


RISK MANAGEMENT STRATEGY 2025/2026FY



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OVERVIEW

1. INTRODUCTION

The purpose of this risk management strategy document is to outline an overall approach to risk management that addresses the risks facing the municipality in achieving its mandate and service delivery objectives; and which will facilitate the effective recognition and management of key strategic risks. Risk management will be embedded within the daily operations of the municipality, from strategy and policy formulation through to planning, general management, and operational processes. Mbhashe Local Municipality has undertaken to embed a culture of Enterprise Risk Management (ERM) within the Municipality and to identify, assess, manage, monitor and report risks in order to achieve the objectives of the Municipality, as identified in the Municipality's Integrated Development Plan (IDP).

One of the most important mandates is the development and implementation of a risk management strategy whose major objective is to encourage the best practice within the municipality while minimizing the risk and ensuring the Municipality meets its objective. Risk Management is about improving quality and reducing potential harm. In order to do this, Mbhashe Local Municipality shall maintain safe, effective services by identifying, mitigating or eliminating risks.

The Risk Management strategy (RMS) forms part of the Risk Management Framework of the municipality and the strategy guides the activities of Council, municipal manager, Risk Management Committee (RMC), Risk Management Unit as well as the risk owners and action owners. Effective risk management reduces uncertainty and thereby improve management confidence to become more decisive in pursuit of the municipality's vision, mission and strategic goals. Risk management is not undertaken in isolation, It has to be integrated with other management processes that are happening in the municipality, such as strategic planning processes, internal audit, Performance Management System human resource management systems, guidelines, systems and other internal control activities. The system is facilitated by effective communication between all levels. Without it, employees are less likely to

know and understand the purpose and importance of their activities in the risk management process and in contributing to the overall objective of the municipality.

2.1 RISK MANAGEMENT POLICY STATEMENT

Mbhashe local Municipality is committed to effective and efficient risk management for the attainment of the Municipality's vision, mission, core values and objectives. The risk management strategy has taken cognizance of the various Municipal processes, functions and roles and responsibilities of relevant officials that play a key role in enterprise risk management. A formal documented process on how the risk management should be conducted within the Mbhashe Local Municipality is outlined in this risk management strategy to ensure that risks identified whether financial, political, technological, or legal are assessed, ranked, prioritized, and managed with due consideration of control effectiveness. The Risk Management Strategy seeks to realize the Risk Management policy. It is therefore imperative to read the Risk Management Strategy in conjunction with the Risk Management policy.

2.2. MUNICIPALITY'S APPROACH TO ENTERPRISE RISK MANAGEMENT

Risk Management forms part of management's core responsibilities and is an integral part of the internal processes of the municipality. It is seen a systematic process to identify, evaluate and mitigate risks on a continuous basis before the risks impact negatively on the institution's service delivery capacity. It is believed that when properly executed, risk management provides a reasonable but not absolute assurance, that the municipality will be successful in achieving its goals and objectives. For risk management to be effective, it should be embedded into the systems and culture of the municipality.

3. PURPOSE

The Risk Management Strategy provides the recommended standards and guidelines for the establishment, maintenance, and monitoring of the system of ERM and internal controls for the Municipality as a whole. This document provides information and guidance to facilitate the efficient and effective implementation of the Risk Management Policy. The purpose of this strategy document is to provide a risk

management framework and guidelines to be followed within the MLM in identifying, assessing, managing, monitoring, and reporting risks facing the municipality in pursuit of objectives as identified in the Integrated Development Plan (IDP) of the municipality. The other main purpose of this document is to assist the Executives and Management in the effective implementation of risk management principles in identification, assessment, evaluation, analysis and control of risks that may hinder achievement of the Municipality's goals, its corporate governance, and service delivery.

The purpose of this Risk Management Strategy is to achieve the following:

- Provide guidance for the Council,
- Audit Committee,
- Municipal Manager through the Risk Management Committee,
- Council,
- Management and staff in overseeing and/or implementing the development of processes, systems and techniques which are appropriate to the context of MLM in the management of risks.
- Provide a comprehensive approach to better integrate risk management into the day-to-day decision making of the municipality; and contribute to building a risk-conscious workforce and work environment.

It is therefore essential that risk management is integrated in to Municipality's daily operations and processes for effective, efficient, and economical delivery of the Municipality's mandate. All MLM employees should therefore view risk management as an inter-linking tool to support the achievement of Municipal objectives. One of the most important mandates is the development and implementation of an integrated risk management strategy whose major objective is to encourage best practice within an evolving government service delivery strategy, while minimising the risks and ensuring that MLM meets its objectives outlined in the Integrated Development Plan.

4. THE NEED FOR RISK MANAGEMENT STRATEGY

The Mbhashe Local Municipality recognises the need for risk management to feature as consideration in strategic and operational planning, day- to-day management and decision making at all levels.

4.1 An effective risk management strategy helps the Municipality to meet its objectives by ensuring that everyone has a clear understanding of:

- 4.1 .1 The objectives of the Municipality.
- 4.1 .2 Factors that could impact on the Municipality's ability to meet those objectives.
- 4.1 .3 The actions necessary to ensure objectives are met.
- 4.1 .4 Improve accountability by ensuring that risks are explicitly stated and understood by all parties, that the management of risks is monitored and reported on, and that action is taken based on the results.
- 4.1 .5 Focus on planning to deal with factors that may impact on the objectives of the Municipality and provide an early warning signal,
- 4.1.6 Ensure opportunities are not missed and surprise costs don't arise.

4.2 Commitment to implement risk management effectively.

The Mbhashe Local Municipality is committed to manage minimise risk by identifying, analysing, evaluating, and treating risk exposure that may impact on the municipality's ability to meet its objectives. The Mbhashe Local Municipality will incorporate risk management into the institutional planning and decision-making process.

4.3 Commitment to monitor performance and review progress in risk management.

The Mbhashe Local Municipality will monitor the progress of mitigating the risks on a monthly basis and submit progress report to management and quarterly to Risk Committee and Audit Committee. Monitoring both financial and non-financial risks to the municipality could influence the achievement of the strategic, operational and financial objectives and enables management to add value to the strategic business planning process.

5. LEGISLATIVE MANDATE OF RISK MANAGEMENT

5.1 LOCAL GOVERNMENT MUNICIPAL MANAGEMENT ACT, NO 56 OF 2003

The Local Government: Municipal Finance Management Act, No 56 of 2003 (herein referred to as the MFMA) stipulates the following:

- Section 62(1)(c)(i) requires that the Accounting Officer ensures that the municipality has and maintains effective, efficient and transparent systems of risk management.
- The extension of general responsibilities in terms of Section 78, 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.
- Section 165 requires that each municipality must have an Internal Audit unit, which must prepare risk-based audit plans. Internal Audit should advise the Accounting Officer and report to the Audit Committee on the implementation of the Internal Audit plan on matters including that of risk and risk management.
- Section 166 states that an Audit Committee is an independent advisory body which must advise the Council, the political office-bearers, the Accounting Officer and the management staff of the municipality on matters relating to risk management.

5.2 OTHER LEGISLATION

Risk management is contained in various other pieces of legislation and the Municipality needs to take cognizance of these requirements when addressing the risk exposures of specific Directorates. These would include inter alia - the Occupational

Health and Safety Act (1993), Disaster Management Act (2002), Prevention of Fraud and Corruption Act, etc.

6. GUIDANCE AND STANDARDS RELEVANT TO RISK MANAGEMENT

Relevant standards and guidance relating to risk management were considered. These are not prescriptive and are referred to for guidance purposes.

6.1 KING IV REPORT ON CORPORATE GOVERNANCE,

The King IV Report on Corporate Governance for South Africa, (herein referred to as “King IV Report”) sets out the philosophy, principles, practices and outcomes which serve as the benchmark for corporate governance in South Africa.

6.2 INTERNATIONAL ORGANISATION FOR STANDARDISATION: ISO 31000

ISO 31000 is an International Standard that provides a generic approach, principals and guidelines for managing of any form of risk in a systematic, transparent and credible manner and within any scope and context.

6.3 THE COMMITTEE OF SPONSORING ORGANISATIONS OF THE TREADWAY COMMISSION

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of five private sector organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

The COSO Enterprise Risk Management – Integrated Framework defines essential ERM components, discusses key ERM principles and concepts, suggests a common ERM language, and provides clear direction and guidance for ERM.

6.4 THE LOCAL GOVERNMENT RISK MANAGEMENT FRAMEWORK

The Local Government Risk Management Framework has been developed by National Treasury in response to the requirements of the MFMA for municipalities to implement and maintain effective, efficient, and transparent systems of risk management and control.

