



KING SABATA DALINDYEBO MUNICIPALITY



RISK MANAGEMENT POLICY

2023– 2024

RISK MANAGEMENT POLICY FOR KING SABATA DALINDYEBO MUNICIPALITY

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RISK MANAGEMENT POLICY FOR KING SABATA DALINDYEBO MUNICIPALITY

DEFINITIONS

Risk Management	<p><i>Risk Management:</i> A systematic and formalized process to identify, assess, manage, and monitor risks. Can also be defined as the identification and evaluation of actual and potential risk areas as they pertain to the municipality, followed by a process of either termination, transfer, acceptance (tolerance) or mitigation of each risk.</p>
Risk	<p>A <i>risk</i> is something which could:</p> <ul style="list-style-type: none"> • Have an impact by not taking opportunities or not capitalizing on corporate strengths. • Prevent, influence the achievement of the set objectives. • Cause financial disadvantage, i.e., additional costs or loss of money or assets, or • Result in damage to or loss of an opportunity to enhance the municipality's reputation
Risk Factor	Any threat or event which creates or has the potential to create risk.
Strategic Risk	Strategic Risk is a significant risk requiring reference to and monitoring by senior management, i.e., those risks assessed as having an impact on the Strategic business objectives of the municipality.
Operational Risk	Operational risk is the risk of losses caused by flawed or failed processes, policies, systems, or events that disrupt business operations. Employee errors, criminal activity such as fraud, and physical events are among the factors that can trigger operational risk
Risk appetite	Risk appetite means the amount of risk which the municipality is generally willing to accept in striving for value;
Risk Tolerance	The amount of risk the municipality is capable of bearing (as opposed to the amount of risk it is willing to bear)
Risk assessment	Risk assessment means the process of determining the probability, as well as the impact of the identified risk as a basis of determining how these risks should be managed;
Risk register	Risk register means a record of all relevant information relating to the identification and management of risks;
Risk response	Risk response means a set of actions – avoiding, accepting, reducing, or sharing risk – developed to mitigate the identified risks.
Risk Owner	Means the person accountable for managing a particular risk.
COSO	Committee Of Sponsoring Organizations
King IV Code	King IV Code on Corporate Governance for South Africa
ISO	International Organization for Standardization
KSDM	King Sabata Dalindyebo Municipality

1. INTRODUCTION

It is important that the Council, Accounting Officer (Municipal Manager) and Senior Management sets the right tone for risk management in the municipality. Senior Management of a municipality must pro-actively, purposefully, and regularly, and at least annually, identify and define current as well as emerging business, financial and operational risks. Identification of appropriate business and cost-effective methods of managing these risks within the municipality, as well as the risk to the stakeholders should also be conducted. Although all staff should be aware of the need to prevent loss and to safeguard stakeholders' interests, they may not be quite so clear about the municipality's standpoint on risk. It is therefore vital for the municipal council and Accounting Officer to publish a Risk Management Policy. The policy serves as a statement that declares the municipality's commitment to risk management. The Risk Management Policy outline the municipality's commitment to protecting the municipality against adverse outcomes, which may impact negatively on service delivery. It also confirms the municipality's commitment to legal and regulatory compliance.

King Sabata Dalindyebo Municipality is committed to a process of risk management that is aligned to the principles of good corporate governance, as defined in King IV report, and Committee of Sponsoring Organizations framework as supported by the Municipal Finance Management Act (MFMA), Act no 56 of 2003.

Risk management is recognized as an integral part of responsible management and the municipality therefore adopts a comprehensive approach to the management of risk. The features of this process are outlined in the municipality's Risk Management Strategy. It is expected that all departments /sections, operations, and processes must be subject to the Risk Management Strategy / process. It is the intention of the municipal council that these departments / sections should work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable in pursuit of municipal objectives. Effective risk management is imperative to the municipality to fulfil its mandate, the service delivery, and the performance expectations from the public within the municipality.

The realization of our strategic plan depends on the municipality's management and officials being able to take calculated risks in a way that does not jeopardize the direct interests of stakeholders. Sound management of risk should enable the municipality's management and officials to anticipate and respond to changes in our service delivery environment, as well as make informed decisions under conditions of uncertainty.

2. REGULATORY FRAMEWORK

2.1 Constitution of the Republic of South Africa, 1996 (Constitution)

Section 195 of the Constitution emphasizes the values and principles underpinning public administration, which include the efficient, economic, and effective use of resources in the public sector.

Planning is very important in clarifying the intentions of Government in the medium term; facilitating the allocation of budgets according to priorities; monitoring results and enforcing accountability in the whole of Government. Embedded within this planning framework is an internal control and risk management framework that serves to ensure that public service organizations achieve their outcomes. Risk management is undoubtedly one of the most important management tools during an era of public service reforms.

2.2 Local Government: Municipal Finance Management Act 56 of 2003 (MFMA)

The MFMA sets out the roles and responsibilities of the key stakeholders within the risk management process as follows:

2.2.1 Accounting Officer

Section 62 of the MFMA requires that:

- (1) 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-
- (c) That the municipality has and maintains effective, efficient, and transparent systems-
- (i) of financial and risk management and internal control"

2.2.2 Management, Chief Risk Officer, and Other Personnel

In terms of section 78 of MFMA, management responsibilities are extended to all Senior Managers and other officials of municipalities.

This implies that the responsibility for risk management vests at all levels of council, management and staff and is not limited to only the Accounting Officer, the Risk Management Unit and or Internal Audit Unit.

2.2.3 Internal Audit Unit

Section 165 paragraph (2) (a) (b) (iv) of the MFMA requires that:

"(2) The internal audit unit of a municipality must –

- (a) Prepare a risk-based audit plan and an internal audit program for each financial year.
- (b) Advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to:
- (iv) Risk and risk management."

2.2.4 Audit Committee

Section 166 (2) (a) (ii) of the MFMA states:

"(2) An audit committee is an independent advisory body which must–

(a) Advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality on matters relating to:

(ii) Risk management."

2.3 Public Sector Risk Management Framework

In addition to the constitutional provisions, and MFMA, the National Treasury's has developed a condensed Public Sector Risk Management Framework that provides for the implementation of an enterprise risk management framework for the entire public service.

2.4 The COSO Framework

COSO is an acronym for the Committee of Sponsoring Organizations designed to establish internal controls systems to be integrated into business processes of organizations. Collectively, these controls provide reasonable assurance that the KSD Municipality is operating ethically, transparently and in accordance with established industry standards.

2.5 The King Code of Corporate Governance

i) King IV Code on Corporate Governance for South Africa; **Chapter 4** (Governance Functional Areas) **4.1** (Risk and Opportunity Governance). The Council should govern Risk and Opportunity in a way that supports KSD Municipality in defining core purpose and to set and achieve strategic objectives.

2.6 ISO 31000, Risk management

i) ISO 31000, Risk management – Guidelines, provides principles, a framework, and a process for managing risk. It can be used by any organization regardless of its size, activity, or sector.

3. PURPOSE

This Policy provides a framework for the effective identification, evaluation, management, measurement, and reporting of the municipality's risks.

The purpose of the afore-said risk assessment is to provide management with an estimation and understanding of the risk profile of the municipality. The risk analysis also provides an indication of the impact and likelihood of critical risks occurring that may prevent the KSD Municipality from attaining the desired performance from its strategic objectives.

