PREFACE

This Local Government Risk Management Framework has been developed in response to the requirements of the Municipal Finance Management Act for municipalities and municipal entities to implement and maintain effective, efficient and transparent systems of risk management and control.

The Framework devolves from the Public Sector Risk Management Framework. It has been customised to be local government centric with inputs drawn from applicable legislation, the Public Sector Risk Management Framework itself, as well as various local and international risk standards, guidelines and governance codes. A Toolkit consisting of a number of templates and other implementation tools accompanies the Framework to facilitate and enhance its implementation.

The Framework and toolkit will be reviewed and updated periodically to keep pace with new developments and the needs of users. Users of the Framework are encouraged to assist in improving the relevance and overall quality of the Framework by providing comments, critique and recommendations through the comments section.

ARRANGEMENT OF SECTIONS

SECTION 1: INTERPRETATION AND BACKGROUND

CHAPTER 1 - DEFINITIONS

1. Definitions

In this Framework, unless the context indicates otherwise -

"Accounting Officer" means:

a) In relation to a municipality, the Municipal Manager (as referred to in section 60 of the MFMA), and
b) in relation to a municipal entity, the Chief Executive Officer (as referred to in section 93 of the MFMA).

"Auditor-General" means:

The designated public auditor of the municipality or municipal entity, being the person appointed as Auditor-General in terms of section 193 of the Constitution, and includes a person -
(a) acting as Auditor-General
(b) acting in terms of a delegation by the Auditor-General; or
(c) designated by the Auditor-General to exercise a power or perform a duty of the Auditor-General

"Audit Committee" means:

An independent committee constituted to review the control, governance and risk management within the Institution, established in terms of section 166 of the MFMA.

"Categories of Municipalities" means:

Category A, B or C municipality referred to in Section 155 (1) of the Constitution.

"Capacity" means:

The capability of the Institution to execute its mandate and includes the sufficiency and competency of administrative, financial management and technical human resources, as well as infrastructure that enables the Institution to perform.

"Chief Risk Officer" means:

A senior official who is the head of the risk management unit.

"Combined assurance" means:

A process that seeks to optimise the scope of assurance to the Institution by harmonising the work of various providers of assurance through eliminating fragmentation and duplication of efforts.

"The Constitution" means:

The Constitution of the Republic of South Africa, the supreme law of the Republic

"Council" means:

a) In relation to a municipality, the Municipal Council as referred to in section 18 of the Municipal Structures Act, and as defined in section 1 of the MFMA; and
b) in relation to a municipal entity, the Municipal Council of its parent municipality.

"Enterprise-wide Risk Management (ERM)" means:

A systematic, co-ordinated and inclusive process which uses the Institution's strategy and objectives as the focal point to manage the range of risks and optimisation of opportunities to enhance the achievement of the strategy and objectives.

"Framework" means:

The Local Government Risk Management Framework.

"Incident" means:

A risk that has actualised.

"Inherent Risk" means:

The exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors.

"Institution" means:

A municipality or a municipal entity.

"Integrated Development Plan (IDP)" means:

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" means:

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.

"**King IV**" means:

The King Code of Corporate Governance for South Africa, 2016 for corporate governance best practice (Specifically "Part 6.2: Supplement for municipalities").

"Management" means:

Collectively, all levels of management personnel and officials of the Institution responsible for planning, organising, leading and controlling institutional activities. In other words, everyone except the Chief Risk Officer, Chief Audit Executive and staff reporting to them, who are deemed to be independent of management in the exercise of their responsibilities for risk management.

"MFMA" means:

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.

"Municipal Entity" means:

a) A company, co-operative, trust, fund or any other corporate entity established in terms of any applicable national or provincial legislation and which operates under the ownership control of one or more municipalities, and includes, in the case of a company under such ownership control, any subsidiary of that company, or
b) a service utility.

"Municipal Manager" means:

A person appointed in terms of section 82 (a) or (b) of the Municipal Structures Act, who is the head of administration and also the accounting officer for the municipality.

"Municipality" means:

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" means:

Any 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).

"**Operational Risk**" means:

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 regulatory authorities, customers, suppliers and the public, as well as other external events that impact on the objectives.

"Other Official" means:

An official other than the Accounting Officer, Management, Chief Risk Officer and his/her staff.

"Residual Risk" means:

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" means:

a) The effect of uncertainty on the achievement of the Institution'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" means:

The level of risk which is established through a rigorous analytical process (including consideration of cost versus benefit) that the Institution is prepared and able to accept in furtherance of its objectives.

"Risk Factor" means:

Any threat or event which creates, or has the potential to create risk.

"Risk Intelligence" means:

Information that is purposively identified, collected, analysed, presented and communicated for use in risk management decisions.

"Risk Management" means:

A systematic, coordinated set of activities and methods used to direct an organization and to control risks, including a set of principles, a framework and a process.

"Risk Management Committee" means:

A committee appointed by the Accounting Officer 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 Institution's system of risk management, especially the management of priority risks.

"Risk Management Unit" means:

A business unit which reports to and supports the Chief Risk Officer to fulfil his/her functions.

"Risk Maturity" means:

The sophistication and capability of the Institution to manage risks. Maturity is exhibited by the level of: risk culture, risk governance, risk management processes and Institutional competence [skills, knowledge, experience].

"Risk Owner" means:

The person accountable for managing a particular risk linked to the objective(s) he/she is responsible for.

"Service Delivery and Budget Implementation Plan (SDBIP)" means:

A detailed plan approved by the mayor of a municipality in terms of section 53(I)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget.

“Senior Manager” means:

(a) in relation to a municipality, a manager referred to in section 56 of the Municipal Systems Act; or

(b) in relation to a municipal entity, a manager directly accountable to the Chief Executive Officer of the entity

“Strategic Risk” means:

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.

CHAPTER 2 - PURPOSE, APPLICABILITY AND BACKGROUND

2. Purpose

(1) This Framework has been developed in terms of the following provisions of the MFMA:

a) sections 62(1)(c)(i) and 95(c)(i) of the MFMA, which require the Accounting Officers to ensure that their municipalities and municipal entities have and maintain effective, efficient and transparent systems of risk management;
b) section 20(1)(iv), (v) and (vi) of the MFMA, which empowers the Minister of Finance to prescribe uniform norms and standards in terms of this Act.

