



KAAP AGULHAS MUNISIPALITEIT
CAPE AGULHAS MUNICIPALITY
U MASIPALA WASECAPE AGULHAS

**CAPE AGULHAS MUNICIPALITY
RISK MANAGEMENT STRATEGY
AND
IMPLEMENTATION PLAN
FEBRUARY 2016**

This document has been approved by

Subject matter experts and / or owners

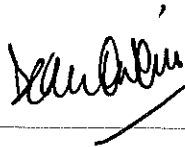
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1. Overview

1.1. Introduction

Cape Agulhas Municipality has undertaken to embed a culture of Enterprise Risk Management (ERM) within the municipality and to identify, assess, manage, monitor and report risks to ensure the achievement of objectives as identified in the IDP.

1.2. Purpose of this Document

The purpose of the risk management strategy is to take what is in the risk management policy and apply it in strategy and sets out all risk management activities planned for the 2014/15 financial year. This document also provides insight as to how the municipality will implement risk management.

2. Legislative mandate

Section 62(1)(c)(i) and 95(c)(i) of the Municipal Finance Management Act, No 56 of 2003, states that: " The accounting officer of the municipality and municipal entity is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

The authority and purpose for risk management is established in the MFMA and the Public Sector Risk Management Framework released by the National Treasury in 2008.

Good governance practices such as the King Code of Governance for South Africa, 2009 is also applicable – Governance Element 4: The governance of risk is the primary focus with the other governance elements actively contributing to an integrated risk management approach.

3. Background

3.1. What is risk?

According to the National Treasury, risk is an:

"...unwanted outcome, actual or potential, to the Institution's service delivery and other performance objectives, caused by the presence of risk factor(s)."

Risk manifest as negative impacts on goals and objectives or as missed opportunities to enhance performance. Stakeholders expect the municipality to anticipate and manage risks in order to eliminate waste, inefficiencies, reduce unplanned events/crises and to continuously improve capacity for delivering on their mandates/commitments as depicted in the IDP.

3.2. Enterprise-wide Risk Management

The municipality's risk management framework is based on the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Framework along with the guidelines set out in the National Treasury's Public Sector Risk Management Framework.

Risk management is a systematic and formalised process used by the municipality to identify, assess, manage, monitor and report risks to ensure the achievement of objectives.

Enterprise-wide Risk Management (ERM) is the application of risk management throughout the municipality rather than only in selected business areas or disciplines. ERM recognises that risk (including opportunities) is dynamic, often highly interdependent and ought not to be considered and managed in isolation. ERM responds to this challenge by providing a methodology for managing municipal wide risks in a comprehensive and integrated way.

3.3. Objectives of risk management

The objectives of risk management as to assist management in making more informed decisions which includes:

- Aligning the risk-taking behaviour to better achieve the goals and related objectives
- Providing a level of assurance that significant risks are effectively being managed
- Improving operational performance by assisting and improving decision making and planning
- Promoting a risk awareness ethic in all departments/directorates and improve risk transparency to stakeholders
- Promoting a more innovate, less risk averse culture in which the taking of calculated risks in pursuit of opportunities, to benefit the municipality, is encouraged.
- Providing a sound basis for risk management and internal control as components of good corporate governance

3.4. Benefits of risk management

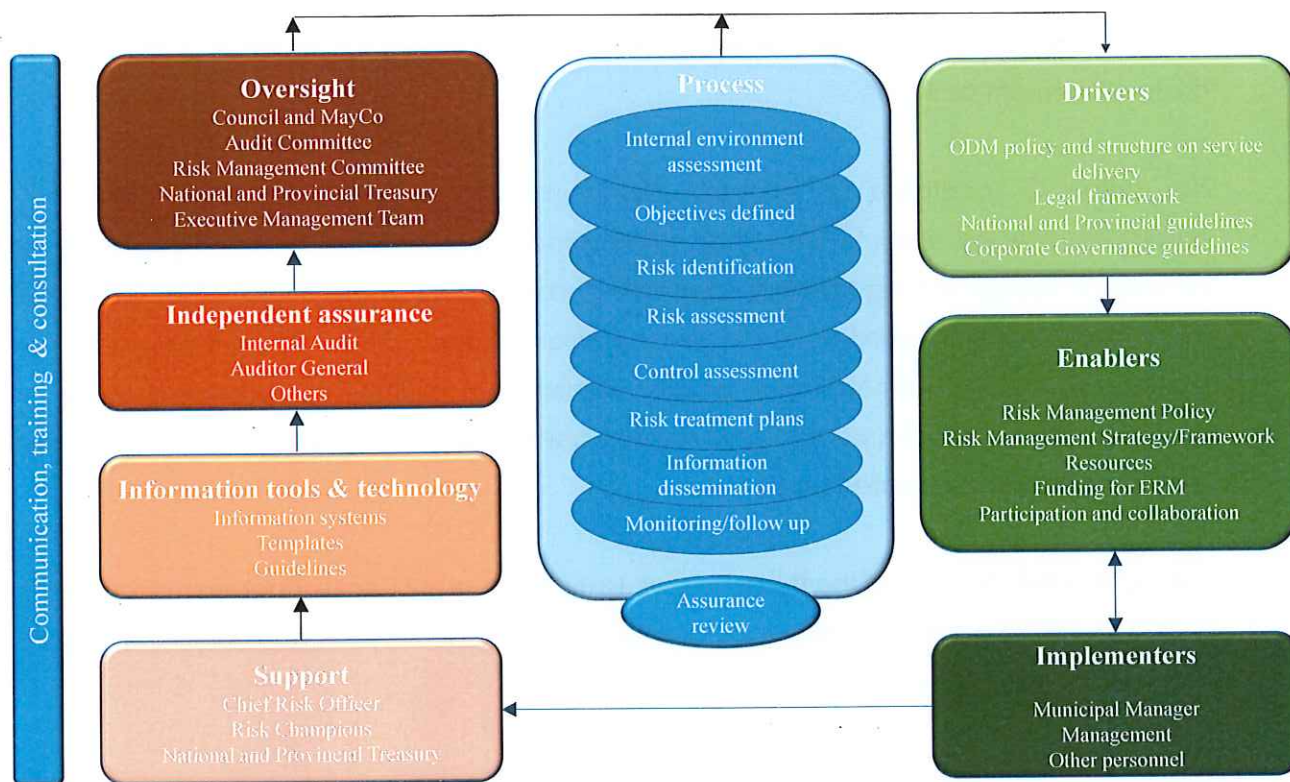
The risk management process will assist the municipality achieve its objectives. The benefits include:

- More sustainable and reliable delivery of services
- Enhanced decision making underpinned by appropriate rigour and analysis
- Reduction in waste
- Prevention of fraud and corruption
- Fewer surprises and crises
- Assisting with avoiding damage to the municipality's reputation and image

- Assisting with ensuring effective reporting and compliance with laws and regulations
- Better value for money through effective use of resources
- Better outputs and outcome through improved projects and programme management

4. Risk management architecture

The National Treasury: Public Sector Risk Management Framework provides architecture for public entities to apply to improve risk management efforts.



5. Risk Management Process / Methodology

Risk management is a process not an event, and requires the municipality to pay closer attention to the developments both the external and control environments. Top management's strategic direction and commitment are also regarded as very important, if the risk management process is to be successful and effective.

Management is expected to lead the process and ensure that everybody within the municipality understands the benefits of risk management. This represents the challenge to management to set the tone or to establish a supportive internal environment.

Involvement of all personnel and at all levels of management ensures that risk management activities are applied consistently across all levels within the municipality. The philosophy that

everybody is a risk manager ensures that everybody is involved in the risk management process.

Risk management is not undertaken in isolation. It has to be integrated with other management processes that are happening in the municipality, such as internal audit. This involves, but is not limited to, strategic planning processes, performance management systems, human resource management systems, guidelines, systems and other internal control activities. The main activities involved here include defining the context within which the risk management activities that will be undertaken as well as the scope and coverage of risk management activities.

The system is facilitated by effective communication between all levels. Without it, employees are less likely to know and understand the purpose and importance of their activities in the risk management process and in contributing to the overall objective of the municipality. A clear definition and communication of the concept of risk is pivotal to the success of the risk management process. Defining guidelines, methods, frequency of reporting, clear lines of reporting and accountability makes a significant contribution to a well-informed and motivated team.

The COSO ERM model and the Public Sector: National Treasury Risk Management Framework is used to ensure a common language and to provide clear direction and guidance in terms of a risk management methodology.

The risk management process consists of eight (8) components.



Figure 1: Risk Management Process

5.1. Internal Environment

The internal environment encompasses the tone of Cape Agulhas Municipality, influencing the risk consciousness of its people. It is the foundation for all other components of risk management, providing discipline and structure.

5.2. Objective Setting

Objectives are set at the strategic level, establishing a basis for operations, reporting, and compliance objectives. Objectives are to be aligned with the Municipality's risk appetite.

5.3. Event Identification

The primary responsibility for identifying and managing risks lies with management.

Risk identification is the process of identifying potential events that may affect Cape Agulhas Municipality's ability to successfully implement strategies and the achievement of objectives. Risk identifying includes considering both internal and external factors that influence how potential events may affect strategy implementation and the achievement of objectives. This includes distinguishing between potential events that represent risks, those representing opportunities and those that may be both. Management should identify the interrelationship between potential events and may categorise event in order to create and reinforce a common risk language across the municipality.

Refer to Appendix A for the various categories of risks that may affect the municipality's ability to implement strategy and achieve its objectives.

Whilst risk identification is a continuous process, risk identification workshops should be conducted at least once a year in order to assess the applicability of risks previously identified, identify any new risks and to consider emerging risks.

Risk identification must result in a documented list of risks where each risk is identified in principle and described in order to capture its qualitative characteristics.

5.4. Risk Assessment

Identified risks should be analysed in order to form a basis for determining how they should be managed. The main purpose of a risk assessment is to help to prioritise the most important risks in order to focus the municipality's limited resources to areas with the most exposure.

