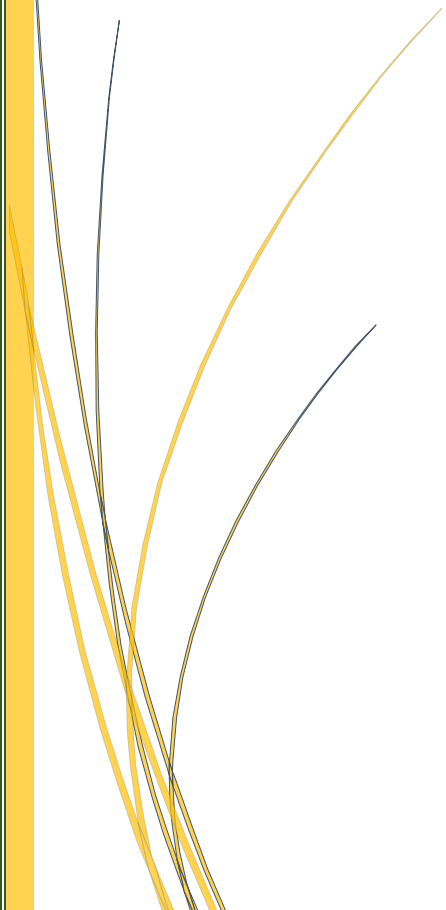




APPROVED 2024/2025 RISK MANAGEMENT FRAMEWORK



PREAMBLE

Public Sector organisations cannot be risk averse and be successful. Risk is inherent in everything we do to deliver high quality services to the people. Effective and meaningful risk management in government remains as important as ever in taking a balanced view to managing opportunities and risk. It must be an integral part of informed decision-making, from policy or project inception through implementation to the everyday delivery of public services to the people.

The city must ensure that effective risk management is integrated in the way we lead, manage and operate. As an integrated part of our management systems, and through the normal flow of information, the city's risk management framework harnesses the activities that identify and manage the uncertainties faced and systematically anticipate and prepare responses through the development of mitigation plans. Effective risk management's importance and value to the city's success should not be underestimated.

As with all aspect of good governance, the effectiveness of risk management depends on the individuals responsible for operating the systems put in place. Our risk culture as a City must embrace openness, support transparency, welcome constructive challenge and promote collaboration, consultation and co-operation.

Council should actively seek to recognise risks and direct the response to these risks. The Council and the Accounting Officer should be supported by the Risk Management Committee who should proactively support in advising on and scrutinising the management of key risks and the operation of efficient and effective controls.

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GLOSSARY

| | |
|----------------------------------|---|
| Risk | The effect of uncertainty on objectives |
| Impact | Outcome of an event affecting objectives |
| Likelihood | Chance of something happening |
| Residual risk | Risk remaining after risk treatment |
| Risk acceptance | Informed decision to take a particular risk |
| Risk analysis | Process to comprehend the nature of risk and to determine the level of risk |
| Risk appetite | The amount and type of risk the Council is willing to pursue or retain |
| Risk Management | A system and formalised process to identify, assess, manage and monitor risk. |
| Risk attitude | Organisation's approach to assess and eventually pursue, retain, take or turn away from risk |
| Risk aversion | Attitude to turn away from risk |
| Risk avoidance | Informed decision not to be involved in, or to withdraw from, an activity in order not to be exposed to a particular risk |
| Risk category | The type of risk (political, economic, social, technological, legislative or environmental) |
| Risk level | The level of risk identified by the impact/likelihood analysis eg very high, high, medium, low |
| Risk management | Coordinated activities to direct and control an organisation with regard to risk |
| Risk matrix | Tool for ranking and displaying risks by defining ranges for likelihood and impact |
| Risk owner | Person with the accountability and authority to manage a risk |
| Risk perception | Stakeholder's view on a risk |
| Risk profile | Description of any set of risks |
| Risk register | Record of information about identified risks |
| Risk sharing | Form of risk treatment involving the agreed distribution of risk with other parties |
| Risk source | Element which alone or in combination has the intrinsic potential to give rise to risk |
| Risk tolerance | The amount of risk the city is capable of bearing. |
| Risk Management Committee | A committee appointed by the Accounting Officer to review the City's system of Risk Management and Chaired according to a Share Agreement with the Ehlanzeni District Municipality. |
| Risk Factor | Any threat or event which creates, or has the potential to create risk. |

CHAPTER 1

RISK MANAGEMENT POLICY STATEMENT

Council for the City of Mbombela municipality recognises that it has a responsibility to manage risks effectively in order to control its assets and liabilities, protect its employees and community against potential losses, minimise uncertainty in achieving its goals and objectives and maximise the opportunities to achieve its vision

The Executive Mayor and City Manager have committed the City of Mbombela to a process of risk management that is in compliance with the Public Sector Risk Management Framework (2010), the South African Local Government Association (SALGA) Risk Management Framework (2017), the Mpumalanga Provincial Government Risk Management Framework (2014), as well as the King Code IV of Corporate Governance for South Africa and ISO Standard 31000 (2018).

Risk management is an integral part of the Council's corporate governance arrangements and has been built into the management processes as part of the Authority's overall framework to deliver continuous, reliable and in a sustainable manner. The main focus is to enhance municipal service delivery by identifying and mitigating risks that could jeopardize the delivery of municipal services. The reaching of the municipality's strategic objectives as stipulated in the Integrated Development Plan (IDP) and Service Delivery Budget Implementation Plan (SDBIP) are the criteria for successful risk management.

Management must ensure that risk management becomes embedded into all administrative and operational processes and that it becomes part of the thinking and decision-making paradigms of all councilors and personnel.

It is expected that all officials will work together in a consistent and integrated manner, with the overall objective of reducing risks, as far as reasonably practical. Sound management of risks enables the municipality to anticipate and respond to changes in the service delivery environment, as well as taking informed decisions under conditions of uncertainty.

The Executive Mayor and City Manager look forward to working closely with all officials in an attempt to mitigate risk and improve service delivery.

CHAPTER 2

RISK MANAGEMENT POLICY

INTRODUCTION

No organization has the luxury of functioning in a risk-free environment and municipalities are especially vulnerable to risks associated with fulfilling their mandates.

Risk management is a valuable management tool which increases an Institution's prospect of success through minimizing possible negative outcomes and optimizing opportunities.

Local and international trends confirm that risk management is a strategic imperative within high performing organizations.

The underlying intention of good governance is that institutions should through the risk management process achieve, amongst other things, the following outcomes :more sustainable and reliable delivery of services; informed decisions underpinned by appropriate analysis; innovation; reduced waste and inefficient utilization of resources prevention of fraud and corruption; better value for money through more efficient use of resources; and better outputs and outcomes through improved project and program management.

High performing organizations therefore set clear and realistic objectives, develop appropriate strategies aligned to the objectives, understand the intrinsic risks associated therewith and direct resources towards managing such risks on the basis of cost benefit principles. The City of Mbombela subscribes to the principles identified above.

The purpose of this policy is to provide direction and guidance on the strategy and procedures that the municipality intends to implement in order to mitigate enterprise risks.

LEGISLATIVE MANDATE

The Municipal Finance Management Act, No.56 of 2003 stipulates in Section 95 c(i) that: "The Accounting Officer of a Municipality is responsible for managing the financial administration of the municipality and must for this purpose;

- (i) Ensure that the municipality maintains effective, efficient and transparent systems of financial and risk management and internal control.
- (ii) Treasury Regulations 3.2.1 and 27.2.1 stipulate that the Accounting Officer must ensure that a risk assessment is conducted regularly to identify emerging risks of the institution. A Risk management strategy, which must include a Fraud Prevention plan, must be used to direct Internal Audit effort and priority, and to determine the skills required of managers and staff to improve controls and manage these risks.

DEFINITION OF KEY CONCEPTS

Risk

The Public Sector Risk Management Framework (2010) described the term risk, as follows: “an unwanted outcome, actual or potential risk factor(s) of the Institution’s service delivery and other performance objectives. Some risk factor(s) also present an upside potential, which management must be aware of and be prepared to exploit. This definition of “risk” also encompasses such opportunities.”

According to ISO 31000, risk is the “effect of uncertainty on objectives”, and an effect is a positive or negative deviation from what is expected. So, risk is the chance that there will be a positive or negative deviation, from the objective that the municipality expects to achieve.

ISO 31000 recognizes that organizations operate in an uncertain world. Whenever the municipality tries to achieve an objective, there’s always the chance that things will not go according to plan. There’s always the chance that the municipality will not achieve what it has set out to achieve in its strategic plans. Every step the institution takes to achieve an objective involves uncertainty.

Every step has an element of risk that needs to be managed. According to ISO 31000, the municipality can reduce uncertainty and manage risks by using a systematic approach to risk management.

In the context of risk management, uncertainty exists whenever knowledge or understanding of an event, consequence, or likelihood is inadequate or incomplete. So, uncertainty can be reduced by getting better information and improving knowledge and understanding.

The Local Government Risk Management Framework describe risk as follows: The effect of an uncertainty on the achievement of the municipality’s Integrated Development Plan (IDP) and Service Delivery and Budget Implementation Plan (SDBIP) caused by the presence risk factors.

Strategic Risk

This term refers to internal and external events that may make it difficult, or even impossible, for the municipality to achieve its Integrated Development Plan (IDP) strategic objectives and goals. These risks can have severe consequences that impact the sustainability of the municipality or its capacity to render affordable and sustainable municipal services.

Operational Risk

The Local Government Risk Management Framework describes the term “operational risk” as follows: “Risks that affect the achievement of the SDBIP, mainly resulting from inadequate or failed internal processes, actions of staff, loss of key personnel, failure of IT systems, failure of equipment, the actions of regulatory authorities, customers, suppliers and the public, as well as other external events that impact on the objectives.”

Risk Identification

Risk identification 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 in the context of the municipality’s explicit and implicit objectives and to generate a comprehensive inventory of risks based on the threats and events that might prevent, degrade, delay or enhance the achievement of the objectives.

Risk Assessment

Risk assessment is a systematic process to quantify or qualify the level of risk associated with a specific threat or event, to enrich the risk intelligence available to the Municipality

The main purpose is to help the municipality to prioritize the most important risks, as the Municipality is not expected to have the capacity to deal with all the risks in an equal manner.

Inherent Risk

The term refers to exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors.

The Mpumalanga Risk Management Framework describe the term as follows: “Level of risk faced by the municipality before taking into account the perceived control effectiveness of the existing controls.”

Residual Risk

This term refers to the remaining exposure after the mitigating effects of deliberate management intervention(s) to control such exposure (the risk remaining after Management has put control measures in place to control the inherent risk).

The Mpumalanga Risk Management Framework describe the term as follows: “The level of risk faced by the department after taking into account the existing controls and their perceived effectiveness.”

Risk Appetite

This term refers to the amount of residual risk that the Municipality is willing to accept.

Risk Factor

Any threat or event which creates, or has the potential to create a risk.

Risk Tolerance

The amount of risk the Municipality is capable of bearing, as opposed to the amount of risk it is willing to bear.

Accounting Officer

This term refers to the City Manager.

Risk Owner

This term refers to the person accountable for managing a particular risk. In the case of the municipality, this term refers to the Head of a Department or Senior Manager reporting to City Manager.

Risk Champion

This term refers to a manager within a department who assist the respective Risk Owner (General Manager) with all risk management processes in the department.

Action Owner

This term refers to the official responsible for the compilation and implementation of the action plans to mitigate a risk. In the case of the municipality, this term refers to the official instructed by the Risk Owner to mitigate the risk.

