RAMOTSHERE MOILOA LOCAL MUNICIPALITY

RISK MANAGEMENT POLICY FRAMEWORK

ADOPTED DECEMBER 2013

Definition of terms

Term	Definition
Risk Appetite	The broad-based amount of risk the municipalityt is willing to accept is pursuit of its mission (or vision)
Risk Tolerance	The acceptable variation relative to the achievement of an objective
Inherent Risk	The risk before any actions management might take to alter either the risk's like hood or impact.
Residual Risk	The remaining risk after management has taken action to alter the likelihood and / or impact of the risk.
Qualitative Risk Assessment	A generic term for subjective methods of assessing risks e.g. Identification of likelihood and impact.
Quantitative Risk Assessment	A generic term for mathematical techniques for analysis and assessing risk e.g. Pert and monte carlo analyses.
Risk	The uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is measured in terms of consequences and likelihood.
Risk Analysis	The process of ascertaining the probability and impact of uncertain events using one or more of the techniques available.
Risk Tolerance	The tendency of the organisation to undertake risky projects as reflected in management philosophy and policies.
ERM Process Components	A set of interrelated processes components that represent a continuous and iterative interplay of actions that are pervasive and inherent in the way management runs the business of the Department.
Risk Maturity Level	The level of maturity from ad Hoc Stage to Optimised stage the municipality may find itself
Risk Register	The document that records the risk cycles in terms of risk identification, assessment, prioritisation and treatment.

Acronyms

Acronym	Explanation
RMLM	Ramotshere Moiloa Local Municipality
AC	Audit Committee
CRO	Chief Risk Officer
ERM	Enterprise Risk Management
RO	RISK Officer
RMC	Risk Management Committee
RMPF	Risk Management Policy Framework
NT	National Treasury
RMF	Risk Management Framework
COSO	Committee of Sponsoring Organisations
ICU	Internal Control Unit

Table of content

1. Overview

1.1 In terms of Section 166(1) of the Municipal Finance Management Act, Act56 of 2003 (as amended), the Accounting Officer must ensure that the Municipality has and maintains an effective, efficient and transparent system of financial and risk management and internal control. In addition, as contemplated by Treasury Regulation 3.2.1, the Accounting Officer must ensure that a risk assessment is conducted regularly to identify emerging risks of the municipality.

1.2 In this context, the municipality acknowledges that risk management is an integral part of good management practice and an essential element of good institutional governance. Furthermore, it is recognised that the Enterprise-wide Risk Management is a process that consists of eight essential interrelated component processes. If these processes are undertaken intuitively, the result will be continuous improvement in decision-making as well as better attainment of the municipality's service delivery objectives.

1.3 Enterprise Risk Management (ERM) involves establishing an appropriate infrastructure and culture, as well as, applying a logical and systematic method of establishing the environment, identifying, analysing, evaluating, treating, monitoring and communicating risks associated with any entity, activity, function or process in a way that will enable an organization to minimize losses and increase the likelihood of achieving organisational objectives and goals.

1.4 To be most effective, ERM should become part of the municipality's culture. It should be embedded into the municipality's philosophy, practices and business processes instead of being viewed as a once-off event. ERM has the potential to involve everyone in the municipality with the management of risks.

1.5 It is recognised that organisations that manage risk effectively and efficiently are more likely to achieve their strategic objectives and goals and do so at lower overall cost.

2. The objectives and aims of this policy framework

The purpose of this Risk Management Policy Framework (RMPF) is to contribute towards the building a risk-smart workforce and create an environment that allows for innovation and responsible risk-taking while ensuring legitimate precautions are taken to protect the public interest, maintain public trust, and ensure due diligence. The RMPF suggests that risk management is not an event. Rather, it is a formal and systematic process that can be applied at all levels of the municipality. For this reason the objectives and aims of this RMPF are to:

2.1 describe the stance of Ranotshere Moiloa Local Municiplaity(RMLM) in respect of Enterprise Risk Management (ERM);

2.2 provide a basis for management to effectively deal with uncertainties and associated risks and opportunities by enhancing their capacity to create and build value as well as provide a comprehensive approach to better integrate risk management into strategic decision-making;

2.3 outline essential roles and responsibilities of the key role players in the ERM process and provide a comprehensive set of directives and guidelines to enable the municipality's management and staff to identify, assess, treat, monitor and report risks for all our programmes, sub-programmes, as well as, the smallest departmental business units;

2.4 provide guidance to management and staff when overseeing or implementing the development of processes, systems and techniques for managing risks, which are appropriate to the context of the municipality's; and

2.5 create a common risk language by providing the basis for educating and training management and staff on the principles and concepts of Enterprise Risk Management. It is important for all employees to speak the same language when discussing and managing risks to ensure effective and quick communications across the municipality .

3 Municipal Risk Management Philosophy / Policy Statement

The Ramotshere Moiloa Local Municipality(RMLM) strives to proactively take initiative in seizing opportunities and developing solutions in line with our strategic and business objectives. We recognise that in doing so, we may accept risks in order to create value for our stakeholders, including employees and the general public.

In this context, risk is defined as the uncertainty of future events that could adversely influence the achievement of our strategic and business objectives. It is for this reason that risk management is viewed as a process which is used by all levels of management throughout the municipalit to identify, evaluate, treat, monitor and report risks to ensure the achievement of the municipality's objectives and goals.

4 Applicability

Effective risk management is imperative to any government institution’s ability to fulfil its mandate in respect of service delivery expectations of the public and the performance expectations within the institution.

In this context, it is expected that all the municipality's programmes, sub-programmes, including all sections, operations and processes will be subject to this policy / framework. The intention is that the municipality's programmes, sub-programmes, sections, operations and processes will work together in a consistent and integrated manner, with the overall objective of ensuring that risks are within the approved risk tolerance levels and the risk appetite of the Municipality.

5 Risk Management Approach

The realisation of the Municipality's strategic plan depends on its ability to take calculated risks in a way that does not jeopardise the direct interests of internal and external stakeholders. Sound management of risk will enable us to anticipate and respond to changes in our service delivery environment, as well as take informed decisions under conditions of uncertainty.

The Municipality will adopt an entity-wide approach to risk management. This approach requires us to view the municipality's risks from a portfolio or municipal (entity) wide perspective. The Enterprise-wide Risk Management (ERM) approach is a dynamic process that consists of eight interrelated components that will permeate every aspect of the Municipality. It is expected that the ERM process will become embedded into all key aspects of the Municipality including its activities, systems, processes, and operations while ensuring that our strategy or response to risk remain current and dynamic. All ERM efforts must be focused on supporting the Municipality's goals and objectives. However, management must ensure compliance with relevant legislation as the Municipality endeavours to fulfil the expectations of employees, communities and other stakeholders.

6 Roles and responsibilities / key guiding principles

The roles and responsibilities as well as the key guiding principles described in Annexure 1 are not intended to be prescriptive. Instead, these are intended to serve as a guidepost to management and staff as th Municipality implements Enterprise Risk Management. It is recognised that total conformity with these principles will evolve as the Municipality 's risk maturity improves.

7 Policy Review

The risk policy statement shall be reviewed annually to reflect the current stance on risk management. Every employee has a part to play in this important endeavour.

Adoption of the Municipal Risk Management Policy / Philosophy- Framework

______________________________ ________________________

Date

____________________________________ _______________________

Date

Annexures

The following annexures attached, contain more comprehensive information with regards to the Municipal Risk Management Policy Framework (RMPF):

- Annexure 1 – Municipal Risk Appetite and Risk Strategies;
- Annexure 2 – Municipal Management Roles and Responsibilities;
- Annexure 3 – Municipal Business Risk Model.

The documents listed below will developed once this policy framework has been adopted

- Municipal Risk Committee Charter;
- Enterprise Risk Management Components – Outlines the ERM process components and the relevant key policy guidelines; and
- Municipal Business Risk Model.

