

OVERSTRAND MUNICIPALITY



FRAUD AND RISK MANAGEMENT POLICY

*Approved by Council
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Table of Contents

LIST OF ABBREVIATIONS, TERMINOLOGY AND DEFINITIONS	3
1 INTRODUCTION	6
2 MISSION	6
3 OBJECTIVES.....	6
4 BENEFITS.....	6
5 APPLICABLE LEGISLATION	7
6 INTEGRATED RM SUPPORTING FRAMEWORKS.....	8
POLICY CONTENT	9
7 OVERSTRAND MUNICIPALITY’S FRAUD AND RM APPROACH	9
8 ROLE PLAYERS IN FRAUD AND RM PROCESS.....	9
9 ERM PROCESS.....	12
10 RISK PROFILE	20
11 INFORMATION AND COMMUNICATION	21
12 MONITORING	22
13 INTEGRATION OF RM PLANS/ POLICIES	23
14 COMBINED ASSURANCE	23
15 BUSINESS CONTINUITY	23
16 ERM MATURITY.....	24
17 FUNDING FOR FRAUD AND RM	24
18 POLICY REVIEW	25

LIST OF ABBREVIATIONS, TERMINOLOGY AND DEFINITIONS

In this policy, unless the context indicates otherwise, a word or expression, to which meaning has been assigned in the Municipal Finance Management Act (“MFMA”) and the Local Government Risk Management Framework (“framework”) has the same meaning.

In interpreting the under-mentioned definitions, cognizance must also be taken of the definitions as encapsulated in applicable enabling legislation and framework.

Terminology	Definition
Accounting Officer (AO)	In relation to a municipality, the Municipal Manager (as referred to in section 60 of the MFMA). A person appointed in terms of section 82 (a) or (b) of the Municipal Structures Act, who is the head of administration.
AGSA	Auditor General of South Africa
A senior official who is the head of the IAA.	A senior official who is the head of the IAA.
Chief Risk Officer (CRO)	A senior official who is the head of the RMU.
Combined Assurance (CA)	A process that seeks to optimise the scope of assurance to the OM by harmonising the work of various providers of assurance through eliminating fragmentation and duplication of efforts.
Competent	Having the knowledge and skills to accomplish a certain task
Council	The Municipal Council as referred to in section 18 of the Municipal Structures Act, and as defined in section 1 of the MFMA.
Conflict of interest	A person’s private interests interferes or is perceived to interfere with the interests of the OM. This usually happens when the interest impairs the employee’s ability to act impartially.
Corruption	The giving or offering, receiving or agreeing to receive, obtaining or attempting to obtain any benefit which is not legally due to or by a person who has been charged with a duty or power by virtue of any employment, to do any act or omit to do any act in relation to that power or duty.
Enterprise-wide Risk Management (ERM)	A systematic, co-ordinated and inclusive process which uses the Institution’s strategy (IDP) and objectives (SDBIP) as the focal point to manage the range of risks and optimisation of opportunities to enhance the achievement of the strategy and objectives.
Event	An incident or occurrence from internal or external sources that affects the achievement of the OM’s objectives.
Favouritism	The practice of giving unfair preferential treatment to one person or group at the expense of another.
Fraud	An unlawful and intentional making of a misrepresentation, which is prejudicial or potentially prejudicial to another. The term is used to describe acts such as deception, bribery, forgery, extortion, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts, collusion etc.

Terminology	Definition
Impact	A result or effect of and event. The impact of an event can be positive or negative. A negative event is referred to as a “risk”. Impact can also be referred to as consequence.
Incident	A risk that has actualised.
Inherent Risk	The exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors. The risk to OM in the absence of any actions management might take to alter either the risk’s impact or likelihood.
Integrated Development Plan (IDP)	A single, inclusive and strategic plan aimed at the integrated development and management of a municipality, as envisaged in Chapter 5 of the Municipal Systems Act.
Internal Auditing (IA)	An independent, objective assurance and consulting activity designed to add value and improve the institution’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
IAA	Internal Audit Activity/ unit
Joint Audit & Performance Committee (JAPAC)	An independent committee constituted to review the control, governance and RM within the OM, established in terms of section 166 of the MFMA.
King IV	The King Code of Corporate Governance for South Africa, 2016 for corporate governance best practice (Specifically “Part 6.2: Supplement for municipalities”).
Likelihood / Probability	The probability of the event occurring and can also be referred to as severity.
Management	Collectively, all levels of management personnel and officials of the OM responsible for planning, organising, leading and controlling municipal activities. In other words, everyone except the CRO, CAE and staff reporting to them, who are deemed to be independent of management in the exercise of their responsibilities for RM.
MFMA	Municipal Finance Management Act (Act No. 56 of 2003), whose aim is to secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government; to establish treasury norms and standards for the local sphere of government; and to provide for matters connected therewith.
Municipality	When referred to as — a) an institution, means as a municipality as described in section 2 of the Municipal Systems Act 32 of 2000; and b) a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998).
Municipal Services	Local government matters listed in Part B of Schedules 4 and Part B in Schedules 5 to the Constitution, and any function assignment to a municipality in Section 9 or 10 of the Municipal Systems Act (Act 32 of 2000).
OM	Overstrand Municipality
Operational Risk	Risks that affect the achievement of the SDBIP, mainly resulting from inadequate or failed internal processes, actions of staff, loss of key personnel, failure of IT systems, failure of equipment, the actions of

