Buffalo City Metropolitan Municipality

Risk Appetite and Tolerance Framework

June 2024

Title of Policy	Risk Appetite and Tolerance Framework
Policy Owner	Office of the City Manager
Policy Champion	Chief Risk Officer
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1. Definition of Terms

No.	Term	Definition
1.1	Council	The governing body and custodians of governance.
1.2	Accounting Officer	The City Manager
1.3	Audit Committee	An independent committee constituted to review the effectiveness of control, governance and risk management within the municipality, established in terms of section 166 of the MFMA.
1.4	Chief Risk Officer	A Senior official who is the Head of the Risk Management Unit.
1.5	Controls	A control is any measure or action that modifies risk. Controls include any policy, procedure, practice, process, technology, technique, method, or device that modifies or manages risk. Risk treatments become controls, or modify existing controls, once they have been implemented. The ultimate purpose of controls is to minimize the potential impact of identified emerging risks.
1.6	COSO	Commission of Sponsoring Organizations.
1.7	COSO Framework	It is an internal control integrated framework which was commissioned by the Committee of Sponsoring Buffalo City Metropolitan Municipality (BCMM) of the Treadway Commission; to give guidance on enterprise risk management, internal control and fraud deterrence designed to improve organisational performance and governance.
1.8	Enterprise Risk Management	Enterprise risk management is a continuous, proactive and systematic process, effected by a municipality's executive authority, accounting officer, management and other personnel, applied in strategic planning and across the municipality, designed to identify potential events that may affect the municipality, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of the municipality's objectives and optimize opportunities to enhance performance.
1.9	Risk	Risk is uncertainty of the outcome, whether positive opportunity or negative threat, of actions and events with a possible impact on the achievement of the municipality's objectives.

No.	Term	Definition
1.10	Inherent Risk	This is the product of the probability of occurrence and the severity of outcome, prior to control measures.
1.11	Residual Risk	The risk after considering the effectiveness of management's risk responses (controls).
1.12	Internal Audit	Internal Audit refers to an independent, objective assurance and consulting activity designed to add value and improve BCMM's operations
1.13	ISO	International Organisation for Standardisation
1.14	ISO 31000	An international standard published in 2009 and updated in 2018 that provides principles and guidelines for effective risk management. The application of these guidelines can be customised to any Organisation and its context. It provides a common approach to managing any type of risks and is not industry or sector specific.
1.15	Key Risk Indicator	A measure used in management to indicate how risky an activity is. Key risk indicators are metrics used by organizations to provide an early signal of increasing risk exposures in various areas of the enterprise. They monitor changes in the levels of risk exposure and contribute to the early warning signs that enable organizations to report risks, prevent crises and mitigate them in time.
1.16	Risk Appetite	Risk appetite is the amount and type of risk that BCMM is willing to take in order to meet its strategic objectives. A range of appetites exist for different risks, and these may change over time. "Risk appetite" is measured at the strategic objective level where the risk tolerances are aggregated for the specific risks impacting directly on the objectives. This measure is used to express the appetite in terms that are appropriate for the strategic objective.
1.17	Risk Appetite Statement	A written articulation of the aggregate level and types of risks that the City is willing to accept, or to avoid in order to achieve its objectives.
1.18	Risk Tolerance	Risk tolerance is the level of risk exposure for identified risks which the Council may accept when considering the appropriate mitigation measures. It provides management with clear guidance on the risks identified.

No.	Term	Definition
1.19	Risk Tolerance Statement	Explains the Municipality's capacity to handle different levels of risk. It should describe the level of risk that the Municipality is willing and able to accept.
1.20	Risk Bearing Capacity	The maximum amount of risk that an entity is able to absorb in the pursuit of strategy and business objectives.
1.21	Risk Bearing Capacity Statement	Explains the maximum amount of risk the Municipality is able to handle in line with its mission /values /strategic goals, without exposing itself to the point where its existence and survival is under threat.
1.22	Risk Threshold	A quantified limit or parameter within which risk can be taken or managed. The collective name for risk appetite, risk tolerance and risk bearing capacity
1.23	Risk Assessment	The overall process of identifying, analysing and evaluating risk. The risk assessment process should consider risks that are significant to the achievement of the Municipality's objectives. This is a continuous process, requiring regular reviews, as and when internal and external changes influence the Municipality's strategies and objectives.
1.24	Risk Owner	The person accountable for managing a particular risk.
1.25	Risk Management Committee	A committee appointed by the Accounting Officer responsible for overseeing risk management activities within the City.
1.26	Risk Management Policy	Serves as a foundation for the City's enterprise -wide risk management activities, as it encapsulates Management's philosophy and approach to risk management.

2. Introduction

Risk Appetite is the amount and type of risk that BCMM is willing to take in order to meet its strategic objectives. While, Risk Tolerance is the level of risk exposure for identified risks which the Council may accept when considering the appropriate mitigation measures. Risk Appetite and Tolerance are an integral part of the Enterprise Risk Management (ERM).

Enterprise risk management is a continuous, proactive and systematic process, effected by a municipality's executive authority, accounting officer, management and other personnel, applied in strategic planning and across the municipality, designed

to identify potential events that may affect the municipality, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of the municipality's objectives and optimize opportunities to enhance performance.

The Risk Appetite and Tolerance Framework has been developed in line with the Risk Management Framework. The need for a Risk Management Framework is mandated by the Municipal Finance Management Act (MFMA) section 62 and 95, National Treasury Public Sector risk management framework, King report on corporate governance, ISO 31000 as well as COSO framework. Therefore, this framework is aligned to the principles of COSO, ISO and the public sector Risk Management Framework published by National Treasury.

The management of risk at strategic, programme, project and operational levels needs to be integrated so that the levels of activity within the municipality support each other.

The Risk Appetite and Tolerance considerations should therefore be part of the Risk Management Plan of the municipality which should be embedded in the strategic planning process and in the normal working routines and activities of the municipality at operational level.

