Thabatšhweu

HOUSING COMPANY (PTY) LTD

t/a POLOKWANE HOUSING ASSOCIATION

"A Promise Delivered"

RISK MANAGEMENT FRAMEWORK

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1. Introduction

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

The following factors require consideration when integrating ERM into organizational decision-making structures:

- Aligning risk management with objectives at all levels of the organization.
- Introducing risk management components into existing strategic planning and operational practices.
- Including risk management as part of employees' performance appraisals; and
- Continuously improving control and accountability systems and processes to consider risk management and its results.

The Enterprise Risk Management framework specifically addresses the structures, processes and standards implemented to manage risks on an enterprise-wide basis in a consistent manner. The framework further addresses the specific responsibilities and accountabilities for the Enterprise Risk Management process and the reporting of risks and incidences at various levels within Polokwane Housing Association.

This means that Polokwane Housing Association must ensure that the process of risk management receives special attention throughout the organization and that all levels of management know, understand, and comply with the Risk management framework document.

2. Definitions

Risk is defined as *"the uncertainty of an event occurring that could have an impact on achievement of objectives. Risk is measured in terms of consequences and likelihood"*

ERM deals with risks and opportunities affecting value creation or preservation and is defined as follows:

"*Enterprise Risk Management is a process, effected by Board, Executive Management and personnel, applied in framework setting and across the operations of the enterprise, 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**

MFMA

Section 62. (1)(c) of MFMA states that “The Accounting Officer of the entity is responsible for managing the financial administration of the entity and must for this purpose take all reasonable steps to ensure that the entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.”

King IV report on Corporate Governance

Principle 11 of the King IV state that “the governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objective. The above principle recommends practices to be considered by institutions on risk governance, Polokwane Housing Association adopted below practices as best Risk Governance practices to be incorporated in the municipal risk Management process.

RECOMMENDED PRACTICES

1. The governing body should assume responsibility for the governance of risk by setting the direction for how risk should be approached and addressed in the organisation. Risk governance should encompass both:
    a. The opportunities and associated risks to be considered when developing strategy; and
    b. The potential positive and negative effects of the same risks on the achievement of organisational objectives.
2. The governing body should treat risk as integral to the way it makes decisions and executes its duties.
3. The governing body should approve policy that articulates and gives effect to its set direction on risk.
4. The governing body should evaluate and agree the nature and extent of the risks that the organisation should be willing to take in pursuit of its strategic objectives. It should approve in particular:
    a. the organisation’s risk appetite, namely its propensity to take appropriate levels of risk; and
    b. the limit of the potential loss that the organisation has the capacity to tolerate.
5. The governing body should delegate to management the responsibility to implement and execute effective risk management.
6. The governing body should exercise ongoing oversight of risk management and, in particular, oversee that it results in the following:

a. An assessment of risks and opportunities emanating from the triple context in which the organisation operates and the capitals that the organisation uses and affects.

b. An assessment of the potential upside, or opportunity, presented by risks with potentially negative effects on achieving organisational objectives.

c. An assessment of the organisation's dependence on resources and relationships as represented by the various forms of capital.

d. The design and implementation of appropriate risk responses.

e. The establishment and implementation of business continuity arrangements that allow the organisation to operate under conditions of volatility, and to withstand and recover from acute shocks.

f. The integration and embedding of risk management in the business activities and culture of the organisation.

7. The governing body should consider the need to receive periodic independent assurance on the effectiveness of risk management.

8. The nature and extent of the risks and opportunities the organisation is willing to take should be disclosed without compromising sensitive information.

9. In addition, the following should be disclosed in relation to risk:

    a. An overview of the arrangements for governing and managing risk.

    b. Key areas of focus during the reporting period, including objectives, the key risks that the organisation faces, as well as undue, unexpected or unusual risks and risks taken outside of risk tolerance levels.

    c. Actions taken to monitor the effectiveness of risk management and how the outcomes were addressed.

    d. Planned areas of future focus.

4. Polokwane Housing Association Policy statement on Risk Management

Polokwane Housing Association is 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 Board has committed the organisation 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 Housing Association's Risk Management Framework. It is expected that all SBUs, operations and processes will be subject to the risk management framework.

The Board recognises that risk in Polokwane Housing Association is a complex and diverse concept, and that there are SBUs of the entity working at managing risk exposures. It is the intention that these 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 Housing Association'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 Housing Association 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 take 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. Objectives of Enterprise Risk Management Framework.