Terminology	Definition
	regulatory authorities, customers, suppliers and the public, as well as other external events that impact on the objectives.
Priority/ Key Risk	Risk that is rated high on either inherent or residual level. Risk that need to be acted upon that possess a serious threat to the OM.
Project Risk	Risk that are identified for all major projects, covering the whole lifecycle and for long-term projects.
Residual Risk	The exposure remaining after the mitigating effects of management intervention(s) to control such exposure, i.e. the remaining risk after management has put in place measures to control the inherent risk.
Risk	a) The effect of uncertainty on the achievement of the OM's IDP and SDBIP caused by the presence of risk factors; and/or b) The failure to optimise opportunities to enhance the achievement of the IDP and SDBIP.
Risk Appetite	The level of risk which is established through a rigorous analytical process that the OM is prepared and able to accept in furtherance of its objectives.
Risk Factor	Any threat or event which creates, or has the potential to create risk.
Risk Management (RM)	A systematic, coordinated set of activities and methods used to direct and to control OM risks, including a set of principles, frameworks and related processes.
Fraud and Risk Management Committee (FARMCO)	A committee appointed by the AO to apply specialist skills, knowledge and experience and assist him/her to dispose of his/her responsibilities for all matters concerned with the establishment, maintenance and functioning of the municipality's system of RM, especially the management of priority risks.
Risk Management Unit (RMU)	A business unit which reports to and supports the CRO to fulfil his/her functions.
Risk Owner	The person accountable for managing a particular risk linked to the objective(s) he/she is responsible for.
Risk Response	Strategies developed by Management to reduce or eliminate the threats and factors that create risks.
Risk Tolerance	The amount of risk the OM is capable of bearing (as opposed to the amount of risk it is willing to bear "risk appetite").
Service Delivery and Budget Implementation Plan (SDBIP)	A detailed plan approved by the Mayor of a municipality in terms of section 53(1)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget.
SOP	Standard Operating Procedure
Strategic Risk	Risks connected with strategy selection, implementation or revision which affects the achievement of the IDP. Strategic risks occur both from poor business decisions as well as the failure to effectively implement good decisions.
3LoA	3 Lines of Assurance

1 INTRODUCTION

The AO has committed OM to implement and maintain an effective, efficient and transparent system of fraud prevention, anti-corruption and integrated RM. The policy is designed to provide all role players with the necessary information to enable them to understand the roles and responsibilities of their office in terms of fraud prevention and RM.

The OM subscribes to the principles of good corporate governance, which requires conducting business in an honest, ethical and transparent manner.

The OM is committed to prevent and combat corrupt and fraudulent activities and behavior at all levels of the municipality. In addition to promoting the prevention, detection, investigation and sanctioning of fraud and corruption, the policy is also intended to assist in promoting ethical conduct within the OM.

2 MISSION

To assist the OM in ensuring that its strategic objectives are achieved without compromising the stakeholders' trust and quality of municipal services, by implementing an effective approach for fraud prevention and RM and leveraging its benefits to enhance performance.

3 OBJECTIVES

The policy is developed to assist management in making informed decisions that will enable management to achieve OM strategic objectives.

4 BENEFITS

The integrated RM process can make major contributions toward helping the OM achieve its objectives. The benefits include:

- more sustainable and reliable delivery of services;
- enhance decision making underpinned by appropriate rigor and analysis;
- reduced waste;
- preventing, detecting and proactive response to fraud and corruption;
- few/ limited occurrence of unexpected incidents and circumstances;
- help avoid damage to the municipality's reputation and image;
- help ensure effective reporting and compliance with laws and regulations;
- better value for money through more efficient use of resources; and
- better outputs and outcomes through improved project and programme management.

