UTHUKELA DISTRICT MUNICIPALITY

ENTERPRISE RISK MANAGEMENT FRAMEWORK

2021-2022

CONTENTS

CHAPTER 1:

1 GLOSSARY OF TERMS

Accounting Officer (AO)	**In the Municipality:** The Municipal Manager (sometime referred to as City Manager) referred to in section 60 of the Municipal Finance Management Act No. 56 of 2003 (MFMA).
(Auditor-General South Africa (AGSA)	The Auditor General of South Africa (AGSA) is the supreme audit institution (SAI) of South Africa. It is the only institution that, by law, has to audit and report on how the institutions are spending the South African taxpayers' money.
Audit Committee (AC)	An independent committee constituted to review the effectiveness of controls, governance and risk management within each municipality, established in terms of section 166 of the MFMA.
Categories of municipalities	Category A, B or C municipality referred to in Section 155 (1) of the Constitution.
Chief Audit Executive (CAE)	A senior official within the municipality responsible for internal audit activities (where internal audit activities are sourced from external service providers, the Chief Audit Executive is the person responsible for overseeing the service contract and the overall quality of the services provided).
Chief Risk Officer (CRO) Enterprise Risk Manager	A senior official who is the head of the risk management unit, responsible for the effectiveness and efficiency of the system of risk management within the municipality.
COBIT	COBIT is an acronym for the Control Objective for Information and Related Technology, a good practice framework created by the international profession for information technology (IT) management and IT governance.
Combined Assurance	Integrating and optimising all assurance services and functions, so that taken as a whole, these enable an effective control environment, support the integrity of the information used for decision-making by

	management, the Municipal Council (and municipal entity boards) and it’s committees to maximise risk and governance oversight and control efficiencies, and optimise overall assurance to the Audit and Risk Committee, within the municipality's risk appetite.
Constitution	The Constitution of the Republic of South Africa is the supreme law of the country. It provides legal foundation for the existence of the republic sets out the right and duties of the citizens and defines the structure of government. .
Combined Assurance Plan (CAP)	The CAP refers to a Combined Assurance Plan, designed to bring all the combined assurance providers to working closely together to ensure assurance in the right areas is obtained from the right resources in the most effective and efficient manner.
Institutional Risk Management (IRM)	Institutional Risk Management (IRM) is an approach to risk management that involves an institutional-wide view of all risk management related processes, functions and activities.
Framework	The Local Government Risk Management Framework.
Governance	The act of directing, controlling and evaluating the culture, policies, processes, laws, and mechanisms that defines the structure by which municipalities are directed and managed.
Inherent Risk	The exposure arising from risk factors in the absence of deliberate management intervention(s)/controls to exercise control over such factors.
Institution	The municipality as described in section 2 of the Municipal Systems Act.
Integrated Development Plan (IDP)	The Integrated Development Plan (IDP) of the municipality is an elaborate and collaborative planning process which produces integrated Development Plan designed to guide municipalities to systematically eradicate backlogs of service delivery, encourage socio economic developments, address spatial disparities of development, and deliver on agreed priorities with clearly defined outputs and targets within an agreed timeframe.

Internal Audit	An independent, objective assurance and advisory activity designed to add value and improve a municipality's operations.
Municipality	A geographic area, determined in terms of the Municipal Demarcation Act, 1998 (Act 27 of 1998).
Municipal Council	Council of a municipality as referred to in Section 18 of the Municipal Structures Act, as defined in Section 1 of the MFMA.
Municipal Finance Management Act 56 of 2003, as amended (MFMA)	An Act aimed at modernising budget and financial management practices in municipalities in order to maximise the capacity of municipalities to deliver services.
Municipal services	Any local government matters listed in Part B of Schedules 4 and Part B in Schedules 5 to the Constitution, and any function assignment to a municipality in Section 9 or 10 of the Municipal Systems Act (Act 32 of 2000).
King III	King 3 report on governance in South Africa, 2009, corporate governance for best practice.
King IV	King 4 report on corporate governance in South Africa, 2016, corporate governance for best practice. “Part 6.2: Supplement for municipalities” has specific reference for municipalities.
Management	Officials of the municipality responsible for the planning, organising , controlling and leading municipal activities, in order to mitigate municipal risks and achieving the municipalities’ set objectives. This excludes the CRO and officials reporting to him/her.
Operational risks	**Operational risks** could include the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
Residual Risk	The remaining exposure after the mitigating effects of deliberate management intervention(s) to control such exposure (the remaining risk after management has put in place measures to control the

	inherent risk).
Risk	An unwanted outcome, actual or potential, to the municipality's service delivery and other performance objectives, as a result of uncertainty. Some risk factors also present an upside potential, which management must be aware of and be prepared to exploit.
Risk Appetite	The level of risk the municipality is required to take and/or willing to accept in all municipal spheres in order to achieve its set objectives.
Risk Champion	A person who by virtue of his/her expertise or authority champions a particular aspect of the risk management process, but who is not the risk owner.
Risk Factor	Any threat or event which creates, or has the potential to create risk.
Risk intelligence	It is a concept that generally means beyond risk management and integrates risk governance, infrastructure and processes with ultimate positive impact on the overall performance of the municipality.
Risk Management	Systematic and formalised processes to identify, assess, manage and monitor risks.
Risk Management Committee	A committee appointed by the Municipal Manager to govern (guide, monitor and review) the municipality's system of risk management.
Enterprise Risk Management Unit	A business unit responsible for coordinating and supporting the overall municipal risk management process, but which does not assume the responsibilities of management for identifying, assessing and managing risk.
Risk Owner	The person accountable for managing a particular risk assigned to him/her.
Risk Management Philosophy	Set of shared beliefs and attitudes that characterises how the municipal considers risk in everything it does, from strategy development and implementation to its day-to-day activities. It

	reflects the municipal's values, influencing its culture and operating style, and affects how enterprise risk management components are applied, including how risks are identified, the kind of risks accepted, and how they are managed.
Enterprise Risk Policy	The statement of the overall intentions and direction of a municipality related to risk management.
Risk Tolerance	The undesirable level of risk variation relative to the achievement of a specific objective.
Service Delivery and Budget Implementation Plan (SDBIP)	The Service Delivery and Budget Implementation Plan (SDBIP) details the implementation of service delivery and the budget for the financial year in compliance with the Municipal Finance Management Act(MFMA), 2003 (Act 56 of 2003). The SDBIP serves as a contract between the municipality, the Council and the community, expressing the objectives set by the Council as quantifiable outcomes that can be implemented by the municipality over the next twelve months. The SDBIP facilitates the process of holding management accountable for their performance. It provides the basis for measuring performance in the delivery of services.
Strategic risk	**Strategic risks** are those internal and external events and scenarios that can inhibit a municipality's ability to achieve its strategic objectives. This would typically include risks associated with governance, the business model and the industry/ economic environment.
Technology	Comprises the infrastructure, devices, systems and software that is used to record, analyse, report and maintain risk management information, to enable risk management decision-making.
Risk adjusted strategy	Strategy with minimal risk exposure, thereby enabling the municipality to maximize threats and opportunities
Risk adjusted performance target	Performance targets set in consideration of risks, thereby enabling the municipality to set realistic performance targets and resources (financial, physical and human)

CHAPTER 2: INTRODUCTION AND BACKGROUND TO THE FRAMEWORK

2. Introduction

(1) The Office of the Accountant-General (OAG) within the National Treasury facilitate accountability, governance and oversight by promoting effective, efficient, economic and transparent management of revenue, expenditure, assets and liabilities across all spheres of government and public entities. The Municipal Finance Management Act (MFMA) empowers the OAG to promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities throughout the local government sphere. The MFMA also provides for the National Treasury to investigate breaches of system of financial management and internal control and take action where necessary. The OAG, through the Risk Management Support Function (RMS) is responsible for providing risk management support throughout the public sector, thereby enhancing effectiveness and uniformity of risk management through, among others, development and maintenance of the framework.

(2) In 2010, the OAG developed a Public Sector Risk Management Framework (PSRMF) to be used as a tool to facilitate risk management support. Subsequently RMS Function reviewed the 2010 PSRMF and identified a need to contextualize the framework to the different spheres of government. It was noted that the 2010 PSRMF was more inclined to the context of provincial and national spheres of government. It is common knowledge that the provincial and national context differs from that of local government sphere. Furthermore, it is common knowledge that municipalities across South Africa differ greatly in terms of their size, their threat and exposure profiles, Financial Management Capability Maturity, capacity, skill levels and budget for implementing sound risk management. It is against this backdrop that in 2017 the RMS Function embarked on developing Local Government Risk Management Framework (LGRMF) with tools to aid its implementation.

