RISK MANAGEMENT POLICY AND FRAMEWORK

Council Resolution Number	Approved Date
Ordinary Council Meeting	28 May 2026
Effective Date: 1 July 2026	Review Date: Annually and or as and when required

Date: _____

Speaker of Council

Cllr Ms. N. Mlahleki

Name of policy	
Policy Number	
Policy Name	Risk Management Policy Framework
Policy Status	Active
Version	V3
Date of Approval	
Date of First Implementation	
Date Last Amended	30 May 2024
Date of Next Review	
Purpose	• To guide describe ALM risk management philosophy, approach and processes • To guide management on how to implement the risk management process in a uniform manner across the municipality
Aims and Objectives	• Integration of risk management into organisational culture and strategic planning processes • Ensure that the framework for identifying, evaluating, controlling, reviewing, reporting and communicating risks across the municipality is implemented and understood by all relevant stakeholders • Communication of risk management processes and approach to

	stakeholders. • Co-ordination of risk management activities across the municipality. • Ensure consistency throughout the Council when it comes to the management of risk.
Policy Custodian	Risk & Compliance Management Unit
Related Policies and Legislation	Constitution, MFMA, Public Service Regulations, Local Government Risk Management Framework, National Treasury Risk Management Framework
Approving Authority	Council
Applicability	Amahlathi Local Municipality
Policy Benchmark and References	
Stakeholders Consulted	

TABLE OF CONTENTS

ABBREVIATIONS 5

1. DEFINITIONS 6
2. PREAMBLE / INTRODUCTION 9
3. POLICY STATEMENT 10
4 REGULATORY FRAMEWORK 12
5. POLICY PRINCIPLE 14
6. PRINCIPLES OF ENTERPRISE RISK MANAGEMENT 15
7. SCOPE OF APPLICATION 16
8. ROLES AND RESPONSIBILITIES 18
9. BUSINESS STRATEGY AND RISK 20
10. RISK APPETITE AND TOLERANCE 21
11. RISK MANAGEMENT STRATEGY 35
12. PERFORMANCE AND EVALUATION OF RISK MANAGEMENT 43
13. ESTABLISH THE PROCESS OF ONGOING RISK MANAGEMENT 43
14. ADMINISTRATION 43

ANNEXURE: RISK MEASUREMENT AND TREATMENT DECISIONS 44

15. MONITORING AND EVALUATION OF THE RISK MANAGEMENT POLICY 49
16. POLICY REVIEW 49
17. DEVIATION FROM THE POLICY 49
18. DISPUTE RESOLUTION 50
19. ADOPTION AND APPROVAL OF THE POLICY 51

ABBREVIATIONS

ALM	Amahlathi Local Municipality
KPI	Key Performance Indicators
MFMA	Municipal Finance Management Act
COSO	Committee of Sponsoring Organizations
MM	Municipal Manager
ERM	Enterprise Risk Management
RM	Risk Management
OIP	Operational Implementation Plan
SOP	Standard Operating Procedures
MSA	Municipal Systems Act
OHS	Occupational Health and Safety
SMART	Specific, Measurable, Achievable, Realistic & Time bound
MANCO	Management Committee
EXCO	Executive Committee

1. DEFINITIONS

BASIC TERMS	DEFINITON
Risk	Risk is a condition in which the possibility of loss exists
COSO	Committee of the Sponsoring Organizations
Impact or Severity	Outcome of an event
Probability	Extent to which the event is likely to occur
Event	Occurrence of a particular set of circumstances
Cause	Item or activity having a potential for a consequence
Council	Refers to the council of the Amahlathi Local Municipality as established in terms of section 18 of the Local Government: Municipal Structures Act 117 of 1998.
Risk Management	Set of elements of an organization's management system concerned with managing risk
Risk Assessment	Overall process of risk analysis and risk evaluation in order to identify potential opportunities or minimize loss.
Risk Analysis	Systematic use of information to identify sources and to estimate the risk
Risk Identification	Process to find, list and characterize elements of risk
Risk Evaluation	Process of comparing the estimated risk against given risk criteria to determine the significance of the risk
Risk Control	Actions taken to reduce the probability of negative consequences or both, associated with a risk.

BASIC TERMS	DEFINITON
Mitigation	Limitation of any negative consequence of a particular event
Risk Treatment	Process of selection and implementation of measures to modify risk
Risk Avoidance	Decision not to become involved in, or action to withdraw from, a risk situation
Risk Transfer	Sharing with another party the burden of loss or benefit of gain, for a risk
Risk Acceptance	Decision to accept a risk
Residual Risk	The level of Risk remaining after risk treatment
Inherent Risk	The risk to an organization in the absence of any management might take to alter either the risk probability or impact
Risk Register	A formal listing of risks identified, together with the results of the risk analysis, risk evaluation procedures together with details of risk treatment, risk control, risk reduction plans.
Chief Risk Officer (CRO)	An official of the Municipality who has no *other* responsibilities except for advising on, formulating, overseeing and managing all aspects of an organization's risk management system and monitors the organization's entire risk profile, ensuring that major risks are identified and reported upwards. The CRO provides and maintains the risk management infrastructure to assist the Council in fulfilling its responsibilities.
Risk Champions	The risk champions assist the CRO in the fulfilment of his/her duties. These persons can be in line management in the departments but have an alternative reporting line to the CRO or

BASIC TERMS	DEFINITON
	report directly to the CRO.
Stakeholder	Any individual, group or organization that can affect, be affected by, or perceive itself to be affected by a risk
Risk Matrix	The numbers of levels of probability and consequences chosen against which to measure risk.
Risk Profile	The Municipality has an inherent and residual risk profile. These are all the risks faced by the Municipality, ranked according to a risk matrix and indicated graphically on a matrix. The Risk Score is determined by multiplying the frequency and severity of the risk.
Risk Appetite	The level of residual risk that the organization is prepared to accept without further mitigation action being put in place, or the amount of risk an organization is willing to accept in pursuit of value.

2. PREAMBLE / INTRODUCTION

2.1 Amahlathi Local Municipality is committed to achieving its strategic objectives, delivering sustainable services, and promoting good governance in accordance with applicable legislation, including the Municipal Finance Management Act (MFMA), the Municipal Systems Act, and other relevant regulatory frameworks.

2.2 In pursuit of these objectives, the Municipality recognises that risk management is an integral part of effective management and decision-making processes. It acknowledges that risks, if not properly identified, assessed, and managed, may hinder service delivery, compromise financial sustainability, and negatively impact the Municipality's reputation and accountability.