Section 62(1)(c)(i) of the Local Government: MFMA provides that the AO of a municipality is responsible for managing the financial administration of the municipality, and must 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.

The above RM responsibilities can be delegated to municipal officials in terms of Section 79 (1)(b) of the MFMA.

The AO has committed the municipality to implement and maintain an effective, efficient and transparent system of RM to adhere with MFMA. The process of RM is aligned with the National Treasury Public Sector and Local Government RM Framework and principles as set out in the King IV Report on Governance for South Africa 2016.

Section 112(m)(i) of the MFMA requires that the municipality must implement measures for “combating fraud, corruption, favouritism and unfair and irregular practices in municipal supply chain management...”. It further states in section 115(b) that the municipality must “take all reasonable steps to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices.”

The potential occurrence of fraud and corruption is not limited to the supply chain management system. The OM is therefore committed to implement fraud prevention measures to reduce the likelihood of fraud.

Further to the above, Section 165(2)(a) of the MFMA requires IAA to follow a risk-based audit plan; and Section 165(2)(b)(iv) requires IAA to advise the AO and report to the JAPAC on risk and RM.

In terms of MFMA Section 166(2)(a)(ii), oversight of the RM process is conducted by the JAPAC.

The following also forms a significant part of managing risk, fraud and corruption:

- Constitution of the Republic of South Africa (Act No. 108 of 1996)
- Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings (No. 430 of 2014)
- Prevention and Combating of Corrupt Activities Act (Act No. 12 of 2004)
- Protected Disclosures Act (Act No. 26 of 2000)
- Code of Conduct for Councilors, Schedule 1 of the Municipal Systems Act (Act No. 32 of 2000)
- Code of Conduct for Municipal Staff Members, Schedule 2 of the Municipal Systems Act (Act No. 32 of 2000)
- Overstrand Municipality Code of Ethics for Municipal Staff

6 INTEGRATED RM SUPPORTING FRAMEWORKS

The following frameworks guide the RM practices of OM:

- Committee of Sponsoring Organizations of the Treadway Commission: Enterprise Risk Management – Integrated Framework (COSO ERM Framework)
- Public Sector/ Local Government Risk Management Framework (PS/LG RMF)
- King Codes of Governance Principles
- International Organization for Standardization – Standard 31000 (ISO 31000)

The OM is continuously implementing new initiatives and redesigning systems and processes to align with the best practices espoused by the RM frameworks and enhance its RM maturity.

POLICY CONTENT

The OM is exposed to a wide variety of risks. These risks include strategic, operational and other risks that are material and require comprehensive controls and ongoing oversight to manage.

The OM adopted an integrated approach to RM that enables it to be equipped to identify events that may have an impact on achieving its objectives and to manage risks according to its risk appetite.

7 OVERSTRAND MUNICIPALITY'S FRAUD AND RM APPROACH

The RM principles contained in this policy apply at both strategic and operational levels within the OM.

Our positive approach to RM means that we will consider the risk of activities that could go wrong, as well as the impact of not taking opportunities or capitalising on corporate strengths. All RM activities will be aligned to OM's objectives priorities, and aims to protect and enhance the reputation and standing of the municipality.

Fraud prevention and anti-corruption measures forms part of the system of RM of OM. These measures are embedded within policies and procedures which must be complied with by municipal officials and external stakeholders.

Internal controls to prevent and detect fraud and corruption also forms part of the system of internal controls of the OM.

The Policy should be read in conjunction with the Fraud and RM Strategy and the Implementation Plan.

8 ROLE PLAYERS IN FRAUD AND RM PROCESS

Every person within OM has a role to play in the fraud and RM process. The primary responsibility for identifying and managing risks lies with Management. The responsibilities of each role player are formally defined in the Fraud and RM Strategy of the OM.

8.1 INTEGRATED FRAUD AND RM OVERSIGHT

8.1.1 Municipal Council

The OM Council takes an interest in RM, including the prevention of fraud and corruption, to the extent necessary to obtain comfort that, properly established and functioning systems of RM are in place, to protect it against significant risks and reputational damage.

8.1.2 Joint Audit & Performance Audit Committee (JAPAC)

The JAPAC's responsibility, in so far as it relates to fraud and RM is to provide an independent and objective view of the effectiveness of the municipality's RM process and to provide recommendations for improvement where necessary.