(3) The LGRMF is based on recent and widely adopted international standards and guidelines for institutional Risk Management, the most recent King codes on Corporate Governance, the prescripts of the Municipal Financial Management Act (MFMA), as well as the combined knowledge of a number of experts in risk management, having decades of experience in both the private and public sectors, and more specifically local government. The former (international standards, guidelines for institutional risk management, King Codes on Corporate Governance, MFMA and experts knowledge) are the building blocks for the LGRMF.

Collectively, the building blocks set the scene for risk management in local government and assist municipalities to evaluate the operationalization of risk management.

(4) The primary reason for risk management is to empower Uthukela District Municipality to achieve service delivery objectives, thereby creating value to the recipients of the services. During planning; municipalities identify risks which may hinder it (municipality) from achieving its service delivery objectives. The identification of risks should be informed by the internal and external municipal context. The notion of the recognition of the municipal context attest to the fact that the municipal context is not static but changes in response to the citizenry needs. The municipal context can be incorporated successfully if, among others, risk management activities are transparent, inclusive and are an integral part of municipal processes.

(5) There is an expectation that municipalities should create value for the citizenry. This can be achieved through, among others, developing service delivery objectives that are informed by the needs of the citizens. Thus risk management plays a critical role in this regard since through the process of risk management, appropriate mitigating measures are developed, implemented and continuously monitored to, among others, prevent value erosion. Furthermore, municipalities should preserve value by taking risk informed decisions, facilitated by the availability of accurate and reliable information. In a nutshell; through risk management, municipalities continuously improve service delivery.

(6) The starting point for a journey towards a successful implementation of risk management (through the use of this framework) is an effective combined risk assurance, integration into planning activities, understanding of the municipality's risk maturity, internal controls and risk culture.

3. Background

(1) In terms to Section 152 (1) of the Constitution of South Africa, the objective of Local Government is ensure that government is accountable to its local communities; ensure that services to communities are provided in a sustainable manner; promote social and economic development; promote a safe and healthy environment; and encourage the involvement of communities and community organisations in the matters of local government.

(2) In order to achieve the objectives stated in section (1), government introduced The Municipal Structures Act of 1998 which, among others, manages the risk of unfunded mandates and duplication of responsibilities. The Municipal Structures Act places different capacity municipalities into category A which consists of metropolitan cities, category B local

municipalities and category C district municipalities. The powers and functions of the three categories of municipalities complement each other, hence a greater need for them (municipalities) to work closely together to ensure an integrated, focused and targeted service delivery plan.

(3) By virtue that the three categories of municipalities complement each other; interdependent risks are bound to arise. Thus, collaborative planning is imperative to ensure the development of a comprehensive plan to manage interdependent risks. Furthermore, the categories of municipalities differ in; among others, capacity, budget and risk maturity hence different challenges in various areas including risk management.

(4) Each category of municipality has risks that are unique to that category due to the powers and functions specific for a particular category. For example, the risk of immigration and mushrooming of informal settlement is more prominent to category A municipalities due to the fact that people are always looking for better opportunities of employment thus moving into the city is seen as a solution. This places a strain on the city's resources and ultimately its ability to services the communities. Category B and C experience the inverse of Category A. Due to lack/inadequate job opportunities; these municipalities experience emigration and this reduces their income earning capacity.

4. Purpose

(1) The framework has been developed to facilitate the implementation of section 62(1)(c)(i) of the MFMA, which requires the Accounting Officers to ensure that their municipalities have and maintain effective, efficient and transparent systems of risk management; as well as section 20(1)(iv), (v) and (vi) of the Municipal Finance Management Act (MFMA), which empowers the Minister of Finance to prescribe uniform norms and standards.

(2) The framework is intended as a tool to enhance the **risk maturity, internal controls, risk culture** and **combined risk assurance** in municipalities. Thus the fore highlighted areas are the points of departure for the implementation of the framework. Municipality's risk maturity level can range from the basic compliance to the most mature and risk intelligent municipality. The municipality's risk maturity level should not be an obstacle for it (municipality) to implement risk management. Thus, irrespective of its level of maturity, the municipality can minimally apply a basic set of risk management principles and practices, to enable the identification, assessment, treatment and reporting of key risks affecting the achievement of

municipal objectives and to enable the collection and aggregation of risk and risk management performance information across all municipalities in South Africa.

(3) Furthermore, the framework aims to facilitate improvement of the state of risk management in local government, as well as to empower risk officials and management by providing appropriate guidance on how to implement, monitor and evaluate the performance of risk management. The development of templates informed by the framework will facilitate the simplification of applicability and ease of use of the framework.

(4) Overall, the framework will facilitate benchmarking of risk management in municipalities across South Africa, thereby enabling the National Treasury to monitor and guide risk management performance and progress in local government.

5. Applicability

(1) The framework applies to Uthukela District Municipality and its entity.

(2) Legal and regulatory context

The framework provides guidance on risk management principles. Furthermore, the framework supports the implementation of relevant legislations and prescripts within local government such as:

(a) The Constitution of the Republic of South Africa of 1996

(i) Section 195 (b) of the Constitution states that public administration must be governed by democratic values and principles and the efficient, economic and effective use of resources should be promoted.

(b) The Municipal Finance Management Act (No. 56 of 2003), as amended

(i) Section 62(1)(c)(i) requires the Accounting Officers to ensure that their municipalities have and maintain effective, efficient and transparent systems of risk management.

(ii) Section 20(1)(iv), (v) and (vi) empowers the Minister of Finance to prescribe uniform norms and standards in terms of this Act. Tools such as, among others, this framework should be developed facilitate the implementation of norms and standard; thereby enhancing accountability through allocation, management, monitoring and reporting of risks.

(iii) In terms of Section 95 (a)(i), the accounting officer of a municipal entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure that the entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

(c) Local Government: Municipal Systems Act

(i) Section 9 states that the administration of a municipality must facilitate a culture of public service and accountability amongst staff and, take measures to prevent corruption.

(d) Natural Disaster Management Act

(i) The objective of the National Centre as stated in **Section 9** of the Act is to promote an integrated and co-ordinated system of disaster management, with special emphasis on prevention and mitigation.

(ii) According to **Section 17,** the Disaster management information system should include information on risk factors underlying disasters and ways and means to reduce such risks; measures to prevent and mitigate these risks as well as early warning systems. Early warning systems can be provided through the establishment of risk indicators.

(iii) **Section 47** of the Act requires The Municipal Disaster Management Centre, to the extent that it has the capacity, to give guidance to organs of state, the private sector, non-governmental organisations, communities and individuals to assess and prevent or reduce the risk of disasters, including the ways and means of determining levels of risk; the development and implementation of prevention and mitigating methods; the integration of prevention and mitigation methods with development plans and the management of high risk developments.

(iv)The process of determining the levels of risks as required by section 47 would be set out in the risk management framework of the municipality. The municipal framework would ensure that the manner in which risks are identified and presented is standardized throughout the municipality.

(e) Spatial Planning and Land Use Management Act, 2013

(i) The principle of efficiency in **Section 7** states that decision making procedures must be designed to minimize negative financial, social, economic or environmental impacts.

(ii) **Section 12** requires the national and provincial spheres of government and each municipality to prepare spatial development framework that identifies long term risks of particular spatial patterns of growth and development and the policies and the strategies necessary to mitigate those risks.

NB: The laws and regulations that inform the risk management in a municipal context is not limited to the above mentioned. These are considered key in shaping the context.

CHAPTER 3: CREATING ENABLING ENVIRONMENT

6. Introduction

(1) Section 62 of the MFMA places the responsibility of maintaining effective, efficient and transparent systems of risk management on the Accounting Officer (AO). In order for risk management system to be effective and achieve the intended purpose, the AO should create an environment that will enable risk management to thrive. The primary purpose of risk management is to identify risks and put in place controls to manage them (risks) with the ultimate goal of enabling the municipality to achieve its service delivery objectives as outlined in the Integrated Development Plan (IDP). The AO may delegate the responsibility of developing effective and efficient risk management systems to the risk official who is viewed as an expert in risk management. However, the accountability for risk management remains with the AO.

