



LEPHALALE
MUNICIPALITY

RISK MANAGEMENT POLICY

CONTENTS

No	Contents	Page no
1.	Background	3
2.	Regulatory framework	3-5
3.	Policy objectives	5-6
4.	Benefits of Risk Management	6
5.	Scope of Policy	6-7
6.	Role players	7-11
	Summary of risk management responsibilities	7-11
	Risk Management Standards	12-14
7	Access to Information	15
8.	Monitoring and evaluation	15-17
9.	Communication and compliance	17
10.	Policy review	17
11	Glossary of Terms	18
12	References	19

1. BACKGROUND

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

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

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

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

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

Lephalale Municipality is bound by its constitutional mandate to provide services or products in the interests of the public good. It has realized that no institution has the luxury of functioning in a risk-free environment and public institutions are especially vulnerable to risks associated with fulfilling their mandates.

1.1. MANAGEMENT VISION STATEMENT

To become trusted protector and promoter of financial viability, good governance, effective risk management culture and risk resilience, while delivering sustainable long-term value through prudent risk management and the integration of Enterprise Risk Management (EMR) principles.

2. REGULATORY FRAMEWORK

Risk management is a valuable management tool which increases an institution's prospects of success through minimizing negative outcomes and optimizing opportunities and as a result the

Risk Management Policy 2025/26

Municipality is committed in articulating the municipality's risk management philosophy in terms of how risk management is expected to support the Municipality in achieving its objectives.

2.1 Constitution of the Republic of South Africa, Act 108 of 1996 (Constitution)

Section 195 of the Constitution emphasizes the values and principles underpinning the 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 organizations achieve their outcomes. Risk management is undoubtedly one of the most important management tools during an era of public service reforms.

2.2 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.

2.3 The King IV Report on Corporate Governance

The King IV Report on corporate governance prescribes that an organization should establish a management structure that adequately identifies, measures, monitors and controls the risks involved in both strategic and operational directions.

2.4 Local Governments: 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:

2.4.1 Accounting Officer

Section 62 of the MFMA requires that:

1) 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-

(c) That the municipality has and maintains effective, efficient and transparent systems-

(i) of financial and risk management and internal control"

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

In terms of section 78 of **the MFMA** management responsibilities are extended to all senior managers and other officials of the Municipality. This implies that responsibility for risk

Risk Management Policy 2025/26

management vests at all levels of management and personnel and is not limited to only the Municipal Manager, the Risk Management Unit or Internal Audit division.

2.4.3 The IIA International standards for the Professional Practice of Internal Auditing

2.4.3.1 Role of Internal Audit in Risk Management

Standard 2120 – Risk Management states that “The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.” Specifically, the standard requires the internal audit activity to assess whether:

- ☐ The organization’s objectives align with its mission.
- ☐ Management assesses significant risks.
- ☐ Management’s risk responses align risks with the organization’s risk appetite.
- ☐ Relevant risk information is captured and communicated timely throughout the organization, including to the board.

Section 165 (2) of the MFMA requires that, the internal audit unit of a Municipality or Municipal entity must –

- (a) Prepare a risk based audit plan and an internal audit program for each financial year;
- (b) Advise the accounting officer and report to the audit committee on the implementation on the internal audit plan and matters relating to:
 - (i) risk and risk management."

2.4.3.2 Audit Committee

Section 166 (2) of the MFMA states, an audit committee is an independent advisory body which must–

- (a) 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 -
 - (ii) Risk and risk management."

3. POLICY OBJECTIVES

The objectives of the Policy are to:

- Promote the Public Sector Risk Management Framework in order to create an effective risk management culture at all levels within the Municipality and to improve risk transparency.

- Maximize value and net worth by managing risks that may impact on the defined financial and performance drivers of the Municipality.
- Assist the Municipality in enhancing and protecting those opportunities that represent the greatest service delivery benefits.
- Provide clarity in respect of the roles and responsibilities of the various key stakeholders in the Enterprise Risk Management value chain.
- Provide a framework for Enterprise-wide Risk Management
- Support the Municipality to improve and sustain their performance by enhancing their systems of risk management to protect against adverse outcomes and optimize opportunities.

