

DRAFT RISK MANAGEMENT POLICY

(Adopted by council on 29 May 2025)



THEMBELIHLE

LOCAL MUNICIPALITY
PLAASLIKE MUNISIPALITEIT
U-MASIPALA WASEKUHALENI

RISK MANAGEMENT POLICY

TABLE OF CONTENTS

| | |
|--|------------------------------|
| ABBREVIATIONS | C |
| 1. INTRODUCTION | 1 |
| 2. RISK MANAGEMENT | 1 |
| 3. LEGAL FRAMEWORK..... | 1 |
| 4. BENEFITS OF RISK MANAGEMENT | 3 |
| 5. PURPOSE OF THE POLICY | 3 |
| 6. SCOPE OF THE POLICY | 3 |
| 7. THE POLICY | 3 |
| 8. RISK MANAGEMENT PROCESS | 4 |
| 8.1 Impact and Likelihood risk rating scales | 4 |
| 8.2 INHERENT AND RESIDUAL RISK..... | 5 |
| 8.3 RISK APPETITE | 6 |
| 9. ROLE PLAYERS | 7 |
| 9.1 RISK MANAGEMENT OVERSIGHT | 7 |
| 9.1.1 Council..... | 7 |
| 9.1.2 Audit Committee (AC)..... | 7 |
| 9.1.3 Risk Management Committee (RMC) | 7 |
| 9.2 RISK MANAGEMENT IMPLEMENTERS | 8 |
| 9.2.1 Accounting Officer..... | 8 |
| 9.2.2 Management | 8 |
| 9.2.3 Other Officials | 8 |
| 9.3 RISK MANAGEMENT SUPPORT..... | 8 |
| 9.3.1 Risk and compliance officer | Error! Bookmark not defined. |
| 9.3.2 Risk Champion..... | 9 |
| 9.4 RISK MANAGEMENT ASSURANCE PROVIDERS..... | 9 |
| 9.4.1 Internal Audit..... | 9 |
| 9.4.2 External Audit..... | 9 |
| 10. POLICY REVIEW | 9 |

ABBREVIATIONS

| | |
|-----|--------------------------------|
| AC | Audit Committee |
| AO | Accounting Officer |
| RCO | Risk and compliance officer |
| RC | Risk Champion |
| RMC | Risk Management Committee |
| TLM | Thembelihle Local Municipality |

1. INTRODUCTION

The Accounting Officer has committed Thembelihle Local Municipality (TLM) to a process of risk management that is aligned with the principles of good corporate governance, as supported by the Municipal Finance Management Act (MFMA), Act no 56 of 2003.

2. RISK MANAGEMENT

Risk refers to both beneficial and undesirable outcomes whether actual or potential that can affect an organisation's service delivery and performance objectives. These outcomes are caused by the presence of various risk factors. Some of these risk factors may also present opportunities for upside potential, which management should recognize and be ready to exploit. This understanding is part of the overall definition of risk. Risk management involves a systematic and formal process within an organisation to identify, assess, manage, and monitor these risks effectively.

3. LEGAL FRAMEWORK

The municipality's legal responsibilities and best practices governing risk management include:

3.1 Local Government: Municipal Systems Act, No 32 of 2000

- Section 83 states that - measures must be taken around service providers that minimise the possibility of fraud and corruption.
- Section 104 states that - loss control on municipal equipment be minimized thereby reducing the possibility of fraud and corruption and that this will be regulated by the MEC.

3.2 Local Government: Municipal Finance Management Act, No 56 of 2003

- Section 62 states 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;”
- Section 166 states that:
 - “(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, the board of directors, the accounting officer and the management staff of the municipal entity, on matters relating to –

(ii) risk management;”

3.3 Other Legislation

Legislation concerning risk management is contained in various other pieces of legislation and the Municipality needs to take cognizance of these requirements when addressing the risk exposures of specific Directorates/Departments. These would include inter alia - the Occupational Health and Safety Act, Construction Regulations, Environmental Legislation, Housing Acts, CPA, etc.