The objectives of this framework are to help management make informed choices which:

- Provide a level of assurance that current significant risks are effectively managed;
- Improve business performance by assisting and improving decision making and planning;
- Promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefit the entity is encouraged; and
- Provide a sound basis for integrated risk management and internal control as components of good corporate governance.
- Provide guidance for the Executive Authority, Chief Executive Officer, 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 Housing Association.

6. Benefits of Enterprise Risk Management

The benefits of ERM to Polokwane Housing Association encompass:

- **Aligning risk appetite and framework-**The Polokwane Housing Association Management will consider their risk appetite in evaluating strategic alternatives, setting related objectives and developing mechanisms to manage related risks.

- **Pursuing business objectives through transparent identification and management of acceptable risk** – There is a direct relationship between objectives, which are what an entity strives to achieve and the enterprise risk management components, which represent what is needed to achieve the objectives.

- **Enhancing risk response Decisions**-Enterprise Risk Management provides the basis for management to identify and select alternative risk responses –transfer the risk, tolerate, treat, or terminate.

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

- **Identifying and managing multiple and cross-enterprise risks-** Polokwane Housing Association faces a myriad of risks affecting different parts of the organization and ERM 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 realise opportunities.

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

- **Ensuring compliance with laws and regulations**- ERM contributes to effective reporting and monitoring of compliance with laws and regulations and assists with the limitation of damages to Polokwane Housing Association's reputation and associated consequences.

- **Increased probability of achieving objectives**- ERM helps management achieve Polokwane Housing Association'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 Housing Association's will fulfil its intentions/ commitments to stakeholders.

Every employee of Polokwane Housing Association's has a part to play in Enterprise Risk Management.

7. Corporate Governance Principles on risk management

Recommendations were made in Part 5.4 of the King IV Report on Governance Principles for South Africa in related to Risk Management: **(Appendix D)**

8. Enterprise Risk management standards

The standards constitute the main tasks of ERM process. These standards are non-negotiable.

The standards should be read in conjunction with section 9 (ERM guidelines)

Ref	Standard	Responsibility	Frequency
Oversight Responsibilities			
01	The Risk Management Committee will review risk management progress at least quarterly	Committee Chairperson	Quarterly
02	The Executive Management Committee will review risk management progress at least quarterly.	CEO	Quarterly
03	Risk Management should be a standing agenda item for all meeting of Executive Management.	CEO	Quarterly
Reporting Responsibilities			
04	The Executive Management Committee will submit reports to the Risk Management Committee. These reports will focus on the following: • The strategic risks; • Progress with implementing corrective actions; • Any new and emerging risks, risk developments, including incidents.	All Managers	Quarterly
05	The Polokwane Housing Association Risk Management Committee will include statements regarding risk management performance in the annual report to stakeholders	Risk Management Committee Chairperson	Annually
06	Risk Officer will be responsible for developing standard risk management reporting templates, and collate risk management information for submission at all levels	Risk Officer	As scheduled
Risk Assessment responsibilities			
07	Risk Officer will ensure a complete review of operational risks of business units is done at least once a year.	Risk Officer	Annually
08	All SBU will review risk registers at their Management meetings and update the register's contents to reflect any changes without formally reassessing the risks	All	As scheduled
19	Risk Officer will be responsible for the facilitation of all risk assessments, and populating the risk registers	Risk Officer	As scheduled
Project Risk assessment			
11	Standard risk plan should be developed which highlights the potential risks and action to be taken to mitigation the risks for critical Entity projects.	Project Manager assisted by the Risk Officer	As and when

Ref	Standard	Responsibility	Frequency
Risk mitigating responsibilities			
12	The Risk Management Committee will report to the Audit and Performance Audit Committee regarding the performance of internal controls for those risks in the risk registers	Risk Officer	Quarterly
13	All SBUs will report to the Risk Management Committee regarding the performance of internal controls for the risks in the operational risk registers	All Managers	Quarterly
14	All risk registers will contain action plans for improving risk controls and risk interventions. Each committee will review progress made with these action plans	All Managers and Risk Officer	As scheduled
Governance responsibilities			
15	Each key risk will have a nominated risk owner, who will be responsible for the following: • Updating the risk information. • Providing assurance regarding the risk's controls. • Co-ordinate the implementation of action plans for the risk; and • Reporting on any developments regarding the risk.	CEO and Managers	As scheduled
16	The internal audit function will use the outputs of risk assessment to compile its strategic 3year rolling and annual internal audit coverage plan and will evaluate the effectiveness of risk controls.	Manager: Internal Audit	Annually
17	The Manager: Internal Audit will facilitate a review of the effectiveness of the of the entity risk management process.	Manager: Internal Audit	Annually
18	The Fraud Risk Management Plan should be implemented and monitored. .	Risk Officer	Quarterly
19	Fraud incidents should be reported to the Audit and Performance Committee	Risk Officer	Quarterly
20	Determine the process to evaluate the effectiveness of risk management committee value add in the Entity and generate report with the outcome of the evaluation.	Risk Officer	Annually
21	Determine the process to evaluate the effectiveness of Chief Risk Officer value add in the Entity and generate report with the outcome of the evaluation.	Risk Officer	Annually

