

# BA-PHALABORWA MUNICIPALITY



## RISK APPETITE AND TOLERANCE FRAMEWORK 2022/23

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## 1. Introduction

Risk management worldwide has developed from a back-office control function into a strategic competitive weapon. It is the process whereby an institution both methodically and intuitively addresses the risks attached to its activities with the goal of achieving sustained benefit within each activity and across the portfolio of activities.

Ba-Phalaborwa Local Municipality's approach to Enterprise Risk Management (ERM) is aimed at evaluating, managing and optimizing the opportunities, threats and uncertainties that the Municipality may encounter in its efforts to provide services delivery to the community. Risk management is ultimately the responsibility of the Accounting Officer and delegated to the Risk Management Committee for oversight. The combined assurance model is applied that ensures that a comprehensive range of assurance providers are engaged to keep the Accounting Officer abreast with risk management activities.

## 2. Ba-Phalaborwa Local Municipality Context

Risk Management has to be applied to ensure that Ba-Phalaborwa Municipality strives and manages the attainment of its vision, mission and strategic objectives.

### **Vision**

Provision of Quality Services for Community Well-Being and Tourism Development

### **Mission**

To Provide Quality Infrastructure and Affordable Services, Promote Sustainable Economic Growth, Financial Viability, Sound Administration and Accountable Governance.

## 3. Legal Framework and Best Practice Guidelines

3.1. Municipal Finance Management Act No 56 of 2003 (MFMA) Section 62. (1) (c). The accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take steps to ensure that the municipality has and maintains effective, efficient and transparent system of financial and risk management and internal control.

3.2 Section 3.2.1 of the Treasury Regulations published in term of the PFMA: The accounting officer must ensure that a risk assessment is conducted regularly to identify emerging risks for the institution.

3.3 King IV report – Corporate Governance- Report on Corporate Governance for South Africa, 2016 Principle 11 – “The Governing Body should govern risk in a way that supports the organization in setting and achieving its strategic objectives”.

3.4 ISO 31000:2018: Risk Management – Guidelines, provides principles, framework and a process for managing risk. It can be used by any organization regardless of its size, activity or sector.

3.5 COSO (Committee of Sponsoring Organizations) is a joint initiative of five private sector organizations and is dedicated to providing thought leadership through the development of

frameworks and guidance on enterprise risk management internal control and fraud deterrence.

#### 4. Definitions

For the purposes of this document, unless the context indicates otherwise, the

<b>Accounting Officer</b>	Municipal Manager or an official duly delegated to act as the Municipal Manager who is responsible for the overall administration of the municipality.
<b>Action Owners</b>	The officials assigned specific responsibility for implementation of risk responses / further actions in the Risk Management Strategy
<b>Chief Audit Executive</b>	Chief audit executive describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework.
<b>Chief Risk Officer</b>	A person in a senior position responsible for effectively managing the risk management activity in accordance with the risk management policy and the charter and the job description of the incumbent.
<b>Constraint</b>	Constraints are defined as realities that limit or restrict a plan/ project in one or more ways. Constraints differ from risks because their impact on a plan/project is of certainty from the start. Risks can potentially occur. Constraints are realities that must be respected.
<b>Controls</b>	(Control Techniques) refer to any action taken by management and the Accounting Officer to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. It includes the policies, procedures and methods, which ensure that adverse events, which may negatively affect successful achievement of the process objectives, are prevented or detected and corrected. It includes soft controls such as the management style, ethics, communication, control environment, etc.
<b>Control Environment</b>	The attitude and options of the Accounting Officer and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements: j <ul style="list-style-type: none"> <li>‘ Integrity and ethical values.  </li> <li>‘ Management's philosophy and operating style.</li> <li>‘ Organizational structure</li> <li>‘ Assignment of authority and responsibility</li> <li>‘ Human resource policies and practices.</li> <li>‘ Competence of personnel.</li> </ul>