3. **Legal and Regulatory Mandate**

In developing this framework, reference was made to the following mandates in line with the BCMM's Risk Management Framework of which Risk Appetite and Tolerance are part of:

- Municipal Finance Management Act (MFMA) Act no 56 of 2003
- National Treasury Public Sector Risk Management Framework
- The King IV Report on Corporate Governance
- ISO 31000/2009 (International Standards for Risk Management)
- COSO (The Committee of Sponsoring Organisations)

4. Purpose of the Framework

The purpose of the Risk Appetite and Tolerance Framework is to provide guidance on the process of developing and implementing risk thresholds. In particular, it aims to assist BCMM to set risk thresholds.

The framework provides a structured approach to management, measurement, and control of risks. BCMM has developed the overall risk appetite for the Municipality to make certain that there is a governance process in place to ensure that the business does not take unacceptable risks. The framework further provides early warning alert to Executive Committee (EXCO) and oversight committees when adverse risk trends reach unacceptable limits.

5. Scope and Application

This framework applies throughout the Municipality in as far as risk management is concerned. It forms part of the risk and governance frameworks, and it applies to all employees, contractors and members of the Council and its Committees, including the following categories of risks:

- Human Capital/Resources
- Knowledge and Information Management
- Litigation
- Loss/theft/damage of assets and resources
- Material Resources (Procurement)
- Service Delivery
- Information Technology
- Third party performance
- Health and Safety
- Disaster Recovery Business Continuity
- Compliance/ Regulatory
- Financial
- Economic Environment
- Political Environment

6. **Policy Principles for Developing a Risk Process Cycle (Risk Appetite, Tolerance and Risk Bearing Capacity)**

The figure below illustrates the Risk Process Threshold Cycle (Risk Appetite, Tolerance and Risk Bearing Capacity):

6.1 First Phase

a) *Context Establishment* – The process covered a myriad of aspects such as:

i. Understanding the business and factors or exposure introduced by the internal and external environment.

ii. Available funding opportunities.

iii. Strategic Plan and Annual Performance plans.

b) *Standardise Risk Categories-* Risk categories were standardised as they help to assess, monitor, review and communicate risks.

6.2 Second Phase

a) *The formulation considered historical trends.*

b) *Risk Matrix -* risk profile linked to the rating scale are considered to obtain a competent view of all risks facing BCMM. Risk are considered at inherent and residual stage.

6.3 Third Phase

a) **Maturity Status** – Considerations is on the maturity. BCMM was found to have compliant risk management, culture, governance, and systems.

b) The risk universe was defined based on the strategic risks and contextualized.

6.4 Fourth Phase

The articulation process encompassed agreeing and setting up the qualitative or quantitative Risk Appetite and Tolerance limits.

6.5 Fifth Phase

Communication of Risk Thresholds - The Risk Threshold will be discussed with EXCO, submitted to Audit and Risk Committee for recommendation for approval by Council.

6.6 Sixth Phase

6.6.1 Reporting - The Risk and Compliance Specialist shall amongst others incorporate the following issues when reporting to the oversight structures:

a) Portfolio view of risk outlines the severity of the risks at the entity level that may impact the achievement of strategy and objectives.

b) Analysis of root causes.

c) The sensitivity of changes in key assumptions embedded in strategy and the potential effect on strategy and business objectives.

d) Analysis of new, emerging, and changing risks.

e) Key performance indicators and measures, outline the tolerance of the potential risk to a strategy or business objective.

f) Trend analysis demonstrates movements and changes in the portfolio.

g) View of risk, risk profile, and performance of the entity.

h) Disclosure of incidents, breaches, and losses provides insight into effectiveness of risk responses.

i)   Tracking enterprise risk management plans and initiatives.

6.6.2 Monitoring - The risk thresholds will be continually supervised, checked and critically observed. The monitoring process assesses whether required or expected performance levels are being achieved. The monitoring will be performed through:

a) Comparing oversight structures' reports against set risk thresholds to monitor decisions taken;

b) Monitoring the risk profile versus the risk thresholds;

c) Monitoring the KRIs;

d) Monitoring risk action plans against risk thresholds;

e) Monitoring targets against risk thresholds;

f) Observing emerging, occurred and/ or avoided risks; and

g) Monitoring risks against other assurance providers' reports.

7. Risk Threshold (Risk Appetite, Tolerance and RBC Statements)

Risk thresholds consist of three categories, namely:

1) Risk Bearing Capacity;

2) Risk Appetite; and

3) Risk Tolerance.

7.1 Risk Bearing Capacity

7.1.1 Determination of the Risk Bearing Capacity:

Risk Bearing Capacity is the maximum amount of risk the BCMM can absorb in the pursuit of strategy and business objectives. In identifying what level of retained risk generates a sustainable impact and above, EXCO will also be able to identify what level the risks it will need to transfer to third parties. Council will annually need to identify RBC in the view of minimizing the Total Cost of Risk. Risk appetite must

therefore not be above the Risk Bearing Capacity the Municipality can absorb, should the risk materialize.

When formulating the Risk Based Capacity, the risk can be calculated by use of historical data to understand the probability of a risk event occurring and its potential severity or use an approved materiality framework.