9. Enterprise Risk Management Guidelines

The Enterprise Risk Management framework ensures that all keys are identified, measured and managed. The framework provides management with proven risk management tools that support their decision-making responsibilities and processes, while managing risks which impact on the attainment of the entity s objectives.

Polokwane Housing Association has determined that risk management is everyone's responsibility and that it must be embedded into the everyday activities on the entity. 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.

9.1. Roles, responsibility and Governance

- All employees Polokwane Housing Association have some responsibility for Enterprise Risk Management.
- The Chief Executive Officer is ultimately responsible for Enterprise Risk Management and should assume overall ownership.
- The Chief Executive Officer and managers support the risk management philosophy, promote compliance with the risk appetite and manage risks within their spheres of responsibility consistent with risk tolerances.
- Other personnel are responsible for executing Enterprise Risk Management in accordance with established directives and protocols.
- The Risk Management Committee provides important Enterprise Risk Management oversight.
- A number of external stakeholders often provide information useful in effecting Enterprise Risk Management, but they are not responsible for the effectiveness of Enterprise Risk Management.

9.1.1. Risk Management Committee

The Risk Management Committee is responsible for the oversight of:

- The total process of risk management, which includes a related system of internal control;
- For forming its own opinion on the effectiveness of the risk management process;
- Providing monitoring, guidance and direction in respect of Enterprise Risk Management;
- Ascertaining the status of enterprise risk management and providing oversight with regards to Enterprise Risk Management.
- Identifying and fully appreciating the risk issues and key risk indicators affecting the ability of the municipality to achieve its objectives;
- Ensuring that appropriate systems are implemented to manage the identified risks, by measuring the risks in terms of impact and probability, together with proactively managing the mitigating actions to ensure that SPM's assets and reputation are suitably protected;

- Considering input from the internal auditors, external auditors and subject matter specialists regarding Enterprise Risk Management;
- Disclosing in the annual report matters regarding Enterprise Risk Management;

Each member of the Risk Management Committee must understand his/her accountability for enterprise risk management within Entity.

The Risk Management Committee will be governed by the Risk Management Committee Charter approved by the Board.

9.1.2. Board

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

- Ensuring that the entity strategies are aligned to its government mandate;
- Obtaining assurance from management that the entity's strategic choices were based on rigorous assessment of risk;
- Obtaining assurance that key risks inherent in the entity's strategies were identified and assessed, and are being properly managed;
- Assisting the Chief Executive Officer to deal with fiscal, intergovernmental, political and other risks beyond their direct control and influence;
- Oversight over the municipal's portfolio view of risks and considers it against the entity's risk tolerance;
- Approve the risk management delegations prepared by the Chief Executive Officer;
- Approving the entity's risk appetite and risk tolerance.

9.1.3. The Chief Executive Officer

The Chief Executive Officer responsibilities include ensuring that all components of enterprise risk management are in place. The Chief Executive Officer fulfils this duty by:

- Setting the tone at the top by supporting ERM and allocating resources towards the implementation thereof;
- Establishing the necessary structures and reporting lines within the Entity to support ERM;
- Approving the risk management framework, risk management policy, risk management implementation plan.
- Influencing an entity "risk aware" culture;
- Place the key risks at the forefront of the management agenda and devote personal attention to overseeing their effective management;
- Hold management accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities;
- Ensuring that a conducive control environment exists to ensure that identified risks are proactively managed;

- Leverage the Audit Committee, Internal Audit, Risk Management Committee and other appropriate structures for assurance on the effectiveness of risk management;
- Provide all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored;
- 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;
- Provide appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management.

9.1.4. Executive Management Team

Management is accountable to the Chief Executive Officer for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of Polokwane Housing Association.