<b>Control Processes</b>	The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.
<b>Days</b>	The days of the week, including weekends and public holidays, i.e. Sunday to Saturday or Monday to Sunday.
<b>Effect</b>	The risk or exposure management and/or others encounter because the condition is not the same as the criteria (the impact of the difference). In determining the degree of risk or exposure, internal auditors should consider the effect their audit findings may have on the Municipality's risk exposure.
<b>Effectiveness/ Effective Control</b>	An assessment of whether the system of internal control is functioning as intended. Effective control is present when management directs systems in such a manner as to provide reasonable assurance that the Municipality's objectives and goals will be achieved.
<b>Efficiency</b>	Means that objectives and goals are accomplished in an accurate and timely fashion with optimal use of resources.
<b>Exposure</b>	The susceptibility / vulnerability of the Municipality or component of a Municipality to a risk.
<b>ERM</b>	Enterprise risk management is a process, adopted by the Accounting Officer, management and other personnel. applied in strategy setting and across the enterprise, designed to identify potential events that may affect the municipality, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of the municipal objectives.
<b>Framework</b>	The totality of the structures, methodology, procedures and definitions that the municipality has adopted to use to implement its risk management processes.
<b>Governance</b>	The combination of processes and structures implemented by the Accounting Officer to inform, direct, manage, and monitor the activities of the Department toward the achievement of its objectives. I
<b>Inherent Risk</b>	An adverse event or action that is intrinsic to the operations of the municipality that may affect the municipality's ability to achieve its objectives. This is the municipality's risk exposure assuming there are no controls and is measured based on the likelihood of occurrence and the impact should it occur.
<b>Integrity</b>	The quality or state of being of sound moral principle; uprightness, honesty, and sincerity; the desire to do the right thing, to protect and live up to a set of values and expectations.
<b>Internal Audit Unit</b>	A unit within the municipality engaged to add value and improve the municipal operations by providing objective assurance and consulting services. This is done by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of internal controls, risk management and governance processes.
<b>Internal Controls</b>	Measures, methods, techniques, systems whether manual, electronic or otherwise, policies, procedures and processes that have been put in place by management to prevent, detect and correct a risk.
<b>Inherent Limitations</b>	Limitations of RM that relate to the limits of human judgment: resource constraints; and the need to cost controls in relation to expected benefits; the reality that

	breakdowns can occur: and the possibility of management override and collusion. The effectiveness of RM is highly dependent on the co-operation of Management and the ability to mitigate risks.
<b>Likelihood</b>	A probability of adverse event causing a risk to materialize.
<b>Management</b>	The Accounting Officer with the first - line Branch and Sub - Division Managers.
<b>Operational Risks</b>	Risks that relate to the operational processes of the municipality.
<b>Rating Scales</b>	The scales adopted by the Ba-Phalaborwa Municipality in measuring the likelihood and impact of risk exposures and the effectiveness of existing controls.
<b>Reasonable Assurance</b>	The level of confidence that the assurance providers can give regarding the achievement of the municipality's objectives and the management of risks.  An absolute assurance (guarantee) cannot be provided due to inherent limitations in risk management.
<b>Residual Risk</b>	The remaining risk after management has acted to alter the likelihood or impact.
<b>Risk</b>	Threat that an event or action will adversely affect the Department's ability to achieve its objectives and to execute its strategies successfully. The Institute of Risk Management defines risk as " ... the uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood."
<b>Risk Appetite</b>	The amount and type of risk that the Department is willing to accept in pursuit of strategic objectives.
<b>Risk Champion/ Risk Owner</b>	An official with accountability over management of risks. This refers to the management in each particular unit/ branch.
<b>Risk Assessment</b>	A process of ascertaining the probability an impact of uncertain events or how potential event might affect the achievement of objectives.
<b>Risk Management</b>	A structured and systematic approach to set best course of action under uncertainty by identifying , assessing , implementing controls, monitoring and communicating risk issues in an on-going basis.
<b>Risk Tolerance</b>	The acceptable variation relative to the achievement of an objective.
<b>Risk Bearing Capacity</b>	The maximum amount of risk that the municipality is able to accept in line with its mission / values / strategic goals, without exposing it to the point where its existence and survival is under threat.
<b>Root Cause</b>	The underlying problem (problem at root) that gives rise to a risk.
<b>Strategic</b>	Is used with objectives having to do with high level goals that are aligned with and support the Department 's vision (mission).
<b>Strategic Risk</b>	A risk with direct bearing to the mandate / strategic objective of the Department.