3.1 The Policy adopted a broad definition of risk as follows:

"A risk is the probability of an event occurring or not occurring that may negatively impact on the attainment of the Municipality's objectives. A risk is also defined as the probability

of an opportunity presenting itself which the municipality may not recognize and take advantage of.”

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

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

- a) Supporting balance sheet protection.
- b) Supporting business continuity.
- c) Supporting reputation risk.
- d) Defining risk management roles and responsibilities within the municipality and outlining procedures to mitigate risks.
- e) Ensuring pro-active, consistent, integrated, and acceptable management of risk throughout the Municipality.
- f) Defining a reporting framework to ensure regular communication of risk management information to Council, Audit and Performance Audit Committee and Executive Committees, Senior Management and officials engaged in risk management activities and any other oversight committee.
- g) Providing a system or process to accommodate the central accumulation of risk data such as the development and maintenance of a risk register, which must form part of operational support and procedures.

4. ENTERPRISE RISK MANAGEMENT POLICY STATEMENT

The Municipal Council has committed the KSD Municipality to a process of risk management that is aligned to the principles of good corporate governance, as supported by the Municipal Finance Management Act no 56 of 2003.

Risk Management is recognized as an integral part of responsible management and the institution therefore adopts a comprehensive approach to the management of risk. The features of this process are outlined in the institution's Risk Management strategy which forms part of this policy. It is expected that all departments, operations, and processes should be subject to the Risk Management Strategy and Process. It is the intention that these departments should work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable.

RISK MANAGEMENT POLICY FOR KING SABATA DALINDYEBO MUNICIPALITY

Effective risk management is imperative to the KSD Municipality to fulfil its mandate, the service delivery expectations of the public and the performance expectations within the institution.

The realisation of our strategic plan depends on KSDLM being able to take calculated risks in a way that does not jeopardise the direct interest of stakeholders. Sound management of risk should enable the municipality to anticipate and respond to changes in our services delivery environment, as well as make informed decisions under conditions of uncertainty.

The KSDLM subscribes to the fundamental principles that all resources must be applied economically to ensure:

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

5. COSO FRAMEWORK 2017 BENEFITS OF EFFECTIVE ENTERPRISE RISK MANAGEMENT

KSDLM sets a strategy and periodically adjusts it, as it always stays aware of both ever-changing opportunities for creating value and the challenges that will occur in pursuit of that value. The best possible framework for optimizing strategy and performance is designed. KSDM integrate enterprise risk management throughout the entity to realize many benefits, including, but not limited to:

- a) **Increasing the range of opportunities:** By considering all possibilities both positive and negative aspects of risk, management identifies new opportunities and unique challenges associated with current opportunities.
- b) **Identifying and managing risk entity-wide:** KSDLM faces myriad risks that can affect many parts of the municipality. Sometimes a risk can originate in one part of the entity but impact another different part of municipal operations. Consequently, management identifies and manages these entity-wide risks to sustain and improve performance.

- c) Increasing positive outcomes and advantage while reducing negative surprises:** Enterprise risk management allows entities to improve their ability to identify risks and establish appropriate responses, reducing surprises and related costs or losses, while profiting from advantageous developments.
- d) Reducing performance variability:** For some, the challenge is less with surprises and losses and more with variability in performance. Performing ahead of schedule or beyond expectations may cause as much concern as performing short of scheduling and expectations. Enterprise risk management allows KSDM to anticipate the risks that would affect performance and enable them to put in place the actions needed to minimize disruption and maximize opportunity.
- e) Improving resource deployment:** Every risk needs to be considered a request for resources. Obtaining robust information on risk allows management, in the face of finite resources, to assess overall resource needs, prioritize resource deployment and enhance resource allocation.
- f) Enhancing enterprise resilience:** An entity's medium- and long-term viability depends on its ability to anticipate and respond to change, not only to survive but also to evolve and thrive. This is, in part, enabled by effective enterprise risk management. It becomes increasingly important as the pace of change accelerates and business complexity increases.

These benefits highlight the fact that risk should not be viewed solely as a potential constraint or challenge to setting and carrying out a strategy. Rather, the change that underlies risk and the KSD municipal responses to risks that give rise to strategic opportunities and key differentiating capabilities.

6. POLICY SCOPE AND APPLICATION

The effectiveness of the Municipality's efforts to entrench a culture of risk management applies to all municipal officials, political office bearers and agents acting on behalf of the municipality. Therefore, the Policy applies to all these key stakeholders.

7. RISK MANAGEMENT APPROACH

Risk Management Policy provides a framework to identify, assess and manage potential risks and opportunities. It provides a way for management to make informed decisions.

An entity-wide approach to risk management has been adopted by the municipality, which means that every key risk in each part of the municipality should be included in a structured and systematic process of risk assessment and management. It is expected that the risk management processes should be embedded into the municipality's systems and processes, ensuring that responses to risk remain current and dynamic. All risk management efforts are focused on supporting the municipality's objectives. Equally, they

must ensure compliance with relevant legislation, and fulfil the expectations of officials, communities, and other stakeholders in terms of corporate governance.

8. RISK MANAGEMENT OBJECTIVES

The underlying intention of risk management implementation is for the municipality to achieve, among other things, the following outcomes needed to underpin and enhance performance through risk management process:

- a) more sustainable and reliable delivery of services.
- b) informed decisions underpinned by appropriate rigor and analysis.
- c) innovation.
- d) reduced waste.
- e) prevention of fraud and corruption.
- f) Better value for money through more efficient use of resources; and
- g) Better outputs and outcomes through improved project and program management.

The Risk Management Policy also aims to address multiple other objectives within KSD Municipality, namely.

8.1 To Inform and Facilitate

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

8.2 Strategic Alignment

Risk management activities should be aligned to the Integrated Development Plan objectives, projects, plans, and priorities. It should encompass all strategic and operational risks that may prevent the municipality from fulfilling its objectives and goals.

8.3 Mitigate

The Council should anticipate and take preventative action to avoid risks rather than dealing with the consequences. A consistent approach to the identification, assessment and management of risks should be embedded throughout the Council. Risk control and mitigation measures must be effective, appropriate, proportionate, affordable, and flexible. Risk controls should not be implemented where the cost and effort exceed the expected benefits i.e., cost versus benefits.

The Council must commit the necessary resources to implement risk management consistent with the above principles.

8.4 Sets Risk Management Standards

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

8.5 Monitor and Review

The policy sets standards, processes, and responsibilities to make it possible to monitor the extent that risk management responsibility is met. This includes assessment of whether the risk management strategy is producing sustainable outcomes as originally envisaged. Directors are responsible for monitoring and reviewing risks and appropriateness of actions taken to address risks in their respective Directorates.

8.6 Compliance

This policy aims to achieve compliance and to implement best practices in support of Section 62 (1) (c) (i) of the Municipal Finance Management Act. To ensure adherence to good control governance and to avoid future adverse audit findings risk management must be performed at least to a compliance level which includes the adoption and implementation of a Risk Management Policy. Operational inefficiencies due to system flaws and errors can also be minimized by implantation of risk management.

9. RISK MANAGEMENT PRINCIPLES

The principles contained in this policy should be applied at both strategic and operational levels within the municipality.