8.1.3 Fraud and Risk Management Committee (FARMCO)

The members of the FARMCO are appointed by the AO and consists of the Directors (members), CRO (invitee), CAE (invitee). The AO can also consider other invitees and external members. The Committee's role is to apply its combined specialist skills, knowledge and experience to assist the AO to dispose of his/ her responsibilities for all matters concerning the establishment, maintenance and functioning of the municipality's system of RM, especially the management of priority risks.

8.2 RM IMPLEMENTERS

8.2.1 AO (Municipal Manager)

The AO is ultimately responsible for RM, including the prevention of fraud and corruption and unethical conduct within the OM. By setting the tone at the top, the AO promotes accountability, integrity and other factors that will create a positive control environment and support ERM.

8.2.2 Directors / Risk Owners

Directors support the municipality's RM philosophy, integrating it into operational routines of their directorates. They are the risk owners and ultimately accountable for the risk management of the risks in their directorates and must therefore monitor the RM activities within their areas of responsibility and intervene where necessary.

8.2.3 Risk Action Owners

"Risk Action Owner" refers to the person responsible for implementing the risk mitigation plans, known as risk actions.

8.2.4 Other Officials

Other officials have the responsibility to integrate the risk RM strategy and policy into their department's operational routines. They must also implement risk actions to address/ manage organisational risks.

8.3 RM SUPPORT

8.3.1 RMU

The primary responsibility of the municipality's RMU is to co-ordinate RM processes to assist the OM achieve its strategic objectives.

8.3.2 CRO

The CRO is the custodian of the Fraud and RM strategy and coordinator of RM activities throughout the OM.

The primary responsibilities of the CRO are to exert his/her specialist expertise to assist the OM to embed RM and leverage its benefits to enhance performance.

8.3.3 Risk Officers

The Risk Officers responsibilities are to assist the CRO with the implementation of the Fraud and RM plan and provide support to the staff of the OM.

8.3.4 Risk Champions

The Risk Champions' responsibilities are to intervene when RM efforts are being hampered and to provide guidance and support on the management of problematic risks and risks of a transversal nature that require the involvement of multiple people to address.

8.4 RM ASSURANCE PROVIDERS

8.4.1 IAA

The role of IAA in RM is to provide an independent, objective assurance to the AO, Municipal Council, FARMCO and the JAPAC on the effectiveness of RM within the OM and to provide recommendations for improvement where necessary.

8.4.2 AGSA

The AGSA provides an independent opinion on the effectiveness of the system of RM.

9 ERM PROCESS

The ERM process consists of eight (8) components.



ERM Process (COSO ERM Integrated Framework)

9.1 INTERNAL ENVIRONMENT

The internal environment encompasses the tone of OM's management, influencing the risk consciousness of its people. It is the foundation for all other components of RM, providing discipline and structure.

9.1.1 FRAUD AND RM PHILOSOPHY

The OM is committed to the optimal management of risk to achieve its vision of being a "centre of excellence", and deliver services at the standard expected by the community. The OM has adopted an enterprise-wide integrated approach to manage its risks, including fraud risks. By embedding the RM process throughout OM and into key business processes such as planning, operations and new projects, OM will be better equipped to identify events affecting its objectives and to manage related risks.

All directorates should work together in a consistent and integrated manner to manage risk exposures, with the overall objective of reducing risk and optimising opportunities.

To further implement the enterprise-wide approach, OM has taken a number of steps to reinforce a culture of disciplined risk-taking, as outlined in this policy.

9.1.2 Ethics

RM is performed by humans. The effectiveness of RM activities is directly influenced by the ethical behavior of the people responsible for RM, which includes their professionalism and commitment in executing their RM responsibilities.

A lack of ethics is a contributing factor to a variety of risks, either being the cause of the risk itself or the cause of ineffective control measures. Therefore, RM initiatives can only be successful in an ethical environment with adequate management support.

The OM has a Code of Conduct and Code of Ethics for Municipal Staff in place, to regulate the conduct and ethical behavior expected in the workplace.

9.1.3 Risk Appetite and Tolerance

It is more prudent and risk intelligent for a municipality to define its risk appetite to remain within its risk bearing capacity. The risk appetite should be clearly stated and articulated so that it informs management decisions.

