POLOKWANE MUNICIPALITY

RISK MANAGEMENT FRAMEWORK

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1. INTRODUCTION

This Framework has been developed in terms of the provisions of the Municipal Finance Management Act (MFMA) sections 62(1)(c)(i) require the Accounting Officer to ensure that the municipality has and maintains effective, efficient and transparent systems of risk management.

The Framework aims to support Polokwane Municipality to leverage effective risk management practices to protect against adverse outcomes and optimise opportunities, by improving institutional performance and enhancing value for citizens.

The implementation of the of the Framework will enable the Executive, Management and officials to better understand risk and opportunities in the everyday functioning of the Municipality and as a critical part of their normal duties, and to manage them more effectively.

The Framework is perceived from the MFMA perspective that seeks to enhance the effective, efficient and economical use of public resources. Its principles, tactics and documentation can however be utilised for risk management in the delivery of the municipal objectives set out in section 152 of The Constitution, read with Schedule 4 (Part 4B) thereto, as well as other legislative prescripts applicable to local government.

2. DEFINITIONS

Risk is defined as (a) The effect of uncertainty on the achievement of the Municipal's IDP and SDBIP caused by the presence of risk factors; and/or (b) The failure to optimise opportunities to enhance the achievement of the IDP and SDBIP.

Risk Management is a process, effected by Council, Executive Management and personnel, applied in framework setting and across the operations of the municipality, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of the entity's objectives

3. LEGISLATIVE FRAMEWORK

3.1. MFMA
Section 62. (1)(c)(i) of MFMA states that "The Municipal Manager of the Municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control..."

3.2. National Treasury Local Government Risk Management Framework
The Framework has been developed and customised for local government with inputs drawn from applicable legislation and risk practitioners from local government and municipal entities, the framework is used as guidance and benchmark for best practice from municipalities across the country.

3.3. King IV report on Corporate Governance (2016)

King IV report principle 11 reflects that "the governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objective. Recommended practices from principle 11 of the King IV that are applicable to municipal environment have been incorporated thought out the Risk Management Framework.

4. POLOKWANE MUNICIPALITY POLICY STATEMENT ON RISK MANAGEMENT

At Polokwane Municipality we are committed to the optimal management of risk in order to achieve our vision, our principal tasks and key objectives and protect our core values. The Council has committed the Municipality to a process of risk management that is aligned to the principles of the King IV Report and the Municipal Finance Management Act (MFMA). The features of this process are outlined in Polokwane Municipality's Risk Management Framework. It is expected that all directorates, SBUs, operations and processes will be subject to the risk management framework.

The Council recognises that risk in Polokwane Municipality is a complex and diverse concept, and that there are many directorates/ SBUs of the Municipality working at managing risk exposures. It is the intention that these directorates/ SBUs will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable.

Different risk related or assurance provider functions will align their various goals and reporting processes into one cohesive and structured framework. All of Polokwane Municipality's business, financial, technological, legal and operational risk exposures, whether they are insurable or not, will be identified, assessed, and appropriately managed.

The risk framework considers various risk functions as it determines aspects such as risk tolerance limits and capital allocation processes. All risk management efforts will be focused on supporting Polokwane Municipality's objectives. Equally, they must ensure compliance with relevant legislation, and fulfil the expectations of employees, communities and other stakeholders in terms of corporate governance.

Effective risk management is imperative to an entity with our risk profile. The realisation of our integrated development plan depends on us being able to take calculated risks in a way that does not jeopardise the direct interests of our stakeholders. Sound management of risk will enable us to anticipate and respond to changes in our business environment, as well as make informed decisions under conditions of uncertainty.

Every employee has a part to play in this important endeavour and we look forward to working with you in achieving these claims.

5. CREATING AN ENABLING ENVIRONMENT

An appropriate environment must exist to support an effective, efficient and transparent system of risk management as required by the MFMA, therefore establishing and maintaining a conducive environment becomes a critical responsibility for the Municipal Manager. The Municipal's environment is the foundation of risk management, providing the culture, discipline, structure and processes that influence how risks are identified, assessed and mitigated. A compliance culture is critical for the effective management of risks in Polokwane Municiplaity, good   compliance would normally correlate to good performance for the Municiplaity.