References (Bibliography) consulted as Best Practice in the preparation of this Municipal Risk Management Policy / Framework:

- The Municipal Finance Management Act No.56 OF 2003
- The Public Financial Management Act of the Republic of South Africa, Act 1 of 1999 (as amended by Act 29 of 1999)
- Treasury Regulations for departments, constitutional institutions and trading entities issued in terms of the PFMA;
- Office of the Accountant-General National Treasury, South Africa, Risk Management Framework
- Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Enterprise Risk Management – Integrated Framework,* AICPA. New York. 2004
- AZ/NZS 4360:2004 *Risk Management, Standards Australia / New Zealand Standards* Sydney, NSW 2004
- Mervyn King, *King Report on Corporate Governance for South Africa*, Institute of Directors 2002)
- Paul J. Sobel, *Auditor's Risk Management Guide*, CCH INCORPORATED. 2005
- Paul R Niven, *Balanced Scorecard Step-by-Step for Government and Nonprofit agencies*, John Willey & Sons, Inc. 2003
- Robert R Moeller, *COSO Enterprise Risk Management- Understanding the New Integrated ERM Framework*, John Willey & Sons, Inc.

- K.H. Spencer Pickett, *Enterprise Risk Management – A Manager's Journey*, John Willey & Sons, Inc. 2006
- K.H. Spencer Pickett, *Auditing the Risk Management Process,* John Willey & Sons, Inc. 2006

Websites visited

- www.agsa.co.za
- www.coso.org
- www.theiia.org
- www.intosia.org
- www.oag.treasury.gov.z

RAMOTSHERE MOILOA LOCAL MUNICIPALITY

ANNEXURE 1

Municipal Risk Appetite / Tolerance and Risk Response Strategies

Adopted December 2013

Table of content

1. INTRODUCTION

No municipality or municipal entity has the resources to eliminate or optimize all its risks. Only in instances of fraud risk, where the municipality subscribes to zero tolerance, (see table 1.2), it is not always cost effective or efficient to manage risks to zero residual risk or a very low residual risk threshold. Therefore, as part of its corporate governance responsibilities, top management and in particular the Accounting Officer must articulate the municipality's risk management philosophy and risk appetite. In doing so, they enable programme and senior managers to define tolerance levels for key risks and to articulate the acceptable variation relative to the achievement of a measurable or strategic objective. Failure to define and articulate risk tolerance levels may result in management and staff making business decisions that are either too conservative (i.e., not taking enough risk, which may result in indecisive management decision making or unnecessary / excessive expenditure of valuable resources) or too aggressive (i.e., taking too much risk that could present unacceptable exposure to the municipality).

Given the aforementioned dynamics, it is important for the municipality to make an informed decision on how much risk it accepts as part of normal management practice. This level of acceptable risk is known as the "risk appetite" and establishes the benchmark for the municipality's risk tolerance levels and the development of a risk management strategy.

1.1 Objectives

The objectives of this document are to:

1. Clearly define and articulate the municipality's **Risk Appetite**;
2. Identify **Risk Management Response Strategies / Options**;
3. Provide information i.r.o. **Risk Rating Tables**;
4. Establish parameters for determining **Risk Tolerance Levels** relative to an objective**;**

1.2 EXHIBITS AND TABLES

	Item	Explanations
	1. Municipal Risk Appetite, Tolerance and Risk Response Strategies	
1	Exhibit 1.1	This diagram expresses the municipal's ***Risk Appetite*** as well as risk scores that are within and those that exceeds the approved risk appetite.
2	Table 1.1	This table presents the municipal's ***Risk Management Response Strategies.***
3	Table 1.2	This table present the levels of ***fraud risk acceptability*** and management responses.
2. Factors for assessing inherent risk		
5	Table 2.1	This table presents the ***Impact Rating Scales*** as one of the factors that will be used in determining inherent risk.
6	Table 2.2	This table presents the ***Likelihood Rating Scales*** as other the factor that will be used in determining inherent risk.
7	Exhibit 2.3	This table presents an ***Inherent Risk (Dashboard)Map*** for management to use as a "risk dash board" display risks before taking into account the adequacy and effectiveness on internal controls.
3. Factors for assessing residual risk		
8	Table 3.1	This table presents the ***Internal Control and /or Risk Management Effectiveness Rating Scales*** when determining the remaining or residual risk.
9	Table 3.2	This table presents the ***acceptable levels of tolerance*** relative to the objective when determining the residual risk
10	Exhibit 3.3	This diagram presents a ***Residual Risk Map*** (***Dash Board)*** for management to use as a "risk dash board" to display risks after taking into account the adequacy and effectiveness on internal controls as well the risk appetite.

2. MUNICIPAL RISK APPETITE RISK TOLERANCES

Risk Appetite

The risk appetite represents ***the broad-based amount of risk we are willing to accept in pursuit of our mission and vision***[1]. Risk appetite can be expressed in either qualitative or quantitative terms. RMLM's risk appetite is expressed in quantitative terms as illustrated in exhibit 1.1. Thus all residual risks with a total risk score between 1 to 16 are **within** the municipality's risk appetite, while risk scores between 20 to 25 **exceed** the municipality's risk appetite.

Risk Appetite Threshold

The Risk Appetite Line is the threshold that separates risks that are within or exceeding the municipality's risk appetite. The municipality will not tolerate risks exceeding the approved risk appetite. The municipality is in the process of developing a municipal risk portfolio which will assist us in refining our risk appetite. The Municipal Risk Management Committee will regularly review the risk appetite and recommend changes to the Accounting Officer.

Risk Tolerances

The municipality's risk appetite should be appropriately translated into risk tolerances. Risk tolerance represents ***the acceptable variation relative to the achievement of a strategic or measurable objective***[2]**.** Also, it is the degree of variation around the unit of measure (PKI). With respect to risks for individual programmes, functions or units, the most senior manager of the programme, function or unit should, as the Accounting Officer, also take a portfolio view (see section 5) of the risks falling within his or her area of responsibility. Also, the manager concerned, should determine whether such a risk profile is within the municipality's risk appetite. **Table 3.2** provides the parameters in determining the categories and rating for risk tolerances relative to the achievement of an objective.

[1] Source: Adapted definition from Enterprise Risk Management – Integrated Framework: Executive Summary Framework, p.28, New York: COSO, April 2004.
[2] Supra p.124

Exhibit 1.1
The Municipal Risk Appetite

Impact	Insignificant (1)	Unlikely (2)	Moderate (3)	Likely (4)	Common (5)
Catastrophic (5)	Risk Score = 5	Risk Score = 10	Risk Score = 15	Risk Score = 20	Risk Score =25
Major (4)	Risk Score = 4	Risk Score = 8	Risk Score = 12	Risk Score = 16	Risk Score = 20
Moderate (3)	Risk Score = 3	Risk Score = 6	Risk Score = 9	Risk Score = 12	Risk Score = 15
Minor (2)	Risk Score = 2	Risk Score = 4	Risk Score = 6	Risk Score = 8	Risk Score =10
Insignificant (1)	Risk Score = 1	Risk Score = 2	Risk Score = 3	Risk Score = 4	Risk Score = 5

Likelihood

Risks Exceeding the Risk Appetite

Approved Risk Appetite Threshold

Risks within the Risk Appetite

3. The Municipal Risk Management Response Strategies

The municipality's risk response strategies will be considered with the aim of bringing the identified risks to be within the approved risk appetite and the risk tolerance levels. Table 1.1 provides risk strategy options that relate **enterprise (municipal)-wide risks**, while table 1.2 refer to strategy options specifically related to **fraud risk**. It should be noted that the municipality's has adopted a no tolerance risk stance (Municipal Fraud Policy).