2.3 This Risk Management Policy establishes a structured and systematic approach to identifying, evaluating, mitigating, and monitoring risks across all levels of the Municipality. It seeks to embed a risk-aware culture that promotes proactive management of both strategic and operational risks, while enhancing opportunities for improved performance and innovation.

2.4 The Municipality further commits to aligning its risk management practices with recognised standards such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and ISO 31000 Risk Management Standard, ensuring consistency, transparency, and accountability in managing risks.

2.5 Through this policy, Amahlathi Local Municipality aims to safeguard its assets, optimise resource utilisation, strengthen internal controls, and ensure compliance with applicable laws and regulations, thereby enhancing public trust and service delivery excellence.

3. POLICY STATEMENT

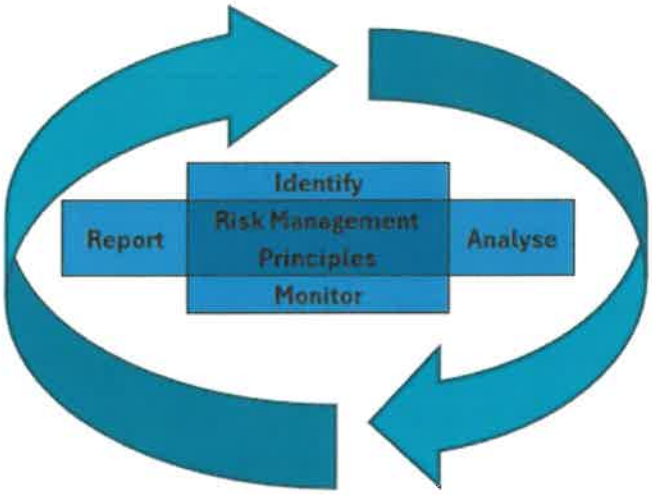
3.1 The council recognises the wide range of risks to which Amahlathi Local Municipality is exposed. At Amahlathi Local Municipality we are committed to the effective management of risk in order to achieve our goals and objectives, as well as converting risk into opportunities that create value for our stakeholders.

3.2 It is therefore a strategic objective to adopt a process of integrated risk management that will assist Amahlathi Local Municipality in meeting its key goals.

3.3 To achieve this risk policy statement, an integrated risk management programme must be implemented and is continuously reviewed in order to improve its adequacy and efficiency.

3.4 ALM is committed to a process of risk management that is aligned to the principles of good corporate governance as supported by the Municipal Finance Management Act no 56 of 2003, Public Sector Risk Management Framework, COSO Integrated Risk Management Framework and other various pieces of legislation applicable to local government.

3.5 ALM recognizes that the management of risks is an integral part of sound management and therefore adopts a comprehensive approach to the management of risk. The principles of this approach are outlined in the figure below.



3.6 This policy statement declares and affirms commitment to sound risk management. It is expected that all departments, operations, and processes will be subject to the risk management strategy. Departments will work together in a consistent and integrated manner with the overall objective of reducing risk to a tolerable level.

3.7 Effective risk management is imperative to the ALM to fulfil its mandate, the service delivery expectations of the public and the performance expectations of the Council. The realization of our strategies depends on us being able to take calculated risks in a way that does not jeopardize the direct interests of stakeholders. Sound Management of risk will enable us to anticipate and respond to changes on our service delivery environment (internal and external) as well as make informed decisions under conditions of uncertainty.

3.8 Commitment to ERM will ensure that:

a. All resources are applied economically and obtain the highest standards of service delivery.
b. Relevant risk policies are fully communicated to all employees and effectively integrated in their daily operations.
c. Modern technological innovations, i.e. risk management software's, are utilized to better implement and coordinate risk management within the ALM.
d. Significant risks that may impact ALM objectives are being continuously identified, assessed, managed, monitored, and reported on.
e. Regular monitoring and review the progress being made in developing an appropriate risk management culture.
f. Education and training of all Councils, management and staff is afforded to ensure continuous improvement in knowledge, skills and capabilities, which facilitate consistent conformance to the stakeholder's expectations.

4 REGULATORY FRAMEWORK

4.1 Constitution of the Republic of South Africa, Act 108 of 1996

Section 195 of the Constitution emphasises the values and principles underpinning public administration, which include the efficient, economic and effective use of resources in the public sector.

Planning is very important in clarifying the intentions of Government in the medium term; facilitating the allocation of budgets according to priorities; monitoring results and enforcing accountability in the whole of Government. Embedded within this planning framework is an internal control and risk management framework that serves to ensure that public service organisations achieve their outcomes. Risk management is undoubtedly one of the most important management tools during an era of public service reforms.

4.2 Public Service Regulations

In addition to the constitutional provisions, the National Treasury's Public Sector Risk Management Framework provides for the implementation of an enterprise risk management framework for the entire public service.

4.3 Local Government: Municipal Finance Management Act 56 of 2003 (MFMA)

The MFMA sets out the roles and responsibilities of the key stakeholders within the risk management process as follow:

4.3.1 Accounting Officer

Section 62(1)(c)(i) of the MFMA requires that:

"The accounting officer of a 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"

4.3.2 Audit Committee

Section 166 (2) of the MFMA states:

An audit committee is an independent advisory body which must advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and management staff of the municipal entity, on matters relating to risk management."

4.3.3 Management, Chief Risk Officer, Risk Specialists and Other Personnel

In terms of section 78 of MFMA – The extension of general responsibilities to all Senior Managers and other officials of municipalities implies that responsibility for risk management vests at all levels of management and personnel and is not limited to only to the Accounting Officer, and the Risk Management Unit.

4 .4 Treasury Regulations

Regulation 3.2.1 of the Treasury Regulation states the following:

The accounting officer must facilitate a risk assessment to determine the material risks to which the institution may be exposed and to evaluate the strategy for managing these risks. Such a strategy must include a fraud prevention plan. The strategy must be used to direct internal audit effort and priority, and to determine the skills required to manage these risks.

5. POLICY PRINCIPLE

The policy will enable the Municipality to effectively deal with uncertainty and associated risk and opportunity to enhance the capacity to build value. Enterprise risk management encompasses:

a. ***Aligning risk appetite and strategy*** – Management considers the Municipality's risk appetite in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks.
b. ***Enhancing risk response decisions*** – Enterprise risk management provides the rigor to identify and select among alternative risk responses – risk avoidance, reduction, sharing, and acceptance.
c. ***Reducing operational surprises and losses*** – The Municipality will gain enhanced capability to identify potential events and establish responses, reducing operational surprises and associated costs or losses.
d. ***Identifying and managing multiple and cross-enterprise risks*** – The Municipality faces a myriad of risks affecting different parts of the institution, and enterprise risk management facilitates effective responses to the interrelated impacts, and integrated responses to multiple risks.
e. ***Seizing opportunities*** – By considering a full range of potential events, management is positioned to identify and proactively realise opportunities.

f. ***Improving deployment of capital*** – Obtaining robust risk information allows management to effectively assess overall capital needs and enhance capital allocation.