To create a conducive environment, the Municipal Manager should ensure that the municipality:
   a) operates within its Constitutional mandate.
   b) has the required capacity to execute its mandate for risk management.
   c) adopts management practices that embrace the concepts of risk accountability and performance management.
   d) incorporates the elements of this Framework within job descriptions, operational policies and reporting procedures throughout Municiplaity, to enable risk management as an embedded and routine part of operations and responsibilities.
   e) Has adequate human resources capacity, represented by the requisite staff complement and bearing the appropriate skills and experience to implement and maintain the system of risk management.
   f) All employees are sensitised of the importance of risk management to the achievement of their individual performance objectives as well as the overall municipal objectives.
   g) Ensure that training and development opportunities should be provided to equip employees to optimally execute their responsibilities for risk management.
   h) The job profiles and performance management criteria of all management and staff must incorporate their responsibilities for risk management.

6. OBJECTIVES OF RISK MANAGEMENT FRAMEWORK
The objectives of this framework are to help management make informed choices which:
6.1. The Framework aims to support the municipality to leverage effective risk management practices to protect against adverse outcomes and optimise opportunities, thereby improving municipality's performance and enhancing value for citizens.
6.2. The application of the Framework will enable the Executive, Management and officials to better understand risk and opportunities in the everyday functioning of the Municiplaity and as a critical part of their normal duties, and to manage them more effectively.
6.3. The Framework is perceived from the MFMA perspective that seeks to enhance the effective, efficient and economical use of public resources. Its principles, tactics and documentation can however be utilised for risk management in the delivery of the municipal objectives set out in section 152 of The Constitution, read with Schedule 4 (Part 4B) thereto, as well as other legislative prescripts applicable to local government.
6.4. Improve business performance by assisting and improving decision making and planning.
6.5. Provide guidance for the Council, Municipal Manager, Executive management, Managers and staff when overseeing or implementing the development of processes, systems and techniques for managing risk, which are appropriate to the context of Polokwane Municipality.
6.6. Aligning risk management process with objectives at all levels of the organization.

7. BENEFITS OF RISK MANAGEMENT

The benefits of risk management to Polokwane Municipality encompass:

7.1. **Increased probability of achieving objectives**- Risk Management helps management achieve Polokwane Municipality's performance and financial targets and assists with the prevention of loss of resources. Controls and risk interventions will be chosen on the basis that they increase the likelihood that Polokwane Municipality will fulfil its intentions/ commitments to stakeholders.

7.2. **Enhancing decision making-** Risk Management helps Executive Management understand protentional impact of different option and enable them to make more informed decision.

7.3. **Reducing operational surprises and losses** -Polokwane Municipality gains enhanced capability to identify potential events and establish responses thereby reducing surprises and associated costs or losses.

7.4. **Identifying and managing multiple and cross- function risks**- Polokwane Municipality faces a myriad of risks affecting different parts of the Municipality. The framework facilitates effective responses to the interrelated impacts and enhances an integrated response to multiple risks.

7.5. **Seizing opportunities**- By considering a full range of potential events, management is positioned to identify and proactively realise opportunities.

7.6. **Improving deployment of capital** -Obtaining robust risk information allows management to effectively assess overall funding requirements and enhance funding allocation.

7.7. **Ensuring compliance with laws and regulations**- Risk Management contributes to effective reporting and monitoring of compliance with laws and regulations and assists with the limitation of damages to Polokwane Municipality's reputation and associated consequences.

7.8. **Enhance organisational resilience**- Risk management can help the municipality become more resilient by identifying, assessing, and responding to potential threats.

7.9. **Improve stakeholders' confidence**- When stakeholders see that risks are being managed, they feel more secure and trust the municipality

8. ROLES, RESPONSIBILITY AND GOVERNANCE

Polokwane Municipality has determined that risk management is everyone's responsibility and that it must be embedded into the everyday activities of the municipality. This implies that risk management must be part of every decision that is made, every objective that is set and ever process that is designed.

Municipal Manager is ultimately responsible for Risk Management and should assume overall ownership, however every employee and committee is an integral part of the collective system of risk management. The roles and expected contribution has been established not limited as follows:

8.1 The Municipal Manager

The Municipal Manager responsibilities include ensuring that all components of risk management are in place. The Municipal Manager fulfils this duty by:

8.1.1 Setting the tone at the top by supporting Risk Management and allocating resources towards the implementation thereof;

8.1.2 Establishing the necessary structures and reporting lines within the Municipality to support Risk Management;

8.1.3 Influencing an Municipality "risk aware" culture;

8.1.4 Place the key risks at the forefront of the management agenda and devote personal attention to overseeing their effective management;

8.1.5 Hold management accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities;

8.1.6 Ensuring that a conducive control environment exists to ensure that identified risks are proactively managed;

8.1.7 Consider and act on recommendations from the Audit and Performance Committee, Internal Audit, Risk Management Committee and other appropriate structures for improving the overall state of risk management;

8.1.8 Consider and act on recommendations from the Audit and Performance Committee, Internal Audit, Risk Management Committee and other appropriate structures for improving the overall state of risk management;

8.1.9 Provide appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management.

8.2 Risk Management Committee

The Risk Management Committee is appointed by the Municipal Manager to assist in the discharge of her/his responsibilities for risk management. The membership of the Risk Management Committee should comprise both management and external members with the necessary blend of skills, competencies and attributes, including an intimate understanding of the municipal's mandate and operations and understanding of risk management principles and their application.