## 5. Objectives of The Framework

The Risk Management Framework identifies the role -players and discusses their mandate in so far as risk management is concerned. It is important to read this Risk Appetite and Tolerance framework in conjunction with the Risk Management Framework and Policy as these documents place into perspective each of the roles that these parties have to play in managing the risks of the Municipality.

### The objectives of this framework is;

- To create structures within Ba-Phalaborwa Municipality that will effectively address and monitor risk exposures of the municipality.
- To embed a uniform approach to ERM at Ba-Phalaborwa Municipality, identify and assess all the risks that could affect the achievement of the Municipality objectives, its people, reputation, business processes and systems, as well as its financial and environmental performance.
- To ensure that these risks are dealt with at an acceptable level.

## 6. Applicability of The Framework

The Risk Management framework shall be applicable to the Accounting Officer, management and all employees of Ba-Phalaborwa Local Municipality.

## 7. Risk Appetite

### 7.1 Risk Appetite Meaning

Risk appetite can be defined as 'the amount and type of risk that the municipality is willing to take in order to meet its strategic objectives and goals.

- The [ISO 31000](#) risk management standard refers to risk appetite as the "Amount and type of risk that an organization is prepared to pursue, retain or take". In a literal sense, defining your appetite means defining how "hungry" you are for risk.
- The COSO ERM Framework defines risk appetite as "the amount of risk, on a broad level, an organization is willing to accept in pursuit of stakeholder value".

### 7.2 Risk Appetite Statement

An organization-wide risk appetite statement provides direction for the municipality and is a mandatory part of risk assessment. As defined by COSO. **"the risk appetite statement allows organizations to introduce operational policies that assure council and themselves that they are pursuing objectives within reasonable risk limits."** A risk appetite statement should be reflective of the municipality's strategic objectives and serve as a starting point for risk policies and procedures.

A risk appetite statement, put simply, is the amount and type of risk that an organization is willing to take in order to meet its strategic objectives - this includes reference to both the organization's risk appetite as well as its risk tolerance.

It is important to remember that risk appetite and tolerance levels are not static. They should be reviewed and reconsidered periodically by senior management to keep the municipality moving in the right direction.

**Ba-Phalaborwa Municipality Qualitative Risk Appetite Statement**

Ba-Phalaborwa Municipality shall not accept any risk that will negatively impact its vision of “To provide quality infrastructure and affordable services, promote sustainable economic growth, financial viability, sound administration and accountable governance” or shall it not accept any exposure to negative publicity or imprudent administration.

### 7.3 Management of The Risk Appetite

The Risk Matrix below demonstrates the two levels at which the appetite for risk of the municipality rests. In this regard, the municipality’s appetite is limited to the following risks:

- Risks that have a moderate probability of occurrence but insignificant impact, and
- Risks that have moderate impact and a rare probability of occurrence.

Risk Appetite						
Insignificant		Minor	Moderate	Major	Critical	Likelihood
Certain						
Likely	Level 2					
Moderate	Level 2					
Unlikely	Level 1	Level 2	Level 2			
Rare	Level 1	Level 1	Level 1	Level 1		
		<b>Impact</b>				

This framework further explains the Municipality’s in assessing both the impact and probability of risks. The appetite statement clearly articulates the Accounting Officer's appetite to risk and that is, **nothing above Insignificant Impact and unlikely probability, or, nothing above major Impact and rare probability.** This statement has to, however, be managed in light of practicalities around the municipality’s operations and those are the size of the municipality. the size and complexities of the community it serves and the financial and human constraints within the municipality.

In this regard, the management of the qualitative risk appetite is viewed at two levels. The first being the risk exposures that the Accounting Officer is not willing to compromise on, and the



second being those that can be negotiated and strategized around.