Chief Risk Officer

A senior manager who serves as the head of the Risk Management Unit.

Manager: Risk Management

A member of the Risk Management Unit who assists the Chief Risk Officer in the execution of his/her duties.

Risk Officer

This term refers to an official in the risk management unit that serves as a risk practitioner.

Chief Audit Executive

A person that serves as the head of the Internal Audit Unit and who is inter-alia responsible for reviewing the effectiveness of all risk management processes within

the municipality including the risk management assurance plan, and contribute to its improvement.

Risk Management

Risk Management is a systematic and formalized process to identify, assess, manage, monitor and evaluate risks. It is also a valuable management tool which increases a municipality's prospects of successfully minimizing negative outcomes and optimizing opportunities.

Effective risk management requires:

- A strategic focus
- Forward thinking and active approaches to management
- Balance between the cost of managing risk and the anticipated benefits
- Contingency planning in the event that mission critical threats are realized
- Active participation and the commitment of management

The following is stated in the Public Sector Risk Management Framework (2010): "Risk management is a management discipline with its own techniques and principles. It is a recognized management science and has been formalized by international and national codes of practice, standards, regulations and legislation. Risk management forms part of management's core responsibilities and is an integral part of the internal processes of an institution."

Enterprise-Wide Risk Management (ERM)

ERM is a broad-based application of risk management in all major functions and activities of the municipality rather than only in selected areas, to isolate the material risks.

ERM represents a response to the dilemma that risks (including opportunities) are dynamic and often highly interdependent and need to be managed through a portfolio approach rather than as separate and static events, to achieve comprehensive and integrated attention.

ERM also calls for the municipality to look beyond itself, requiring the consideration of risks on performance, regardless of whether risk is internally or externally generated.

Risk Management Unit

A business unit within the municipality that is responsible for co-coordinating and supporting the overall Institutional risk management process, but which does not assume the responsibility of Management for identifying, assessing and managing risks. The Risk Management Unit reports to the City Manager.

Risk Management Committee and Fraud Prevention Committee

This refers to a committee appointed by the Accounting Officer to assist him/her in discharging of his/her responsibilities in relation to risk management. The chairperson of the Committee shall be an independent individual appointed by Ehlanzeni District Municipality in terms of a Shared Services Agreement.

To facilitate good cooperation between the Audit Committee and the Risk Management and Fraud Prevention Committee, a member of the Audit Committee attends meetings of the Committee.

Audit Committee

An independent committee established in terms of Section 166 of the Municipal Finance Management Act (MFMA) Act No. 56 of 2003.

To facilitate good cooperation between the Audit Committee and the Risk Management and Fraud/Corruption Prevention Committee, the Chief Risk Officer attends meetings of the Audit Committee. Copies of reports from the Chairperson of the Risk Management and Fraud/Corruption Prevention Committee, will be submitted to the Audit Committee.

Internal Audit Unit

The Internal Audit Unit is established in terms of Section 165 of the Municipal Finance Management Act (MFMA) Act No. 56 of 2003.

The internal audit unit conduct audits as per its risk-based audit plan to evaluate the effectiveness of all risk management processes.

Control Environment

The Accounting Officer is responsible for ensuring that the municipal environment supports the effective functioning of risk management.

The municipality's environment is the foundation of risk management, providing the underpinning culture, discipline and structures that influence how strategy and objectives are established, how municipal activities are planned and executed and how risks are identified, assessed and acted upon. It thus influences the design and functioning of control activities, information and communication systems and monitoring activities including the setting of risk appetite and risk tolerance levels.

Current Control Identification

Actions that are taken by management to advance the achievement of set organizational objectives should be viewed as control measures. In understanding what a control is, the actions that are taken by management to mitigate the risk to an acceptable level must be identified. There may be more than one control measure for each risk identified. In identifying current controls, it should be kept in mind that those are current actions taken by management to mitigate risk to an acceptable level, and it is therefore an “AS IS” control and not controls that should be implemented.

There are different forms and categories of control measures, the two forms and categories, *viz.* general control (i.e., compliance with laws and regulations, control over unrestricted access to information etc.) and application control (controls that are applicable to a particular application or section within the organization e.g., control over selection of suppliers- supply chain management), are identified.

Current Controls Assessment

Controls are assessed to provide reasonable assurance that relevant business objectives will be achieved and to improve on the current controls in order to ensure an effective and adequate control system. In order to establish or apply new control systems, existing or current controls should be evaluated and necessary changes to the system must be introduced. This process of applying and establishing new systems of control is identified in the risk management strategy that will be discussed.

Controls are assessed or evaluated to determine the level of residual risk. Control Self-Assessment could also be used in the identification and assessment of current internal controls. It also involves generating information useful in judging the quality of controls and to give business units the knowledge, skills and support to monitor the effectiveness of internal control. Two forms of approaches, namely facilitated workshops and questionnaires or surveys could be used for identification and assessment.

ROLE PLAYERS

The following role players are responsible for risk management in the municipality:

Council

The political body known as the Council of Mbombela is overall in a political sense, responsible to the community, for risk management.

The various Section 79 Oversight Committees have the responsibility to provide assurance to Council that risk management is effective and that risks as successfully mitigated.

The implication is that Council should be assured that all Risk Management processes are indeed in place and effective.

Executive Mayor

The Executive Mayor is at an executive political level, responsible for political guidance pertaining to risk management. The incumbent must ensure that risk management is an effective instrument in contributing towards sustainable and affordable municipal service delivery.

Members of the Mayoral Committee (MMC'S)

The MMC's as political heads of departments, are responsible for departmental oversight with regards to risk management. They must ensure that risk mitigation strategies are successful.

City Manager

The role of the City Manager is to ensure that all Risk Owners execute their risk management duties as per the Risk Management Framework. The incumbent must also ensure that the Risk Management Unit is capacitated and functional. Legislatively the City Manager is responsible in terms of section 95(c) 1 of the Municipal Finance Management Act No 56 of 2003 for financial and risk management and internal control.

Risk Owner

Risk Owners have the responsibility to mitigate all strategic and operational risks within his/her department and is accountable to the City Manager for doing so.

Risk Owners also serve as members on the Risk Management and Fraud/Corruption Prevention Committee and need to fulfill their duties in terms of the Risk Management Committee Charter.

Risk Champion

Risk Champions are responsible to facilitate the following risk management processes in their respective departments, under guidance of their respective Risk Owner:

1. Identification of risks
2. Categorization of risks
3. Rating of risks
4. Establishment of risk tolerance levels in the department
5. Compilation of action plans
6. Execution of the action plans
7. Submission of risk dashboards and risk related reports

Action Owner

The role of Action Owners is to compile and implement action plans, to mitigate all operational and strategic risks referred to them by the Risk Owner (General Manager). The incumbent reports to the Head of the department.

Action Owners must on a quarterly basis, submit risk mitigation reports to the Risk Owner, indicating progress made with regard to every operational and or strategic risk that the department is responsible for.

Audit Committee

The Audit Committee is an independent committee responsible for oversight of the Municipality's control, governance and risk management. Risk management responsibilities of the Audit Committee are formally defined in its charter. The Audit Committee provides an independent and objective view of the Municipality's risk management effectiveness.

The role of the Audit Committee is to provide assurance to Council that all strategic risks are being mitigated successfully.

Internal Audit Unit

The Internal Audit Unit provides assurance through the Audit Committee that all strategic and operational risks are being mitigated successfully.

The Unit must also submit reports to the Audit Committee, Management and Council, to provide an objective opinion on the effectiveness of risk management processes in the municipality.

External Auditors

The role of external auditors is to provide an independent opinion on the effectiveness of risk management.

Risk Management and Fraud Prevention Committee

The role of the Committee is to assist the City Manager by ensuring that all operational and strategic risks are being successfully mitigated in terms of the Risk Management Framework.

Risk Owners need to quarterly submit risk mitigation reports indicating progress made with the mitigation of every identified risk within their department.

The Chairperson of the RMFCPC will submit a comprehensive report to the City Manager after every quarterly Committee meeting held. The RMFCPC is guided by a Committee Charter.

Chief Risk Officer (CRO)

The primary responsibility of the CRO is to assist the municipality to embed and leverage the benefits of risk management in order to achieve its stated objectives.

This includes focusing on various enterprise-wide risk management programs and the overall efficiency of the ERM function. This is inclusive of the embedment of risk management practices and fostering a risk awareness culture within the institution.

RISK MANAGEMENT PHILOSOPHY

The municipality's philosophy of risk management has its foundation in the concept that taking risks is required in order to seek rewards and to fulfill the municipality's multi-faceted mission. However, these risks should be assessed in order to ensure that effective mitigation strategies are implemented to the greatest extent possible.

Risks can be understood, predicted and managed through classification, quantification and root cause analysis among other techniques.

RISK RESPONSE

Once understood, appropriate risk treatment can be determined. After risks are rated and tolerance levels established, it should be treated in any of the following ways:

- a. Risk avoidance.
- b. Risk reduction.
- c. Risk sharing.
- d. Risk acceptance.
- e. Risk transfer.

Risk Management must become part of the thinking and decision-making paradigm of all managers to ensure that risk responses remain current and dynamic.

It is expected that all officials will work together in a consistent and integrated manner, with the overall objective of reducing risks, as far as reasonably possible.

FOCUS OF RISK MANAGEMENT

The main focus of risk management is to enhance municipal service delivery by identifying and mitigating risks that could jeopardize the delivery of sustainable and affordable municipal services.

APPROACH TO RISK MANAGEMENT

Sound management of risks will enable the municipality to anticipate and respond to changes in the service delivery environment, as well as taking informed decisions under conditions of uncertainty.

The reaching or fulfilling of the municipality's strategic objectives as stipulated in the Integrated Development Plan (IDP) and Service Delivery Budget Implementation Plan (SDBIP) will serve as the criteria for successful risk management.

It is expected that management will ensure that risk management become embedded into all administrative and operational processes of the municipality.

OBJECTIVES OF RISK MANAGEMENT

The municipality will ensure that risk identification, assessment and treatment is a routine part of decision-making, in much the same way that consideration is given to budget availability or staffing resources.

Risk Management strives to reach the following objectives:

- Maximize the opportunity for Council to achieve its objectives.
- Underpins Corporate Governance.
- Provides a safer environment for all.
- Ensures continuity of service delivery.
- Protects the public image of Council.