The chairperson of the Risk Management Committee should be an independent external person, appointed by the Municipal Manager. The full responsibilities of the Risk Management Committee os be formally defined in its charter approved by the Municipal Manager.

In discharging its governance responsibilities relating to risk management, the Risk Management Committee should:

8.2.1 Review and recommend for the approval by Audit and Performance Audit Committee and Council risk management framework and policy;

8.2.2 evaluate the extent and effectiveness of integration of the risk management framework within the municipality;

8.2.3 evaluate the effectiveness of the mitigating strategies implemented to address the priority risks of the Institution;

8.2.4 review the material findings and recommendations by assurance providers on the system of risk management and monitor the implementation of such recommendations.

8.2.5 collaborate with the Audit and Performance Audit Committee on all matters concerning risks and risk management; and

8.2.6 provide timely and useful reports to the Municipal Manager and Audit and Performance Audit Committee on the state of risk management, together with recommendations to address any deficiencies identified.

8.3 Audit and Performance 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 and Performance Audit Committee with respect to risk management is formally defined in its charter.

The Audit Committee should provide an independent and objective view of the Municipality's risk management effectiveness. The Audit and Performance Audit Committee should possess appropriate management, technical and other expertise, coupled with the mind-set to perform its oversight responsibility.

Responsibilities of the Audit and Performance Audit Committee, with respect to risk management includes:

8.3.1 Review the risk management framework for identifying, assessing, monitoring and managing significant risks.

8.3.2 Review the high-level risk register, including the report of significant changes to Polokwane Local Municipality's risk register.

8.3.3 Review the report on risk management culture of Polokwane Local Municipality.

8.3.4 Evaluate whether risk management is carried out in a manner that really benefits Polokwane Local Municipality.

8.3.5 Assess and contribute to the internal audit planning processes relating to the risks of Polokwane Local Municipality.

8.3.6 Review and recommend disclosures on matters of risk in the Annual Financial Statements.

8.3.7 Provide regular feedback to the Council and the Municipal Manager on the adequacy and effectiveness of risk management in Polokwane Local Municipality, including recommendations for improvement.

8.3.8 Satisfy itself that it has appropriately addressed the following risks:
   ✓ Financial reporting risks, including the risk of fraud.
   ✓ Risk of internal financial controls failure.
   ✓ IT risks as they relate to financial reporting.

8.4 Council

High level responsibilities of the Council in risk management should include:

8.4.1 Ensuring that the Municipality strategies are aligned to its government mandate;

8.4.2 Obtaining assurance from the Audit and Performance Audit Committee that key risks inherent in the municipal's strategies were identified and assessed, and are being properly managed;

8.4.3 Approving the Municipality's risk management framework and related policies.

8.5 Executive Management Team

Management is ultimately accountable for managing risks within their areas of responsibilities, for executing their responsibilities outlined in the risk management strategy and integrating risk management into the operational routines by modifying policies, procedures as well as performance and reward criteria to align to the risk management imperative.

High level responsibilities of Management should include:

8.5.1. executing their responsibilities as set out in the risk management strategy;

8.5.2. empowering officials to perform effectively in their risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;

8.5.3. aligning the functional risk management methodologies and processes with the Institutional process;

8.5.4. devoting personal attention to overseeing the management of priority risks within their area of responsibility;

8.5.5. maintaining a co-operative relationship with the Risk Management Unit;

8.5.6. providing risk management reports;

8.5.7. reporting to the Risk Management and Audit Committees as may be requested;

8.5.8. maintaining the proper functioning of the control environment within their area of responsibility;

8.5.9. monitoring risk management within their area of responsibility; and

8.5.10. holding officials accountable for their specific risk management responsibilities.

8.6 Manager: Risk Management

The role of the Manager: Risk Management is to develop, communicate, coordinate and monitor the municipal-wide risk management activities within Polokwane Municipality.

Although management have appointed a manager: Risk Management to assist in the execution of the risk management process, the accountability to Council and Municipal Manager remains with management and effective risk management is the responsibility of every employee. The risk management process does not, however, reside in any one individual or function but requires an inclusive team-based approach for effective application across Polokwane Municipality.