Risks that have an extreme and major rating will not be tolerated by EXCO and needs to be mitigated.
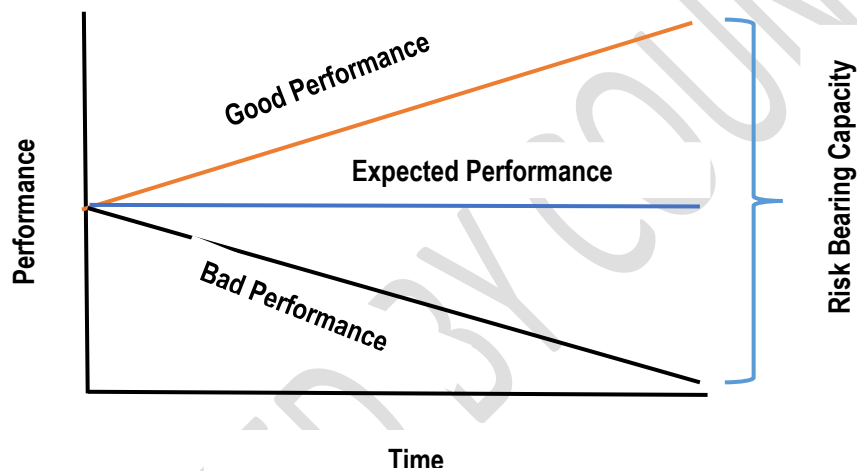
7.1.2 Risk Appetite

Risk appetite is the amount and type of risk, at a broad level, that the Municipality is willing to accept in pursuit of its strategic objectives which is ***Minor and Insignificant***. Risk Appetite reflects the risk management philosophy that Council wants EXCO to adopt and, in turn, influences its risk culture, operating style, and decision-making. It sets the boundary around the amount and type of risk BCMM might pursue.
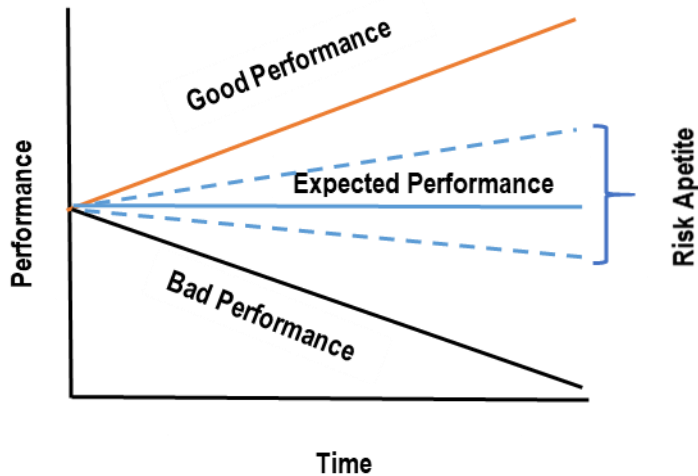
7.1.3 Risk Tolerance

Risk Tolerance is the degree, amount, or volume of risk that the Municipality is willing to withstand. This reflects the Municipality's attitude toward risk. The risk tolerance has three sub-levels, namely Acceptable (Low deviation) **Minor and Insignificant**, Endurable (Medium deviation) **Moderate** and Undesirable (High deviation) **– Extreme and Major**. These sub-levels aim to proactively identify the deviations, through the use of indicators. Moreover, they assist monitor the deviation.
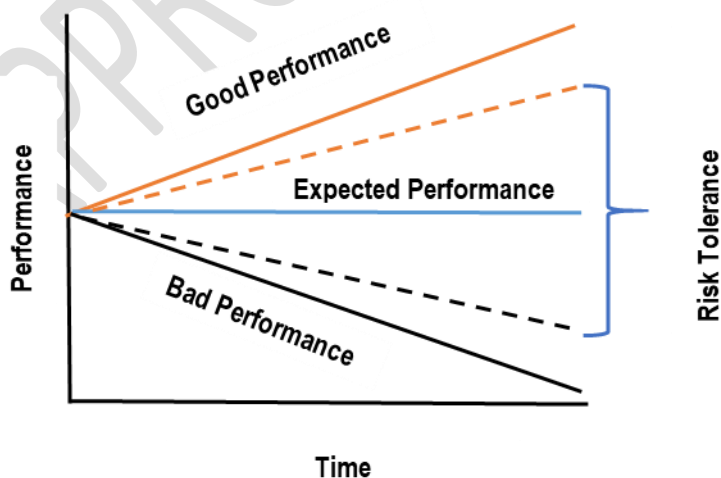
The last sub-level which is *Extreme* should be avoided by all means as it may be detrimental. The last sub-level is normally a stage where risk magnitude has gone past the risk appetite threshold, where control measures and/or action plans are no longer adequate to maintain risks within levels. At this point management must use additional resources to control and monitor risk exposure to ensure that risk is retained and kept within risk appetite levels.

8. Risk Appetite and Risk Tolerance Threshold Guiding Principle

BCMM has no appetite for non-compliance to laws/ regulations that can result to:

1) Reputational damage
2) Financial loss
3) Injury or loss of life to the public or our workforce
4) Compromised service delivery.

Further, BCMM has established the following risk tolerance thresholds to provide guidance to Management in managing risks:

No.	Risk Categories	Risk Appetite	Risk Tolerance
1	Fraud and Corruption	Zero	Zero Tolerance
2	Non- Compliance with Supply Chain Management Regulations	Zero	Low Tolerance
3	Financial: Reporting Adverse and Disclaimer Audit Outcomes	Zero	Zero Tolerance
4	Non-Financial: Reporting Adverse Audit of Performance Objectives/ BCMM performance.	Zero	Zero Tolerance
5	Service delivery Risks	Approved Annual target	Low Tolerance

9. Performance Indicators

Everyone in the Municipality has a part to play in achieving and sustaining a vibrant system of risk management and to the extent must function within a framework of responsibilities and performance indicators. The Accounting Officer should evaluate

its own performance in leading the risk management process in the Municipality through the following and other relevant indicators:

a) The risk management maturity trend as measured in terms an appropriate index such as the financial capability maturity model

b) The Municipality's performance against key indicators, including comparison of year-on-year performance

c) The Municipality's avoided risk record when compared against the peer group or quasi-peer group

d) Percentage change in unauthorised expenditure based on year-on-year comparison.

e) Percentage change in incidents and quantum of fraud based on year -on-year comparison.

f) Progress in securing improved audit outcomes in regularity and performance audits.