3.4 The Local Government Risk Management Framework

The Local Government Risk Management Framework (LGRMF) provides a generic guideline in response to the requirements of the Municipal Finance Management Act for municipalities and municipal entities to implement and maintain effective, efficient and transparent systems of risk management and control. The risk management framework is a formal step-by-step process that can be applied at all levels of a municipality. The LGRMF principles need to be implemented within the context of each municipality, which should implement this framework in developing its risk management strategies.

3.5 The King IV Code of Governance for South Africa, 2016

The King IV Code has nine focus areas and the principles to be applied in each are of equal importance and together form a holistic approach to governance. The Governance of Risk is one of these focus areas and in turn is broken up into governance elements, principles and recommended practices.

3.6 ISO 31000

ISO 31000 is an international standard that provides a systematic approach to risk management. It offers principles and guidelines for identifying, analysing, evaluating, treating, monitoring, and communicating risks across an organisation. The risk management is transparent and in a credible manner and within any scope and context.

4. BENEFITS OF RISK MANAGEMENT

TLM will implement and maintain an effective, efficient and transparent system of risk management and internal control. Risk management will assist the municipality to achieve, among other things, the following outcomes needed to underpin and enhance performance:

- more sustainable and reliable delivery of services;
- informed decisions underpinned by appropriate rigour and analysis;
- achievement of strategic goals as set out in the Integrated Development Plan;
- innovation;
- reduced waste;
- prevention of fraud and corruption;
- better value for money through more efficient use of resources; and
- better outputs and outcomes through improved project and program management.

5. PURPOSE OF THE POLICY

This policy articulates Thembelihle Municipality's risk management philosophy. The municipality recognises that risk management is a systematic and formal process for identifying, assessing, managing, and monitoring risks and, therefore, adopts a comprehensive approach. Risk Management must become a culture within the municipality and be integrated into all business processes to enhance performance.

6. SCOPE OF THE POLICY

The objective of the Risk Management Policy includes the following:

- To align risk-taking behaviour with the strategic business objectives in the integrated development plan;
- To promote a risk management culture within the organisation and improve risk transparency to all stakeholders;
- To maximise value and net worth by managing risks that impact the defined financial and performance drivers; and
- To assist the municipality in enhancing and protecting those opportunities that represent the greatest service delivery benefits.

7. THE POLICY

The realisation of our strategic plan depends on us being able to take calculated risks in a way that does not jeopardise the direct and indirect interests of the council and the general public. Sound

management of risk will enable us to anticipate and respond to changes in our service delivery environment, as well as make informed decisions under conditions of uncertainty.

We subscribe to the fundamental principle that all resources will be applied economically to ensure:

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

An entity-wide approach to risk management is adopted by TLM, which means that every key risk in each part of the organisation will be included in a structured and systematic process of risk management. It is expected that the risk management processes will become embedded into the organisation's systems and processes, ensuring that our responses to risks remain current and dynamic. All risk management efforts will be focused on supporting the organisation's objectives. Equally, they must ensure compliance with relevant legislation, and fulfil the expectations of employees, council, communities and other key role players in terms of corporate governance.

8. RISK MANAGEMENT PROCESS

Risk management is a process that involves identifying, analysing, evaluating, treating, monitoring, and managing potential risks to minimise their negative impact on an organisation.

Risk management encompasses all legislation (acts and regulations), the strategic intentions as outlined in the IDP, SDBIP, and the municipality's Organisational Performance Scorecards, business plans, operations, and activities. It comprises employees at the operational and strategic management levels.