The following are the responsibilities of the Manager: Risk Management:

8.6.1. Assists the Risk Management Committee to fulfil its responsibilities in terms of its charter;

8.6.2. Communicate with the Risk Management Committee regarding the status of municipal - wide risk management;

8.6.3. Takes overall responsibility for the implementation of risk management framework and coordinate the risk management activities across the municipality;

8.6.4. Undertakes a gap analysis of the municipality's risk management process;

8.6.5. Facilitates risk management assessments and risk assessments for all major changes and incidents, such as accidents, purchases of capital equipment, restructuring of operational processes etc.;

8.6.6. Develops systems to facilitate risk monitoring and risk improvement;

8.6.7. Compiles a consolidated risk register on a quarterly basis;

8.6.8. Provides input into the development and implementation of business continuity management plans;

8.6.9. Benchmarks the performance of the risk management process to the risk management processes adopted by other municipalities both locally and abroad;

8.6.10. Participating with Internal Audit, Management and Auditor-General in developing the combined assurance plan for the Institution

8.7 Risk Management Champions

Risk Management Champions are appointed by the Municipal Manager to assist Risk Management with cascading risk management to their directorate by representing risk management unit in their directorate meetings and in other operational activities within their respective directorates. The Risk Management Champion is the key contact of the Manager: Risk Management at each Directorate. Risk management Champions do not assume the role of the Management and Risk Owners but should assist the Risk Owners to resolve problems. The full responsibilities of the Risk Management Champion are formally defined in its charter approved by the Municipal Manager.

Responsibilities of the Risk Management Champions include amongst others:

8.7.1. Intervening in and escalating to Risk Management Unit and Directors in instances where risk management efforts are being hampered, for example, by the lack of co-operation by Management and other officials etc.

8.7.2. Providing support on risk management process to Directors, Managers and other staff members within their directorate.

8.7.3. Ensuring that all new developments, information and requirements in risk management are communicated to the Directorate.

8.7.4. Reporting emerging risk and incidents within their Directorate and whole municipal areas to Risk Management Unit.

8.7.5. Ensuring that their directorate's risk management training needs is communicated to Risk Management Officials.

8.7.6. Representing their directorate at the Risk Management Champions meetings.

8.7.7. Report on risk management matters in their directorate meetings.

8.8 Internal Audit

The role of internal auditing in risk management is to provide an independent, objective assurance on the effectiveness of the municipality's system of risk management. Internal auditing must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary. Internal Auditing must develop its internal audit plan based on the key risk areas.

8.9 Combined Assurance providers

Combine assurance providers comprise of multiple assurance functions within the municipality to ensure a combined efficient, and complete process to managing risks and ensuring compliance. Internal Audit will develop a combined assurance plan and risk management is an important stakeholder as an assurance provider as per the strategic risk register developed. Risk Management serves as a second line of defence in ensuring that a co-ordinated approach is applied in receiving assurance on whether key risks are being managed appropriately within the municipality or not.

8.10 Other Officials and employees

Other officials are responsible for integrating risk management into their day-to-day activities. <u>High level responsibilities of other officials should include:</u>

8.10.1. applying the risk management processes in their respective functions;

8.10.2. informing their supervisors and/or the Risk Management Unit of new risks and significant changes in risks;

8.10.3. escalating instances where management of risk is beyond their control; and

8.10.4. co-operating with other role players in the risk management process and providing information as required.

8.10.5. All managers are responsible for mitigating risks within their environment and reporting on progress made in mitigating/managing their risks as well as providing applicable evidence.

9. INTEGRATION OF RISK MANAGEMENT ACTIVITIES

Risk Management is a systematic, co-ordinated and inclusive process which uses the municipality's strategy (IDP) and objectives (SDBIP) as the focal points to manage the range of risks and optimise opportunities to enhance the achievement of the strategy and objectives. Effective Risk management also require the Municipality to look beyond itself, requiring the consideration of risks on performance regardless of whether events originate internally or externally. That is, the Municipality should also be concerned about risks created by other parties which could impact its performance. To give effect to this, the Municiplaity should

- Consider the entire value chain for rendering and delivering services to the community, to understand and act on the threats and opportunities posed by the value chain participants on the Municipality's performance; the Municiplaity

- Communicate timeously with other organs of state and external parties in instances where the identification, evaluation and management of risk to the Institution require the participation of these organs; and

- Identify and communicate to other organs of state and other parties the risks posed to them by the Municipality's own actions or inaction.

The Municiplaity should also be aware of and comply with various legislations that prescribe specialised risk management, for example, Occupational Health and Safety Act, Disaster Management Act, Prevention of Fraud and Corruption Act and others, and integrate these within the Risk Management process.