10. Risk Ratings for Determining Risk Appetite, Tolerance and Bearing Capacity

The municipality would use ratings of 1 to 5 for the assessment of Impact, Likelihood and Control Effectiveness as outlined below:

10.1. Impact

Rate	Impact	Consequence	Enhanced Rating Scales
5	Critical (Catastrophic impact)	Negative outcomes or missed opportunities that are of critical importance to the achievement of the objectives.	**Extremely High Significance** Strategic objectives cannot be achieved, resulting in significant financial impact and questions about future viability
4	Major (Very material impact)	Negative outcomes or missed opportunities that are likely to have a relatively substantial impact on the ability to meet objectives.	**Highly Significant** Difficult to achieve strategic objectives and /or material financial impact.
3	Moderate impact	Negative outcomes or missed or missed opportunities that are likely	**Moderately Significant** Noticeable challenges to a strategic objective.

Rate	Impact	Consequence	Enhanced Rating Scales
		to have a relatively moderate impact on the ability to meet objectives.	
2	Minor impact	Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives.	**Slightly Significant** Small material impact.
1	Insignificant	Negative outcomes or missed opportunities that are likely to have a negligible impact on the ability to meet objectives.	**Not Significant** No discernible impact. Neither a strategic nor financial impact.

10.2. Likelihood

Rate	Impact	Consequence	Enhanced Rating Scales
5	Maximum	The risk is already occurring or is likely to occur at least once within the next 12 months.	**Highly likely** Already occurring or almost certainly will occur in specified time period (>90%)
4	High	The risk could easily occur and is likely to occur at least once within the next 12 months	**Likely** More Likely to occur in the specified time period (>50%).
3	Medium	There is an above average chance that the risk will occur at least once in the next three years.	**Possibly** May occur during the specified time period (<50%)
2	Low	The risk occurs infrequently and is unlikely to occur within the next three years.	**Unlikely** Not likely to occur in the specified time period (>5%)
1	Minimum	The risk is conceivable but is only likely to occur in extreme circumstances	**Very unlikely** Virtually no chance that it will ever happen. (<5%)

10.3. Perceived Control Effectiveness

Control Effectives	Rating 1-5	Calculation of a control effectiveness Rating	Result used to calculate residual value
Non-existent (no controls in place)	5	5/5 (Rate for this effectiveness/maximum rate)	1
Weak	4	4/5	0.8

Satisfactory	3	3/5	0.6
Good	2	2/5	0.4
Very Good	1	1/5	0.2

11. Risk Exposure Levels or Acceptability

The municipality will use the following risk brackets for the determination of the Risk Exposure Levels / acceptability:

Exposure Rating	Rating	Assessment	Action Required
Extreme	18-25	Unacceptable/ Undesirable	Requires immediate attention from management on implementation of corrective measures
High	12-16	Unacceptable/ Undesirable	Implementation of improvement opportunities and validation of current controls.
Medium	6-10	Accepted with caution	Evaluation and improvement of current controls.
Low	1-5	Acceptable	Validation and optimisation of controls

12. Risk Escalation Levels:

Residual risks should be escalated as follows:

Escalation Level	• Functional Heads	• Functional Heads • MANCO	• MANCO • EXCO	• EXCO • Audit and Risk Committees • Council	
Risk Rating Scale	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Critical
Deviation Scale	Low Deviation	Low Deviation	Moderate deviation	High deviation	High deviation
Appetite & Tolerance Level	Acceptable	Acceptable	Endurable	Undesirable	Undesirable
Required Action	Business as usual	Business as usual	Management Intervention	Turnaround strategy	Turnaround strategy

13. Risk Appetite and Tolerance Reporting Dashboard Template

The following dashboard template is for bird's view reporting of the residual risk rating per risk category guided by section 12, 14 and 15 of this framework:

Risk Category	Risk Residual Score	Risk Trend	Required Action
Operational	Critical	⬆	Report to Council for their intervention
Performance/Service Delivery	Minor	⬌	No Action required/Business as usual
Financial	Moderate	⬇	EXCO intervention required
Procurement	Minor	⬌	No Action required/Business as usual
Fraud/Corruption/Ethical	Major	⬆	URGENT ACTION REQUIRED BY MANAGEMENT
Information Communication and Technology	Moderate	⬌	EXCO intervention required
Health and Safety	Minor	⬌	No Action required/Business as usual
Legal and Compliance	Major	⬆	URGENT ACTION REQUIRED BY MANAGEMENT
Reputational	Critical	⬆	Report to Council for their intervention
Business Disruptions	Major	⬆	URGENT ACTION REQUIRED BY MANAGEMENT
Human Capital	Moderate	⬌	EXCO intervention required
Stakeholder Management	Insignificant	⬌	No Action required/Business as usual

Legend:

⬆   Risk has increased

⬌   Risk has remained unchanged

⬇   Risk has reduced

14. Risk Appetite, Tolerance and Bearing Capacity

14.1   Operational

Risk Category: Operational		
Operational impact on delivery of the Municipality mandate		
Consequences	5. Critical	• Negative outcomes or missed opportunities that are of critical importance to the achievement of objectives. • Core business objectives can no longer be achieved for an extended period of time.
	4. Major	• Negative outcomes or missed opportunities that are likely to have a relatively substantial impact on the ability to meet objectives. • A number of key business objectives can no longer be achieved in the medium term (6 – 12 months).
	3. Moderate	• Negative outcomes or missed opportunities that are likely to have a relatively moderate impact on the ability to meet objectives. • Some important business objectives can no longer be achieved in the short term (3 – 6 months) and requires reprioritisation of resources.
	2. Minor	• Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives. • Some additional effort or resources required to stay on track.
	1. Insignificant	• Negative outcomes or missed opportunities that are likely to have a relatively negligible impact on the ability to meet objectives.