(2) There are various enablers of effective risk management such as among others, the risk management policy within which the municipality should operate, the risk management strategy that guides the implementation of risk management policy, adequate capacity (financial, human, information and physical), clearly defined roles and responsibilities and establishment of appropriate risk management structures and processes. Some organizations such as ESKOM, South African Airways, and Steinhoff have been in the media for questionable corporate governance practices.

(3) When an organization’s corporate practices are questioned, issues such as, among others, organizational culture are put under scrutiny. Thus it seems an organizational culture is a glue

that holds an organization together. It is posited that culture is important in ensuring, among others, internal[1] integration and external[2] adaptation. Thus culture can affect the organization's performance for better or for worse. It is against this backdrop that culture is considered as one of the key risk management enablers. If an organization has a proactive culture towards risk, all other enablers may fall into place and risk management may have a positive impact on the organization's performance.

(4) The management and functioning of an organization is guided by, among others, its policies, procedures, methods and standards. Collectively these (policies, procedures, methods and standards) are referred to as internal controls. Ineffective internal controls are also one of the prominent factors cited in organizational/corporate failures. The effectiveness of internal controls is influenced by, among others, the risk culture. It can be said risk culture and internal controls are tools for effective risk management.

(5) The management of risk is a day-to-day activity and every municipal official is responsible for managing risks in their functional areas. In some instances, certain risks cross-cut other functions. It is for this reason that a combined approach to the management and assurance of risks enhances the effectiveness of risk management. Thus an effective combined risk assurance is another key risk management enabler. The effectiveness of internal controls is also influenced by the level of risk maturity which is influenced by the risk culture.

(6) There seems to be a link between culture (organizational and risk), internal controls, combined risk assurance, risk maturity and effective risk management. This link can be articulated as follows: Risk culture is the foundation for effective internal controls, effective combined risk assurance, desired risk maturity and ultimately effective risk management. The effectiveness of internal controls, combined risk assurance and risk management are also influenced by the organization's level of risk maturity. The level of risk maturity is influenced by the culture (organizational and risk).

(7) Notwithstanding that there are numerous effective risk management enablers, the focus of this framework is on risk culture, internal controls , risk maturity and combined risk assurance as the strong foundation and key risk management enablers as well as the interplay between

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[1] employee collective identity and effective working together

[2] responding to customer needs and competitor moves

culture, combined assurance, internal controls and the level of risk maturity in influencing the effectiveness of risk management.

7. Key pillars of an enabling environment

(1) This framework focuses on culture (risk and organizational), internal controls, combined assurance and risk management maturity as the key pillars of an enabling environment. This is withstanding the fact that there are other factors that enable an environment for effective risk management

(a) Culture

Broadly culture is viewed as the personality/character of an organization. There are visible (dress code, office layout, symbols, slogans) and invisible (values, beliefs) aspects of culture. A culture shape what an organization is, what it is to be, what is does and how it does what is does. A distinction is made between **organizational** and **risk** cultures. Organizational and risk cultures do not exist independently and are a product of the convergence and interaction of multiple individual and organizational facets. Below is a depiction of the interplay of various facets that informs the organizational culture and ultimately the risk culture:

Figure 1: Risk culture ladder (Adopted from Institute of Risk Management [IRM], 2012)

(i) Organizational culture

Organizational culture comprise of values, beliefs, standards and norms that influence the overall conduct of the business of the organization. According to Figure 1, an organizational culture shapes the risk culture. Understanding organizational culture precedes understanding the risk culture ***(Refer to Table 1 for the "Organizational Culture Assessment Tool).*** Culture is dynamic and not static, hence the need to re-assess culture on a frequent basis. Once an organizational culture has been established, the risk culture can be determined since organizational culture influence risk culture.

(ii) Risk culture

Risk culture is influenced by the overall culture of the municipality. Thus it (risk culture) is the beliefs, values and behaviors of employees which translate into the collective ability of the employees/municipality to manage risks (IRM, 2012). Over and above understanding the municipality's culture, risk officials should also understand the municipality's risk culture. ***(Refer to* Table 2 *for risk culture evaluation tool).*** It does not end by evaluating the risk culture but further a plan must be put in place to address the risk culture weaknesses identified during risk culture diagnosis ***(Refer to Table 3 for the risk culture planning tool).***

(b) Internal controls

Internal controls are the policies, procedures and methods used by management to ensure that the municipality is run in an efficient and orderly manner. They (internal controls) are shaped by organizational culture, risk culture, risk maturity and the effectiveness combined risk assurance. Ineffectiveness of internal controls expose the municipality to risks, hence the need for frequent evaluation of internal controls to enable timeous identification of risks and development of appropriate risk mitigating measures. Other municipalities have internal control unit which focus on, among others, advising management on internal controls. In municipalities where there is an internal control unit, the risk official may place reliance on the result of the internal control unit's assessment. If the municipality does not have an internal control unit, risk officials should assess controls to get a sense of the extent of their implementation and effectiveness ***(Refer to Table 4 for internal control assessment tool).***

(c) Combined risk assurance

Combined risk assurance entails an integrated management of risks, recognises management as experts in their area of responsibility and endorses the notion that every municipal employee is responsible for managing risks. Lack of coordinated and integrated risk management poses a risk of silo approach to risk management. Combined risk assurance can be viewed as a tool that enhances a coordinated effort towards integrated risk management, thereby enhancing the effectiveness of risk management and managing the risk of silo approach to risk management. Risk officials should know the risk management responsibilities of the various role players and where everybody fits within combined risk assurance ***(Refer to Table 5 for Combined Assurance- roles and responsibilities of the various assurance providers).*** The figure below indicates the layers of the five lines of assurance and the location of risk officials within combine risk assurance:

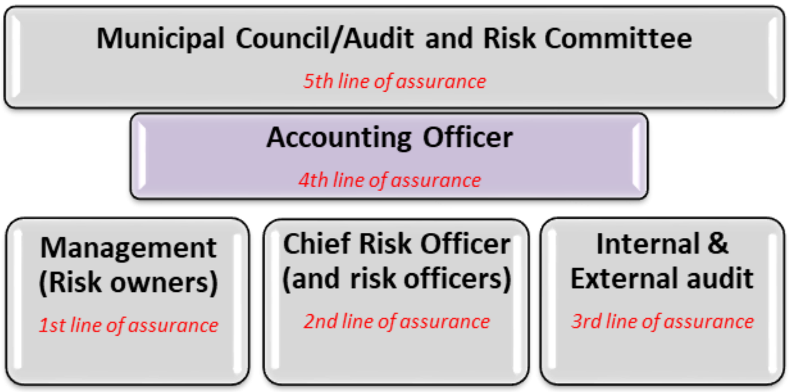

Figure 2: Layers of the five lines of assurance

The five lines of assurance are summarized as follows:

(i) The first line of assurance is primarily handled by front-line and mid-line managers who have day-to-day ownership and management of risk and control. Operational managers develop and implement the municipality's control and risk management processes.

(ii) These second line of assurance support functions are essentially advisory and oversight functions of their expertise applied to management processes, for example Risk Management 'owns' the Risk Management process methodology, and provides both guidance and oversight to the risk owners.

(iii) The third line has a primary reporting line to the Municipal Council by reporting to the Audit Committee. As such, the third line is purely an assurance function and not a management function, which separates it from the second line of assurance. Internal auditors serve as a municipality's third line of assurance.

(iv) Senior management have ultimate responsibility for the activities of the first and second lines of assurance. Their engagement is critical for success of the overall model.

(v) The Municipal Council and the Audit Committee fulfil the fifth line of assurance as oversight structures.

(d) Risk Management Maturity Assessment

(i) Risk maturity is a benchmarking tool which measures to what extent an organization has implemented Enterprise Risk Management (ERM) in accordance with best practice. It helps establish the current risk maturity of the organization's ERM framework so as to determine the desire future state of the ERM framework that will support the organization's strategies and ultimately effect improvements on the ERM gaps identified.