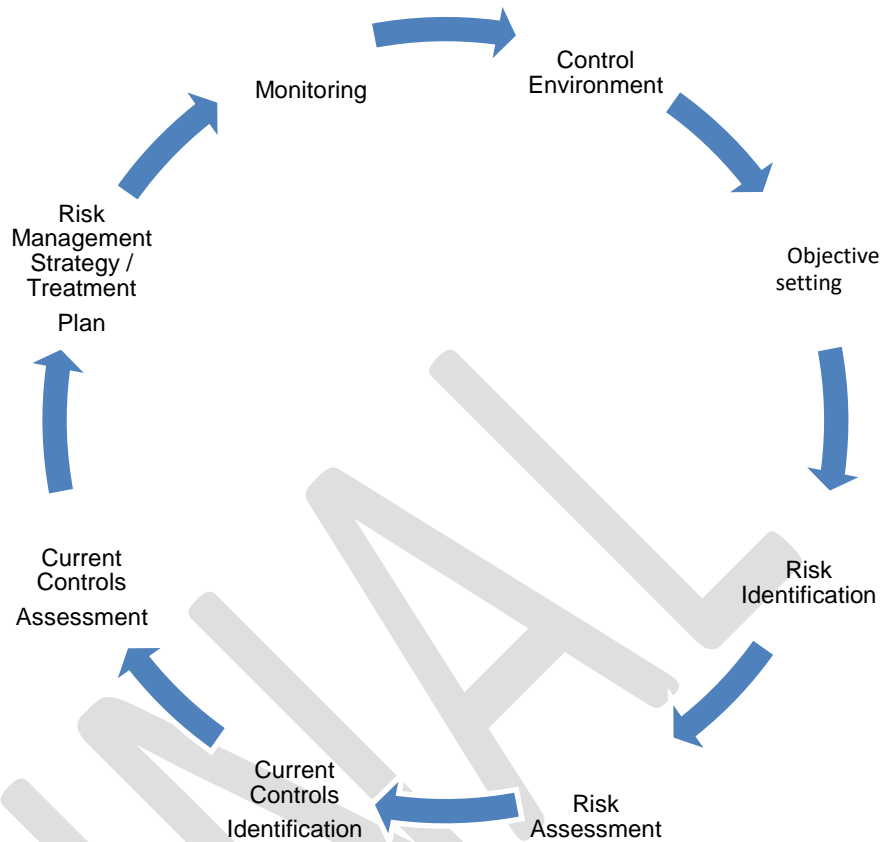
RISK MANAGEMENT METHODOLOGY

Risk Management Process must have the following steps:

- a) Risk Identification based on the strategic and operational objectives;
- b) Risk Assessment based on impact and likelihood;
- c) Identification of Current Controls designed to mitigate the identified risks;
- d) Assessment of Current controls, their adequacy and effectiveness in mitigating risks, i.e., bringing risks to an acceptable level;
- e) Determination of residual risk after mitigating effects of deliberate management intervention;
- f) Development of a Risk Management Strategy which details necessary future action plans to be taken to further reduce the identified risks to an acceptable level, if it is not within the risk tolerance level of the Municipality.
- g) Monitoring requires that the Municipality develops a risk register with future action plans, Risk owners, Action Owners, due date and follow up on the progress made on mitigating strategies and must be reported to the Governance

structures which are Risk Management Committee and the Audit Committee on a quarterly basis.

SCHEMATIC PRESENTATION



BENEFITS OF RISK MANAGEMENT

Risk Management will assist the municipality to achieve, among other, the following outcomes needed to underpin and enhance its performance:

- More sustainable and reliable delivery of services.
- Informed decisions underpinned by appropriate evaluation and analysis.
- Innovation.
- Reduced waste.
- Prevention of fraud and corruption.
- Better value for money through more efficient use of resources.
- Better outputs and outcomes through improved Project and Program Management.

POLICY REVIEW

The mitigation of risks within the municipality is by no means perfect and a lot of work and development still needs to take place.

In order to develop risk management further, the policy must be reviewed and updated on an annual basis.

CONCLUSION

Risk Management is a handy tool for managers in their quest to render affordable and sustainable municipal services in terms of the Integrated Development Plan (IDP).

It is trusted that this policy will result in the further embedment of risk management into the culture and decision-making paradigm of all officials.

FINAL

CHAPTER 3

RISK MANAGEMENT STRATEGY

INTRODUCTION

The Risk Management Strategy (RMS) as part of the Risk Management Framework guides the activities of Council, City Manager, Risk Management and Fraud Prevention Committee (RMFPC), Risk Management Unit, Risk Owners and Risk Champions.

In the compilation of this strategy, the municipality utilizes the Public Sector Risk Management Framework (2010), the Mpumalanga Provincial Government Risk Management Framework (2014), as well as the South African Local Government Association (SALGA) Risk Management Framework (2017.)

RISK MANAGEMENT POLICY

The Risk Management Strategy seeks to realize the Risk Management Policy. It is therefore imperative to read the Risk Management Strategy in conjunction with the Risk Management Policy located in chapter two of the Public Sector Risk Management Framework.

MUNICIPALITY'S APPROACH TO ENTERPRISE RISK MANAGEMENT

Risk Management forms part of all manager's core responsibilities and is an integral part of the internal processes of the municipality.

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

It is seen as a systematic process to identify, assess, and mitigate risks on a continuous basis before the risks impact negatively on the institution's service delivery capacity.

It is believed that when properly executed, risk management provides a reasonable but not absolute assurance, that the municipality will be successful in achieving its goals and objectives.

For risk management to be effective, it should be embedded into the systems and culture of the municipality.

PURPOSE OF THE RISK MANAGEMENT STRATEGY

The purpose of the Risk Management Strategy is to:

- (a) Focus the energies of all role players into an effort to manage and mitigate risks in order to successfully render municipal services in terms of the Integrated Development Plan (IDP) and the Service Delivery Budget Implementation plan (SDBIP).
- (b) To provide clarity and direction to role players on what is expected from them in order to reach the strategic and operational objectives of council.

STRATEGIC OBJECTIVE OF THE RISK MANAGEMENT UNIT

The Risk Management Unit plays a central role in terms of risk management. The strategic objective is: "To add value by assisting Council, City Manager and Management, to ensure that all risks facing the municipality are identified, rated, tolerance levels established, mitigating strategies formulated and action plans compiled to manage all risks."

ROLE OF THE RISK MANAGEMENT UNIT

The primary role of the Risk Management Unit is to:

1. Act as champions of risk management in the municipality.
2. To facilitate the establishment of effective and efficient risk management structures, systems and processes in the municipality.
3. To advise management on all matters pertaining to risk management.
4. To continually advise management about possible new risks.
5. The Risk Management Unit serves as an advisory unit and is not responsible for the mitigation of risks.

The successful mitigation of risks is the responsibility of the Risk Owners, City manager, the Executive Mayor, and Council.

STRATEGY

The risk management strategy is informed by the risk management policy and the municipality's risk profile. For example, a risk profile with a high level of threat to objectives will require a more rigorous commitment to risk management. This is the case with the City of Mbombela.

The risk management strategy shall include the following six main elements:

1. A plan of action to improve the Institution's risk management maturity;
2. A focus on the prevention of fraud and corruption;
3. The municipality's risk management architecture and reporting lines;
4. A description of the risk management modality;
5. User guidelines; and
6. Details of review and assurance of the risk management process.

The strategy to implement risk management in the municipality includes the following phases:

Phase One: Risk awareness amongst officials and councillors.

Awareness about the importance of risk identification, assessment and risk mitigation must be communicated amongst all role players to ensure a positive contribution towards all risk management processes. Role players must be capacitated where necessary.

International and national risks and tendencies must be shared with supervisors and managers on a regular basis.

Risk champions must conduct risk awareness programmes in their respective departments on a regular basis.

Phase Two: Review of the Risk Management Framework.

All documents that form part of the Risk Management Framework will be annually reviewed, to ensure that all risk management processes, programmes and activities, comply with the guidelines from the Public Sector Risk Management Framework (2010), the Mpumalanga Provincial Government Risk Management Framework (2014), the South African Local Government Association (SALGA) Risk Management Framework (2017) as well as ISO 31000/2018. After approval, the Risk Management Framework will be loaded on the official municipal website.

Phase Three: Appointment of risk owners and risk champions for the 2024/2025 financial year.

In the beginning of the financial year, risk owners and risk champions will be appointed for every department. Appointments will be in writing. Job descriptions will be included in the appointment letters.

Phase Four: The Risk Management and Fraud Prevention Committee.

The Committee will be properly constituted with an external chairperson. After every meeting, the chairperson will submit a report to the City Manager and the Audit Committee

Phase Five: Risk Appetite

The Risk appetite limits pertaining to every IDP Objective will be set.

Phase Six: Identification of risks with regards to the Integrated Development Plan (IDP) and Service Delivery Budget Implementation Plan (SDBIP)

After approval of the SDBIP, departments will identify all risks that may prevent them from achieving their SDBIP objectives.

Phase Seven: Identification, assessing, rating and responding to risks.

Risk Management meetings and a Workshop, will be organised to identify and rate all risks that needs to be mitigated during the financial year.

After the risks are identified, assessed and rated, a decision will be taken by risk owners on how to respond to every risk.

The Risk Management Unit will base inputs from departments to compile a Strategic Risk Register. The Unit will also assist departments with the compilation of operational risk registers. Based on the strategic and operational risk registers, the Unit will compile an enterprise risk register.

Specific attention will be given to the top national risks such as possible fraud and corruption.

To combat the possibility of fraud and corruption, the following two policies will be updated on an annual basis.

1. Fraud, Corruption Prevention and Detection policy.
2. Loss Control policy.

After the above policies are approved by Council, plans will be formulated and implemented to realize the objectives of both policies.

Phase Eight (Root causes and Action Plans)

It will be expected from Risk Owners and Risk Champions to:
Identify the root causes pertaining to every risk.

Compile action plans on how to mitigate the strategic and operational risks.

Phase Nine (Informing the Audit Committee and Council)

The Strategic risk register will be tabled before the Risk Management Unit, Audit Committee and council for final approval.

Phase Ten (Reporting)

Quarterly progress reports will be submitted by Risk Owners to the Risk Management Unit (RMU). These reports will be included in the agenda of the Risk Management Committee.

Phase Eleven (Evaluation & Monitoring)

It is expected from Risk Owners, the Risk Management and Fraud/Corruption Prevention Committee, the City Manager Section 79 Committees and Council to monitor and evaluate progress with regard to the mitigation of risks.

Phase Twelve (Combined Assurance)

The Internal Audit Unit and other role players will review the effectiveness of the risk management processes and provide the necessary assurance to the City Manager.

Reports will be submitted to the Audit Committee, to enable the Committee to evaluate risk management and submit assurance reports to Council.

It is the prerogative of Section 79 Oversight Committees to also request reports from departments.

CHAPTER 4

RISK MANAGEMENT IMPLEMENTATION PLAN

INTRODUCTION

This plan is based on the Public Sector Risk Management Framework (2010), the Mpumalanga Provincial Government Risk Management Framework (2014), as well as the South African Local Government Association (SALGA) Risk Management Framework (2017)

OBJECTIVES

The Risk Management Implementation Plan is prepared to give effect to the implementation of the Risk Management Policy and Strategy and to some extent those contained in the fraud prevention plan, and further sets out all risk management activities planned for the 2024/2025 financial year.

APPROACH

With the compilation of the Risk Management Implementation Plan, the following has been taken into consideration:

- The Risk Management Policy.
- The Risk Management Strategy.
- Available resources.
- Urgency, quick wins and sustainability.