4. BENEFITS OF RISK MANAGEMENT

The Lephalale Municipality implements and maintains effective, efficient and transparent systems of risk management and internal control. The risk management will assist the municipality to achieve, among other things, the following outcomes needed to underpin and enhance performance:

- more sustainable and reliable delivery of services;
- innovation, more confident and rigorous decision-making and planning;
- better identification of opportunities and threats;
- reduced waste, improved management and reduction in loss and cost risk;
- prevention of fraud and corruption and a clear understanding by all staff of their roles, responsibilities and authorities for managing risk
- better value for money through more efficient use of resources; and
- Better outputs and outcomes through improved project and programme management.

5. SCOPE OF THE POLICY

This policy applies to all employees, stakeholders, contractors, vendors / suppliers and any other party doing business with the Municipality.

The realisation of our strategic plan 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 the Municipality to anticipate and respond to changes in our service delivery environment, as well as to make informed decisions under conditions of uncertainty.

We subscribe to the fundamental principles that all resources will be applied economically to ensure:

5.2 The highest standards of service delivery;

- A management system containing the appropriate elements aimed at minimizing risks and costs in the interest of all stakeholders;

- Education and training of all our staff to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent conformance to the stakeholders expectations; and
- Maintaining an environment, this promotes the right attitude and sensitivity towards internal and external stakeholder satisfaction.

An entity-wide approach to risk management is adopted by the Lephalale Municipality, which means that every key risk in each part of the municipality will be included in a structured and systematic process of risk management. It is expected that the risk management processes will become embedded into the municipality's systems and processes, ensuring that our responses to risks remain current and dynamic. All risk management efforts will be focused on supporting the strategic objectives of the Municipality. Equally, they must ensure compliance with relevant legislation, and fulfill the expectations of employees, communities and other stakeholders in terms of corporate governance.

5.3. Project risk management

5.3.1 Project Risk Management is the systematic process of identifying, analyzing, and responding to project risks,

- maximizing the probability and consequences of positive events (opportunities) to project objectives and;
- Minimizing the probability and consequences of adverse events (threats) to project objectives.

The project risk assessment will be conducted in line with the approved municipality risk management policy as methodology adopted by the municipality.

The Risk management will also cover Fraud and ICT risk management.

6. ROLE PLAYERS

Every employee is responsible for executing risk management processes and adhering to risk management procedures laid down by the Council in their areas of responsibilities.

6.1 EXECUTIVE SUMMARY OF RISK MANAGEMENT RESPONSIBILITIES

6.1.1 Risk management responsibilities for the Accounting Officer

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

- Setting the tone at the top by supporting ERM and allocating resources towards the implementation thereof;
- Establishing the necessary structures and reporting lines within the

Municipality to support ERM;

- Approving the risk management framework, risk management policy, risk management implementation plan.
- Influencing an Municipality "risk aware" culture;
- Place the key risks at the forefront of the management agenda and devote personal attention to overseeing their effective management;
- Hold management accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities;
- Ensuring that a conducive control environment exists to ensure that identified risks are proactively managed;
- Leverage the Audit Committee, Internal Audit, Risk Management Committee and other appropriate structures for assurance on the effectiveness of risk management;
- Provide all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored;
- Consider and act on recommendations from the Audit and Performance Committee, Internal Audit, Risk Management Committee and other appropriate structures for improving the overall state of risk management;
- Provide appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management.

6.1.2 Risk management responsibilities of the Executive Management.

Management is accountable to the Municipal Manager for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of Polokwane Municipality.

