METSIMAHOLO LOCAL MUNICIPALITY

ENTERPRISE RISK MANAGEMENT FRAMEWORK

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1. DEFINITIONS

Definitions - in this framework, unless the context indicates otherwise-

a) **"Executive Authority"** means - the Municipality's Council.

b) **"Accounting Officer"** means - the Municipal Manager of a Municipality.

c) **"Audit Committee"** means - an independent committee constituted to review the controls, governance and risk management within the Municipality, established in terms of section 166 of the Municipal Finance Management Act no. 56 of 2003 (MFMA).

d) **"Chief Audit Executive"** means - a senior official within the Municipality responsible for the Internal Audit activities (where Internal Audit activities are sourced from external service providers, the Chief Audit Executive is the person responsible for overseeing the service contract and the overall quality of the services provided.

e) **"Chief Risk Officer"** means - a senior official who is the head of the Risk Management unit.

f) **"Management"** means - all senior officials of the municipality other than the Accounting Officer and the Chief Risk Officer.(i.e. Level 1-4 Managers)

g) **"Other Officials"** means - all officials within the municipality other than the Accounting Officer, Chief Risk Officer and Management.

h) **"Risk Champion"** means - someone who supports and defends the risk management cause. Promotes its benefits, educate an organization's management and staff in the actions they need to take to implement it and will encourage them and support them in taking those actions.

i) **"Risk Owner"** means - the person accountable for managing a particular risk.

j) **"Framework"** means - the Metsimaholo Local Municipality's Enterprise Risk Management Framework.

k) **"Internal Auditing"** means - an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of internal controls, risk management, and governance processes.

l) **"Risk Management"** means - a systematic process to identify, evaluate and address risks on a continuous basis before such risks can impact negatively on the Municipality's service delivery capacity.

m) **"Risk"** means - an unwanted outcome, actual or potential, to the Municipality's service delivery and other performance objectives, caused by the presence of risk factor(s) **or** the possibility of an event occurring that will have an impact on the achievement of objectives (Risk is measured in terms of impact and likelihood).

n) **"Enterprise-wide Risk Management (ERM)"** – means a structured, consistent and continuous process across the whole organization for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives.

o) **"Risk Management Processes"** means - processes to identify, assess, manage, and control potential events or situations, to provide reasonable assurance regarding the achievement of the organization's objectives.

p) **"Risk Control"** means - any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

q) **"Risk Responses"** means - the means by which an organization elects to manage individual risks.

r) **"Risk Maturity"** means - the extent to which a robust risk management approach has been adopted and applied, as planned, by management across the organization to identify, assess, decide on responses to and report on opportunities and threats that affect the achievement of the organization's objectives.

s) **"Risk Appetite"** means - the amount of risk that the municipality is willing to accept.

t) **"Risk Tolerance"** means - the amount of risk the municipality is capable of bearing (as opposed to the amount of risk it is willing to bear)

u) **"Inherent Risk"** means - the exposure arising from risk factors in the absence of deliberate management interventions to exercise control over such factors.

v) **"Residual Risk"** means - the remaining exposure after the controls measures that have been put in place to counter such risks.

2. INTRODUCTION

Risk management forms a critical part of any municipality's strategic management. It is the process whereby a municipality both methodically and intuitively addresses the risk attached to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of activities. Risk management is therefore recognized as an integral part of sound organizational management and is being promoted internationally and in South Africa as good practice applicable to the public and private sectors.

The underlying premise of risk management is that every governmental body exists to provide value for its stakeholders. Such value is based on the quality of service delivery to the citizens. All municipalities face uncertainty, and the challenge for Metsimaholo Local Municipality's (MLM) management is to determine how much uncertainty the municipality is prepared to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value.

Uncertainty

Municipalities operate in environments where factors such as technology, regulation, restructuring, changing service requirements and political influence create uncertainty. Uncertainty emanates from an inability to precisely determine the likelihood that potential events will occur and the associated outcomes.

Value

Value is created, preserved or eroded by management decisions ranging from strategic planning to daily operations of the municipality. Inherent in decisions is the recognition of risk and opportunity, requiring that management consider information about the internal and external environment deploys precious resources and appropriately adjusts municipal activities to changing circumstances. For municipalities, value is realised when constituents recognize receipt of valued services at an acceptable cost. Risk management facilitates management's ability to both create sustainable value and communicate the value created to stakeholders.

The following factors require consideration when integrating risk management into municipal decision making structures:

- Aligning risk management with objectives at all levels of the municipality;
- Introducing risk management components into existing strategic planning and operational practices;
- Communicating municipal directions on an acceptable level of risk;
- Including risk management as part of employees' performance appraisals; and
- Continuously improving control and accountability systems and processes to take into account risk management and its results.

The ***Enterprise Risk Management Framework*** specifically addresses the structures and processes implemented to manage risks on an enterprise-wide basis in a consistent manner. The framework should be read in conjunction with the risk management strategy, policy and risk management implementation plan.

The ***Enterprise Risk Management Strategy*** is a plan-based business strategy that aims to identify, assess, and prepare for any dangers, hazards, and other potentials for disaster—both physical and figurative—that may interfere with an organization's operations and objectives.

The ***Risk Management Policy*** formally sets out the municipality's position on risk management. It generally addresses what the municipality will do about risk management.

The ***Risk Management Implementation Plan*** facilitates the execution of risk management. The implementation plan gives effect to the risk management policy and framework and sets out all the risk management activities planned for the financial year.

Current trends in good corporate governance have given special prominence to the process of risk management and reputable organisations are required to demonstrate that they comply with expected risk management standards. This means that MLM must ensure that the process of risk management receives special attention throughout the organisation and that all levels of management know, understand and comply with the framework document.

3. THE PURPOSE OF THE ERM FRAMEWORK

The ERM (Enterprise Risk Management) Framework provides guidelines for the implementation of risk management strategies in the Metsimaholo Local Municipality and outlines ERM in formal step by step processes that can be applied at all levels throughout the organisation.

The overall purpose of the Metsimaholo Local Municipality's ERM Framework is to:

- Provide a comprehensive, systematic and uniform approach to the implementation of risk management throughout the municipality;
- Provide guidance for the accounting officer, the executive authority, managers and staff when overseeing or implementing the development of processes, systems and techniques for managing risk;
- The Risk Management Framework provides management with proven risk management tools that support their decision-making responsibilities and processes, together with managing risks, which impact on the objectives and key value drivers of the municipality;
- Assist in embedding risk management processes into the day to day activities of the municipality and integrating risk into institutional processes.

- Contribute to building a risk-smart workforce and environment that allows for innovation and responsible risk-taking while ensuring legitimate precautions are taken to protect the interest of its stakeholders, maintain trust in the organisation and ensure due diligence; and
- Promote commitment to the ERM process by custodians, management and other personnel.

A systematic, integrated, but adaptable approach to risk management requires the Metsimaholo Local Municipality to build capacity to address risk explicitly, and to increase its own and stakeholders' confidence in its ability to achieve its objectives.

The ERM framework will help ensure effective compliance with laws and regulations, it will increase the likelihood of the municipality achieving its set objectives and will ensure effective reporting against identified risks in order to be able to reach organisational objectives without unnecessary surprises.

4. LEGISLATIVE AND OTHER REQUIREMENTS FOR ERM

The Risk Management Framework for the Metsimaholo Local Municipality has been developed in alignment with the following risk management guidelines:

- **Accounting Officer / Authority**

Section 62 (1) (c) (i) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA)

Section 62 (1) (c) (i) of the MFMA requires that:
"(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all responsible steps to ensure -
(c) That the municipality has and maintains effective, efficient and transparent systems -
(i) of financial and risk management and internal control."

- **Management, Other Personnel, Chief Risk Officer, Risk Champions**

Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA)

The extension of general responsibilities in terms of Section 78 of the MFMA to all senior managers and other officials of municipalities implies that responsibility for risk management vests at all levels of management and that it is not limited to only the accounting officer and internal audit.

- **Internal Auditors**

Section 165 (2) (a), (b)(iv) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA)

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

"(2) The internal audit unit of a municipality or municipal entity must -

(a) prepare a risk based audit plan and an internal audit program for each financial year;

(b) advise the accounting officer and report to the audit committee on the implementation on the internal audit plan and matters relating to risk and risk management."