8.1 Impact and Likelihood risk rating scales

Individual risks are to be assessed in terms of the Heat Map/Risk Matrix below which takes the likelihood and impact of a risk into consideration to determine the severity of the risk. This is a subjective process and is therefore not a mathematical process with predetermined criteria, processes and predictable outcomes. Sound judgment, reasoning and discretion are required when deciding whether or not one risk is more critical than another; whether or not a risk requires further

attention or not; and to what extent effort and resources should be invested in managing a particular risk.

| | | | | | | |
|------------|---------------|------|----------|----------|--------|--------|
| IMPACT | Critical | 5 | 10 | 15 | 20 | 25 |
| | Major | 4 | 8 | 12 | 15 | 20 |
| | Moderate | 3 | 6 | 9 | 12 | 15 |
| | Minor | 2 | 4 | 6 | 8 | 10 |
| | Insignificant | 1 | 2 | 3 | 4 | 5 |
| | | Rare | Unlikely | Moderate | Likely | Common |
| LIKELIHOOD | | | | | | |

| Risk Rating | Escalation |
|--|--|
| HIGH RISK (RED - UNACCEPTABLE) | High-rated risks fall between 15 and 25. This means the probability of the risk eventuating is high and likely to happen. The risk needs to be monitored and managed accordingly. (Minimum monitoring: monthly/weekly review depending on the severity) |
| MEDIUM RISK AMBER - CAUTIONARY | Medium risks are rated between 8 and 14. Although a risk could materialize the impact is low and effort and resources invested should be managed accordingly. (Minimum monitoring: quarterly review) |
| LOW RISK GREEN - ACCEPTABLE | Low risks are rated between 1 -7. These risks have low impact and low likeliness i.e. rated below 8 out of 25. It is a low risk that requires little if any attention, effort or resource investment. (Minimum monitoring: annual review) |

The impact is the magnitude of the consequences of the materialised risk of an event on the organisation. The likelihood is assessed based on the probability that an event would occur, determined qualitatively by past occurrences and expectancies in the future.

TLM utilises a 5 x 5 risk matrix for the determination of impact and likelihood.

8.2 INHERENT AND RESIDUAL RISK

The COSO framework defines inherent risk as the risk to an entity in the absence of any actions management would take to mitigate, considering the risk environment, the impact and the likelihood of a risk. Therefore, the residual risk would be the risk exposure to the organisation after internal controls have been implemented.

8.3 RISK APPETITE

The risk appetite is determined by the municipality based on the amount of risk the organisation is willing to accept, in striving to achieve its strategic objectives. The risk appetite is determined annually during the annual risk assessment processes. Risk Appetite is currently determined at 9.75. The risk appetite for the following risk is set at 0.

- Irregular Expenditure
- Fraud
- Non – Compliance

Risk appetite:

- Enables an improved consistency of decision-making at all levels through improving risk understanding;
- Provides a framework for knowingly accepting risks within defined boundaries;
Improves the ability of the Audit & Risk Committee to challenge recommendations of management by providing a benchmark of what level of risk is defined as acceptable; and
- Derives real value from the assessment of risk over and above compliance purposes.

TLM consider risk appetite qualitatively, with such categories as extreme, high, medium or low, or may take a quantitative approach, reflecting and balancing goals for capital expenditure, budgets and risk.

8.4 RISK CATEGORIES

TLM focuses on the following types of risks: Internal and External.

Internal Risks are further categorised as follows:

- Human Resource Risk
- Knowledge and Information
- Litigation
- Loss and Theft of Assets
- Material Resources (Procurement Risks)
- Service Delivery
- Information and Technology
- Third-Party Performance
- Disaster/Business Continuity
- Fraud and Corruption
- Cultural Risks
- Reputational Risk

- Financial Risk
- Compliance and Regulatory Risk
- Health and Safety Risk

External Risks are further categorised as follows:

- Economic Environment
- Political Environment
- Social environment
- Natural Environment
- Technological environment
- Legislative Environment

9. ROLE PLAYERS

Every employee is responsible for executing risk management processes and adhering to risk management procedures laid down by the organisation's management in their areas of responsibility.