The municipality's Risk Management Policy must be applied to all strategic and operational aspects of the municipality and should consider external risks including those arising because of other spheres of government, as well as internal risks. Our positive approach to risk management means that we should not only look at the risk of things going wrong, but also the impact of not taking opportunities or not capitalizing on corporate strengths.

9.1 General Principles

All risk management activities should be aligned to strategic objectives, and the municipality's priorities, and aims to protect and enhance the reputation and standing of the municipality.

Risk analysis should form part of the municipality's strategic planning, business planning and investment/ project appraisal procedures.

Risk management should be established on a risk-based approach to internal control which must be embedded into day-to-day operations of the municipality. Managers and staff at all levels must have the responsibility to identify, evaluate and manage and or report risks.

9.2 Principles for managing specific risks.

Risk Management in the municipality should be proactive and reasoned. Strategic and operational risks should be identified, objectively assessed, and actively managed. The aim is to anticipate, and where possible, avoid risks rather than dealing with their consequences. However, for some key areas where the likelihood of a risk occurring is relatively small, but the impact is high, council may cover that risk by developing contingency plans. For an example, there must be developed Business Continuity Plans and or Disaster Recovery Plans. This should allow KSDLM to contain the negative effect of unlikely events which might occur.

In determining an appropriate response, the cost of control/risk management, and the impact of risks occurring can be balanced with the benefits of reducing and or managing risk. This means that it should not be necessary to set up and monitor controls to counter risks where the cost and effort are disproportionate to the impact or expected benefits. KSDLM must recognize that some risks can be managed by transferring them to a third party, for example by contracting out, Public Private Partnership arrangements, or by insurance.

10. STAKEHOLDERS: POWERS AND ACCOUNTABILITY

10.1 Council

The role and function of Council is to ensure that appropriate risk strategies, policies and processes are adopted, that powers and functions are clearly defined, assigned, and performed, and that those made responsible are empowered and enabled in accordance with their responsibilities. It also ensures that all other strategies and policies are aligned with risk management strategies, plans, requirements, and standards. It oversees risk management progress and performance.

10.1.1 The KSDM employs The King IV Code on Corporate Governance which expands on Council responsibilities in principled form as follows.

Principle 1: Leadership; The Council should lead ethically and effectively:

Members of the Council should individually and collectively cultivate the following characteristics and exhibit them in their conduct:

- i) Integrity
- ii) Competence
- iii) Responsibility
- iv) Accountability
- v) Fairness

vi) Transparency

The Council should embody the above ethical characteristics to offer effective leadership that results in achieving strategic objectives and positive outcomes over time.

Disclose how members of the Council are being held to account for ethical and effective leadership.

Principle 2: KSD Municipal Ethics; The Council should govern the ethics of the KSD Municipality in a way that supports the establishment of an ethical culture.

The Council through its management assumes responsibility for the governance of ethics, approves codes of conduct and ethics policies and ensure that they include all stakeholders and address the key ethical risks. Management ensures that there are ways for all stakeholders to be made aware of the codes of conduct and ethics policies by making the approved prescripts available on municipal website.

Council must delegate implementation and execution of the codes of conduct and ethics policies to management and it's role is to exercise ongoing oversight of the management of ethics and oversee results in matters like recruitment, employee remuneration, supplier selection, breach management, whistle-blowing and independent assessments.

Principle 3: Responsible Corporate citizen; The KSDM Council should ensure that the KSD Municipality is and seen to be a responsible corporate citizen.

The Council assumes responsibility for corporate citizenship by setting the direction for how it should be approached and addressed by its constituency. The Council ensures that the KSD Municipality's responsible corporate citizenship efforts include compliance with the Constitution of South Africa (including the Bill of Rights), the law, leading standards, and adherence to its own codes of conduct and policies.

The Council oversees that the municipality's core purpose and values, strategy and conduct are congruent with it being a responsible corporate citizen. The Council should oversee and monitor how the consequences of the municipality's activities and outputs affect its status as a responsible corporate citizen. This oversight and monitoring are performed against measures and targets agreed with management in all the areas of service delivery.

Council must disclose the arrangements for governing and managing responsible corporate citizenship, including the key areas of focus, monitoring measures, how the key

outcomes are addressed and future areas of focus through the annual report which is posted in the KSD Municipal website.

Principle 4: Strategy and performance; The Council should appreciate that the KSD Municipality's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

Steer and set the direction, purpose, and strategy of the KSD Municipality.

Delegate to management the formulation of the municipality's strategy in the Integrated Development Plan (IDP) and approve the Intergrated Development Plan with strategies. When considering the proposed IDP with strategy for approval, the Council should challenge it constructively with reference to:

- i) Timelines and parameters
- ii) Risks and opportunities
- iii) Resources and relationships connected to the forms of funding.
- iv) Legitimate expectations of material stakeholders
- v) Changes to the forms of funding
- vi) Interconnectivity and interdependencies

The council approves policies and operational plans developed by management to give effect to the approved IDP and strategy. These include the key performance measures and targets for assessing the achievement of strategic objectives and positive outcomes.

The Council exercises oversight on the implementation of strategy and operational plans by management. The council should continually assess and respond responsibly to any negative consequences of its activities and outputs, its solvency and liquidity and going concern status.

Principle 5: Reporting; The Council should ensure that reports issued by the Municipality enable stakeholders to make informed assessments of the municipality's performance, and its short, medium, and long-term prospects.

The Council should assume responsibility for the municipality's reporting, by approving management's determination of reporting frameworks, considering legal requirements, and intended purpose of each report. The KSDM Council should ensure that the municipality issues an integrated report and that the annual financial statements, and all other Council reports are issued in compliance with legal provisions.

Principle 6 Primary role and responsibilities of the KSDM Council; The Council serves as the focal point and custodian of corporate governance in the municipality.

The Council should exercise its leadership role by steering the municipality and setting its strategic direction, approving policy, and planning, overseeing, and monitoring of implementation and execution by management and ensuring accountability for municipal performance by means of reporting and disclosure.

The Council has a delegation framework which outlines its role, responsibilities and membership requirements and the delegation framework must be regularly reviewed.

The Council must always disclose the number of meetings held, attendance and whether the Council is satisfied that it has discharged its responsibilities in accordance with its delegation framework.

Principle 7: Composition of the KSDM Council Committee; The Council should comprise the appropriate balance of knowledge, skills, experience, diversity, and independence for it to discharge its governance role and responsibilities objectively and effectively.

a) Composition

The Council should direct and approve the process for attaining the appropriate balance of knowledge, skills, experience, diversity, and independence to discharge its governance role and responsibilities objectively and effectively in the pool determine by political parties. The Council should consider an appropriate size for itself with regard to set up of its committees, with reference to the optimal mix of knowledge, skills, experience, the mix of Mayoral Committee, and members of section 79 committees and or Standing Committee Members, sufficiency in numbers for its committee's quorum and regulatory requirements and diversity of targets.

b) Nomination, and appointments

The nomination and appointment of candidates for election to council committees must be approved by the Council as a whole and the process must be formal and transparent.

c) Independence and conflicts

Subject to legal provisions, each member of the Council must submit a declaration of all financial, economic, and other interests at least annually or where there are significant

changes. At the beginning of each meeting, members should be required to declare any conflicts of interest and any such conflicts should be proactively managed.

Principle 8: KSDM Committees; The Council should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties.