RISK MANAGEMENT IMPLEMENTATION PLAN

| ITEM NO | OUTCOME | ACTIVITY | DUE DATE | RESPONSIBLE PERSON/S |
|---------|--|--|------------------|----------------------------|
| 1. | 2024/2025 Risk Management Framework | <ol style="list-style-type: none"> 1. Tabling the Risk Management Framework to all Risk Owners for inputs. 2. Tabling the Risk Management Framework before the Risk Management Committee, Audit Committee and Accounting Officer. 3. Tabling the Final Risk Management Framework before council for approval. | April – May 2024 | Acting Chief Risk Officer |
| 2. | Final Approved 2024/2025 placed on Municipal Website | <ol style="list-style-type: none"> 1. Placing the final approved 2024/2025 Risk Management Framework for publication | June 2024 | Acting Chief Risk Officer |
| 3. | Draft 2024/2025 Enterprise Risk Register (Strategic and Operational register) | <ol style="list-style-type: none"> 1. Compiling and Assessing 2024/2025 Enterprise Risk Register (Strategic and Operational Register) 2. Tabling of 2024/2025 Draft Enterprise Risk Register before Risk Management Committee, Audit Committee and Accounting Officer. | May – June 2024 | Acting Chief Risk Officer |
| 4. | Final Approved 2024/2025 Enterprise Risk Register | <ol style="list-style-type: none"> 1. Tabling of Final Enterprise Risk Register before Council. | May – June 2024 | Acting Chief Risk Officer. |
| 5. | Appointment Letters for Risk Owners and Champions for 2024/2025 financial year. | <ol style="list-style-type: none"> 1. Preparing Appointment letters for Risk Owners and Champions for 2024/2025 financial year. | June 2024. | Acting Chief Risk Officer |
| 6. | Reviewed 2024/2025 Loss Control and Fraud Prevention and Detention Policies. | <ol style="list-style-type: none"> 1. Table Loss Control and Fraud Prevention and Detention Policy before Risk Management Committee for review. | May – June 2024 | Acting Chief Risk Officer |
| 7. | Final Approved 2024/2025 Loss Control and Fraud Prevention and Detention Policies. | <ol style="list-style-type: none"> 1. Table reviewed Loss Control and Fraud Prevention and Detention Policy for approval. | June 2024 | Acting Chief Risk Officer. |

RISK MANAGEMENT IMPLEMENTATION PLAN

| ITEM NO | OUTCOME | ACTIVITY | DUE DATE | RESPONSIBLE PERSON/S |
|---------|---|---|-------------------------|----------------------------|
| 8. | Risk Champion Meeting | Hold Risk Champion Meeting | July 2024 | Acting Chief Risk Officer |
| 9. | Section 79 Presentation on 2024/2025 Enterprise Risk Register. | Table Approved 2024/2025 Enterprise Risk Register presentation before section 79 committee. | July – September 2024 | Acting Chief Risk Officer. |
| 10. | First Quarter Risk Mitigation Report. | Compiling Risk Mitigation Report for the First Quarter Risk Mitigation Report. | September 2024 | Acting Chief Risk Officer. |
| 12. | First Quarter District Risk Management Forum | Attend First Quarter District Risk Management Forum. | July – September 2024 | Acting Chief Risk Officer. |
| 13. | Risk Management Committee Meeting | Hold Risk Committee Meeting to table First Quarter Risk Mitigation report | September 2024 | Acting Chief Risk Officer |
| 14. | Risk Inspection Report | Conduct Risk Inspection for the First Quarter Period. | August – September 2024 | Acting Chief Risk Officer |
| 15. | First Quarter Audit Committee Meeting | Attend First Quarter Audit Committee Meeting | July – September 2024 | Acting Chief Risk Officer. |
| 16. | First Quarter Council Risk Mitigation Report | Table First Quarter Risk Mitigation Report before Council. | October 2024 | Acting Chief Risk Officer. |
| 17. | Loss Control and Fraud Corruption Prevention and Detention Workshop | Hold one Loss Control and Fraud Corruption and Prevention Workshop. | October 2024 | Acting Chief Risk Officer |
| 18. | Second Quarter Risk Inspection reports | Conduct Risk inspection for the second quarter period | October – November 2024 | Acting Chief Risk Officer. |
| 19. | Second Quarter Enterprise Risk Mitigation Report | Compiling Second Quarter Risk Mitigation Report | December 2024 | Acting Chief Risk Officer |

RISK MANAGEMENT IMPLEMENTATION PLAN

| ITEM NO | OUTCOME | ACTIVITY | DUE DATE | RESPONSIBLE PERSON/S |
|---------|---|---|--------------------------|----------------------------|
| 20. | Second Quarter Risk Champion Meeting | Hold Second Quarter Risk Champion Meeting. | November – December 2024 | Acting Chief Risk Officer. |
| 21. | Second Quarter Risk Management Fraud Prevention and Detention Committee Meeting | Hold Risk Management Fraud Prevention and Detention Committee Meeting. | January 2025 | Acting Chief Risk Officer |
| 22. | Second Quarter Enterprise Wide Council Risk Mitigation report | Table Enterprise Wide Risk Mitigation Report before Council | January 2025 | Acting Chief Risk Officer |
| 23. | Second Quarter Audit Committee Meeting | Attend Second Quarter Audit Committee Meeting | January – February 2025 | Acting Chief Risk Officer |
| 24. | Third Quarter Enterprise Risk Mitigation Report | Compilation of Third Quarter Enterprise Wide Risk Mitigation Report. | March 2025 | Acting Chief Risk Officer. |
| 24. | Third Quarter Risk Management Fraud Prevention Corruption and Detention Committee | Hold Third Quarter Risk Management Fraud Prevention Corruption and Detention Committee. | April 2025 | Acting Chief Risk Officer. |
| 25. | Third Quarter Council Enterprise Risk Mitigation Report | Table Third Quarter Enterprise Wide Risk Mitigation Report. | April 2025 | Acting Chief Risk Officer |
| 26. | Third Quarter Risk Champion Meeting. | Hold one Risk Champion Meeting for the Third Quarter. | March – April 2025 | Acting Chief Risk Officer. |
| 27. | Third Quarter Risk Management District Forum. | Attend Third Quarter Risk Management District Forum. | March – April 2025 | Acting Chief Risk Officer. |

RISK MANAGEMENT IMPLEMENTATION PLAN

| ITEM NO | OUTCOME | ACTIVITY | DUE DATE | RESPONSIBLE PERSON/S |
|---------|--|--|--------------------|----------------------------|
| 28. | Third Quarter Audit Committee Meeting | Attend Third Quarter Audit Committee Meeting. | March – April 2025 | Acting Chief Risk Officer. |
| 29. | Draft 2025/2026 Risk Management Framework | Review 2025/2026 Risk Management Framework | March – April 2025 | Acting Chief Risk Officer |
| 30. | Final 2025/2026 Risk Management Framework | Table 2025/2026 Risk Management Framework before Council | May – June 2025 | Acting Chief Risk Officer |
| 31 | Draft 2025/2026 Enterprise Wide Risk Register | Compile Draft 2025/2026 Enterprise Wide Risk Register | May – June 2025 | Acting Chief Risk Officer |
| 32 | Final 2024/2025 Approved Enterprise Wide Risk Register | Table Final 2024/2025 Enterprise Wide Risk Register before Council | June 2025 | Chief Risk Officer |

REVIEW OF THE RISK MANAGEMENT IMPLEMENTATION PLAN

This Risk Management Implementation Plan will be annually reviewed.

CHAPTER 5

KEY PERFORMANCE INDICATORS

INTRODUCTION

The King IV Report recommends regular performance evaluations for all board committees, with the risk committee being no exception.

The Risk Management Fraud Prevention Committee is responsible for assisting the City Manager in addressing the oversight requirements of risk management, evaluating and monitoring the municipality's performance with regards to risk management.

Members of the Risk Management Fraud Prevention Committee are appointed by the City Manager and its role is to formulate, promote and review the municipality's Enterprise Risk Management (ERM) objectives, strategy and policy and monitor the process at strategic, management and operational levels.

The Committee is guided in its activities by the Risk Management Fraud Prevention Committee Charter.

In terms of the Public Sector Risk Management Framework (2010), a Risk Management Fraud Prevention Committee will on an annual basis, evaluate its work in accordance with Key Performance Indicator's (KPI's) as approved by the City Manager in the beginning of the relevant financial year.

These indicators should be able to measure the Risk Management Committee's effectiveness in the municipality's risk management in contributing to the municipality's goals and objectives.

PURPOSE OF DOCUMENT

The purpose of this document is to formulate key performance indicators to enable the City Manager, to evaluate the work of the Risk Management Fraud Prevention Committee.

The key performance indicators will give an indication to the City Manager and Executive Mayor, if the Committee is executing its work in terms of the Charter and thereby add value to the municipality's quest to deliver municipal services in an affordable and sustainable manner.

OBJECTIVE

To maximize value created through risk management practices within the municipality.

APPLICABILITY

The municipality should develop and approve Key Performance Indicators prior to the beginning of the new financial year to enable implementation in the beginning of the financial year. The following activities must be included:

| KEY PERFORMANCE AREA | ACTIVITIES / ACTIONS | PERFORMANCE MEASURES | KEY PERFORMANCE INDICATOR |
|----------------------------------|--|---|--|
| Effectiveness of Risk Management | <ul style="list-style-type: none"> Assess the effectiveness of Risk Management within the Institution. Monitor and assess integration of Risk Management processes into daily activities. | Effectiveness of Risk Management Assessed and monitored. | The results of the Risk Management Committee's overall assessment (360 degrees). |
| Effectiveness of Risk Management | <ul style="list-style-type: none"> Review the RM Implementation Plan. Review the Risk Management Policy. Review the Risk Management Strategy. Review the Anti-Fraud and Corruption Strategy. Review the Risk Management Implementation Plan. Review the risk appetite and tolerance levels to ensure that limits are supported by analysis and expert judgement. | <ul style="list-style-type: none"> Annually review of the RM Implementation Plan. Annually review risk appetite and tolerance limits. | The pace and quality of the implementation of the Risk Management Framework. |
| | Monitor implementation of Internal Audit recommendations. | All Internal Audit findings on Risk management resolved. | The Internal Audit report on the state of risk management. |
| | Monitor implementation of | All Auditor General findings on Risk | The Auditor-General's report on |

| KEY PERFORMANCE AREA | ACTIVITIES / ACTIONS | PERFORMANCE MEASURES | KEY PERFORMANCE INDICATOR |
|----------------------|--|--|--|
| | Auditor General's recommendations. | Management resolved. | the effectiveness of the Risk Management Committee. |
| | Monitor implementation of recommendations from oversight structures. | Recommendations of all oversight structures implemented. | Risk Management observations from oversight structures. |
| | Quarterly reports issued to the Accounting Officer with recommendations. | Reports issued to the Accounting Officer and to Council. | The quality and timeliness of the Risk Management Committee's recommendations. |

LEVELS OF EVALUATION AND REPORTING

The annual evaluation of the work of the Committee, will be executed on two levels namely:

- (1) The Committee will evaluate itself in terms of prescribed key performance indicators.
- (2) The Chairperson will submit a written evaluation report to the City Manager.
- (3) The City Manager will then evaluate the work of the Committee in terms of prescribed key performance indicators and submit a written evaluation report to the Executive Mayor.