Section 2110 – Risk Management of the International standards for the Professional Practice of Internal Auditing

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- Organizational objectives support and align with the organization's mission;
- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the organization's risk appetite;
- and
- Relevant risk information is captured and communicated in a timely manner across the
- Organization, enabling staff, management, and the board to carry out their responsibilities.

Risk management processes are monitored through on-going management activities, separate evaluations, or both.

2120. A1 – The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations.
- Safeguarding of assets; and
- Compliance with laws, regulations, and contracts.

2120. A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

2120. C1 – During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2120. C2 – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes.
2120. C3 – When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

- **Audit Committee**

Section 166 (2) (a) (ii) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA)

Section 166 (2) of the MFMA states:
"(2) An audit committee is an independent advisory body which must –
(a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and management staff of the municipal entity, on matters relating to -

(ii) Risk management."

All of these standards demonstrate how to establish the context of risk management and then how to identify, analyse, evaluate, treat, communicate and monitor risks.

- **National Treasury Public Sector Risk Management Framework**

The Public Sector Risk Management Framework (Framework) represents the pre-eminent source of reference and guidance on risk management practices in the public sector.
The Framework aims to support the objectives of public sector institutions through providing information and guidance to enable the implementation and maintenance of effective systems to identify and mitigate the risks that threatens the attainment of service delivery and other objectives, and optimise opportunities that enhance institutional performance.

Sound Risk Management Governance, include:

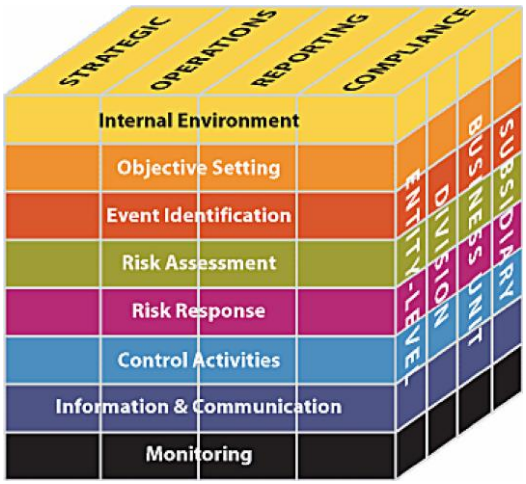
- **King Report on Good Corporate Governance**
- **Batho Pele Principles**
- **COSO Integrated ERM Framework**

The ERM framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a more disciplined and consistent standard against which to implement and assess a company's ERM program.

ERM provides a more holistic approach that enables the alignment of the organization's strategies and operational and compliance processes across the entire company for managing all the key business risks and opportunities with the goal of maximizing value for the entire enterprise.

ERM is a process-based approach where the various components interact as part of an on-going, iterative process. COSO represents these relationships in a three dimensional cube:

Figure 1- COSO Framework



5. BENEFITS OF ENTERPRISE RISK MANAGEMENT

The benefits of Risk Management are as follows:

- **Increasing probability of achieving organizational objectives within budget and in time** – Risk Management assists management in achieving MLM's performance targets and prevents loss of resources. Risk interventions will be chosen on the basis that they increase the likelihood that the municipality will fulfil its intentions to stakeholders.
- **Effective utilization of resources** – Risk quantification techniques assist management in prioritizing risks to ensure that resources and capital are focused on high priority risks faced by the municipality.
- **Enhancing risk response decisions** – Risk Management provides the rigor for management to identify and select among alternative responses such as risk treatment, risk transfer, tolerate and terminate. Risk Management provides the techniques and methodologies to make these decisions.

- **Reducing operational surprises and losses** – Metsimaholo Local Municipality gain enhanced capability to identify potential events and establish responses, reducing surprises and associated costs or losses.
- **Identifying and managing multiple and cross-enterprise risks** – Metsimaholo Local Municipality faces a myriad of risks affecting different parts of the municipality and risk management facilitates effective responses to the interrelated impacts, and integrated responses to multiple risks.
- **Seizing opportunities** - By considering a full range of potential events, management is positioned to identify and proactively realize opportunities.
- **Ensuring compliance with laws and regulations** – Risk management helps ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the municipality's reputation and associated consequences.
- **Ensuring proper financial and asset management** – Risk management contributes to ensuring that there is proper financial and asset management within organizations.

6. THE METSIMAHOLO LOCAL MUNICIPALITY ERM PROCESS

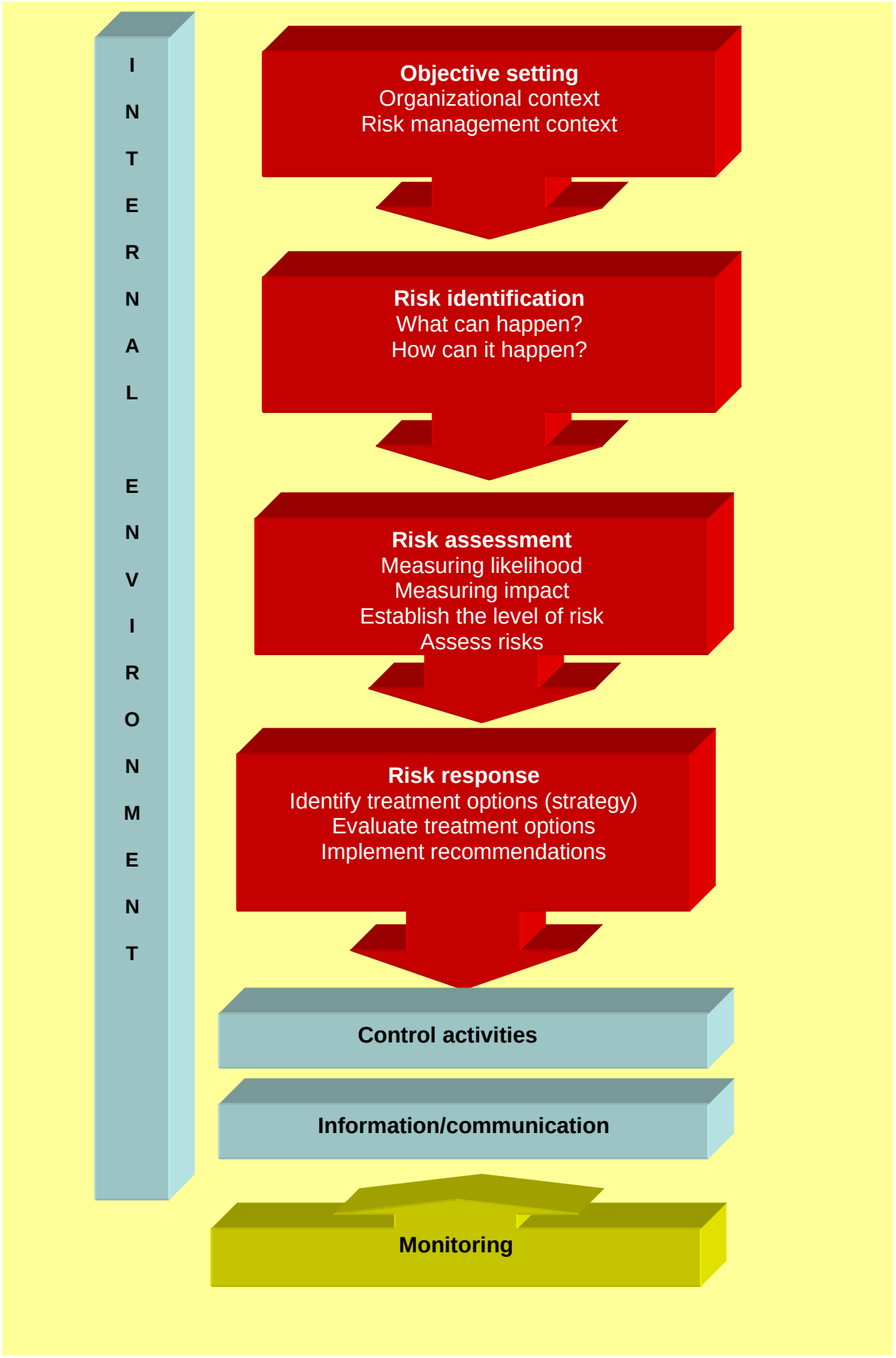
The Metsimaholo Local Municipality's Enterprise Risk Management (ERM) Model forms a continuous cycle whereby reviewed information is fed into the planning process, updating the policy and objectives, making required changes and proceeding with the ERM process.