Ensure that composition, roles, and responsibilities of committees are complementary, not fragmented or duplicated and that there is no undue reliance or dominance by any member.

Allow any member to attend any committee meeting as an observer and allow management to attend by standing or ad-hoc invitation.

Principle 9: Evaluation and performance; The KSDM Council should ensure that the evaluation of its own performance and that of its committees, its chair, and its individual members, support continued improvement in its performance and effectiveness.

The Council should assume responsibility for the evaluation of its own performance and that of its committees, its chairperson, and its individual members by determining how it should be approached and conducted. The Council should appoint an independent person / member to lead the evaluation of the chairperson`s performance.

A formal process, either externally facilitated or not, in accordance with methodology approved by the Council should be followed for evaluating the performance of the Council, its committees, its chairperson, and its individual members at least every quarter. Every year, the Council should schedule in its yearly work plan an opportunity for consideration, reflection, and discussion of its performance and that of its committees, its chairperson, and its members as a whole.

Principle 10: Appointment and delegation to management; The KSDM Council should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.

a) Accounting Officer appointment and role

The Council should appoint the Accounting Officer and the Accounting Officer should be responsible for leading the implementation and execution of the Integrated Development Plan with its strategy and be accountable to the KSDM Council. The Accounting Officer should not be a member of the Local Labour Forum, audit but should attend by invitation. The Council should ensure that there is a succession plan for the Accounting Officer and

should evaluate the performance of the Accounting Officer against agreed upon performance measures and targets.

b) Delegation

The Council should approve a delegation of authority framework, including specifically to satisfy itself that there is succession planning in place for executive management and key positions.

Principle 11: Risk Governance; The Council should govern risk in a way that supports the KSD Municipality in setting and achieving its strategic objectives.

The Council should assume responsibility for the governance of risk by setting the direction for how risk should be approached and addressed in the KSD Municipality. Risk governance should encompass both opportunities and associated risks when developing strategy, and the potential positive and negative effects. The Council should treat risk as an integral part of decision making and execution of duties, approve the risk management policy, the risk appetite, and the limit of potential loss.

The Council should exercise ongoing oversight of risk management, including an assessment of risks and opportunities, the design and implementation of appropriate risk responses, the establishment of business continuity, the integration and embedding of risk management in the business activities and culture and receive periodic independent assurance on the effectiveness of risk management.

Disclose the nature and extent of risks and opportunities, an overview of the risk management system, key areas of focus, key risks, risks taken outside tolerance levels and actions to monitor an address risk management.

Principle 12: Technology and information governance; The KSDM Council should govern technology and information in a way that supports the KSD Municipality setting and achieving its strategic objectives.

The Council should assume responsibility for the governance of technology and information by setting the direction on how technology and information should be approached and addressed in the KSD Municipality.

The Council should exercise ongoing oversight of technology and information management and oversee results of management's implementation of the leveraging of information to sustain and enhance the KSD Municipality intellectual capital, an information architecture that supports confidentiality, integrity and availability of information, the protection of privacy and continual monitoring of security of information.

Furthermore, it should oversee that the technology architecture enables the achievement of strategic and operational objectives, the management of risks pertaining to sourcing of technology, the responses to new technology developments.

The Council should consider the need to receive periodic independent assurance on the effectiveness of the KSD Municipality's technology and information arrangements, including outsourced services.

Principle 13: Compliance; The Council should govern compliance with applicable laws and adopted non-binding rules, codes and standards in a way that supports the KSD Municipality being ethical and a good corporate citizen.

The Council should assume responsibility for the governance of compliance with applicable laws and adopted non-binding rules, codes, and standards by setting the direction for how compliance should be approached and addressed in the KSD Municipality. The Council should approve the policy that directs compliance and:

- a) Delegate to management the responsibility for implementing compliance management.
- b) Oversee compliance and ensure that it results in compliance being understood, that it relates holistically and is responsive to changes and developments following continuous monitoring of the regulatory environment.

Principle 14: Remuneration governance; The Council should ensure that the KSD Municipality remunerates fairly, responsibly, and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium, and long term.

The KSD Municipality should set the direction for how remuneration should be approached and addressed on an KSD Municipality-wide basis. Approve the policy that articulates and gives effect to its direction on fair, responsible and transparent remuneration. Human resources remuneration policy should be designed to achieve the following objectives:

- i) To attract, motivate, reward, and retain human capital.
- ii) To promote the achievement of strategic objectives within the KSD Municipality's risk appetite.
- iii) To promote positive outcomes.
- iv) To promote an ethical culture and responsible corporate citizenship.

Arrangements towards ensuring that the remuneration of executive management is fair and responsible in the context of overall employee remuneration in the KSD Municipality.

Principle 15: Assurance; The Council should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the KSD Municipality's external reports.

The Council should assume responsibility for assurance by setting direction concerning the arrangements for assurance services and functions. The Council should delegate to the Audit and Performance Audit Committee, the responsibility for overseeing that those arrangements are effective in achieving the objectives of enabling an effective internal control environment, supporting the integrity of information used for internal decision-making and the integrity of all external reports.

Principle 16: Stakeholder relationships; In the execution of its governance role and responsibilities, the Council should adopt a stakeholder-inclusive approach that balances the needs, interests, and expectations of material stakeholders in the best interests of the KSD Municipality over time.

Oversee the management of stakeholder relationships including methodology for identification, material stakeholders, management of stakeholder risk, formal mechanisms for engagement and communication and measurement of quality stakeholder engagement. The Council should approve the Inter-Governmental Relations Policy, delegate to management the responsibility for implementation and execution and exercise ongoing oversight of stakeholder relationship management and, in particular, oversee that it results in a methodology for identifying stakeholders, the determination of material stakeholders, the management of stakeholder risk, formal mechanisms for engagement and communication and the measurement of the quality of material stakeholder relationships.

Disclose and overview of the arrangements for governing and managing stakeholder relationships, key areas of focus, monitoring and management and the future areas of focus.

10.2 Functions of Accounting Officer with respect to risk management

- (1) The Municipal Manager is the ultimate Chief Risk Officer of the Institution and is accountable for the Institution's overall governance of risk.
- (2) High level responsibilities of the Municipal Manager should include:
 - (a) Setting an appropriate tone by supporting and being seen to be supporting the Institution'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-to-day activities;
- (d) Holding the internal structures 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 as discussed in Chapter 3;
- (g) Approving the risk management policy, strategy, and implementation plan;
- (h) Approving the fraud prevention policy, strategy, and implementation plan;
- (i) Approving the Institution's risk appetite and risk tolerance;
- (j) Devoting personal attention to overseeing management of the significant risks;
- (k) leveraging the Audit and Performance 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.

10.3 Risk Management Committee

A Risk Management Committee for the municipality oversees the implementation of the Risk Management Prescripts. The Committee shall comprise of all directors, risk champions and be chaired by an independent person delegated from Audit and Performance Audit Committee in consultation with Municipal Manager. There could be standing invitees as risk committee may determine depending on the matters of concern.

The committee is appointed by the Municipal Manager and chaired by an independent member from outside the municipality who must report the activities of the committee to an Audit Committee of the municipality.

RISK MANAGEMENT POLICY FOR KING SABATA DALINDYEBO MUNICIPALITY

The membership of the Risk Management Committee must comprise of both management and external member 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.