14.2   Performance / Service Delivery

Risk Category: Performance / Service Delivery			
Performance / Service Delivery impact on delivery of the Municipality mandate			
Consequences	5.	Critical	• No improvement in the service delivery • Highly Significant problem meeting set targets
	4.	Major	• Minor improvement in the service delivery • Significant problem meeting set targets
	3.	Moderate	• Moderate improvement in the service delivery • Multiple problems meeting set targets
	2.	Minor	• Major improvement in the service delivery • Minor problem meeting set targets
	1.	Insignificant	• Significant improvement in the service delivery • No problem meeting set targets

14.3   Financial

Risk Category: Financial			
Financial impact on delivery of the Municipality mandate			
Consequences	5.	Critical	• Potential loss of more than 2% of budget/revenue • Decrease in Levy Collection of more than 20%
	4.	Major	• Potential loss of above 1% - 2% of budget/revenue • Decrease in Levy Collection from 10% to 20%
	3.	Moderate	• Potential loss of above 0.5% - 1% of budget/revenue. • Decrease in Levy Collection from 5% to less than 10%
	2.	Minor	• Potential loss of between 0.25% - 0.5% of revenue/budget • Decrease in Levy Collection from 1% to less than 5%
	1.	Insignificant	• Negligible financial impact of less than 0.25% of revenue/budget • Decrease in Levy Collection of less than 1%

14.4   Health and Safety

Risk Category: Health and Safety			
Health and Safety impact on delivery of the Municipality mandate			
Consequences	5.	Critical	• Events or incidents that may cause a fatality and/or serious physical and psychological injuries. • Potential for fatalities
	4.	Major	• Potential for major irreversible injuries • Incapacitation due to mental health breakdown
	3.	Moderate	• Potential for serious injuries (hospitalisation) • Burnout - requiring counselling and time off work
	2.	Minor	• Potential for minor injuries (time-off work). • Fatigue that may require sick leave

			• Incidents/accidents which may cause minor injuries and first aid medical attention.
1.	Insignificant	•	Incidents that are not likely to result in injury or that may result in a minor injury that is not likely to require first aid attention.

14.5 Legal and Compliance

Risk Category: Legal and Compliance			
Legal and Compliance impact on delivery of the Municipality mandate			
Consequences	5.	Critical	• Major litigation or prosecution with damages/fines. • Prolonged closure of operations by authorities. • Future funding/ approvals/registration in jeopardy • Criminal or civil proceedings initiated
	4.	Major	• Major breach of regulations or contractual commitments resulting in investigations by regulatory bodies • Allegations of criminal/ unlawful conduct
	3.	Moderate	• Major breach of regulations or contractual commitments with punitive fine/charges • Potential for allegations of criminal/unlawful conduct
	2.	Minor	• Limited breach of regulatory or contractual commitments with reporting required. • May result in infringement notice
	1.	Insignificant	• Minor legal issues, non-compliance, and breaches of regulations. • Non-conformance which can be remedied internally. • Unlikely to result in adverse regulatory response or action

14.6 Reputational

Risk Category: Reputational			
Reputational impact on delivery of the Municipality mandate			
Consequences	5.	Critical	• Critical concerns raised by stakeholders or affected communities. • Prominent/International negative media coverage over several days. • Public and rapid withdrawal of support for, and trust by its key stakeholders. • Misconduct under Investigation (awaiting evidence from external parties) reported. • Misconduct that are under disciplinary reported.
	4.	Major	• Major concerns raised by stakeholders or affected communities. • National negative media coverage over several days. • Sustained long-term failure to meet legitimate and significant stakeholders' demands and expectations.

	3.	Moderate	• Persistent community complaints by stakeholders or affected communities. • Regional negative media coverage over several days. • Internal Stakeholders frequently and publicly express their disapproval and disappointment. • Short-term failure to meet legitimate and significant stakeholders' demands and expectations ≤ a week.
	2.	Minor	• Minor complaints by stakeholders for a specific site or area. • Local negative media coverage over one day but contained in one service area. • Limited ability to meet some legitimate but insignificant stakeholders' demands and expectations ≤ 3 days.
	1.	Insignificant	• No community complaints • No negative media coverage

14.7 Business Disruptions

Risk Category: Business Disruptions			
Business Disruptions impact on delivery of the Municipality mandate			

Consequences	5.	Critical	• Unavailability of critical business systems or loss of data integrity affecting all operations for a longer than tolerable period i.e. > 1 week and/or at a critical time of BCMM's calendar.
			• Disruption to services causing:
			  ➢ Key business activities closure for > 2 weeks;
			  ➢ Critical infrastructure service loss for > 1 month.
			• Increased cyber security breaches attempts
			(Any one (1) weakness reported)

	4.	Major	• Unavailability of critical business systems or loss of data affecting multiple operations for longer than tolerable period i.e. 2 days – 1 week and/or at a critical time of BCMM's calendar.
			• Disruption to services causing:
			  ➢ Key business activities closure for > 1 to 2 weeks;
			  ➢ Critical infrastructure service loss for > 1 week to 1 month.

	3.	Moderate	• Unavailability of business systems or loss of data in isolated operations for a longer than tolerable period not critical.
			• Disruption to:
			  ➢ A number of operational areas for up to 1 week
			  ➢ Critical service interruption not back within the agreed timeframe.

	2.	Minor	• Disruptions to business systems which are not critical and tolerable for 6 months to 1 year until resolved.

			• Some disruption to operational activity exceeding 1 day - Local interruption only, service loss to localised operations.
1.	Insignificant		• Disruptions to business systems will not affect the delivery of services and can be dealt with comfortably through reallocation of resources. • Disruption of < 1 day to operational activity - No interruption to infrastructure services.