7. OBJECTIVES

The objectives of Risk Management Strategy are as follows:

- i) To provide reasonable assurance that significant risks are identified and effectively managed;
- ii) Improve municipality's performance by assisting and improving decision making and planning;
- iii) Promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefits the municipality is encouraged;
- iv) Provide a sound basis for integrated risk management and internal control as components of good corporate governance;
- v) Effectively manage specific risks within the municipal capacity such as security, fraud, and corruption;
- vi) Establish a culture of Risk Management within the Municipality;
- vii) Ensure that the Municipality complies with legislation, policies, and regulatory requirements.

8. The Benefits of the Strategy:

Among others, the following are the benefits of Risk Management processes:

- More Informed decisions on regular management of achieving Municipality's objectives;
- Reduction of losses - Reducing operational surprises and losses — MLM faces a myriad of risks affecting different parts of the municipality and Municipality Risk Management facilitates effective responses to the interrelated impacts and enhances an integrated response 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 - Municipality Risk Management contributes to effective reporting and monitoring of compliance with laws and

regulations and assists with the limitation of damage to MLM's reputation and associated consequences.

- Increasing probability of achieving objectives Municipality's Risk Management helps municipality achieve performance and financial targets and assist with the prevention of loss on resources.
- Prevention of fraud and corruption;
- Value for money through more efficient use of resources; and

The Risk Management Strategy facilitates the following benefits in relation to the Municipality's risk management process:

- Pro-active identification and management of risks arising from strategic and operational business activities, including projects, programs and contracts municipal-wide;
- Analysis, prioritization and evaluation of these risks to ensure adequate and efficient resource allocation in order to manage the risk exposures to an acceptable level.
- Pro-actively determining and implementing mitigating actions and strategies in order to control and reduce the risk exposures, and to continually improve Municipality's management of internal controls and processes.
- To maintain on-going monitoring and reporting on risks status.

9. PRINCIPLES OF RISK MANAGEMENT

The principles contained in this strategy will be applied at both strategic and operational levels within the municipality. The following principles have been identified to ensure the risk management vision of the municipality is achieved:

- Risk management is part of everyday management
- Everyone is a risk manager
- Risk sharing (risk awareness); and
- Risk cannot always be eliminated. Some risks should be managed.
- Mbhashe Local Municipality's risk management strategy will be applied to all operational aspects of the municipality and will consider external strategy risks

arising from or related to our partners in projects, government departments, the public and other external stakeholders, as well as wholly internal risks.

- Our positive approach to risk management means that we will not only look at the risk of things going wrong, but also the impact of not taking opportunities or not capitalizing on strategic strengths.
- All risk management activities will be aligned to the Mbashe Local Municipality's values and principles, objectives and organizational priorities and aims to protect and enhance the reputation and standing of the municipality.
- Our risk management approach will inform and direct our work to gain confidence on the reliability of our risk strategies and therefore provide assurance. Managers and staff at all levels will have a responsibility to identify, evaluate and manage or report risks, and will be equipped to do so.

10. RISK MANAGEMENT RESPONSIBILITIES AND STRUCTURES

All personnel within the Municipality have a responsibility for maintaining good internal controls and managing risk in order to achieve the Municipality's objectives. The fact that all people involved in the ERM process must be competent, willing and have the necessary capacity to perform such roles cannot be over-emphasised. Risk Management activities must be performed with proficiency and due professional care. Collectively, staff at operating units need the appropriate knowledge, skills, information, and authority to establish, operate and monitor the system of risk control. This requires a good understanding of the municipality, its objectives, the risks it faces and the people municipality deals with. Everyone should be aware of the risks they are empowered to take, which should be avoided and reported upwards.

To assist personnel with understanding their roles and responsibilities, the following tables of guidelines per role player are included:

EXECUTIVE AUTHORITY/COUNCIL [ROLE: OVERSIGHT]

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 to ensure the achievement of objectives, as detailed in the Service Delivery and Budget Improvement Plan (SDBIP). Council should provide leadership to governance and risk management.

The table below provides guidance with regards to Council’s recommended roles and responsibilities:

Activity	Frequency
Approve amendments to the Risk Management by Council resolution.	Annually
Assist the Accounting Officer with fiscal, intergovernmental, political and other risks beyond the Accounting Officer’s control and influence.	On-going
Obtain assurance that IT, fraud risks are considered as part of the Municipality’s RM activities.	Annually
Obtain assurance that the required levels of combined assurance are being obtained.	Annually
Obtain assurance that priority risks inherent in the Municipality’s strategies were identified and assessed, and are being properly managed.	Annually

AUDIT COMMITTEE [ROLE: OVERSIGHT]

The Audit Committee is an independent committee responsible for oversight of the Municipality’s control, governance and risk management. This Committee should provide stakeholders with an independent and objective view of the Municipality’s risk management effectiveness. The Audit Committee should provide the Municipal Manager with independent counsel, advice and direction in respect of risk management.

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The legislative instrument providing the legal foundation for the Audit Committee's responsibility for risk management is detailed in Section 166 of the MFMA.

The table below provides guidance with regards to the Audit Committee's recommended roles and responsibilities in ERM:

Activity	Frequency
Formally define its responsibility with respect to risk management in its charter.	Annually
Meet on a quarterly basis. RMC report should be a standing item at these meetings.	Quarterly
Review and recommend disclosures on matters of risk in the Annual Report.	Annually
Provide an independent and objective view of the Municipality's risk management effectiveness.	Annually
Evaluate the effectiveness of Internal Audit in its responsibilities for risk management.	Annually
Ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities.	On-going
Advise Council on any matters that come to their attention that require Council intervention.	When required
Review the internal and external audit plans and ensure that these plans address the risk areas of the Municipality.	Annually

MUNICIPAL MANAGER / ACCOUNTING OFFICER

The Municipal Manager is ultimately responsible for risk management and is accountable for the overall governance of risk within the Municipality.

The legislative instrument which provides the legal foundation for the Municipal Manager’s responsibility for risk management is Section 62(1)(c)(i) of the MFMA.

The table below provides guidance with regards to the Municipal Manager’s / Accounting Officer’s recommended roles and responsibilities in ERM:

Activity	Frequency
Appoint a CRO.	As required
Appoint RMC members with the necessary skills, competencies and attributes.	As required
Approve the RMC Terms Of Reference.	Annually
Recommend amendments of the Risk Management Policy to Council for approval.	Annually
Ensure appropriate action in respect of recommendations of the Audit Committee, Internal Audit, External Audit and RMC to improve ERM.	On-going
<p>Provide assurance to relevant stakeholders that key risks are properly identified, assessed and mitigated by reviewing the report issued by RMC which should contain the state of ERM within the Municipality accompanied by recommendations i.e.</p> <ul style="list-style-type: none"> • The top risks facing the Municipality. • Any risk developments (changes) / incidents / losses. • Recommendations to address any deficiencies identified. 	Quarterly

Risk Management Strategy

Be aware of possible manipulation of risks and risk ratings which could be detrimental to proper decision making.

On-going

EXECUTIVE MANAGEMENT TEAM

The Executive Management Team (EMT) and Management assume the responsibilities of Risk Owners. They are accountable and responsible for mitigating their risk exposure, and for developing effective risk response plans. Furthermore, they are accountable for designing, implementing and monitoring ERM functions into their day-to-day activities to enhance the achievement of their service delivery objectives. The EMT may play both an oversight role and an implementor role in risk management. Section 78 of the MFMA provides the legal foundation for Management's responsibility for risk management.