(2) The Framework aims to support Institutions (municipalities and municipal entities) to leverage effective risk management practices to protect against adverse outcomes and optimise opportunities, thereby improving institutional performance and enhancing value for citizens.

(3) The application of the Framework will enable the Executive, Management and officials to better understand risk and opportunities in the everyday functioning of the Institution and as a critical part of their normal duties, and to manage them more effectively.

(4) The Framework is perceived from the aforementioned MFMA perspective that seeks to enhance the effective, efficient and economical use of public resources. Its principles, tactics and documentation can however be utilised for risk management in the delivery of the municipal objectives set out in section 152 of The Constitution, read with Schedule 4 (Part 4B) thereto, as well as other legislative prescripts applicable to local government.

3. Applicability

(1) The Framework applies to municipalities and municipal entities, collectively referred to as "Institutions".

(2) The Framework recognises that Institutions are not homogenous hence it is not possible to produce a blueprint that can be generically replicated across all Institutions.

(3) The Framework is thus principles-based rather than being prescriptive. It aims to provide a high-level frame of good principles, standards, models and practices to help Institutions to address the management of risks in a comprehensive and structured manner.

(4) Appreciating the diverse constitutional authority of Institutions, as well as other dynamics of local government, Institutions are expected to adapt the Framework according to their specific requirements.

4. Background

(1) Institutions are bound by their Constitutional mandates to provide services or products in an efficient, cost effective and economical way.

(2) No institution functions in a risk-free environment and in fulfilling their mandates public institutions are especially vulnerable to risks while being ripe for opportunities at the same time.

(3) Many of the functions within the scope of the local government mandate pose substantial risk exposures but which cannot be avoided in the interest of the public good. Local government institutions therefore characterise elevated risk profiles. This places an extra duty of care on decision makers and

managers to ensure that risks are properly managed and the Institution is able to fulfil its mandate notwithstanding the inherent riskiness.

(4) Risk management is a valuable management tool which increases an Institution's prospects of success through minimising negative outcomes and optimising opportunities.

(5) Local and international trends confirm that risk management is a strategic imperative rather than an option within high performing institutions.

(6) A hallmark of high performing institutions is that they set clear and realistic strategies, develop achievable objectives aligned to the strategies, understand the intrinsic risks associated therewith and direct resources towards managing such risks on the basis of cost-benefit principles.

(7) Recognising the foregoing, sections 62(1)(c)(i) and 95(c)(i) of the MFMA enjoins Institutions to implement and maintain effective, efficient and transparent systems of risk management and internal control.

(8) The intention of 4(7) is that Institutions should leverage the system of risk management to achieve, among other things, the following outcomes to underpin and enhance overall performance:

a) more sustainable and reliable delivery of services;
b) informed decisions through appropriate rigour and analysis;
c) innovation;
d) reduced waste;
e) prevention of fraud and corruption;
f) better value for money through more efficient use of resources; and
g) better outputs and outcomes through improved project and programme management.

SECTION 2: PROCESS FRAMEWORK

CHAPTER 3 - CREATING AN ENABLING ENVIRONMENT

5. Creating an enabling environment for the management of risks

(1) In terms of section 62(1)(c)(1) of the MFMA, the Accounting Officer is responsible for ensuring that the Institution has an effective, efficient and transparent system of risk management.

(2) An appropriate Institutional environment must exist to support such a system, therefore establishing and maintaining a conducive environment becomes a critical responsibility for the Accounting Officer.

(3) The Institution's environment is the foundation of risk management, providing the underpinning culture, discipline, structure and processes that influence how strategy and objectives are established, how Institutional activities are planned and executed and how risks are identified, assessed and mitigated.

(4) To create a conducive environment, the Accounting Officer should ensure that the Institution:

a) operates within its Constitutional mandate;
b) adopts a value system founded on a public service ethos;
c) embraces a positive institutional culture characterised, inter alia by: respect for the Constitution and legal mandate(s) under which the Institution functions, respect for citizens and their needs, responsible stewardship of public resources and a commitment to exceptional performance;
d) has the required capacity to execute its mandate;
e) adopts management practices that embrace the concepts of delegation of authority, personal responsibility, accountability and performance management;
f) has an appropriate organisational structure supported by basic financial and management systems underpinned by risk management and internal controls; and
g) incorporates the elements of this Framework within job descriptions, operational policies and reporting procedures throughout Institution, to enable risk management as an embedded and routine part of operations and responsibilities.

(5) A compliance culture is critical for the effective management of risks in the local government environment. The typical preponderance of legislation and regulations are intended to drive good behaviour by restricting undesirable risk taking and encouraging positive actions. Good compliance would normally correlate to good performance (read: good risk management) without the need for extravagant risk management practices.

(6) The capabilities of the entire Institution must be harnessed in the risk management effort through a process of combined assurance. Every employee, working group and committee should become an integral part of the collective system of risk management. Their roles and expected contribution must be formally established and communicated and they need to be capacitated to perform accordingly.

6. Setting institutional objectives

(1) The Accounting Officer should establish objectives that are consistent with the Institution's Constitutional mandate and follows the prescribed consultative process to solicit public inputs.

(2) The Accounting Officer must ensure that:

a) objectives are finalised through a rigorous analysis of the costs and citizenry value associated with incurring such costs;
b) services are appropriate, economical, efficient and equitable;

c) the Institution has and maintains an effective process to identify the risks inherent in the chosen objectives; and
d) the Institution is able to manage such risks effectively, economically and efficiently, or
e) the decision to assume relatively high risk is done in terms of an approved risk appetite framework.

7. Risk management policy

(1) The Institution should operate within the terms of a risk management policy approved by the Accounting Officer, or the governing body in the case of municipal entities.

(2) The risk management policy should:

a) communicate the Institution's risk management philosophy particularly how risk management is expected to support the Institution in achieving its objectives;
b) incorporate a statement committing the Institution to implementing and maintaining an effective, efficient and transparent system of risk management;
c) define risk and risk management as they apply within the Institution's particular context;
d) spell out the objectives of risk management;
e) outline the risk management approach; and
f) identify the key role players and their responsibilities.