The committee must meet at least four times in a financial year, once per quarter with its activities organized by the Risk Management Unit/Unit.

10.3.1 Duties of the committee

The Committee should:

- (1) review and recommend for further processing by the Accounting Officer and or Audit and Performance Audit Committee for approval by Council, the:
 - (a) risk management policy.
 - (b) risk management strategy.
 - (c) risk management implementation plan.
 - (d) Municipality's risk appetite, ensuring that limits are:
 - i) supported by a rigorous analysis and expert judgement.
 - ii) expressed in the same values as the key performance indicators to which they apply.
 - iii) set for all material risks individually, as well as in aggregate for categorizations of risk; and
 - iv) Consistent with the materiality and significance framework.
- (2) Municipality's risk tolerance, ensuring that limits are supported by a rigorous analysis and expert judgement of:
 - (a) The municipality's ability to withstand significant shocks; and
 - (b) The municipality's ability to recover financially and operationally from significant shocks.
 - i) Municipality's risk identification and assessment methodologies, after satisfying itself of their effectiveness in timeously and accurately identifying and assessing the Municipality's risks.
- (3) Evaluate the extent and effectiveness of integration of risk management within the municipality.
- (4) Assess implementation of the risk management policy and strategy (including plan).
- (5) Evaluate the effectiveness of the mitigating strategies implemented to address the material risks of the municipality.
- (6) Review the material findings and recommendations by assurance providers on the system of risk management and monitor the implementation of such recommendations.
- (7) Develop its own key performance indicators for approval by the Accounting Officer.

- (8) Interact with the Audit Committee to share information relating to material risks of the municipality; and
- (9) Provide timely and useful reports to the Audit and Performance Audit Committee and or / Council on the state of risk management, together with accompanying recommendations to address any deficiencies identified by the Committee.

10.3.2 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 sub-committees, the Risk Management Committee should ensure that:

- a) Approval is obtained from the Accounting Officer 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 sub-committees.
 - i) Ensure that the Risk Management Strategy is appropriate to the Municipality.
 - ii) Convene and facilitate Risk Assessment workshops for the purposes of identifying, analyzing, and evaluating risks.
 - iii) Assists in the preparation of the Risk Profile of each Department.
 - iv) Ensure that the Risk Assessment and Risk Profile is completed prior to the end of each financial year preparing for the start of the next financial year.
 - v) Oversee the implementation of the Strategy within the KSD Municipality to ensure that Departments identify, analyze, and rate risks and furthermore implement the necessary control measures as prescribed by management to respond to risks identified.

10.4 Risk Champions

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.

10.4.1 Functions of the Risk Champion

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. 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.

To fulfil his/her function, the Risk Champion should possess:

- i) a good understanding of risk management concepts, principles, and processes;
- ii) good analytical skills;

- iii) expert power;
- iv) leadership and motivational qualities; and
- v) Good communication skills.

The Risk Champion should not assume the role of the Risk Owner but should assist the Risk Owner to resolve problems.

10.5 Risk Management Unit (RMU)

The RMU shall act as the division at which the corporate risk management plan is developed and reviewed by Risk Management Committee on an annual basis for adoption by Audit and Performance Audit Committee and or Council. Such a body shall also oversee the annual risk management process and copies of all departmental Risk Management Implementation Plans must be submitted for quality assurance purposes to the Risk Management Unit.

10.6 Functions of the Chief Risk Officer

- (1) The primary responsibility of the Chief Risk Officer is to bring to bear specialist expertise to assist the municipality to embed risk management and leverage its benefits to enhance performance.
- (2) The high-level responsibilities of the Risk Office should include:
 - a) working with senior management to develop the Municipality's vision for risk management.
 - b) developing, in consultation with management, the Municipality's risk management framework incorporating, inter alia, the:
 - i) risk management policy.
 - ii) risk management strategy.
 - iii) risk management implementation plan.
 - iv) risk identification and assessment methodology.
 - v) risk appetite and tolerance; and
 - vi) risk classification.
 - c) Communicating the Municipality's risk management framework to all stakeholders in the municipality and monitoring its implementation.
 - d) Facilitating orientation and training for the Risk Management Committee.
 - e) Training all stakeholders in their risk management functions.
 - f) Continuously driving risk management to higher levels of maturity.
 - g) Assisting Management with risk identification, assessment, and development of response strategies.
 - h) Monitoring the implementation of the response strategies.
 - i) Collating, aggregating, interpreting, and analyzing the results of risk assessments to extract risk intelligence.

- j) Reporting risk intelligence to the Management and the Risk Management Committee and Council; and
- k) Participating with Internal Audit, Management and Auditor-General in developing the combined assurance plan for the Municipality.

10.7 Functions of Internal Auditing 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 Institution's system of risk management.
- (2) Internal Auditing must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.
- (3) Internal Auditing must develop its internal audit plan based on the key risk areas.
- (4) 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) Institutional objectives support and align with the Institution'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 Accounting Officer / Authority, Management, the Risk Management Committee, and other officials to carry out their responsibilities.
- (5) When assisting Management in establishing or improving risk management processes, Internal Auditing must refrain from assuming management responsibilities for risk management.

10.8 Functions of the Audit and Performance Audit Committee with respect to risk management.

- (1) The Audit and Performance Audit Committee is an independent committee responsible for oversight of the Institution's control, governance, and risk management.
- (2) The responsibilities of the Audit and Performance Audit Committee with respect to risk management should be formally defined in its charter.
- (3) The Audit and Performance Audit Committee should provide an independent and objective view of the Institution's risk management effectiveness.
- (4) Responsibilities of the Audit and Performance 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.
 - (c) providing regular feedback to the municipal council on the adequacy and effectiveness of risk management in the Institution, including recommendations for improvement.
 - (d) ensuring that the internal and external audit plans are aligned to the risk profile of the KSD Municipality.
 - (e) satisfying itself that it has appropriately addressed the following areas:
 - i) financial reporting risks, including the risk of fraud.
 - ii) internal financial controls; and
 - iii) IT risks as they relate to financial reporting.
- (5) The Audit and Performance Audit Committee should evaluate the effectiveness of Internal Audit in its responsibilities for risk management.

10.9 Functions of Directors:

- a) Directors are implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the municipality. As senior managers also accountable to the Municipal Manager for providing assurance that they implemented and monitored the process of risk management.
- b) Although Directors may nominate Risk Champions to assist in the execution of the risk management process, the accountability to the Municipal Manager remains with directors.
- c) High level responsibilities of Management should include:
 - i) Executing their responsibilities as set out in the risk management strategy.
 - ii) Empowering officials to perform effectively in their risk management responsibilities through proper communication of responsibilities, comprehensive orientation, and ongoing opportunities for skills development.
 - iii) Aligning the functional risk management methodologies and processes with the municipal process.
 - iv) Devoting personal attention to overseeing the management of key risks within their area of responsibility.
 - v) Maintaining a co-operative relationship with the Risk Management Unit and Risk Champion.
 - vi) Providing risk management reports.
 - vii) Presenting to the Risk Management and Audit Committees as requested.
 - viii) Maintaining the proper functioning of the control environment within their area of responsibility.
 - ix) Monitoring risk management within their area of responsibility; and
 - x) Holding officials accountable for their specific risk management responsibilities.