14.8 Human Capital

Risk Category: Human Capital			
Human Capital impact on delivery of the Municipality mandate			
Consequences	5.	Critical	• >15% of critical staff turnover • ≥180 days average number of days taken to fill critical positions • ≥90% - 1 performance rating
	4.	Major	• >10% to 15% of critical staff turnover • ≥120 days average number of days taken to fill critical positions • ≥90% - 2 performance rating
	3.	Moderate	• >5% to 10% of critical staff turnover • ≥90 days average number of days taken to fill critical positions • ≥90% - 3 performance rating
	2.	Minor	• >2.5% to 5% of critical staff turnover • ≥60 days average number of days taken to fill critical positions • ≥90% – 4 performance rating
	1.	Insignificant	• ≤2.5% of critical staff turnover • ≥30 days average number of days taken to fill critical positions • ≥90% - 5 performance rating

14.9 Stakeholder Management

Risk Category: Stakeholder Management			
Stakeholder Management impact on delivery of the Municipality mandate			
Consequences	5.	Critical	• Loss of critical stakeholder confidence • Prolonged strike for more than 3 weeks • Sustained adverse and irreversible national media reporting for more than 2 weeks. • All media queries are not responded to within 72 hours
	4.	Major	• Delays in addressing concerns raised by major stakeholders • Prolonged strike for more than 2 weeks • Sustained negative reporting for more than 1 week

				Complete failure of critical communication issues with key stakeholders for more than 48 hours.
	3.	Moderate	•	Prolonged strike for more than 1 week
			•	Sustained negative reporting for less than 1 week
			•	Complete failure of critical communication issues with key stakeholders for more than 36 hours.
	2.	Minor	•	Communication failure causing some employees and stakeholders to be uninformed for more than 24 hours.
	1.	Insignificant	•	Internal issues and concerns raised
			•	Communication failure causing some employees and stakeholders to be uninformed for less than 12 hours.

15. Quantitative and Qualitative Risk Appetite and Tolerance Thresholds or Levels

The following are the quantitative and qualitative Risk appetite and tolerance levels as formulated and will be monitored quarterly:

RISK CATEGORY	STATEMENTS	KEY RISK INDICATORS	FREQUENCY MONITORING	APPETITE **Acceptable** **Low Deviation** **Business as usual**	TOLERANCE **Endurable** **Moderate deviation** **Management Intervention**	RBC **Undesirable** **High deviation** **Turnaround strategy**
Financial	Low tolerance to reduce Financial Performance & Sustainability	Reduction in funding	Annual	<5%	≥5% - ≤10% reduction in funding	>10% reduction in funding
		Over-expenditure as % of Total budget	Quarterly	≤0.5%	>0.5% - ≤1%	>1%
		Loss of revenue	Quarterly	≤0.5%	>0.5% - ≤1%	>1%
Procurement	Low tolerance to delays in procurement turnaround time	Normal Procurement turnaround times	Quarterly	• Tenders – Request for goods or services above R1 000 000 *Turnaround time is 45 days*	• Tenders – Request for goods or services above R1 000 000 *Turnaround time is 60 days*	• Tenders – Request for goods or services above R1 000 000 *Turnaround time is 90 days*

RISK CATEGORY	STATEMENTS	KEY RISK INDICATORS	FREQUENCY MONITORING	APPETITE **Acceptable** **Low Deviation** **Business as usual**	TOLERANCE **Endurable** **Moderate deviation** **Management Intervention**	RBC **Undesirable** **High deviation** **Turnaround strategy**
				• Request for proposal/quotation between R500 000 and R999 000 *Turnaround time is 30 days* • Request for proposal between R30 000 and R500 000 *Turnaround time is 20 days*	• Request for proposal/quotation between R500 000 and R999 000 *Turnaround time is 45 days* • Request for proposal between R30 000 and R500 000 *Turnaround time is 30 days*	• Request for proposal/quotation between R500 000 and R999 000 *Turnaround time is 60 days* • Request for proposal between R30 000 and R500 000 *Turnaround time is 45 days*
	Zero tolerance to inadequate / non-adherence to	Non-compliance and report on fruitless and wasteful expenditure and	Quarterly	Zero Tolerance Fruitless and wasteful expenditure		
			Quarterly	Zero Tolerance to unauthorised expenditure		

RISK CATEGORY	STATEMENTS	KEY RISK INDICATORS	FREQUENCY MONITORING	APPETITE	TOLERANCE	RBC
				Acceptable Low Deviation Business as usual	Endurable Moderate deviation Management Intervention	Undesirable High deviation Turnaround strategy
	project governance	unauthorised expenditure				
Performance or Service delivery	Low tolerance for declining numbers/percentages of set targets	Service delivery for: • Electricity • Water • Refuse • Sanitation and waste water	Quarterly	≥90%	<90% - >80%	<80%
Reputational	Low tolerance for negative publicity or negative stakeholder confidence	Number of hours taken to respond to stakeholders	Quarterly	≤24 hours	≤ 36 hours	≥ 48 hours
Information Communication and Technology	Zero tolerance for cyber security breaches and hence measures will be taken to ensure that there is real-time	Attempted breaches IT Security attempts (Any one (1) weakness to will reported)	Daily	Zero tolerance cyber security breaches		

RISK CATEGORY	STATEMENTS	KEY RISK INDICATORS	FREQUENCY MONITORING	APPETITE	TOLERANCE	RBC
				Acceptable **Low Deviation** **Business as usual**	**Endurable** **Moderate deviation** **Management Intervention**	**Undesirable** **High deviation** **Turnaround strategy**
	monitoring or cyber security insurance is factored to transfer the risk					
	Low tolerance to delays in the Recovery Timeline	• DRP and BCP test results (Aligned to Business Continuity Plans) • ICT report on breaches	Daily	0 hours – ≥12 hours	>12 hours - ≥24 hours	> 24 hours
Compliance	Zero tolerance to non-adherence to laws, regulations, policies and procedures.	Non-compliance with regards to the compliance obligation universe reported. (Any one (1) incident will be reported)	Quarterly	Zero tolerance		
	Commercial contracts: Zero tolerance to litigation	Number of Legal and Litigation cases reported	Quarterly	Zero tolerance		