#### **7.4 Level 1 Risks: Risks That Must Always Be Within Appetite**

**Level: Insignificant Impact- Unlikely Probability or Major Impact- Rare Probability (Blue)**

The Accounting Officer has adopted a zero appetite for risk in the following areas:

- Fraud and corruption,
- Intentional breaches of laws and regulations,
- Intentional exposure to reputational damage, and
- Intentionally providing false or misleading information.

#### **7.5 Level 2: Risk That Must Be Viewed in Relation to Investment in Controls**

**Level: Minor and Moderate Impact, Moderate and Likely Probability (Green)**

The municipality has adopted a practical view to these risks and accepts that they may prevail in the short term and demand significant and unaffordable resources to mitigate. Further, the municipality accepts that some risks may occur as a result of system deficiencies rather than intentional sabotage, and such system deficiencies may not be resolvable in the short term. The risks in this level include:

- No intention to defraud, mislead or provide false information,  
Where there are no available resources in the short term to prevent the risk, and
- Where the cost benefit analysis does not justify the investment in controls.

Invariably these risks must be kept in the radar of the Accounting Officer until they are brought to the level of risk appetite.

#### **7.6 Customizing Risk Appetite for Ba-Phalaborwa Municipality Programs**

Risk appetite should be evolved from and support the strategic planning and objectives of the municipality. This framework helps articulate the risk of the municipality that could potentially impact on the achievement of the strategic goals (positively or negatively). The municipality should take the following into account:

- The municipality's core business
- If the municipality has a zero tolerance approach regarding compliance, it should be clearly documented in policies and as such enforced.
- Before setting risk appetite and tolerance levels, it helps to classify risk into different categories that the Municipality is, or may be exposed to in the pursuit of its objectives.

The Risk Appetite of the Municipality shall be managed at a level of Residual risk. In essence all control measures must be evaluated and rated for effectiveness prior to this assessment being conducted.

At the levels of operational risk, the Risk Champions and the Risk Owners as defined in the ERM Framework must ensure that the risk elements in their control are brought to the level of risk appetite through constant Implementation and monitoring of controls.

At the level of oversight, reports must be issued highlighting the level of conformity to the risk appetite

of the Accounting Officer.

Risk Categories enable the Management of the Municipality to manage broad risk exposures rather than individual risks. In essence, the categories elevate risk management into manifestations in order to limit time on management and oversight and increase strategic thrusts and effectiveness in managing risks

The risk categories shall be determined by the Chief Risk Officer in consultation with Management and adopted by the Risk Management Committee. The proposals for changes in the risk categories shall be motivated to the Risk Management Committees for approval

CATEGORY	DEFINITION	APPETITE AND TOLERANCE STATEMENT
Legislative Environment	Risks that expose the municipality to inadequate legislation and regulations and inadequate relationships between spheres of government and within the programmers of the municipality.	Effective local government legislation forms the foundation for BPM's sustained ability to deliver on its core mandate through the establishment of effective committees and structures to ensure strategic alignment and oversight. As such, BPM has zero tolerance for legislation and regulations that are not sound and responsive to deliver service to the people and will endeavor to put any measures necessary to manage the risk to an acceptable level.
Economic	Risks that would result in Macro - economic challenges of economic growth and provision of service delivery.	BPM is committed to creating an enabling environment to improve the local economy.
Human Resources	Risks that expose the municipality to ineffective mechanisms in managing the Human Resource Investment across sectors including workplace conflict, wage inequality.	BPM values its employees and holds the relationship with employees at higher esteem and is therefore committed to building human resource capacity through skills development, effective recruitment and the embedding the Batho Pele Principles into the organizational culture. BPM has zero tolerance for inequality, discrimination and matters impacting the health and safety of employees and clients. BPM is committed to develop, attract and retain the necessary relevant skills and will strive to maintain the vacancy rate <10%.