(3) The risk management policy should be communicated to all incumbent officials as well as new recruits within a reasonable time after they join the Institution.

8. Risk management strategy

(1) The implementation of the Institution's risk management policy should be guided by a strategy approved by the Accounting Officer, or the governing body in the case of municipal entities.

(2) The strategy should include:

a) a description of the risk management modality;
b) the Institution's risk management architecture, responsibilities for various activities and reporting protocols;
c) the current state of risk management and a plan of action to improve the Institution's risk management capabilities; and
d) details of review and assurance of the risk management process.

(3) The Institution must apply measures for combating fraud, corruption, favouritism and unfair and irregular practices in municipal supply chain management in terms of paragraph (112)(1)(m) of the MFMA. Thus, the risk management strategy must specifically address this requirement.

9. Organisational structure

(1) The Accounting Officer should delegate the functions set out in chapter 14 to the Institution's Chief Risk Officer.

(2) The Accounting Officer should further delegate functions to support the institutional system of risk management being mindful of the need for optimal co-ordination and synergy of risk management activities.

(3) To give effect to the above, the work of business units, working groups and committees should be structured and co-ordinated through a process of combined assurance to provide a complete

perspective of the Institution's risk exposures as well as opportunities, and how they are being managed.

(4) The job profiles and performance management criteria of all staff, as well as the terms of reference for working groups and committees must incorporate their responsibilities for risk management.

10. Human resource capacity

(1) Adequate human resources capacity, represented by the requisite staff complement and bearing the appropriate skills and experience is fundamental to implement and maintain the system of risk management.

(2) All employees should be sensitised to the importance of risk management to the achievement of their individual performance objectives as well as the overall institutional objectives.

(3) Training and development opportunities should be provided to equip employees to optimally execute their responsibilities as described in Section 3.

(5) The Chief Risk Officer and staff reporting to him/her should possess the necessary skills, competencies and attitudes to execute the functions set out in Chapter 14.

(6) The job profiles and performance management criteria of all management and staff must incorporate their responsibilities for risk management.

11. Tools and technology

(1) Tools and technology can produce considerable efficiencies by simplifying complex processes, providing business intelligence and accelerating otherwise time-consuming tasks in the risk management process.

(2) The Institution should embrace the use of automated tools for acquiring, capturing, organising, storing and interrogating data, as well as for communicating and tracking information in order to reach higher levels of risk maturity.

(3) The above can be achieved by use of existing line of business applications as well as other support tools and technology already in use in the Institution, with adaptation as may be necessary. This should be considered first before investment in specialised systems is considered.

(4) This Framework provides a number of tools which could be of benefit.

12. Funding the risk management activities

(1) Financial commitments are needed to cover the cost of implementing, maintaining and continuously improving the state of risk management and control.

(2) The Chief Risk Officer should control the operating and capital costs of running the Risk Management Unit.

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

(4) Financial commitments to risk management be considered on the basis of cost versus the value that citizens derive.

CHAPTER 4 - INTEGRATION OF RISK MANAGEMENT ACTIVITIES

13. Enterprise-wide risk management (ERM)

(1) ERM is a systematic, co-ordinated and inclusive process which uses the Institution's strategy (IDP) and objectives (SDBIP) as the focal points to manage the range of risks and optimise opportunities to enhance the achievement of the strategy and objectives.

(2) ERM represents a response to the dilemma that risks (including opportunities) are dynamic and often highly interdependent and need to be managed through a portfolio approach rather than as separate and static events, to achieve comprehensive and integrated attention.

(3) ERM also calls for the Institution to look beyond itself, requiring the consideration of risks on performance regardless of whether events originate internally or externally. In other words, the Institution should also be concerned about risks created by other parties which could impact its performance.

(4) To give effect to 13(3), the Institution should:

a) consider the entire value chain for producing and delivering services or goods, to understand and act on the threats and opportunities posed by the value chain participants on the Institution's performance;
b) communicate timeously with other organs of state and external parties in instances where the identification, evaluation and management of risk to the Institution require the participation of these organs; and
c) identify and communicate to other organs of state and other parties risks posed to them by the Institution's own actions or inaction.

(5) The Institution must be aware of and comply with various legislations that prescribe specialised risk management, for example, Occupational Health and Safety Act, Disaster Management Act, Prevention of Fraud and Corruption Act and others, and integrate these within the ERM process.

(6) True to the concept of ERM and the principles of combined assurance, synergy should be established between the Risk Management Unit, Risk Management Committee and internal functions concerned with specialised risk management activities, including but not limited to those for:

a) strategy planning and management;
b) occupational health and safety;
c) environmental risk management;
d) disaster management
e) business continuity management;
f) prevention of fraud and corruption;
g) contracts management;
h) internal audit;
i) performance monitoring and evaluation; and
j) oversight of municipal entities.

CHAPTER 5 - RISK IDENTIFICATION

14. Risk identification

(1) Risk identification is a deliberate and systematic effort to find, recognise, describe and document the Institution's risks, with the main focus being on the risks that have a significant impact the Institution's objective.

(2) The purpose of risk identification is to understand what is at risk within the context of the Institution's explicit and implicit objectives and to generate a comprehensive inventory of such risks based on the threats and events that might prevent, degrade, delay or enhance the achievement of the objectives.

(3) The risk identification process should expose what is uncertain, as well as the source(s), cause(s) and the consequence(s) of uncertainties.

(4) The risk identification process must be able respond to the typically dynamic nature of the risk environment by being able to timeously detect new and emerging risks, as well as risks that no longer relevant.

(5) The risk identification process should cover all risks, regardless of whether or not the sources of such risks are within the direct control of the Institution. A risk must not be ignored because the Institution does not have control over it.

(6) Risk identification should be inclusive, not overly rely on the inputs of a few senior officials and should also draw as much as possible on unbiased independent sources, including the perspectives of important stakeholders.