RISK CATEGORY	STATEMENTS	KEY RISK INDICATORS	FREQUENCY MONITORING	APPETITE	TOLERANCE	RBC
				Acceptable **Low Deviation** **Business as usual**	**Endurable** **Moderate deviation** **Management Intervention**	**Undesirable** **High deviation** **Turnaround strategy**
	and/or unsuccessful litigation					
People / Human Capital	Low tolerance for loss of critical skills	• Critical staff turnover (Top Management, Senior Management, Professionally Qualified) • Critical staff vacancies	Quarterly	Employee turnover is to be less than 5% in any given 90-day period.	≥5% - 10% in any given 90-day period.	≥10% in any given 90-day period.
	Recruitment: Vacancy rate	Time taken to fill critical positions	Quarterly	≤3 months	>3 months – ≤6 months	>6 months
	Misconduct or Disciplinary: Zero tolerance to the incidence of misconduct by employees	Misconduct by staff reported	Quarterly	Zero Tolerance		
	Average performance score.	Aligned to performance 1 - 5 score	Bi-annual	4 - 5	3	1 - 2

RISK CATEGORY	STATEMENTS	KEY RISK INDICATORS	FREQUENCY MONITORING	APPETITE Acceptable Low Deviation Business as usual	TOLERANCE Endurable Moderate deviation Management Intervention	RBC Undesirable High deviation Turnaround strategy
Fraud / Corruption / Ethical	Zero tolerance to Fraud Corruption / Unethical behaviour.	Fraud, corruption, and unethical incidents reported.	Quarterly	Zero Tolerance		
Operational: • **Governance; and** • **Combined Assurance.**	Assurance on effectiveness	Significant action plans not completed	Quarterly	100%	≥90% - <100%	<90%
	Assurance on effectiveness (Implementation plan on Strategic risk)	Value Add Assurance and Advisory provided on Internal Controls, Risk and governance issues	Quarterly	100% (Responsive)	≥90% - < 100 (Responsive)	<90% (Responsive)

16. Roles and Responsibilities

For every strategy to be effective it needs key role players to implement; risk management is not a function of a particular level or rather the Top Management, but it is everybody's business.

16.1 Municipal Council

The executive authority should take 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 Municipality against significant risks.

Executive authority is accountable to Council, which provides oversight. The Council has a major role in defining what it expects in integrity and ethical values and can confirm with its expectations through oversight activities. The Council provides oversight with regards to risk management by:

a) Approving the risk appetite set for the municipality
b) Approving risk tolerance and risk profiles.
c) Understanding priority risks
d) Understanding the extent to which management has established effective risk management.
e) Ensuring risk response for priority risk are effective, and;
f) Ensuring that the municipality's risk management framework is effectively implemented and maintained.

16.2 Accounting Officer

The ultimate responsibility for risk management in the municipality lies with the Accounting officer. The Accounting Officer must promote a culture of risk management that affects the integrity and other factors of a positive control environment. The Accounting Officer must:

a) Ensure that risk management is integrated into all strategic management processes and that the significant risks are addressed.

b) Ensure that the strategic plan of the municipality indicates specific outputs and services delivery targets and that all significant risks are taken into consideration in the development of strategic plan.

c) Ensure that the risk assessments are carried out in accordance with the relevant legislation and best practices.

d) Set the risk tolerance level.

e) Approve risk management strategy and know the extent to which management has established effective risk management in Council, and

f) Ensure that s/he is informed of the significant risks, along with actions taken by management in ensuring effective risk management.

g) The Accounting Officer will provide Council and other stakeholders with assurance that key risks are properly identified, assessed, mitigated and monitored.

h) The Council deliberate on the risk profile of the municipality as presented by the accounting officer and provide stakeholders with assurance that key risks are properly identified, assessed, mitigated and monitored.

i) The Accounting Officer will set an appropriate tone by supporting and being seen to be supporting the Municipality's aspirations for effective management of risks.

j) The Accounting Officer will ensure that Council maintains a formal risk management policy for the Municipality.

k) The Accounting Officer will formally evaluate the effectiveness of the Municipality's risk assessment process once a year and report to Council.

l) V. The Accounting Officer will confirm that the risk management process is accurately aligned to the strategy and performance objectives of the municipality and report to Council.

m) The Accounting Officer will delegate responsibilities for risk management to management and internal formations such as the risk management Committee, Fraud Prevention, Finance Committee, Information and communication Technology Committee.

n) The Accounting Officer will hold Management accountable for designing, implementing, monitoring and integrating risk management into their day to day activities.

o) The Accounting Officer will approve the risk management policy, strategy, and implementation plan.

p) The Accounting Officer will approve the fraud prevention policy, strategy and implementation plan.

q) The Accounting Officer will leverage the Audit Committee, Internal Audit, External Audit and Risk Management Committee for assurance on the effectiveness of risk management.

r) The Accounting Officer will ensure appropriate action in respect of the recommendations of the Audit Committee, Internal Audit, External Audit and Risk Management Committee to improve risk management.

16.3 The Audit Committee

The Audit Committee is an independent committee responsible for oversight of the Municipality's control, governance and risk management. The Audit Committee should provide an independent and objective view of the Municipality's risk management effectiveness. Responsibilities of the Audit Committee, where there is a separate Risk Management Committee should include;

i. Reviewing and recommending disclosures on matters of risk in the annual financial statements.

ii. Reviewing and recommending disclosures on matters of risk and risk management in financial statements.

iii. Provide regular feedback to the Accounting Officer on the adequacy and effectiveness of risk management in the Municipality, including recommendations for improvement.

iv. Ensuring that the internal and external audit plans are aligned to risk profile of Municipality.

v. Satisfy itself that it has appropriately addressed the following areas;

a) Financial reporting risk

b) Fraud risks

c) Internal financial controls, and

d) IT risks as they relate to financial reporting

vi. VI. Evaluate the effectiveness of internal audit in its responsibilities for risk management.

16.4 Risk Management Committee

The risk management committee is appointed by the Accounting Officer to assist in discharging his responsibilities for risk management. The membership of the risk management committee should comprise of 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 Municipality's mandate and operations.

b) The ability to act independently and objectively in the interest of the Municipality, and

c) A thorough knowledge of risk management principles and their application.