Enterprise-Wide Risk Management (ERM) is a structured, consistent and continuous process across the whole organization for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives.

The ERM process of the municipality is;

- **Comprehensive** - it cuts across all key aspects of the organisation; strategy, processes and people.
- **Inclusive** - it involves all levels of the organisation; strategic and operational (middle & lower management) levels.
- **Pro-active** - risks are anticipated in advance and are catered for properly through risk control and financing.

Figure 2 - COMPONENTS OF THE RISK MANAGEMENT PROCES



6.1.1 Internal Environment

The MLM's internal environment is the foundation of risk management, providing discipline and structure. The internal environment influences how strategy and objectives are established, the municipality's activities are structured, and risks are identified, assessed and acted upon. It influences the design and functioning of control activities, information and communication systems, and monitoring activities.

The internal environment comprises many elements, including the municipality's ethical values, competence and development of personnel, management's operating style and how it assigns authority and accountability.

As part of the internal environment management establishes the risk management philosophy, establishes the risk tolerance levels, inculcates a risk culture and integrates risk management with related initiatives.

The Internal environment consists of ten different layers that should all be present and functioning. The layers are discussed in detail below:

Risk Management Philosophy – The risk management philosophy is the set of shared beliefs and attitudes that characterise how the municipality considers risk in everything it does from strategy development and implementation to its day to day activities. The risk management philosophy reflects the municipality's values, influencing its culture and operating style, and affects how the risk management components are applied, including how risks are identified, what risks are accepted and how they are managed.

The overall risk philosophy of the Municipality is to identify, assess and manage its risks so as to preserve its strategic objectives and create value for all its stakeholders

Risk Appetite - The risk appetite can be defined as the amount of risk that the municipality is willing to accept in pursuit of its mission / vision.

The risk appetite guides resource allocation. Management allocates resources across functional areas with consideration of the Municipality's risk appetite and units' plans for ensuring that objectives are met and expenditure remains within budget. Management considers its risk appetite as it aligns the municipality, its people and processes and designs the infrastructure necessary to effectively respond to and monitor risks.

The risk appetite enables an improved consistency of decision making at all levels through improving risk understanding and also provides a framework for knowingly taking risk within

defined boundaries. The risk appetite derives real value from the assessment of risk over and above compliance purposes.

The risk appetite decided upon should be formally considered as part of the setting of strategy, with capital expenditure and other strategic decisions reviewed against it as they arise.

The key determinants of risk appetite are as follows:

- Expected performance;
- The capital needed to support risk taking;
- The culture of the municipality;
- Management experience along with risk and control management skills;
- Longer term strategic priorities;

The formulation of the risk appetite is typically closely aligned to the strategic planning process and is also inclusive of budgeting; as such it should be reviewed by management and the accounting officer on an annual basis.

Risk Tolerance - Risk tolerances are the acceptable levels of variation relative to the achievement of objectives. Risk tolerances can be measured, and often are best measured in the same units as the related objectives. Performance measures are aligned to help ensure that actual results will be within the acceptable risk tolerances. In setting risk tolerances, management considers the relative importance of the related objectives and aligns risk tolerances with risk appetite. Operating within risk tolerances provides management greater assurance that the municipality remains within its risk appetite and, in turn, provides a higher degree of comfort that the entity will achieve its objectives.

Council - The Municipality's Council is a critical part of the internal environment and significantly influences other internal environment elements.

Integrity and Values - Management integrity is a prerequisite for ethical behaviour in all aspects of a municipality's activities. The effectiveness of risk management cannot rise above the integrity and ethical values of the people, who create, administer and monitor the municipality's activities.

Integrity and ethical values are essential elements of a municipality's internal environment affecting the design, administration and monitoring of components of the risk management process.

Commitment to competence - Competence reflects the knowledge and skills needed to perform assigned tasks. Management should decide how well these tasks need to be

accomplished weighing the municipality's strategy and objectives against plans for strategy implementation and the achievement of objectives.
The competency levels for particular jobs should be specified and translated into requisite knowledge and skills. The necessary knowledge and skills in turn may depend on individuals training and experience. Factors considered in developing knowledge and skill levels include the nature and degree of judgement to be applied to a specific job.

Organisational structure - The Municipality's organisational structure provides the framework to plan, execute, control and monitor its activities. A relevant organisational structure includes defining key areas of authority and responsibility and establishing the appropriate reporting lines
The organisational structure should be organised to enable effective risk management and to carry out its activities so as to achieve its objectives.

Authority and responsibility - This includes establishing the reporting relationships and authorisation protocols as well as policies that describe appropriate practices, knowledge and experience of key personnel as well as the resources for carrying out duties.

A critical challenge is to delegate to the extent required to achieve objectives, this means ensuring that decision making is based on sound practices for risk identification and assessment. Another challenge is ensuring that all personnel understand the municipality's objectives and how their actions interrelate and contribute to the achievement of the objectives.

Human resource policies and procedures - Human Resource policies and practices pertaining to hiring, orientation, training, evaluating, counselling, promoting, compensating and taking remedial actions send messages to employees regarding the expected levels of integrity, ethical behaviour and competence.

Furthermore it is essential that employees be equipped to tackle new challenges as risks throughout the municipality change and become more complex. Education and training must help employees to deal effectively with a changing environment.

6.1.2 Objective setting

Objectives must exist before management can identify events potentially affecting their achievement. Risk management ensures that management has a process in place to both set objectives and align the objectives with the municipality's mission, vision, and organisational values and is consistent with the municipality's risk appetite and tolerance levels. The setting of these objectives is usually completed during the, "Strategic planning and Budgetary process."

The Municipality's objectives can be viewed in the context of four categories:

Strategic – relating to high-level goals, aligned with and supporting the municipality's mission/vision;

Operations – relating to effectiveness and efficiency of the municipality's operations, including performance and service delivery goals. They vary based on management's choices about structure and performance;

Reporting – relating to the effectiveness of the municipality's reporting. They include internal and external reporting and may involve financial or non-financial information;

Compliance – relating to the Municipality's compliance with applicable laws and regulations.

Having confirmed and clearly documented the Municipality's objectives, it is necessary to identify all potential risks and threats relating to processes, assets and strategy. These are the possible problems and situations that may hinder the achievement of the objectives of the municipality.

6.1.3 Risk Identification

The Risk identification phase is a deliberate and systematic effort to identify and document the municipality's key risks. The objective of risk identification is to understand what is at risk within the context of the Municipality's objectives and to generate a comprehensive list of risks based on the threats and events that might prevent, degrade, delay or enhance the achievement of the objectives.

The municipality should adopt a rigorous and on-going process of risk identification that also includes mechanisms to identify new and emerging risk timeously. The risk identification process should cover all risks, regardless of whether or not such risks are within the direct control of the municipality. Risk workshops and interviews are useful for identification, filtering and screening risks but it is important that these judgment based techniques be supplemented by more robust and sophisticated methods where possible, including quantitative techniques.

Relevant and up to date information is important in identifying risks. Risk identification should be strengthened by supplementing management's perceptions of risk with:

- Review of external and internal audit reports;
- Review of the reports of the Standing Committee on Public Accounts and the relevant Parliamentary Committee(s);
- Financial analyses;
- Historic data analyses;
- Actual loss of data;
- Interrogation of trends in key performance indicators;
- Benchmarking against peer groups or quasi peer groups;

- Market and sector information;
- Scenario analyses; and
- Forecasting and stress testing.

Risk Identification Process

Step 1: Confirmation of Objectives

Step 2: Identify the risks

Step 3: Establish the root cause

Step 4: Rate the risks

Step 5: Identify the controls

Step 6: Draft the Action Plan, risk owner and implementation date

Step 7: Evaluate and rate the risks inherently and residually

Step 8: Monitoring

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

Strategic risk identification

To identify risks emanating from the choices made by the municipality, specifically with regard to whether such choices weaken or strengthen the municipality's ability to execute its constitutional mandate:

- Strategic risk identification should precede the finalization of strategic choice to ensure that potential risk issues are factored into the decision making process for selecting the strategic options;
- Risks inherent to the selected strategic choice should be documented, assessed and managed through the normal functioning of the system of risk management; and
- Strategic risks should be formally reviewed concurrently with changes in strategy, or at least once a year to consider new and emerging risks.