The Chief Executive Officer is responsible for appointing a Risk Officer to assist management in discharging its responsibilities. More specifically management is responsible for:

- Executing their responsibilities as set out in the risk management framework;
- Empowering officials to perform effectively in their risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- Aligning the functional risk management methodologies and processes with the entity process;
- Devoting personal attention to overseeing the management of key risks within their area of responsibility;
- Maintaining a co-operative relationship with the Risk Management Unit Providing risk management reports;
- Presenting to the Risk Management Committees as requested;
- Monitoring risk management within their area of responsibility;
- Holding officials accountable for their specific risk management responsibilities.
- Maintaining the functional risk profile within the entity risk tolerance (ability to tolerate) and appetite (risk that it is willing to take);
- Implementing the directives of the Chief Executive Officer concerning risk management;
- Prioritizing and ranking risks in their area of responsibility to focus responses and interventions on risks outside the entity's tolerance levels;
- Benchmarking risk and risk mitigation activities;
- Assessing the effectiveness of risk management within area of responsibility; and
- Developing and implementing a fraud risk response plan.

9.1.6. Risk Officer

The role of the Risk Officer is to develop, communicate, coordinate and monitor the enterprise/municipal-wide risk management activities within Polokwane Housing Association.

Although management may appoint a Risk Officer to assist in the execution of the risk management process, the accountability to Board and Chief Executive Officer 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 Housing Association.

The following are the responsibilities of the Risk Officer:

- Assists the Risk Management Committee to fulfil its responsibilities in terms of its charter.
- Communicate with the Risk Management Committee regarding the status of enterprise-wide risk management.
- Takes overall responsibility for the common risk management framework and coordinate the risk management activities across the entity.
- Proposes on a methodology and framework for ERM for approval by the Board.
- Undertakes a gap analysis of the entity's ERM process.
- Performs reviews of the risk management process to improve the existing process.
- Facilitates quarterly risk management assessments and risk assessments for all major changes and incidents, such as accidents, purchases of capital equipment, restructuring of operational processes etc.
- Develops systems to facilitate risk monitoring and risk improvement.
- Ensures that all risk categories are included in the risk assessment.
- Aligns the risk identification process with the municipality's strategic objectives and integrated development plan.
- Agrees on a system of risk quantification.
- Compiles a consolidated risk register on a quarterly basis.
- Provides input into the reviewing of the occupational health, safety and environmental policies and practices.
- Creates mechanisms for identifying nodes of change.
- Consolidates all information pertaining to all risks related functions, processes, and activities.
- Transfers the knowledge in respect of an effective and sustainable process of risk identification, quantification, and monitoring to management.
- Records the decisions regarding mitigation for every risk facing the municipality in the risk register.
- Liaises closely with the Internal audit function to devise a risk auditing programme, based on the information reflected in the risk registers.
- Benchmarks the performance of the risk management process to the risk management processes adopted by other entities both locally and abroad.
- Implements a formalised risk information system.
- Ensures that risk management training is conducted at appropriate levels within the municipality to inculcate a risk management culture;

- Communicates the risk management framework to all management levels and to employees; and
- Ensures that the necessary risk management documentation is developed in respect of the risk management process.

9.1.7. Internal Audit

Responsibilities of Internal Audit in risk management include:

- Providing assurance that the risk management culture in the entity is an appropriate one.
- Providing assurance that the risk register is an appropriate reflection of the risks facing the entity.
- Providing assurance that risk management is carried out in a manner that benefits the entity; and
- Providing assurance that the risk management framework, risk management implementation plan and Fraud Risk Management Plan have been effectively implemented within the entity.

9.2. Risk appetite

Risk appetite is defined as the extent of willingness to take risks in the pursuit of the entity objectives

Polokwane Housing Association may consider risk appetite qualitatively, with such categories as high, moderate or low, or they may take a quantitative approach, reflecting and balancing goals for capital expenditure, budgets and risk.

Management considers its risk appetite as it aligns its resources and designs infrastructure necessary to effectively respond to and monitor risks.

Risk appetite:

- Enables an improved consistency of decision making at all levels through improving risk understanding.
- Provides a framework for knowingly taking risk within defined boundaries.
- Improves the ability of the Audit & Performance Audit Committee to challenge recommendations of management by providing a benchmark of what level of risk is defined as acceptable; and
- Derives real value from the assessment of risk over and above compliance purposes.
- The risk appetite decided upon should be formally considered as part of the setting of business framework, with capital expenditure and other strategic decisions reviewed against it as they arise.

The key determinants of risk appetite are as follows:

- Expected performance.
- The resources needed to support risk taking.
- The culture of Polokwane Housing Association

- Management experience along with risk and control management skills.
- Longer term strategic priorities.

The formulation of the risk appetite is typically closely aligned to the strategic planning process and is also inclusive of budgeting, and as such is something that should be reviewed by management annually.