Risks are considered on both an inherent and residual basis and the assessment considers both risk impact and likelihood. Refer to appendix B for the quantified parameters to be used during the risk assessment.

Effectively this is a self-assessment from management and staff as to how well risks are managed. The risk assessment workshop ensure that all management and staff understand the key risks which need to be managed.

Risk assessments should be re-performed for the key risks in response to significant environmental and/or organisational changes, but at least once a year in order to ascertain the shift in the magnitude of risk and the need for further management action as result thereof.

5.5. Risk Response

Having assessed relevant risks, management has to determine how it will respond in order to reduce or eliminate the treat and events that create the risks. Management will select an approach or set of actions in order to align the risk with the municipality's risk appetite, in the context of the strategy and objectives. Risk response should also make provision for the exploitation of opportunities to improve the performance of the municipality.

Where the management of the risk is within the control of the municipality, the response strategy will include:

- Terminating the risk, for example choosing a different strategy or terminating the activity that produces the risk
- Treating the risk by, for example, implementing or improving the internal control system
- Transferring the risk to another party more competent to manage it by, for example contacting out services, establishing strategic partnerships or buying insurance
- Tolerate or accepting the risk where cost and strategy considerations rule out alternative strategies
- Take the opportunity through exploiting the risk factors by implementing strategy to take advantage of the opportunities presented by such risk factors.

Management should recognise that some level of residual risk will always exist, not only because resources are limited but because of the level of control over a risk, inherent future uncertainty and limitations inherent in all activities.

5.6. Control Activities

Risk responses serve to focus attention on control activities needed to help ensure that the risk responses are carried out properly and in a timely manner. Control activities are part of the process by which a department strives to achieve its business objectives.

Control activities are the policies and procedures that help ensure risk management strategies are properly executed. They occur throughout the municipality at all levels and in all functions.

The internal control architecture is made up of the following types of control activities:

- Preventative controls to prevent errors or irregularities from occurring.
- Detective controls to find errors or irregularities after they have occurred.
- Corrective controls that operate together with detective controls to correct errors or irregularities.

The internal control architecture is made up of:

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

5.6.1. Risk Appetite

The term "risk appetite" can be defined as the acceptable level or amount of risk that the municipality is willing to accept, before action is needed to reduce it.

The Cape Agulhas Municipality has, for 2015/16 used the standard 5X5 rating scale. The Municipality has set its risk appetite level at a risk grading of 15 (out of a maximum of 25). This implies that that all risks, strategic and operational, with a grading of 15.1 or higher will be addressed each year. However, the Municipality's risk appetite will be reassessed on a yearly basis, based on the annual risk assessment exercise results and adjusted if required. The ultimate goal is to reduce the risk level of the Municipality to acceptable levels.

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

5.7. Information and Communication

Pertinent information is identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also occurs, flowing down, across and up in the municipality. All personnel receive a clear message from top management that risk management responsibilities must be taken seriously. They understand their own role in risk management, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There is also effective communication with external parties.

5.8. Monitoring

Monitoring risk management is a process that assesses the presence and functioning of its components over time. This is accomplished through on-going monitoring activities, separate evaluations or a combination of the two. On-going monitoring occurs in the normal course of management activities. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of on-going monitoring procedures.

6. Reporting

The following minimum reports will be compiled and presented to council, Audit Committee and the RMC:

- A summary of risk broken down into operating units.
- A summary of existing gaps in the capabilities for managing significant risks.
- A report of emerging issues or risks that requires immediate attention.
- Integrated reporting and disclosure (Combined Assurance)

7. Implementation of Risk Management

7.1. Reporting Lines

The structures through which risk management will be reported within Cape Agulhas Municipality are set out below.