Operational risk identification

To identify risks concerned with the municipality's operations:

- Operational risk identification seeks to establish vulnerabilities introduced by employees, internal processes and systems, contractors, regulatory authorities and external events;
- Operational risk identification should be an embedded continuous process to identify new and emerging risks and consider shifts in known risks through mechanisms such as

management and committee meetings, environmental scanning, process reviews and the like; and

- Operational risk identification should be repeated when changes occur such as significant environmental or institutional changes, or at least once a year, to identify new and emerging risks.

Project risk identification

To identify risks inherent to particular projects:

- Project risk should be identified for all major projects, covering the whole lifecycle; and
- For long term projects, the project risk register should be reviewed at least once a year to identify new and emerging risks.

Possible Impact Areas of Risk;

Areas which can be impacted by risks should they occur must also be identified, this will enable management to place alerts on areas that need to be focused on in the instance that any risks should materialise. These will include;

- People (Human Capital)
- Assets (Property)
- Communities (Citizens)
- Performance Deadlines
- Activities (Operations), will be affected by business interruptions;
- Organisational Behaviour, Culture, Ethics and Morale (Employee perceptions/belief can be influenced by certain events and this ultimately translates into the organisational behaviour)
- Environment,
- Stakeholders (Creditors, Suppliers, NGO's, Private Funders, Labour groups i.e. Unions, Activists, etc.)

As the risk environment is so varied and complex it is essential to group potential events into risk categories. By aggregating events horizontally across the organisation and vertically within the operational units, management develops an understanding of the interrelationship between events, gaining enhanced information as a basis for risk assessment.

Table 1 - The main categories to group individual risk exposures are as follows;

Risk type	Risk category	Description
Internal	Human resources	Risks that relate to human resources of an institution. These risks can have an effect on an institution's human capital with regard to: • Integrity and honesty; • Recruitment; • Skills and competence; • Employee wellness; • Employee relations; • Retention; and • Occupational health and safety.
	Knowledge and Information management	Risks relating to an institution's management of knowledge and information. In identifying the risks consider the following aspects related to knowledge management: • Availability of information; • Stability of the information; • Integrity of information data; • Relevance of the information; • Retention; and • Safeguarding.
	Litigation	Risks that the institution might suffer losses due to litigation and lawsuits against it. Losses from litigation can possibly emanate from: • Claims by employees, the public, service providers and other third party • Failure by an institution to exercise certain rights that are to its advantage.
	Loss \ theft of assets	Risks that an institution might suffer losses due to either theft or loss of an asset of the institution.

	Material resources (procurement risk)	Risks relating to an institution's material resources. Possible aspects to consider include: • Availability of material; • Costs and means of acquiring \ procuring resources; and • The wastage of material resources.
	Service delivery	Every institution exists to provide value for its stakeholders. The risk will arise if the appropriate quality of service is not delivered to the citizens.
	Information Technology	The risks relating specifically to the institution's IT objectives, infrastructure requirement, etc. Possible considerations could include the following when identifying applicable risks: • Security concerns; • Technology availability (uptime); • Applicability of IT infrastructure; • Integration / interface of the systems; • Effectiveness of technology; and • Obsolescence of technology.
	Third party performance	Risks related to an institution's dependence on the performance of a third party. Risk in this regard could be that there is the likelihood that a service provider might not perform according to the service level agreement entered into with an institution. Non performance could include: • Outright failure to perform; • Not rendering the required service in time; • Not rendering the correct service; and • Inadequate / poor quality of performance.
	Health & Safety	Risks from occupational health and safety issues e.g. injury on duty; outbreak of disease within the institution.

	Disaster recovery / business continuity	Risks related to an institution's preparedness or absence thereto to disasters that could impact the normal functioning of the institution e.g. natural disasters, act of terrorism etc. This would lead to the disruption of processes and service delivery and could include the possible disruption of operations at the onset of a crisis to the resumption of critical activities. Factors to consider include: • Disaster management procedures; and • Contingency planning.
	Compliance \ Regulatory	Risks related to the compliance requirements that an institution has to meet. Aspects to consider in this regard are: • Failure to monitor or enforce compliance; • Monitoring and enforcement mechanisms; • Consequences of non compliance; and • Fines and penalties paid.
	Fraud and corruption	These risks relate to illegal or improper acts by employees resulting in a loss of the institution's assets or resources.
	Financial	Risks encompassing the entire scope of general financial management. Potential factors to consider include: • Cash flow adequacy and management thereof; • Financial losses; • Wasteful expenditure; • Budget allocations; • Financial statement integrity; • Revenue collection; and • Increasing operational expenditure.

	Cultural	Risks relating to an institution's overall culture and control environment. The various factors related to organisational culture include: • Communication channels and the effectiveness; • Cultural integration; • Entrenchment of ethics and values; • Goal alignment; and • Management style.
	Reputation	Factors that could result in the tarnishing of an institution's reputation, public perception and image.
External	Economic Environment	Risks related to the institution's economic environment. Factors to consider include: • Inflation; • Foreign exchange fluctuations; and • Interest rates.
	Political environment	Risks emanating from political factors and decisions that have an impact on the institution's mandate and operations. Possible factors to consider include: • Political unrest; • Local, Provincial and National elections; and • Changes in office bearers.
	Social environment	Risks related to the institution's social environment. Possible factors to consider include: • Unemployment; and • Migration of workers.
	Natural environment	Risks relating to the institution's natural environment and its impact on normal operations. Consider factors such as: • Depletion of natural resources; • Environmental degradation; • Spillage; and • Pollution.
	Technological environment	Risks emanating from the effects of advancements and changes in technology.

	Legislative environment	Risks related to the institutions legislative environment e.g. changes in legislation, conflicting legislation.

Once the initial risk identification process has been completed, management will begin to consider whether any of the risks identified are inter-connected. Some risks will arise based on the existence of another risk as risks do not occur in isolation and thus the events can take place concurrently. By assessing the relationship of these risks, one can determine where risk management efforts can best be directed. Furthermore, management must ensure that well controlled risks are also documented in the risk profile of the organisation.

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

6.1.4 Risk assessment

Risk Assessment is a systematic process to quantify or qualify the level of risk associated with a specific threat or event. The main purpose of risk assessment is to help management to prioritise the identified risks. This enables management to spend more time, effort and resources to manage risks of higher priority than risks with a lower priority. The output of the risk assessment is a risk register enriched by the addition of ratings for each risk.

Risks should be assessed on the basis of the likelihood of the risk occurring and the impact of its occurrence on the particular objective it is likely to affect. The risk assessment is performed using a 3 step process.

Step 1: Develop the scoring system for Impact and Likelihood before the actual assessment.

The following is a rating table that is utilised to assess the **Impact** of risks:

Rating	Impact	Definition
1	Low	No material impact to the achievement of business objectives or strategy. {90 - 100% chances that the objective will be achieved}
2	Minor	Insignificant impact to the achievement of business objectives or strategy. {70 - 89% chances that this objective will be achieved}
3	Moderate	Disruption to normal operations, with limited effect on achievement of strategic objectives or targets relating to business plan. {50 - 69% chances that the objective will be achieved}

4	Significant	Significant impact on the operations and functions of the institution, requiring Management urgent attention. {30 - 49% chances that this objective will be achieved}
5	Critical	Fundamental impact to the achievement of institutional objectives requiring **immediate** Management attention. {1 - 29% chances that this objective will be achieved}

The following is a rating table that is utilised to assess the **Likelihood** of risks:

Rating	Assessment	Definition
1	Rare	The risk is conceivable but is only likely to occur in extreme or exceptional circumstances. There's a 1 - 29% chance that this risk will occur in the long term.
2	Unlikely	The risk occurs infrequently and is unlikely to occur within the next 3 years or very few recorded or known incidents can reasonably occur or none has occurred within other organizations within the sector. There's a 30 - 49% chance that this risk will occur.
3	Moderate	There is an above average chance that the risk will occur at least once in the next 3 years or The event has a probability of occurring at some time, in the next year. There's a 50 - 69% chance that this risk may occur.
4	Likely	The risk could easily occur, and is likely to occur at least once within the next 12 months or event has occurred within the last financial year. There's a 70 - 89% chance that this risk will occur.
5	Common	The risk is already occurring, or is likely to occur more than once within the next 12 months or Event has occurred within the last year repeatedly. There's a 90 - 100% chance that this risk will definitely occur.