Management should consider the effect on event likelihood and impact, in relation to risk tolerances, costs versus benefits, and thereafter design and implement response options. As part of risk management, each identified risk of the municipality should consider potential responses from a range of response categories. This gives sufficient depth to response selection and also challenges the "status quo." Having selected a risk management strategy with an appropriate response, management should reassess the remaining residual risk. Risk management response strategies may fall within the following categories:

1. Avoidance responses take action to remove the activities that give rise to the risks.
2. Reduction responses reduce the risk likelihood, impact, or both.
3. Sharing responses reduce risk likelihood or impact by transferring or otherwise sharing a portion of the risk.
4. Acceptance responses take no action to affect likelihood or impact because it is such a minimal risk, or the cost to implement the risk is too high relative to the cost of the risk.

Management's response options related to identified Municipal-wide Risks

Table 1.1		**RISK MANAGEMENT RESPONSE / STRATEGIES MATRIX**				
Scale	***Risk Magnitude***	***Inherent Risk Rating Scores (Product of Impact X Likelihood)***	***Responsibility and frequency of monitoring activities i.r.o. Inherent Risks***	***Residual Risk Rating Scores (Product of Control Effectiveness X Tolerance)***	***Residual Risk Management Strategy Options***	***Accountability***

5	Very High Risk	20-25 High – Very High	RMC, AO / MM and as appropriate Council to be kept informed on a quarterly basis.	20-25 High – Very High	**Prioritise risk** by ensuring that it receives the highest level of attention and **avoid risk** by removing the activities that gives rise to the risk.	RMC to make recommendation to Accounting Officer (AO) to take the desired action/s.
4	High Risk	15-16 High - Medium	S57 managers to monitor and / or be kept informed on a quarterly basis.	15-16 High - Medium	**Reduce** the risk by developing or enhancing the detective & preventive controls. **Or Transfer the risk.**	S57 Mngt to take action and RMC.
3	Moderat e Medium Risk	10-12 Low - Medium	S57mngt to monitor on a monthly basis.	10-12 Low - Medium	**Manage** the **risk** by ensuring that existing detective and preventive controls are effective & adequately monitored.	Senior Mngt take action and inform .S57 Mngt
2	Low Risk	5-9 Very Low - Low	Middle Management to monitor on a daily basis.	5-9 Very Low - Low	**Allow risk, but monitor** the risk by ensuring that detective controls are adequate and **effective**.	Unit Manager take action and inform Senior Management.
1	Very Low Risk	1-4	Operational staff to monitor on a daily basis.	1-4	**Accept the Risk** by taking no action due to cost vs control benefits.	None

Management's response options related to identified Fraud Risk

Table 1.2	RISK MANAGEMENT RESPONSE / STRATEGIES MATRIX					
Scale	***Risk Magnitude***	***Inherent Risk Rating Scores (Product of Impact X Likelihood)***	***Responsibility and frequency of monitoring activities i.r.o. Inherent Risks***	***Residual Risk Rating Scores (Product of Control Effectiveness X Tolerance)***	***Residual Risk Management Strategy Options***	***Accountability***
5	Very High Risk	20-25 High – Very High	AO / MM and as appropriate Council to be kept informed on a quarterly basis.	20-25 High – Very High	**Prioritise Risk** by ensuring that it receives the highest level of attention and **Avoid Risk** by removing the activities that gives rise to the risk.	RMC to make recommendation to Accounting Officer (AO) to take the desired action/s.
4	High Risk	15-16 High - Medium	RMC, and as appropriate AO / MM to be kept informed on a quarterly basis.	15-16 High - Medium	**Prioritise risk** by ensuring that it receives the highest level of attention and action.	RMC to make recommendation to Accounting Officer (AO) to take the desired action/s.
3	Moderate Medium Risk	10-12 Low - Medium	Unit manager / Middle Mgnt to monitor and / or be kept informed on a quarterly basis.	10-12 Low - Medium	**Reduce** the risk by developing or enhancing the detective and preventive controls.	Senior Mngt to take action and RMC.
2	Low Risk	5-9 Very Low - Low	S57 (Senior Management) to monitor on a monthly basis.	5-9 Very Low - Low	**Manage** the **risk** by ensuring that existing detective and preventive controls are effective and adequately monitored.	Senior Mngt take action and inform Unit. Mngt
1	Very Low Risk	1-4	MMS (Middle Management Services) to monitor on a daily basis.	1-4	**Allow risk, but monitor** the risk by ensuring that detective controls are adequate and **effective**.	Line Manager take action and inform Senior Management.

4. RISK ASSESSMENT RATING SCALES

Risk response strategies are dependant on the results of inherent and residual assessment. Defining the risk assessment criteria is essential for ensuring consistency of the risk assessment process. The most common evaluation criteria are the following:

- ***Significance / Impact*** How significant are the potential consequences of the risk?
- ***Likelihood / Probability*** How likely is it that the consequences will occur?
- ***Risk Management / Control*** How adequately are controls designed and how effectively are they operating?
- ***Risk Tolerance*** How much risk is management willing to accept after careful consideration of risk versus benefit?
- ***Risk Manageability*** To what extent does the municipality have the ability to manage (avoid, transfer, reduce, or exploit) the risk to an acceptable level?
- ***Risk Management Efficiency*** How efficiently is the risk management process?

4.1 Assessing Inherent Risk

Assessing inherent risk considers the realistic worst-case scenario of known and emerging risks. This requires assessing the likelihood of an event occurring and the consequence or impact on the achievement of objectives and goals if it does occur. Factors for assessing inherent risk are:

i) The likelihood or probability of an event occurring; and
ii) Its impact or consequence on the achievement of objectives if it does occur.

Tables 2.1 and 2.2 should be used for assessing inherent risk. Exhibit 2.3 is useful to provide management a "**dash board view**" of level of inherent risks.

4.2 Assessing Residual Risk

Following the assessment of inherent risk, the residual level of risk must be assessed. Factors for assessing the municipality's residual risk are:

i) The adequacy in the design and operating effectiveness of control activities;
ii) Levels of tolerance management has for not achieving a particular strategic or measurable objectives;

Tables 3.1 and 3.2 should be used for assessing Residual risk. Exhibit 3.3 is useful to provide management a "**dash board view**" of level of inherent risks. Management should recognize that some level of residual risk will always exist, not only because resources are limited, but also because of inherent future of uncertainty and limitations inherent in all activities. Determining the broad-base amount of residual risk management is willing to accept in perusing its mission, is essentially defining the risk appetite.

Table 2.1	**I) Impact Rating Scales**		
Rate	***Assessment***	***Defined Rating Scales***	***Enhanced Rating Scales***
5	**Critical (Catastrophic impact)**	Negative outcomes or missed opportunities that are of critical importance to the achievement of the objectives.	**Extremely High Significance** Strategic objectives cannot be achieved, resulting in significant financial impact and questions about future viability.
4	**Major (Very material impact)**	Negative outcomes or missed opportunities that are likely to have a relatively substantial impact on the ability to meet objectives.	**Highly Significant** Difficult to achieve strategic objectives and / or material financial impact.
3	**Moderate**	Negative outcomes or missed opportunities that are likely to have a relatively moderate impact on the ability to meet objectives.	**Moderately Significant** Noticeable challenges to a strategic objectives.
2	**Minor**	Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives.	**Slightly Significant** Small material impact
1	**Insignificant**	Negative outcomes or missed opportunities that are likely to have a negligible impact on the ability to meet objectives.	**Not Significant** No discernable impact. Neither a strategic nor financial impact.