Knowledge and Information Management	Risks that expose the municipality to weaknesses in knowledge and information management leading to incorrect decisions by management.	BPM has zero tolerance for any risk that could negatively impact its brand and reputation and is committed to protecting and improving its brand through improved service delivery, client satisfaction, implementation of the integrated strategy and effective stakeholder management. BPM will not accept any negative publicity on national level and will respond to any reports in an honest, respectful and timely manner.
Compliance/Regulatory	Risks that would result in non-compliance with and lack of enforcement of the applicable legislative environment.	BPM is committed to creating a risk aware culture that is in full compliance with all applicable legislation and regulations and therefore has a zero tolerance for non-compliance to Legislation and Regulations.
Service Delivery	Risks that would compromise the municipality's ability to meet its service delivery mandate.	BPM is committed to provide faster, reliable and accessible services and applies a zero tolerance policy to any business disruption longer than 1 day or behavior/actions that would contradict the Botha Pele Principles and the Constitutional Mandate. In addition, BPM will continuously strive to achieve 100% of all performance targets for service delivery however will accept an 80% achievement until such time that turnaround strategy is fully implemented.
Information Technology	Risks that may compromise the Municipality's ability to continuously administer its affairs into the future from potential breaks in business operations.	BPM is committed to deliver quality ICT applications and services that meet the business needs in line with an effective corporate governance of the ICT framework. BPM will ensure delivery of adequate infrastructure and modernization to meet the evolving business objectives.
Litigation	Risks that expose the municipality to legal disputes.	BPM will strive to minimize litigation through ensuring alignment with constitutional values, reduce costs and promote social justice
Fraud and Corruption	Risks that result in the vulnerability of the municipality to fraud and corruption.	BPM has a zero tolerance policy with regard to fraud and corruption and is committed to take timely action to prevent, detect, investigate and remediate incidents of fraud and corruption and recover losses arising from such activities.
Financial	Risks that would result in financial drainage and have a direct bearing on the financial resources of the department.	BPM recognizes the importance of maintaining a healthy financial status. As such, strives to implement stringent controls to contain costs, minimize budget variance in line with the regulation while maintaining service levels. BPM

		has zero tolerance towards irregular, fruitless and wasteful expenditure.
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## 7.7 Risk Appetite Monitoring

The Chief Risk Officer will request all officials responsible for the indicator to complete and submit the required information on a quarterly basis prior to the scheduled meetings of the Risk Management Committee. The progress reports shall indicate

- Strategic and operational objectives potentially compromised,
- Explanation of threats associated with the risk,
- Explanation of resource constraints which prevent the risk owner from implementing mitigating controls, and

## 7.8 Risk Report

The Chief Risk Officer shall produce a report of all risks that have materialized in the municipality. This report will be produced in consultation with the Risk Owners as and when the risk materializes detailing the following:

- The nature of the risk that has materialized,
- The understanding of the causes for the risk materializing.
- The nature of the control breakdowns that led to the risk materializing,
- The proposed action that should be taken to manage the impact of the risk on the municipality and future occurrence of the risk and

A quarterly report of all reported incidents will be prepared for the Risk Management Committee.

## 8. Risk Tolerance

Risk tolerance defines the upper and lower levels that the municipality is able to deal with or to absorb without negatively impacting on its strategic objectives. Risk tolerance set acceptable levels of variation around risk. Operating within risk tolerances provides management with greater assurance that the municipality remains within its risk appetite, which in turn provides a higher degree of comfort that the organization will achieve its objectives.

It may not be possible to set accurate tolerances until risk intelligence has been collected over a period of time, but eventually one will be able to prioritize resources to the risks with the highest variation.

### 8.1 Strategic Goals and Tolerances

The following tolerances are proposed for the Senior Management to regularly get appraisal on their performance in order to secure consistent management oversight in ensuring the achievement of the goals of the municipality.

Measures and tolerances along each of the Goals have been identified for adoption by the Municipality. These should be assessed at least on quarterly basis and the results should be presented and discussed

at the Risk Management Committees.

### 8.2 Table of Tolerances:

These are the strategic goals that are proposed for constant monitoring upon which the risk appetite triggers and the tolerance limits will be defined. Key to the exercise is to ensure that there are systems within the operations of the Municipality and reliable external data sources that could be used to evaluate the Municipality's performance and exposure to risks beyond the predetermined tolerances.