(7) Risk workshops and interviews are useful for identifying, filtering and screening risks but it is important that these judgement-based techniques be supplemented by more robust and sophisticated methods where possible, including quantitative techniques.

(8) Risk identification should be strengthened by supplementing management's perceptions of risks with independent information and quantitative analysis. Depending on the risk being considered the following could provide useful information:

a) review of external and internal audit reports;

b) financial analyses;

c) historic data analyses;

d) actual loss data;

e) incident reports;

f) insurance survey reports;

g) health and safety surveys;

h) fraud risk assessment reports;

i) operational research;

j) scenario analyses;

k) forecasting and stress testing;

l) interrogation of trends in key performance indicators;

m) benchmarking against peer group or quasi peer group;

n) market and sector information;

o) specialist and expert judgements;

p) oversight reports issued by relevant authorities such as National Treasury, Provincial Treasury and others, and

q) national and global risk reports such as those issued by the World Economic Forum and the Institute of Risk Management South Africa.

(9) Identification of risk should extend across the institution's entire value chain for producing and delivering services or goods, to identify the threats and opportunities posed by the value chain participants to the Institution's performance.

(10) Contingent risks such as those inherent in guarantees provided to entities and public private partnership arrangements must not be neglected.

(11) The Institution must be aware of specific prescriptions and/or guidance by regulatory and other relevant authorities concerning risk identification and reporting protocols.

15. Focus points of risk identification

(1) To ensure a comprehensive process of risk identification, the Institution should identify risks by considering both internal and external risk factors, through:

a) Strategic risk identification to identify risks ensuing from the strategic choices made in the Integrated Development Plan (IDP), as well as execution risk associated therewith:

i) the Institution's strategic risks should be identified and documented as part of the Institution's strategy setting process, which is assumed to include the consideration of threats and opportunities, and uses the Institutional risk register as one source of information;

ii) strategic risk identification as part of the process to finalise the IDP ensures that strategic targets are risk-adjusted to ensure that they are realistic and achievable within existing and acquirable capacity;

iii) it also helps focus the risk plan to take account of the identified strategic risks that need to be managed through the normal functioning of the system of risk management, and

iv) strategic risks should be formally reviewed concurrently with changes in strategy, or at least once a year to consider new and emerging risks.

b) Operational risk identification based on the SDBIP to identify risks concerned with the Institution's operations:

i) operational risk identification should concern itself with identifying events that retard or advance the achievement of the SDBIP;

ii) the process should examine vulnerabilities and opportunities presented by employees, Institutional processes and systems, contractors, regulatory authorities and external events using a variety of relevant sources and techniques, such as those mentioned in 14(7);

iii) operational risk identification should be an embedded continuous process to identify new and emerging risks and consider changes in known risks using mechanisms such as management and committee meetings, environmental scanning, process reviews and the like, and

iv) operational risk identification should be repeated when significant environmental or Institutional changes occur, or at least once a year, to identify new and emerging risks.

c) Project risk identification to identify risks inherent to particular projects:

i) project risks should be identified for all major projects, covering the whole lifecycle, and

ii) for long term projects, the project risk register should be reviewed at least once a year to identify new and emerging risks.

CHAPTER 6 - RISK ASSESSMENT

16. Risk assessment

(1) Risk assessment is a systematic process to assign values to risks based on likelihood and probability criteria. The Institution must adopt a credible risk rating matrix and related criterion for this purpose.

(2) The purpose of risk assessment is to help the Institution to prioritise the risks in order of importance so that they can be addressed accordingly.

(3) Risk assessment should be performed through a three-stage process:

(i) the inherent risk should be assessed to establish the level of exposure in the absence of deliberate management actions to influence the risk;
(ii) a residual risk assessment should follow to determine the remaining level of risk after the mitigating effects of management actions to influence the risk are factored in; and
(iii) the residual risk should be evaluated against the Institution's risk appetite to determine if additional management intervention is needed to reduce the risk further.

(4) Risk assessment should be strengthened by supplementing Management's perceptions with the methods referred to in 14(7).

(5) 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 in the level of risks and whether these demands further management action.

CHAPTER 7 - RISK RESPONSE

17. Responding to risks

(1) Risk response is concerned with developing appropriate strategies, tactics and internal controls to address risks.

(2) Risk response should also make provision for the exploitation of opportunities to improve the performance of the Institution.

(3) Management should develop response strategies for all priority risks, whether or not the management thereof is within the direct control of the Institution, prioritising the risks exceeding or nearing the risk appetite level.

(4) Where the management of the risk is within the control of the Institution, the response strategies should consider:

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

(5) 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 lobbing. The assistance of Council as well as provincial and national government is vital in such instances and should be called upon as necessary.

(6) Risk responses must produce net positive outcomes, that is to say, it must reduce net negative outcomes or maximise positive outcomes. It is important therefore to ensure through careful thought before implementation, and monitoring thereafter, that responding to risks does not inadvertently produce adverse results. A typical example would be where actions taken in one area stifles the performance of another, with an end result placing the Institution in a worse position.

(7) Response strategies should be documented and the responsibilities and implementation timelines should be communicated to the relevant persons.

(8) Incidents (risks that have eventualised) must be addressed in terms of the Institution's Incident Management and/or Business Continuity & Disaster Recovery processes. However, the possibility of new risks triggered should be considered when this happens.

18. Designing control activities to mitigate risks

(1) Management is responsible for designing, implementing and monitoring the effective functioning of system internal controls.

(2) Without derogating from the above, everyone in the Institution should also have responsibilities for maintaining effective systems of internal controls, in line with their delegated authority.

(3) Management should develop the internal control architecture through:

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

(4) The internal control architecture should include:

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

CHAPTER 8 - COMMUNICATION AND REPORTING

19. Communication and reporting

(1) Relevant information, properly and timeously communicated is essential to equip the relevant officials to identify, assess and respond to risks.

(2) The Institution's risk communication and reporting process should support enhanced decision making and accountability through:

a) disseminating relevant, timely, accurate and complete information;
b) providing information of appropriate content, granularity and style to the respective audience that 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
c) communicating responsibilities and actions.