(ii) For an institution to achieve its desired risk maturity level, it requires, among others, adequate risk management capacity. The majority of municipalities do not have adequate risk management capacity hence they struggle to achieve the desired risk maturity level. Prior to an institution implementing the ERM framework, it should assess if it has the risk management capacity that will enable it to implement the ERM framework and consequently achieve its desired level of risk maturity ***(Refer to Table 6 for risk management capacity assessment).***

(iii) The differences in municipality's size (categories A, B and C) and capacity may impact on the level of risk maturity. However, it is not typical that a big municipality will be at a high maturity level and vice versa. Various factors such as, among others; risk culture, combined risk assurance and internal controls may impact on the level of risk maturity. (***Refer to Table 7 for risk maturity assessment tool).***

CHAPTER 4: INTEGRATION OF RISK MANAGEMENT WITH THE PLANNING AND PERFORMANCE MANAGEMENT CYCLE

8. Introduction and background

(1)The municipality's performance management system should support the achievement of performance goals as determined in the Integrated Development Plan (IDP). More often than not it happens that the planned performance does not materialize and in such instances management can leverage on the benefit of risk management.

(2) Risk management is the process of identifying, assessing, evaluating and treating risks that might hinder the municipality from achieving its planned performance objectives. It is both backward and forward looking taking into consideration what happened in the past that impacted negatively in the planning and performance process of the municipality as well as what could happen in the future that might impact these processes.

(3) Effective risk management is enhanced by implementation of a combined risk assurance. This chapter seeks to address the alignment of risk management with the processes of planning and performance in local government.

(4) The Municipal Systems Act prescribes what performance in the local government sphere should entail as well as the general key performance indicators while the Local Government Municipal Structures Act No.117 of 1998 describes the different categories of municipalities and their functions and powers. These municipalities differ in terms of their size, capacity and budget. This result in differences in risk maturity and in the way they operate.

(5) The role of risk officials is to assist management to identify risks within the various activities of the performance management cycle and advise accordingly on matters pertaining to risk management**.** The performance management cycle comprises four main activities namely:

(a) Planning: development of Integrated Development Plan (IDP)
(b) Implementation of IDP.
(c) Monitoring IDP implementation
(d) Reporting on IDP

9. Planning: Development of IDP

(Refer to Tables 8, 9, 10, 11, 12, 13 and 14 for the possible risks relating to the planning/IDP development)

(1) Planning in municipalities involves community consultation as they are the main stakeholders in the municipality. During consultations, communities communicate what developments they would like to see taking place and also voice their challenges. Ideally the risk officer should attend one or two of these consultations as this will provide him/her with first -hand information. This will assist during risk identification process as supplementary information for management's perception**.** If the risk officer cannot attend then they should request the relevant information from the relevant office. The planning process for municipalities consists of five phases, namely:

(a) Analysis
(b) Vision, objectives and strategies
(c) Projects
(d) Integration
(e) Approval

10. Analysis

(1) As part of IDP development, management would have analysed the level of existing development, priorities and problems, causes of the problems and information on available resources. These analysed areas may be used by risk officials to inform the assessment of internal and external contexts (***Refer to Figure 3 for Tools and documents for analysis of internal and external environments)***

11. Development of vision, objectives and strategies

(1) Management develops the municipal vision and objectives through, among others, community consultations. Further, strategies are developed to provide a plan of action on "how" the vision and objectives will be achieved. The risk official should assist management to develop risk-adjusted strategies[3] i.e. In practice, risk adjusted strategy may be arrived at by using the "what if" to the consequence of the initial risk response emanating from the strategy,

[3] strategies after the impact of risk has been considered

which will give rise to another consequence, to which the "what if" is asked, then another consequence is established, etc. (***Refer to Example 1 for Illustration of risk adjusted strategy)***

(2) This process is engaged on until the risk considered acceptable to the municipality is arrived at. Thus a risk adjusted strategy does not mean that the strategy is risk free. The risk adjusted strategy should also be established in consideration of the municipality's risk appetite and tolerance.

12. Identification of projects and their integration

(1). Management identifies projects to be embarked on to facilitate the delivery of services. The projects are consolidated and a Service Delivery and Budget Implementation Plan (SDBIP) are compiled. Project targets, indicators (key performance and risk indicators) and budget estimates are developed.

(2) Key Performance Indicators (KPIs) are developed by management and they describe the performance dimension that is considered key in measuring performance. Risk officials assist management to develop risk-adjusted targets and Key Risk Indicators (KRI) for risk monitoring and identification of emerging risks in order to enhance performance.

13. Compilation of Service Delivery and Budget Implementation Plan (SDBIP)

(1) SDBIP is the centrality of service delivery and gives effect to the implementation of IDP and strategies. Among others, the following are the importance of SDBIP:

(a) Facilitates accountability with regards to performance;

(b) Serves as a management, implementation and monitoring tool;

(c) Sets in-year targets (quarterly service delivery and budget targets);

(d) Links service delivery outputs to budget;

(e) Provide a detailed plan on how the municipality will provide services considering inputs and financial resources;

(f) Informs the performance agreements of senior managers and municipal managers; and

(g) Provides expenditure information per ward.

(2) The day-to-day functioning of the municipality and effective service delivery depend on the effective implementation of the SDBIP. Risks emanating from the various service delivery components (electricity, water, sewage, etc.) captured in the SDBIP may hinder effective implementation of the SDBIP and consequently service delivery. Risk officials play a crucial role in assisting management to identify risks related to each service delivery component to ensure effective and efficient service delivery ***(Refer to Table 14 for examples of risks relating to various service delivery components).***

14. Risk-adjusted performance targets

(1) Targets facilitate measuring and monitoring of performance. Prior year performance targets are used as a base to set current year targets. When setting targets, management should take into consideration events that hindered/enhanced the achievement of prior year targets and their impact.

(2) Furthermore, events that may possibly hinder/enhance achievement of the current year performance targets and their possible impacts should be considered. Such a consideration is effectively an acknowledgement that risks may impact performance positively/negatively and as such performance targets should be adjusted accordingly ***(Refer to Example 2 for illustration of risk-adjusted performance targets).***

(3) Management and risk officials may agree on the events that will always be considered for setting various performance targets especially when such events recur. Thus a database of such could be established.

15. Key risk indicators (KRI)

(1) KRIs monitor the trend of the risk exposure i.e. whether the risk exposure is increasing/ decreasing/moving upward/moving downward whereas KPIs monitor performance targets. KRIs should be aligned with key performance indicators (KPIs) i.e. the KRI should not be significantly different from KPI.

(2) It is the responsibility of management to develop KPIs whereas risk officials should assist management to develop KRIs. Risk officials and management should agree on the data that

will be suitable and used to monitor a certain KRI. ***(Refer to Example 3 for illustration of the use KRIs linked to risk adjusted performance targets).***

16. Mid-year budget and performance management assessment for metropolitan cities and secondary cities.

(1) Section 71 of the MFMA requires the city/municipal manager to assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan; the previous year's annual report and progress on resolving problems identified in the annual report.

(2) In practice, the mid-year budget and performance assessment is a process undertaken by cities and district municipalities, led by management that essentially identifies risks, challenges and uncertainties that the municipality is facing as well actions to address these issues without assigning ratings.

(3) The involvement of risk officers in this process is crucial as some of management's concerns and information obtained during the process will empower risk officers to guide management on, among others, prospective risks and implementation of relevant risk management strategies. Furthermore, through this process; risk officers assist management to align employees' risk responsibilities, manage allocation of resources and promote accountability of the various stakeholders involved in risk management.

(4) In essence the mid-year budget and performance assessment assists the risk officer in elevating risks that could have been previously viewed as non-priority to priority and escalate to the strategic risk register.

CHAPTER 5: RISK IDENTIFICATION, ASSESSMENT AND RESPONSE

17. Introduction

(1) It is the responsibility of all "municipal heads of departments" or executive management (risk owners) to ensure that department's strategic and operational risks are identified, assessed, and that effective mitigating measures and risk mitigating action plan are developed and monitored.

18. Risk identification

(1) Risk identification is a deliberate and systematic effort to identify and document the municipality's key risks. The municipality should adopt a rigorous and ongoing process of risk identification that also includes mechanisms to identify new and emerging risks timeously. The risk identification process should cover all risks, regardless of whether or not such risks are within the direct control of the municipality. Risk identification should be inclusive, not overly rely on the inputs of a few senior officials and should also draw as much as possible on unbiased independent sources, including the perspectives of important stakeholders.