There is no standard or universal risk appetite statement that applies to all organisations, nor is there a “right” risk appetite. Management must make choices in setting risk appetite, understanding the trade-offs involved in having higher or lower appetites. A risk appetite statement sets the tone for RM, a limit beyond which additional risk should not be taken.

An appetite statement should be defined per risk category to clarify the OM’s appetite for certain categories of risk. This will assist in risk response decisions.

The OM’s risk appetite will be reassessed as and when necessary, i.e when there are significant changes on municipal risk magnitude, during the annual risk assessment exercise results and can be adjusted if required. The ultimate goal is to reduce the risk level of the municipality to acceptable levels.

The OM has committed itself to aggressively pursue managing risks under its control to be within its risk appetite to avoid exposures to unexpected losses and to manage actions that could have a negative impact on the reputation of the municipality.

The OM’s risk appetite levels and its associated approach to risks in those levels are depicted as follows:

Risk Appetite Range	Low	Moderate	High
Risk taking vs reward	A cautious approach towards risk taking.	A balanced and informed approach to risk taking	Aggressive risk taking is justified
Impact on strategies/objectives	Willing to accept a small negative impact in pursuit of strategic objectives	Willing to accept some negative impact in pursuit of strategic objectives	Willing to accept a large negative impact in pursuit of strategic objectives

Preferred risk response approach	Risks that cannot be effectively treated or transferred are avoided	No preference towards risk response approaches	Risk beyond OM's control is accepted. A risk within OM's control will be treated
Risk response decision criteria	Risk response actions are taken even though prevention costs are greater than expected incident costs.	Risk response actions are made based on cost effectiveness, management priorities and potential outcomes.	Minimum, if any, risk response actions are taken

Based on the above, the following risk appetite statements were agreed to by OM management, although the OM could be more restrictive in application, it could not necessarily relax this overall appetite statement. Should the need to relax this statement arise from OM perspective then this will be escalated to FARMCO level for consideration and recommendation. Decision makers therefore are permitted to expose the OM to a degree of risk in line with the following appetite statements:

Risk appetite description	Risk appetite statements
Low Appetite	<p>The OM has a low appetite for non-compliance with legal and regulatory requirements, including deliberate and purposeful violations of legislative and regulatory requirements. We commit to a high level of compliance with relevant legislation, regulation and governance principles where breaches will be remedied as soon as practicable.</p> <p>The OM has a low appetite for risks relating to economic crime and commits to a zero tolerance for fraud and corruption. We are committed to deter and prevent fraud and corruption, will take a serious approach to cases or suspected cases of fraud and corruption perpetrated by our employees and contractors and will respond fully and fairly in such cases.</p> <p>The OM has no appetite for fatalities in the workplace and will take the necessary measures to create a safe working environment for our staff after considering all critical areas. We will not allow behaviour that could harm staff while being at work.</p> <p>The OM has a low appetite for the compromise of processes governing the use of its information, its management and publication. We commit to ensure that information is authentic, appropriately classified, conserved and managed in accordance with relevant requirements. This further means that we have a low appetite for cyber security risks.</p> <p>The OM has a low appetite for the loss of fixed, current and moveable</p>

Risk appetite description	Risk appetite statements
	<p>assets.</p> <p>The OM has a low appetite for third party performance and/or contract management risks and will hold all parties/suppliers accountable for contracted services.</p> <p>The OM has a low appetite for risks that impacts the availability of our systems which supports our core and critical business functions.</p> <p>The OM has a low appetite for security related risks, including those relating to physical security, access to information and data and cyber security.</p>
Moderate Appetite	<p>The OM has a moderate appetite for non-compliance with policies and procedures and will ensure that policies and procedures are complied to as far as practicable possible.</p> <p>The OM has a moderate appetite for risks that may jeopardise its activities and standards of operation and will ensure that it will continue to deliver its services to the people of Overstrand effectively and efficiently.</p> <p>The OM has a moderate appetite for risks that can impact on audit outcomes, quality of financial statements, cost structures and financial sustainability, including the SCM process.</p> <p>The OM has a moderate appetite for risks relating to litigation, penalties, fines and court proceedings.</p> <p>The OM will exhibit a moderate appetite for risks that affect its reputation.</p> <p>The OM has a moderate appetite for changes to its culture and leadership. The OM is building the high-performance, professional and innovative capabilities of its leaders through empowerment and leadership development, within a framework of ethical behaviour.</p> <p>OM has a moderate risk appetite to ensure that its workforce is engaged, innovative, future focused and aligned to its strategic priorities and objectives. The OM focusses on recruiting, retaining and developing a high-quality workforce that reflects the diversity of the RSA.</p> <p>The OM has a moderate risk appetite for risks that could have an impact on service delivery to the people of Overstrand.</p> <p>The OM has a moderate risk appetite for risks associated with</p>