Table 2.2	II) Likelihood Rating Scales		
Rate	***Assessment***	***Category definition***	***Enhanced Rating Scales***
5	**Common**	The risk is already occurring, or is likely to occur more than once within the next 12 months	**Highly Likely** - Already occurring or almost certainly will occur in specified time period (>90%)
4	**Likely**	The risk could easily occur, and is likely to occur at least once within the next 12 months.	**Likely** - More likely than not to occur in the specified time period (> 50%).
3	**Moderate**	There is an above average chance that the risk will occur at least once in the next three years.	**Possible** May occur during the specified time period (< 50%)
2	**Unlikely**	The risk occurs infrequently and is unlikely to occur within the next three years.	**Unlikely -** Not likely to occur in the specified time period (< 25%)
1	**Rare**	The risk is conceivable but is only likely to occur in extreme circumstances.	**Very Unlikely** - Virtually no chance it will ever happen. (< 5%)

Inherent Risk (Dash Board) Map Exhibit 2.3

Impact	Insignificant (1)	Unlikely (2)	Moderate (3)	Likely (4)	Common (5)
Catastrophic (5)	Risk Score of 5 Low Risk	10 Medium Risk	15 High Risk	20 Very High Risk	25 Very High Risk
Major (4)	4 Very Low Risk	8 Low Risk	12 Medium Risk	16 High Risk	20 Very High Risk
Moderate (3)	3 Very Low Risk	6 Low Risk	9 Low Risk	12 Medium Risk	151 High Risk
Minor (2)	2 Very Low Risk	4 Very Low Risk	6 Low Risk	8 Low Risk	10 Medium Risk
Insignificant (1)	1 Very Low Risk	2 Very Low Risk	3 Very Low Risk	4 Very Low Risk	5 Low Risk

Likelihood

Table 3.1	1. Internal Control Effectiveness Rating Scales		
Rating	***Assessment***	***Category of Control Adequacy and Effectiveness to alter the risk's likelihood and / or impact.***	***Risk Management Effectiveness Scales***
5	**Non-existent**	**Controls activities** are inadequate and ineffective and risk exposures are pervasive.	**No Risk Management.** The municipality lets the risk occur and lives with the results.
4	**Weak**	**Control activities** are **limited** in design adequacy as well as operating effectiveness to mitigate risks exposures. Some of the risk exposure appears to be controlled, but there are major deficiencies.	**Low Risk Management** The risks typically can be detected, but the municipality relies more on contingency and recovery plans.
3	**Satisfactory**	**Control activities** are **improved** in design adequacy and operating effectiveness to mitigate risks exposures. However, there is still room for improvement in certain areas.	**Moderate Risk Management** Through effective monitoring, occurrence of risk is identified and with sufficient time to act its, impact can be reduced or opportunity is increased.
2	**Good**	**Control activities** are adequately designed and operating effectively to mitigate the **majority** of key risk exposures.	**Extensive Risk Management** Ongoing monitoring and proactive activities help assure the impact of risk occurrence will be minimal or opportunities enhanced.
1	**Very good**	**Control activities** are adequately designed and operating effectively to manage and control **all** key risk exposures.	**Continuous Risk Management** A comprehensive risk management programme is in place that helps assure that the risks are prevented or there will be no measurable impact on objectives or opportunities are optimized.

Table 3.2	2. Levels of tolerance rating Scale

Rating	***Assessment***	***Levels of Tolerance for not achieving Strategic or Measurable Objectives***	***Category of Risk Options***
5	**Very Low**	Management has **very little tolerance** for risk.	**Avoid the risk -** Management is not willing to accept any risk under any circumstance.
4	**Low**	Management has **low tolerance** for risk.	**Reduce or Transfer the risk** - Management will accept only relatively low levels of risk. There must be a continuous process in to management risk and minimize its impact. Or management may transfer the risk.
3	**Moderate**	Management has **moderate tolerance** for risk.	**Manage the risk** - Management will accept a moderate level of risk. However, management must be able to anticipate occurrence of the risk, allowing for some proactive actions to reduce its impact.
2	**High**	Management has **high tolerance** for risk.	**Allow and detect the risk -** Management may allow the risk to occur, but must be able to monitor, detect and address it timeously before its impact becomes too great.
1	**Very High**	Management has **very high tolerance** for risk	**Accept the risk -** The occurrence of risk is acceptable.

Table 3.3	**3. Internal Control Maturity Assessment**					
Levels	***Control Maturity Stages***	***Gap analysis***		***Rating***	***Assessment***	***Control Adequacy and Effectiveness***
		Current	***Desired***			
1 Ad Hoc	Controls are either non-existent, or are primarily reactionary after a "surprise" within the municipality.			**5**	**Non-existent**	Inadequate and ineffective internal controls
2 Repeatable	Detective controls are relied upon throughout the municipality.			**4**	**Weak**	**Limited** in design and effectiveness.
3 Defined	Both preventative and detective controls are employed throughout the municipality .			**3**	**Satisfactory**	**Improved** in design adequacy and operating effectiveness
4 Managed	Best practices and bench marking are used to improve process in certain areas of the municipality.			**2**	**Good**	Adequately designed and operating effectively to mitigate the **majority**
5 Optimized	Extensive use of best practices and benchmarking throughout the municipality helps to continuously improve processes.			**1**	**Very good**	Adequately designed and operating effectively to manage and control **all** key risk exposures.

Residual Risk (Dash Board) Map Exhibit 3.3

Levels of Risk Tolerances	Very good (1)	Good (2)	Satisfactory (3)	Weak (4)	Non-existent (5)
V. Low Tol. (5)	Risk Score – 5 Allow risk, but monitor, detect and address its impact	Risk Score - 10 Manage the risk	Risk Score - 15 Reduce or transfer the risk	Risk Score 20 Avoid the risk	Risk Score 25 Avoid the risk
Low Tol. (4)	Risk Score – 4 Accept the Risk	Risk Score - 8 Allow risk, but monitor, detect and address its impact	Risk Score - 12 Manage the risk	Risk Score - 16 Reduce or transfer the risk	Risk Score - 20 Avoid the risk
Mod Tol. (3)	Risk Score – 3 Accept the Risk	Risk Score - 6 Allow risk, but monitor, detect and address its impact	Risk Score - 9 Allow risk, but monitor, detect and address its impact	Risk Score – 12 Manage the risk	Risk Score - 15 Reduce or transfer the risk
High Tol (2)	Risk Score – 2 Accept the Risk	Risk Score - 4 Accept the Risk	Risk Score - 6 Allow risk, but monitor, detect and address its impact	Risk Score – 8 Allow risk, but monitor, detect and address its impact	Risk Score - 10 Manage the risk
V. High Tol (1)	Risk Score – 1 Accept the Risk	Risk Score - 2 Accept the Risk	Risk Score - 3 Accept the Risk	Risk Score – 4 Accept the Risk	Risk Score - 5 Allow risk, but monitor, detect and address its impact

Risk Appetite Threshold

Internal Control and /or ERM Effectiveness

(to alter the risk's likelihood and or impact)

REVIEW OF THE MUNICIPAL RISK APPETITE, RISK STRATEGIES AND RISK RATING SCALES

The Municipal Risk Strategies / Appetite Reiterated

The municipality's risk response strategies requires that management select a risk response that is expected to bring risk likelihood and impact within the municipality's acceptable risk appetite level and risk tolerance levels. The risk appetite represents ***the broad-based amount of risk we are willing to accept in pursuit of our mission and vision.*** While risk tolerance represents ***the acceptable variation relative to the achievement of a strategic or measurable objective of the municipality.***

______________________ ______________________

Date

______________________ ______________________

Date

RAMOTSHERE MOILOA LOCAL MUNICIPALITY

ANNEXURE 2

ERM Roles and Responsibilities

Adopted - December 2013

Table of content

1. Introduction

Improved risk management directly impact improved service delivery. Thus, everyone in the municipality has a responsibility for risk management and this responsibility should therefore be an explicit or implicit part of everyone's job description. Virtually all personnel produce information used in risk management or take other actions needed to manage risks. Employees are responsible for communicating risks such as problems in operations, non-compliance with the code of conduct, other policy violations or illegal actions.

The roles and responsibilities stated below are not intended to be prescriptive. Instead, these are intended to serve as a guidepost to management and staff as the Municipality implements Enterprise Risk Management. It is recognised that full compliance with these key principles will evolve as the Municipality’s risk maturity improves. The roles and responsibilities also provide the basis for creating the Municipality’s Risk Management Infrastructure.