9.3 Risk Assessments

Once a year, Polokwane Housing Association will undertake a thorough reassessment of its risks at all levels using the following methodology.

A risk assessment is the process by which the risks to be managed in an organisation are identified. Comprehensive identification using a well-structured systematic process is critical because risks not identified are never further analysed and potentially are not managed.

There are many different processes and methodologies in use by which risks can be identified i.e., risk workshops, interviews, questionnaires and surveys, research, control and risk assessments.

At a minimum a risk assessment should result in:

- Identification of relevant risks towards the achievement of objectives; and
- The prioritisation of risks, which often necessitates estimating the timing, magnitude and probability of risk occurrence.

The first part of carrying out a structured risk assessment is to profile the key building blocks of the entity. This will highlight dependencies, critical parts of the business and start to pinpoint vulnerabilities.

9.3.1. Profile the Entity context

The risk assessment process begins with the profiling of the entity's context. The outputs of this task must be documented and should include amongst others:

- Business environment;
- Total size of the core/ support services;
- Key players;
- Key suppliers; and
- Market's driving forces.

The next part of the risk assessment process is to identify threats and risks to all of the elements of the entity's model, profiled below. This can be done using the following processes:

9.3.2 Identify potential sources of risk associated with the entity's profile

Having established the entity's profile, the risk assessment process must then identify the potential sources of risk associated with each element of it. The Entity will follow the top-down approach. Risk is apparent in potential sudden and unforeseen events, in variances, volatility and failure.

Risk will be apparent in non-linear change, weakness and non-performance. Risk will also be reflected in dimensions of non-conformance. Sources of risk will be classified into external and internal factors. The risk assessment process must select a time period within which risks will be considered, but projecting 18 months into the future is recommended for most key risks. The process must have a future orientation as well as examining the facts of today's business profile.

9.3.3. Assess the impact of risk across the Entity

Risks do not normally exist in isolation. They usually have a potential knock-on effect on other functions, processes and risk categories. These cause-and effect relationships must be identified and understood. This principle must become a deliberate and formal part of the risk assessment process. The results of the process must be documented. The aggregate effects of these risk groupings and linkages should be profiled. Many cross-functional effects of risk may not be immediately apparent without deliberate and systematic analysis, so a formal approach is required.

9.3.4. Identify any influencing factors that may contribute to or shape the risk profile

Having identified a key risk exposure (e.g. increasing competition, lack of funding) the risk assessment must identify the factors that influence and shape the risk (e.g. barriers to entry). Every key risk will have influencing factors or variables. Such factors may relate to inherent risk dynamics such as aggregation, accumulation and correlation. Others may relate to timing and cyclical factors.

Other influences will be reflected in volatility, dependencies and criticality. The degree of diversification and spread of value may shape the risk profile. All influencing factors must be documented as part of the process.

9.3.5 Evaluate recent and imminent internal changes as possible sources of risk

Recent changes in the Entity may be a source of present risk (e.g. restructuring process). Equally, imminent change may alter the risk profile. The nature of the changes may relate to the launch of programmes or services. Mergers and acquisitions are other potential sources of risk.

9.3.6. Identify external changes and identify associated risks

Risk assessment processes must not only focus on existing dynamics prevailing in the entity. Near-future changes must also be included in the process. Time horizons should be determined for this. Anticipated changes that are self-generating will be easily identifiable, such as investments, capital projects or launching of new capital projects. Their associated risks must be assessed as part of the risk framework.

9.3.7 Identify the potential root causes of risk events

Exposures could indicate the potential for risks materialising. Perils or t riggers cause actual events. Such triggers or events must be identified and documented. The purpose of identifying potential root causes is to give direction to risk intervention measures. This process of identifying root causes of events may be left until after the first round of risk assessments has been completed.

9.3.8. Identify the key controls currently implemented for the identified risks

The existing controls implemented for identified risks must be documented. The term “control” should not be construed only as a financial term. It is now the commonly accepted term to describe any mitigating measure for any particular type of risk. Controls may take the form of financial mitigations such as hedges, insurance or securities.

They may be managerial in nature such as compliance procedures, policies and of authority. Controls may be strategic in nature such as diversification related. Controls could also be legal such as contracts and indemnities.

9.3.9. Identifying the perceived shortcomings in current measures to mitigate the impact of risks

Management must embark upon a process to evaluate the appropriateness of current controls. The levels of risk appetite and limits of risk tolerance will provide the framework to gauge these. Executive observation and judgement is often sufficient to identify shortcomings in control measures, and the level of desired control effectiveness can be expressed.