The table below provides guidance with regards to Executive Managements' / Managements' Risk Owners' recommended roles and responsibilities in ERM:

Activity	Frequency
<p>Ensure appropriate action in respect of recommendations of the Audit Committee, Internal Audit, External Audit and RMC to improve ERM.</p> <p>Actions include:</p> <ul style="list-style-type: none"> • Ensure risk register is updated for risks identified / discussed in assurance reports from the Auditor-General, Audit Committee, Internal Audit, etc. • Identify actions / controls / recommendations with timeframes and responsibilities. • Monitor and report on implementation. 	On-going
<p>Provide assurance to relevant stakeholders that key risks are properly identified, assessed and mitigated by reviewing the report issued by RMC which should contain the state of ERM within the Municipality accompanied by recommendations i.e.</p> <ul style="list-style-type: none"> • New / emerging risks • The top risks facing the Municipality. • Any risk developments (changes) / incidents / losses. • Recommendations to address any deficiencies identified. <p>Present their ERM report to RMC and must clarify and verify the integrity of the risk registers submitted at RMC meetings.</p>	Quarterly
<p>Maintain a co-operative relationship with the RO and Risk Champions.</p>	On-going
<p>Be aware of possible manipulation of risks and risk ratings which could be detrimental to proper decision making.</p>	On-going
<p>Empower officials to perform effectively in their risk management responsibilities.</p>	On-going
<p>Continuously monitor the implementation of risk management within their area of responsibility.</p>	On-going
<p>Maintain the proper functioning of the control environment within their area of responsibility.</p>	On-going

Activity	Frequency
Formally define its responsibilities with respect to ERM in its Terms of Reference	Annually
Meet on a quarterly basis.	Quarterly
Review and recommend for the approval of Council, amendments to the ERM Policy.	Annually
Review and recommend for the approval of Council, amendments to the ERM Strategy and Implementation Plan.	Annually
Arrange for top risks to be formally re-evaluated at least once a year.	Annually
Advise Council on how to improve management of the Municipality's risks.	Annually
Review ERM progress on a quarterly basis.	Quarterly
Provide a timely and useful ERM report to the Municipal Manager and Audit Committee. The report should contain the state of ERM within the Municipality accompanied by recommendations i.e. <ul style="list-style-type: none"> • The top risks facing the Municipality. • Any risk developments (changes) / incidents / losses. • Recommendations to address any deficiencies identified. 	Quarterly

RISK MANAGEMENT COMMITTEE

The RMC is responsible for assisting the Municipal Manager in addressing the oversight requirements of risk management and evaluating and monitoring the Municipality's performance with regards to risk management. The RMC is appointed by the Municipal Manager and its role is to formulate, promote and review the ERM objectives, strategy and policy and monitor the process at strategic, management and operational levels. The detailed roles and responsibilities are detailed in their appointment letters.

The table below provides guidance with regards to the Risk Management Committee's recommended roles and responsibilities in ERM:

RISK OFFICER

The primary responsibility of the Risk Officer (RO) is to bring his/her specialist expertise to assist the Municipality to embed risk management and leverage its benefits to enhance performance. The RO plays a vital communication link between operational level management, senior management, RMC and other relevant committees.

The table below provides guidance with regards to the Risk Officer's recommended roles and responsibilities in ERM, inter alia:

Activity	Frequency
Review and update the ERM policy and submit for approval.	Annually
Coordinate the facilitation of risk assessments and consolidate risks identified by the various departments/Risk Owners.	As required
Prepare ERM reports, registers for submission to RMC and other role players.	As required
Ensure that IT, fraud, risks are considered as part of the Municipality's ERM activities.	As required
Co-ordinate the implementation of action plans throughout the Municipality.	As required
Secretarial duties to the RMC where required.	As required
Make the approved risk registers available to Internal Audit on request.	Quarterly

RISK CHAMPIONS

They are officials within the various Directorates who are to provide support to the RO in their respective Directorates and Departments, in order to ensure that ERM is carried out in accordance with the Municipality's ERM Policy, Strategy and Implementation Plan.

Risk Champions should not assume the role of the Risk Owner but should assist the Risk Owner to resolve problems, queries and / or skills transfer. The detailed roles and responsibilities are detailed in their appointment letters. The Risk Champion is a person with the skills, knowledge, leadership qualities and power of office required to champion a particular aspect of risk management.

A key part of the Risk Champion's responsibility should involve intervening in instances where the risk management efforts are being hampered, for example, by the lack of co-operation by Management and other officials and the lack of institutional skills and expertise. The Risk Champion should also add value to the risk management process by providing guidance and support to manage "problematic" risks and risks of a transversal nature that require a multiple participant approach. It is recommended that every Directorate should have at least one Risk Champion, and every Department should have at least one Risk Co-ordinator.

The tables below provide guidance with regards to the recommended roles and responsibilities in ERM for Risk Champions.

Activity	Frequency
<p>Guidance per the LGRMF:</p> <ul style="list-style-type: none"> • Advocating the culture of change and adopting risk management as a professional discipline to be adopted in every day management of activities and to strategically influence the current way of doing things which is compliance driven; • Educating the stakeholders of the importance of managing risk in dealing with public funds, the responsibility that goes beyond meeting the requirements of meeting the requirements of financial management prescripts but most importantly impacting positively service delivery; • Communicating the right message and driving this message to influence behaviour and discipline in getting the basics right. This extends further to ensuring the use of a common risk management language and consistent messages in all communications, and • Informing the users and stakeholders of current demands, need to improve, what to improve and how to improve to leave the legacy that goes beyond compliance but continuous improvement of accountability and service delivery. • Understand risk management electronic system (e.g. MS Excel,) in order to provide support to the Directorate. 	Continuously
<p>Inform the Risk Management Section of a replacement Risk Champion if their duties in this regard are assigned to a new risk champion or if someone is standing in for them for a specific period.</p>	Continuously
<p>Intervene and/or escalate to the RO instances where the risk management efforts are being hampered (e.g. lack of co-operation or lack of skills and expertise).</p>	Continuously

<p>Ensure that Risk Management is a standing agenda item on their departmental meetings ^{Risk Management Strategy} and actively discussed including, inter alia:</p> <ul style="list-style-type: none"> •New / emerging risks •Risks which transpired. •Risks which need to be escalated further •Risks which have no / inadequate action plans / or risk which have no identified risk owner •Implementation status of action plans •Top risks 	Continuously
<ul style="list-style-type: none"> • Transversal/cut-across risks • Changes in risk assessed ratings • Appropriate risk reports depending on the Directorate's needs. • Risk related activities 	Continuously
<p>Ensure colleagues in the Department are aware of the various role-players with regards to risk management, their roles in the process and where risk related resource material can be found.</p>	Continuously
<p>Co-ordinate risk management awareness sessions within the department.</p>	Continuously
<p>To inform the RO of any risk management related risk training needs within their Department.</p>	Continuously
<p>Facilitate the identification, prioritisation and communication of main municipal risks to risk owners, for monitoring and management.</p>	Continuously
<p>Facilitate updating the Strategic Risk Register and Operational Risk Register for their Department.</p> <p>Ensure the risk register information is available and accessible to all role players requiring the information.</p>	Continuously
<p>Facilitate all operational and strategic risk assessments.</p> <ul style="list-style-type: none"> •Risk co-ordinators must provide assistance where required. •Coordinate quarterly risk management meetings, at which the risk management reports are, amongst others, discussed, updated and approved. (Minutes of these meetings must be submitted to the RO) 	When required

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<p>New and emerging risks:</p> <ul style="list-style-type: none"> • Prompt risk owners for emerging and new risks to be included on the risk registers. • Assist managers to identify specific risks and how to address the risks. 	Continuously
<p>Provide guidance and support to manage “problematic” risks and risks of a transversal nature that require a multiple participant approach.</p>	Continuously
<p>Submit reports to the Risk Management Section on completion of the department’s risk assessments:</p> <ul style="list-style-type: none"> • Risk registers, POE files. • Risk reports which are adequately signed-off. • Changes to risk registers (regularly) 	When required

INTERNAL AUDIT [ASSURANCE PROVIDER]

Internal Audit should provide independent, objective assurance on the effectiveness of the Municipality’s system of risk management.

Refer to the table below to obtain guidance with regards to Internal Audit’s mandate in ERM:

Activity	Frequency
Provide assurance on the ERM process design and its effectiveness.	Annually
Provide assurance on the management of “key risks” including, the effectiveness of the controls and other responses to the “key risk”.	Annually
Provide assurance on the assessment and reporting of risk and controls and the validation thereof.	Annually
Prepare a rolling three (3) year Internal Audit plan based on its assessment of key areas of risk.	Annually

ACTION OWNERS AND OTHER OFFICIALS

Action owners and other officials are accountable to line management and are responsible for incorporating risk management into their day-to-day activities.

Refer to the table below to obtain guidance with regards to the Action Owners and other officials mandate in ERM:

Activity	Frequency
Apply risk management processes in their respective functions. (Risk Management must be used to manage risks).	Ongoing
Implement any actions assigned to them within the allocated timeframes and report back accordingly.	Ongoing
Inform their supervisors and / or the Risk Management Unit of new risks and significant changes in known risks.	Ongoing
Co-operate with other role players in the risk management process and providing information as required.	Ongoing
Familiarity with the overall risk management vision, Risk Management Policy and Strategy, Understand their roles and responsibilities in the risk management process.	Ongoing
Adhere to the Code of Conduct for the Municipality.	Ongoing
Maintain the functioning of the control environment, information and communication as well as the monitoring systems within their delegated responsibility.	Ongoing
Participate in risk identification and risk assessment within their business unit.	Ongoing
Reporting inefficient, unnecessary or unworkable controls.	Ongoing

EXTERNAL ROLE PLAYERS

EXTERNAL AUDIT (ASSURANCE PROVIDER)

The Auditor-General South Africa (AGSA) is responsible for providing an opinion on the financial statements of the Municipality. The AGSA is also responsible for auditing and reporting on:

- Compliance with applicable legislation.
- The report on pre-determined objectives.