These capabilities inherent in enterprise risk management will help the Municipality to achieve its performance and service delivery targets and prevent loss of resources. Enterprise risk management will ensure effective reporting and compliance with laws and regulations and help to avoid damage to the Municipality's reputation and associated consequences.

6. PRINCIPLES OF ENTERPRISE RISK MANAGEMENT

6.1 The principles contained in this policy will be applied at both strategic/organizational and operational levels of ALM. The policy will also consider both the internal and external risks and will include risks such as projects risks, interdepartmental risks, stakeholder risks etc.

6.2 Our positive approach to risk management means that we will not only look at the risk of things going wrong but also risks relating to not taking advantage of opportunities or not capitalizing on our inherent strengths as an entity.

6.3 All risks and risk management activities will be aligned to the ALM's values and principles, strategic, functional and operational objectives, processes and procedures underpinning the business environment of ALM. This implies that risk management will not be performed in a vacuum or as an event, but it will be embedded to the strategy and operational day-to-day processes of ALM.

6.4 Our risk management approach will inform and direct our work to gain confidence on the reliability of control strategies and therefore provide assurance. Managers and

staff at all levels will have a responsibility to identity, evaluate, monitor and report on risks in their respective environment, and will be adequately equipped to do so.

6.5 We will anticipate, and where possible, prevent risks resulting in unwanted events rather than dealing with their consequences. However, for some risks where the likelihood of the risk is remote but the consequences are high, we will ensure that business continuity plans are developed and authorized by the Municipal Manager. This will allow us to contain the negative effects of unlikely events, which might occur.

6.6 In determining appropriate risk management controls, we will consider the impact of the risks occurring and the cost of implementing the controls and this will be weighed against the potential benefits of reducing such risk. Cost benefit analysis

6.7 We will also ensure that all role players with critical roles in risk management processes are capacitated and work-shopped on the risk management framework, policy, roles, and responsibilities

7. SCOPE OF APPLICATION

This policy applies to all functions and processes of ALM, as such, covers the following broad categories of risk:

a. **Strategic** – those risks that have an influence on the viability of strategic goals, objectives and business model

b. **Operational** – those risks that have an influence on the effective and efficient execution of ALM business strategy

c. **Reporting** – those risks that have an influence on the integrity of ALM financial and other key reports.

d. **Compliance** – those risks that have an influence on non-compliance with

applicable laws and regulations.

The following categories shall summarize the risk universe:

a. **Financial risks –** supply chain management, financial management, financial reporting, etc.
b. **Economic risks –** economic related risks
c. **Governance risk –** Council, Council committees, culture, leadership, etc.
d. **ICT risks –** ICT management, business continuity, etc.
e. **OHS risks –** Occupational health and safety risks
f. **Fraud risks –** fraud and corruption risks.
g. **Project risks –** per project related risks.
h. **POPIA risks**

The policy further applies to the Council, management and employees of the ALM, and as such shall be entrenched into the performance management process of the organization.

8. ROLES AND RESPONSIBILITIES

The risk management is a shared responsibility across the business with the premise that everyone has a role to play regardless of the level of operation, authority and responsibility. The table below depicts the allocation of responsibility within the ALM

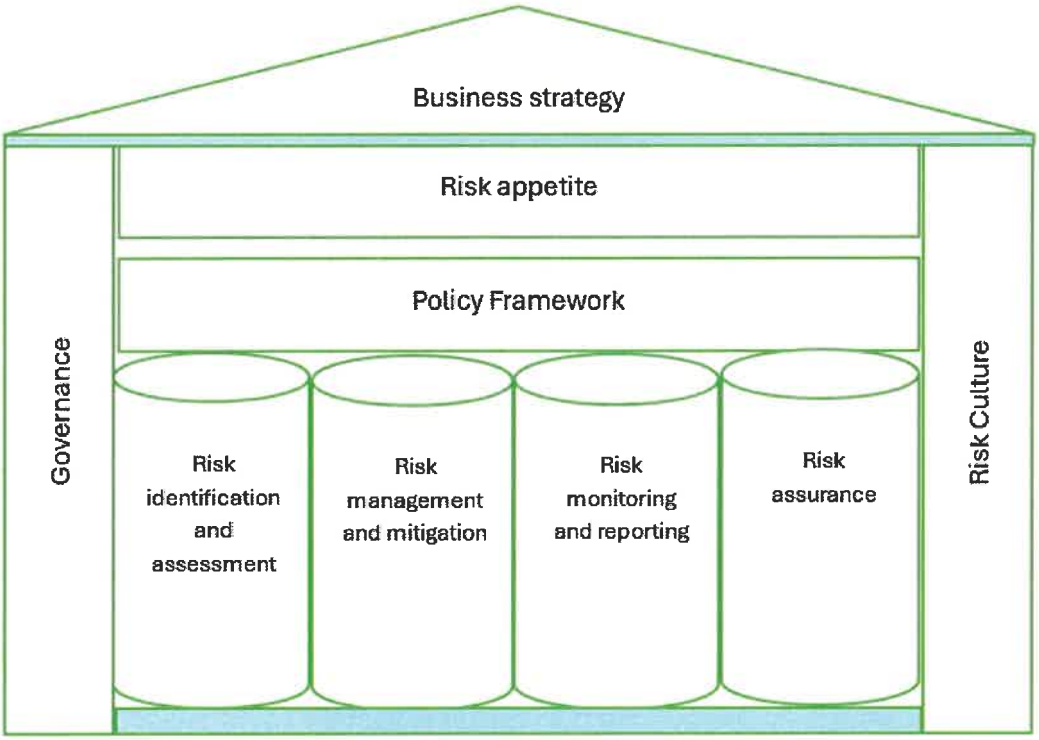
ROLE PLAYER	ROLE
Council	• Approve the Risk Management policy and strategies • Identify strategic risks threatening the achieving of strategic objectives (ERM at strategic setting). • Approve the strategic and departmental risk registers. • Delegate the responsibility to identify and manage risks to management (MM). • Monitor the adequacy and effectiveness of the risk management processes through the Audit and or Risk Committee. • Report on the effectiveness of risk management in the annual report.
Audit Committee	• Review the strategic and departmental risk registers and recommend to Council. • Approve the three-year audit plan as well as the annual audit plan of the Municipality's internal audit department. • They review reports submitted by internal audit regarding the control environment. • Consider and deliberate on Risk Management reports from the Chief Risk Officer or chair of the Risk Committee
Municipal Risk Committee	• Responsible for the RM oversight function including business continuity.