(3) Risk reports are valuable when they report on the status of the Institution's risk profile, elaborating on:
(a) what has actually happened vs expectations, why and any remedial actions;
(b) what is new, changed or has gone away since the previous report, and why this is so;
(c) future expectations; and
(d) the state of the Institution's risk maturity

(4) The Institution must ensure compliance with all mandatory reporting on risk and risk management, for example:
a) disclosures required in the annual financial statements and annual report;
b) reporting instructions of provincial and national government; and
c) reporting instructions of oversight and regulatory authorities.

CHAPTER 9 - MONITORING

20. Risk monitoring

(1) Monitoring concerns checking on a regular basis to confirm the proper functioning of the entire risk management system.

(2) Monitoring should be effected through ongoing activities or separate evaluations to ascertain whether risk management is effectively practised at all levels and across the Institution in accordance with the risk management policy, strategy and plan.

(3) Monitoring activities should focus on evaluating whether:

a) assigned responsibilities are being executed effectively;
b) risk response strategies are producing the desired result of mitigating risks or exploiting opportunities; and
c) improvements in the system of risk management are producing positive changes in Institutional performance.

(4) Section 71 of the MFMA which requires the Accounting Officer to assess and report on the half year performance of the Institution presents an ideal opportunity for a critical re-evaluation of the state of risk and risk management for the year under review.

SECTION 3: ROLES AND RESPONSIBILITIES

CHAPTER 10 - RISK MANAGEMENT FUNCTIONS OF THE COUNCIL

21. Functions of the Council with respect to risk management

(1) The Council should take an interest in risk management to the extent necessary to obtain comfort that properly established and functioning systems of risk management are in place to protect the Institution against significant risks.

(2) Responsibilities of the Council in risk management should include:

a) ensuring that the Institutional strategy and objectives are aligned to the government mandate and community's priorities;
b) insisting on the achievement of objectives, effective performance management and value for money.
c) understand the Institution's risk profile;
d) being aware of and concurring with the Institution's risk appetite;
e) understanding the priority risks, especially those where Council can play a role in risk mitigation without interfering with the mandate of the Accounting Officer;
f) obtaining assurance from management that the Institution's strategic choices were based on a rigorous assessment of risk;
g) obtaining assurance that priority risks inherent in the Institution's strategies were identified and assessed, and are being properly managed;
h) assisting the Accounting Officer with fiscal, intergovernmental, political and other risks beyond his/her control and influence; and

(3) When other agencies deliver services, Council must retain power and ensure that delegated functions are performed properly within a clear policy framework and legal contracts.

CHAPTER 11 - RISK MANAGEMENT FUNCTONS OF ACCOUNTING OFFICERS

22. Functions of Accounting Officer with respect to risk management

(1) The Accounting Officer is the ultimate Chief Risk Officer of the Institution, assumes ownership of risk management and is accountable for the Institution's overall governance of risk;

(2) The Accounting Officer may delegate the responsibilities for developing and maintaining an effective and efficient system of risk management as set out in paragraph 25 to a competent Chief Risk Officer but maintains accountability.

(3) The Accounting Officer sets the tone for integrity, ethics and other factors of the control environment in the Institution.

(4) High level responsibilities of the Accounting Officer should include:

a) setting an appropriate tone by supporting and being seen to be support the Institution's aspirations for effective risk management;
b) delegating responsibilities for risk management to Management and internal functions such as the Risk Management Committee, Fraud Prevention Committee, Finance Committee, Information and Communication Technology Committee, and holding them accountable;
c) holding Management accountable for designing, implementing, monitoring and integrating risk management into their day-to-day activities;

d) providing leadership and guidance to enable Management and internal structures responsible for various aspects of risk management to properly perform their functions;
e) ensuring that the control environment supports the effective functioning of risk management as discussed in Chapter 3;
f) considering the inputs and recommendations of the Audit Committee and Risk Management Committee, approve:
    i. the risk management policy, strategy, and implementation plan;
    ii. the fraud prevention policy, strategy and implementation plan
    iii. risk appetite framework
g) devoting personal attention to overseeing management of the priority risks;
h) leveraging the Audit Committee, Internal Audit, Auditor-General and Risk Management Committee for assurance on the effectiveness of risk management;
i) ensuring appropriate action in respect of the recommendations of the Audit Committee, Internal Audit, Auditor-General and Risk Management Committee to improve risk management; and
j) providing assurance to relevant stakeholders that priority risks are properly identified, assessed and mitigated.

CHAPTER 12 - RISK MANAGEMENT FUNCTIONS OF AUDIT COMMITTEES

23. Functions of the Audit Committee with respect to risk management

(1) The Audit Committee is an independent committee responsible for oversight of the Institution's control, governance and risk management.

(2) The responsibilities of the Audit Committee with respect to risk management should be formally defined in its charter.

(3) The Audit Committee should provide an independent and objective view of the Institution's risk management effectiveness.

(9) The Audit Committee should be active and posses appropriate management, technical and other expertise, coupled with the mind-set to perform its oversight responsibility.

(10) The Audit Committee must be prepared to scrutinise and question management activities, present alternative views and act in the face of wrongdoing.

(4) Responsibilities of the Audit Committee, where there is a separate Risk Management Committee, should include:

a) reviewing and recommending disclosures on matters of risk in the annual financial statements and annual report;
b) reviewing and providing regular feedback to the Accounting Officer on the adequacy and effectiveness of risk management in the Institution, including recommendations for improvement;
c) ensuring that the Internal Audit and Auditor-General plans are aligned to the risk profile of the Institution;
d) providing oversight over the combined assurance process
e) reviewing and concurring with the Institution's risk appetite
f) receiving and considering reports from the Risk Management Committee
g) satisfying itself that it has appropriately addressed the following areas:

    (i) financial reporting risks, including the risk of fraud;
    (ii) internal financial controls; and

(iii) IT risks as they relate to financial reporting.

g) evaluate the effectiveness of Internal Audit in its responsibilities for risk management.

(5) Where there is no separate Risk Management Committee, the risk management responsibilities of the Audit Committee should be identical to those listed in 24(4).