Step 2: Apply the scores to the risk matrix to indicate what areas of the risk matrix would be regarded as high, medium or low risk.

Risk index = Impact x Likelihood

IMPACT						
	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		LIKELIHOOD				

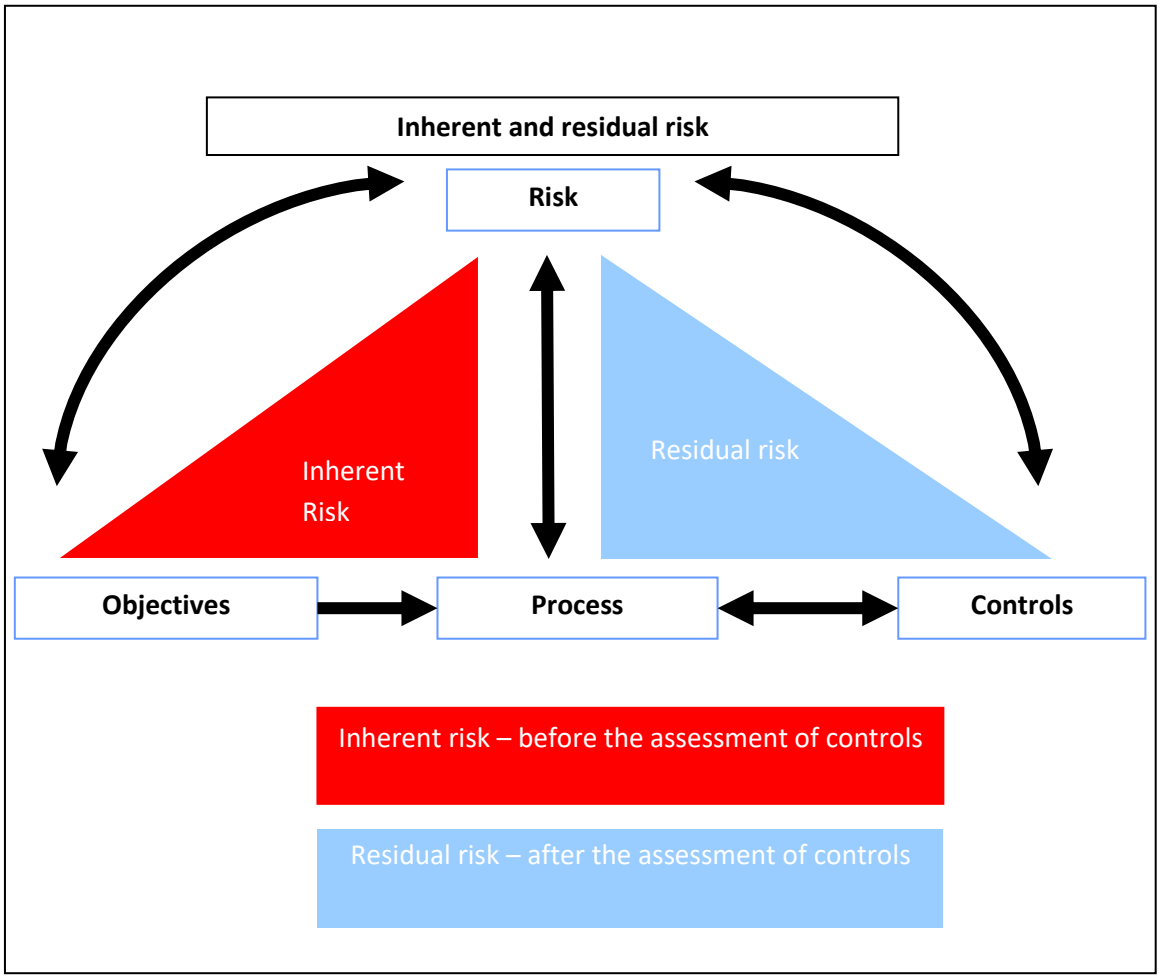
Risk index	Risk Magnitude
13 - 25	High
6 – 12	Medium
1 - 5	Low

Step 3: Determine the acceptability of the risk and what action will be proposed to reduce the risk.

Risk index	Risk magnitude	Risk acceptability	Proposed actions
13 – 25	High risk	Unacceptable	Immediate implementation of corrective action plans.
6 – 12	Medium risk	Acceptable with caution	Implementation of improvement opportunities and validation of controls.
1 - 5	Low risk	Acceptable	Validation and optimization of controls.

Risk assessment is applied first to inherent risk – the risk to the municipality in the absence of any controls or action management might take to alter either the risk's likelihood or impact. Then the residual risk is established to determine the actual level of risk after the mitigating effects of management actions to influence the risk.

Figure 3 - The following diagram differentiates between inherent and residual risk:



6.1.5 Risk response

Risk response is concerned with developing strategies to reduce or eliminate the threats and events that create risks. Risk response involves identifying and evaluating the range of possible options to address risks and implementing the chosen option.

Management should develop response strategies for all material risks, prioritising the risks exceeding or nearing the risk appetite level. Response strategies should be documented together with the responsibilities and timelines.

Figure 4 - Risk responses fall within the following categories:

Category	Description
Treat	Manage the risk. Management undertakes to implement actions that are designed to reduce the likelihood, impact or both.
Transfer	Steps taken to shift the loss of liability to third parties such as insuring and outsourcing.
Terminate	Management takes action to remove the activities that gave rise to the risks.
Tolerate	Management accepts the risk. Informed decision to accept both the impact and likelihood of risk events.

To be effective, risk responses/ mitigation actions must meet certain criteria, they must be:

- Appropriate
- Cost Effective
- Actionable
- Effective
- Agreed Upon
- Allocated and Accepted- meaning each response must be assigned to ensure the most appropriate point of contact (e.g. CFO, IDP Manager, Human Resources Manager etc.) as in Risk Register
- Contingency plans must be in place in case mitigation actions fail due to unexpected changes.

6.1.6 Control Activities

Risk Control entails any activity aimed at preventing losses or minimising the consequences of losses that may arise from all risks facing the organisation. Risk responses serve to focus attention on control activities needed to help ensure that the risk responses are carried out properly and in a timely manner. Control activities are part of the process by which a municipality strives to achieve its objectives.

Control activities are the policies and procedures that help ensure that management responses are properly executed. They occur throughout the municipality, at all levels and in all functions.

Management is responsible for designing, implementing and monitoring the effective functioning of system internal controls. Without derogating from the above, everyone in the municipality should also have responsibilities for maintaining effective systems of internal controls, consistent with their delegated authority.

Management should develop the internal control architecture through:

(a) *Preventative controls* to prevent errors or irregularities from occurring e.g. physical security of assets to prevent theft;
(b) *Detective controls* to find errors or irregularities after they have occurred e.g. performance of reconciliation procedure to identify errors; and
(c) *Corrective controls* that operate together with detective controls to correct errors and irregularities.

The internal control architecture should include:

(a) *Management controls* to ensure that the municipality's structure and systems support its policies, plans and objectives, and that it operates within laws and regulations;
(b) *Administrative controls* to ensure that policies and objectives are implemented in an efficient and effective manner;
(c) *Accounting controls* to ensure that resources are accounted for fully and transparently and are properly documented; and
(d) *Information technology controls* to ensure security, integrity and availability of information.

Measuring Control Effectiveness:

Operational aspects of risk control must be viewed in the context of achieving corporate objectives and a major consideration is that anticipated benefits must exceed the value of the resources required to eliminate or reduce the risk.

Risk Control measures must (in terms of functionality/design) be-

- Compatible with the objectives & function to which they are applied;
- Appropriate and Relevant to the nature and extent of the risk;
- Relative to the protection afforded to similar risks and applied at the appropriate stage

  Example: application of measures at the appropriate stage:
  - Measures in force before the onset of a risk-
    Fire prevention measures apply before a fire breaks out i.e. use of incombustible material,
  - Measures activated once the risk materialises and is in progress-
    Fire control measures apply during a fire i.e. water sprinklers, firefighting, etc.
  - Measures implemented once the incident is over-
    Damage control measures apply after the fire i.e. recovery procedures.