	• Reports quarterly to Audit committee on the implementation of risk management policy and strategy. • Functions on the basis of an approved charter (Terms of Reference)
Management	• Take responsibility for strategic and operational risks facing the Municipality through their departments. • Put measures in place to mitigate unacceptable risks (risk action plans). • Monitor the effectiveness of risk management processes through the Chief Risk Officer and review of internal audit and other operational reports. • React quickly on recommendations for corrective action by internal audit and Auditor-General.
Chief Risk Officer	• Coordinates the development, implementation, monitoring and measurement and reporting of the entire risk management process within the Municipality. • Reports monthly to the MM on the implementation of risk management policy and strategy. • Reports quarterly to the risk committee on the implementation of risk management policy and strategy.
Operational Risk Committee	• Coordinates operational risk management activities. • Monitors the implementation of risk management strategy within departments. • Monitors the implementation of mitigation strategies within departments. • Monitors reporting of emerging risks in departments. • Reports to the municipal risk committee through the Chief Risk Officer.
Risk Champion	• Coordinates risk management activities within the department.

	• Reports to Head of Department on implementation of risk mitigation strategies. • Attend meetings of operational risk committee (a committee of risk champions)
Internal Audit	• Transfers high risks with controls to the internal audit plan for approval by the Audit Committee. • Conducts internal audit assignments to test the effectiveness of internal controls put in place by management. • Prepares internal audit reports with opinions on the extent of effectiveness of the internal controls and risk management processes. • Recommends to management for corrective action where controls are not followed or not working. • Prepares reports quarterly to the audit committee regarding the effectiveness of the control environment and risk management processes within the Municipality.
External Audit	• Provides independent assurance on the effectiveness of risk management.
Staff	• Comply with municipal legislation, policies and procedures. • Embed risk management on their day-to-day activities. • Participate in risk management processes such as operational and process risk assessments.

9. BUSINESS STRATEGY AND RISK

Risk management as a function does not occur in isolation of the business, it is intrinsic to it. Thus, the process of planning and control including governance and culture are affected by risk, which requires that the business strategy to embed and embrace risk management, if the strategy is to be achieved and stakeholder value enhanced. The figure below outlines the integration of risk management into the business strategy of ALM.



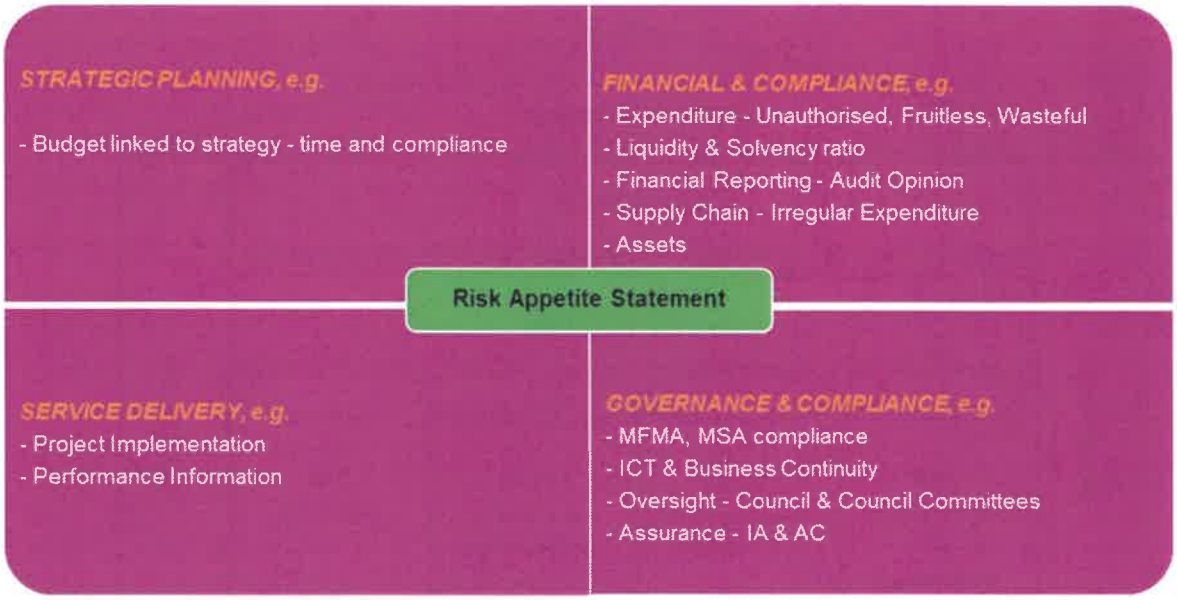
Source: ANDM Risk Policy Framework

10. RISK APPETITE AND TOLERANCE

Risk appetite is the **level of risk that an organization is willing to accept while pursuing its objectives, and before any action is determined to be necessary to reduce the risk. It can further be defined** as the "**amount and type of risk that an organization is willing to pursue or retain.**"

Risk appetite allows an organization to determine how much of risk (financial and non-financial) is willing to take in order to innovate in pursuit of objectives.

10.1 Business Risk, Risk Appetite and Tolerance Framework



10.2 Risk Appetite and Tolerance Matrix

a. The matrix provides a basis for the Council and management decisions regarding the risk appetite and tolerance the organization can take, based on the business risk universe engulfing the ALM. The matrix predominantly entails a **4-point scale** based on which the risk appetite and tolerance levels can be set.
b. A number of factors deemed to have an impact on the success of the organization ought to be considered when setting the risk appetite and tolerance levels, and these include but not limited to, the audit outcome, financial and performance reports, strategy, etc. These factors are not static and may change from time to time (e.g. year on year), and for this reason the Council and management need to continually review the risk appetite on an annual basis as part of the review of the risk management policy and strategy.

10.3 Risk Appetite Measurement and Capacity

a) it is critical to note that the risk appetite must be set and approved as part of the strategy and must inform the risk assessment (risk and control analysis) so that the **residual risk is benchmarked against the risk appetite.**

b) Like any KPI, the risk appetite must be measurable and tested. The nature and form of the risk appetite must be such that the Council and management are able to set, approve, monitor and evaluate and report about the risk appetite, and for this to be possible, simple and measurable risk appetite levels must be set and allocated to the **MM and Directors** of ALM in the form KPIs.