Risk appetite description	Risk appetite statements
	<p>infrastructure development and reconstruction.</p> <p>External risks are those that arise from events outside of the OM's control. These risks can offer negative and/or positive benefits. The OM cannot influence the likelihood of these types of risks but can reduce the cost of an impact. The OM therefore has a moderate appetite for:</p> <ul style="list-style-type: none"> • Risks that impact its economic environment including interest rates, exchange rates, share prices, GDP, inflation, employment and investment options. • Risks that impact its legislative sphere. • Challenges faced in the natural environment. • Risks inherent in its political landscape. • Risks emanating from its external social environment (e.g. urbanisation). • Risks that can negatively impact the OM's technological environment (advances and changes in technology).
High Appetite	<p>The OM has a high appetite for excellence and innovation through technology. We acknowledge that digital transformation changes are required to adapt to changes in regulator, society and the general business environment.</p>

The following is a high-level summary of the risk appetite level for each risk category:

LOW APPETITE (risks to be avoided – control systems to be well-designed)	MODERATE APPETITE (conservative risk taking with commensurate control systems)	HIGH APPETITE (receptive to risk-taking within acceptable limits)
<ul style="list-style-type: none"> • Compliance / Regulatory • Economic Crime • Health and Safety • Knowledge and Information Management • Loss / Theft of Assets • Third party performance / Contract Management • Information and Communication Technology (technology and system uptime) • Security Management 	<ul style="list-style-type: none"> • Non-compliance with Policies and Procedures • Business Continuity/ Disaster Recovery • Financial • Supply Chain Management • Litigation • Reputation • Organisational Culture • People Management • Service Delivery • Infrastructure development • Economic Environment • Political Environment • Social Environment • Natural Environment • Technological Environment • Legislative Environment 	<ul style="list-style-type: none"> • Information and Communication Technology (digital transformation)

9.1.4 Risk Tolerance

It is important for the OM to make an informed decision on the amount of risk the it is capable of bearing as part of normal management practice. Council has no (zero) tolerance for fraud and corruption and any risk pertaining to the safety of its employees.

The risk tolerance refers to the amount of risk OM is capable of bearing, or the acceptable level of variation relative to achievement of a specific objective, often best measured in the same unit as those used to measure the related objective. It is tactical and operational. Risk tolerance guides operating units/ departments as they implement risk appetite and communicates a degree of flexibility. Risk tolerances are a more specific subset of the risk appetite and dissect the assertions that make up the risk appetite statement. Whereas risk appetite is considered in the context of strategic planning and objectives, risk tolerance is considered in developing tactical objectives. That is, it addresses how much deviance from a specific objective the department is willing to allow.

The risk tolerance should be determined per risk, and in line with the abovementioned appetite statements as follows:

- Tolerance level for risks with a low appetite must range from 1 to 20;
- Tolerance level for risks with a moderate appetite must range from 20.1 to 40; and
- Tolerance level for risks with a high appetite must range from 40.1 to 100.

9.2 OBJECTIVE SETTING

ERM ensures that management has in place a process to set objectives and that the chosen objectives support and align with the OM's mission and are consistent with its risk appetite.

9.3 EVENT IDENTIFICATION

Event identification is the process of identifying potential risk events, including fraudulent activities that may affect the OM's ability to successfully implement strategies and achieve its objectives. Internal and external events affecting the achievement of objectives must be identified, distinguishing between risks and opportunities.

Management should consider all risk factors as well as those that may occur in the future, when identifying events.

9.4 RISK ASSESSMENTS

Risk assessments allow the OM to consider the extent to which potential events might have an impact on the achievement of key objectives. The OM assess events from two perspectives, namely impact and likelihood and normally uses the quantitative method i.e. risk rating scales for both the inherent and residual basis.

The purpose of risk assessment is to assist the OM to prioritise the risks in order of importance so that they can be addressed accordingly.

Assessments should be re-performed for the priority risks when significant environmental and/or organisational events occur, but at least once a year, to determine the changes on the status of risks and whether these demands further management action.

9.5 RISK RESPONSE

Having assessed relevant risks, management determines how it will respond to align the risks with the OM's risk appetite and risk tolerance, in other words how to bring the residual risk rating within acceptable levels.