(2) Risk identification should be strengthened by supplementing management's perceptions of risks, inter alia, with:

- (a) Review of external and internal audit reports;
- (b) Review of oversight structures' report, i.e. National Treasury, Cooperative Governance and Traditional Affairs (COGTA), South African Local Government Association (SALGA);
- (c) Review of the reports of the Municipal Public Accounts Committee (MPAC);
- (d) Municipal financial analysis, i.e. Municipal Finance Data;
- (e) Analysis of actual loss data;
- (f) Interrogation of trends in key performance indicators;
- (g) Benchmarking against peer group or quasi peer group;
- (h) Environmental, economic, market and sector information;
- (i) Analysis of relevant historic;
- (j) Scenario analyses; and
- (k) Forecasting and stress testing.

(3) Focus Points of Risk Identification

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

(a) Strategic risk identification

Strategic risk identification entails identification of risks from the strategic choices made by the municipality, specifically with regard to whether such choices weaken or strengthen the municipality's ability to execute its Local Governance Constitutional mandate. During this risk identification phase the following should be considered:

(i) Strategic risk identification precede the finalization of strategic choices to ensure that potential risk issues are factored into the decision making process for selecting the strategic options;

(ii) Risks inherent to the selected strategic choices are documented, assessed and managed through the normal functioning of the system of risk management; and

(iii) Strategic risks are formally reviewed concurrently with changes in strategy or as and when a need arises to identify new and emerging risks.

(b) Operational risk identification

Operational risk identification entails identification of risks concerned with the Municipality's operations. During this risk identification phase the following should be considered:

(i) Identification of vulnerabilities introduced by human resources (employees), internal processes and systems, contractors, regulatory authorities and external events;

(ii) Embedding the operational risk identification process to identify new and emerging risks and shifts in known risks through mechanisms such as management and committee meetings, environmental scanning, process reviews and the like; and

(iii) Repeat of operational risk identification when changes occur or as and when a need arises to identify new and emerging risks.

(c) Project risk identification

Risks inherent to projects should be identified and due consideration should be given to:

(i) Identification of project risks for the entire project lifecycle.

(ii) Review of project risks on a regular basis, more so for long term projects.

(iii) Risks that may impact on the success of multi-year projects due to, among others, change in legislation (external factor) and available resources (internal factor).

(d) Core Business risk identification

Core business in the municipal environment is synonymous to service delivery. Municipality exist to deliver services to their designated service delivery areas. Core business risk identification entails:

(i) Identifying vulnerabilities introduced by service delivery responsibilities, i.e. water, electricity, waste management, parks and recreation, health services, disasters, etc.;
(ii) Core business risk identification should be an embedded continuous process to identify new and emerging risks and consider shifts in known risks through mechanisms such as management and committee meetings, environmental scanning, process reviews and the like; and
(iii) Core business risk identification should be repeated when changes occur, or at least once a year, to identify new and emerging risks.

(Refer to Figure 4 for an example of the Municipal Risk Universe).

(e) Compliance risk identification

Compliance risks arise as a result of non-compliance with laws and regulations. Compliance risk identification in a municipality is concerned with identifying vulnerabilities relating to legal penalties; financial forfeiture and material loss that the municipality faces when it fails to act in accordance with laws and regulations, internal policies or prescribed best practices that govern local government.

(f) Financial risk identification

Financial risk identification in a municipality is concerned with identifying exposures in respect of municipal finance such as, among others, overall financial feasibility, ability to raise additional capital funding, collection of rates and general financial management.

NB: The areas for consideration for identification of risks are not limited to the above discussed areas. Refer to Figure 4 for comprehensive possible municipal risk universe.

(4) How to perform risk identification

(a) It is crucial to have knowledge of the municipality's environment before commencing with risk identification process. It is also important to learn from both past experience and experience of others when considering the risks to which a municipality may be exposed and the best strategy available for responding to those risks.

(b) Risk identification starts with understanding the municipal mandate and objectives, both implicit and explicit. The risk identification process must identify unwanted events, undesirable outcomes, emerging threats, as well as existing and emerging opportunities. By virtue of a municipality's existence, risks will always exist, whether the municipality has controls or not.

(c) When identifying risks, it is also important to bear in mind that 'risk' also has an opportunity component. This means that there should also be a deliberate attention to identifying potential opportunities that could be exploited to improve municipal performance. In identifying risks, consideration should be given to risks associated with not pursuing an opportunity, e.g. failure to implement an IT system to collect municipal rates.

(d) The following are key steps necessary to effectively identify risks from across the municipality:

(i) Understand what to consider when identifying risks;
(ii) Gather information from different sources to identify risks;
(iii) Apply risk identification tools and techniques;
(iv) Document the risks;
(v) Document the risk identification process; and
(vi) Assess the effectiveness of the risk identification process.

(5) Understand what to consider when identifying risks

(a) In order to develop a comprehensive list of risks, a systematic process should be used that starts with defining objectives and key success factors for their achievement. This can help provide confidence that the process of risk identification is complete and major issues have not been missed.

(6) Gather information from different sources to identify risks

(a) Good quality internal and external information is important in identifying risks. The starting point for risk identification may be historical information about this or a similar municipality.

Discussions with a wide range of stakeholders about historical, current and evolving issues, data analysis, review of performance indicators, economic information, loss data, scenario planning and the like can produce important risk information, audited financial statements, historical view of the financial affairs, audit report, medium term expenditure framework, future view of the financial affairs, multi-year capital programme, future financial needs, IDP, socio-economic potential of area, local/international news reports on the sector, reports from market analysts, comparison to peers in the market.

(b) Furthermore, processes used during Integrated Development Planning like Strength, Weakness, Opportunity and Threat (SWOT) Analysis, Political Economic Social Technological Environment & Legal (PESTEL), analysis and benchmarking will have revealed major risks and opportunities that should not be ignored, i.e. they should be included in the risk register (***Refer to Figure 3 for tools and documents for analysis of internal and external environments).***

(c) Certain disciplines like IT, Strategic Management, Health and Safety, etc. already have in place established risk identification methodologies as informed by their professional norms and standards. The risk identification process should recognize and utilize the outputs of these techniques in order not to 're-invent the wheel'.

(7) Apply risk identification tools and techniques

(a) Uthukela District Municipality should apply a set of risk identification tools and techniques that are suited to its objectives and capabilities, and to the risk the Municipality faces. Relevant and up-to-date information is important in identifying risks. This should include suitable background information where possible. People with appropriate knowledge should be involved in identifying risks.

(b) Approaches used to identify risks could include, among others, the use of checklists, judgments based on experience and records, flow charts, brainstorming, systems analysis, scenario analysis and facilitated workshops.

(8) Document the risks identified

(a) The 'risk register' is the primary output of the risk identification process and is a comprehensive record of all risks across the municipality. The risk register serves three main purposes

(i) It is a source of information to report the key risks throughout the municipality, as well as to key stakeholders.
(ii) Management uses the risk register to focus their priority risks.
(iii) It helps the auditors to focus their plans on the municipality's top risks.

(b) The risks identified during the risk identification are typically documented in a risk register that includes the following: (***Refer to the Template 1 for example of a risk register)***

(i) A description of the risk;

(ii) Impact and likelihood of the risk;

(iii) How and why the risk can happen (i.e. causes/contributing factors and consequences), and

(iv) The existing internal controls that may reduce the likelihood or the impact (or both) of the risks.

(c) It is the combination of these elements that make up a risk and this level of detail will enable a municipality to better understand its risks.

(d) Experience has shown that management often disregards well controlled risks when documenting the risk profile of the Municipality. It is stressed that a well-controlled risk must still be recorded in the risk profile of the Municipality. The reason for this logic is that the processes for identifying risks should ignore at this point any mitigating factors (these will be considered when the risk is being assessed).

(9) Document the risk identification process

(a) The credibility of the risk identification process is important as it impact on the credibility of the final outputs of the process. A flawed risk identification process raises doubt on the credibility of the risks and subsequently the risk register. Managers understand their areas of responsibility and are thus best suited to identify risks within their area and put in place mitigating measures to manage the risks. It is thus imperative for managers to be engaged in the process and own the risks.

(b) Documenting the risk identification process enable assessment of the process and ultimately drawing conclusions about the credibility of the process and contents of the final outputs.

(c) Documentation of the risk identification process includes:

(i)The approach or method used for identifying risks;
(ii) The scope covered by the identification;
(iii) The participants in the risk identification; and
(iv) The information sources consulted.