The table below provides a **non-exhaustive matrix guide** for setting the risk appetite and tolerance for ALM.

RISK APPETITE AND TOLERANCE MATRIX				
BUSINESS RISK AREA	***Risk Taker** – Not conscious about controls, disregard of legislation and policies (high residual risk)*	***Risk Taker – less conscious** about controls i.e. Legislation and policies (medium residual risk)*	***Risk Taker - Conscious** about controls i.e. Legislation and policies (low residual risk)*	*Risk Averse (risk avoidance)*
Risk Appetite decision guide – key factors	*{Maximum risk - appetite & Tolerance beyond acceptable levels, disregard of controls and consequences, no consequence management, poor governance, etc.}.*	*{Riskier appetite & Tolerance set for risk with some regard for controls and negative consequences, some consequence management is implemented}.*	*{Acceptable appetite & tolerance set for risk with very high regard of controls and consequences, effective consequence management for deviation}.*	*{No business activity undertaken because of risk averse mentality}*

FINANCIAL & COMPLIANCE				
Supply Chain Management				
Irregular Expenditure	**>5%** of total procurement is irregular with no proper motivation for deviation, no consequence management	**Not >5%** of total procurement is irregular - emergency with proper motivation for deviation	**Zero** tolerance for irregular expenditure (no exception)	Risk avoidance - No business activity

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Unauthorised	**> 5%** of procurement is irregular with no proper motivation for deviation	**Not >5%** of total expenditure is unauthorised - proper motivation for variation of order/contract amounts/rates	**Zero** tolerance for unauthorised expenditure (no exception).	Risk avoidance - No business activity
Fruitless & Wasteful Expenditure	n/a	n/a	**Zero** tolerance for irregular expenditure (no exception)	Risk avoidance - No business activity

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Liquidity ratio	Not able to take care of short-term liabilities and operational expenditure – **ratio is 1:1 or 1:2 or 0:1,** *(no proper financial planning – no income and expenditure projections)*	Ability to take care of short-term liabilities and salary payments **- 2:1** *(based on income and expenditure projections)*	Ability to take care of short-term liabilities and salary payments **- 3:1** *(based on income and expenditure projections)*	Risk avoidance - No business activity
Assets	**Material** findings on assets affecting the audit opinion –	**Material** findings on assets affecting the audit opinion –	**Zero material** findings on assets affecting the audit	Risk avoidance - No business activity

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	disclaimer or adverse audit opinion, no consequence management	unqualified audit opinion – consequence management implemented	opinion.	
Financial Reporting	Qualified, disclaimer and adverse opinion, no effect on performance evaluation, no consequence management.	Unqualified audit with material matters of emphasis, no effect on performance evaluation	Unqualified audit without material matters of emphasis	Risk avoidance - No business activity

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GOVERNANCE & COMPLIANCE				
MFMA, MSA Compliance	MFMA, MSA and other legislation complied with **<50%,** negative impact on the audit opinion	MFMA, MSA and other legislation complied **>90% but less 100%**	MFMA, MSA and other legislation complied with **100%**	Risk avoidance - No business activity
Business Continuity	Business Continuity and disaster recovery procedures are not in place to recover key business processes at	Business Continuity and disaster recovery procedures are in place to recover **key business** processes **within 1**	Business Continuity and disaster recovery procedures are in place to recover **key business processes** within	Risk avoidance - No business activity

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	least within 1 week after disaster.	**week** after disaster.	**2 day after disaster.**	
Oversight				Risk avoidance - No business activity
Council Committees	Committee charter not in place, Council responsibilities no clearly defined and **<50%** of committee responsibilities	Committee charter is in place, Council responsibilities clearly defined and **>50% (but less than** 100%) are fulfilled committee responsibilities are	Committee charter is in place, Council responsibilities clearly defined and fulfilled **100%**	Risk avoidance - No business activity

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	are fulfilled.	fulfilled.		
Risk Management	Risk management policy not in place or reviewed *(risk register is not updated,* ***<50% or 0%*** *risk action plans implemented.*	Risk management policy in place and but not fully implemented within the organisation *(updated risk register but* ***>50% but less than*** *100% risk action plans implemented*	Risk management policy in place and is implemented fully within the organisation *(updated risk register & risk action plans* ***100% implemented***	Risk avoidance - No business activity

RISK APPETITE AND TOLERANCE MATRIX				
BUSINESS RISK AREA	***Risk Taker** – Not conscious about controls, disregard of legislation and policies (high residual risk)*	***Risk Taker – less conscious** about controls i.e. Legislation and policies (medium residual risk)*	***Risk Taker - Conscious** about controls i.e. Legislation and policies (low residual risk)*	*Risk Averse (risk avoidance)*
Risk Appetite decision guide – key factors	*{Maximum risk - appetite & Tolerance beyond acceptable levels, disregard of controls and consequences, no consequence management, poor governance, etc.}.*	*{Riskier appetite & Tolerance set for risk with some regard for controls and negative consequences, some consequence management is implemented}.*	*{Acceptable appetite & tolerance set for risk with very high regard of controls and consequences, effective consequence management for deviation}.*	*{No business activity undertaken because of risk averse mentality}*
Internal Audit	Internal audit is not in place, no approved audit charter and risk-based plan, less than requisite skills in accounting and auditing in place and <50% implementation of the approved risk based audit plan	Internal audit is in place with an approved audit charter and risk-based plan, requisite skills in accounting and auditing in place but **>50%** but less than **100%** implementation of the approved risk based audit plan	Internal audit is in place with an approved audit charter and risk-based plan, requisite skills in accounting and auditing in place and **100%** implementation of the approved risk based audit plan	Risk avoidance - No business activity