- Flexible so they are capable of being adjusted,
- Integrated with other forms & levels control.

6.1.7 Information and Communication

Relevant information, properly and timeously communicated is essential to equip the relevant officials to identify and assess and respond to risks.

Effective information and communication is intended to support enhanced decision making and accountability through:

- Relevant, timely, accurate and complete information;
- Communicating responsibilities and actions.

6.1.8 Monitoring

Risk management should be regularly monitored – a process that assesses both the presence and functioning of its components and the quality of their performance over time. Monitoring can be done in two ways: through ongoing activities or separate evaluations. This will ensure that risk management continues to be applied at all levels across the Municipality.

Monitoring activities should focus on:

- ***Monitoring of risk action plans*** - Risk action plans need to be monitored on an ongoing basis to ensure the necessary actions are implemented on schedule and as intended.
- ***Monitoring of controls*** - The effective operation of existing controls as well as their cost effectiveness needs to be evaluated regularly. Evaluations may include management reviews, self-assessment reviews and third party reviews as appropriate. Internal audit should also perform periodic reviews on existing controls as well as the implementation of necessary additional controls on a periodic basis.
- ***Monitoring of new and emerging risks -*** The risk profile of any organisation will change over time. Thus there is a need to monitor and review the risk profile of the Municipality to ensure that it remains relevant and complete. Changes in strategy, the legal and regulatory environment, restructuring, loss of key personnel, significant control deficiencies, fraud, changes in business objectives will require an immediate review of municipal risk profiles.
- ***Monitoring of the effectiveness of the risk management process -*** The efficiency of the entire risk management process should be monitored periodically. A positive correlation should exist between improvements in the system of risk management as well as institutional performance.

Incident reporting

Incident reporting is another means of risk monitoring and reviewing the effectiveness of controls. Certain disciplines such as Safety, Health, Environmental and Quality may already have in place incident reporting systems. Such reporting systems should be integrated into the broader risk management incident reporting systems in order to avoid duplication of effort.

Performance measurement

Management's performance with the processes of risk management will be measured and monitored through the following performance management activities:

- Monitoring of progress made by management with the implementation of the risk management framework;
- Monitoring of loss and incident data;
- Management's progress made with risk mitigation action plans; and
- An annual quality assurance review of risk management performance.

7. ENTERPRISE RISK MANAGEMENT IMPLEMENTATION

Alignment of Strategic objectives with Risk Management improves the output of the organization, and it is better able to reach its objectives.

INTEGRATING RISK MANAGEMENT INTO DECISION MAKING

Starts from the planning phase and ERM has to be aligned to all the important processes in the municipality;

- IDP (Integrated Development Planning)
- Budgeting
- SDBIP (Service Delivery and Budget Implementation Plan)
- Performance Management
- And all other processes as they occur.

The management of the institution must begin taking proactive steps to ensure that decision are made in line with the risk appetite of the municipality and that all risks are reasonably assessed prior to decision making. This must be cascaded downwards to all levels of staff in order to ensure complete integration throughout the institution.

The risk identification and assessment process will be undertaken at the start of the annual review of the Integrated Development Plan (IDP) whereby a schedule of key deadlines will be

developed and aligned to dates relating to both the IDP and the Budgeting processes. The risk identification will be undertaken simultaneously with the processes of the IDP and the budget and the related risk registers developed particularly for inclusion in the final documents to be approved by Council.

Upon the commencement of the development of the SDBIP, the risk mitigation strategies as determined in the initial phase as well as the timeframes for the treatment of the risk identified will be incorporated into the SDBIP approved by Council. The SDBIP will breakdown the achievement of risk management milestones into quarters, the progress of which will be reported upon in the quarterly performance review. The Risks identified in the strategic planning process will be incorporated into the overall risk register of the MLM as the high-level strategic risks of the institution together with the operational risks identified during the risk review phases.

Risk Reporting

Risk reporting in terms of implementation process will be conducted as per the MLM prescribed performance management timeframes in the format of the complete risk register. The reporting will also highlight the following features;

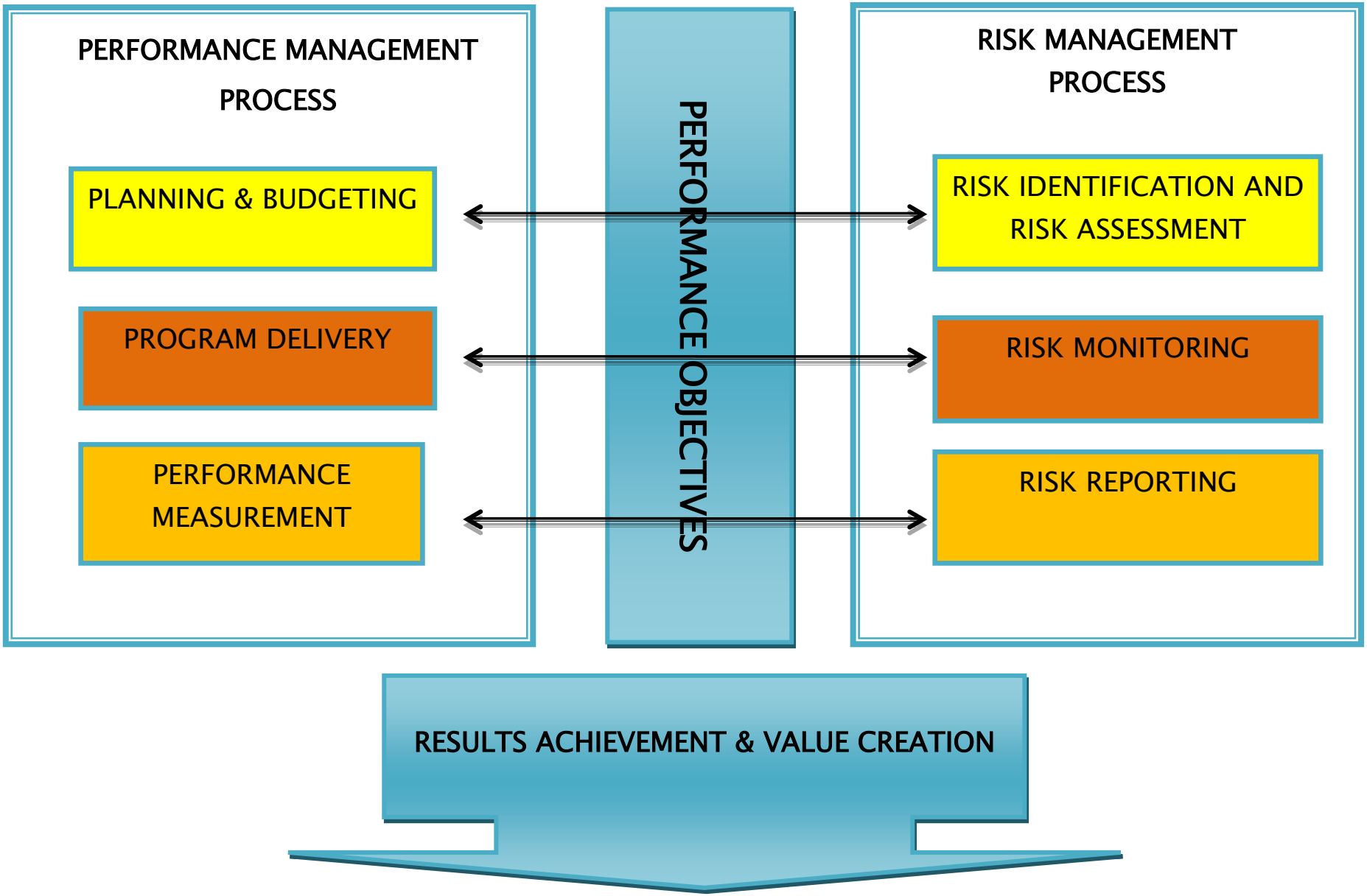
- Progress on the success of mitigation strategies determined;
- Challenges experienced
- Further actions to be taken.

This will serve as a supplement report to the risk register which will be updated on an on-going basis. A scheduled risk review will be undertaken once a month and a comprehensive emerging risk identification process undertaken once per quarter.