Operational and technical risks lend themselves more to a more rigorous process of evaluating control effectiveness. Management must consider all categories of mitigation in this process.

Results must be recorded in the relevant risk registers.

9.3.10. Calculate the probability of risk events (Pre-control)

This is the probability that the identified risk/ threat will occur within a specified period of time (between 1 and 3 years) on the basis that management have no specific/ focused controls in place to address the risk/ threat. The probability of occurrence must be assessed for every identified risk.

Different methods of calculating probability can be considered dependent upon the nature of the risk, but the attached tables should be considered in the risk assessment protocol. **(Appendix B)**. Please refer to the attached table to guide your risk calculations.

A realistic evaluation of risk probability is essential, because it guides the allocation of the resources in Polokwane Housing Association. When deciding upon a probability factor from the table, the following guidelines should be considered:

- Consider how many similar incidents have occurred in the municipality; and
- Consider the effectiveness of the existing preventative controls for the risk.

9.3.11. Calculate the potential impact of the identified risk scenarios (Pre-control)

This is the potential magnitude of the impact on Polokwane Housing Association operations should the risk/ threat actually occur. This is assessed on the basis that management has no specific/ focused controls in place to address the risk/ threat (therefore before any controls).

The consequences of risk are not only characterized in financial terms. Management must consider the various scales of impact that are relevant according to the prevalent categories of risk. These may include the scales for reputation damage, personal injuries and fatalities, media coverage, and operational impact.

From a strategic viewpoint, management should determine the scale of potential impact upon defined objectives of the framework. Scales of financial impact are invariably the most common form of risk quantification and must be reflected using the same scales as financial reporting expectations.

Please refer to the attached table to guide your risk calculations (Appendix A)

9.3.12. Rank the risks in order of priority (Inherent risk)

Inherent risk is the risk to Polokwane Housing Association in the absence of any actions management might take to alter either the risk’s likelihood or impact. Inherent risk is the product of the impact of a risk and the probability of that risk occurring before the implementation of any direct controls. The score for inherent risk assists management and internal audit alike to establish relativity between all the risks/ threats identified.

The ranking of risks in terms of inherent 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 business objectives.

9.3.13 Consider perceived control effectiveness

Controls are the management activities/ policies/ procedures/ processes/ functions/ physical controls that the Board, Chief Executive Officer and

Management have in place, rely upon, to manage the strategic and significant risks. These actions may reduce the likelihood of occurrence of a potential risk, the impact of such a risk, or both. When selecting control activities management needs to consider how control activities are related to one another.

Management then needs to access the control effectiveness based on their understanding of the control environment currently in place at Polokwane Housing Association. At this stage of the process, the controls are un-audited, and rated according to management's interpretation of control effectiveness.

Please refer to the attached table to guide your risk calculations **(Appendix A)**

9.3.14 Calculate residual risk status

Residual risk reflects the risk remaining after management's intended actions to mitigate an inherent risk have been effectively implemented. Risks are now ranked, taking into consideration the inherent risk rating, and the control effectiveness rating. The ranking of risks in terms of net potential effect provides management with some perspective of priorities, and should assist in the allocation of capital and resources in Polokwane Housing Association.

Please refer to the attached table to guide your risk calculation. **(Appendix A)**

9.4 Control requirements

Every risk will have a number of controls, mitigations or interventions that have been designed to contain the potential impact or likelihood of the risk. These controls need to be identified and evaluated. They will form the basis of an assurance plan to the Board and Chief Audit Executive, and may be tested by the internal audit process or other independent means of evaluation.

The following aspects of the control environment should be considered:

9.4.1. Verify and evaluate the controls currently in place for key risks

It is vital that all of the existing controls for identified risks are in turn identified and evaluated. Such controls may take the form of policies, procedures, management activities and instructions. The controls must be evaluated in two essential ways:

Firstly, an evaluation of the appropriateness and adequacy of the existing controls for the risk must be undertaken.

Secondly, the performance of the existing controls must be evaluated.

Desired levels of control effectiveness must be determined. The gap between existing control effectiveness and desired effectiveness must result in an action plan.

9.4.2 Evaluate the strategic mitigations in place for key risks

A specific review of Polokwane Housing Association strategic position in the context of risk must be carried out. The entity`s ability to liquidate its positions must be assessed. The degree of strategic flexibility in response to a risk event must be considered.

The robustness of the framework in the context of the risk assessment findings must be evaluated. Likely strategic responses to risk and their performance are aspects that must be fully understood. This process may require separate processes of scenario planning around strategic intent.