2. Roles and Responsibilities

Reference should be made to the Ramotshere Moiloa Local Municipality Risk Management Framework for comprehensive information in respect of roles and responsibilities. Specifically, the roles and responsibilities relevant to the Municipality's role players for Enterprise Risk Management (ERM) are the following:

2.1 Council

By appointing the Accounting Officer, Council has a major role in defining what it expects in integrity and ethical values and can confirm its expectations through oversight activities. By reserving authority in certain key decisions, the council plays a role in setting strategy, formulating high-level objectives and broad-based resource allocation. The executive authority provides oversight with regard to risk management by:

- Being aware of and concurring with the Municipality's risk appetite;
- Reviewing the Municipality's risk portfolio and considering it against the Municipality's risk appetite; and
- Understand the priority risks.

2.2 The Accounting Officer

The Accounting Officer, is accountable to the Council, who is to provide governance, guidance and oversight. The Accounting Officer is ultimately responsible for and should assume "ownership" of risk management. More than any other individual, the Accounting Officer sets the "tone at the top" that affects integrity and ethics and other factors of the control environment. In any municipality, the Accounting Officer fulfils this duty by providing leadership and direction to top and senior managers and reviewing the way they manage the programmes and components within the municipality. The Accounting Officer provides leadership by:

- Reviewing the risk management policy / framework , taking into account recommendations by the Audit and Risk Management Committee and signing it off as proof of accountability;
- Approving the Municipality's risk appetite and risk profile;
- Ensuring alignment of the strategic objectives and risk appetite;
- Responsible for setting the risk strategy;
- Being aware of the Municipality's risk tolerences and risk profile;
- Knowing the extent to which management has established effective risk management in the municipality;
- Being aware of the most significant and strategic risks and whether management is responding appropriately.

2.3 Chief Financial Officer

The Chief Financial Officer, is accountable to the Accounting Officer, who has ultimate responsibility for the Department's risk management. The Chief Financial Officer should assist the Accounting Officer by:

- Providing administrative support and leadership to the risk management unit / function;
- Reviewing the risk management policy / framework;
- Assisting in the approval of the department's risk appetite and risk profile;
- Ensuring alignment of the strategic objectives and risk appetite;
- Assisting in determining the department's risk tolerances and risk profile;
- being aware of the most significant and strategic risks and whether management is responding appropriately.

2.4 Departmental Risk Management Committee

The Municipal Risk Management Committee (RMC) is responsible for the oversight of the implementation of Enterprise Risk Management (ERM) process. RMC should delegate the day to day implementation process to the risk management unit. In addition, the RMC will be responsible for ensuring that a comprehensive risk management policy framework is established and updated. The policy framework should consist of risk management policies, procedures, processes and generally accepted methodologies.

The responsibilities of the Risk Management Committee (RMC) are two-fold:

a) Ensure that the Municipality's organisation's risk management framework is efficiently implemented and maintained; and
b) Provide the Accounting Officer with assurance that the risks to which the department is exposed, are being efficiently managed in compliance with the policy / framework and that strategies dealing with abnormal events have been implemented.

To achieve these responsibilities, the RMC should ensure that:

- The statement of the municipality's risk appetite is appropriately translated into risk tolerances;
- The risk management policy framework is established, efficiently implemented and continuously updated to remain relevant to the department's activities.
- Recommend the contents and frequency of risk reporting.
- Facilitate and promote communication of risk related matters to the Accounting Officer .
- Review the aggregate risk profile.

2.4 Chief Risk Officer (CRO)

To enhance the department's institutional governance responsibility internally and to ensure that appropriate focus is placed on this important task, the RMC should delegate the responsibility of the day to day implementation and management of the risk management activities to the Chief Risk Officer (CRO) of the risk management unit.

The CRO must ensure that the risks management policy is implemented and that the Accounting Officer and Risk Management Committee receive the appropriate reports on the department's risk profile and the implementation of the risk management process.

The CRO should monitor the organisation's overall risk profile, ensuring that major risks are identified and reported upwards. The CRO should provide and maintain the risk management infrastructure to assist the Accounting Officer and RMC fulfil its responsibilities.

The CRO is responsible for managing the Municipality's risk management unit in terms of:

- Working with senior management in establishing and communicating the Municipality's risk management philosophy / policy statement;
- Ensuring that the Audit Committee, Risk Management Committee and senior management are adequately informed and trained on current and emerging Enterprise Risk Management principles and concepts;
- Determining, implementing and maintaining an appropriate risk management infrastructure, policies, procedures and processes;
- Establishing, communicating and facilitating the use of the appropriate risk management methodologies, tools and techniques;
- Facilitating enterprise–wide risk evaluation and monitoring of the capabilities around the management of significant risks.

- Working with other management and staff in establishing and maintaining effective risk management in their areas of responsibility.
- The CRO is responsible for drafting risk management report and maintaining the main risk register.
- Providing the accounting officer, senior management and the audit and risk committees with consolidated reports of risk exposures and the progress on mitigation plans.

2.5 Transversal ERM (District-wide Risk Management Unit)

The Transversal ERM Unit is a sub unit within Risk Function with specific responsibility for:

- Creating, implementing and maintaining the district risk management framework. The framework is to be reviewed annually and changes approved by the Audit Committee and the District Risk Management Committee.
- Assisting in the execution of the elements of the risk management process cutting across other municipalities in the district and/or entities.
- Identifying, understanding and providing independent oversight of risks and the risk process.
- Providing senior management, the audit and risk committee with an independent risk analysis and assessment.

2.6 Management

In a cascading responsibility, a manager or risk co-ordinator is effectively an accounting officer of his or her sphere of responsibility. They are leaders of staff functions such as compliance, finance, human resources and information technology, whose monitoring and control activities cut across, as well as up and down, the operating and other units of the department.

2.7 Unit/Programme / Sub-Programme Risk Owner

Preferably, the Unit/Programme or Sub-Programme Risk Owner should be:

- A member of the senior management team within a programme or sub-programme.
- Prepared to acquire or have an understanding of Enterprise Risk Management (ERM) concepts, principles and processes as outlined in this policy framework.

Furthermore, the Unit/Programme or Sub-Programme Risk Owner should:

- support the risk management processes and initiatives of the particular programme.
- have sufficient authority to drive risk management as required by the municipality's risk management philosophy, policy, strategy, and other risk management initiatives .

A key part of the Unit/Programme or Sub-Programme Risk Owner's responsibility involves escalating instances where the risk management efforts are stifled, such as when individuals try to block appropriate risk management initiatives. The Unit/Programme or Sub-Programme Risk Owner also adds value to the ERM process by providing guidance and support to manage "problematic" risks and risks of a transversal nature.

2.8 Risk Co-ordinators

A Risk Co-ordinator is a manager or staff member of a unit/programme, sub-programme or sub-sub programme allocated specific risk management support functions within a programme/sub-programme/unit.

In a cascading responsibility, risk co-ordinator is effectively an accounting officer of his or her sphere of responsibility. They are leaders of staff functions such as compliance, finance, human resources and information technology, whose monitoring and control activities cut across, as well as up and down, the operating and other units of the department.

The responsibilities of the risk co-ordinators includes, but not entirely limited to:

- Compilation and maintenance of unit/programme/sub-programme/unit risk registers

- Monitor and report regularly on risks within the unit/programme/sub-programme/unit
- Monitor and report on response plans within the unit/programme/sub-programme/unit
- Update Unit/Programme or Sub-Programme Risk Owner on the status of Enterprise Risk Management within the unit/programme/sub-programme/unit.

2.10 Internal Auditors

Internal auditors play an important role in the monitoring of risk management and the quality of performance as part of their regular duties or upon special request of top management, which is approved by the audit committee. They may assist both management and the accounting officer or audit committee by monitoring, examining, evaluating, reporting on and recommending improvements to the adequacy and effectiveness of management's risk management processes. Such request should however be routed through the audit committee to ensure that such involvement does not effect the completion of the approved audit plan.