Risk responses fall into one or more of the following categories:

- **Avoidance** – avoiding the risk, e.g. by choosing a different strategy or terminating the activity that produces the risk, to the extent that avoiding the risk is not in violation of its constitutional mandate.
- **Treatment** – treating the risk, e.g. by implementing or improving the internal control system to deal with the risk
- **Transfer** – transferring the risk (but not the accountability for achieving the related objective) to another party more competent to manage it, e.g. contracting out services, establishing strategic partnerships and buying insurance;
- **Acceptance** – accepting the risk where cost and strategy considerations rule out alternative strategies;
- **Exploit** – exploiting the risk actors by implementing strategies to take advantage of the opportunities presented by such risk factors.

In instances where risk is unavoidable but also not within the control of management, the response strategies should consider measures such as forward planning and lobbying. The assistance of the Council as well as the provincial and national government is vital in such instances and should be called upon as necessary.

9.7 CONTROL ACTIVITIES

The OM must establish and implement policies and procedures to ensure that risk responses are effectively carried out. Control activities occur throughout the municipality, at all levels and in all functions/ departments. They include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties, etc.

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

Management should develop the internal control architecture through:

- preventative controls to prevent errors or irregularities from occurring e.g. physical security of assets to prevent theft;
- detective controls to find errors or irregularities after they have occurred e.g. performance of reconciliation procedures to identify errors; and
- corrective controls that operate together with detective controls to correct errors or irregularities.

The internal control architecture should include:

- management controls to ensure that the OM's structure and systems support its policies, plans and objectives, and that it operates within laws and regulations;
- administrative controls to ensure that policies and objectives are implemented in an efficient and effective manner;
- accounting controls to ensure that resources are accounted for fully and transparently and are properly documented; and
- information technology controls to ensure security, integrity and availability of information.

9.7.1 Risk Action Plans

The action plans to reduce the risk (referred to as risk actions) are developed to reduce areas with high residual risk exposure.

The proposed risk actions must be practical. The person responsible for the implementation of the risk action, referred to as the risk action owner, must have or be able to obtain the funds, personnel, assets, skills and time required to implement the risk action.

10 RISK PROFILE

All the information regarding the risk or set of risks and the accompanying RM procedures, constitute the OM's risk profile. The risk profile of the OM should be used to measure the maturity of the RM process.

10.1 IMPLEMENTATION

10.1.1 Commitment

The Fraud and RM Strategy, Policy and Fraud Prevention & Anti-corruption Plan must be accepted and embraced by all stakeholders of the OM for it to be properly implemented and adhered to.

The provisions contained in the Fraud and RM Strategy and Policy must be carried out. Municipal officials must be held accountable for implementation of its provisions.

The OM is committed to eliminate fraud and fosters a culture of zero tolerance towards fraud and all its activities. The OM therefore undertakes to combat all forms of fraud and corruption as well as to remain pro-active in the fight against fraud and corruption.

The OM will investigate all allegations of fraud, corruption, theft, maladministration or any other dishonest activities of a similar nature. This includes the suspicion that fraud is occurring, attempts to commit fraud or incidents where fraud has already occurred.

The outcome of these investigations must then be used to apply appropriate remedies to the full extent of the law.

The OM will develop and enforce appropriate prevention and detection controls. The primary means of detecting fraud must remain a sound system of internal control and regular internal audits.

Prevention and detection controls include existing financial and any other controls and monitoring mechanisms implemented by the OM as prescribed by policies and regulations applicable to it.

10.1.2 Awareness

The stakeholders of the OM must be aware of the Fraud and RM Strategy, Policy and Plan and have knowledge of its contents.

10.1.3 Training

Municipal officials must receive training on how to comply with the Fraud and RM Strategy, Policy and applicable legislation, to ensure they understand and know how to execute their responsibilities regarding fraud prevention, anti-corruption and RM.

10.2 PROTECTION OF WHISTLE-BLOWERS

Management has identified a process for the protection of whistle-blowers to encourage reporting of unethical and fraudulent activities within OM. The processes are outlined in Annexure A of the Fraud and RM Strategy.

11 INFORMATION AND COMMUNICATION

11.1 Internal Communication

Pertinent information is identified, captured and communicated in a form and timeframe that enable management and employees to carry out their RM responsibilities. Information regarding RM should be communicated by email, file sharing, telephone and in person. Effective communication also occurs, flowing down, across and up in the municipality.