In addition, the AGSA during the process of highlighting weaknesses or deficiencies with regards to control weaknesses, provides an independent opinion on the effectiveness of the risk management in the Municipality. The responsibilities of External Audit include:

1. Determining whether the risk management policy, strategy and implementation plan are in place and are appropriate.
2. Assessing the implementation of the risk management policy, strategy and implementation plan.
3. Reviewing the risk identification process to determine if it is sufficiently robust to facilitate the timely, correct and complete identification of significant risks, including new and emerging risks.
4. Reviewing the risk assessment process to determine if it is sufficiently robust to facilitate timely and accurate risk rating and prioritisation.))
5. Determining whether the management action plans to mitigate the key risks are appropriate and are being effectively implemented.

PROVINCIAL TREASURY

Provincial Treasury has a constitutional mandate to provide guidelines and oversight in respect of the effective functioning of ERM within the Municipality.

11. RISK MANAGEMENT PROCESS

The risk management process is informed by the IDP, where risks/opportunities associated with strategic objectives are determined which will ensure that the organisation covers all aspects to ensure compliance to and achievement of the goals set. Subsequently, the risk management process will inform the SDBIP in the determination of key performance indicators.

INTERNAL ENVIRONMENT

1	INTERNAL ENVIRONMENT:	
1.1.	Risk Management Philosophy	<p>The philosophy is the municipality's beliefs about risk and how it chooses to conduct its activities and deal with risks. It reflects the value the municipality seeks from risk management and influences how risk management components are applied.</p> <p>Mbhashe Local Municipality's risk management philosophy is clearly stated in its Risk Management Policy. Importantly, management reinforces the philosophy not only with words but with everyday actions and the RO will communicate the risk management philosophy effectively throughout the municipality to ensure that all personnel understand the municipality's commitment to risk management.</p>

1.2.	Risk Culture	<p>Risk culture is the set of shared attitudes, values and practices that characterise how the municipality considers risk in its day-to-day activities.</p> <p>Management considers how its risk culture affects and aligns with other elements of risk management. Where misalignment exists, management may take steps to reshape the culture perhaps by rethinking its risk philosophy and risk appetite or how it applies risk management.</p>
1.3.	Integrity and ethical values	<p>Management integrity is a prerequisite for ethical behaviour in all aspects of the municipality's activities. Because the municipality's good reputation is so valuable, the standard of behaviour must go beyond mere compliance with law. Integrity and ethical values are essential elements of the environment, affecting the design, administration and monitoring of other risk management components. Establishing ethical values is often difficult because of the need to consider the concerns of several parties. Management values must balance the concerns of the Municipality, employees, suppliers and the public. Ethical behaviour and management integrity are by-products of the corporate culture, which encompasses ethical and behavioural standards and how they are communicated and reinforced. Ethical values are not only communicated but also accompanied by explicit guidance regarding what is right and wrong.</p>
1.4.	Commitment to competence	<p>Competence reflects the knowledge and skills needed to perform assigned tasks. Management decides how well these tasks need to be accomplished weighing the Municipality's strategy and objectives against plans for strategy implementation and achievement of the objectives. Management specifies the competency levels for particular jobs and translates those levels into required knowledge and skills. The necessary knowledge and skills in turn may depend on individuals' intelligence,</p>

		training and experience.
1.5.	Organisational structure	An organisational structure provides the framework to plan, execute, control and monitor activities. A relevant organisational structure includes defining key areas of authority and responsibility and establishing appropriate lines of reporting. An organisational structure is developed to suit an institution's needs. The appropriateness of an organisational structure depends, in part, on its size and the nature of its activities. The Mbashe Local Municipality is organised to enable effective risk management, and to carry out its activities so as to achieve its objectives.
1.6.	Assignment of authority and responsibility	A critical challenge is to delegate only to the extent required to achieve objectives. This means ensuring that risk acceptance is based on sound practices for risk identification and assessment, including sizing risks and weighing potential losses versus gains in arriving at good business decisions. Another challenge is ensuring that all personnel understand the municipality's objectives. It is essential that individuals know how their actions interrelate and contribute to achievement of the objectives. The internal environment is greatly influenced by the extent to which individuals recognise that they will be held accountable. This holds true all the way to the Municipal Manager, who, with executive authority oversight, has ultimate responsibility for all activities within the Municipality. The assignment of authority and responsibility has been communicated to all officials within Mbashe Local Municipality.

<p>1.7. Human Resources Policies and Practices</p>	<p>Human resource practices pertaining to hiring, orientation, training, evaluating, counselling, promoting, compensating and taking remedial actions, send messages to employees regarding expected levels of integrity, ethical behaviour and competence. The Municipality is committed to hire competent and trustworthy people, through hiring the most qualified individuals, with emphasis on educational background, prior work experience, past accomplishments and evidence of integrity and ethical behaviour. The Municipality is also committed to an ongoing process of education and training, where required, so that employees are equipped to tackle new challenges as issues and risks throughout the municipality change and become more complex driven in part by rapidly changing technologies and increasing competition.</p>
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<p>2. OBJECTIVE SETTING:</p>	
<p>2.1. Strategic objectives</p>	<p>Strategic objectives are high-level goals, aligned with and supporting the municipality's mission/vision. Strategic objectives reflect management's choice as to how the municipality will seek to create value for its stakeholders. The Mbashe Local Municipality's mission sets out in broad terms what the municipality aspires to achieve. From this, management sets its strategic objectives, formulates strategy and establishes related objectives for the municipality.</p>
<p>2.2. Related objectives</p>	<p>Establishing the right objectives that support and are aligned with the selected strategy, relative to all the municipality's activities, is critical to success. By focusing first on strategic objectives and strategy, a municipality is positioned to develop related objectives at operational levels, achievement of which will</p>

		<p>create and preserve value. Objectives need to be readily understood and measurable. Mbhashe Local Municipality's risk management requires that personnel at all levels have a requisite understanding of the municipality's objectives as they relate to the individual's sphere of influence. All employees must have a mutual understanding of what is to be accomplished and a means of measuring what is being accomplished. Related objectives include:</p> <ul style="list-style-type: none"> • Operations Objectives - These pertain to the effectiveness and efficiency of the municipality's operations, including performance and profitability goals and safeguarding resources against loss. • Reporting Objectives – These pertain to the reliability of reporting. They include internal and external reporting and may involve financial or non-financial information. • Compliance Objectives – These pertain to adherence to relevant laws and regulations.
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3. RISK IDENTIFICATION

FOCUS POINTS OF RISK IDENTIFICATION

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

- a) Strategic risk identification - to identify risks emanating from the strategic choices made by the municipality, specifically regarding whether such choices weaken or strengthen the municipal ability to execute its Constitutional mandate:

- i) Strategic risk identification will precede the finalisation of strategic choices to ensure that potential risk issues are factored into the decision-making process for selecting the strategic options;
 - ii) risks inherent to the selected strategic choices will be documented, assessed, and managed through the normal functioning of the system of risk management; and
 - iii) Strategic risks should be formally reviewed concurrently with changes in strategy, or at least once a year to consider new and emerging risks.
- b) Operational risk identification - to identify risks concerned with the municipality's operations:
 - i) Operational risk identification should seek to establish vulnerabilities introduced by employees, internal processes and systems, contractors, regulatory authorities, and external events;
 - ii) 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
 - iii) To the extent that is deemed inadequate to expose the full extent of risk introduced by significant environmental or municipal changes, operational risk identification will be repeated when changes occur, or at least once a year, to identify new and emerging risks.