KEY PERFORMANCE INDICATORS UTILIZED BY THE COMMITTEE

| NO | KEY PERFORMANCE INDICATOR | YES | NO | COMMENTS |
|----|---|-----|----|----------|
| 1. | The risk committee reviews its charter annually to determine whether its responsibilities are described adequately and recommends changes to the City Manager for approval. | | | |
| 2. | Were Committee members formally appointed by the City Manager? (The Chairperson may be appointed by the district municipality.) | | | |
| 3. | Risk committee members have the appropriate qualifications to meet the objectives of the risk committee's charter, including appropriate risk background/qualifications. | | | |
| 4. | The risk committee chairperson is an effective leader. | | | |

| NO | KEY PERFORMANCE INDICATOR | YES | NO | COMMENTS |
|-----|--|-----|----|----------|
| 5. | The Chairperson demonstrated expert knowledge with regards to risk management. | | | |
| 6. | Did the members of the Committee demonstrate that they have intimate knowledge of the municipality? | | | |
| 7. | Did the Committee get good administrative support from the Risk Management Unit? | | | |
| 8. | The risk committee demonstrates integrity, credibility, trustworthiness, active participation, an ability to handle conflict constructively, strong interpersonal skills, and the willingness to address issues proactively. | | | |
| 9. | Risk committee meetings are conducted effectively, with sufficient time spent on significant or emerging issues. | | | |
| 10. | The agenda and related information (e.g., prior meeting minutes, reports) are circulated in advance of meetings to allow risk committee members sufficient time to study and understand the information. | | | |
| 11. | Written materials provided to risk committee members are relevant and at the right level to provide the information the committee needs to make decisions. | | | |
| 12. | Did the Committee meet at least once every quarter? | | | |
| 13. | Does the Committee have approved minutes for every meeting held? | | | |
| 14. | Did the Committee Chairperson submit a written report to the City Manager after every quarterly meeting? | | | |
| 15. | Did the quarterly report from the Committee Chairperson, at least include an analysis of every department's effort to mitigate the strategic risks? | | | |
| 16. | Did the Committee review the Enterprise Risk Management Framework (ERMF)? | | | |
| 17. | Did the Committee review the quarterly strategic risk mitigation reports as submitted by departments? | | | |
| 18. | Has the Committee recommended the Enterprise Risk Management Framework and Strategic Risk Register for approval of the City Manager? | | | |
| 19. | Were Risk Management Champions appointed in every department? | | | |
| 20. | Were risk management duties included in the performance contract between the Risk Champion/s and the Risk Owner? | | | |
| 21. | Did the Risk Owners evaluate the Risk Champions in terms of their job descriptions? | | | |

| NO | KEY PERFORMANCE INDICATOR | YES | NO | COMMENTS |
|-----|--|-----|----|----------|
| 22. | Did the Committee on an annual basis, review the Fraud/Corruption Prevention and Detection Policy? | | | |
| 23. | Did the Committee monitor the implementation of the Fraud/Corruption Prevention and Detection Policy? | | | |
| 24. | Did the Committee on an annual basis, review the Loss Control Policy? | | | |
| 25. | Did the Committee monitor the implementation of the Loss Control Policy? | | | |
| 26. | The risk committee discusses the company's risk appetite and specific risk tolerance levels in conjunction with strategic objectives, as presented by management, at least annually. | | | |
| 27. | The risk committee meets periodically with the audit committee discussing progress made by the municipality in addressing the strategic risks. | | | |

KEY PERFORMANCE INDICATORS UTILIZED BY THE MEMBERS OF THE COMMITTEE TO EVALUATE THE PROCESS OF EMBEDDING RISK MANAGEMENT INTO THE CULTURE OF THE MUNICIPALITY

| NO | KEY PERFORMANCE INDICATOR | YES | NO | COMMENTS |
|-----|--|-----|----|----------|
| 1. | Is Risk Management a standing item on the agenda of departmental meetings at least once quarterly? | | | |
| 2. | If so, are minutes of the meetings available for verifying purposes? | | | |
| 3. | Is Risk Management a standing item on the agenda of GM Forum meetings at least once quarterly? | | | |
| 4. | If so, are minutes of the meetings available for verifying purposes? | | | |
| 5. | Are risks identified on a continuous basis by officials in every department? | | | |
| 6. | Are risk management and specifically the identification of emerging risks, discussed with junior officials during team meetings? | | | |
| 7. | Is the Risk Management Framework available on the municipal intranet? | | | |
| 8. | Is the Risk Management Framework available on the municipal website? | | | |
| 9. | Are departments busy with the mitigation of risks on a regular basis? | | | |
| 10. | Are all managers in every department aware of the importance of managing risks? | | | |
| 11. | Was there progress made with the embedding of risk management into the organisational culture of the municipality? | | | |

| NO | KEY PERFORMANCE INDICATOR | YES | NO | COMMENTS |
|-----|--|-----|----|----------|
| 12. | Did the City Manager issue a policy statement with regards to risk management? | | | |
| 13. | Was the policy statement circulated across the municipality? | | | |

KEY PERFORMANCE INDICATORS UTILIZED BY THE CITY MANAGER TO EVALUATE THE RISK MANAGEMENT AND FRAUD PREVENTION COMMITTEE

| NO | KEY PERFORMANCE INDICATORS | YES | NO | COMMENTS |
|----|---|-----|----|----------|
| 1. | Did the Chairperson of the RMC submit quarterly reports? | | | |
| 2. | Can quarterly reports received from the Chairperson of the RMC, be regarded as good quality? | | | |
| 3 | Did the RMC add value to the endeavours of Top Management to render affordable and sustainable municipal services to the community? | | | |
| 4. | Did the Internal Audit Unit submit a report on the state of risk management? | | | |
| 5. | Were the recommendations from the Internal Audit Unit fully implemented? | | | |
| 6. | Did the Auditor-General report on the effectiveness of the Risk Management Committee? | | | |
| 7. | Were the recommendations from the Auditor-General fully implemented? | | | |
| 8. | Did the RMC implement all instructions from the City Manager during the year? | | | |

CHAPTER 7

RISK APPETITE

INTRODUCTION

After all risks for the 2024/2025 financial year have been identified as well as root causes and possible consequences established, all risks should be rated to identify the acceptable and tolerable operational and strategic risks.

The reasons why risks are rated, is to:

1. Allow the municipality to use its scarce resources to focus on mitigating the more important risks.
2. Allow the municipality to identify those risks that if not mitigated, may result in the municipality not reaching one or more of its strategic objectives.
3. Allow the municipality to identify those risks that if not mitigated, may result in the destruction of the municipality.

The Risk Rating and Tolerance Tables are both utilized in the process of rating all risks. Once the risk appetite of every strategic objective is established, and found to be unacceptable it must be mitigated and monitored accordingly.

DEFINITION OF KEY CONCEPTS

RISK APPETITE

This term refers to the amount and type of risks that the municipality is willing to accept in terms of its strategic objectives. The purpose of risk appetite is to indicate the point at which a risk becomes serious enough for the municipality to start mitigating and managing it.

RISK APPETITE LIMIT

The level of risk which if breached by the Municipality's risk profile, would necessitate immediate escalation and corrective action.

RISK TOLERANCE

Risk tolerance is the maximum amount of risks the organisation is willing to accept for each risk.

RISK CAPACITY

It is the maximum level of risk in which an organisation can operate, while remaining within the constraints implied by capital and funding needs as well as its obligations to stakeholders.

STRATEGIC OBJECTIVES

The municipality has the following strategic objectives:

- a) To provide infrastructure and sustainable basic services.
- b) To ensure legally sound financial viability and management.
- c) To build a strong good governance and institutional arrangement.
- d) To provide sustainable social amenities to the communities.
- e) To initiate a strong and sustainable economic development.
- f) To strengthen the delivery of sustainable integrated human settlement and environmental management.
- g) To maintain and sustain the 2010 legacy projects.

IDP OBJECTIVE: TO PROVIDE INFRASTRUCTURE AND SUSTAINABLE BASIC SERVICES

The following may give an indication of a threshold that if crossed, might require a need to allocate resources such as time, money, personnel and equipment to mitigate a risk:

- 1) When it takes longer than 90 days to adjudicate tenders for the provision of infrastructure.
- 2) When capital projects not appointed in line with the approved procurement calendar.
- 3) When capital projects are not successfully completed within the prescribed time period as stipulated in the Service Level Agreement.
- 4) When SDBIP capital projects are postponed due to cash flow challenges, for the second time in a financial year.
- 5) When infrastructure projects are not completed within the quality control parameters as stipulated in the Service Level Agreement.
- 6) When more than 20% of the funding allocated for capital projects (grants included) are not spent, within a financial year.
- 7) When critical infrastructure is not maintained in line within the prescribed maintenance master plan and budget.
- 8) When critical infrastructure is damaged and vandalized on a monthly basis.

IDP OBJECTIVE: TO ENSURE LEGALLY SOUND FINANCIAL VIABILITY AND MANAGEMENT

The following may give an indication of a threshold that if crossed, might require a need to allocate resources such as time, money, personnel and equipment to mitigate a risk:

- 1) When average collection rate is less than 90% per month
- 2) When service providers are not paid within 30 days.
- 3) When 20% or more of the billing information is incorrect or outdated.
- 4) Collection on outstanding debtors is less than 10% per month.
- 5) Water revenue losses exceed 2.5% per month (30% per annum)
- 6) Electricity revenue losses exceed 0.83 % per month (10% per annum)
- 7) Total contracted services expenditure exceed 5% of the total operating expenditure
- 8) Total remuneration exceed 40% of the total operating expenditure.
- 9) Under-spending on conditional grants
- 10) Unlawful, irregular fruitless and wasteful expenditure in a financial year.

IDP OBJECTIVE: TO BUILD A STRONG GOOD GOVERNANCE AND INSTITUTIONAL ARRANGEMENT

The following may give an indication of a threshold that if crossed, might require the allocation of resources such as time, money, personnel and equipment to mitigate a risk:

- 1) Organisational structure is not aligned with the staff regulations.
- 2) When we have workers strikes or stay-away every month
- 3) When 25% of funded vacancies are not being filled.
- 4) Outdated System of Delegations.
- 5) Internal controls are not functional.
- 6) Consequence management not institutionalised.
- 7) Outdated By-laws and lack of capacity to enforce By-laws.
- 8) Outdated policies, that are needed to implement the Integrated Development Plan (IDP).
- 9) 10% increase in occupational health and safety incidents/accidents.

IDP OBJECTIVE: TO PROVIDE SUSTAINABLE SOCIAL AMENITIES TO THE COMMUNITIES

The following may give an indication of a threshold that if crossed, might require the allocation of resources such as time, money, personnel and equipment to mitigate a risk:

1. When there is no maintenance plan budgeted for, to maintain council buildings, such as community halls and sport stadiums within a financial year.
2. When social amenities are being damaged/vandalized on a monthly basis.
3. When equipment in social amenities is being damaged or stolen on a monthly basis.

IDP OBJECTIVE TO INITIATE A STRONG AND SUSTAINABLE ECONOMIC DEVELOPMENT

The following may give an indication of a threshold that if crossed, might require the allocation of resources such as time, money, personnel and equipment to mitigate a risk:

- 1) When the local economic projected growth rate is lower than 1.6 per cent
- 2) When the municipality has no incentives to promote entrepreneurship or to attract private enterprise in a financial year.
- 3) When more than 25% of the labour force in Mbombela is unemployed.
- 4) When more businesses are liquidated rather than being established per month.

IDP OBJECTIVE: TO STRENGTHEN THE DELIVERY OF SUSTAINABLE INTEGRATED HUMAN SETTLEMENT AND ENVIRONMENTAL MANAGEMENT

The following may give an indication of a threshold that if crossed, might require the allocation of resources such as time, money, personnel and equipment to mitigate a risk:

- 1) When there is no land available to provide integrated human settlements.
- 2) When permanent environmental damage occurs without any steps to rehabilitate the situation.
- 3) When there is no EIA Policy or a policy that is in place which is not enforced.
- 4) When controls to prevent possible environmental damage is non-functional.
- 5) When the municipality does not have proper capacity to enforce relevant legislation/By-laws to ensure a clean and healthy environment.

IDP OBJECTIVE: TO MAINTAIN AND SUSTAIN THE 2010 LEGACY PROJECTS

The following may give an indication of a threshold that if crossed, might require the allocation of resources such as time, money, personnel and equipment to mitigate a risk:

- 1) When 2010 legacy projects are not maintained or are in a dilapidated state.
- 2) When Mbombela Stadium Management Model is not finalised.