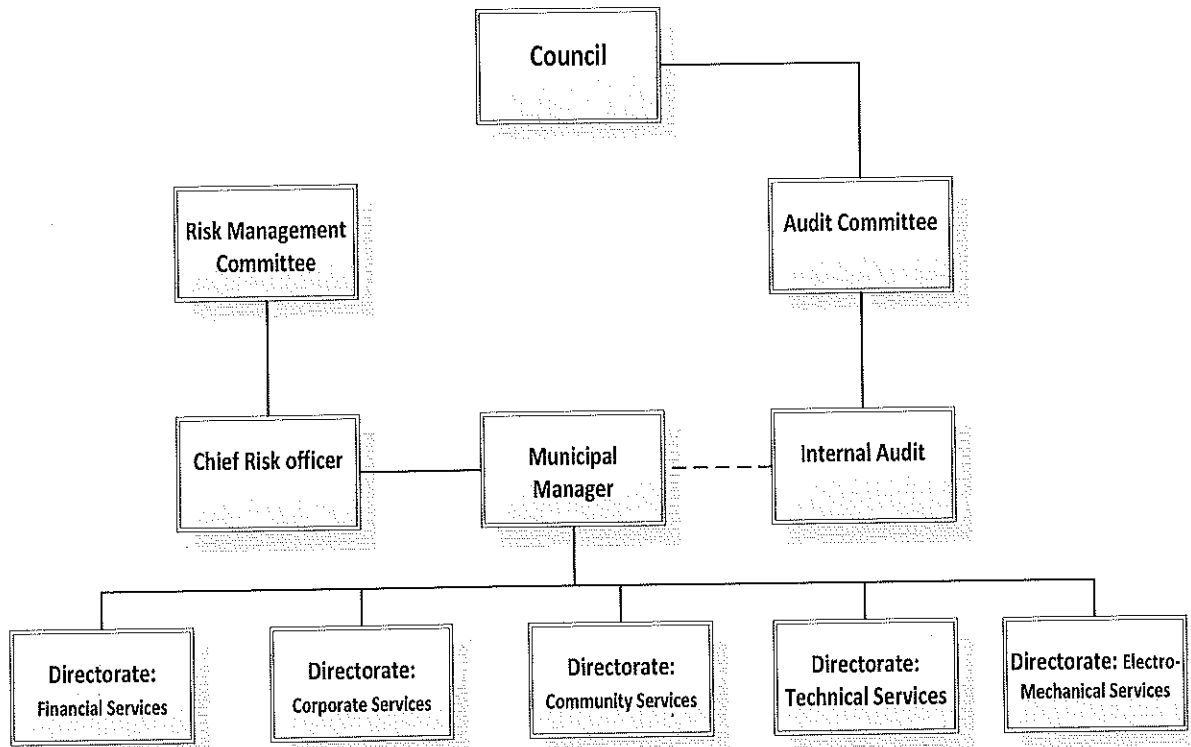


FIGURE 2: Cape Agulhas Municipality's Risk Management Reporting Structure

8. Interest, Roles and Responsibilities

All personnel within Cape Agulhas Municipality have a responsibility for maintaining good internal control and managing risk in order to achieve the municipality's objectives. To assist personnel with understanding their roles and responsibilities, the following tables of guidelines per role player has been included:

8.1. Implementers

8.1.1. Accounting Officer (Municipal Manager)

The Municipal Manager is ultimately responsible for ERM and is accountable for the overall governance of risk within Cape Agulhas Municipality. By setting the tone at the top, the Municipal Manager promotes accountability, integrity and other factors that will create a positive control environment.

The role of the Municipal Manager includes the following:

- Setting an appropriate tone by supporting and being seen to be supporting the Cape Agulhas Municipality's aspirations for effective management of risk
- Delegating responsibility for risk management to management and internal formations such as the Risk Management Committee, Fraud Prevention Committee, Finance Committee, Information and Communication Technology Committee

- Holding management accountable for designing, implementing, monitoring and integrating risk management into their day-to-day activities
- Holding the internal structures accountable for performance in terms of their responsibility for risk management
- Providing leadership and guidance to enable management and internal structures responsible for various aspects of risk management to properly perform their functions
- Ensuring that the control environment supports the effecting functioning of risk management
- Approving the risk management policy, strategy and implementation plan
- Approving the fraud prevention policy, strategy and implementation plan
- Approving the municipality's risk appetite and risk tolerance
- Devoting personal attention to overseeing management of the significant risks
- Leveraging the Audit Committee, Internal Audit, External Audit and Risk Management Committee for assurance on the effectiveness of risk management
- Ensuring appropriate action in respect of the recommendations of the Audit Committee, Internal Audit, External Audit and Risk Management Committee to improve risk management
- Providing assurance to relevant stakeholders that key risks are properly identified, assessed and mitigated.

8.1.2. Management

Management at all levels within the municipality owns the risks, thus in taking that ownership they are accountable to the Municipal Manager for integrating the principles of risk management into their daily routines to enhance the achievement of their service delivery objectives.

In addition, management needs to take accountability for the material completeness of the risk identification, the material correctness of their risk analysis, as well as for the timelines and appropriateness of their decisions as well as tracking the risks and their reporting where appropriate.

Management is responsible for executing their responsibility outlined in the risk management framework and for integrating risk management into the operational routines. The high level responsibilities of management includes:

- Executing their responsibilities as set out in the risk management framework
- Empowering officials to perform effectively in their risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development

- Aligning the functional risk management methodologies and processes with the institutional processes
- Devoting personal attention to overseeing the management of key risks within their area of responsibility
- Maintaining a co-operative relationship with the Risk Management Unit and the Risk Champion
- Providing risk management reports
- Presenting to the Risk Management and Audit Committees as requested
- Maintaining the proper functioning of the control environment within their area of responsibility
- Holding officials accountable for their specific risk management responsibilities.

8.1.3. Other Officials

Other officials are responsible for integrating risk management into their day-to-day activities by ensuring conformance with controls. The high level responsibility of other officials include:

- Applying the risk management process in their respective functions
- Implementing the delegated action plans to address the identified risks
- Informing their supervisors and/or the Risk Management Unit of new risks and significant changes in know risks
- Co-operating with other role players in the risk management process and providing information as required.