The purpose of internal audit is to provide independent, objective assurance designed to add value and improve the operations of the organisation. Internal audit assists in bringing about a systematic, disciplined approach to evaluating and improving the effectiveness of systems and processes, which control the management of risk.

The responsibilities of internal audit include:

- Giving assurance on the risk management process, including compliance with policy.
- Giving assurance that risks are correctly evaluated as per the risk framework.
- Confirming that controls for major risks are operating as assessed by management.

2.11 Auditor General

The Auditor General, as the external auditor, brings an independent and objective view in respect of the risk management, contributing, on the one hand, directly through the financial statement audit and internal control examinations, and indirectly by providing additional information useful to management and the accounting officer in carrying out their responsibilities, on the other. External auditors, however, are not responsible for the department's risk management.

2.12 Audit Committee

- The Audit Committee should be active and posses an appropriate degree of management, technical, and other expertise, coupled with the mind-set necessary to perform its oversight responsibility.
- It should be prepared to question and scrutinize management's activities, present alternative views and act in the face of wrongdoing.
- It should provide oversight to the municipality's risk management process and it should be aware of and concur with the municipality's risk appetite.
- The Audit Committee members should be independent outside members.

REVIEW OF THE RISK MANAGEMENT ROLES AND RESPONSIBILITIES

____________________ ____________________

Date

____________________ ____________________

Date

RAMOTSHERE MOILA LOCAL MUNICIPALITY

ANNEXURE 3

Ramotshere Moiloa Local Municipality Business Risk Model / Risk Listing

ADOPTED DECEMBER 2013

Table of content

5. INTRODUCTION

The risks faced by the municipality may be defined in a variety of formats based on the source from which the risk was derived. However, these risk definitions may not be clear to all parties involved with the risk assessment. It is therefore necessary to define risks in a consistent manner and thereby create a "common risk language" for the municipality .

6. Objectives

The objectives of this document are to:

5. Distinguish between a risk and the causes (drivers) of risk;
6. Provide an inventory of risks or risk universe that will serve as the basis for establishing a municipal risk profile;
7. Ensure an efficient risk assessment process by providing brief risk descriptions - preferably one sentence. (A brief risk description is preferred, since the initial assessment of risks is a very involved process and preparing detailed definitions may "put people in a box or silo" in terms of how they think of a risk);
8. Ensure that the municipality maintains consistency in risk definitions by defining risks a *cause* and *effect* format. That is, define each risk with a brief description of the risk and end it with the consequence;
9. Provide a basis for customising generic risk using the common language the municipality speaks. A common language using the municipal "lingo" is useful in that if one indevidual refers to a particular risk by name or reference number, everyone knows what that individual is referring to.

7. The Difference between Risk and Risk Causes / Drivers

There are subtle differences between risks and the causes or drivers of risk.

- **Definition of Risk**

In terms of the municipal risk policy, risk is defined as the uncertainty of future events that could adversely influence the achievement of our strategic and business objectives. Based on this definition, one may deduce that risks represent a measure of uncertainty of an events occurring beyond the direct control of the process owner, risk owner or the manager concerned.

8. Risk causes

Risk causes or drivers are factors that cause the risk to occur. Also, referred to as "risk drivers" are:

a) Identified inherent control weaknesses or deficiencies associated with a particular activity; and

b) Relate to control weaknesses the manager concerned has direct control over.

Example LED Department/Directorate may have identified Economic Risk as being a key risk. The risk drivers may be:

- *Incorrect analysis of economic data;*
- *Lack of competent staff to analyse economic data; or*
- *Constant delays in issuing or receiving reports on economic data.*

9. Risk Drivers

Indirect risk drivers are other risks that may impact on the key or core risk. For example, if economy risk was identified as a core risk, the following risks may be identified as indirect risk drivers:

- *Foreign Currency Risk*
- *Capital Availability Risk*
- *Interest Rate Risk*

- *Human Resources Risk*

10. Portfolio View of Risks

Management should consider risk from an entity (municipal)-wide, or portfolio**,** perspective. This may take an approach in which the manager responsible for each directorate, unit, division, or smallest departmental unit develops a composite identification, assessment and risk response strategies for the unit concerned. Risks for individual units should be aggregated to allow the RMC and Accounting Officer to take a portfolio view of the municipality's risks. The portfolio view of risks is to be analysed on the Inherent and Residual Risk (Dash Boards) Maps provided in Exhibits 2.3 and 3.3 of Annex 1.

11. Classification of Risks

Municipal Risk Business Model below is adapted from the National Treasury Business Risk Model. The risks listed and defined in this document have been based on the following considerations:

- risks identified through audit outcomes and/or that are inherent in a municipal environment;
- The National Treasury's Financial Management Capability Maturity Model questionnaire;
- Risks identified by internal and external auditors.

Risks are normally divided into the following categories:

1. *Strategic Risks;*
2. *Financial Management And Accounting Related Risks*
3. *Cash & Debtors Management Related Risks*
4. *Information Technology Related Risks*
5. *Supply Chain Risks*
6. *Legislation and Compliance Related Risks*

7. *Operational & Employee Related Risks*
8. *Asset Management Risks*
9. *Performance and Information Related Risks*

12.

13.Municipal Business Risk Model

STRATEGIC RISKS			
#	External Risks	#	Internal Risks
STE01	Economy Risks	STI01	Leadership and Empowerment Risk
STEO2	Political Change Risk.	STI02	Reputation Risks
STE03	Business interruption / continuity risk	STI03	Brand Equity Risk
STE04	Competitor Risks	STI04	Public Confidence Risk
		STI05	Culture Risk
		STI06	Decision making risk
		STI07	Environmental Risk

#	Financial Management And Accounting Related Risks	#	Revenue, Cash & Debtors Management Related Risks
FM 01	Accounting Risk	CM 01	Cash Flow/Liquidity Risk
FM 02	Budgeting Preparation Risk	CM 02	Capital Availability Risk
FM 03	Budget Monitoring Risk	CM 03	Interest Rates Risk
FM 04	Journal Processing Risk	CM 04	Foreign Currency Risk
FM 05	Payment Accuracy	CM 05	Suspense & Adjustments Risk
FM 06	Payroll Risk	CM 06	Aging Acounts Risk
FM 07	Payment Timeliness Risk		
FM 08	Reconciliation Risk		
FM 09	Timeliness Risk		
FM 10	AFS Performance Measurement Risk		
FM 11	AFS Disclosure Risk		

#	Information Technology Related Risks
IT 01	Systems Interface / Integration Risk
IT 02	Systems Infrastructure Risk
IT 03	Systems Access Security Risk
IT 04	Systems Availability Risk
IT 05	Data Integrity Risk
IT 06	Data Relevance Risk

OPERATIONS RISKS					
#	**Supply Chain Risks**	#	**Legislation and Compliance Related Risks**	#	**Ops & People Risks**
SCM 01	Procurement Plan Risk	LC 01	Litigation risks	OE 01	Human Resources Risk
SCM 02	SCM Execution Risk	LC 02	Policies Formulation Risk	OE 02	Communications Risk
SCM 03	Contract Management Risk	LC 03	Policies and Procedures Compliance Risk	OE 03	Employee Health Risk
SCM 04	Supplier Performance Risk	LC 04	Contract Risk	OE 04	People Safety Risk
SCM 05	Inventory Levels Risk	LC 05	Legislation and Regulatory Risk	OE 05	Authority Risk
				OE 06	Segregation of Duties Risk
				OE 07	Documentation Risk
#	**Asset Management Risks**	#	**Performance and Information Related Risks**	OE 08	Integrity Risk
AM 01	Asset Strategy Risk	PI 01	Performance Incentive Risk	OE 09	Employee Moral Risk
AM 02	Asset Existence Risk	PI 02	Performance Measurement Risk	OE 10	Attendance Register & Leave Management Risk
AM 03	Asset Performance Risk	PI 03	Information Reliability and Integrity	OE 11	Communication Risk
AM 04	Physical Security Risk	PI 04	Information Availability and Timeliness Risk	OE 12	Stakeholder Risk
AM 05	Valuation and Depreciation Risk			OE 13	Conflict of Interest Risk
AM 06	Capitalisation Risk			OE 14	Knowledge Capital Risk

14. Risk names and risk definitions

1. STRATEGIC RELATED RISKS

Strategic – External Risks (SE)

STE 01 Economy Risk – Significant economic changes, in particular an economic downturn, may result in reduced growth spending, inflationary costs, a tightening labour market, or other economic effects that could inhibit the department achieve its service delivery or poverty alleviation objectives.