The Municipal Manager is responsible for appointing a Manager: Risk Management to assist management in discharging its responsibilities. More specifically management is responsible for:

- Executing their responsibilities as set out in the risk management framework;
- Empowering officials to perform effectively in their risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- Aligning the functional risk management methodologies and processes with the Municipal process;
- Devoting personal attention to overseeing the management of key risks within their area of responsibility;
- Maintaining a co-operative relationship with the Risk Management Unit and Risk Champion;

- Providing risk management reports;
- Presenting to the Risk Management Committees as requested;
- Monitoring risk management within their area of responsibility;
- Holding officials accountable for their specific risk management responsibilities.
- Maintaining the functional risk profile within the Municipality's risk tolerance (ability to tolerate) and appetite (risk that it is willing to take);
- Implementing the directives of the Municipal Manager concerning risk management;
- Prioritizing and ranking risks in their area of responsibility to focus responses and interventions on risks outside the Municipality's tolerance levels;
- Benchmarking risk and risk mitigation activities;
- Assessing the effectiveness of risk management within area of responsibility; and
- Developing and implementing a fraud risk response plan.

6.1.3 Risk management responsibilities of individual employees

- Understand, accept and implement risk management processes
- Report inefficient, unnecessary or unworkable controls
- Report fraud, theft, corruption and incidents of override of controls
- Co-operate with management on incident investigations

6.1.4 Risk management responsibilities of Chief Risk Officer

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

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

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

- Assists the Risk Management Committee to fulfil its responsibilities in terms of its charter;
- Communicate with the Risk Management Committee regarding the status

- of enterprise-wide risk management;
- Takes overall responsibility for the common risk management framework and coordinate the risk management activities across the municipality;
- Proposes on a methodology and framework for ERM for approval by the Council; Undertakes a gap analysis of the municipality's ERM process;
- Performs reviews of the risk management process to improve the existing process;
- Facilitates quarterly risk management assessments and risk assessments for all major changes and incidents, such as accidents, purchases of capital equipment, restructuring of operational processes etc;
- Develops systems to facilitate risk monitoring and risk improvement; Ensures that all risk categories are included in the risk assessment;
- Aligns the risk identification process with the municipality's strategic objectives and integrated development plan;
- Agrees on a system of risk quantification;
- Compiles a consolidated risk register on a quarterly basis;
- Provides input into the reviewing of the occupational health, safety and environmental policies and practices;
- Creates mechanisms for identifying nodes of change;
- Consolidates all information pertaining to all risks related functions, processes and activities;
- Provides input into the development and implementation of business continuity management plans;
- Transfers the knowledge in respect of an effective and sustainable process of risk identification, quantification and monitoring to management;
-

6.1.5 Risk management responsibilities of Internal Audit:

- Develop a risk-based internal audit programme.
- Evaluate the effectiveness of Risk Management System/process of the Municipality to provide assurance that the risk management process is adequate and effective.

6.1.6 Risk management responsibilities of National Treasury

- Provide guidance to Risk Management as it is the Custodian of the public sector Risk Management framework.

6.1.7 Risk management responsibilities of Risk Champions

- 1) The Risk Champion is a person with the skills, knowledge, leadership qualities and power of office required to champion a particular aspect of risk management.
- (2) A key part of the Risk Champion's responsibility should involve intervening in

instances where the risk management efforts are being hampered, for example, by the lack of co-operation by Management and other officials and the lack of institutional skills and expertise.

(3) The Risk Champion should also add value to the risk management process by providing guidance and support to manage "problematic" risks and risks of a transversal nature that require a multiple participant approach.

(4) In order to fulfil his/her function, the Risk Champion should possess: a) a good understanding of risk management concepts, principles and processes; b) good analytical skills; c) expert power; d) leadership and motivational qualities; and e) good communication skills.

(5) The Risk Champion should not assume the role of the Risk Owner but should assist the Risk Owner to resolve problems.