8.2. Risk Management Support

8.2.1. Chief Risk Officer (CRO)

Accountability for risk management in the municipality is assigned to the Accounting Officer (Municipal Manager) and is sub-delegated to the CRO to facilitate and co-ordinate the development and implementation of a risk management system. Risk remains the responsibility of line management and risk ownership is a management function.

In the case of the Cape Agulhas Municipality a shared Risk Management Function between the Cape Agulhas, Swellendam and Overstrand Municipalities and the Overberg District Municipality (ODM) have been established which will be driven by the ODM where the CRO will be situated. The Municipalities must appoint a Municipal Risk Management Champion to oversee the functioning of the risk management process and the execution of the various action plans through the Risk Management Committee.

The CRO (or Municipal Risk management Champion in the case of shared services) provides specialist expertise in providing a comprehensive support service to ensure systematic,

uniform and effective enterprise risk management. The CRO plays a vital communication link between operational level, management, senior management, the Risk Management Committee and other relevant committees. The CRO is thus the custodian of the ERM framework, the co-ordinator of risk management throughout the municipality and also the advisor on all risk management matters. This includes ensuring the municipality remains constantly legislative compliant with the MFMA in terms of risk management.

The high level responsibilities of the CRO include:

- Working with senior management to develop the Cape Agulhas Municipality's vision for risk management
- Developing in consultation with management the Cape Agulhas Municipality's risk management framework incorporating, inter alia, the
 - Risk management policy
 - Risk management strategy/framework
 - Risk management implementation plan
 - Risk identification and assessment methodology
 - Risk appetite and tolerance
 - Risk classification
- Communication the municipality's risk management framework to all stakeholders and monitoring the implementation
- Facilitating orientation and training for the Risk Management Committee
- Training all stakeholders in their risk management functions
- Continuously driving risk management to higher levels of maturity
- Assisting management with risk identification, assessment and development of response strategies
- Monitoring the implementation of the response strategies
- Collating, aggregating, interpreting and analysing the results of risk assessments to extract risk intelligence
- Reporting risk intelligence to the Accounting Officer/Authority, management and the Risk Management Committee
- Participating with Internal Audit, management and the Auditor-General in developing the combined assurance plan.

8.2.2. Departmental Risk Champions

Risk champions will work closely with the CRO. A risk champion would generally hold a senior position within the municipality and possess skills, knowledge and leadership qualities and power of office required to champion a particular aspect of risk management. The risk

champion should not assume the role of risk owner but should assist the risk owner to resolve problems.

A risk champion has sufficient authority to drive ERM as required by the municipality's risk management policy and strategy. A key part of the risk champion's responsibility involves escalating instances where the risk management efforts are stifled, such as when individuals try to block ERM initiatives.

The risk champion also adds value to the risk management process by providing guidance and support to manage 'problematic' risks and risks of a transversals nature.

A key part of the risk champion's responsibility is to intervene in stances 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.

In order to fulfil his/her function, the risk champion should possess:

- A good understanding of risk management concepts, principles and processes
- Good analytical skills
- Expert power
- Leadership and motivational qualities
- Good communication skills.

8.3. Risk Management Oversight

8.3.1. Executive Authority (Council)

Council is responsible for the governance of risk and will report to the community, on the municipality's system of internal control to provide comfort that the municipality is protected against significant risks to ensure the achievement of objectives as detailed in the Service delivery and Budget Improvement Plan (SDBIP).

Responsibilities of the Council in risk management include:

- Ensuring that the municipality's strategies are aligned with the government mandate
- Obtaining assurance from management that the municipality's strategic choices were based on a rigorous assessment of risk
- Obtaining assurance that key risks inherent in the municipality's strategies were identified and assessed and are being properly managed
- Assisting the Accounting Officer to deal with fiscal, intergovernmental, political and other risks beyond their direct control and influence
- Insisting on the achievement of objectives, effective performance and value for money
- Approve the risk management policy, strategy and implementation plan

- Approve the fraud prevention policy, strategy and implementation plan.

8.3.2. Audit Committee

The Audit Committee is an independent committee responsible for assisting the Council in addressing its oversight requirements of the municipality's control, governance and risk management. The Audit Committee's primary function is to review the effectiveness of the system of risk management and plan ensuring that significant risk within the municipality are adequately addressed and that suitable controls exist to treat and reduce these risks. The stakeholders rely on the Audit Committee for an independent and objective view of the municipality's risk management effectiveness.

Responsibilities of the Audit Committee include:

- Reviewing and recommending disclosures on matters of risk in the annual financial statements
- Reviewing and recommending disclosures on matters of risk and risk management in the annual report
- Providing regular feedback to the Accounting Officer on the adequacy and effectiveness of risk management in the municipality, including recommendations for improvement
- Ensuring that the internal and external audit plans are aligned to the risk profile
- Satisfying itself that it has appropriately addressed the following areas
 - Financial reporting risks including the risk of fraud
 - Internal financial controls
 - IT risks as they relate to financial reporting
- Evaluate the effectiveness of Internal Audit in its responsibilities for risk management.