True to the concept of Risk Management, the principles of combined assurance, synergy should be established between the Risk Management Unit and all internal functions concerned with specialised risk management activities, including but not limited to those for:

- IDP
- Strategic planning
- Performance Management
- Internal Auditing
- Budgeting process
- occupational health and safety;
- disaster management

- business continuity management.
- fraud prevention strategies

10. RISK IDENTIFICATION

10.1. Risk identification.

Risk identification is a deliberate and systematic effort to find, recognise, describe and document the Municipal' risks, with the focus being on the risks that have a significant impact the Municipality achieving its objective. The purpose of risk identification is to understand what is at risk within the context of the Municipal's explicit and implicit objectives and to generate a comprehensive register of such risks based on the threats and events that might prevent, degrade, delay or enhance the achievement of the objectives.

The risk identification process should expose what is uncertain, as well as the source(s), cause(s) and the consequence(s) of uncertainties. The risk identification process should be able respond to the typically dynamic nature of the risk environment by being able to timeously detect new and emerging risks, as well as risks that no longer relevant.

The risk identification process should cover all risks, regardless of whether the source of such risks are within the direct control of the Municipality. A risk must not be ignored because the Municipality does not have control over it.

Risk identification process should be inclusive, not overly rely on the inputs of a few senior officials and should also draw as much as possible on unbiased independent sources, including the perspectives of important stakeholders and research.

Risk workshops and interviews are useful for identifying, filtering and screening risks but it is important that these judgement-based techniques be supplemented by more robust and sophisticated methods, including quantitative techniques, research and benching marking with other municipalities. Risk identification should be strengthened by supplementing management's perceptions of risks with independent information and quantitative analysis. Depending on the risk being considered the following could provide useful information:

10.1.1. Municipal Strategic Objectives
10.1.2. Service Delivery Implementation plan
10.1.3. Institutional Performance reports
10.1.4. Previous strategic and operational risk assessment reports
10.1.5. Internal Audit reports
10.1.6. Auditor General reports
10.1.7. National Treasury recommendations during benchmarking
10.1.8. SWORT analysis
10.1.9. PESTLE analysis,
10.1.10. SWORT analysis,
10.1.11. Resolutions from the Strategic Planning session.
10.1.12. Financial performance reports
10.1.13. incident reports;
10.1.14. fraud risk assessment reports

10.1.15. research and benchmarking against other municipalities

10.1.16. national and global risk reports such as those issued by the World Economic

10.1.17. Forum and the Institute of Risk Management South Africa.

10.2. Focus points of risk identification

The risk identification process should focus on the *right risks* and ensure that the risk register is not contaminate the with non-risks. Management and structure that approved the risk registers should confirm that registers are not filled with many items that are not risks. Often issues, problems and causes of risk are incorrectly included as risks. It is important to note that risk identification is not about identifying as many risks as possible but about identifying the correct ones.

When many 'risks' are identified of which many are non-risks, it leads to difficulties in proper management of the actual risks, which erodes the effectiveness of the whole system of risk management. It is important at this point to recall the definition of risk, which is the effect of uncertainty on the achievement of the municipal's IDP and SDBIP caused by the presence of risk factors; and/or the failure to optimise opportunities to enhance the achievement of the IDP and SDBIP. Anything that does not satisfy the definition of risk as indicated above or a similar definition adopted by the Municiplaity, does not belong in the risk register.

To ensure a comprehensive risk identification process, the Municipality should identify risks through considering both internal and external factors, through:

a) Strategic risk identification

The first part of carrying out a structured strategic risk assessment is to understand the profile of the municipality which includes strategic objectives, best practice dictates that strategic risk must be linked to the municipal objectives. Strategic risks relate to strategy selection, implementation or revision which affects the achievement of the IDP. Strategic risks occur both from poor business decisions as well as the failure to effectively implement good decisions. These risks can impact the Municipality's ability to achieve its goals and can have serious long-term consequences.

Risk assessment review process should be aligned with the IDP and Budget process of the municipality. As such strategic risks should be reviewed during the strategic planning process when new strategies are set. The Municipal's strategic risks should be identified and documented as part of the Municipal's strategy setting process and they should be brought to the attention of Council when Council approve the IDP and Budget. The strategic risk should be formally reviewed concurrently with changes in IDP and Budget even during midyear budget adjustment process.

b) Operational risk identification

Operational risk identification should be based on the SDBIP and identifying risks concerned with the Municipal 's operations and events that retard or advance the achievement of the SDBIP.