CONCLUSION

Risk appetite is a tool that must be used as part of the risk rating process to identify risks on the Enterprise Risk Register which are:

- 1) Acceptable risks
- 2) Tolerable risks
- 3) Operational risks
- 4) Strategic risks

This will allow the municipality to focus on scarce resources to successfully mitigate all risks that have become a reality and that might jeopardize the municipality's ability to deliver services.

The process of identification, rating and mitigating of enterprise risks, allows the municipality to use risk intelligence as a management resource, to prevent occurrences that might prevent the municipality from reaching its strategic objectives.

This process will enable the municipality to avoid the situation where risk will end up driving its strategy.

CHAPTER 8

RISK TOLERANCE

INTRODUCTION

The municipality as an institution with limited resource, need to prioritize its risks to enable it to focus on the mitigation of its most important risks.

A Risk Tolerance Table is a tool that can be utilised to rate all risks to determine which risks are acceptable, which risks can be tolerated but mitigated to prevent it from becoming unacceptable and which risks are unacceptable and therefore needs to be mitigated.

This Risk Tolerance Table should be read in conjunction with the Risk Rating Tables as both tables are needed in the risk prioritization process.

COMPONENTS OF THE RISK TOLERANCE TABLE

The municipality's Risk Tolerance Table consists of the following components:

ACCEPTABLE RISKS

The term "acceptable risk" describes the likelihood of an event whose probability of occurrence is small, whose consequences are so slight, that the municipality is willing to take or be subjected to the risk if the event occurs.

It can also refer to an operational or strategic risk that is successfully mitigated.

TOLERABLE RISKS

These are risks of which urgent mitigation is not a priority, but steps should be taken to monitor it and prevent the risk from becoming an unacceptable risk.

It can also refer to an operational or strategic risk that is successfully mitigated but the risk owner still wants to monitor the risk for a period of time.

UNACCEPTABLE OPERATIONAL RISKS

These are risks that will have a disastrous or a negative effect as follows:

- a. Lives of residents or Councilors/employees of the municipality may be jeopardized.

- b. Circumstances that hamper the Municipality's ability to render municipal services that may also cause an interruption of an essential service.
- c. Negative results of significant financial or equipment losses.
- d. Interruption of service delivery that negatively impacts the performance and therefore reputation of the municipality;
- e. Non-compliance with legislation and/or policies.

UNACCEPTABLE STRATEGIC RISKS

These overarching risks if not successfully mitigated, may result in the non-achievement of the strategic objectives of the municipality. The sustainability of the municipality may also be at risk.

RISK TOLERANCE TABLE

| RISK INDEX | RISK MAGNITUDE | RISK ACCEPTABILITY | PROPOSED ACTION |
|------------|----------------|--|---|
| 21 - 25 | Maximum Risk | Strategic importance | <ol style="list-style-type: none"> 1. Inform the City Manager, the Executive Mayor and Council. 2. Risk Owners to budget for the mitigation of the risks. 3. Risk Owners to appoint Risk Champions who must compile action plans on how to mitigate the risk. 4. Risk Owner to approve action plans. 5. Risk Owner to regularly monitor and evaluate risk mitigation process. 6. Risk Owner to submit progress reports to the Risk Management Committee, City Manager, Risk Management Unit and Members of the Mayoral Committee. |
| 16 - 20 | High Risk | Unacceptable | |
| 10 - 15 | Medium Risk | Tolerable, but action required to avoid the possibility of the risk becoming unacceptable. | <ol style="list-style-type: none"> 1. Risk Owners to appoint Risk Champions who must compile action plans on how to mitigate the risk in order to prevent it from becoming an unacceptable risk. 2. Risk Owner to regularly monitor and evaluate the risk mitigation process. 3. Risk Owner to submit progress reports to the Risk Management Committee, City Manager and Risk Management Unit. |
| 6 - 10 | Low Risk | Acceptable | <ol style="list-style-type: none"> 1. Risk Owners to appoint Risk Champions who need to monitor risks and report to the Risk Owner if the situation becomes worse. |
| 1 - 5 | Minimum Risk | Acceptable | |

CHAPTER 9

IDENTIFICATION OF NEW RISKS

INTRODUCTION

The underlying premise of Enterprise Risk Management is that every entity exists to provide value for its stakeholders. In the case of the municipality, “stakeholders” is the community and “value” are the municipal services rendered.

All organisations face uncertainty, and the challenge for management is to determine how much uncertainty to accept, as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Risk Management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

Value is maximized when management sets strategies and objectives to strike an optimal balance between growth, return goals and related risks by efficiently and effectively deploying resources in pursuit of the organisation’s objectives.

In summary, enterprise risk management helps an entity get to where it wants to go and avoids pitfalls and surprises along the way.

This Enterprise Risk Management Framework is geared at achieving municipal objectives, set forth in four categories:

- a) Strategic – high-level goals, aligned with and supporting its mission
- b) Operations – effective and efficient use of its resources
- c) Reporting – reliability of reporting
- d) Compliance – in line with applicable laws and regulations

The risk identification process will be outlined in this document. To do this, the following will be discussed:

1. Definition of risk identification.
2. Who is responsible for the identification of risks?
3. When are risks being identified?
4. How are risks being identified?

DEFINITION OF RISK IDENTIFICATION

Risk identification is a deliberate and systematic effort to identify and document the risks facing the municipality during a financial year. It also refers to the process of determining risks that could potentially prevent the municipality from achieving its objectives.

The objective of risk identification is to understand what is at risk in the context of the municipality's explicit and implicit objectives.

It also includes the identification of possible opportunities that may be used to enhance municipal service delivery. The municipality is to distinguish between four different types of risks namely:

- a) Risks that are not mitigated, may prevent the municipality from reaching its strategic objectives.
- b) Operational risks - This entails possible losses or the non-reaching of operational objectives resulting from inadequate or failed internal processes, people and systems or from external events. This includes human error, fraud and malice, failures of information systems, problems related to personnel management, commercial disputes, accidents, fires and floods.
- c) Reporting risks – reliability of reporting to Management and Council.
- d) Compliance risks – applicable to laws and regulations.

After a risk is identified, it should be described in understandable terms. The risk description consists out of three parts namely:

- I. Risk statement
- II. Root causes
- III. Consequences

RISK STATEMENT

A risk statement is an expression of a causal relationship between a real, existing state of affairs and a potential unrealized second event, state of affairs or attribute.

ROOT CAUSES

A root cause informs management why a risk event may occur or may cause the risk event to occur. Identifying the root cause of a risk provides information about what triggers a loss and where an organization is vulnerable.

The root cause is a fundamental breakdown or failure of a process which, when resolved, prevents an occurrence or recurrence of the problem. In other words, the root cause is the factor that prevents a problem from occurring and reoccurring, once you have fixed it.

CONSEQUENCES

This describes the possible impact that the risk may have on the municipality if not mitigated. A good quality risk description should in its context, answer the following questions:

- I. What could happen?
- II. Why it could happen?
- III. Why do we care?

Writing a good risk identification enables you to:

- (a) Clearly understand the areas of impact of a given risk.
- (b) Identify triggers and symptoms that suggest the risk event may be about to occur or actually have materialised.
- (c) Determine interrelations between risk events through their common areas of impact
- (d) Communicate with stakeholders about risks in a way that it is easily understood.
- (e) Increase confidence through greater awareness of the risks facing a project.
- (f) Move smoothly into the risk analysis process.

WHO IS RESPONSIBLE FOR THE IDENTIFICATION OF RISKS?

All personnel in the municipality are enabled and welcomed to identify and report possible risks. The person who identifies the risk, needs to report it to the relevant Senior Manager or Risk Champion within their department. The risk will eventually be reported to the head of department who is also the risk owner. The risk owner will then report it to the City Manager and finally to the Risk Management Unit for inclusion in the risk register.

WHEN ARE RISKS BEING IDENTIFIED?

Risks can be identified and reported on at any time. Risks will be reviewed on an annual and quarterly basis. New risks can also be identified during this period.

HOW ARE RISKS BEING IDENTIFIED?

Risk can be identified in any of the following ways or methods:

- i. During day-to-day activities.
- ii. Completing checklists.
- iii. Organizing meetings for identifying risks.
- iv. Archived documents.
- v. Brain storming.
- vi. SWOT analysis.

- vii. Risk Questionnaires.
- viii. Risk Surveys.
- ix. Reports from the Internal Audit Unit and Audit Committee as well as the Office of the Auditor-General.

RISK PROCESS AFTER IDENTIFICATION OF A NEW RISK

After a risk has been identified, the risk rating process will start. This will be done in line with the following risk management framework documentation that will be taken into account:

- 1. Risk Categories.
- 2. Risk Rating Tables.
- 3. Risk Appetite.
- 4. Risk Tolerance Table.
- 5. Risk Response Model.

CONCLUSION

It is foreseen that the municipality may benefit in the following ways, through the process of risk management:

- a) Improved strategic and business planning.
- b) More effective usage of resources coupled with proper planning.
- c) Increased ability to deliver on time.
- d) Reduced costs by limiting legal action or preventing of breakages.
- e) Improved reliability leading to an enhanced reputation.
- f) An ability to quickly grasp new opportunities.
- g) Fewer breakdowns, shocks and unwelcome surprises.
- h) Enhanced communication between Business Units and Departments.
- i) The ability to reassure key stakeholders throughout the organization.
- j) The promotion of continuous improvement, leading to a higher quality of output.
- k) A more focused internal audit programme.

CHAPTER 10

RISK CATEGORIES

INTRODUCTION

In terms of the Public Sector Risk Management Framework (2010), all identified risks should be categorised. As the risk environment is so varied and complex, it is useful to group potential events into risk categories.

By aggregating events horizontally across a municipality and vertically within operational units, management develops an understanding of the inter-relationship between events, gaining enhanced information as a basis for risk assessments.