The Chairperson of the Risk Management Committee should be an independent external person, appointed by the Accounting Officer.

The responsibilities of the Risk Management Committee should be formally defined in a charter approved by the Accounting Officer. In discharging its governance responsibilities related to risk management, the risk management committee should:

a) Review risk management framework and strategy and recommend for approval by the Accounting Officer:

b) Review the risk inherent risk appetite and tolerance/ risk thresholds set by the Municipality and recommend for approval by the Accounting Officer;

c) Review the Municipality's risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register;

d) Evaluate the effectiveness of mitigating strategies to address the material risk of the Municipality;

e) Report to the Accounting Officer any material changes to the risk profile of the Municipality.

f) Review the fraud prevention policy and recommend for approval by the Accounting Officer;

g) Evaluate the effectiveness of the implementation of fraud prevention policy;

h) Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses;

i) Develop goals, objectives and key performance indicators to measure the effectiveness of risk management activity;

j) Develop goals, objectives and key performance indicators to measure the effectiveness of risk management activity;

k) Set out the nature, role, responsibility and authority of risk management function within the Municipality for approval by the Accounting Officer, and oversee the performance of risk management function;

l) Provide proper and timely reports to the Accounting Officer on the state of risk management, together with aspects requiring improvement accompanied by the Committee's recommendations to address such issues.

16.5 Management

Management is responsible for executing their responsibilities and for integrating risk management into the operational routines. High level responsibilities of Management include:

a) Empowering officials to perform effectively in their risk management responsibilities, comprehensive orientation and ongoing opportunities for skills development.

b) Aligning the functional risk management methodologies and processes with the area of responsibility.

c) Devoting personal attention to overseeing the management of key risks within the area of responsibility.

d) Maintain a co-operative relationship with the Risk Management Unit and Risk Champion.

e) Provide risk management report.

f) Presenting to the Risk Management and Audit Committees and requested.

g) Maintain proper functioning of the control environment within their area of responsibility.

h) Monitoring risk management within their area of responsibility, and

i) Holding officials accountable for their specific risk management responsibilities.

16.6 Chief Risk Officer

The primary responsibility of the Chief Risk Officer is to bring his/her specialist expertise to assist the Municipality to embed risk management and leverage its benefits to enhance performance. The high-level responsibilities of the Chief Risk Officer should include:

i. Working with senior management to develop the Municipality's vision for risks management.

ii. Develop in consultation with management, the Municipality's risk management framework incorporating, inter alia, the;

a) Risk Management policy

b) Risk Management strategy

c) Risk Management Implementation plan

d) Risk identification and assessment methodology

e) Risk appetite and tolerance

f) Risk classification

iii. Communicating the Municipality's risk management framework to all stakeholders in the Municipality and monitoring its implementation.

iv. Facilitating orientation and training for the Risk Management Committee.

v. Training all stakeholders in their risk management functions.

vi. Continuously driving risk management to higher levels of maturity.

vii. Assisting management with risk identification, assessment and development of response strategies.

viii. Monitoring the implementation of the response strategies

ix. Collating, aggregation, interpreting and analysing the results of risk assessments to extract risk intelligence

x. Report risk intelligence to the Accounting Officer, Management and the Risk Management

xi. Committee, and

xii. Participating with internal Audit, Management and Auditor – General in developing the combined assurance plan for the Municipality.

16.7 Risk Champion

The Risk Champion is a person with the skills, knowledge, leadership qualities and power of office required to champion an aspect of risk management.

The key part of the Risk Champion's responsibility should involve intervening in instances where the risk management efforts are being hampered, for example. By lack of co-operation by management and other officials and lack of institutional skills expertise.

The Risk champion should add value to the risk management process by proving guidance and support to manage "problematic" risks and risks of transversal nature that require a multiple participant approach.

In order to fulfil his/her function, 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

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

16.8 Risk Forum

The Chief Risk Officer and the Risk Champions shall form a risk forum. The risk forum shall meet bi1monthly to monitor effective embedding of enterprise wide risk management within the municipality.

High level responsibilities to achieve this include:

a) Monitoring the implementation of the risk management strategy in the different directorates.

b) Support the departmental meetings by monitoring actions on the operational risk register.

c) Reports to the risk management committee meetings.

16.9 Internal Audit

The role of the Internal Audit in risk management is to provide an independent, objective assurance on the effectiveness of the Municipality's system of risk management. Internal Audit must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary. Internal Audit must develop its internal audit plan based on the key risk areas. 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 Municipality's mission.

b) Significant risks are identified and assessed

c) Risk responses are appropriate to limit risk to an acceptable level.

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.

16.10 Staff of BCMM

All staff of BCMM have a responsibility to ensure that they take all reasonable steps within their respective areas of responsibility to ensure:

a) That the system of financial Management and internal control established for the Municipality is carried out diligently.

b) That the financial and other resources of the Municipality are utilised effectively, efficiently, economical and transparently

c) That any unauthorised, irregular or fruitless and wasteful expenditure and any other losses are prevented.

d) Implement risk management processes in their day to day work.

e) Monitoring progress in managing job-related risks, reporting to the line Manager, Section Head or Head of Department.

16.11 External Audit

The External Auditor (Auditor General South Africa) provides an independent opinion on the effectiveness of risk management, usually focusing 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) Determining whether management action plans to mitigate the risks are appropriate and are being effectively implemented.

17. Review of the Risk Appetite and Tolerance Framework

Management will annually review the Risk Appetite and Tolerance Framework to ensure that it remains relevant with the Council's authority, objectives and responsibilities. All changes or amendments to the Framework will be discussed and approved by the Accounting Officer.

18. Approval of the Risk Appetite and Tolerance Framework

The Risk Appetite and Tolerance Framework is endorsed by the Accounting Officer and approved by the Municipal Council.