CHAPTER 13 - FUNCTIONS OF RISK MANAGEMENT COMMITTEES

24. Functions of the Risk Management Committee

(1) The Risk Management Committee is appointed by the Accounting Officer to assist in the discharge of their responsibilities for risk management.

(2) The membership of the Risk Management Committee should comprise both management and external members with the necessary blend of skills, competencies and attributes, including the following critical aspects:

a) an intimate understanding of the Institution's mandate and operations;
b) the ability to act independently and objectively in the interest of the Institution; and
c) a deep understanding of risk management principles and their application.

(3) The chairperson of the Risk Management Committee should be an independent external person, appointed by the Accounting Officer.

(4) The responsibilities of the Risk Management Committee should be formally defined in a charter approved by the Accounting Officer.

(5) In discharging its governance responsibilities relating to risk management, the Risk Management Committee should:

a) review and recommend for the Approval of the Accounting Officer, the:

   (i) risk management policy;
   (ii) risk management strategy and implementation plan;
   (iv) risk appetite framework;

b) evaluate the extent and effectiveness of integration of the risk management framework within the Institution;
c) evaluate the effectiveness of the mitigating strategies implemented to address the priority risks of the Institution;
d) review the material findings and recommendations by assurance providers on the system of risk management and monitor the implementation of such recommendations;
e) develop key performance indicators for its own performance for approval by the Accounting Officer;
f) collaborate with the Audit Committee on all matters concerning risks and risk management; and
g) provide timely and useful reports to the Accounting Officer and Audit Committee on the state of risk management, together with recommendations to address any deficiencies identified.

(6) In instances where the scale, complexity and geographical dispersion of the Institution's activities dictate the need for the Risk Management Committee to work through sub-committees, the Risk Management Committee should ensure that:

a) approval is obtained from the Council for the establishment of the sub-committees;

b) the terms of reference of the sub-committees are aligned to that of the Risk Management Committee; and
c) the Risk Management Committee exercises control over the functioning of the sub-committees.

CHAPTER 14 - FUNCTIONS OF CHIEF RISK OFFICERS

25. Functions of the Chief Risk Officer

(1) The primary responsibility of the Chief Risk Officer is to bring to bear his / her specialist expertise to assist the Institution to embed risk management and leverage its benefits to enhance performance.

(2) The high-level responsibilities of the Chief Risk Officer should include:

a) being responsible for the Risk Management Unit and other delegations by the Accounting Officer;
b) working with senior management to develop the Institution's vision for risk management;
c) developing, in consultation with management, the Institution's risk management framework incorporating, inter alia, the:

    (i) risk management policy;
    (ii) risk management strategy and implementation plan;
    (iv) risk identification and assessment methodology;
    (v) risk appetite; and
    (vi) risk classification.

d) determining, implementing and maintaining effective risk management infrastructure, policies, procedures and processes;
e) communicating the Institution's risk management framework to all stakeholders in the Institution and monitoring its implementation;
f) ensuring that the Audit Committee, Risk Management Committee and senior management are adequately appraised and trained on current and emerging risk management concepts and principles;
g) establishing, communicating and facilitating the use of appropriate risk management methodologies, tools and techniques;
h) facilitate training for all stakeholders in their risk management functions;
i) assisting Management with risk identification, assessment and development of response strategies, and monitoring implementation thereof;
j) working with management and staff to establish and maintain effective risk management in their areas of responsibility, including the reform of internal processes and policies to incorporate elements and practice of risk management at the operational/functional level;
k) collating, aggregating, interpreting and analysing the results of risk assessments to extract risk intelligence;
l) reporting risk intelligence to the Accounting Officer, Management and the Risk Management Committee;
m) monitoring the Institution's risk profile, ensuring that major risks are identified and reported upwards;
n) facilitating Institution-wide risk evaluation and monitoring the capabilities around the management of the major risks;
o) participating with Internal Audit, Management and Auditor-General in developing the combined assurance plan for the Institution;
p) overseeing the Risk management Unit's participation in the combined assurance process;
q) drafting the risk management disclosures for the annual financial statements and annual report for approval by the Accounting Officer;

r) and
s) continuously driving risk management to higher levels of maturity;

CHAPTER 15 - RISK MANAGEMENT FUNCTIONS OF MANAGEMENT

26. Functions of Management with respect to risk management

(1) Management is ultimately accountable for managing risks within their areas of responsibilities, for executing their responsibilities outlined in the risk management strategy and integrating risk management into the operational routines by modifying policies, procedures as well as performance and reward criteria to align to the risk management imperative.

(2) High level responsibilities of Management should include:

a) executing their responsibilities as set out in the risk management strategy;
b) empowering officials to perform effectively in their risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
c) aligning the functional risk management methodologies and processes with the Institutional process;
d) devoting personal attention to overseeing the management of priority risks within their area of responsibility;
e) maintaining a co-operative relationship with the Risk Management Unit;
f) providing risk management reports;
g) reporting to the Risk Management and Audit Committees as may be requested;
h) maintaining the proper functioning of the control environment within their area of responsibility;
i) monitoring risk management within their area of responsibility; and
j) holding officials accountable for their specific risk management responsibilities.

CHAPTER 16 - RISK MANAGEMENT FUNCTIONS OF OTHER OFFICIALS

27. Functions of other officials with respect to risk management

(1) Other officials are responsible for integrating risk management into their day-to-day activities.

(2) High level responsibilities of other officials should include:

a) applying the risk management processes in their respective functions;
b) implementing the delegated action plans to address the identified risks;
c) informing their supervisors and/or the Risk Management Unit of new risks and significant changes in risks;
d) escalating instances where management of risk is beyond their control; and
e) co-operating with other role players in the risk management process and providing information as required.

CHAPTER 17 - FUNCTIONS OF RISK CHAMPIONS

28. Functions of the Risk Champion (revisit)

(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:
a) 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;
b) 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;
c) 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
d) 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.

CHAPTER 18 - RISK MANAGEMENT FUNCTIONS OF INTERNAL AUDITING

29. Functions of Internal Auditing with respect to risk management

(1) The role of the Internal Auditing in risk management is to provide an independent, objective assurance on the effectiveness of the Institution's system of risk management.