	<p>RISK IDENTIFICATION:</p> <ul style="list-style-type: none"> • An event is an incident or occurrence emanating from internal or external sources that could affect implementation of strategy or achievement of objectives. Events may have positive or negative impacts, or both. • As part of event identification, management recognises that uncertainties exist, but does not know when an event may occur, or its outcome should it occur. To avoid overlooking relevant events, identification is best made apart from the assessment of the likelihood of the event occurring, which is the topic of Risk Assessment. 										
<p>3.1. Factors influencing strategy and objectives</p>	<p>A myriad of external and internal factors influences how events could potentially affect strategy implementation and achievement of objectives. As part of risk management, personnel recognize the importance of understanding external and internal factors and the type of events that can emanate there from. Management considers current factors, as well as those that may occur in the future. The table below lists the internal and external factors:</p> <table border="1" data-bbox="925 448 1327 1758"> <thead> <tr> <th data-bbox="925 448 1005 1758">Internal</th> <th data-bbox="925 448 1005 1758">External</th> </tr> </thead> <tbody> <tr> <td data-bbox="1005 448 1085 1758">Infrastructure</td> <td data-bbox="1005 448 1085 1758">Economic and Business</td> </tr> <tr> <td data-bbox="1085 448 1165 1758">Personnel</td> <td data-bbox="1085 448 1165 1758">Natural environment</td> </tr> <tr> <td data-bbox="1165 448 1244 1758">Process</td> <td data-bbox="1165 448 1244 1758">Political</td> </tr> <tr> <td data-bbox="1244 448 1327 1758">Technology</td> <td data-bbox="1244 448 1327 1758">Social</td> </tr> </tbody> </table>	Internal	External	Infrastructure	Economic and Business	Personnel	Natural environment	Process	Political	Technology	Social
Internal	External										
Infrastructure	Economic and Business										
Personnel	Natural environment										
Process	Political										
Technology	Social										

	Technological
<p>Similarly contributing factors are divided up into the following categories in order to assist management in determine what matters need to be addressed. (In order to ensure consistency and limit conflicting terminology with regards to the internal contributing factors (Root causes) categories, the categories have been adjusted to agree with the contributing factors used by the AGSA.</p>	

RISK IDENTIFICATION:	
	<p>The diagram illustrates the classification of risk identification factors into Internal and External categories. The Internal category is represented by a light blue rounded rectangle containing three sub-factors: Leadership, Financial and Performance Management, and Governance. The External category is represented by a light blue rounded rectangle containing three sub-factors: Social & Economical, External Governance structures (Incl Laws and Regulations), and Nature.</p>

<p>3.2. Methodologies and techniques</p>	<p>Event identification methodology may comprise a combination of techniques, together with supporting tools:</p> <p>Management may use interactive group workshops as part of its event identification methodology. A facilitator employing a variety of technology-based tools may assist during group workshops.</p> <p>Event identification techniques look to both the past (including past events and trends) and the future (including future exposures).</p>
<p>3.3. Event interdependencies</p>	<p>Events do not occur in isolation. One event can trigger another, and events can occur concurrently. In event identification, management should understand how events interrelate. By assessing the interrelationships, one can determine where risk management efforts are best directed.</p>
<p>3.4. Event categories</p>	<p>It may be useful to group potential events into categories:</p> <p>By aggregating events horizontally across the municipality and vertically within operating units, management develops an understanding of the interrelationships between events, gaining enhanced information as a basis for risk assessment.</p> <p>By grouping together similar potential events, management can better determine potential opportunities and risks. Event categorisation also allows management to consider the completeness of its event identification efforts.</p>

<p>RISK IDENTIFICATION:</p>	<p>The diagram illustrates six risk categories, each with its own set of sub-risk items:</p> <ul style="list-style-type: none"> Compliance: Legal / Statutory, Regulatory Human Capital: Human Capital Management Information: Information, IT networks and software, Reporting Financial: Budget / monetary constraints, External, Liquidity, Reporting Process: Administrative processes, Physical assets, Process integrity, Service delivery processes Strategic: Leadership, Natural environment, Political, Reputational, Service delivery, Strategic partners
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Risk Categories	
Risk type	Risk category Description
Internal	<p>Human resources</p> <p>Risks that relate to human resources of the Municipality. These risks have an effect on the Municipality's human capital with regard to:</p> <ul style="list-style-type: none"> • Integrity and honesty; • Recruitment; • Skills and competence; • Employee wellness; • Employee relations; • Retention; and • Occupational health and safety.

Risk Categories		
Risk type	Risk category	Description
Internal	Knowledge and Information management	<p>Risks relating to the Municipality's management of knowledge and information. In identifying the risks consider the following aspects related to knowledge management:</p> <ul style="list-style-type: none"> • Availability of information; • Stability of information; • Integrity of information data; • Relevance of information; • Retention; and • Safeguarding.
Internal	Litigation	<p>Risks that the Municipality might suffer losses due to litigation and lawsuits against it.</p> <p>Losses from litigation can possibly emanate from:</p> <ul style="list-style-type: none"> • Claims by employees, the public, service providers and other third party. • Failure by the Municipality to exercise certain rights that is to its advantage.

Internal	Loss \ theft of assets	Risks that the Municipality might suffer losses due to either theft or loss of an asset of the Municipality.	of the
Internal	Material resources (procurement risk)	<p>Risks relating to the Municipality's material resources. Possible aspects to consider include:</p> <ul style="list-style-type: none"> • Availability of material; • Costs and means of acquiring \ procuring resources; and <input type="checkbox"/> The wastage of material resources. 	

Risk Categories		Description
Risk type	Risk category	
Internal	Information Technology	<p>The risks relating specifically to the Municipality's IT objectives, infrastructure requirement, etc. Possible considerations could include the following when identifying applicable risks:</p> <ul style="list-style-type: none"> • Security concerns; • Technology availability (uptime); • Applicability of IT infrastructure; • Integration / interface of the systems; <input type="checkbox"/> Effectiveness of technology; and <input type="checkbox"/> Obsolescence of technology.
Internal	Third party performance	<p>Risks related to the Municipality'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 the Municipality. Nonperformance could include:</p> <ul style="list-style-type: none"> • Outright failure to perform; • Not rendering the required service in time;

		<ul style="list-style-type: none"> • Not rendering the correct service; and • Inadequate / poor quality of performance. 	
Internal Health & Safety		Risks from occupational health and safety issues e.g. injury on duty; outbreak of disease within the Municipality.	
Internal Disaster recovery / business continuity		<p>Risks related to the Municipality's preparedness or absence thereof to disasters that could impact the normal functioning of the Municipality e.g. natural disasters, act of terrorism, etc. This could 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:</p> <ul style="list-style-type: none"> • Disaster management procedures; and • Contingency planning. 	

Risk Categories	
Risk type	Risk category \ Description
Internal	<p>Compliance \ Regulatory</p> <p>Risks related to the compliance requirements that the Municipality have to meet. Aspects to consider in this regard are:</p> <ul style="list-style-type: none"> • Failure to monitor or enforce compliance; • Monitoring and enforcement mechanisms; Consequences of non-compliance; and Fines and penalties paid.
Internal	<p>Fraud and corruption</p> <p>These risks relate to illegal or improper acts by employees resulting in a loss of the Municipality's assets or resources.</p>
Internal	<p>Financial</p> <p>Risks encompassing the entire scope of general financial management. Potential factors to consider include:</p> <ul style="list-style-type: none"> • Cash flow adequacy and management thereof; • Financial losses; • Wasteful expenditure;

	<ul style="list-style-type: none"> • Budget allocations; • Financial statement integrity; • Revenue collection; and • Increasing operational expenditure. 	
Internal	<p>Cultural</p> <p>Risks relating to the Municipality's overall culture and control environment.</p> <p>The various factors related to organisational culture include:</p> <ul style="list-style-type: none"> • Communication channels and the effectiveness; • Cultural integration; • Entrenchment of ethics and values; • Goal alignment; and • Management style. 	

Risk Categories		Risk category	Description
Risk type			
Internal	Reputation		Factors that could result in the tarnishing of the Municipality's reputation, public perception and image.
External	Economic environment		Risks related to the Municipality's economic environment. Factors to consider include: <ul style="list-style-type: none"> • Inflation. • Foreign exchange fluctuations; and • Interest rates.
External	Political environment		Risks emanating from political factors and decisions that have an impact on the Municipality's mandate and operations. Possible factors to consider include: <ul style="list-style-type: none"> • Political unrest; • Local, Provincial and National elections; and • Change in office bearers.

External Social environment	<p>Risks related to the Municipality's social environment. Possible factors to consider include:</p> <ul style="list-style-type: none"> • Unemployment; and • Migration of workers. 	Risks related to the Municipality's social environment. Possible factors to consider
External Natural environment	<p>Risks relating to the Municipality's natural environment and its impact on normal operations. Consider factors such as:</p> <ul style="list-style-type: none"> • Depletion of natural resources; • Environmental degradation; • Spillage; and • Pollution. 	Risks relating to the Municipality's natural environment and its impact on normal operations. Consider factors such as:
External Technological environment	Risks emanating from the effects of advancements and changes in technology.	Risks emanating from the effects of advancements and changes in technology.
External Legislative environment	Risks related to the Municipality's legislative environment e.g. changes in legislation, conflicting legislation.	Risks related to the Municipality's legislative environment e.g. changes in legislation, conflicting legislation.