Frequency of the review of the Framework

The Risk Management Framework of the MLM will be reviewed on a 3-year cycle and updated annually to reflect the current stance together with the Risk Management Policy

Figure 5 - INTEGRATED RISK MANAGEMENT



8. ROLES AND RESPONSIBILITIES

The Metsimaholo Local Municipality's internal ERM organisational structure is shown diagrammatically in Figure 8.

Figure 6 - Internal Organisational Structure of ERM in the Metsimaholo Local Municipality

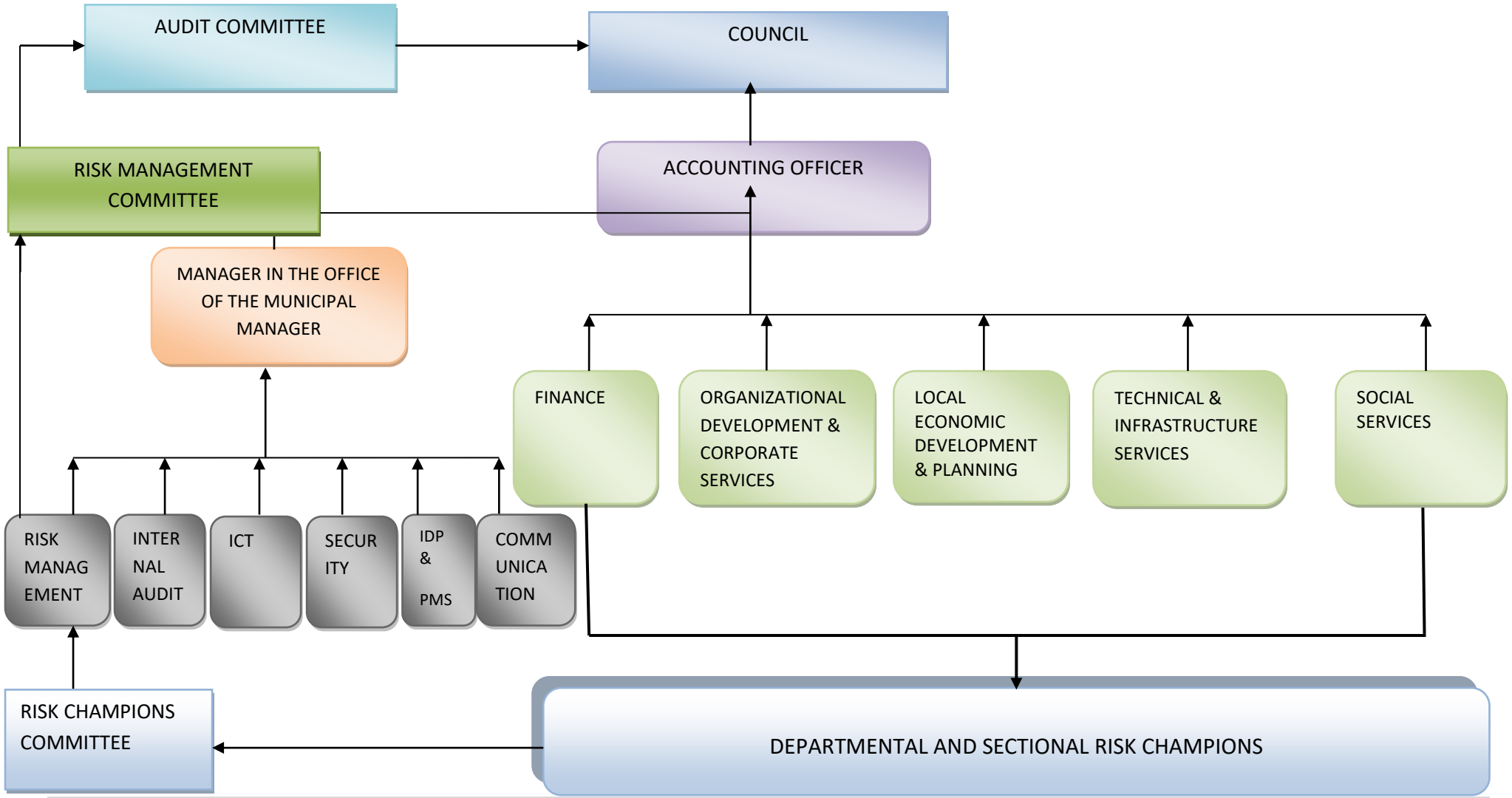


Table 3 - ERM Roles and responsibilities

Sub - Structure	Roles and Responsibilities
COUNCIL	The Council is accountable to the Legislature, Provincial and National Treasury and to other stakeholders such as the community in terms of the achievement of goals and objectives of the institution. The Council should obtain assurance that properly established and functioning systems of the risk management are in place to protect the institution. The Council should take an interest in risk management to the extent necessary to obtain comfort that properly established and functioning systems of risk management are in place to protect the municipality against significant risks. Responsibilities of the Council include: • Ensuring that the institutional strategies are aligned to the Government mandate; • Obtaining assurance that the municipality's strategic choices were based on a rigorous assessment of risk; • Obtaining assurance from management that key risks inherent in the municipality's strategies were identified and assessed and are being properly managed; • Assisting the accounting officer to deal with fiscal, intergovernmental, political and other risks beyond their direct control and influence; and • Insisting on the achievement of objectives, effective performance management and value for money. • Approves the risk management policy, framework and implementation plan. • Approve the Fraud Prevention policy, strategy and implementation.

ACCOUNTING OFFICER	The Accounting Officer is ultimately responsible for risk management within the institution. He is accountable to Council regarding the effectiveness of the risk management process. Management **owns** the risks, thus taking ownership for the management of institutional risks. Managers are accountable to the Accounting Officer for the designing, implementing and monitoring of risk management as well as to integrate the principles and practices of risk management into their daily routines in order to enhance the achievement of their service delivery objectives. Management has the fundamental job of anticipating change and managing it on the basis of an opinion about the future. The accounting officer is the ultimate chief risk officer (CRO) of the Municipality and is accountable for the municipality's risks. More specifically, the high-level responsibilities of the accounting officer include: • Setting an appropriate tone by supporting and being seen to be supporting the municipality's aspirations for effective management of risks. • Delegating responsibilities for risk management to management and internal formations such as the risk management committee. • Holding management accountable for designing, implementing, and monitoring and integrating risk management into their day to day activities. • Holding the risk management committee accountable for performance in terms of its risk management responsibilities. • Providing leadership and guidance to enable management and the risk management committee to properly perform their functions. • Ensuring the control environment supports the effective functioning of risk management. • Approving the municipality's risk appetite and tolerance level. • Devoting personal attention to overseeing the management of significant risks. • Leveraging the audit committee, internal audit, external audit and the risk management committee for assurance on the effectiveness of risk management.

SENIOR MANAGEMENT	Management is accountable to the accounting officer for designing, implementing and monitoring risk management, and integrating it into the day-to-day activities of the municipality. This needs to be done in such a manner as to ensure that risk management becomes a valuable strategic management tool for underpinning the efficacy of service delivery and value for money. High level responsibilities of management include: • Empowering officials to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development; • Aligning the functional risk management methodologies and processes with the Municipality's processes; • Providing risk management reports; • Presenting to the risk management and audit committees as requested; • Maintaining the proper functioning of the control environment within their area of responsibility; • Holding officials accountable for their specific risk management responsibilities; • Maintains a harmonious working relationship with the CRO and supports the CRO in matters concerning the functions of risk management; • Keeps key functional risks at the forefront of the management agenda and devotes personal attention in overseeing the management of these risks.

RISK MANAGEMENT COMMITTEE	The risk management committee is responsible for assisting the accounting officer in addressing the oversight requirements of risk management and evaluating and monitoring the municipality's performance with regards to risk management. • Review the risk management policy, framework, risk management implementation plan and recommend for approval by the executive authority. • Review the fraud prevention policy, strategy and implementation plan and recommend for approval by the accounting officer. • Review the risk appetite and tolerance and recommend for approval by the accounting officer. • Review the municipality's risk identification and assessment methodologies to evaluate their effectiveness in timeously and accurately identifying the municipality's risks. • Monitor and assess the implementation of the risk management policy, framework and implementation plan. • Monitoring the reporting of risk by management with particular emphasis on significant risks or exposures and appropriates of the steps management has taken to reduce the risks to an acceptable level. • Review the material findings and recommendations by assurance providers on the system of risk management and monitor the implementation of such recommendations. • Develop its own key performance indicators for approval by the accounting officer. • Interact with audit committee to share information relating to material risks of the municipality. • Provide timely and useful reports to the accounting officer on the state of risk management, together with recommendations to address any deficiencies identified by the committee. • Reviewing the impact of any changes in the municipality on the risk management process and response to these changes including the update of the risk profile.