(6) Some of the roles and responsibilities of the Risk Champion may also include:

- Advocating the culture of change and adopting risk management as a professional discipline to be adopted in every day management of activities and to strategically influence the current way of doing things which is compliance driven;
- Educating the stakeholders of the importance of managing risk in dealing with public funds, the responsibility that goes beyond meeting the requirements of meeting the requirements of financial management prescripts but most importantly impacting positively service delivery;
- Communicating the right message and driving this message to influence behaviour and discipline in getting the basics right. This extends further to ensuring the use of a common risk management language and consistent messages in all communications, and
- Informing the users and stakeholders of current demands, need to improve, what to improve and how to improve to leave the legacy that goes beyond compliance but continuous improvement of accountability and service delivery.

(7) A key part of the Risk Champion's responsibility should involve intervening in and escalating instances where the risk management efforts are being hampered, for example, by the lack of co-operation by Management and other officials and the lack of institutional skills and expertise

7. ACCESS TO INFORMATION

The Risk management unit has the authority to:

- Have unrestricted access to all municipality's records, including free and unrestricted access to the Accounting Officer, Management meetings, AGSA and the Chairperson of the Risk Management Committee records.
- Obtain the necessary assistance of personnel in units of the Municipality where risk assessments are performed, as well as other specialized services from within or outside the Municipality.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish Risk Management objectives.
- Risk Management must be a standing item on the management meetings.

8. MONITORING AND EVALUATION

8.1 Internal monitoring

Monitoring must focus on the effectiveness of the existing controls and the implementation of additional controls, as well as the cost-effectiveness of the existing controls.

The Risk Management Unit must monitor the effectiveness of risk mitigating strategies on monthly and quarterly basis;

Additionally, monitoring and measuring must include the evaluation of the risk awareness culture and the risk management framework, and an assessment of the extent to which risk management tasks are aligned with other corporate activities.

Monitoring and measuring must extend to the evaluation of culture, performance and preparedness of the Municipality.

The scope of activities covered by monitoring and measuring must include the monitoring of risk improvement recommendations and evaluation of the embedding of risk management activities in the Municipality, as well as the routine monitoring of risk performance indicators.

Monitoring the preparedness of the Municipality to cope with major disruption is an important part of risk management.

The evaluation of the existing controls will lead to the identification of risk improvement recommendations. These recommendations must be recorded in the risk register by way of a risk

action plan. Monitoring activities must provide assurance that appropriate controls are in place and that the procedures are understood and followed.

8.2 Assurance

The internal audit unit must provide independent assurance on the effectiveness of risk management activities in line with their internal audit coverage plan.

Monitoring and measuring processes must also determine whether:

- (a) Measures adopted achieved the intended result;
- (b) Procedures adopted were efficient;
- (c) Sufficient information was available for the risk assessments;
- (d) Improved knowledge would have helped to reach better decisions;
- (e) Lessons can be learned for future assessments and controls.

The various monitoring processes must be performed by Management, the Risk Management Committee and the Audit Committee.

8.3 Maturity Assessment

Risk maturity is a benchmarking tool, which measures to what extent an organization has implemented Enterprise Risk Management (ERM), in accordance with prevailing best practice.

The Risk Maturity Model (RMM) outlines key indicators and activities that comprise a sustainable, repeatable and mature enterprise risk management (ERM) program. Taking the risk maturity self-assessment, organizations benchmark how their risk management practices has matured against the risk management maturity indicators

The risk management maturity should be conducted at least annually using National Treasury website to assess the level of maturity. A clear process should be agreed and communicated to participants before the assessment is conducted.

8.4 Risk Appetite

Enables an improved consistency of decision making at all levels through improving risk understanding;

- Provides a framework for knowingly taking risk within defined boundaries;
- Improves the ability of the Audit & Performance Audit Committee to challenge recommendations of management by providing a benchmark of what level of risk is defined as acceptable; and
- Derives real value from the assessment of risk over and above compliance

- purposes.
- The risk appetite decided upon should be formally considered as part of the setting of business framework, with capital expenditure and other strategic decisions reviewed against it as they arise.