10.10 Municipal Employees

This policy requires all employees to take responsibility for the cost-effective management of risk in all aspects. Employees are accountable to management for implementing and monitoring the process of risk management and integrating it into their day-to-day activities including:

- i) Familiarity with the overall risk vision of the municipality, Risk Management Strategy, Risk Management Policy and the Anti-Fraud and Corruption Strategy and Fraud Response Plan.
- ii) Acting according to the above framework.
- iii) Acting within the risk appetite and tolerance levels set by the risk management committee.
- iv) Adhering to the code of conduct for the municipality (Code of Conduct for municipal staff members, Schedule 2 MSA No 32 of 2000).
- v) Maintaining the functioning of the control environment (risk register), information and communication as well as the monitoring systems within their delegated responsibility.
- vi) Providing information and cooperation with other role players.
- vii) Participation in risk identification and risk assessment within their section, department, and directorate.
- viii) Implementation of risk responses to address the identified risks.

10.11 General Process of Risk Management:

- i) The risk management process does not reside in any one individual or function but requires an inclusive team-based approach for effective application across the municipality.
- ii) To assist the Municipal Manager in the discharge of his/her duties and responsibilities, the Municipal Manager appoints risk committee to review the risk management process and the significant risks facing the municipality.
- iii) This committee should consider the risk strategy and policy and should monitor the process at operational level and the reporting thereon.
- iv) The audit committee, to the extent that it is concerned with risk management, should consider the results of the risk management and internal control processes and the disclosure in the annual report.

11. STAKEHOLDERS PLACING THE MUNICIPALITY AT RISK

Stakeholders that could through their action or lack of action put the Council at risk should in every management plan and performance assessment be identified, defined, and provided for in risk management assessments and strategies.

12. SPECIALIZED SUPPORT AND OPERATIONAL COORDINATION

The Risk Management Unit shall act as the internal specialized support unit that should assist all levels of management during the risk management process.

It should also coordinate a structured approach in terms of the policy and monitor compliance with the policy by all levels of management and report on its finding to the Municipal Manager as the Accounting Officer, Risk Management Committee and to the Audit and Performance Audit Committee.

13. RISK TOLERANCE

The Municipal Manager and Senior Management should encourage the taking of controlled risks, the grasping of new opportunities and the use of innovative approaches to further the interests of the municipality and achieve its objectives provided the resultant exposures are within the municipality's risk tolerance range. The municipality's Risk Tolerance can be defined by reference to the following components:

13.1 Acceptable Risks

- a) All officials should be willing and able to take calculated risks to achieve the municipality's objectives and to benefit the municipality. The associated risks of proposed actions and decisions should be properly identified, evaluated, and managed to ensure that exposures are acceptable.
- b) Within the municipality, particular care is needed in taking any action which could:
 - i) Impact on the reputation of the municipality.
 - ii) Impact on performance.
 - iii) Undermine the independent and objective review of activities.
 - iv) Result in any fines by regulatory bodies; or
 - v) Result in financial loss.
- c) Any threat or opportunity which has a sizeable potential impact on any of the above should be examined, its exposures defined, and it should be discussed with the appropriate line manager. Where there is significant potential impact and high likelihood of occurrence it should be referred to the risk committee.

13.2 Prohibited Risk Areas

- a) The municipality's policies and guidelines should show if there are any mandatory processes and procedures which should be complied with, e.g., the MFMA, MSA, OHS, GRAP etc. Full compliance with these standards is required and confirmation of compliance must show in the municipality's annual report. Non-compliance with prescribed procedures constitutes an unacceptable risk.

- b) Some risks are acceptable provided the prescribed KSD Municipal process is followed, e.g., expenditure proposals, staff recruitment, and designated responsibilities / authorities are adhered to.

14. RISK APPETITE

14.1 Definition of risk appetite

The Treadway Commission COSO 2013 revised in 2017 Enterprise Risk Management of – Risk Appetite Framework, states the following-

“The amount of risk, on a broad level, an entity is willing to accept in pursuit of value. It reflects the entity’s risk management philosophy, and in turn influences the entity’s culture and operating system. Risk appetite guides resource allocation. Risk appetite assists the municipality in aligning the KSD Municipality, people, and processes in designing the infrastructure necessary to effectively respond to and monitor risks”.

14.2 Benefits of a risk appetite framework

According to COSO 2013 revised in 2017, the following benefits flow from an effective risk appetite framework.

- a) It is strategic and is related to the pursuit of municipal objectives.
- b) Forms an integral part of corporate governance.
- c) Guides the allocation of resources.
- d) Guides the municipality’s infrastructure, supporting its activities related to recognizing, assessing, responding to, and monitoring risks in pursuit of municipal objectives.
- e) Influences the municipality’s attitudes towards risk.
- f) Is multi-dimensional, including when applied to the pursuit of value in the short term and the longer term of the strategic planning cycle.
- g) Requires effective monitoring of the risk itself and of the municipality’s continuing risk appetite; and
- h) Enhanced risk management strategy decisions through quantification of risk appetite.

14.3 Methodology

Risk management is a process, not an event and requires the municipality to pay closer attention to the developments both in the external and internal control environments. Top management’s strategic direction and commitment are regarded as very important if risk management processes are to be successful and effective. Management is expected to lead the process and ensure that everybody within the municipality understands the benefits of risk management. This represents the challenge to management to set the tone or to establish a supportive internal environment.

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

14.4 Risk appetite shall be derived from and support the strategic planning and objectives of the municipality. The municipality shall consider:

- i) The municipality's core strategy.
- ii) Capacity and maturity of the risk management function.
- iii) Classification of risks into different categories that the municipality is, or may be, exposed to in the pursuit of its objectives.
- iv) Municipality appetite/tolerance approach regarding compliance
- v) A holistic view of all the risks to which the municipality is exposed, including what approach it should take in managing them.

14.5 Stakeholder engagement

The municipality should engage with all stakeholders to ensure that both risk taking and control activities are aligned and that possible differences are identified at this stage. All stakeholders need to be at least considered when setting risk appetite.

14.6 KSD Risk Appetite Statement

KSD Municipality understands risk appetite as an expression of the level of risk it is willing to accept in providing value to its communities and stakeholders. KSD further understands that whilst it is not always efficient or possible to manage risks to zero residual risk or a very low residual risk threshold because of the time, cost and effort that will be required but it recognizes that it is also poor management practice to accept risks which create unnecessary exposure for the municipality.

In accordance with the MFMA, the municipality maintains and adopts a low-risk appetite for all forms of loss resulting from negligence (unauthorized/irregular expenditure) and wasteful or fruitless expenditure.

The municipality accepts service delivery and financial risks at large and is willing to manage these risks carefully but not at the expense of municipality objectives. These risks are managed to an acceptable level through a framework of controls. The appetite to accept service delivery and financial risks is necessary to foster innovation and efficiencies within municipal business practices.

14.6.1 In the same tone the municipality has low appetite for threats to the effective and efficient delivery service delivery. The municipality recognizes that the actual or

perceived inability to deliver strategic initiatives could have a significant impact on its ability to achieve its objectives as well as its reputation. The municipality should meet regularly to discuss major service delivery initiatives to ensure that associated risks are well managed and reported.