8.3.3. Risk Management Committee

The Risk Management Committee (RMC) is responsible for oversight of the quality, integrity and reliability of the Cape Agulhas Municipality's risk management process and risk responses. The RMC is appointed by the Accounting Officer/Authority to assist him to discharge his responsibilities for risk management. An important part of the Committee's mandate is to provide recommendations to the Municipal Manager to continuously improve the management of specific risks as well as the overall process of risk management.

The membership of the RMC should comprise both management and external members with the necessary blend of skills, competencies and attributes.

- Review and recommend for the Approval of the Accounting Officer/Authority, the:
 - Risk management policy
 - Risk management strategy/framework
 - Risk management implementation plan
 - Cape Agulhas Municipalities risk appetite, ensure that limits are:
 - Supported by a rigorous analysis and expert judgement
 - Express in the same values as the key performance indicators to which they apply
 - Set for all material risks individually, as well as in aggregate for particular categorisations of risk
 - Consistent with the materiality and significance framework
 - Cape Agulhas Municipality's risk tolerance, ensuring that limits are supported by a rigorous analysis and expert judgement of:
 - The municipality's ability to withstand significant shocks
 - The municipality's ability to recover financially and operationally from significant shocks
 - The municipalities risk identification and assessment methodologies, after satisfying itself of their effectiveness in timeously and accurately identifying and assessing the municipalities risks
- Evaluate the extent and effectiveness of integration of risk management within the municipality
- Assess implementation of the risk management policy and strategy/framework (including plan)
- Evaluate the effectiveness of the mitigating strategies implemented to address the material risks
- Review the material findings and recommendations by assurance providers on the system of risk management and monitor the implementation of such recommendations
- Develop its own key performance indicators for approval by the Accounting Officer/Authority
- Interact with the Audit Committee to share information relating to material risks of the municipality
- Provide timely and useful reports to the Accounting Officer/Authority on the state of risk management, together with accompanying recommendations to address any deficiencies identified by the Committee.

In instances where the scale, complexity and geographical dispersion dictate a need for the RMC to work through sub-committee, the RMC should ensure that:

- Approval is obtained from the Accounting Officer/Authority for the establishment of the sub-committee
- The terms and reference of the sub-committee is aligned to that of the RMC
- The RMC exercises control over the functioning of the sub-committee.

8.4. Risk Management Assurance Providers

8.4.1. Internal Audit

Internal audit is responsible for providing independent, objective assurance on the effectiveness of risk management, controls and governance processes, as designed and represented by management, are adequate and function in a manner to ensure that amongst other things risk are appropriately identified and managed, based on the scope of their coverage plan.

This involve providing reasonable assurance that material risks have been identified and assess and that controls systems implemented to treat such risks are both adequate and effective, and provide recommendations for improvement where necessary.

Internal audit must develop its internal audit plan on the basis of the key risk areas.

Internal audit also co-ordinate with other control and monitoring functions, including risk management to co-ordinate and align objectives to from part of the integrated audit plan.

Ref.	Activity	Frequency
8.4.1.1	Provide assurance on the ERM process design and its effectiveness;	Annually
8.4.1.2	Provide assurance on the management of "key risks" including, the effectiveness of the controls and other responses to the "key risks;	Annually
8.4.1.3	Provide assurance on the assessment and reporting of risk and controls; and	Annually
8.4.1.4	Prepare a rolling three (3) year Internal Audit plan based on its assessment of key areas of risk.	Annually

8.4.2. Auditor-General

The Auditor-General is responsible to provide assurance to stakeholders that financial statements are fairly represented and compliant with relevant laws and regulations. He therefor provides an independent opinion on the effectiveness of risk management.

8.5. Risk Audience

The risk audience for the municipality would be interested stakeholders that include, but is not limited to:

- Citizens
- Commerce and business
- Investors / Funders / Donors
- Local, Provincial and National Government
- Interest groups
- Community forums
- Other relevant authorities such as National Treasury and the Auditor-General
- Visitors

External audience members are usually addressed largely in terms of the municipality's Annual Report and therefore the integrity and reliability of information is essential with the most recent information being disclosed.

9. Risk management process

There are eight (8) vital steps to be followed in the risk management process. Each step will be explained briefly.

9.1. Step 1: Internal Environment

The municipality's internal environment is the foundation of all other components of risk management. There are 10 factors to consider with regard to the internal environment:

1. Risk Management Philosophy
2. Risk Appetite
3. Risk Culture
4. Integrity and Ethical Values
5. Commitment to Competence
6. Managements Philosophy and Operating Style
7. Organisational Structure
8. Assignment of Authority and Responsibility
9. Human Resource Policies and Practices
10. Differences in Environment

9.1.1. Risk Management Philosophy

The philosophy is the municipality's beliefs about risk and how it chooses to conduct its activities and deal with risks. It reflects the value the municipality seeks from risk management and influences how risk management components are applied.

Cape Agulhas Municipality's risk management philosophy is clearly stated in its risk management policy. Importantly, management reinforces the philosophy not only with words but with everyday actions and the CRO will communicate the risk management philosophy effectively with the municipality to ensure that all personnel understand the municipality's commitment to risk management.