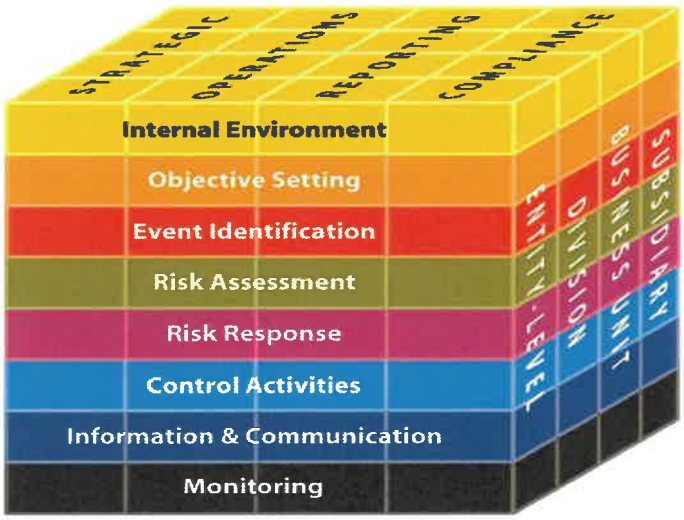
RISK APPETITE AND TOLERANCE MATRIX				
BUSINESS RISK AREA	***Risk Taker** – Not conscious about controls, disregard of legislation and policies (high residual risk)*	***Risk Taker – less conscious** about controls i.e. Legislation and policies (medium residual risk)*	***Risk Taker - Conscious** about controls i.e. Legislation and policies (low residual risk)*	*Risk Averse (risk avoidance)*
Risk Appetite decision guide – key factors	*{Maximum risk - appetite & Tolerance beyond acceptable levels, disregard of controls and consequences, no consequence management, poor governance, etc.}.*	*{Riskier appetite & Tolerance set for risk with some regard for controls and negative consequences, some consequence management is implemented}.*	*{Acceptable appetite & tolerance set for risk with very high regard of controls and consequences, effective consequence management for deviation}.*	*{No business activity undertaken because of risk averse mentality}*
SERVICE DELIVERY				
Project Implementation	Mandated oriented Strategic plan and Operational plan linked to budget **NOT** in place, **<50%** implementation of planned projects, projects completed 2 **month or beyond after due date of completion**, <50% but	Mandated oriented Strategic plan and Operational plan linked to budget are in place, **>50%** but less than 100% implementation of planned projects, projects completed **1 month after due date of completion**, >50% but less	Mandated oriented Strategic plan and Operational plan linked to budget are in place, **100%** implementation of planned projects, projects completed **within defined timeframes**, planned project deliverables 100% delivered,	Risk avoidance - No business activity

RISK APPETITE AND TOLERANCE MATRIX				
BUSINESS RISK AREA	***Risk Taker** – Not conscious about controls, disregard of legislation and policies (high residual risk)*	***Risk Taker – less conscious** about controls i.e. Legislation and policies (medium residual risk)*	***Risk Taker - Conscious** about controls i.e. Legislation and policies (low residual risk)*	*Risk Averse (risk avoidance)*
Risk Appetite decision guide – key factors	*{Maximum risk - appetite & Tolerance beyond acceptable levels, disregard of controls and consequences, no consequence management, poor governance, etc.}.*	*{Riskier appetite & Tolerance set for risk with some regard for controls and negative consequences, some consequence management is implemented}.*	*{Acceptable appetite & tolerance set for risk with very high regard of controls and consequences, effective consequence management for deviation}.*	*{No business activity undertaken because of risk averse mentality}*
	planned deliverables, project expenditure exceeded approved budget by **more than 10%**	than 100% planned deliverables, project expenditure exceeded **approved budget by 10%**	project expenditure **within approved budget**	

Performance Information	Approved performance plans and budget in place, quarterly monitoring and evaluation, **<80% performance rate,** supporting documents not credible or available	Approved performance plans and budget in place, quarterly monitoring and evaluation, **>80% but less than performance rate,** credible supporting documents	Approved performance plans and budget in place, quarterly monitoring and evaluation, **100% performance rate,** credible supporting documents	Risk avoidance - No business activity

11. RISK MANAGEMENT STRATEGY

The basis of the risk management process is a continuous cycle anchored in the five steps of identifying, analyzing, responding, monitoring and reporting risks as described in the COSO framework. Within each step of the process, regular and meaningful communication is essential to improve the likelihood of success. The following key COSO elements of the risk management process should be followed in ensuring full implementation of the risk management policy of ALM.



11.1 Internal Environment

The internal environment in risk management relates to the establishment of the risk management infrastructure and becomes the foundation for effective risk management. The internal environment should include:

a) The integrity and ethical values of Council and executive management;
b) Management philosophy and operating style;
c) Risk appetite and tolerance;
d) Policies and risk management strategy;
e) Risk management awareness;

f) Risk management accountability (risk management KPIs in performance agreements of managers);
g) Risk management committees for oversight;
h) Definition of roles and responsibilities.
i) Definition of the risk appetite of the Municipality in line with recent prior auditor-general materiality levels and prevailing control environment of the Municipality based on auditor-general reports and internal audit reports;

11.2 Objective Setting

The starting point for risk management is a clear understanding of what the ALM is set to achieve (objectives). The objectives of ALM are outlined in its Strategic Plan approved by the Council. Risk Management is about managing threats that might hinder the delivery of strategies and maximizing opportunities that will help deliver them.

This requires that effective risk management is aligned to the planning processes and must take into account the environment (internal and external) within which the Municipality operates. To this end, when identifying risks, objectives should be considered at four levels, namely:



Strategic: high-level goals/objectives aligned with and supporting the mission.
Operations: effective and efficient use of ALM resources (financial and non-financial);
Reporting: reliability of reporting (credibility of financial and performance information);
Compliance: compliance with applicable laws, regulations and policies (e.g. MFMA, MSA, OHS, etc.)

11.3 Event Identification

Annually and for each business objective management and Council should identify events (key business risks and opportunities) at three levels, namely;

- ***First level, strategic risks*** against each strategic objective contained in the strategic plan Council and management must identify key risks that might impede the achievement of the business objectives. This should be done by way of a risk assessment attended by heads of departments and where possible members of the mayoral committee.

- ***Second level, operational risks*** should be identified following the identification of the strategic risks. The operational risks are based on the operational plans/SDBIPs of departments and are focused on key business functions of departments.

These operational risks can also be done by way of risk assessment workshop, either as part of the strategic risk assessment or a separate departmental risk assessment workshop attended by section heads

- ***Third level, process risks*** should be identified for each business process linked to the operational risks of the department. This should be done through interviews with key process custodians within the department, and the results collaborated with section heads and where possible, head of departments.