(2) Internal Auditing must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.

(3) Internal Auditing must develop its internal audit plan on the basis of the key risk areas.

(4) In terms of the International Standards for the Professional Practice of Internal Audit, determining whether risk management processes are effective is a judgment resulting from the Internal Auditor's assessment that:

a) Institutional objectives support and align with the Institution's mission;
b) significant risks are identified and assessed;
c) risk responses are appropriate to limit risk to an acceptable level; and
d) relevant risk information is captured and communicated in a timely manner to enable the Accounting Officer, Management, the Risk Management Committee and other officials to carry out their responsibilities.

(5) In cases where Internal Auditing and Chief Risk Officer roles are combined, the risk management responsibilities include:

a) assisting Management to develop the risk management policy, strategy and implementation plan;
b) co-ordinating risk management activities;
c) facilitating identification and assessment of risks;
d) recommending risk responses to Management; and
e) developing and disseminating risk reports.

(6) When assisting Management in establishing or improving risk management processes, Internal Auditing must refrain from assuming management responsibilities for risk management, as well as auditing the risk management function.

CHAPTER 19 - RISK MANAGEMENT FUNCTIONS OF THE AUDITOR-GENERAL

30. Functions of the Auditor-General with respect to risk management

(1) The Auditor-General provides an independent opinion on the effectiveness of risk management as part of the regularity audit.

(2) In providing the audit opinion, the Auditor- General usually focuses on:

a) determining whether the risk management policy, strategy and implementation plan are in place and are appropriate;
b) assessing the implementation of the risk management policy, strategy and implementation plan;
c) reviewing the risk identification process to determine if it is sufficiently robust to facilitate the timely, correct and complete identification of significant risks, including new and emerging risks;
d) reviewing the risk assessment process to determine if it is sufficiently robust to facilitate timely and accurate risk rating and prioritisation; and
e) determining whether the management action plans to mitigate the priority risks are appropriate, and are being effectively implemented.

(3) The Auditor-General will also probe the root causes of audit findings and flag the related risks.

CHAPTER 20 - RISK MANAGEMENT FUNCTIONS OF THE NATIONAL TREASURY

31. Functions of the National Treasury with respect to risk management

(1) The National Treasury’s functions in terms of sections 5(2) and section 34 of the MFMA enjoins it to:

a) prescribe uniform norms and standards;
b) monitor and assess the implementation of the MFMA;
c) assist Institutions in building their capacity for efficient, effective and transparent financial management; and
d) enforce the MFMA.

(2) The National Treasury should therefore monitor and assess the implementation of risk management in municipalities, and share with them the results of its monitoring to the extent that those results may assist the municipality in improving its risk management.

(3) With respect to capacity building, the National Treasury should assist municipalities and municipal entities in building their capacity for efficient, effective and transparent risk management.

(4) The National Treasury should also enforce the requirement for effective risk management when a municipality fails to address deficiencies in its system of risk management that have been communicated by the Auditor-General, National or Provincial Treasury, Audit Committee, or other competent authority.

(5) In addition, the National Treasury may do anything further that is necessary to fulfil its responsibilities effectively.

CHAPTER 21 - RISK MANAGEMENT FUNCTIONS OF THE PROVINCIAL TREASURIES

32. Functions of the Provincial Treasury with respect to risk management

(1) The Provincial Treasury has specific functions in terms of sections 5(4) and 34 of the MFMA to:

a) prescribe uniform norms and standards;
b) monitor and assess the implementation of the MFMA;
c) assist Institutions in building their capacity for efficient, effective and transparent financial management; and
d) assist the National Treasury to enforce compliance.

(2) The Provincial Treasury should therefore monitor and assess the implementation of risk management in municipalities, and share with them the results of its monitoring to the extent that those results may assist the municipality in improving its risk management.

(3) With respect to capacity building, the Provincial Treasury should assist municipalities and municipal entities in building their capacity for efficient, effective and transparent risk management.

(4) The Provincial Treasury should also enforce the requirement for effective risk management when a municipality fails to address deficiencies in its system of risk management that have been communicated by the Auditor-General, National or Provincial Treasury, Audit Committee, or other competent authority.

(5) In addition, the Provincial Treasury may do anything further that is necessary to fulfil its responsibilities effectively.

CHAPTER 22 - RISK MANAGEMENT FUNCTIONS OF THE BOARD OF DIRECTORS

33. Functions of the Board of Directors with respect to risk management

(1) The Board of Directors of a municipal entity is responsible for the overall governance of risk by, inter alia:
a) setting direction for how risks should be approached and addressed;
b) approving risk management policy, strategy and plan;
c) ensuring that risk consideration is integral to decision making;
d) providing oversight on risk management;
e) providing direction on setting risk appetite and agreeing on the risks to be taken in pursuit of strategic objectives;
f) ensuring that strategic risks are appropriately and adequately managed; and

g) ensuring that an independent assurance on the effectiveness of risk management is provided.

CHAPTER 23 - RISK MANAGEMENT FUNCTIONS OF THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE

34. Functions of the Municipal Public Accounts Committee with respect to risk management

(1) The Municipal Public Accounts Committee is established through section 79 of the Municipal Structures Act in order to promote transparency, accountability, good governance, effective financial management, and quality service delivery at municipalities.
(2) Its primary function in relation to risk management is:
   a) To consider and evaluate the risk management content contained in the annual report and to make recommendations to Council when adopting an oversight report on the annual report;
   b) Review information relating to past recommendations made on the Annual Report on risk management including the quarterly and mid-year reports;
   c) Examine audit reports of the municipality, taking into consideration improvements from previous reports and must evaluate the extent to which the Audit Committee's and the Auditor General's recommendations relating to risk management have been implemented; and
   d) To perform any other functions assigned to it through a resolution of Council within its area of responsibility.