9.1 RISK MANAGEMENT OVERSIGHT

9.1.1 Council

The TLM council is concerned with risk management to ensure that effective systems are established and functioning properly to safeguard the organisation against significant risks. The council should adopt the Risk Management Policy and Strategy.

9.1.2 Audit Committee (AC)

The Audit Committee (AC) is an independent group that oversees the municipality's control, governance, and risk management processes. Its responsibilities related to risk management are clearly outlined in its charter. The committee offers an impartial assessment of how effective the municipality's risk management process is.

9.1.3 Risk Management Committee (RMC)

The Risk Management Committee is appointed by the Accounting Officer to help management fulfil their responsibilities regarding risk management. The Committee's role includes reviewing the organisation's progress and maturity in risk management, evaluating the effectiveness of risk management activities, identifying the key risks facing

the organisation, and assessing the responses to these risks. The responsibilities of the Risk Management Committee are clearly outlined in its charter.

9.2 RISK MANAGEMENT IMPLEMENTERS

9.2.1 Accounting Officer

The Accounting Officer is responsible for the overall governance of risk within the organisation. By establishing a strong tone at the top, the Accounting Officer fosters accountability, integrity, and other elements that contribute to a positive control environment.

9.2.2 Management

Management is responsible for executing their responsibilities as outlined in the risk management strategy and for integrating risk management into their daily operations.

9.2.3 Other Officials

Officials are tasked with integrating risk management into daily operations. They must ensure that their assigned risk management responsibilities are carried out and continuously report on their progress.

9.3 RISK MANAGEMENT SUPPORT

9.3.1 Risk and compliance officer

The Risk and compliance officer (RCO) is the custodian of the Risk Management Strategy and coordinator of risk management activities throughout the organisation. The delegated authority has been given to the Strategic Manager in the Office of the Municipal Manager. The primary responsibility of the Risk and compliance officer is to bring to bear his/her specialist expertise to assist the organisation in embedding risk management and leverage its benefits to enhance performance.

The Risk and compliance officer at TLM will be responsible for facilitating, implementing, and monitoring the municipality's risk management system. This includes managing the Risk Assessment process and updating risk registers and actions on a quarterly basis. The officer will facilitate the identification and assessment of risks during the annual Risk Assessments within the organisation to determine risk mitigation strategies and identify any new risks. Additionally, they will develop and continuously update the Risk

Management policy, strategy, charter, and methodology for the Local Municipality. The Risk and compliance officer will also coordinate specific procedures related to the implementation and execution of risk management by monitoring compliance and submitting quarterly reports to the Risk Management Committee.

9.3.2 Risk Champion (RC)

The Risk Champion is responsible for intervening when risk management efforts encounter obstacles, such as a lack of cooperation from management and other officials, as well as insufficient organisational skills and expertise. Each department's Risk Champion must provide a quarterly report to the Risk and compliance officer (RCO) on new risks or any changes to existing risks resulting from recent events. A crucial aspect of the Risk Champion's role is to escalate situations where risk management initiatives are hindered, particularly when individuals attempt to obstruct these efforts. The Risk Champion is typically an existing employee within the department.

9.4 RISK MANAGEMENT ASSURANCE PROVIDERS

9.4.1 Internal Audit

The Internal Audit plays a crucial role in risk management by offering independent and objective assurance regarding the effectiveness of the organisation's risk management system. It is essential for Internal Auditing to assess how well the entire risk management system functions and to provide recommendations for improvement when needed.

9.4.2 External Audit

The external auditor, known as the Auditor-General, delivers an independent evaluation of the effectiveness of risk management.

10. POLICY REVIEW

This Policy will be reviewed every year to ensure it aligns with the Municipality's evolving perspective on risk management.

Recommended by the Risk Management Committee:

Signature

Date

Approved by the Accounting Officer:

Signature

Date