The following risk universe must be taken into consideration when identifying potential risks:

11.4 Internal Environment

a) Human Resource
b) Financial and reporting
c) Regulatory/Compliance
d) Project management/Service delivery
e) Health and safety
f) Information Technology and Communication
g) Business Continuity

11.5 External Environment

a) Political
b) Environmental
c) Social
d) Technological
e) Economical
f) Legal and compliance
g) Reputational

h) Business Continuity

11.6 Risk Analysis and rating of Inherent Risk

Assess the significance of risks to enable the development of Risk Responses

Once the risks have been identified, the likelihood of the risk occurring and the potential impact if the risk does occur must be assessed using a risk-rating table adopted by the Council (see annexure)

11.7 Risk Response or Treatment

a) Once risks have been analysed appropriate risk responses will be determined to mitigate risks to an acceptable level within reasonable costs. ALMs inherent and residual risk profile presented on the Risk Register must be monitored against the target profile (residual risks rating).
b) Risk can be dealt with in various ways. The risk response options encompass all possible management responses to risk, whether viewed as opportunities, uncertainties or hazards. The risk response options and examples of activities under each option are outlined below:
c) Mitigate (steps taken to reduce either the likelihood or impact e.g. through
    - Policies, procedures, registers etc.);
    - Transfer (steps taken to shift the loss or liability to others i.e. Insurance on vehicles, computers etc.);
    - Exploit (steps taken to leverage opportunities e.g. strengthening relations with other departments to assist in management of the risk);
    - Avoid (steps taken to prevent the occurrence of hazards e.g. deciding not to embark on a project, activity because it is too risky and has a highly hazardous impact); or

- Acceptance (an informed decision to accept both the impact and likelihood of risk event e.g. risks that ALM can do nothing about but live with them and just keep monitoring).

d) Risk responses or treatment decisions will be deliberated by management during the risk assessment workshop. This will include the identification of further actions to achieve the desired residual risk. The risk committee has the ultimate oversight of the decision taken by management in this regard.

11.8 Control Activities

After a decision has been taken control activities, need to be considered. The fundamental approach in this regard is two-fold, namely;

a) The determination of **existing control** activities in the form of policies, procedures, registers, Council committees, legislation etc. This is then followed by the assessment of the strength of these controls in terms of mitigating the risk identified. The assessment is referred to as the ***"current control effectiveness"*** i.e. if applied/complied with 100% and diligently, will the control mitigate the risk identified. In other words, are there no deficiencies in these controls that may cause the risk to succeed? An example is a diligent and committed security guard safeguarding cash with no firearm.

b) The implementation of **additional controls**, if the residual risk is above the tolerable level of risk (targeted residual risk).

11.9 Communication - Communicating the risk management information and strategies to the rest of ALM

The management of ALM should communicate the risk management framework, risk management policy and the risk register throughout the Municipality and ensure awareness by all role players. This should be done through planned workshops prioritizing all departments and sections of the Municipality. Risk management information should be stored on local networks to ensure easy accessibility.

11.10 Risk Monitoring

a) The purpose of the monitoring and review are to:

   i. Provide assurance that risks are being mitigated as expected (risk action plans are being implemented by risk owners);
   ii. Assess whether the risk response plans remain relevant; and
   iii. Ensure that the risk profile reflects emerging risks during the financial year, i.e. new exposures through on-going management reports, internal audit reports, auditor-general reports, media, etc.

b) Risk monitoring should consist of a combination of regular communication, periodic reviews and evaluation by independent assurance providers such as internal and external audits.

c) Key aspects of monitoring will be:

   i. Assessment of the quality and appropriateness of mitigating actions, in terms of adherence to the SMART principle.
   ii. Regular monitoring reports from all departments within the Municipality on a regular basis to the risk management unit.
   iii. Verification of implementation of risk action plans by the risk management unit for review of the residual risk.

d) Council should consider possibilities of incorporating Risk Management Reporting as a standing agenda item at a management meeting (MANCO) after each quarter or establishing an Audit and Risk Committee in consultation with Management.
e) Appropriate and technologically inclined innovations will be considered for ensuring effective risk management reporting.

11.11 Reporting

a) ALM will ensure that information is received by the appropriate interested parties in risk management i.e.
   i. Municipal Council
   ii. Audit Committee
   iii. Risk Management Committee
   iv. MANCO

b) On a timely basis, in a form and format that will aid the monitoring and control of the business.
c) Key reporting information will include:

   i. Critical risks facing, or potentially facing the Municipality (e.g. top 10-15 risks from the risk register);
   ii. Department risk registers
   iii. Emerging risks from the ordinary business of ALM;
   iv. Updated residual risks due to implementation of risk mitigation plans (e.g. quarterly updated risk register);
   v. Quarterly risk status on implementation of risk action plans across departments.

d) The information provided will allow the Council and the risk committee to determine whether the implementation of the risk management strategy has been effective. An opportunity to identify inherent inefficiencies and bottlenecks will be identified timeously for decision making (i.e. review the risk management strategy and policy, etc.).
e) Appropriate and technologically inclined innovations will be considered for ensuring effective risk management reporting.

12. PERFORMANCE AND EVALUATION OF RISK MANAGEMENT

Evaluation of risk management effectiveness is vital to maximize the value created through risk management practices. The municipality should strive to incrementally and sustainable achieve a mature risk management regime in order to realize the outcomes referred to in the objectives of the RM Policy. The entity will utilize the Financial Management Maturity Capability Model developed by the National Treasury to evaluate current and progressive risk management maturity.

13. ESTABLISH THE PROCESS OF ONGOING RISK MANAGEMENT

Whilst every employee in the Municipality is responsible for managing risks in their individual parts, some people have additional responsibilities. This strategy must be driven by the MM through the Chief Risk Officer and monitored by the Risk Committee.

14. ADMINISTRATION

The policy and strategy should be reviewed annually by the Risk Committee (through the MM) in order to keep updated with the developments in risk management as well review the risk appetite. The reviewed strategy will be approved by Council by way of a resolution.

ANNEXURE: RISK MEASUREMENT AND TREATMENT DECISIONS

Probability Assessment

The probability refers to the chances of a risk occurring which could cause adverse effect on the Municipality's business. The probability is measured on a scale of 1 to 5; the table below shows the measurement of probability.

Figure 1.

Example: Certainty Score	Likelihood	Occurrence
5	Common	Certain to occur, almost every time
4	Likely	Will occur frequently, 1 out of 10 times
3	Medium	Will occur sometimes, 1 out of 100 times
2	Unlikely	Will seldom occur, 1 out of 1000 times
1	Rare	Will almost never occur, 1 out of 10 000 times

Impact Assessment

The severity is the consequence or damage the risk can cause if it materializes or is the material loss to the Municipality (financially and non-financially) if the risk materializes. Impact is also measured on a scale of 1 to 5. The table below shows the measurement of impact.

Figure 2

Example: Impact Score	Severity	Consequence
5	Extreme	Leads to termination of the project
4	High	Financial Loss of > 20%
3	Medium	Financial loss > 10%
2	Low	Financial Loss < 10%
1	Very Low	Minimal or no impact on cost

Risk Measurement

After the inherent risks have been identified, these are assessed or analyzed in terms of their **probability/likelihood (chances of occurrence)** and **Impact/severity damage.** An example of the analysis of the Inherent risk is presented in the table below.