9.4.3 Identify and evaluate the post-event measures in place for response to risk

The ability of Polokwane Housing Association to respond to a risk event must be evaluated in detail, and the results recorded as a control in the risk register. Post-event measures include crisis management capabilities, emergency planning, business continuity plans and contingency planning. These responses should incorporate planned measures that cover the basic types of managerial responses, such as finance, people, technology and customers.

The criteria for performance will include speed of response, comprehensiveness of response and degree of readiness.

9.4.4 Review the financial risk protection measures in place to respond to the consequences of risk events

Polokwane Housing Association’s risk finance measures include an insurance portfolio, self-insurance policies and funds, financial provisions, and operating budgets for the funding of losses or variances. Management must compare the results of risk assessment processes with the current risk finance arrangements.

This will highlight the net financial effect of risk events upon the entity. It will also influence the decisions relating to the structure of risk finance. Certain risks may be deemed intolerable and may require a self-insurance facility or provision to manage the risk. Low risks may lead to greater risk retention limits.

9.4.5 Verify the levels of compliance with regulatory requirements

Adherence to legislation and regulatory framework is not negotiable. It is essential that risk-related requirements are incorporated into control frameworks. Relevant requirements must be verified. It is the responsibility of management to build compliance processes around these requirements. Any material breaches must be reported as deemed appropriate through the structures of reporting developed for this.

Having ascertained the suitability, appropriateness and effectiveness of risk controls, management will decide upon further action plans for actual and possible risks:

9.4.6 Take decisions on the acceptability of identified risks and controls.

A distinct and conscious process of decision-making for each key risk must be made taking into consideration the risk tolerance levels of the entity. The decisions made for every key risk must be recorded. Decision options include the possibility to tolerate/ accept, treat/ reduce, transfer/ share or terminate/ avoid risks. The potential impact upon strategic and operational objectives will influence the outcomes of decision-making processes.

When taking a decision care should be taken when taking any action that could result in serious injury or fatality;

- Result in significant harm to the environment;
- Impact on the reputation of Polokwane Housing Association;
- Impact on the performance of the entity;
- Result in a fine by regulatory authorities; or
- Undermine the independence and objective review of activities.

Possible prohibited risk areas include the following:

- Changes that could result in regulatory breach;
- Fraud and corruption;
- Theft of the entity property; and
- Access to the property by unauthorised personnel

Any of the above would constitute an unacceptable risk.

9.4.7 Document your action plans for risk mitigation

The action plans for improving or changing risk mitigation measures must be documented in the risk registers. It is important that a process of tracking progress made with risk interventions is followed. Such a process provides a trail of information that may prove to be necessary at some future stage. Good governance practices would expect this. Because risk is often a process of perception, misunderstandings can arise where no record is kept.

The action plans must be unambiguous and provide target dates and names of responsible persons. A process of follow-through must be used.

9.4.8 Use the outputs of risk assessments for budgeting and capital allocation processes.

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.

9.4.9. The process for evaluating effectiveness of Risk Management Committee

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

Polokwane Housing Association 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 Housing Association will utilise the Financial Management Maturity Capability Model developed by the National Treasury to evaluate their current and progressive risk management maturity. The Entity will complete the questioner on an annual basis and the results will utilised to identified areas of improvement.

9.4.10 The Municipality may evaluate the effectiveness of risk management committee utilising below methods:

- Assessment of the results of the Risk Management Committee's own 360-degree assessment as per the Risk Management Committee Charter.
- The pace and quality of the implementation of the risk management implementation plan
- Internal Audit report on the state of risk management
- Auditor-General's report on the effectiveness of the Risk Management Committee.
- Conducting internal risk Culture survey questions by collecting responses from employees regarding their view on risk management within the municipality

9.4.11. The process for evaluating Chief Risk Officer

The Risk Management Committee, will evaluate the performance of the Chief Risk Officer through the following:

- The Development and implementation of the risk management policy, strategy and implementation plan.
- The Institution's collective awareness, skill and participation in risk management.
- Risk management maturity.
- Quality and timeliness of support to Management, other officials and the Risk Management Committee.

10. Review and updating the Risk Management Framework

The risk management framework will be reviewed every 2 years or as and when required to incorporate changes in the legislative framework within Local Government.

Appendix A Rating Tables

Impact

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

Control Effectiveness Rating

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

Control Effectiveness

% of effective controls	Control Effectiveness	Definition
80%<100%	Good	Risk exposure is effectively controlled and managed
60%<79%	Satisfactory	Risk exposure is managed but there is room for some improvement
0%<59%	Weak	Some of the risk exposure appears to be controlled, but there are major deficiencies

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. Entity is 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.