3.5. Risks and opportunities	<p>Events may have a negative impact, a positive impact or both:</p> <ul style="list-style-type: none">• Events with a potentially negative impact represent risks, which require management's assessment and response. Accordingly, risk is the possibility that an event will occur and adversely affect the achievement of objectives.• Events with a potentially positive impact represent opportunities or offset the negative impact of risks. Events representing opportunities are channelled back to management's strategy or objective-setting processes, so that actions can be formulated to seize the opportunities.• Events potentially offsetting the negative impact of risks are considered in management's risk assessment and response.
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4. RISK ASSESSMENT

4.	<p>RISK ASSESSMENT:</p> <ul style="list-style-type: none"> • Risks are analyzed, considering likelihood and impact, as a basis for determining how they should be managed. • Risks are assessed on an inherent and a residual basis.
4.1.	<p>Guidance:</p> <ul style="list-style-type: none"> • In risk assessment, management considers the mix of potential future events relevant to the municipality and its activities. This entails examining factors including the municipality's size, complexity of operations and degree of regulation over its activities that shape the municipality's risk profile and influence the methodology it uses to assess risks. • Risk assessment is a systematic process to quantify or qualify the level of risk associated with a specific threat or event, to enrich the risk intelligence available to the Municipality. • The main purpose of risk assessment is to help the Municipality to prioritise the most important risks as the Municipality is not expected to have the capacity to deal with all risks in an equal manner. • Risks should be assessed based on the likelihood of the risk occurring and the impact of its occurrence on the particular Municipal objective(s) it is likely to affect. • Risks should be expressed in the same unit of measure used for the key performance indicator(s) concerned.

4.	RISK ASSESSMENT:	
4.2.	Three -stage process of performing risk assessments	<p>Risk assessment should be performed through a three-stage process:</p> <ol style="list-style-type: none"> 1. Firstly, the inherent risk assessment should be performed to establish the level of exposure in the absence of deliberate management actions to influence the risk; 2. Secondly, a residual risk assessment should follow the process to determine the actual remaining level of risk after the mitigating effects of management actions to influence the risk; and 3. Thirdly, the residual risk should be benchmarked against the Municipality’s risk appetite to determine the need for further management intervention, if any. <p>Inherent and Residual Risk</p> <p>Management considers both inherent and residual risk. Inherent risk is the risk to the municipality in the absence of any actions management might take to alter either the risk’s likelihood or impact. Residual risk is the risk that remains after management responds to the risk. Risk assessment is applied first to inherent risks. Once risk responses have been developed, management then uses risk assessment techniques in determining residual risk.</p>

<p>4.3. Impact and likelihood</p>	<p>Uncertainty of potential events is evaluated from two perspectives:</p> <p>Likelihood: represents the possibility that a given event will occur.</p> <p>Impact: represents its effect.</p> <p>Likelihood and impact are commonly used terms, although some institutions use terms such as probability, and severity or consequence.</p> <p>The following rating table should be utilised to assess the potential impact of risks.</p>
<p>Impact of risks</p>	
<p>Rating</p>	<p>Assessment Definition</p>
<p>1</p>	<p>Insignificant / Negligible Negative outcomes or missed opportunities that are likely to have a negligible impact on the ability to meet objectives.</p>
<p>2</p>	<p>Minor Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives.</p>
<p>3</p>	<p>Moderate Negative outcomes or missed opportunities that are likely to have a relatively moderate impact on the ability to meet objectives.</p>

4. RISK ASSESSMENT:		
Impact of risks		
Rating	Assessment	Definition
4	Major	Negative outcomes or missed opportunities that are likely to have a relatively substantial impact on the ability to meet objectives.
5	Critical / Extreme	Negative outcomes or missed opportunities that are of critical importance to the achievement of the objectives.

The following rating table should be utilised to assess the likelihood of risks.

Likelihood of risks	
Rating	Assessment Definition
1	Rare The risk is conceivable but is only likely to occur in extreme circumstances.
2	Unlikely The risk occurs infrequently and is unlikely to occur within the next 3 years.
3	Moderate / Possible There is an above average chance that the risk will occur at least once in the next 3 years.
4	Likely The risk could easily occur and is likely to occur at least once within the next 12 months.
5	Common / Certain The risk is already occurring or is likely to occur more than once within the next 12 months.

4.	<p>RISK ASSESSMENT:</p>															
	<p>Inherent risk exposure (impact x likelihood)</p> <p>The following rating table should be utilised to categorise the various levels of inherent risk</p>															
	<table border="1"> <thead> <tr> <th colspan="2" data-bbox="531 362 612 1995">Inherent risk ratings and magnitude</th> <th data-bbox="612 362 746 1995">Response</th> </tr> <tr> <th data-bbox="612 1630 746 1995">Risk rating</th> <th data-bbox="612 1352 746 1630">Inherent risk magnitude</th> <th data-bbox="612 362 746 1352"></th> </tr> </thead> <tbody> <tr> <td data-bbox="746 1630 951 1995">14.1 - 25</td> <td data-bbox="746 1352 951 1630">High</td> <td data-bbox="746 362 951 1352"> Unacceptable level of risk. High level of control intervention is required to achieve an acceptable level of residual risk. </td> </tr> <tr> <td data-bbox="951 1630 1209 1995">6.1 - 14</td> <td data-bbox="951 1352 1209 1630">Medium</td> <td data-bbox="951 362 1209 1352"> Unacceptable level of risk, except under unique circumstances or conditions. Moderate level of control intervention is required to achieve an acceptable level of residual risk. </td> </tr> <tr> <td data-bbox="1209 1630 1361 1995">1 - 6</td> <td data-bbox="1209 1352 1361 1630">Low</td> <td data-bbox="1209 362 1361 1352"> Mostly acceptable. Low level of control intervention required, if any. </td> </tr> </tbody> </table>	Inherent risk ratings and magnitude		Response	Risk rating	Inherent risk magnitude		14.1 - 25	High	Unacceptable level of risk. High level of control intervention is required to achieve an acceptable level of residual risk.	6.1 - 14	Medium	Unacceptable level of risk, except under unique circumstances or conditions. Moderate level of control intervention is required to achieve an acceptable level of residual risk.	1 - 6	Low	Mostly acceptable. Low level of control intervention required, if any.
Inherent risk ratings and magnitude		Response														
Risk rating	Inherent risk magnitude															
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6.1 - 14	Medium	Unacceptable level of risk, except under unique circumstances or conditions. Moderate level of control intervention is required to achieve an acceptable level of residual risk.														
1 - 6	Low	Mostly acceptable. Low level of control intervention required, if any.														

	<p>Evaluating Possible Risk Responses</p>	<p>Inherent risks are analysed, and responses evaluated with the intent of achieving a residual risk level aligned with the municipality's risk tolerances.</p> <p>Any of several responses may bring residual risk in line with risk tolerances, and sometimes a combination of responses provides the optimum result.</p> <p>Similarly, certain responses will affect the risk of multiple potential events.</p> <p>Because risk responses may address multiple risks, management may discover that additional actions are not warranted.</p> <p>Existing procedures may be sufficient or may need to be performed better. Accordingly, management considers how individual responses, or combinations of responses, interact to affect potential events.</p>
	<p>Evaluating Effect of Response on Likelihood and Impact</p>	<p>In evaluating response options, management considers the effect on both risk likelihood and impact, and understands that a response might affect likelihood and impact differently.</p> <p>The potential response to assessment of likelihood and impact may consider past events and trends, and potential future scenarios. In evaluating alternative responses, management determines their potential effect typically using the same units of measure for the objective and associated risks as established in the risk assessment component.</p>

CONTROL ACTIVITIES

5.	<p>CONTROL ACTIVITIES:</p> <p>Control activities are policies and procedures, which are the actions of people to implement the policies, to help ensure that management's risk responses are carried out.</p>
5.1.	<p>Types of control activities</p> <p>Risk analysis consists of the documentation of the "current controls" (systems and processes) that are in place to address the indicated risks, as well as assessing management's confidence in the effectiveness of the control mechanisms driving the various systems (including IT environment) and processes practiced within the Municipality.</p> <p>Internal Controls can be preventative, detective or corrective by nature:</p> <ol style="list-style-type: none"> 1. Preventative Controls are designed to keep errors or irregularities from occurring in the first place. 2. Detective Controls are designed to detect errors or irregularities that may have occurred. 3. Corrective Controls are designed to correct errors or irregularities that have been detected.