(10) Assess the effectiveness of the risk identification process

(1) In this case “effectiveness” relate to the degree to which the risk identification process enable the achievement of the desired results. The process of audit is one of the processes used to determine the effectiveness of the risk identification process. However, the risk management unit can also device a tool to evaluate the effectiveness of the risk identification process and risk management process in general. An ineffective risk identification process impacts on the outputs of the process.

(2) Once the risks have been identified, assessed and rated, and existing controls have been assessed, and it is has been established that controls are inadequate, a risk response strategy needs to be determined, i.e. an assessment, for example, of whether the risk is acceptable or whether it needs to be treated in line with the established risk threshold of the municipality. .

(11) Risk analysis

(1) Risk analysis is critical as it guides the choice of mitigating controls and response/treatment of risks. There are various methods that can be used to analyse risks. Root Cause Analysis (RCA) is one of the commonly used methods and it identifies the causes of the risk event instead of the symptoms. The essence of RCA is to ask the “WHYs” until the “close to correct” cause is identified and an appropriate corrective action is devised.

(2) It is important to realize that the corrective action taken to address the risk event may not necessarily be the most effective hence a need for frequent review and amendment of corrective actions. Below is a pictorial depiction of the RCA:

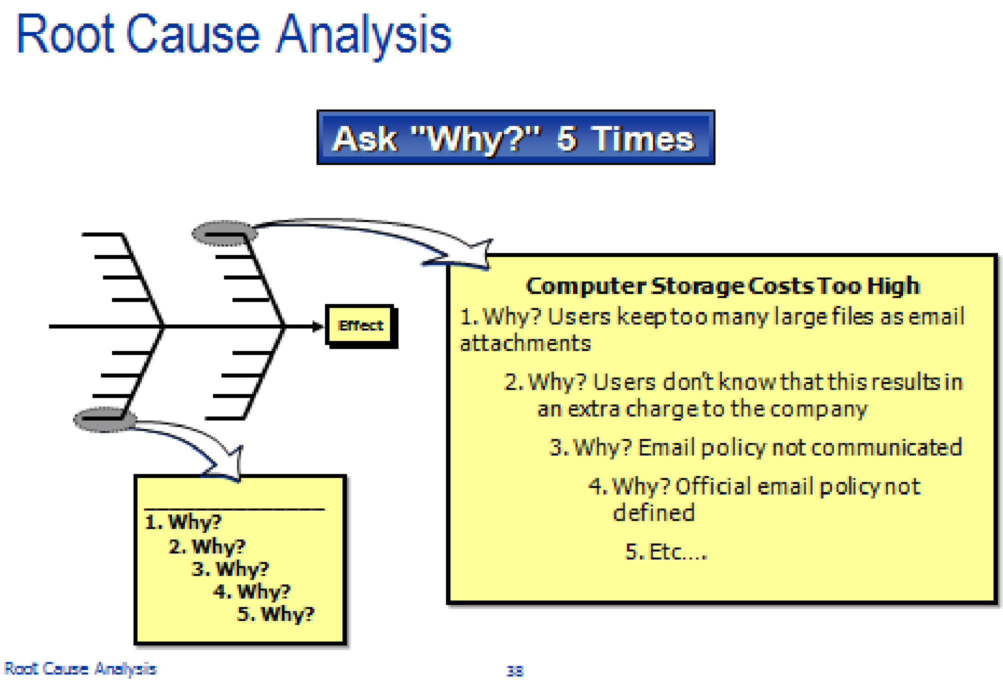

Figure 4: Root cause analysis [https://www.designorate.com/how-to-apply-root-cause-analysis-using-5-whys/]

In the above sketch, the "computer storage costs too high" is a risk event. The "why" will be asked until the analyser reaches the "rock bottom" and the final "why", when no more "whys" can be asked is taken as the main cause and will be the basis for the formulation of the effect and appropriate mitigating control.

(12) Risk assessment

(1) The likelihood and impact of the risks are assessed for both the inherent risks (risk before the implementation of mitigating controls) and residual risks (risk after the implementation of mitigating controls). The likelihood and impact should be informed by credible information from sources such as, among others:

(a) Past financial and operational records;

(b) Internal and external audit reports;

(c) Applicable legislation;

(d) Practice and relevant experience;

(e) Relevant published literature;

(f) Market research;

(g) Results of public consultation; and

(h) Specialist and expert judgements.

(2) Risk assessment entails:

(a) Evaluating the effectiveness of existing controls in terms of design (fit for purpose) and effectiveness (operate as intended) NB: Engage staff with an understanding of controls;

(b) Determining the likelihood (probability of risk occurrence) and impact (event consequence);

(c) Determining overall risk rating (product of likelihood and impact). The municipality should adopt a risk rating matrix/criteria to be used across the entire municipality.

(d) Documenting risk assessment process covering key assumptions and limitations, sources of information used, assessment method, effectiveness of existing controls, severity of impact, likelihood of occurrences and overall risk level.

(Refer Figures 5, 6 7, 8 and 9 for an example of a risk rating matrix)

NB: Consider the institution's risk appetite when assessing risk to determine its (risks') acceptability or not.

(13) Risk response

(1) Determine the acceptability or non-acceptability of the risk and put in place actions/controls to manage the risks. The risks should be assigned to the owner who will be responsible to implement the risk management actions, monitor the risks and report on the impact of the implemented actions on the risks. In case where actions controls are not effective, alternative controls should be explored.

(2) Responses to risks should be developed and the options could be to accept, eliminate/terminate, mitigate/reduce, exploit, avoid, integrate options or transfer the risk to third a party

(Refer to Figure 9(b) for an example of the risk responses)

CHAPTER 6: MONITORING, COMMUNICATION AND REPORTING

19. Introduction

(1). Risk management reporting is a regular provision of appropriate risk and risk management information to stakeholders and decision-makers within and outside of a municipality in order to support the understanding of risk management issues and to assist all officials in performing their municipal duties.

(2) Reporting is a form of communicating or is a communication mechanism. Prior to reporting on risks, the risks would have been monitored over a period of time to establish the **direction** to which the risk is moving or the trend (upward/downward movement/trend**),** the possible **risk impact** on municipal performance and the **effectiveness of the controls** in managing the risks. The three former highlighted constitute key areas of "what" is reported on. The primary reason for managing risks is to enable the municipality to achieve its planned performance objectives, hence the importance of elevating reporting risks in relation to performance.

20. Monitoring of risks and performance

(1) Monitoring entails "collecting, critically analysing, and reporting data on inputs, activities, outputs, outcomes and impacts as well as external factors, in a way that support effective management. Thus monitoring precedes reporting. KRIs should be developed to guide risk monitoring and should be aligned to KPIs which monitors performance. Performance is reflected by the targets which should be risk-adjusted. KPIs are developed by management and KRIs are developed jointly by risk officials and management. Risk officials should agree with management on the data that will be used to monitor risks.

21. Reporting on risks and performance

(1) It is not the responsibility of risk officials to report on risks but that of managers since they (managers) are the risk owners and manage their business on a daily basis. Risk officials should advice management on "how" to integrate KRIs, KPIs and controls to enhance effective reporting and interpretation of the results thereof. It is merely impossible for the municipality to monitor and report on all the risks; hence the focus should be on identified key risks. However, management is not absolved from monitoring non-key risks through the established key risk indicators. Some risks identified as having low likelihood of occurrence may have devastating effect. These risks threaten the municipality's ability to provide services to the community.

22. Implementing an efficient and effective risk management reporting system

(1)The institution can utilize an on-line or manual risk management reporting system. When deciding on the risk management reporting system, management should take into consideration the institution's risk maturity. If an institution's risk maturity is at an intelligence level, the system should cater for the reporting needs at that level. Such a consideration may enhance the efficiency and effectiveness of the risk management reporting system.

(2) Furthermore, capacity, skills, budget, information relevance, timeliness, accuracy and completeness impact on the efficiency and effectiveness of risk management reporting system.

(3) The municipality report on risks to internal and external stakeholders who can be clustered into: oversight, assurance providers, and external stakeholders.

(***Refer to Figure 10 for a risk reporting structure***).

The various stakeholders use risk reports for different purposes hence it is important for risk officials/management to solicit the stakeholders' input to the design of the format of the risk report. This will ensure that the risk report is customized to meet the stakeholders' risk information needs

(***Refer to Table 17 Stakeholders' Report Content Customization***).