### 8.3 Risk Categories and Tolerance Thresholds

CATEGORY	DEFINITION	TOLERANCE THRESHOLDS
Legislative Environment including policies and procedures.	Inadequate legislation and regulations that expose the Municipality to risks of weak / deteriorating relationships between spheres of government and within the programs of the Municipality.	<ul style="list-style-type: none"> <li>• Zero tolerance for inadequate compliance to legislation, policies and procedures.</li> </ul>
Human Resources	Risks that expose the Municipality to ineffective mechanisms in managing the Human Resource Investment across sectors including workplace conflict, wage inequality.	<ul style="list-style-type: none"> <li>• 0% vacancy at Senior Management Level</li> <li>• &lt; 10% vacancy rate</li> <li>• &lt; 6% staff turn-over rate quarterly</li> <li>• &lt; 5 incidents reported on inequality or discrimination</li> <li>• &lt; 5 disciplinary and grievance cases per quarter</li> <li>• &lt; 10% deviation on skills development plan</li> <li>• &lt; 90 days to conclude disciplinary proceeding case after the investigation.</li> <li>• 100% pre-employment screening requests processed within 05 working days of receipt of request</li> <li>• 100% of shortlisted candidates vetted.</li> </ul>
Contract Management	Risks that exposes the municipality to ineffective management of contracts.	<ul style="list-style-type: none"> <li>• 100% All of the service providers on site to have valid contracts.</li> </ul>
Knowledge and Information Management	Risks that expose the Municipality to weaknesses in knowledge and information management leading to incorrect decisions by	<ul style="list-style-type: none"> <li>• Zero tolerance for negative media publicity including social media.</li> </ul>

	management.	
Litigation	Risks that expose the Municipality to legal disputes.	<ul style="list-style-type: none"> <li>• 100% of court papers to facilitate legislation submitted with the Attorney in 10 working days of receipt of court documents</li> <li>• 100% of legal opinion requests finalized in 10 working days of receipt of competent request</li> <li>• 100% of contracts finalized in 10 working days of receipt of competent request</li> <li>• 100% of PAIA requests finalized in 21 working days of receipt of competent request</li> <li>• 100% of internal policies review requests finalized in 30 working days of receipt of competent request</li> </ul>
Performance Management	Risk that relater to poor performance and failure to achieve targets.	<ul style="list-style-type: none"> <li>• SBDIP to be approved before the beginning of the financial year.</li> <li>• 100% of quarterly institutional performance assessments conducted.</li> <li>• 100% of the Senior Managers to have Performance Agreements and assessed.</li> </ul>
Information Technology	Risks that may compromise the Municipality's ability to continuously administer its affairs into the future from potential breaks in business operations.	<ul style="list-style-type: none"> <li>• 10% of unplanned system downtimes (emails, financial system, internet)</li> <li>• 95% uptime of applications on support and maintenance contracts (financial system).</li> <li>• 100% of contracts renewed/ replaced before expiry date</li> <li>• 12 hours' recovery time/ point for BCM in line with the Business Impact Analysis.</li> <li>• 100% of registered projects with approved business cases must be on track</li> <li>• 100% of IT reported incidents finalized within service level agreement targets.</li> </ul>

		<ul style="list-style-type: none"> <li>• 5% underspending on ICT budget</li> </ul>
Service Delivery	Risks that would compromise the Municipality's ability to meet its service delivery mandate.	<ul style="list-style-type: none"> <li>• 100% of the achievement of targets in the SBDIP.</li> <li>• 80% of reported incidents finalized within prescribed timeframes.</li> <li>• Restoration of power outages within 10 hours.</li> <li>• 90% of the community to be provided with electricity.</li> <li>• Disruption of water supply lasting 10 hours.</li> <li>• Collection of waste weekly and 95% of the waste collected.</li> <li>• 3 days' disaster recovery time</li> <li>• Reported service delivery complaints resolved within 72 hours.</li> <li>• Zero tolerance to the non-achievement of the targeted capital projects registered.</li> <li>•</li> </ul>
Compliance / Regulatory	Risks that would result in non-compliance with and lack of enforcement of the applicable legislative environment.	<ul style="list-style-type: none"> <li>• Zero tolerance findings due to non-compliance for audit regulatory.</li> </ul>
Fraud and Corruption	Risks that result in the susceptibility of the department to fraud and corruption.	<ul style="list-style-type: none"> <li>• 100% of cases reported cases investigated within 90 days.</li> <li>• Zero tolerance to the non-recovery of fraud losses as supported by financial reports</li> <li>• Zero tolerance to non-disclosure of financial and business interest by staff</li> <li>• Zero tolerance to the non-referral of completed cases to relevant authorities within 30 days</li> </ul>
Financial	Risks that would result in financial drainage and have a direct bearing on the financial resources of the	<ul style="list-style-type: none"> <li>• Zero tolerance for late payments (&gt;30 days) for valid invoices.</li> <li>• &lt; 5% of Budget Variance.</li> </ul>