9.1.2. Risk Appetite

Risk appetite is the amount of risk the municipality is willing to accept in pursuit of value. The risk appetite is directly related to a municipality's strategy. It is considered in strategy setting, where the desired return from a strategy should be aligned with the municipality's risk appetite. Cape Agulhas Municipality's risk appetite and risk tolerance is clearly stated in the risk management policy.

9.1.3. Risk Culture

Risk culture is the set of shared attitudes, values and practices that characterise how the municipality considers risk in its day-to-day activities. Management considers how its risk culture affects and aligns with other elements of risk management. Where misalignment exists, management may take steps to reshape the culture perhaps by rethinking its risk philosophy and risk appetite or how it applies risk management.

9.1.4. Integrity and Ethical Values

Management integrity is a prerequisite for ethical behaviour in all aspects of the municipality's activities. Because the municipality's good reputation is so valuable, the standard of behaviour must go beyond mere compliance with law.

Integrity and ethical values are essential elements of the environment, affecting the design, administration and monitoring of other risk management components. Establishing ethical values is often difficult because of the need to consider the concerns of several parties. Management values must balance the concerns of Cape Agulhas Municipality, employees, suppliers and the public.

Ethical behaviour and management integrity are by-products of the corporate culture, which encompasses ethical and behavioural standards and how they are communicated and reinforced. Ethical values are not only communicated but also accompanied by explicit guidance regarding what is right and wrong.

9.1.5. Commitment to Competence

Competence reflects the knowledge and skills needed to perform assigned tasks. Management decides how well these tasks need to be accomplished weighing the municipality's strategy and objectives against plans for strategy implementation and achievement of the objectives. Management specifies the competency levels for particular

jobs and translates those levels into required knowledge and skills. The necessary knowledge and skills in turn may depend on individuals' intelligence, training and experience.

9.1.6. Managements Philosophy and Operating Style

Management's philosophy and operating style affect the way the municipality is managed, including the kinds of risks accepted. The attitude and daily operating style of top management affect the extent to which actions are aligned with risk philosophy and appetite. For example, an undisciplined operating style often is associated with and might encourage an appetite for high risk. An effective environment does not require that risks be avoided; rather it reinforces the need to be knowledgeable about the risks associated with strategic choices and the municipality's operating environment, both internal and external.

9.1.7. Organisational Structure

An organisational structure provides the framework to plan, execute, control and monitor activities.

A relevant organisational structure includes defining key areas of authority and responsibility and establishing appropriate lines of reporting. For example, an internal audit function should be structured in a manner that achieves organisational objectivity and permits full and unrestricted access to top management and the audit committee, and the chief audit executive should report to a level within the municipality that allows the internal audit activity to fulfil its responsibilities.

An organisational structure is developed to suit an institution's needs. The appropriateness of an organisational structure depends, in part, on its size and the nature of its activities. A highly structured municipality with formal reporting lines and responsibilities may be appropriate for a large municipality that has numerous operating divisions, including foreign operations. However, such a structure could delay the necessary flow of information in a small municipality. Whatever the structure, a municipality should be organised to enable effective risk management, and to carry out its activities so as to achieve its objectives.

9.1.8. Assignment of Authority and Responsibility

A critical challenge is to delegate only to the extent required to achieve objectives. This means ensuring that risk acceptance is based on sound practices for risk identification and assessment, including sizing risks and weighing potential losses versus gains in arriving at good business decisions. Another challenge is ensuring that all personnel understand the municipality's objectives. It is essential that individuals know how their actions interrelate and contribute to achievement of the objectives.

The internal environment is greatly influenced by the extent to which individuals recognise that they will be held accountable. This holds true all the way to the Municipal Manager,

who, with executive authority oversight, has ultimate responsibility for all activities within the municipality.

9.1.9. Human Resource Policies and Practices

Human resource practices pertaining to hiring, orientation, training, evaluating, counselling, promoting, compensating and taking remedial actions send messages to employees regarding expected levels of integrity, ethical behaviour and competence. For example, standards for hiring the most qualified individuals, with emphasis on educational background, prior work experience, past accomplishments and evidence of integrity and ethical behaviour, demonstrate a municipality's commitment to competent and trustworthy people. The same is true when recruiting practices include formal, in-depth employment interviews and informative and insightful presentations on the institutions history, culture and operating style.

It is essential that employees be equipped to tackle new challenges as issues and risks throughout the municipality change and become more complex driven in part by rapidly changing technologies and increasing competition. Hiring competent people and providing one-time training are not enough. The education process is on-going.

9.1.10. Differences in Environment

The internal environment of an institution's autonomous subsidiary, divisions and other units can vary widely due to differences in senior operating management's preferences, value judgments and management styles. Since operating units often are managed in different ways, it is unlikely their internal environments will be the same. It is important, therefore, to recognise the effect that varying internal environments can have on other risk management framework components. The impact of an ineffective internal environment could be far-reaching, possibly resulting in financial loss, a tarnished public image or a business failure.