ALM uses a **five-by-five matrix** to determine its level of risk exposure.

			Impact / Consequences				
			Extreme	High	Moderate	Low	Very Low
			1	2	3	4	5
Likelihood/Proba	5	Common	L	M	H	VH	VH
	4	Likely	L	M	H	VH	VH
	3	Medium	L	M	M	H	VH
	2	Unlikely	L	M	M	M	H
	1	Rare	L	L	L	L	L

The following is an interpretation of **Severity** and **Probability** ratings as they will be applied by Amahlathi Local Municipality in assessing and classifying identified strategic risks:

SEVERITY (CONSEQUENCE)

Score	Rating/Severity	Description
5	Extreme	Loss of ability to sustain ongoing operations. A situation that would cause a standalone business to cease operation
4	High	Significant impact on achievement of strategic objectives and targets relating to Organizational plan.
3	Medium	Disruption of normal operations with a limited effect on achievement of strategic objectives or targets relating to the IDP.
2	Low	No material impact on achievement of the Municipality's IDP or Objectives.
1	Very lo Very Low	Negligible impact.

From 13 to 25	High
From 8 to 12	Medium
From 1 to 7	Low

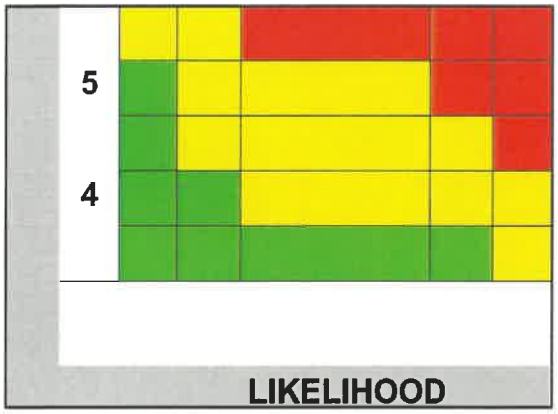
LIKELIHOOD (FREQUENCY, PROBABILITY)

Risk assessment ratings are the product of likelihood and impact and are ranked as follows:

Score	Rating/Severity	Description
5	Common	The risk is almost certain to occur more than once within the next 12 months. (Probability = 100% p.a.)
4	High	The risk is almost certain to occur once within the next 12 months. (Probability = 50 – 100% p.a.)
3	Medium	The risk could occur at least once in the next 2 – 10 years. (Probability = 10 – 50% p.a.)
2	Unlikely	The risk could occur at least once in the next 10 - 100 years. (Probability = 1 – 10% p.a.)
1	Rare	The risk will probably not occur, i.e. less than once in 100 years. (Probability = 0 – 1% p.a.)

Inherent Risk Calculation (Risk index = impact x likelihood) at risk analysis stage.

Figure 5:



Risk index	Risk Magnitude
20 - 25	Extreme
15 - 19	High risk
10 - 14	Medium risk
5 - 9	Low risk
1 - 4	Very Low risk

Once all risks have been identified and assessed, a decision needs to be taken as to the treatment of the risk.

5.5 Risk Response

A cost/benefit analysis of each treatment option is used to provide the basis for selecting the best option to manage each risk identified. The table below is an illustration of the **treatment techniques.**

Level of Risk	Level of Concern	Consequences	Action required	Risk Treatment Options (s) Available
Extreme	Very concerned	Disastrous impact	Comprehensive action is required immediately	Transfer, Avoid or Reduce
High	Concerned	Severe Impact	Action is required within 3 months	Transfer, Avoid or Reduce
Medium	Uneasy	Medium impact	Managed via contingency plans. Action plans to be developed within	Transfer/Avoid/Reduce/ Accept but must have contingency plan in place
Low	Content	Relatively light impact	The Municipality is content to accept this risk	Accept/ Reduce if cost effective but most importantly monitor
Very Low	Not concerned	Light/no impact	Accept and monitor	Accept and monitor

A risk may be considered acceptable if it is sufficiently low that treatment is not considered cost effective. Such risks do not require inclusion in the formal strategic, or departmental risk registers, but should nevertheless be recorded by the department concerned, and kept under review to ensure that deterioration in the risk level can be identified and addressed as necessary.

15. MONITORING AND EVALUATION OF THE RISK MANAGEMENT POLICY

15.1 The Municipality shall implement a structured and continuous monitoring and evaluation process to ensure the effectiveness, relevance, and compliance of the Risk Management Policy and its associated frameworks.

15.2 The Risk & Compliance Management Unit shall conduct continuous monitoring of identified risks, mitigation measures, and control effectiveness. This includes tracking risk indicators, reviewing risk registers, and ensuring that risk responses are implemented within agreed timelines

16. POLICY REVIEW

This policy shall be subject to regular review to ensure its continued relevance, effectiveness, and alignment with the Municipality's strategic objectives, legislative requirements, and best practices.

This Policy shall be reviewed at least **annually**, or more frequently if required due to:

- Changes in legislation or regulatory frameworks
- Organisational restructuring or changes in strategic direction
- Significant risk events or emerging risks
- Recommendations from Internal Audit, the Risk Management Committee, or oversight bodies

17. DEVIATION FROM THE POLICY

17.1 Deviation from the Risk Management Policy may be permitted only under exceptional and justified circumstances where strict compliance is impractical or may hinder urgent service delivery.

17.2 Any such deviation must be formally motivated in writing, supported by a risk assessment, and approved by the Municipal Manager or a duly delegated authority.

17.3 Appropriate alternative controls must be implemented to mitigate potential risks arising from the deviation.

17.4 All deviations shall be properly recorded, time-bound, and reported to the Risk Management Committee to ensure transparency, accountability, and continued oversight.

17.5 Unauthorised deviations shall be regarded as non-compliance and may result in disciplinary action.

18. DISPUTE RESOLUTION

The Municipality recognises that disputes may arise regarding the interpretation, implementation, or application of this Risk Management Policy. Such disputes shall be managed in a fair, transparent, and structured manner to ensure consistency, accountability, and effective governance.

19. ADOPTION AND APPROVAL OF THE POLICY BY COUNCIL

This policy is adopted and approved by Amahlathi Local Municipality Council for implementation.

Effective from (Date)_____

Approved by Resolution Number _____ on this the _____day of _____20__

Signed this on the _____ day of _____ 20_____.

_____ _____

DR. Z. SHASHA **DATE**
MUNICIPAL MANAGER

_____ _____

CLLR N. MLAHLEKI **DATE**
SPEAKER