CHAPTER 24 - RISK MANAGEMENT FUNCTIONS OF THE MAYORAL COMMITTEE

35. Functions of the Mayoral Committee with respect to risk management

(1) The mayoral committee provides oversight to the municipal manager and is accountable to the council.
(2) The mayoral committee is responsible for carrying out any risk management related responsibilities that may have been delegated to it by the Executive Mayor

CHAPTER 25 - RISK MANAGEMENT FUNCTIONS OF THE DEPARTMENT OF COOPERATIVE GOVERNANCE

36. Functions of the Cooperative Governance with respect to risk management

(1) Supporting the risk management policies, strategies and activities that enhance the delivery of municipal services to the right quality and standard.
(2) Promote good governance, transparency and accountability, ensures sound financial management and accounting.

CHAPTER 26 - RISK MANAGEMENT FUNCTIONS OF SOUTH AFRICAN LOCAL GOVERNMENT ASSOCIATION

37. Functions of the South African Local Government Association with respect to risk management

(1) Providing ideas, advice, political insight, and support on risk management related issues, including risk management training for councillors.

CHAPTER 27 - RISK MANAGEMENT FUNCTIONS OF EXECUTIVE COMMITTEE

38. Functions of the Executive Committee with respect to risk management

(1) The Executive Committee (EXCO) has a duty to monitor financial and performance management against the Municipality's objectives and/or mandate.

(2) EXCO is responsible for overseeing the day-to-day implementation of the Municipality's policies and making sure that the Municipality's oversight structures are establishing and maintaining good governance practices.
(3) Furthermore, the EXCO also has risk management duties to:
    a) Endorse risk management strategies and plans for approval, especially areas identified as high risks;
    b) Make inputs to the strategic direction of the Municipality when risk management is concerned; and
    c) Identify and communicate to the Accounting Officer opportunities and emerging risks affecting the Municipality.

CHAPTER 28 - RISK MANAGEMENT FUNCTIONS OF CHIEF FINANCIAL OFFICER _ BUDGET\TREASURY OFFICE

39. Functions of the Chief Financial Officer with respect to risk management

(1) The Chief Financial Officer (CFO) has a duty to that the financial resources needed to manage the institutional risks are available, by:
    a) Driving a risk-based budgeting system and ensuring that the budget process is aligned to risk management.
    b) Ensuring risk reporting in the budget reports.
(2) The CFO also needs to ensure that the critical risks within the financial environment are identified, assesses and managed; and should also champion risk management within the financial environment to deal with the institution's financial risks.

SECTION 4: PERFORMANCE AND EVALUATION OF RISK MANAGEMENT

CHAPTER 29 - EVALUATION OF RISK MANAGEMENT EFFECTIVENESS

40. Evaluation of value add

(1) Evaluation of risk management effectiveness is vital to maximise the value proposition of risk management.

(2) Institutions should strive to incrementally and sustainably achieve a mature risk management regime in order to optimise the benefits of risk management.

(3) Institutions should periodically evaluate the value add of risk management by measuring outcomes against pre-set key performance indicators aligned to the overall goals and objectives of the Institution.

(4) Institutions should utilise the Financial Management Maturity Capability Model developed by the National Treasury to evaluate their current and progressive risk management maturity.

41. Performance Indicators

(1) Everyone in the Institution has a part to play in achieving and sustaining a vibrant system of risk management and to that extent must function within a framework of responsibilities and performance indicators.

(2) The Accounting Officer should evaluate his/her own performance in leading the risk management process in the Institution through the following and other relevant indicators:

a) the risk management maturity trend as measured in terms of an appropriate index such as the Financial Capability Maturity Model;
b) the Institution's performance against key performance indicators and targets, including comparison of year-on-year performance;
c) percentage change in unauthorised expenditure, fruitless and wasteful expenditure and irregular expenditure based on year-on-year comparisons;
d) percentage change in fraud and corruption based on year-on-year comparisons
e) percentage change in incidents based on year-on-year comparisons; and
f) comparison of year-on-year outcomes of regularity and performance audits.

(3) Insofar as it concerns the responsibilities of the Audit Committee for risk management, the Accounting Officer should evaluate the performance of the Committee through the following and other relevant indicators:

a) the Auditor-General’s report on the effectiveness of the Audit Committee;
b) the results of the Audit Committee’s own 360-degree assessment;
c) the Committee’s co-ordination of combined assurance; and
d) the quality and timeliness of the Audit Committee’s counsel and recommendations on matters concerning the system of risk management.

(4) The Accounting Officer should evaluate the performance of the Risk Management Committee through the following and other relevant indicators:

a) the results of the Risk Management Committee’s own 360-degree assessment;
b) the pace and quality of the implementation of the risk management framework;
c) the Internal Audit report on the state of risk management;
d) the Auditor-General’s report on the effectiveness of the Risk Management Committee; and

e) the quality and timeliness of the Risk Management Committee's counsel and recommendations.

(5) The Accounting Officer, in consultation with the Risk Management Committee, should evaluate the performance of the Chief Risk Officer through the following and other relevant indicators:

a) development and implementation of the risk management policy, strategy and implementation plan;
b) the Institution's collective awareness, skill and participation in risk management;
c) risk management maturity;
d) quality and timeliness of support to Management, other officials and the Risk Management Committee; and
e) quality and timeliness of risk intelligence.

(6) The Accounting Officer should evaluate the performance of Management through the following and other relevant indicators:

a) business unit performance against key indicators, including comparison of year-on year performance;
b) implementation of risk management action plans;
c) co-operation with the Risk Management Unit, Risk Management Committee, Risk Champion and relevant stakeholders involved in risk management;
d) quality and timeliness of risk identification, assessment and reporting;
e) proactive identification of new and emerging risks;
f) year-on-year reduction in adverse incidents and losses;
g) elimination of unauthorised expenditure, fruitless and wasteful expenditure and irregular expenditure;
h) reduction in fraud; and
i) progress in securing improved Internal Audit and Auditor-General outcomes in regularity and performance audits.

(8) Insofar as it concerns the responsibilities of Internal Auditing for risk management, the Accounting Officer should evaluate the performance of Internal Auditing through the following and other relevant indicators:

a) timeliness and quality of assurance on risk management;
b) timeliness and quality of recommendations to improve risk management; and
c) adoption of risk-based auditing.

(9) Management should evaluate the performance of their staff through the following and other relevant indicators:

a) implementation of risk management action plans.

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