	Municipality.	<ul style="list-style-type: none"> <li>• Zero tolerance for unauthorized, irregular, fruitless and wasteful expenditure</li> </ul>
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#### 8.4 Risk Tolerance Monitoring

The Chief Risk Officer will request all officials responsible for the indicator complete and submit the required information on a quarterly basis prior to the scheduled meetings of the Risk Management Committee. Care must be taken that the Executive and the Accounting Officer are kept abreast with the contents of the information to be submitted.

#### 9. Risks That Are Outside Appetite but Within Tolerance.

This aspect of the report must discuss all risks that are outside of appetite, as would have been discussed in the Risk Appetite Report, but are still within pre-defined tolerance levels. The report must be elaborate in discussing the following:

- Actions proposed and implemented by management to contain these risks and bring them to the acceptable levels,
- Timeframes for the implementation of proposed actions to be within 3 to 6 months,
- Branches and Sub - divisions that are implicated in the strategic risk exposures and/or whom must take the proposed actions.
- Any factors that are posing as limiting or constraining factors to the containment of these risks, and
- Any financial implications for the implementation of the proposed actions.

#### 10. Risks that are Outside of Tolerance

The Chief Risk Officer's report must detail out all risks that are outside of the tolerance limits in the quarter. The report should trigger urgent action by the Executive and monitoring by the Oversight structures. The report must detail out the following:

- The factors that led to the risk exceeding the tolerance levels, including a reflection of transgressions that have led to the breach of tolerances.
- Actions proposed and implemented, in a period not exceeding 3 months, by management to contain these risks and bring them to the acceptable levels,
- The nature of communication that is necessary to prevent any potential reputational damage that may be caused by the risk,
- Timeframes for the implementation of proposed actions.
- Branches and Sub - divisions that are implicated in the strategic risk exposures and/or who must take the proposed actions,
- Any factors that are posing as limiting or constraining factors to the containment of these risks, and
- Any financial implications for the implementation of the proposed actions.

#### 11. Risk-Bearing Capacity



Risk-bearing capacity is the maximum amount of risk that the Municipality is able to accept in line with its mission / values / strategic goals, without exposing it to the point where its existence and survival is under threat. It is the ability to absorb additional risk based volatility in its results without detrimental effects to key plans, strategies, operational and financial resources. This is the full range of risks which could impact, either positively or negatively, on the ability of the Department to achieve its long-term objectives.

The risk bearing capacity of the municipality is directly linked to service delivery initiatives and can accommodate risks which fall outside of tolerance levels, but which have not reached the critical stage, as these are not sustainable in the medium term.

The risk is with the Risk Appetite.	The risk is outside of the risk appetite but within risk tolerance.	The risk is outside of the risk tolerance but within the risk bearing capacity.	If the risk falls in this area the department is outside the risk bearing capacity.
Within Appetite	Within Tolerance	Within Bearing Capacity	Outside Appetite, Tolerance and Bearing Capacity

## 12. Review of The Framework

This Framework should be reviewed at least annually or when there is a change in the Strategic Goals/ Objective of the Municipality.

## 13. Approval



\_\_\_\_\_  
Municipal Manager

Council Resolution: 202/22.

Council Resolution Date: 26/05/2022