The process should examine vulnerabilities and opportunities presented by employees, Institutional processes and systems, contractors, regulatory authorities and external events using a variety of relevant sources and techniques. Operational risk identification should be an embedded continuous process to identify new and emerging risks and consider changes in known risks using mechanisms such as management and committee meetings, environmental scanning, process reviews. Operational risk identification should be repeated when significant environmental or Municipal's changes occur, or at least once a year, to identify new and emerging risks.

c) Project risk identification

Project risk identification to identify risks inherent to projects, project risks should be identified for all major projects of the municipality, covering the whole project lifecycle, long term projects, the project risk register should be reviewed at least every 6 months to identify new and emerging risks. Each project manager must keep a project file for the project under their management, the project file should also include project risk register which is updated regularly.

d) mSCOA risk identification

The mSCOA risk assessment is part of the implementation of the Municipal Standard Chart of Accounts (mSCOA), which aims to standardize financial reporting across South African municipalities. mSCOA introduces significant changes to financial systems, business processes, and governance structures, making risk management critical for its success. mSCOA risk assessment will ensure that the municipality is adequately transit to mSCOA-compliant financial systems, while proactively identifying, managing, and mitigating risks to achieve accurate, standardized, and transparent reporting. All the work streams which are part mSCOA steering committee should identify risk associated with mSCOA with the assistance of Risk Management officials, risk register will be developed and monitored on a continuous basis by mSCOA steering committee.

11. RISK ASSESSMENT

Risk assessment is the overall process of analysing and evaluating the identified risk. The purpose of risk assessment is to help the Municipality to prioritise the risks in order of importance so that they can be addressed accordingly. This is a continuous process, requiring regular reviews, as and when internal and external changes influence the Municipality's strategies, objectives and operations. The following risk assessment process has been adopted by the municipality.

11.1. Potential root causes identification

Root cause analysis is a process that helps identify and analyse the root causes of risks (risk triggers), this is critical step of risk assessment as it assists with accuracy of risk identification and gives direction when developing risk mitigations. It t should be noted that one risk many have more than one root causes and all the root cause must be must be documented in the risk register.

11.2. Assess the impact of risk across the municipality

Risk impact refers to the magnitude of the impact on the Municipality should the risk materialise (What happens if the risk materializes?), risks usually have a potential knock-on effect on other functions, processes and risk categories. These cause-and-effect relationships must be identified and recorded as well.

11.3. Determining the risk rating

Risk rating is the process to assign values to risks based on likelihood/probability and the impact of the risk to the Municipality. The purpose of risk rating is to help the municipality to prioritise the risks in order of importance so that they can be addressed accordingly, the municipal has adopted risk rating matrix for this purpose which is in **annexture A**.

Risk rating should be performed through a three-stage process:

a) the inherent risk should be assessed to establish the level of exposure in the absence of deliberate management actions to influence the risk;
b) a residual risk assessment should follow to determine the remaining level of risk after the mitigating effects of management actions to influence the risk are factored in; and
c) the residual risk should be evaluated against the municipality 's risk appetite to determine if additional management intervention is needed to reduce the risk further.

The ranking of risks in terms of residual risk provides management with some perspective of priorities. This should assist in the allocation of capital and resources in the operations. Although the scales of quantification will produce an automated ranking of risks, management may choose to raise the profile of certain risks for other reasons. This may be justified because of non-financial influences such as media implications, social responsibilities or regulatory pressures. The ranking of risks should be shaped by strategic and municipal objectives.

12. RISK RESPONSE

Risk response involves identifying and evaluating the range of possible option, appropriate strategies, mitigations, tactics and internal controls to mitigate the risk.

Risk response should also make provision for the exploitation of opportunities to improve the performance of the Municipality.

Management should develop response mitigation for all identified 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.

Where the management of the risk is within the control of the Municipality, the response strategies should consider:

a) **avoiding the risk** by choosing a different strategy or terminating the activity that produces the risk;
b) **treating the risk** by implementing or improving the internal control system to deal with the risk events;
c) **transferring the risk** to another party more competent to manage it by, for example, contracting out services, establishing strategic partnerships and buying insurance.
d) **accepting the risk** where cost and strategy considerations rule out alternative strategies; and
e) **exploiting the risk factors** by implementing strategies to take advantage of the opportunities presented by such risk factors.

Risk responses must produce positive outcomes; thus it must reduce the negative outcomes or maximise positive outcomes. Response strategies should be documented and the responsibilities and implementation timelines should be communicated to the relevant persons.

13. RISK ACCEPTANCE PROCEDURE

Risk acceptance is not a mitigation strategy because accepting a risk does not *reduce* its effect. However, risk acceptance is a legitimate option in risk management in instances where the cost outweighs the benefit. Risk acceptance is a decision to accept risk instead of eliminating, avoiding, or mitigating it. Accepting the recognized risk without taking any mitigation measures should mean that the risk is within the risk tolerance level of the Municipality. When accepting risk, the municipality should be prepared to live with the consequences.