23. Risk management performance reports

(1) All municipalities (irrespective of its level of maturity, size and type) should at least provide the following types of risk and risk management performance reporting:

(a) Risk profile reporting

The report should reflect risk profile improvement, indicating the extent to which the municipality is achieving the right balance between risk taking and risk mitigation and reducing its risk exposure to ensure that the municipality is operating within its risk bearing capacity.

(b) Risk maturity reporting

The report should reflect whether the municipality is:

(i) Making progress in moving towards a greater level of maturity;

(ii) Achieving cost benefit of its risk management processes by embedding risk management as much as possible into all operational and decision-making processes; and

(iii) Adding value through the achievement of its service delivery objectives.

(c) Risk management compliance reporting

At a strategic level the report could address, among others:

(i) The extent to which the municipality complies with the prescribed risk management processes as per the risk management policy;

(ii) The extent to which the municipality remains within its risk bearing levels;

(iii) Improvement of the municipality's compliance to predetermined levels of performance.

(iv) At an operational level the reports could highlight issues on controls such as:

- *Inadequate controls*, which in essence indicate a lack of or poorly designed controls;
- *Ineffective controls*, which indicates that staff and management is not applying the controls that have been designed; and
- *Excessive controls* and where they may be reduced to enable reallocation of resources to areas where controls may be less adequate. Excessive controls are costly and add to the red-tape that prevents effective and efficient service delivery.
- In some instances operational risks might need to be reported or escalated to strategic risk. The risk officer should provide guidance on when, why and how should operational risks be escalated to strategic risk. However the risk officer should also guard against escalating every operational risk to strategic level even if it can be resolved at operational level.

(Refer Table 16 for Types of Risk Report)

CHAPTER 7: ROLES AND RESPONSIBILITIES OF STAKEHOLDERS

A. OVERSIGHT

24. Functions of the Council/ Executive Committee with respect to risk management

(1) The Council provides oversight over the Executive Committee.

(2) The Council should take an interest in risk management to the extent necessary to obtain comfort that properly established and functioning systems of risk management are in place to protect the municipality against significant risks.

(3) Responsibilities of the Council in risk management should include:

(a) ensuring that the municipal strategies are aligned to the government mandate;

(b) obtaining assurance from management that the municipality's strategic choices were based on a rigorous assessment of risk;

(c) obtaining assurance that key risks inherent in the municipality's strategies were identified and assessed, and are being properly managed;

(d) assisting the Municipal/City Manager, to deal with fiscal, intergovernmental, political and other risks beyond their direct control and influence;

(e) insisting on the achievement of objectives, effective performance management and value for money.

(f) giving effect to the strategy by approving the risk management policy, strategy, and implementation plan; and fraud prevention policy, strategy and implementation plan.

(g) govern risk and opportunity in a way that supports the municipality to set and achieve strategic objectives.

25. Functions of the Municipal Public Accounts Committee with respect to risk management

(1) The Municipal Public Accounts Committee is established through section 79 of the Municipal Structures Act in order to promote transparency, accountability, good governance, effective financial management, and quality service delivery at municipalities.

(2) Its primary function in relation to risk management is:

a) To consider and evaluate the risk management content contained in the annual report and to make recommendations to Council when adopting an oversight report on the annual report;
b) Review information relating to past recommendations made on the Annual Report on risk management including the quarterly and mid-year reports;
c) Examine audit reports of the municipality, taking into consideration improvements from previous reports and must evaluate the extent to which the Audit Committee's and the Auditor General's recommendations relating to risk management have been implemented;
d) To perform any other functions assigned to it through a resolution of council within its area of responsibility.

26. Functions of the Executive Committee with respect to risk management

(1) The executive committee provides oversight to the municipal manager and is accountable to the council.

(2) The executive committee is responsible for carrying out any risk management related responsibilities that may have been, delegated to it by the Mayor.

27. Functions of the Audit Committee with respect to risk management

(1) The Audit Committee is an independent committee responsible for oversight of the municipality's control, governance and risk management.

(2) The responsibilities of the Audit Committee with respect to risk management should be formally defined in its charter.

(3) The Audit Committee should provide an independent and objective view of the municipality's risk management effectiveness.

(4) Responsibilities of the Audit Committee, where there is a separate Risk Management Committee, should include:

(a) reviewing and recommending disclosures on matters of risk in the annual financial statements;

(b) reviewing and recommending disclosures on matters of risk and risk management in the annual report;

28. Functions of the Risk Management Committee

(1) The Risk Management Committee is appointed by the Municipal Manager, to assist them to discharge their responsibilities for risk management.

(2) The membership of the Risk Management Committee should comprise both management and external members with the necessary blend of skills, competencies and attributes, including the following critical aspects:

(a) an intimate understanding of the Municipality's mandate and operations;

(b) the ability to act independently and objectively in the interest of the municipality; and

(c) a thorough knowledge of risk management principles and their application.

(3) The chairperson of the Risk Management Committee should be an independent external person, appointed by the Municipal Manager,

(4) The responsibilities of the Risk Management Committee should be formally defined in a charter approved by the Municipal Manager,

(5) In discharging its governance responsibilities relating to risk management, the Risk Management Committee should:

(a) review and recommend for the Approval of the Council, the:

(i) risk management policy;

(ii) risk management strategy;

(iii) risk management implementation plan;

(iv) municipality's risk appetite, ensuring that limits are:

- supported by a rigorous analysis and expert judgment;
- expressed in the same values as the key performance indicators to which they apply;

• set for all material risks individually, as well as in aggregate for particular categorisations of risk; and

• consistent with the materiality and significance framework.

(v) Municipality's risk tolerance, ensuring that limits are supported by a rigorous analysis and expert judgment of:

• the municipality's ability to withstand significant shocks; and

• the municipality's ability to recover financially and operationally from significant shocks.

(vi) Municipality's risk identification and assessment methodologies, after satisfying itself of their effectiveness in timeously and accurately identifying and assessing the municipality's risks.

(b) evaluate the extent and effectiveness of integration of risk management within the municipality;

(c) assess implementation of the risk management policy and strategy (including plan);

(d) evaluate the effectiveness of the mitigating strategies implemented to address the material risks of the municipality;

(e) review the material findings and recommendations by assurance providers on the system of risk management and monitor the implementation of such recommendations;

(f) develop its own key performance indicators for approval by the Municipal/City Manager

(g) interact with the Audit Committee to share information relating to material risks of the municipality; and

(h) provide timely and useful reports to the Council on the state of risk management, together with accompanying recommendations to address any deficiencies identified by the Committee.

(6) In instances where the scale, complexity and geographical dispersion of the municipality's activities dictate the need for the Risk Management Committee to work through subcommittees, the Risk Management Committee should ensure that:

(a) approval is obtained from the Council for the establishment of the sub-committees;

(b) the terms of reference of the sub-committees are aligned to that of the Risk Management Committee; and

(c) the Risk Management Committee exercises control over the functioning of the subcommittees.

B. EXTERNAL STAKEHOLDERS

29. Functions of the Cooperative Government and Traditional Affairs with respect to risk management

(1) Supporting the risk management policies, strategies and activities that enhance the delivery of municipal services to the right quality and standard,

(2) Promote good governance, transparency and accountability, ensures sound financial management and accounting.

30. Functions of the South African Local Government Association with respect to risk management

(1) Providing ideas, advice, political insight, and support on risk management related issues, including risk management training for councillors.

31. Functions of the National Treasury with respect to risk management

(1) The National Treasury has specific functions in terms of sections 5(2) and 34 of the MFMA to:

(a) prescribe uniform norms and standards;

(b) monitor and assess the implementation of the MFMA;

(c) assist municipalities in building their capacity for efficient, effective and transparent financial management; and

(d) enforce the MFMA.

(2) **Monitor and assess**, among other things, the implementation of risk management, including any prescribed norms and standards.

(3) With respect to **capacity building**, the National Treasury should assist municipalities and municipal entities in building their capacity for, among other things, efficient, effective and transparent risk management.

(4) With respect to **enforcement**, the National Treasury should enforce the legislation and any prescribed norms and standards for, among other things, risk management in municipalities and municipal entities.

(5) In addition, the National Treasury may do anything further that is necessary to fulfill its responsibilities effectively.