The main categories to group individual risk exposures are as follows:

| Risk Type | Risk Category | Description |
|-----------|--------------------------------------|--|
| Internal | Human Resources | <p>Risks that relate to human resources of an institution. These risks can have an effect on an institution's human capital with regard to:</p> <ul style="list-style-type: none"> • Integrity and honesty • Recruitment • Skills and competence • Employee wellness • Employee relations • Retention |
| | Knowledge and Information Management | <p>In identifying risks relating to the municipality's management of knowledge and information, the following aspects are to be considered which relate to knowledge management:</p> <ul style="list-style-type: none"> • Availability of information • Stability of the information • Integrity of information data • Relevance of the information • Retention |

| Risk Type | Risk Category | Description |
|-----------|---------------------------------------|---|
| | | Safeguarding |
| | Litigation | Risks that the institution might suffer loss, due to litigation and lawsuits against it. Losses from litigation can possibly emanate from: <ul style="list-style-type: none"> • Claims by employees, the public, service providers and other third parties • Failure by the municipality to exercise certain rights that are to its advantage |
| | Loss \ theft of assets | Risks that the municipality might suffer loss, due to either theft or loss of an asset of the municipality. |
| | Material Resources (procurement risk) | Risks relating to the municipality's material resources. Possible aspects to consider include: <ul style="list-style-type: none"> • Availability of material • Costs and means of acquiring \ procuring resources • The wastage of material resources |
| | Service Delivery | Every municipality exists to provide value for its stakeholders. The risk will arise if the appropriate quality of service is not delivered to citizens. |
| | Information Technology | Risks relating specifically to the municipality's IT objectives, infrastructure requirement, etc. Possible considerations could include the following when identifying applicable risks: <ul style="list-style-type: none"> • Security concerns • Technology availability (uptime) • Applicability of IT infrastructure • Integration / Interface of systems • Effectiveness of technology • Obsolescence of technology |

| Risk Type | Risk Category | Description |
|-----------|---|---|
| | Third Party Performance | <p>Risks related to the municipality's dependence on the performance of a third party.</p> <p>Risks in this regard could occur by the likelihood that a service provider might not perform according to the service level agreement, entered into with an institution. Non-performance could include:</p> <ul style="list-style-type: none"> • Outright failure to perform • Not timeously rendering the required service • Not rendering the correct service • Inadequate / poor quality of performance |
| | Health & Safety | Risks from occupational health and safety issues e.g., injury on duty; outbreak of disease within the institution etc. |
| | Disaster Recovery / Business Continuity | <p>Risks related to the municipality's preparedness or absence to deal with disasters that could impact the normal functioning of the institution e.g., natural disasters, act of terrorism etc. This would lead to the disruption of processes and service delivery and could include the possible disruption of operations at the onset of a crisis to the resumption of critical activities. Factors to consider include:</p> <ul style="list-style-type: none"> • Disaster management procedures • Contingency planning |
| | Compliance \ Regulatory | <p>Risks related to compliance requirements that the municipality has to meet. Aspects to consider in this regard are:</p> <ul style="list-style-type: none"> • Failure to monitor or enforce compliance • Monitoring and enforcement of mechanisms • Consequences of non-compliance • Fines and penalties paid |

| Risk Type | Risk Category | Description |
|-----------------|----------------------|--|
| External | Fraud and Corruption | These risks relate to illegal or improper acts by employees resulting in a loss of the municipality's assets or resources. |
| | Financial | Risks encompassing the entire scope of general financial management. Potential factors to consider include: <ul style="list-style-type: none"> • Cash flow adequacy and management thereof • Financial losses • Wasteful expenditure • Budget allocations • Financial statement integrity • Revenue collection • Increasing operational expenditure |
| | Cultural | Risks relating to the municipality's overall culture and control environment. The various factors that relate to organisational culture include: <ul style="list-style-type: none"> • The effectiveness of communication channels • Cultural integration • Entrenchment of ethics and values • Goal alignment • Management style |
| | Reputation | Factors that could result in the tarnishing of the municipality's reputation, public perception and image. |
| | Economic Environment | Risks related to the municipality's economic environment. Factors to consider include: <ul style="list-style-type: none"> • Inflation • Foreign exchange fluctuations • Interest rates |

| Risk Type | Risk Category | Description |
|-----------|---------------------------|--|
| | | <ul style="list-style-type: none"> • Unemployment |
| | Political Environment | Risks emanating from political factors and decisions that have an impact on the municipality's mandate and operations. Possible factors to consider include: <ul style="list-style-type: none"> • Political unrest • Local, Provincial and National elections • Changes in office bearers |
| | Social Environment | Risks related to the municipality's social environment. Possible factors to consider include: <ul style="list-style-type: none"> • Immigration • Urban migration |
| | Natural Environment | Risks relating to the municipality's natural environment and its impact on normal operations. Factors to be considered are: <ul style="list-style-type: none"> • Depletion of natural resources • Environmental degradation • Spillage • Pollution |
| | Technological Environment | Risks emanating from the effects of advancements and changes in technology. |
| | Legislative Environment | Risks related to the municipality's legislative environment e.g., changes in legislation, conflicting legislation. |

CHAPTER 11

RISK RATING TABLES

INTRODUCTION

Risk rating tables are imperative to try and establish the potential impact and likelihood of a risk. The rating tables serve as a management tool in the prioritization of risks to enable the municipality to correctly identify its most important and critical risks.

The risk rating tables consist out of four components namely:

1. Measurement of possible impact. (**Table One**)
2. Measurement of possible likelihood. (**Table Two**)
3. After the possible impact and likelihood of a risk is established the inherent risk exposure (**Table Three**) will be established.
4. The effectiveness of current controls will then be evaluated to establish the residual risk exposure (inherent risk control effectiveness) (**Table Four**).

The above mentioned four tables will set out the risk ratings tables for the evaluation of every risk. This municipality utilized the risk rating table as suggested by National Treasury.

1. RATING TABLE TO MEASURE POSSIBLE IMPACT (TABLE ONE)

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

RATING TABLE TO ASSESS THE LIKELIHOOD OF A RISK (TABLE TWO)

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

2. INHERENT RISK EXPOSURE (IMPACT & LIKELIHOOD) (TABLE THREE)

| Risk rating | Inherent risk magnitude | Response |
|-------------|-------------------------|---|
| 20 - 25 | Very High | Unacceptable level of residual risk – Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation) or additional controls are needed. Greater emphasis on proper implementation is imperative. |
| 15-20 | High | Controls are in the process of being implemented, but it is not finalized as yet. Additional controls are needed. |
| 8 – 14 | Acceptable | The risk is mitigated, but the risk owner still wants to monitor the controls to ensure that the risk is successfully mitigated. |
| 1 - 7 | Low | The risk is successfully mitigated. |

**3. RESIDUAL RISK EXPOSURE (INHERENT RISK CONTROL EFFECTIVENESS)
(TABLE FOUR)**

| Risk rating | Residual risk magnitude | Response |
|-------------|-------------------------|---|
| 20 - 25 | Very high | Unacceptable level of residual risk – Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation) or additional controls are needed. Greater emphasis on proper implementation is imperative. |
| 15 - 20 | High | Controls are in the process of being implemented, but it is not finalized as yet. Additional controls are needed. |
| 8 – 14 | Acceptable | The risk is mitigated, but the risk owner still wants to monitor the controls to ensure that the risk is successfully mitigated. |
| 1 - 7 | Low | The risk is successfully mitigated. |

CHAPTER 12

RISK RESPONSE MODEL

INTRODUCTION

After all risks have been identified, categorized and rated, the municipality will decide on how to respond to these risks.

To assist in the decision making process, a risk response model is developed.

The risk response model is part of the Risk Management Framework of the municipality.

The following will be covered in this chapter:

- Definition of key concepts.
- Risk responses for threats and opportunities.
- Indication of which response strategy might be the best for a specific risk category.

DEFINITION OF KEY CONCEPTS

RISK MITIGATION

Also known as risk reduction. Reducing the probability or impact of the risk.

RISK RESPONSE

Risk response is concerned with the development of action plans to reduce or eliminate the threats and events that create risk. Responding to risk, involves the identification and evaluation of the range of possible options, to mitigate risks and implement the chosen option.

Risk response should also make provision for the exploitation of opportunities to improve the performance of the institution.

There is a difference between risk response strategies and risk response action plans.

The following are risk response strategies:

- Risk treating
- Risk sharing
- Risk deferral
- Risk avoidance
- Risk acceptance

Risk action plans follow after the appropriate risk response strategy has been decided upon.

RISK TREATING

Some risks can, within the ambit of management, be reduced to a level where the risk is no longer unacceptable. For example, steps can be taken by management to improve internal control systems to effectively mitigate the risk of huge scale misuse of municipal fleet.

RISK SHARING

Moving the impact (and ownership) of the risk to a third party. The aim is to ensure that the risk is owned and managed by the party, best able to deal with it effectively. Risk sharing usually involves payment of a premium, and the cost-effectiveness of this must be considered when deciding whether to adopt a sharing strategy.

RISK DEFERRAL

Deferring aspects of the plan, to a date when the risk is less likely to occur.

RISK AVOIDANCE

Also known as risk removal or risk prevention. Risk avoidance can include the following:

1. Altering the project plan so that the circumstances which may give rise to the risk, no longer exists.
2. Removing the cause of the risk or executing the project in a different way, while still aiming to achieve project objectives.

RISK ACCEPTANCE

Dealing with the risk via contingency rather than altering the plan.

ACTION PLANS (RESPONSE PLANS)

After management decides on a response strategy, action plans will be developed to realize the response strategy.

Action plans refer to the practical steps taken by a Risk Owner/Risk Champion and must include the following:

1. Specific actions planned to realize the response strategy
2. Resources (such as budget and personnel)
3. Names of the Action Owners
4. Due date for evaluation
5. Due date for final implementation

INDICATION OF WHICH RESPONSE STRATEGY MIGHT BE THE BEST FOR A SPECIFIC RISK CATEGORY

| RISK RESPONSE | DESCRIPTION/EXAMPLE | SUITABLE FOR THE FOLLOWING RISKS |
|----------------------|--|---|
| THREATS | | |
| Avoid | The risk is avoided by changing the project in some way to bypass the risk. | Possible adverse public opinion. Some technical/operational/infrastructure risk e.g. maintenance problems. Legal and regulatory risks e.g. regulatory controls, licensing requirements. |
| Share | Some or all of the risks are shared with a third party for example insurance. | Risks such as theft, damage to municipal property and environmental risks such as natural disasters, storms and/or flooding. |
| Reduce | Action is taken to reduce either the likelihood of the risk occurring or the impact that it will have. | Technical/operational/infrastructure e.g. negligence, performance failure or unclear expectations. Organisational/management/human factors e.g. personality clashes, poor leadership and poor staff selection. |
| Accept | The risk may be accepted perhaps because there is a low impact or likelihood. A contingency plan will be identified should it occur. | Some political, legal and regulatory, and economic/financial risks may need to be accepted with a contingency plan in place e.g. war and disorder, exchange rate fluctuation. |
| Contingency | Here a plan is put in place to respond if the risk is realised. | Economic/financial/market Political Legal and regulatory Arguably all risks can and should have a contingency plan in place. |
| OPPORTUNITIES | | |
| Share | An opportunity is shared with a partner or supplier to maximise the benefits through the use of shared resource/technology etc. | Technical/operational/infrastructure e.g. new technology, improved designs. |
| Exploit | A project could be adjusted to take advantage of a change in technology or a new market. | Economic/financial/market e.g. new and emerging markets, positive changes in exchange or interest rates. |
| Enhance | Action is taken to increase the likelihood of the opportunity occurring or the positive impact it could have. | Strategic/commercial opportunities such as new partnerships, new capital investment, new promoters. |

| RISK RESPONSE | DESCRIPTION/EXAMPLE | SUITABLE FOR THE FOLLOWING RISKS |
|----------------|--|---|
| THREATS | | |
| Reject | Here no action is taken and the chance to gain from the opportunity is rejected. Contingency plans may be put into place should the opportunity occur. | Political or environmental e.g. new transport links, change of government bringing positive changes in policy/opportunities for lobbying etc. |

FINAL

CHAPTER 13

RISK REGISTERS

INTRODUCTION

Risk Registers are a means of recording risks and tracking progress concerning steps taken to mitigate it. Risk Registers are working documents that can be amended on a continuous basis.

RISK REGISTERS

The municipality will have the following risk registers:

1. Operational and Strategic Risk Register for every department. (This register includes all operational and strategic risks.
2. Strategic Risk Register. (This register includes all the strategic risks facing the municipality during the financial year.)
3. Enterprise Risk Register. (This register includes all the operational and strategic risks of the municipality for a specific financial year.)
4. Emerging Risk Register. (This register includes all the emerging risks during a financial year.)

RESPONSIBILITY

It is the responsibility of every department to compile and maintain operational risk registers.

It is the responsibility of the Risk Management Unit to compile and maintain Strategic, Emerging and Enterprise Risk Registers.