Establish Risk Acceptance Criteria

13.1. **Cost-Benefit analysis** - Determine when the cost of mitigating or managing a risk is higher than the potential impact of the risk itself. If mitigation is not cost-effective or feasible, it may be acceptable to accept the risk.
13.2. **Legal and Compliance Considerations** - Ensure that risk acceptance does not violate laws, regulations, or the municipality's code of ethics.

Risk acceptance process
- This occurs when the potential impact of a risk is within acceptable thresholds based on the Municipality's risk appetite and risk tolerance.
- Ensure that the decision to accept a risk is justified, well-documented, with clear reasons for the accepting the risk and evidence provided. Decision to accept the risk should follow the approval and recommendation from the following structure below.
  - Directorate/ SBU
  - Risk Management (Chief Operation Officer)
  - Municipal Manager
  - Executive Management Committee
  - Risk Management Committee
  - Audit and Audit Performance Committee
  - Council

Communicate the Risk Acceptance Process
The decision to accept the risk should be communicated to stakeholders, ensuring transparency.

Monitor and Review Accepted Risks
- Active Monitoring: Put in place systems to monitor accepted risks, ensuring they remain within acceptable levels. This could include regular evaluations and audits.
- Update Risk Register regularly and update any information on accepted risks and if there are any changes to their levels.

14. RISK APPETITE

Risk Appetite is referring to the amount of residual risk that the institution is willing to accept. The purpose of risk appetite is to indicate the point at which a risk becomes serious enough for the institution to start mitigating and managing the risk.

Risk Tolerance is the amount of risk the institution is capable of bearing (as opposed to the amount of risk it willing to bear).

The Municipality's risk appetite is directly linked to its strategic objectives and addresses strategic risks by setting clear boundaries and expectations through establishing quantitative limits and qualitative statements. The risk appetite also establishes quantitative measures of loss or negative outcomes that can be aggregated and disaggregated. The qualitative statements complement quantitative measures, set the overall tone for the municipal's approach to risk taking and articulate clearly the motivations for taking on, or avoiding certain types of risks

15. COMMUNICATION AND REPORTING

Risk Management section must ensure that relevant information is properly and timeously communicated to equip the relevant officials to identify, assess and respond to risks. Risk management through regular awareness sessions should disseminate relevant, timely, accurate and complete information.
Valuable risk report should be generated for Executive management and Risk Management Committee with status of the Municipal's risk profile, elaborating
on:
  (a) what has actually happened vs expectations, why and any remedial actions;
  (b) what is new, changed or has gone away since the previous report, and why this is so;
  (c) future expectations; and
  (d) the state of the Municipal's risk maturity

16. RISK MONITORING

Risk monitoring concerns checking on a regular basis to confirm the proper functioning of the entire risk management system. Monitoring should be effected through ongoing activities or separate evaluations to ascertain whether risk management is effectively practised at all levels and across the Municipality in accordance with the risk management policy and framework.

Monitoring activities should focus on evaluating whether:
  a) assigned responsibilities are being executed effectively;
  b) risk response strategies are producing the desired result of mitigating risks or exploiting opportunities; and
  c) improvements in the system of risk management are producing positive changes in Institutional performance.

17. FUNDING THE RISK MANAGEMENT ACTIVITIES

Financial commitments are needed to cover the cost of implementing, maintaining and continuously improving the state of risk management and control. Risk Management Unit should control the operating and capital costs of running the Risk Management Unit.

The cost of implementing and improving controls should be the responsibility of the respective Risk Owners, who should provide for such costs in their capital or operational budgets.

18. USE OF RISK ASSESSMENTS OUTPUT FOR BUDGETING AND CAPITAL ALLOCATION

It is important that risk information is factored into budgeting decisions. The variability of budgeted targets must be considered, and one must assume that the risks associated with key municipality objectives in the budget have been evaluated as part of risk assessment processes. Considerations around budgeting should be put in the context of cost-of-risk evaluations.

19. EVALUATION OF RISK MANAGEMENT EFFECTIVENESS

Evaluation of risk management effectiveness is vital to maximise the value proposition of risk management. The Municipality will strive to achieve a mature risk management regime incrementally and sustainably in order to optimise the benefits of risk management.

Polokwane Municipality will periodically evaluate the value add of risk management by measuring outcomes against pre-set key performance indicators aligned to the overall goals and objectives of the Municipality.