	<p>CONTROL ACTIVITIES:</p>
	<p><u>Controls over information systems</u></p> <p>With widespread reliance on information systems, controls are needed over significant systems. Two broad groupings of information systems control activities can be used:</p> <ul style="list-style-type: none"> (i) General Controls: General controls include controls over information technology management, information technology infrastructure, security management and software acquisition, development and maintenance. These controls apply to all systems from mainframe to client/server to desktop computer environments. (ii) Application Controls: Application controls are designed to ensure completeness, accuracy, authorisation and validity of data capture and processing. Individual applications may rely on effective operation of controls over information systems to ensure that data is captured or generated when needed, supporting applications are available and interface errors are detected quickly. One of the most significant contributions of computers is the ability to prevent errors from entering the system, as well as detecting and correcting them once they are present. To do this, application controls depend on computerized edit checks. These consist of format, existence, reasonableness and other checks on the data that are built into an application during development. When properly designed, they can provide control over entered data. <p>Combined with other manual process controls where necessary, these controls ensure completeness, accuracy, and validity of information.</p>

5.2.	Assessment of controls	<p>Controls may reduce the likelihood of occurrence of a potential risk, the impact of such a risk, or both. Management needs to assess the control effectiveness based on their understanding of the control environment currently in place. Residual risk will therefore inform management of the actual level of control effectiveness. Controls should be considered based on:</p> <ul style="list-style-type: none"> • Design effectiveness (Is the control “fit for purpose” in theory, i.e. is the control designed appropriately for the function for which it is intended); and • Operational effectiveness (Does the control work as practically intended).
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CONTROL ACTIVITIES:									
	<p>Assess the effectiveness of controls:</p> <table border="1" data-bbox="933 448 1316 1780"> <tr> <td colspan="2" data-bbox="933 448 1077 1780">Effectiveness of controls</td> </tr> <tr> <td data-bbox="1077 1467 1157 1780">Effectiveness rating</td> <td data-bbox="1077 448 1157 1467">Definition</td> </tr> <tr> <td data-bbox="1157 1467 1236 1780">Very good</td> <td data-bbox="1157 448 1236 1467">Risk exposure is effectively controlled and managed.</td> </tr> <tr> <td data-bbox="1236 1467 1316 1780">Good</td> <td data-bbox="1236 448 1316 1467">Majority of risk exposure is effectively controlled and managed.</td> </tr> </table>	Effectiveness of controls		Effectiveness rating	Definition	Very good	Risk exposure is effectively controlled and managed.	Good	Majority of risk exposure is effectively controlled and managed.
Effectiveness of controls									
Effectiveness rating	Definition								
Very good	Risk exposure is effectively controlled and managed.								
Good	Majority of risk exposure is effectively controlled and managed.								

Satisfactory	There is room for some improvement.	
Weak	Some of the risk exposure appears to be controlled, but there are major deficiencies.	
Unsatisfactory	Control measures are ineffective.	
Assess the design adequacy of controls:		
Effectiveness of controls		
Effectiveness rating	Definition	
Adequate	Risk exposure is effectively controlled and managed.	
Inadequate	Control measures are ineffective.	
The factor assigned to each rating indicates the extent to which the risk related to each control is not managed.		
Residual risk exposure (inherent risk x control effectiveness)		
The following rating table should be utilised to categorise the various levels of residual risk		

CONTROL ACTIVITIES:

Residual risk ratings and magnitude (Inherent risk rating x control effectiveness factor = residual risk rating)		Response
Risk rating	Inherent risk magnitude	
14.1 - 25	High	<p>Unacceptable level of residual risk.</p> <p>Implies that controls are either fundamentally inadequate (poor design) or ineffective (poor implementation).</p> <p>Controls require substantial redesign, or a greater emphasis on proper implementation.</p>
6.1 - 14	Medium	<p>Unacceptable level of residual risk.</p> <p>Implies that controls are either inadequate (poor design) or ineffective (poor implementation).</p> <p>Controls require some redesign, or more emphasis on proper implementation.</p>
1 - 6	Low	<p>Mostly acceptable level of residual risk. Requires minimal control intervention.</p>

5.3.	Management / treatment of risks	<p>Risk response is concerned with developing strategies to reduce or eliminate the threats and events that create risks.</p> <p>Risk response should also make provision for the exploitation of opportunities to improve the performance of the Municipality. Responding to risk involves identifying and evaluating the range of possible options to mitigate risks and implementing the chosen option. Directors should develop response strategies for all material risks, whether or not the management thereof is within the direct control of the Municipality, prioritising the risks exceeding or nearing the risk appetite level.</p> <p>Where the management of the risk is within the control of the Municipality, the response strategies should consider:</p> <ol style="list-style-type: none"> 1. Avoiding the risk by, for example, choosing a different strategy or terminating the activity that produces the risk; 2. Treating the risk by, for example, implementing or improving the internal control system; 3. Transferring the risk to another party more competent to manage it by, for example, contracting out services, establishing strategic partnerships and buying insurance; 4. Accepting the risk where cost and strategy considerations rule out alternative strategies; and 5. Exploiting the risk factors by implementing strategies to take advantage of the opportunities presented by such risk factors.
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	<p>CONTROL ACTIVITIES:</p>
	<p>In instances where the management of risk is not within the control of the Municipality, the response strategies should consider measures such as forward planning and lobbying.</p> <p>Response strategies should be documented, and the responsibilities and timelines attached thereto should be communicated to the relevant persons.</p>
	<p>CONTROL ACTIVITIES:</p>
	<p>Where current risk mitigation controls are deemed ineffective and therefore warrant action, management will prepare appropriate control improvement and action plans. Included in each control plan will be the allocation of accountabilities, expected outcomes and action dates for the implementation and measurement of the control improvement plan.</p>

6. INFORMATION AND COMMUNICATION

6.	INFORMATION AND COMMUNICATION:
	<ul style="list-style-type: none"> • Risks are analysed, considering likelihood and impact, as a basis for determining how they should be managed. • Risks are assessed on an inherent and a residual basis.

REPORTING, MONITORING AND REVIEW

7.	REPORTING, MONITORING AND REVIEW:				
	Control activities are policies and procedures, which are the actions of people to implement the policies, to help ensure that management's risk responses are carried out.				
7.1.	<table border="1"> <tr> <td data-bbox="916 1805 995 1989">Reporting</td> <td data-bbox="916 394 995 1805">Frequency and format:</td> </tr> <tr> <td data-bbox="995 1805 1335 1989"></td> <td data-bbox="995 394 1335 1805"> <ul style="list-style-type: none"> • All new risks and changes to existing risks should be captured into the risk management system timely. • The RO and Risk Owners report to the Risk Management Committee / Audit Committee. • The Risk Management Committee / Audit Committee reports to the Council. </td> </tr> </table>	Reporting	Frequency and format:		<ul style="list-style-type: none"> • All new risks and changes to existing risks should be captured into the risk management system timely. • The RO and Risk Owners report to the Risk Management Committee / Audit Committee. • The Risk Management Committee / Audit Committee reports to the Council.
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7.2.	Reporting categories	<p>The recommended categories of risk to be reported to Municipal Manager, and the Council are as follows:</p> <table border="1"> <thead> <tr> <th data-bbox="379 1104 459 1787">Internal Risks</th> <th data-bbox="379 450 459 1104">External Risks</th> </tr> </thead> <tbody> <tr> <td data-bbox="459 1104 1332 1787"> <ul style="list-style-type: none"> • Human resources • Knowledge and Information management • Litigation • Loss / theft of assets • Material resources (procurement risk) • Service delivery • Information Technology • Third party performance • Health & Safety • Disaster recovery / business continuity • Compliance / Regulatory • Fraud and corruption </td> <td data-bbox="459 450 1332 1104"> <ul style="list-style-type: none"> • Economic environment • Political environment • Social environment • Natural environment • Technological environment • Legislative environment </td> </tr> </tbody> </table>	Internal Risks	External Risks	<ul style="list-style-type: none"> • Human resources • Knowledge and Information management • Litigation • Loss / theft of assets • Material resources (procurement risk) • Service delivery • Information Technology • Third party performance • Health & Safety • Disaster recovery / business continuity • Compliance / Regulatory • Fraud and corruption 	<ul style="list-style-type: none"> • Economic environment • Political environment • Social environment • Natural environment • Technological environment • Legislative environment
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		<ul style="list-style-type: none"> • Financial • Cultural • Reputation 	
7.3.	Monitoring and Review	<p>Risk management changes over time. Risk responses that were once effective may become irrelevant; control activities may become less effective, or no longer be performed; or the municipality's objectives may change. This can be due to the arrival of new councillors and personnel, changes in the municipal structure or direction, or the introduction of new processes. In the face of such changes, management needs to determine whether the functioning of each risk management component continues to be effective. Monitoring can be done in two ways: On-going Monitoring Activities</p> <p>Many activities serve to monitor the effectiveness of enterprise risk management in the ordinary course of running the business. These include regular management and supervisory activities, variance analysis, stress testing, comparisons, reconciliations and other routine actions.</p>	