SCOPE OF EVERY RISK REGISTER

Every risk register will provide for the following:

- Strategic or departmental objective.
- Risk.
- Risk description.
- Root causes.
- Possible consequences.
- Risk Category.
- Risk Rating.
- Inherent risk.
- Residual risk.

CONFIDENTIALITY

Every risk register is a confidential document and can only be used for internal purposes.

The only outside institutions that may have unrestricted access to any risk register is the Office of the Auditor-General, the Audit Committee as well as the Ehlanzeni District Municipality and relevant state departments.

PROCESS TO COMPILE RISK REGISTERS

The following process are followed in the compilation of risk registers:

1. Once a year, Top Management convene a Technical Lekgotla to discuss service delivery projects and activities for the next financial year. During this Lekgotla, departments identified risks that they need to be mitigated to ensure the success of their projects.
2. The projects and risks are being discussed at a Mayoral Lekgotla.
3. During the following budget process, departments then budget for the mitigation of such risks.
4. The Management Letter of the A-G is scrutinized to identify risks that needs to be mitigated.
5. The Internal Audit Unit submitted risks as identified by them.
6. The annual Risk Report from the Institute for Risk Management is studied to identify risks that may be applicable on the municipality.
7. The Risk Management Unit liaise with the district municipality to identify possible risks that may be applicable on the municipality.
8. Once a year between April and June, the Risk Management Unit facilitated a process to assist departments to:
 - a. Identify the risks in their current risk registers, which needs to be included into their operational/departmental risk registers for the next financial year.
 - b. Identify new risks that needs to be included into their risk register.
 - c. The risks as identified at the Technical Lekgotla, the A-G, Internal Audit, District and IRMSA, are also included. (As well as risks identified by the Risk Management Unit.)
 - d. The Management Letter of the A-G is scrutinized to identify risks that needs to be mitigated.
 - e. The Internal Audit Unit submitted risks as identified by them.

- f. The annual Risk Report from the Institute for Risk Management is studied to identify risks that may be applicable on the municipality.
 - g. The Risk Management Unit liaise with the district municipality to identify possible risks that may be applicable on the municipality.
9. After all the risks are identified, every risk is categorised and rated. Based on this, an Operational and Strategic Risk Register is then compiled for every department.
 10. After an Operational and Strategic Risk Register is compiled for every department, a second risk rating process starts, to identify the strategic risks facing the City of Mbombela. These risks are then included in the strategic risk register.
 11. After the strategic risk register is finalized, all the risks are combined into an Enterprise Risk Register.
 12. The Operational and Strategic Risk Register are approved by the relevant Head of a Department.
 13. The Strategic Risk Register is approved by the City Manager after a recommendation from the Risk Management and Fraud/Corruption Prevention Committee.
 14. The Operational and Strategic Risk Registers are submitted to the relevant Member of the Mayoral Committee as well as the relevant Section 79 Oversight Committee.
 15. The Strategic Risk Register is submitted to Council for notification purposes.
 16. The Strategic Risk Register is submitted to all MMC'S as well as all Section 79 Oversight Committees.

RISK MITIGATION REPORTS

On a quarterly basis, every department compiles a risk mitigation report, indicating progress made with the mitigation of risks.

These risk mitigation reports are also submitted to the Monitoring and Evaluation Unit as part of the department's Port Folio of Evidence. (In terms of the Service Delivery Budget Implementation Plan.)

Based on inputs from departments, the Risk Management Unit compiles a quarterly strategic risk mitigation report, indicating progress made with the mitigation of the strategic risks.

The strategic risk mitigation report is tabled before the Risk Management and Fraud/Corruption Prevention Committee. After a recommendation, it is tabled before the City Manager for his/her consideration. If approved, it is tabled before Council for information.

RISK INSPECTION REPORTS

As part of the risk management process of continuous monitoring and mitigation, the Risk Management Unit is required to conduct risk inspection exercise within different departments. This must be done on a quarterly basis and be part of the risk implementation plan for the year.

The risk inspection process is done to help departments to understand the residual risk exposure posing danger to the institution and come up with mitigation plans to minimise the impact in case such risk occurs. Upon completion of the risk inspection exercise, a report will be compiled and presented to the risk owner to prepare mitigation plans to mitigate against any risk identified through the process.

The Risk Management Committee will also be informed about the outcome of the risk inspection exercise done on a quarterly basis for more engagement and further recommendations.

CHAPTER 14

FRAUD AND CORRUPTION

RISK ASSESSMENT

PURPOSE

The purpose of this document is to provide guidelines on how the City of Mbombela should conduct fraud risk assessments in order to identify possible fraud and corruption risks that might occur, and control measures that could be used to identify them.

LEGISLATIVE MANDATE

The legislative mandate is based on the following:

1. The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996), “The Constitution is the supreme law of the Republic of South Africa and provides among others, how the three branches of Government should conduct their business”.
2. Section 62(1) (c) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), stipulates 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: of financial and risk management and internal control; and ii) of internal audit operating in accordance with any prescribed norms and standards”.
3. Provincial Anti-Fraud and Anti-Corruption Strategy.
4. Prevention and Combating of Corrupt Activities Act, No. 12 of 2004
5. Public Service Anti-Corruption Strategy of 2002
6. Treasury Regulations paragraph 3.2.1
7. Fraud and Corruption Prevention and Detection policy of the City of Mbombela.

CONTROL ENVIRONMENT WITH REGARD TO FRAUD RISK ASSESSMENT

The control environment consists of among other things, but not limited to the image, philosophy and management's attitude with regard to the creation and maintenance of strong internal controls, e.g. Chief Directorates at the Provincial level /Public Entities or Departments at the Municipal level, which are clearly defined to perform their functions, having suitably qualified and properly trained personnel, delegation of authority and limitation of authority to provide assurance over efficiency and effectiveness over responsibilities of the individuals.

WHAT INFORMS A FRAUD/CORRUPTION RISK ASSESSMENT?

Fraud risk assessment, like any other normal risk assessment, will be conducted annually before the beginning of the financial year.

An effective fraud risk assessment will be able to identify where the fraud may occur and the possible perpetrators. Therefore, the perceived control activities should consider the nature of fraud and individuals who may take part in the fraudulent activities either inside or outside the Organization. Furthermore, the nature of the controls must be specified whether they are preventive or detective.

The fraud risk assessment should also be informed by the trend analysis of existing cases within the institution and by means of ethics/fraud surveys or results of awareness workshops. These can be used to validate or discredit management's perception of fraud risks.

If the fraud scheme/method is collusive in nature, then preventative controls should be supported by detective controls because collusion in nature erodes / negates the control effectiveness that is the segregation of duties.

Fraud by definition consists of intentional misconduct designed or aimed at evading detection. Therefore, the fraud risk assessment should anticipate / foresee the behaviour of the potential perpetrator. It is important to design fraud detection procedures consisting of sceptical / doubtful mind set and they should be able to ask the following questions:

- How might the perpetrator exploit weaknesses in the control systems?
- How could a perpetrator override or circumvent controls?
- What could the perpetrator do to conceal the fraud?

It is important to note that a fraud risk assessment generally includes three key / critical elements:

1. Identify inherent fraud risks - Gather information to obtain population of fraud risks that could apply to the organization. This is aimed at a broad consideration of all types of

fraud schemes/activities and circumstances; incentives, pressures, and opportunities to commit fraud; and IT fraud risks applicable to the organization.

2. Assess likelihood and impact of inherent fraud risks - Assess the relative likelihood and potential impact of identified fraud risks based on historical information, known fraud schemes / activities, and interviews with staff, including business process owners / risk owners.
3. Respond to reasonably likelihood and impact of inherent fraud risks and residual fraud risks - Through decision making over response approach to address the identified risks and specific fraud detection procedures
4. Fraud Risk Management - organizations can integrate anti-fraud initiatives into their risk management programs to:
 - a) Identify, assess and manage fraud risks from all sources
 - b) Support fraud risk management initiatives by establishing an anti-fraud culture and promoting fraud awareness throughout the organization
 - c) Develop a system of internal controls to address the entity's fraud risks
 - d) Address and respond to any identified instances of fraud

MONITORING OF FRAUD RISKS

Fraud risks like any other risks will be monitored as prescribed on the risk profile to ensure the following:

- a) Risk responses have been implemented as planned.
- b) Risk response actions are as effective as expected.
- c) Project assumptions are still valid.
- d) Risk exposure has changed from its prior state, with analysis of trends.
- e) A risk trigger has occurred.
- f) Emerging risks, which were not previously identified, have been identified and progress is reported accordingly.

Governance Structures to oversee the reporting and managing of Anti-fraud and Anti-corruption activities within the municipality.

- a) Risk Management and Fraud/Corruption Prevention Committee.
- b) Internal Audit Unit.
- c) Audit Committee.
- d) Office of the Auditor-General.
- e) Members of the Mayoral Committee.
- f) Section 79 Oversight Committees.
- g) Council.

QUESTIONNAIRE

| Number | Questionnaire | Yes | No | Maybe | N/A |
|--------------------------------|---|--------------------------|--------------------------|--------------------------|--------------------------|
| Generic risk factors | | | | | |
| 1. | Are you aware of the fact that the municipality have a Fraud and Corruption Prevention and Detection Policy? | | | | |
| 2. | Are you aware of the fact that the municipality have a Loss Control Policy? | | | | |
| 3. | Do you know which official serves as the Integrity Management Champion for the municipality? | | | | |
| 4. | Do you know where the contact person for the Whistle Blower system, is situated? | | | | |
| 5. | Do you think that individual Life Style reviews may play a role in the combatting of fraud and corruption? | | | | |
| 6. | Does the institution have an adequate level of fraud awareness, and are appropriate policies in place to minimize fraud risk? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. | Has the institution set a catastrophic opportunity level; that is, has management asked itself the question, "Has the municipality ensured that no single employee or group of employees in collusion can commit a fraud that would place the Municipality in imminent risk of survival?" | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. | Does the institution have a policy of immediately dismissing any employee who has committed fraud? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. | Does the institution have a policy of reporting all frauds to the authorities and pressing charges? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. | For all frauds experienced by the institution in the past, has management evaluated the reasons that led to the fraud and taken corrective action? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Individual risk factors | | | | | |
| 1 | Does the institution have a corporate mission statement, which includes an objective of good citizenship or the maintenance of good standing? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 | Does the institution have a written code of ethics and business conduct? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 | Does the institution conduct ethical and security training for new employees and periodic updates for existing employees? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

| Number | Questionnaire | Yes | No | Maybe | N/A |
|--------|---|--------------------------|--------------------------|--------------------------|--------------------------|
| 4 | Does management set the right example; that is, does it follow the institution's mission statement, code of ethics and business conduct, and other policies of the institution; and is it clearly seen to be doing so by employees? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 | Does the institution's culture avoid characteristics that promote unethical behaviour, e.g., high or even hostile competitiveness within the institution that might push employees to the point of burnout; pointless rigid or petty policies, or both; over centralisation of authority? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

ACKNOWLEDGEMENTS

To compile the City of Mbombela 2024/2025 Risk Management Framework document, the municipality relies on:

1. The Municipal Finance Management Act No 56 of 2003
2. The Local Government Risk Management Framework
3. The National Treasury Regulations
4. The Public Sector Risk Management Framework (2010), as published by National Treasury.
5. The South African Local Government Association (SALGA) Risk Management Framework (2017),
6. The Mpumalanga Provincial Government Risk Management Framework (2014),
7. The King Code IV of Corporate Governance for South Africa
8. ISO Standard 31000 (2018).
9. The Orange Book, Management of Risk Principles and Concept.