- 14.6.2** The municipality has zero tolerance towards road traffic violations as these not only create lawlessness but also places people's lives under the threat of injuries, death, and destruction to public property.
- 14.6.3** Incidence involving indiscriminate dumping of waste on public or private open spaces, buildings and other ecologically sensitive environments must not be tolerated. There should therefore be less tolerance on these as they hinder the fulfilment of the provisions of section 24 and 28 of the Constitution of the Republic of South Africa which accords citizens' rights to an environment which is safe and free from any harm to their health as well as the environment.
- 14.6.4** The municipality has zero tolerance for waste collection failures resulting from poor planning and execution by its own management and staff. These services, which are provided for private good, establish a socio-economic contract with citizens which when breached might result in serious reputational damage to the municipality including loss of revenue through boycotts.
- 14.6.5** The municipality has zero tolerance for any activities leading to land invasion. All municipal land parcels must be utilized for purposes for which planned community development is envisaged any threats in this regard, intended or actual must and should be dealt with promptly and decisively through law enforcement agencies.
- 14.6.6** The municipality has no appetite for fraud and corruption. It has no appetite for any dishonest or fraudulent behavior and is committed to preventing such behavior. The municipality takes a very serious approach to cases, or suspected cases, of fraud or corruption perpetrated by its staff, management, councilors, and service providers and responds fully and fairly in accordance with provisions of the Code of Conduct.
- 14.6.7** The municipality has low appetite for employee behaviors and practices which do not meet the municipal performance standards. The municipality takes any breaches of its code of conduct very seriously. The municipality aims to create an environment where employees are empowered to the full extent of their abilities and expects employees to conduct themselves with a high degree of integrity, to respectfully strive for excellence in the work they perform and the outcomes they achieve, and to promote the public interest.

- 14.6.8** The municipality has low appetite for employee behaviors and practices which could be expected to lead to employees or contractors being harmed while doing work or to those who may encounter their activities i.e., members of the public. The municipality is committed to creating a safe and healthy environment for all employees, where people are protected from physical or psychological harm.
- 14.6.9** The municipality has a very low appetite for IT system-related incidents which are generated by poor change management practices and risks due to the non-availability of Information and Communication Technology systems which support its critical business functions, including those which relate to operations.
- 14.6.10** The municipality has a very low appetite for damage to its own assets from threats arising from malicious attacks including damage to assets caused by negligence/recklessness and or abuse/misuse.
- 14.6.11** The municipality has a very low appetite for the failure of physical security measures and therefore needs to provide a highly secure environment for its employees and assets by ensuring its physical security measures meet high standards.
- 14.6.12** The municipality has no appetite for deliberate or purposeful violations of legislative or regulatory requirements. The municipality is committed to a high level of compliance with relevant legislation, regulation, local government codes and standards as well as internal policies and sound corporate governance principles.
- 14.6.13** The municipality has no appetite for the deliberate misuse of its information. The municipality is committed to ensuring that its information is authentic, appropriately classified, properly conserved, and managed in accordance with legislative and business requirements.
- 14.6.14** The municipality has a very low appetite for compromise of processes governing the use of information, its management and publication.

14.7 Approval

The risk appetite statement shall then be approved by Council prior to communicating the document to the wider municipality.

14.8 Implementation of Risk Appetite Statement

Various municipal programs will need to be developed (as annexure to the risk registers) and continually reported on as an integral part of the municipal risk management regime to ensure that the level of tolerance for the risks above is maintained and kept alive. All senior managers are responsible for the implementation of, and compliance with, this Risk Appetite Statement. Once the risk appetite has been approved by Council, it shall be:

- i) Clearly communicated and cascaded through the municipality;
- ii) Integrated into the risk management framework; and
- iii) Actively used in the strategic management of the municipality.

14.9 Communication

The Risk Appetite Statement should be published on the municipal publications (Newsletter and website).

14.10 Reporting

Reporting on the risk appetite shall take place both internally and externally. Internally it must be reported to management on a quarterly basis and externally reporting via the annual report. Reporting may include the following:

- i) Compliance with approved risk appetite
- ii) Trends in data over time
- iii) Compliance (or non-compliance) with approved risk policies

The overall reporting process should be facilitated by a comprehensive governance framework to ensure that an appropriate escalation process is in place and that appropriate actions are taken in response to risk appetite breaches. It is important that these actions also include an effective feedback loop into the setting of the risk appetite so that the risk appetite framework can continue to be appropriate to the municipality.

14.11 Risk Appetite Review

The Risk Appetite Statement shall be reviewed annually, or whenever there is a significant change to the municipality's operating environment to ensure alignment with the ever-evolving municipal strategy, risk environment and municipal performance. An analysis could also be done taking into consideration what worked well, what failed and what needs to be done differently next time.

It is the responsibility of the Council to determine the risk appetite in its various areas of operation. The risk appetite should be clearly stated and articulated so that it informs management decisions. As a principle, and in support of the Municipal Finance Management Act, the municipality shall have a low-risk appetite for all forms of loss resulting from negligence, fruitless and wasteful expenditure. Directors with the assistance of the Risk Office should endeavor to determine the risk appetite of the municipality and that be reviewed by the Internal Audit Unit.

15. COSO 2017 FRAMEWORK ON RISK MANAGEMENT INTEGRATING WITH STRATEGY AND PERFORMANCE.

INTERNAL CONTROL PRINCIPLES

a) Control Environment:

The control environment seeks to make sure that all business processes are based on the use of industry-standard practices. This can help ensure that the business is run in a responsible way. It may also reduce municipality's legal exposure if the municipality is able to prove that its business processes are all based around industry standards and practices. Additionally, the control environment can help with making sure that municipality is adhering to regulatory compliance requirements. The KSD Municipality has to:

- i) Demonstrates commitment to integrity and ethical values.
- ii) Exercise oversight responsibility.
- iii) Establish structure, authority, and responsibility.
- iv) Demonstrate commitment to competence.
- v) Enforce accountability.

b) Risk Assessment

Risk assessment and management, which is sometimes referred to as enterprise risk management is based on the idea that risk is an inherent part of doing business. However, those same risks can sometimes cause a business to suffer adverse consequences. As such, KSD Municipality commonly adopts risk management plans that help to identify risks and either reduce or eliminate risks deemed to pose a threat to the municipalities well-being. The process thus:

- i) Specifies suitable objectives.
- ii) Identifies and analyzes risk.
- iii) Assesses fraud risk.
- iv) Identifies and analyzes significant change.

c) Control Activities

Control activities are also tied to the concept of risk management. They are essentially internal controls that are put into place to make sure that business processes are performed in a way that helps KSD Municipality to meet its business objectives without introducing unnecessary risks into the process. This can be attained by:

- i) Selecting and developing control activities
- ii) Selecting and developing general controls over technology
- iii) Deploying through policies and procedures

d) Information & Communication

Communications rules are put in place to make sure that both internal and external communications adhere to legal requirements, ethical values, and standard industry practices. For example, KSD Municipality adopted a code of ethics and secrecy policies to establishing how KSD Municipal business data can be used.

Information obtained whilst conducting KSD Municipal business.

- i) Uses relevant information.
- ii) Communicates internally.
- iii) Communicates externally.

e) Monitoring Activities

At a minimum, monitoring is performed by an internal auditor who makes sure that employees are adhering to established internal controls. However, in the case of municipalities, it is relatively common for an outside auditor to evaluate the KSD Municipal regulatory compliance. In either case, the audit results are usually reported to the KSD Municipal structures and Council.