STE 02 Political Change Risk – Changes in political administrations at national, provincial and local municipal levels may result in a change or shift of a department's or entity's policy and this may affect the municipality's or entity's sustainability.

STE 03 Business interruption / continuity risk – Business interruption caused by external events such as water, fire or earthquakes may cause interruption in a municipality's or entity's business activities as well as its sustainability.

STE 04 Competitor Risks – Failure to effectively monitor and understand the competitors of the municipality's or its departments' actions may result in diminished demand for the municipality's or departments' services. This may question the purpose of existence of the municipality or its departments. Example, an outsourced service provider may be a competitor for services that could be performed internally. Example Information Technology or internal auditing.

Strategic – Internal Risks

STI 01 Leadership and Empowerment Risk – Failure of top and senior management to provide the necessary direction and leadership, as well as to appropriately empower employees, may result in confusion regarding management's expectations and difficulty in executing the municipality's mission, goals and objectives.

STI 02 Reputation Risks – Failure to effectively cultivate and manage the perception of the department or programme may impair the reputation of the department or programme resulting in reduced confidence by the stakeholders regarding management's ability to effectively manage the municipality or its departments.

STI 03 Brand Equity Risk – Failure to establish and maintain the municipality's or departments' brand awareness, positioning and strength may impair the municipality's ability to execute its strategic goals and / or objectives.

STI 04 Public Confidence Risk – Inability to effectively understand and manage stakeholder or the public's expectations particularly relative to, accountable and effective financial management, poverty alleviation, crime prevention, and / or HIV eradication education for all victims may result in loss of stakeholder or public confidence and decline in support for the municipality or its departments

***STI 05 Culture Risk* -** Failure to establish and maintain a culture that promotes behaviour consistent with the municipality's values and expectations may impair the municipality's ability to achieve its business objectives and operate in a responsible manner.

STI 06 Decision making risk – Inappropriate management policies or indecisive management actions may result in unnecessary delays and inefficiencies in the delivery of services to stakeholders of the municipality .

STI 07 Environmental Risk – Failure to take reasonable measures of ensuring a sustainable environment or to comply with environmental laws resulting in lack of a sustainable environment.

2. FINANCIAL MANAGEMENT AND ACCOUNTING RELATED RISKS

FM 01 Accounting Risk – Failure to record accounting and economic transactions accurately, timeously and completely may result in misstatements of financial information and distort information used for external reporting and internal decision making.

FM 02 Budgeting Preparation Risk – Inability to prepare meaningful budgets and forecasts that are integrated with municipal IDP, may result in lack of prioritisation and significant service delivery goals and objectives not being achieved.

FM 03 Budget Monitoring Risk – Inability to perform timeous and consistent in year-monitoring (IYM) or other budget monitoring activities may result in significant over or underspending of budgeted funds.

FM 04 Journal Processing Risk – Inability to review, approve and control the correctness of all journal vouchers and supporting documentation during the processing thereof, may result in the lack of prevention of fraudulent or erroneous entries to ledger accounts.

FM 05 Payment Accuracy Risk – Inadequate processes for the payment of goods and services may result in paying creditors the wrong amounts or more than once.

FM 06 Payroll Risk – Inadequate execution of payroll processes may result in delays of paying employees; paying them the incorrect amounts or payments to ghost employees.

FM 07 Payment Timeliness Risk – Inadequate execution of payment / disbursements processes may cause creditors to be paid either earlier or later than desired period, resulting in sub-optimal cash management, missed discounts, interest / penalty charges and or / a tarnished reputation.

FM 08 Reconciliation Risk – Failure to consistently and completely reconcile key accounts, for instance banks recons, Pastel /VIP recons, suspense accounts, or any other key accounts may prevent errors and omissions in accounting information from being detected and timeously corrected.

FM 09 AFS Timeliness Risk – Inability to close the books timeously may result in financial statements not being prepared within the prescribed period and external and internal stakeholders receiving the necessary financial information when required.

FM 10 AFS Performance Measurement Risk– Inability to compile, measure, and analyse operating results in a timely and accurate manner may result in slow reactions to performance shortfalls or the municipality's decisions based on incomplete or inaccurate information.

FM 11 AFS Disclosure Risk – Lack of clear, concise and complete disclosure of financial information may cause inadequate transparency resulting in adverse actions by Council; the Provincial Treasury, the Provincial Legislature or National Treasury withholding budgeted funds.

3. CASH MANAGEMENT RELATED RISKS

CM 01 Cash Flow/Liquidity Risk – Inability to effectively manage cash inflows and outflows may result in liquidity problems which, in turn, may inhibit the municipality's ability to fund growth, meet its obligation, and maintain financial stability.

CM 02 Capital Availability Risk – Lack of access to sufficient capital / funds at reasonable rates may inhibit municipality to meet its growth targets.

CM 03 Interest Rates Risk – Failure to effectively manage interest rate exposures from borrowings may increase the municipality's ability to meet its growth targets.

CM 04 Foreign Currency Risk– Inability to manage the exposures from fluctuating foreign currencies may result in negative financial impact on foreign transactions.

CM 05 Suspense & Adjustment Risk – Failure to effectively control the suspense account and make necessary adjustments may result in diverted funds or inability to collect all amounts rightfully owed to the municipality.

CM 06 Aging Accounts Risk – Inability to accurately reflect the true aging of debtors accounts may result in delayed or inadequate collection efforts.

4. INFORMATION TECHNOLOGY RELATED RISKS

IT 01 Systems Interface / Integration Risk – Inadequate or non-interfaced systems (i.e. PASTEL, and VIP) that support and enable the financial reporting process may result in inaccurate financial reporting. *Or, outdated, poorly designed or non-interfacing systems (e.g. PASTEL, and VIP interface) may inhibit the municipality's ability to manage acquisition and procurement activities.*

IT 02 Systems Infrastructure Risk– Lack of an effective information technology infrastructure may diminish the municipality's ability to support the current and future information needs of the municipality in an efficient and effective manner.

IT 03 Systems Access Security Risk– Failure to appropriately restrict access to data or programs may result in unauthorized changes to data or programs, inappropriate access to restricted or confidential information, or inefficiencies where access is too restrictive.

IT 04 Systems Availability Risk– Systems or data that are not available to the authorised users at the right time may result in inefficient or ineffective operation of critical processes.

IT 05 Data Integrity Risk– Inability to ensure the integrity of data relied upon for the decision making may result in delayed or poor management decisions.

IT 06 Data Relevance Risk– The existence of irrelevant, redundant or unnecessary data in computer systems applications or reports may result in inappropriate judgments and decisions.

5. SUPPLY CHAIN MANAGEMENT RELATED RISKS

SCM 01 Procurement Plan Risk – Failure to effectively develop and implement a procurement plan for the supply chain function may result in i) the acquisition of goods and/or service that are not properly prioritised, ii) higher than acceptable cost, and / or iii) service delivery delays.

***SCM 02 SCM Execution Risk* –** Failure to consistently and effectively execute SCM policies and procedures (e.g. supplier set-up, bidding, purchase order preparation, receipt verification, etc.) may result in purchases that do not meet management's criteria (e.g. right goods or services, right location, right time, best price, etc.).

***SCM 03 Contract Management Risk* –** Non-existence or inadequate contracts with outsourcing suppliers of goods and service may impair the municipality's ability to enforce specification i.r.o. quality and / or timeliness expectations and obtain legal remedies when damages occur. Alternatively, failure to effectively manage and monitor outsourcing arrangements may result in service delivery that falls short of expectations and cause service delivery delays and inferior quality of service.