Polokwane Municipality will utilise the Financial Management Maturity Capability Model developed by the National Treasury to evaluate their current and progressive risk management maturity. The selected employees will complete a questioner on an annual basis and the results will be utilised to identify areas of improvement.

20. REVIEW AND UPDATING THE RISK MANAGEMENT FRAMEWORK

The Manager: Risk Management is the central part of the Risk Management process and should involve an ongoing review of Framework. The Framework will be reviewed every 3 years or as and when required to incorporate changes in the legislative framework within Local Government, performance and PESTEL factors

ANNEXTURE A- RISK RATING MATRIX

Impact

The following is an example of a rating table that can be utilised to assess the potential impact of risks. Municipality's are encouraged to customise the rating table to their specific requirements.

Rating	Assessment	Definition
1	Insignificant	Negative outcomes or missed opportunities that are likely to have a negligible impact on the ability to meet objectives
2	Minor	Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives
3	Moderate	Negative outcomes or missed opportunities that are likely to have a relatively moderate impact on the ability to meet objectives
4	Major	Negative outcomes or missed opportunities that are likely to have a relatively substantial impact on the ability to meet objectives
5	Critical	Negative outcomes or missed opportunities that are of critical importance to the achievement of the objectives

Likelihood

The following is an example of a rating table that can be utilised to assess the likelihood of risks.

Rating	Assessment	Definition
1	Rare	Highly unlikely, but it may occur in exceptional circumstances. It could happen, but probably never will
2	Unlikely	Not expected, but there's a slight possibility it may occur at some time
3	Moderate	The event might occur at some time as there is a history of casual occurrence at the Municipality &/or similar institutions.
4	Likely	There is a strong possibility the event will occur as there is a history of frequent occurrence at the Municipality &/or similar institutions.
5	Common	Very likely. The event is expected to occur in most circumstances as there is a history of regular occurrence at the Municipality &/or similar institutions.

Inherent risk exposure (impact x likelihood)

The following is an example of a rating table that can be utilised to categorise the various levels of inherent risk.

Inherent risk exposure

Risk rating	Inherent risk magnitude	Definition
16 - 25	High	Unacceptable level of risk - High level of control intervention required to achieve an acceptable level of residual risk
10 - 15	Medium	Unacceptable level of risk, except under unique circumstances or conditions - Moderate level of control intervention required to achieve an acceptable level of residual risk
1 - 9	Low	Mostly acceptable - Low level of control intervention required, if any.

- The second tier of Assessment concerns establishing the **residual risk**. Residual risk is the level of risk remaining after the mitigating factors of the existing control interventions have been considered. Normally, management will introduce sufficient controls to reduce the risk within a predetermined level. **Residual risk** is a critical indicator of whether the existing controls are effective in reducing the risk to an acceptable level.

Risk Control Effectiveness Rating

The following is an example of a rating table that can be utilised to categorise the various levels of control effectiveness.

Risk Control Effectiveness	Definition
Fully Effective	Nothing more to be done except review and monitor the existing controls. Controls are well designed for the risk.
Partially	Most controls are designed correctly and are in place and effective. Some more work to be done to improve operating effectiveness.
Ineffective	While the design of controls may be largely correct in that they treat most of the root causes of the risk, they are not currently very effective.
Totally Ineffective	Significant control gaps. Either controls do not treat root causes or they do not operate at all effectively. Controls, if they exist are just reactive
None	Virtually no credible control. Management has no confidence.

Residual risk exposure (inherent risk x control effectiveness)

The following is an example of a rating table that can be utilised to categorise the various levels of residual risk. Municipalities are encouraged to customise the rating table to their specific requirements

Residual risk exposure

Risk rating	Residual risk magnitude	Response
16 - 25	High	Unacceptable level of residual risk - Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation). Controls require substantial redesign, or a greater emphasis on proper implementation.
10 - 15	Medium	Unacceptable level of residual risk - Implies that the controls are either inadequate (poor design) or ineffective (poor implementation). Controls require some redesign, or a more emphasis on proper implementation.
1 - 9	Low	Mostly acceptable level of residual risk - Requires minimal control improvements.

Previous Council Approval

Council	28 March 2023	CR/149/03/23

CR/149/03/23	A	PORTFOLIO: ADMIN AND GOVERNANCE. DATE: 07/03/2023 ITEM:1 PAGE:14 REF:	MAYORAL COMMITTEE DATE: 22/03/2023 ITEM: 7.14 PAGE: 370-405	COUNCIL DATE:28/03/2023 ITEM:12 PAGE:386 - 421

RISK MANAGEMENT FRAMEWORK

RESOLVED

1. That Council considers and approve the reviewed Risk Management Framework.