- i) Conducts ongoing and/or separate evaluations.
- ii) Evaluates and communicates deficiencies.

The KSDM employs the COSO framework updated in 2013 to include the COSO cube, a 3-D diagram (**Exhibit 1 below**) that demonstrates how all elements of an internal control system are related.

Exhibit 1. The COSO Cube



16. ASSESSMENT OF CONTROLS

According to South African Internal Auditing Standards, an “internal control system” consists of all the policies and procedures (internal controls) adopted by management of an entity to assist in achieving management’s objective of ensuring, as far as is practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

Controls are those measures or activities that the leadership and management may implement, in response to risks identified, to ensure that pre-defined municipal objectives will be attained.

17. CONTROLS RATINGS

Controls are evaluated and rated as being either Strong, Good, Satisfactory, or Weak. Non-existent controls are indicated as such after the assessment of controls.

17.1 Strong / Excellent Controls

- i) Controls are well designed controls for that specific risk factor and the risk exposure is effectively managed by such controls. The controls are effective to an 80% plus level of efficiency.

17.2 Good Controls

- i) Most controls are designed adequately and operate effectively. Majority of risk exposure is effectively controlled and managed to a 60% plus level.

17.3 Satisfactory Controls

- i) Controls are designed almost adequately and operate effectively to address risks identified with average risk exposure effectively controlled and managed. However, there is still huge room for improvement to some inefficiencies as these controls only cover about 40% level of efficiency.

17.4 Weak Controls

- i) These controls are inadequate or non-existent and or have significant weaknesses in control designs when major deficiencies are identified. Management must strategize to mitigate the risks by strengthening controls as room for major improvement exist since the control are only efficient to 20% level.

NB: In each inherent risk rating made, the council and management should strive to implement above average controls to mitigate the magnitude of residual risks that could arise.

After the activities, risks and controls have been appropriately documented and dealt with as outlined above, the process documentation is confirmed with the respective officials involved with the relevant process activities.

Such a confirmation should include making a copy of the written documentation available to managers and a workshop session to collectively discuss the documentation and effect any necessary amendments.

17.5 Controls may include, but are not limited to:

- i) Regulations
- ii) Policies
- iii) Procedures
- iv) Council Rules of Order
- v) Instructions
- vi) Strategic Objectives
- vii) Municipal Values
- viii) Code of Ethics
- ix) Code of Conduct
- x) Municipal Structures
- xi) Business Plans
- xii) Strategic Plans
- xiii) Operational Plans
- xiv) Budgets
- xv) Expenditure Control Activities

- xvi) Supervision
- xvii) Review Mechanisms
- xviii) Performance Assessment Mechanisms
- xix) Quality Review Mechanisms

The Internal Audit Unit and Risk Management Unit should assist staff at various departmental levels, in identifying the control measures implemented by analysing the activities themselves for control effectiveness. Controls should be treated as a built-in mechanism regarding activities of departments.

18. RESIDUAL RISKS

After documenting the activities, identifying, classifying, and rating risks as well as identifying and rating the existing controls, the Residual Risk per activity, should be established. Residual risks are the risks that are identified after taking into consideration the effect and impact of direct control measures implemented as well as the impact of compensating control measures, relative to a risk identified.

19. RISK PROFILE

A risk profile must be maintained by Risk Management Unit reflecting all activities with a residual risk and shall categorize the residual risks into High, Medium, and Low. The residual risks should be depicted in tabular form and the rating of residual risks should be indicated. The schedule should make provision to record the action for the implementation of the necessary controls.

A risk profile per department and for the municipality should be compiled.

A list of all risks rated high and medium, per department, should be made available to each departmental manager who shall sign to acknowledge receipt of the information.

The Risk Management Unit, in consultation with appropriate staff members and with assistance from the Internal Audit Unit through audits shall compile the control measures to be implemented in response to the risks identified.

Management shall identify the person/s responsible for the implementation of the control measure and the time frame within which the control measure must be implemented.

Internal Audit should review the measures implemented, in accordance with internal audit plan and methodology, to determine the adequacy and effectiveness of the control measure implemented.

A list of residual risks rated low should also be made available to management. Management is, however, not required to implement control measures immediately since the Internal Audit Unit should perform substantive tests to determine the effectiveness of the control measures already implemented. In this regard, management shall deal with

these risks as recommended in the Internal Audit Report after the substantive procedures have been performed.

The schedule must also make provision for management's review of the risk profile on a quarterly basis to:

Determine whether the controls, as agreed by management, have been implemented.

- i) Whether these controls are adequate and effective
- ii) Whether any related risks or unforeseen risks have arisen
- iii) Whether further control measures are necessary

20. RISK RESPONSE

A risk response must be developed to ensure that an appropriate preventative, and or remedial strategy/action plan is developed for each of the identified critical (Serious and High) risks. The main purpose is to reduce the impact and or likeliness.

Avoid/Termination, Transfer/Share and Treat/Reduce, Accept/Retaining, Exploit.

Risks should be investigated to identify opportunities, manage, or minimize the impact or likeliness of a risk, to prevent it, avoid it or to eliminate it.

20.1 The risk response plan shall consist of the following:

- i) What should be done?
- ii) How it should be done?
- iii) When should it begin and end (timeframe)?
- iv) Who should be responsible for the respective components of the strategy and who should take overall accountability?
- v) What capacity and resources are required to successfully undertake the actions?
- vi) What is the ultimate goal of the action and what is the desired outcome and deliverable entail? For example, is the strategy focused on avoidance, minimization, prevention, remedy, elimination or even the transferring of the risk to another body or municipality.
- vii) What obstacles and uncertainties can impact on the successful outcome of the strategy and what are the contingencies if any?

Remedial action should address the cause and could therefore be aligned with, for example, the causes listed under the Determine Cause of Risk section above.

21. CONTROL SELF-ASSESSMENT

The final phase of the risk management strategy requires continuous monitoring and evaluating of the risk profile consisting of:

- i) The self-assessment of the controls implemented in response to the risk profile developed.
- ii) The rating of risks must be evaluated to determine the appropriateness thereof and to reclassify emerging risks,
- iii) Unidentified risks that arise to be documented and analysed immediately and control measures implemented to respond to the risk identified.
- iv) Management shall conduct a cost-benefit analysis to establish whether the benefits of implementing a control measure exceed the costs thereof. If not, the effects of the risk should be carefully analysed, and appropriate action taken.
- v) Risks that are no longer relevant may be noted as such and removed from the risk profile.
- vi) Internal Audit shall conduct a review of the Control Self-Assessment undertaken by management.

22. MONITOR AND REVIEW OF THE POLICY

The KSD Municipal Council must through its structures (Audit and Performance Audit Committee), will monitor implementation, review, and approve the review of the Risk Management Policy annually. The Chief Risk Officer in consultation with management must coordinate review of the Risk Management Policy on an annual basis, to ensure effectiveness, relevance of the policy with regulatory and industry developments.

PREPARED BY


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DATE

REVIEWED BY


N. Pakade
Municipal Manager

09 November 2023
DATE

ADOPTED BY COUNCIL

CONFIRMED BY


Clr. N Siyo-Sokuthu.
Hon. Council Speaker

Date