AUDIT COMMITTEE	The audit committee is an independent committee responsible for oversight of the municipality's control, governance and risk management. The responsibilities of the audit committee should be clearly defined in its charter. The responsibilities of the audit committee include: • The audit committee should provide an independent and objective view of the Municipality's risk management effectiveness; • Reviewing and recommending disclosures on matters of risk and risk management in the annual report; • Providing feedback to the accounting officer on the adequacy and effectiveness of risk management in the municipality, including recommendations for improvement; • Ensure the acceptability of the risk profile in conjunction with the overall risk appetite of the municipality, taking into account all risk mitigation factors including but not limited to internal controls, business continuity and disaster recovery planning, etc. • Ensuring that the internal and external audit plans are aligned to the risk profile of the Municipality; • Satisfying itself that it has appropriately addressed: i Financial reporting risks, including the risk of fraud; ii Internal financial controls; iii IT risks as they relate to financial reporting. • The audit committee should evaluate the effectiveness of internal audit in its responsibilities for risk management.
CHIEF RISK OFFICER	The chief risk officer provides specialist expertise in providing a comprehensive support service to ensure systematic, uniform and effective risk management in the municipality. The specific roles and responsibilities include: • Working with senior management to develop the municipality's vision for risk management. • Developing, in consultation with management, the municipality's risk management framework, risk management policy, risk management implementation plan as well as risk appetite and tolerance levels for approval by the accounting officer; • Communicating the risk management policy, risk management framework and risk management implementation plan to all stakeholders in the municipality

	and monitoring its implementation; • Continuously driving the risk management process towards higher levels of maturity; • Developing a common risk assessment methodology that is aligned with the municipality's objectives at strategic, tactical and operational levels for approval by the Accounting Authority / Officer. • Assisting management with risk identification, assessment and the development of response strategies; • Monitoring the implementation of response strategies; • Collating, aggregating, interpreting and analysing the results of risk assessments to extract risk intelligence; • Participating with internal audit, management and the auditor - general in the development of the assurance plan; • Ensuring effective information systems exist to facilitate overall risk management improvement within the municipality; • Continuously transferring risk management principles and practices, through training interventions, to all stakeholders within the municipality; • Coordinate reporting on actual non compliance incidents and losses incurred; • Communicates with the audit committee and the risk management committee on the status of risk management; • Providing input into the development and subsequent review of the fraud prevention strategy, business continuity plans occupational health, safety and environmental policies and practices and disaster management plans.
INTERNAL AUDIT	Internal audit provides independent, objective assurance on the effectiveness of the risk management process. The specific roles and responsibilities include: • Internal audit must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary; • In terms of the International Standards for the Professional practice of internal audit, determining whether risk management processes are effective is a judgement resulting from the internal auditors assessment that: i Municipality objectives support and align with the municipality's mission; ii Significant risks are identified and assessed; iii Risk responses are appropriate to limit risk to an acceptable level; and iv Relevant risk information is captured and communicated in a timely manner to enable the accounting officer, management and the Risk Management Committee and other officials to carry out their

	responsibilities. • Internal Audit must develop its internal audit plan on the basis of the key risk areas.
EXTERNAL AUDITOR - AUDITOR GENERAL	The external auditor (Auditor - General) provides an independent opinion on the effectiveness of risk management. In providing an opinion the auditor - general focuses on: • Determining whether the risk management policy, framework and implementation plan are in place and appropriate; • Assessing the implementation of the risk management policy, framework and the implementation plan; • Reviewing the risk assessment process to determine if it is sufficiently robust to facilitate timely and accurate risk rating and prioritisation; and • Determining whether management action plans to mitigate the key risks are appropriate and are being effectively implemented.
OTHER OFFICIALS	All other officials are responsible for integrating risk management into their day to day activities. Responsibilities include: • Applying the risk management processes to their respective functions; • Implementing the delegated action plans to address the identified risks; • Informing their supervisors and/ or the risk management unit of new risks and significant changes in known risks and • Cooperating with other role players in the risk management process and providing information as required.
RISK MANAGEMENT CHAMPIONS	Risk Management Coordinators/Champions are drawn from the existing resources, from within the operations and functions of the various business units. Responsibilities include: • Coordinate risk management activities within functional areas in the municipality; • Assist in embedding risk management within the municipality; • Arrange and facilitate risk meetings, presentations and workshops involving staff within the functional area; • Providing risk management training and development where required; • Assist in collating and reporting on risk information; • Provide guidance on matters relating to risk management.

9. BARRIERS TO SUCCESSFUL IMPLEMENTATION

- Lack of senior management support,
- Risk management is positioned as compliance;
- Risk management is seen as a backroom exercise;
- Risk is being managed in silos;
- Risk management is not considered to the strategic direction of the institution;
- There is no clear road map for improvement.
- Fear of change,
- Poor Perceptions (fear of more work or difficult work or long processes),
- Lack of proper ERM implementation planning,
- Lack of employee knowledge or understanding of the need for ERM,
- Lack of employee support for the initiative,
- Manner in which ERM is introduced (Gradual change/implementation or Radical change/implementation).

10. CONSEQUENCES OF INEFFECTIVE IMPLEMENTATION

The following key factors can be associated with ineffective enterprise risk management processes:

- Operational and strategic surprises;
- Breakdowns in internal controls could prevent the institution from achieving its objectives;
- Risk management is not incorporated in the culture and will remain an, 'add on or compliance issue,' with minimal impact;
- Reactive responses to potential risks, rather than proactive responses;
- The institution may have inadequate plans to deal with adverse events which could have a significant impact on its continuity of operations;
- Inappropriate controls may be used which adversely affect the responsiveness and flexibility of the institution;
- Changing/new risks are not adequately considered and managed; and internal control practices become out-dated with limited account taken of best practice developments.

11. GOVERNANCE REQUIREMENTS

11.1. Establish an organizational framework of assurance for key risks and controls

A framework of assurance must be developed for the municipality's risks. Key players in the organisation will combine to provide assurance to Council that risks are being appropriately managed. This combined approach to assurance normally involves external auditors, internal auditors and management working together through the Audit Committee. Other experts must be chosen to provide assurance regarding specialised categories of risk, such as environmental management and Information technology risks. The assurance framework must be formalised and must incorporate appropriate reporting processes.

11.2. The outputs of risk assessments are used to direct internal audit plans

Internal audit plans depend greatly on the outputs of risk assessments. Risks from risk assessments must be incorporated into internal audit plans according to management and audit committee priorities. The risk assessment process is useful for internal audit staff, because it provides the necessary priorities regarding risk as opposed to using standardised audit sheets. The audit activities will focus on adherence to controls for the key risks that have been identified. In addition, internal audit staff may direct management towards the need for better controls around key risks.

11.3. The Provincial Treasury is responsible for monitoring and assessing the implementation of risk management in the Province.

A formal Risk Management process review will be conducted on a bi-annual basis to assess the effectiveness of the Municipality's Risk Management functionality and capacity.

11.4. Safety, health and environment

A formal safety management programme is essential for Municipalities. The scope of the safety management programme should include administrative aspects, safety awareness and training, health, hygiene, electrical safety, physical safety, micro-environmental exposures and legislative requirements.

11.5. Compliance

Compliance is a key element of the risk management process. All statutory compliance obligations must be managed to a minimum level.

11.6. Business Continuity Management

It is expected that Municipalities will have a Business Continuity Management Plan in place, which will be revised and tested at least annually. The results of such testing and simulations should be reported to the Risk Management Committee.

11.7. Ethics Management

The risk identification process should include the identification of ethics risks.

11.8. Information Technology

ICT should form an integral part of the organization's Risk Management.

11.9. Fraud Prevention

Each Municipality is responsible for the establishment of its own fraud prevention policy and plan. Confidential reporting of potential bridges and actual investigations should be reported to the Risk Management Committee.