SCM 04 Supplier Performance Risk – Failure to effectively evaluate, select, and monitor changes to the supplier master file may result in supplier master file having suppliers who do not perform to the municipality's expectations, or suppliers that provide substandard goods and / or services.

SCM 05 Inventory Levels Risk – Lack of adequate and effective monitoring procedures to accurately reconcile recorded inventory levels with actual physical inventory levels may result in excessive over or under ordering and supply of goods or services. Alternatively, inadequate procedures and monitoring capabilities relative to the procurement of goods may result in excessive over or under supply of goods or services.

Other Related Risks to SCM

PE 01 Communications Risk – Failure to foster consistent and effective communications between the requisitioning unit and the SCM unit of the municipality may result in misunderstandings regarding supplier expectations or the supply of goods and / services which are not according to specifications.

IT 02 Systems Interfacing Risk – Outdated, poorly designed or non-interfacing systems (e.g. PASTEL and VIP interface) may inhibit the municipality's ability to manage acquisition and procurement activities.

6. ASSET MANAGEMENT RELATED RISKS

AM 01 Asset Strategy Risk – Inability to develop, integrate, control and review an asset management strategy may inhibit the municipality's from managing its assets across all phases of the life cycle to meet service delivery needs cost-effectively.

AM 02 Asset Existence Risk – Inability to track, monitor and validate the existence of fixed assets may result in loss or diversion of such assets, and non-compliance to GRAP 17.

AM 03 Asset Performance Risk – Failure to monitor and report the performance of an asset may result obsolete and redundant assets that cause inefficiencies in municipality's operations. ***This includes lack of condition assessment of infrastructure assets , which in turn affects impairment provision of such assets***

AM 04 Physical Security Risk – Inadequate physical security of assets and supplies may allow unauthorised access to assets and supplies thereby increasing the opportunity for theft or damage.

AM 05 Valuation and Depreciation Risk – Lack of a consistent and effective process and system to valuate and /or determine depreciable lives and calculate depreciation may result in misstated financial information.

AM 06 Capitalisation Risk – Lack of, or inability to apply Office of the Accountant General's (NT-OAG) guidelines may result in transactions (including leases) being inappropriately capitalised or expensed.

Other related Risks to Asset Management

FM 01 Accounting Risk – Failure to update the fixed assets register and record fixed assets transactions and related depreciation accurately and timeously may misstate the financial reports.

OE 06 Documentation Risk **–** Failure to adequately collect, file and retain fixed assets documentation, may impair the municipality's ability to lodge warrantee claims or support financial reporting and disclosure requirements.

PE 01 Human Resources Risk – Failure to attract, retain, develop, deploy and empower competent personnel may inhibit the ability of the municipality, units or sub-units/divisions to execute its mandate or its purpose of existence.

IT 02 Systems Interfacing / Integration Risk – Outdated, poorly designed or non-interfacing of fixed assets and accounting systems (e.g. PASTEL and EXCEL WORKSHEETS interface) may inhibit the municipality's ability to manage fixed asset transactions, resulting in inaccurate financial reporting

OE 06 Segregation of Duties Risk – Inadequately segregated duties may result in unintended mistakes and errors not being detected or allow employees to manipulate the system and fraudulently misappropriate valuable assets without timely detection.

7. OPERATIONAL AND EMPLOYEE RELATED RISKS

OE 01 Human Resources Risk – Failure to effectively attract, develop and retain the people necessary to sustain and achieve the municipality's service delivery mandate.

OE 02 Communications Risk – Failure to foster consistent and effective communications between the various units within the municipality may result in misunderstandings that cause lack of compliance with policies, laws and regulations.

OE 03 Employee Health Risk – Failure to take reasonable steps to protect or ensure the health of the municipality's employees may result in claims, fines, low morale, or reduced productivity, hence service delivery.

OE 04 People Safety Risk – Failure to protect the safety of employees, and third parties on the municipality's premises, may result in claims or fines against the municipality.

OE 05 Authority Risk – Failure to adequately define and articulate authority levels may result in employees committing the municipality to transactions outside of its expectations, or confusion on who can commit to what, causing delays in executing. Alternatively, failure to adequately define and articulate authority levels may result in employees committing the municipality to transactions outside of its expectations resulting in unauthorised, fruitless, and wasteful expenditure.

OE 06 Segregation of Duties Risk – Inadequately segregated duties may allow employees to divert valuable assets without timely detection.

***OE 07 Documentation Risk* –** Failure to adequately collect, file and retain fixed assets documentation, may impair the municipality's ability to lodge warrantee claims or support financial reporting and disclosure requirements.

OE 08 Integrity Risk – Acts committed by employees that are considered unethical, fraudulent, or otherwise inappropriate may result in an inability to conducted operations in accordance with management's expectations and difficulty in executing, the municipality's strategic goals and objectives.

***OE 09 Employee Moral Risk* -** Failure to provide employees job satisfaction and enrichment may result in low staff moral and high employee turnover.

OE 10 Attendance Register & Leave Management Risk – Inadequate attendance leave management may result in the municipality's incurring employee costs for work which was never performed.

OE 11 Communication Risk – Lack of clear and comprehensive communications up, down, and laterally within the municipality and its departments may result in misunderstanding regarding management's expectations and untimely identification of performance shortfalls.

OE 12 Stakeholder risk – widespread stakeholder dissatisfaction may result in the lowering of employee morale and performance causing poor service delivery.

OE 13 Conflict of interest risk – Municipal employees allowing their personal interests to conflict with those of the municipality may result in the municipality suffering loss financially or otherwise.

OE 14 Knowledge Capital Risk– Failure to recognize, exploit and protect the knowledge capital embedded in the municipality's services and employees may result in an inability for the municipality to achieve strategic and business objectives and maintain a competitive advantage.

8. LEGAL AND COMPLIANCE RELATED RISKS

LC 01 Legislation risks – Failure to understand current and changes in national / provincial legislation, regulations guidelines and practices may result in an inconsistent adherence with such guidelines, legislation and regulations.

LC 02 Policies Formulation Risk – Lack of an understanding or appreciation of legislation and /or national and provincial priorities may result in an inability to formulate appropriate municipal policies or update redundant and outdated policies.

LC 03 Policies and Procedures Compliance Risk – Lack of complying with established policies and procedures may result in unacceptable performance by public servants, which may, in turn, cause inability to achieve government's mandate.

LC 04 Contract Risk **–** Lack of compliance with contractual arrangements may result in claims or lack of performance by other parties, and potentially rescission of key contracts.

LC 05 Legislation and Regulatory Risk – Failure to comply with national, provincial or municipal regulations may result in fines, penalties, criminal or civil claims, or damage to the municipality's reputation.

LC 06 Service Level Aggreement Risk **–** Failure to manage and monitor service levels of outsourced projects may result in fruitless and wasteful expenditure to the municipality or its departments.

9. PERFORMANCE AND INFORMATION RELATED RISKS

PI 01 Performance Incentive Risk – Lack of clear measurable, relevant and attainable performance incentives that are aligned with strategies may result in employee actions and performance that does not consistently meet management's expectations.

PI 02 Performance Measurement Risk – Lack of clearly defined performance measurement criteria may impair management's ability to monitor the individual performance of programmes, sub-programmes or employees.

PI 03 Information Reliability and Integrity Risk – Lack of measures to validate internally or externally generated financial and / or non-financial (performance) information may result in internal or external stakeholders of the municipality or its departments taking inappropriate decisions.

PI 04 Information Availability and Timeliness Risk – Lack of availability and timeliness of financial and performance information may result in financial or otherwise losses to the municipality or its departments or internal or other stakeholders taking inappropriate decisions.

ADOPTION OF THE MUNICIPAL BUSINESS RISK MODEL

________________________ ________________________

Date

________________________ ________________________

Date