The key determinants of risk appetite are as follows:

- Expected performance;
- The resources needed to support risk taking;
- The culture of Lephalale Municipality
- Management experience along with risk and control management skills;
- Longer term strategic priorities;

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

8.5 External monitoring

Section 5(2) (c) (i) of the MFMA states that National Treasury may monitor and assess compliance by municipalities with the MFMA.

Section 5(2) (f) empowers National Treasury to take any other appropriate measures to perform its functions effectively. These particular prescripts therefore permit National Treasury to monitor and assess risk management within the local sphere of government. Furthermore, National Treasury should assess the quality of implementation to ensure that implementation does not become an end in itself, but a means to help institutions to understand their risks and manage such risks in a prudent manner.

9. COMPLIANCE AND ADOPTION

Compliance with this policy is essential to ensure that the Municipality's risks are monitored and managed on a continuous basis in order to maximize potential opportunities and minimize the adverse effects of risks and increase the likelihood that the Municipality's strategic and operational objectives will be achieved.

10. POLICY REVIEW

The Risk Management Policy should be reviewed on annual basis.

11. GLOSSARY OF TERMS

Throughout this document, the words used, unless otherwise the context indicates otherwise-

TERMINOLOGY	D DEFINITION OF TERMINOLOGY TER
Accounting officer/MM	Refers to the Municipal Manager
Constitution	Constitution of the Republic of South Africa, Act 108 of 1996
Enterprise Risk Management (ERM)	Enterprise risk management is a structured and consistent approach across the Municipality that aligns strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the risks (threats and opportunities) that the Municipality faces to create stakeholder value or choices made under conditions of uncertainty, bound by acceptable levels of risk, designed to sustain / maximize stakeholder value.
King IV	Refers to the king code of Corporate Governance for South Africa 2016.
MFMA-	Municipal Finance Management Act 56 of 2003
Municipality-	refers to Lephalale Local Municipality
Management	All officials of the institution except for the Chief risk Officer and officials reporting to him/her.
Other Officials	Refers to an official other than the Accounting Officer/Authority, Management, Chief Risk Officer and his/her staff.
Risk -	Refers to an unwanted outcome, actual or potential, to the department's service delivery and other performance objectives, caused by the presence of risk factor(s). Some risk factor(s) also present upside potential, which management must be aware of and be prepared to exploit. Such opportunities are encompassed in this definition of risk.
Risk management-	A systematic and formalized process instituted by the department to identify, assess, manage and monitor risks.
Risk Management committee	A committee appointed by the Accounting /authority to review the institution's system of risk management.
Risk Management unit	A business unit responsible for coordinating and supporting the overall institutional risk management process, but which does

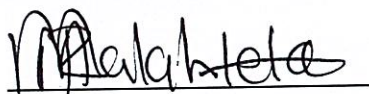
	not assume the responsibilities of management for identifying, assessing and managing risks
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12. REFERENCES

In the compilation of this Policy, extensive reliance was made on;

- I. Constitution of the Republic of South Africa, Act 108 of 1996 (Constitution)
 - II. Local Governments: Municipal Finance Management Act 56 of 2003 (MFMA)
 - III. The National Treasury's Public Sector Risk Management Framework guidelines and templates;
 - IV. COSO Enterprise Risk Management – Integrated Framework;
 - V. ISO 31000 'Risk management – Code of Practice';
 - VI. King IV Corporate Governance Code of Good Practices; and
- The IIA International standards for the Professional Practice of Internal Auditing

Compiled by:



Malahlela MJ

Chief Risk Officer

16 May 2025

Date

Reviewed and Recommended by



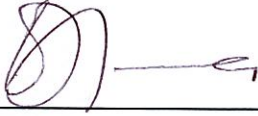
Mkhabela F

Risk Management Committee Chairperson

16 May 2025

Date

Approved by



Nogilana-Raphela P.F

Acting Municipal Manager

Lephalale Local Municipality

16 May 2025

Date