12. APPROVAL AND EFFECTIVE DATE OF THE STRATEGY

This policy shall come into effect immediately upon approval by Council of the Mbhashe Local Municipality. This policy is expected to be reviewed on an annually basis and the inputs in terms of the changes will only be implemented after approval by council of municipality

13. POLICY GOVERNANCE

Risk Management Strategy

Policy Governance

Policy Title	Risk Management Policy	
Policy Version	2025/26	
<u>Role & Process</u>	<u>Responsible Individual Name and/or Date</u>	<u>Responsibility Accepted Signature</u>
Senior Manager Operations		
Policy Custodian		
Policy Author		
Risk Committee Consultation Date		
Risk Committee Consultation Reference		
Council Approval Date		
Council Approval Reference		
(UNIT) e.g. Strategic Manager & Risk Officer		
Policy Approved		
Policy Inception Date		
Review Start Date		
Review Completion Date		
Legislative References		
Policy Review "Triggers"		
Comments		

DEFINITIONS

Council	Risk Management Strategy	Council of the Mbashe Local Municipality as established in terms of section 18 of the Local Government: Municipal Structures Act 117 of 1998
Municipality		Mbashe Municipality, established in terms of Part 2 of Schedule 1 of Notice 85 in the Eastern Cape Provincial Gazette No. 654 on 27 September 2000 promulgated in terms of Section 12(1) of the Local Government: Municipal Structures Act 117 of 1998, for the municipal area described in such Notice
Executive Authority		The municipal council
Accounting Officer		Municipal Manager as defined in terms of the Local Government: Municipal Finance Management Act 56 of 2003
Chief Risk Officer		A senior official who is the head of risk management
Audit Chief Executive		A senior official within a municipality responsible for audit activities and overseeing the service contract and the overall quality of services provided by external service provider/s.
Risk Owner		A person accountable for managing a particular risk
Risk Champion		A person who by virtue of his/her expertise or authority champions a particular aspect of the risk management process, but who is not the risk owner.
AGSA		The Auditor- General of South Africa
Audit Committee		An independent committee established to review the effectiveness of controls, governance and risk management within the municipality, established in terms of Section 166 of Municipal Finance Management Act
Risk Management Committee		A committee appointed by the Municipal Manager to govern the municipality's system of risk management
Risk Management Unit		A business unit responsible for coordinating and supporting the overall municipal risk management process municipal risk management process but which does not assume the responsibilities of management for identifying, assessing and managing risks

Governance Risk Management Strategy

The act of directing, controlling and evaluating the culture policies, processes, laws and mechanisms that define the structure by which a municipality are directed and managed.

Enterprise Risk Management

An approach to risk management that involves an enterprise-wide view of all risk management related to processes, function and activities designed to identify potential events that may affect the municipality and its entities, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of its objectives.

Risk

an event with a negative impact, which can prevent the achievement of strategic organisational objectives;

Risk management

identification, analysis, and control of those internal and external risks that prevent the municipality from achieving its goals and objectives

Risk assessment

process of determining the probability, as well as the impact of each identified risk as a basis of determining how these risks should be managed

Risk register/risk profile

the risk register outlines the number of risks, type and potential effects of the risk. This outline will allow the municipality to anticipate disruptions to operations and additional costs. Also describes the willingness of the municipality to take risks and how those risks will affect the operational strategy of the municipality.

Risk Management Strategy

Strategic risk	Internal and external events and scenarios that can inhibit a municipality's ability to achieve its strategic objectives. This would typically include risks associated with governance, the business model and the industry/ economic environment
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This would typically include risks associated with business continuity; fraud; people; processes and systems.
External risk	Risks are related to requirements or forces imposed on a municipality from outside. The municipality cannot control the likelihood they will occur; it can only prepare for and respond to them. It includes legal/regulatory, natural hazard, economic, technological, social and demographic risks.
Risk response	set of actions – avoiding, accepting, reducing, or sharing risk – developed in order to mitigate the identified risks
Risk tolerance	Amount of risk the municipality is capable of bearing (as opposed to the amount of risk it is willing to accept/bear).
Inherent Risk	The exposure arising from risk factors in the absence of controls
Risk appetite	The amount and type of risk that a municipality is willing to take in order to meet their strategic objectives.

14. MBHASHE ASSESSMENT TABLE FOR RISK MANAGEMENT

Factors used in strategic risk analysis				
Each risk is evaluated in terms of potential impact, likelihood of occurrence and the perceived effectiveness of controls in place to manage the risks according to the criteria set out below:				
Potential impact				
Impact factor	Continuity of supply	Safety and environmental	Technical complexity	Financial
Catastrophic	Risk event will result in widespread and lengthy reduction in continuity of supply to customers of greater than 48 hours	Major environmental damage	Use of unproven technology for critical system / project components	Significant cost overruns of >20% over budget.
100		Serious injury (permanent disability) or death of personnel or members of the public Major negative media coverage	High level of technical interdependencies between system / project components	Affect on revenue / asset base of >10%.
Critical	Reduction in supply or disruption for a period ranging between 24 & 48 hours over a significant area	Significant injury of personnel or public	Use of new technology not previously utilised by the entity for critical systems / project components	Major cost overruns of between 10 % & 20 % over budget
70		Significant environmental damage		Affect on revenue / asset base of between 5% & 10%
Serious	Reduction in supply or disruption for a period between 8 & 24 hours over a regional area	Significant negative media coverage Lower level environmental, safety or health impacts.	Use of unproven or emerging technology for critical systems / project components	Moderate impact on revenue and assets base
50		Negative media coverage		

Risk Management Strategy

Significant	Brief local inconvenience (work around possible)	Little environmental, safety or health impacts	Use of unproven or emerging technology for systems / project components	Minor impact on revenue and assets base
30	Loss of an asset with minor impact on operations	Limited negative media coverage		
Minor	No impact on business or core systems	No environmental, safety or health impacts and/or negative media coverage	Use of unproven or emerging technology for non-critical systems / project components	Insignificant financial loss
10				
Likelihood				
Likelihood factor	Qualification criteria			Rating
Almost certain	The risk is almost certain to occur in the current circumstances. The risk is already occurring, or is likely to occur more than once within the next 12 months.			90%
Likely	More than an even chance of occurring. The risk could easily occur, and is likely to occur at least once within the next 12 months.			65%
Possible	Could occur quite often. There is an above average chance that the risk will occur at least once in the next 3 years.			40%
Unlikely	Small likelihood but could happen. The risk occurs infrequently and is unlikely to occur within the next 3 years.			20%
Rare	Not expected to happen - Event would be a surprise. The risk is conceivable but is only likely to occur in extreme circumstances.			10%
Perceived control effectiveness				
Effectiveness factor	Qualification criteria			Rating
Very Good	Risk exposure is effectively controlled and managed.			90%
Good	Majority of risk exposure is effectively controlled and managed.			80%
Satisfactory	There is room for some improvement.			65%

Risk Management Strategy

Weak	Some of the risk exposure appears to be controlled, but there are major deficiencies.		40%
Unsatisfactory	Control measures are ineffective.		20%
Inherent risk exposure			
Inherent risk	Rating	Residual risk exposure	Rating
Extreme	³ 50	Priority 1	³ 25
High	³ 35 < 50	Priority 2	³ 17.5 < 25
Moderate	³ 25 < 35	Priority 3	³ 12.5 < 17.5
Low	³ 15 < 25	Priority 4	³ 7.5 < 12.5
Insignificant	< 15	Priority 5	< 7.5
Action status			
Status	Description		
Behind schedule	The project to implement the control improvement is behind schedule and requires management attention.		
Planned	The project has been planned to implement the control improvement but the start date has not yet commenced		
In progress	The project to implement the control improvement is progressing as planned		
Final tests and maintain	The project to implement the control improvement is virtually completed or has been added to current controls in place		