Appendix B Risk Categories

Risk categories include amongst others:

- Services
- Marketing
- Competition
- Political
- Social
- Economy
- Financial stability
- Regulatory/Statutory/ Legal
- Fraud and Theft
- Human Resources
- Operational
- Technical and technological
- Information Technology
- Business Continuity Plans
- Change Management/ Organisational
- Information Integrity and Reliability
- Physical Risk
- External Environment
- Health/ AIDS
- Safety

Appendix C Frequently used Terminology

Terminology	Definition of Terminology
Risk	Risks are uncertainty of an events (threats and opportunities) occurring that have a negative impact that could influence the achievement of the goals and objectives of Polokwane Housing Association.
Risk Management	Risk Management is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, undertaking, acting on and communicating risk issues and opportunities.
Risk Assessment	The overall process of identifying, analysing and evaluating risk. The risk assessment process should consider risks that are significant to the achievement of Polokwane Housing Association risk objectives. This is a continuous process, requiring regular reviews, as and when internal and external changes influence the Entity's strategies and objectives.
Enterprise Risk Management. (ERM)	With reference to the highly accepted COSO framework (The Committee of Sponsoring Organizations of the Tread way Commission):"*Enterprise risk management is a continuous, proactive and systematic process, effected by the Board of Directors, Executive Management and other personnel, applied in framework setting and across the enterprise, designed to identify potential events that may affect the entity, and* manage *risk to be*

	within its risk appetite, to provide reasonable assurance regarding the achievement of entity's objectives." Enterprise Risk Management is a structured and consistent approach across Polokwane Housing Association that aligns framework, processes, people, technology and knowledge with the purpose of evaluating and managing the risks (threats and opportunities) that the municipality faces to create stakeholder value. Or Choices made under conditions of uncertainty, bound by acceptable levels of risk, designed to sustain/ maximise stakeholder value.
Inherent Risk	The exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors (Worse case scenario)
Residual Risk	The remaining risk exposure after the mitigating effects of deliberate management intervention(s) to control such risk exposure.
Risk Mitigation	The process of selecting and implementing measures to modify risk (encompasses risk avoidance, risk reduction, risk retention and risk transfer).
Risk Categories	Grouping of risks with similar characteristics used in establishing the client risk portfolio (see risk profile). Ultimately determined by the client, the characteristics used to define risk categories typically reflect the client's business model, industry or other factor that drives risk within Polokwane Housing Association.
Risk Tolerance	The level of risk exposure the entity is willing to bear.
MFMA	Municipal Finance Management Act (No. 56 of 2003).
King Report IV	King IV™ reinforces the notion that good corporate governance is a holistic and interrelated set of arrangements to be understood and implemented in an integrated manner-The Code™ differentiates between principles and practices. Principles are achieved by mindful consideration and application of the recommended practices.
Chief Executive Officer	Polokwane Housing Association- Chief Executive Officer.
Risk Management Committee	Role fulfilled by the Executive Management Team (EMT).The committee responsible for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of Polokwane Housing Association.
Risk Owner	The person accountable for managing a particular risk.
Risk Profile	Identification and listing of risks, typically in order of highest to lowest based on a qualitative or quantitative measurement approved by client management.
Risk Framework	The approach adopted for associating and managing risks based on the objectives and strategies of Polokwane Housing Association
Risk Appetite	The extent of willingness to take risks in the pursuit of the business objectives.
Key Performance Indicators (KPIs)	Key Performance Indicators (KPIs) are quantitative measurements, both financial and non-financial, of the process's ability to meet its objectives and of the process's performance. They are usually analyzed through trend analyses within an entity or through

	benchmarking against a peer Polokwane Housing Association.
Process	Structured set of activities within an entity, designed to produce a specified output for the Polokwane Housing Association.
Impact	Impact refers to long-term change**.** This is the magnitude of the impact on Polokwane Housing Association should the risk actually materialise.
Probability	This is the likelihood that the risk will materialise.
Hazard	The source of or exposure to danger.
Incident	An undesired event as a result of a risk behaviour, or high-risk conditions, without resulting in loss, but has the potential for losses
Accident	Undesired event as a result of a risk behaviour or high risk conditions resulting in personal injury, property damage and or service delivery interruption.

Previous Approval

Risk Management Committee	07 October 2019
Audit Committee	16 October 2019

Review Approval

Risk Management Committee	13 April 2023
Audit Committee	04 May 2023