The OM's risk communication and reporting process is aimed to support enhanced decision making and accountability through:

- disseminating relevant, timely, accurate and complete information;
- providing information of appropriate content, granularity and style to the respective stakeholders to empowers officials to take proper risk actions, managers to manage risk within their portfolios, oversight functions and regulatory

authorities to oversee risk management efficacy and citizens to be kept informed; and

- communicating responsibilities and actions.

The reporting requirements regarding RM have been included in the responsibilities of the following role players and can be found in the documents outlined below:

Role player	Document
FARMCO	FARMCO Terms of Reference
JAPAC	JAPAC Charter
CRO	RM Strategy, RM Implementation Plan
Risk Action Owners	SOP for Risk Action updates

Other role players not listed above are required to report as instructed by law, to ensure compliance with all mandatory reporting on risk and RM, for example:

- disclosures required in the annual financial statements and annual report;
- reporting instructions of provincial and national government; and
- reporting instructions of oversight and regulatory authorities.

11.2 Community/ Public

Structures and processes must be created and maintained to encourage and enable the public to effortlessly communicate corrupt and/or fraudulent activities involving the OM, e.g public participation engagements i.e Ward Committee structures and other public participation structures in place, newsletters/ bulletins and National Fraud hotline.

11.3 Suppliers

Fraud prevention and anti-corruption measures must be stipulated in the OM's supply chain policies with regard to the procurement of goods and/or services and supplier performance/ contract management.

12 MONITORING

The system of ERM, including fraud prevention and anti-corruption activities, is monitored and modifications are made if necessary. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two.

Monthly monitoring occurs in the normal course of management activities. The RMU monitors the ERM of the municipality on an ongoing basis.

The scope and frequency of separate evaluations depend primarily on the assessment of risks and the effectiveness of ongoing monitoring procedures. The RMU and IAA can perform separate evaluations. Where the results of evaluations identify improvement, management must ensure that necessary and applicable actions are taken to address identified deficiencies, e.g awareness and training of officials. Ongoing training and awareness is necessary to keep officials informed and abreast of relevant risk developments.

13 INTEGRATION OF RM PLANS/ POLICIES

There are many separate plans and policies available that individually deal with fraud, IT, occupational health and safety, disaster management and compliance. These plans and policies contain risk information and risk mitigation plans.

All the different risk information and mitigation plans should be integrated into a single risk register, to provide a detailed and complete profile of the OM's risks.

14 COMBINED ASSURANCE

Combined assurance optimizes and maximizes the level of risk, governance and control oversight over the OM's risk landscape, by integrating, coordinating and aligning the RM and assurance processes within the municipality.

A Combined Assurance Model for the top 10 risks or risks above the risk appetite and tolerance is created and updated quarterly to ensure the OM's most significant risks receive adequate assurance.

The combined assurance activities of the OM are conducted in accordance with the Combined Assurance Policy Framework.

15 BUSINESS CONTINUITY

Business continuity is an integral part of RM. In the event of extended service outages caused by factors beyond the OM's control, the municipality must be able to restore services to the widest extent possible in a minimum time frame.

A Business Continuity Framework is in place to direct business continuity activities and a Business Continuity Committee has been established to oversee the execution of those activities.

16 ERM MATURITY

R 6 / 024

The ERM maturity of the municipality will be assessed on a yearly basis by the IAA, reviewed by FARMCO and the AO and monitored by the JAPAC.

The assessment will be used in the development of the RM implementation plan for the next financial year, to include initiatives to address the shortcomings identified in the assessment to enhance the ERM maturity of the OM.

17 FUNDING FOR FRAUD AND RM

Necessary financial commitments should be provided to cover the cost of implementing, maintaining and continuously improving the state of Fraud and RM and control.

The CRO controls the operating and capital costs of running the RMU.

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

Financial commitments to Fraud and RM be considered on the basis of cost versus the value that citizens derive.

Adequate funding should be provided by council to address the risks of the OM in terms of priorities as identified in the risk register.

18 POLICY REVIEW

R 6 / 025

The Fraud and RM Policy will be reviewed by FARMCO and the AO and, approved by the Municipal Council as and when necessary.

Review history:

Policy Section	Risk Management Unit
Current update	30 August 2023
Previous reviews	24 June 2020
	27 June 2018
	31 May 2017
	29 March 2017
	30 March 2016
	29 April 2015
	30 April 2014
26 June 2013	
Approved by Council	25 November 2009