32. Functions of the Provincial Treasury with respect to risk management

(1) The Provincial Treasury has specific functions in terms of section 34 of the MFMA to:

(a) prescribe uniform norms and standards;

(b) monitor and assess the implementation of the MFMA;

(c) assist Municipality's in building their capacity for efficient, effective and transparent financial management; and

(d) enforce the MFMA.

(2) M**onitor and assess**, among other things, the implementation of risk management, including any prescribed norms and standards.

(3) With respect to **capacity building**, the Provincial Treasury should municipalities and municipal entities, in among other things, in building their capacity for efficient, effective and transparent risk management.

(4) With respect to **enforcement**, the Provincial Treasury should enforce the legislation and any prescribed norms and standards for, among other things, risk management in municipalities and municipal entities.

(5) In addition, the Provincial Treasury may do anything further that is necessary to fulfill its responsibilities effectively.

C. RISK OWNERS

33. Functions of the Municipal Manager with respect to risk management

(1)The Municipal Manager is accountable for the Municipality's overall governance of risk. High level responsibilities of the Municipal Manager should include:

(a) Setting an appropriate tone by supporting and being seen to be supporting the Municipality’s aspirations for effective management of risks;

(b) Delegating responsibilities for risk management to Management and internal formations such as the Risk Management Committee, Fraud Prevention Committee, Finance Committee, Information and Communication Technology Committee;

(c) Holding Management accountable for designing, implementing, monitoring and integrating risk management into their day-today activities;

(d) Holding the internal structures referred to (in pint “b” above) accountable for performance in terms of their responsibilities for risk management;

(e) Providing leadership and guidance to enable Management and internal structures responsible for various aspects of risk management to properly perform their functions;

(f) Ensuring that the control environment supports the effective functioning of risk management;

(g) Approving the risk management policy, strategy, and implementation plan;

(h) Approving the fraud prevention policy, strategy and implementation plan;

(i) Approving the Municipality's risk appetite and risk tolerance and (and all relevant risk thresholds);

(j) Devoting personal attention to overseeing management of the significant risks;

(k) Leveraging the Audit Committee, Internal Audit, External Audit and Risk Management Committee for assurance on the effectiveness of risk management;

(l) Ensuring appropriate action in respect of the recommendations of the Audit Committee, Internal Audit, External Audit and Risk Management Committee to improve risk management; and

(m) Providing assurance to relevant stakeholders that key risks are properly identified, assessed and mitigated.

34. Functions of the Executive Committee with respect to risk management

(1) The Executive Committee (EXCO) has a duty to monitor performance and financial management against the Municipality's objectives and\or mandate. They are responsible for overseeing the daily implementation of the Municipality's policies and making sure that the Municipality's oversight structures are establishing and maintaining good governance practices. Furthermore, the EXCO (as a collective) also has risk management duties to:

(a) Endorse risk management strategies and plans for approval, especially areas identified as high risks;
(b) Input to strategic direction of the Municipality when risk management is concerned;
(c) Influence and input to the Municipality's strategies of institutional culture and risk management culture, and
(d) Identify opportunities and emerging risks affecting the Municipality.

35. Functions of Management with respect to risk management

(1) Management is responsible for executing their responsibilities outlined in the risk management strategy and for integrating risk management into the operational routines. High level responsibilities of Management should include:

(a) Executing their responsibilities as set out in the risk management strategy;
(b) Empowering officials to perform effectively in their risk management responsibilities through proper communication of responsibilities, comprehensive orientation and on-going opportunities for skills development;
(c) Aligning the functional risk management methodologies and processes with the Municipal process;
(d) Devoting personal attention to overseeing the management of key risks within their area of responsibility;
(e) maintaining a co-operative relationship with the Risk Management Unit and Risk Champion;
(f) Providing risk management reports at the stipulated times;
(g) Presenting to the Risk Management and Audit Committees as requested;
(h) Maintaining the proper functioning of the control environment within their area of responsibility;
(i) Monitoring risk management within their area of responsibility; and
(j) Holding officials accountable for their specific risk management responsibilities.

36. Functions of Employees with respect to risk management

(1) Other officials are responsible for integrating risk management into their day-today activities. High level responsibilities of other officials should include:

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

37. Functions of the Risk Champions with respect to risk management

(1) The Risk Champion is a person with the skills, knowledge, leadership qualities and power of office required to champion a particular aspect of risk management. A key part of the Risk Champion's responsibility should involve intervening in instances where the risk management efforts are being hampered, for example, by the lack of co-operation by Management and other officials and the lack of Municipal skills and expertise.

(2) The Risk Champion should also add value to the risk management process by providing guidance and support to manage "problematic" risks and risks of a transversal nature that require a multiple participant approach. In order to fulfil his/her function, the Risk Champion should possess:

(a) A good understanding of risk management concepts, principles and processes;
(b) Good analytical skills;
(c) Expert power;
(d) Leadership and motivational qualities; and
(e) Good communication skills.

(3) The Risk Champion should not assume the role of the Risk Owner but should assist the Risk Owner to solve problems. Some of the roles and responsibilities of the Risk Champion may also include:

(a) Advocating the culture of change and adopting risk management as a professional discipline to be adopted in every day management of activities and to strategically influence the current way of doing things which is compliance driven;
(b) Educating the stakeholders of the importance of managing risk in dealing with public funds…the responsibility that goes beyond meeting the requirements of meeting the

requirements of financial management prescripts but most importantly impacting positively service delivery;

(c) Communicating the right message and driving this message to influence behaviour and discipline in getting the basics right. This extends further to ensuring the use of a common risk management language and consistent messages in all communications, and

(d) Informing the users and stakeholders of current demands, need to improve, what to improve and how to improve to leave the legacy that goes beyond compliance but continuous improvement of accountability and service delivery.

(4) A key part of the Risk Champion's responsibility should involve intervening in and escalating instances where the risk management efforts are being hampered, for example, by the lack of co-operation by Management and other officials and the lack of institutional skills and expertise.

D. ASSURANCE PROVIDERS

38. Functions of the Office of the Accountant-General with respect to risk management

(1) The Office of the Accountant – General within the National Treasury (OAG) is responsible for developing policies and frameworks on Risk Management. The OAG recognises the critical importance of appropriate and well embedded risk management practices within municipalities and supports these municipalities to deliver their constitutional mandates efficiently, effectively and economically. Accordingly, the OAG was established to:

(a) Develop, maintain and communicate risk management norms and standards aligned to the Municipal Finance Management Act and other relevant legislation;

(b) Provide technical support and guidance to facilitate implementation of risk management legislation, regulations, norms and standards;

(c) Monitor and evaluate the implementation of risk management legislation, regulations, norms and standards;

(d) Facilitate risk management capacity building in collaboration with various stakeholders, and

(e) Facilitate risk management research and knowledge sharing.

39. Functions of the Auditor – General/ External Auditor with respect to risk management

(1) The external auditor (Auditor-General) provides an independent opinion on the effectiveness of risk management. In providing the audit opinion, the Auditor – General usually focuses on:

(a) Determining whether the risk management policy, strategy and implementation plan are in place and are appropriate;

(b) Assessing the implementation of the risk management policy, strategy and implementation plan;

(c) Reviewing the risk identification process to determine if it is sufficiently robust to facilitate the timely, correct and complete identification of significant risks, including new and emerging risks;

(d) Reviewing the risk assessment process to determine if it is sufficiently robust to facilitate timely and accurate risk rating and prioritization; and

(e) Determining whether the management action plans to mitigate the key risks are appropriate, and are being effectively implemented.

40. Functions of the Internal Audit with respect to risk management

(1) The role of the Internal Auditing in risk management is to provide an independent, objective assurance on the effectiveness of the Municipality's system of risk management. Internal Auditing must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.

(2) Internal Auditing must develop its internal audit plan on the basis of the key risk areas. In terms of the International Standards for the Professional Practice of Internal Audit, determining whether risk management processes are effective is a judgment resulting from the Internal Auditor's assessment that:

(a) Municipal objectives support and align with the Municipality's mission;

(b) Significant risks are identified and assessed;

(c) Risk responses are appropriate to limit risk to an acceptable level; and

(d) Relevant risk information is captured and communicated in a timely manner to enable the Municipal Manager, Management, the Risk Management Committee and other officials to carry out their responsibilities.

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