9.2. Step 2: Objective Setting

Objective setting is a precondition to event identification, risk assessment, and risk response. There must first be objectives before management can identify risks to their achievement and take necessary actions to manage the risks. There are 5 factors to consider with regard to objective setting:

1. Strategic Objectives
2. Related Objectives
3. Selected Objectives
4. Risk Appetite and Risk Tolerance

9.2.1. Strategic Objectives

The municipality's mission sets out in broad terms what the municipality aspires to achieve. From this, management sets its strategic objectives, formulates strategy and establishes related objectives for the municipality. Strategic objectives are high-level goals, aligned with and supporting the municipality's mission/vision. Strategic objectives reflect management's choice as to how the municipality will seek to create value for its stakeholders.

9.2.2. Related Objectives

Establishing the right objectives that support and are aligned with the selected strategy, relative to all the municipality's activities, is critical to success. By focusing first on strategic objectives and strategy, a municipality is positioned to develop related objectives at operational levels, achievement of which will create and preserve value.

Objectives need to be readily understood and measurable. Cape Agulhas Municipality's risk management requires that personnel at all levels have a requisite understanding of the municipality's objectives as they relate to the individual's sphere of influence. All employees must have a mutual understanding of what is to be accomplished and a means of measuring what is being accomplished.

There are three (3) categories of related objectives:

Operations Objectives - These pertain to the effectiveness and efficiency of the municipality's operations, including performance and profitability goals and safeguarding resources against loss.

Reporting Objectives – These pertain to the reliability of reporting. They include internal and external reporting and may involve financial or non-financial information.

Compliance Objectives – These pertain to adherence to relevant laws and regulations.

9.2.3. Selected Objectives

As part of risk management, management ensures that the municipality has selected objectives and considered how they support the municipality's strategy and mission/vision. The municipality's objectives also should align with the municipality's risk appetite. Misalignment could result in the municipality not accepting enough risk to achieve its objectives or, conversely, accepting undue risks.

9.2.4. Risk Appetite and Risk Tolerance

Frequently, the terms risk appetite and risk tolerance are used interchangeably, although they represent related, but different concepts. Risk appetite is a broad based description of the desired level of risk that the municipality will take in pursuit of its mission. Risk tolerance

reflects the acceptable variation in outcomes related to specific performance measures linked to objectives the municipality seeks to achieve.

9.3. Step 3: Event Identification

An event is an incident or occurrence emanating from internal or external sources that could affect implementation of strategy or achievement of objectives. Events may have positive or negative impacts, or both. As part of event identification, management recognises that uncertainties exist, but does not know when an event may occur, or its outcome should it occur. To avoid overlooking relevant events, identification is best made apart from the assessment of the likelihood of the event occurring, which is the topic of Risk Assessment. There are 5 factors to consider with regard to event identification:

1. Factors Influencing Strategy and Objectives
2. Methodologies and Techniques
3. Event Inter-dependencies
4. Event Categories
5. Risks and Opportunities

9.3.1. Factors Influencing Strategy and Objectives

A myriad of external and internal factors influences how events could potentially affect strategy implementation and achievement of objectives. As part of risk management, personnel recognize the importance of understanding external and internal factors and the type of events that can emanate there from. Management considers current factors, as well as those that may occur in the future. The table below lists the internal and external factors:

Internal	External
Infrastructure	Economic and Business
Personnel	Natural environment
Process	Political
Technology	Social
	Technological

9.3.2. Methodologies and Techniques

Event identification methodology may comprise a combination of techniques, together with supporting tools. For instance, management may use interactive group workshops as part of

its event identification methodology, with a facilitator employing a variety of technology-based tools to assist participants.

Event identification techniques look to both the past and the future. Techniques that focus on past events and trends consider such matters as payment default histories, changes in commodity prices and lost time accidents. Techniques that focus on future exposures consider such matters as exposure to shifting demographics, new market conditions and competitor actions.

9.3.3. Event Inter-dependencies

Events do not occur in isolation. One event can trigger another, and events can occur concurrently. In event identification, management should understand how events interrelate. By assessing the interrelationships, one can determine where risk management efforts are best directed. For example, a change to a central bank interest rate affects foreign exchange rates and, in turn, a company's currency transaction gains and losses.

9.3.4. Event Categories

It may be useful to group potential events into categories. By aggregating events horizontally across the municipality and vertically within operating units, management develops an understanding of the interrelationships between events, gaining enhanced information as a basis for risk assessment. By grouping together similar potential events, management can better determine potential opportunities and risks. Event categorisation also allows management to consider the completeness of its event identification efforts.

9.3.5. Risk and Opportunities

Events may have a negative impact, a positive impact or both. Events with a potentially negative impact represent risks, which require management's assessment and response. Accordingly, risk is the possibility that an event will occur and adversely affect the achievement of objectives. Events with a potentially positive impact represent opportunities, or offset the negative impact of risks. Events representing opportunities are channelled back to management's strategy or objective-setting processes, so that actions can be formulated to seize the opportunities. Events potentially offsetting the negative impact of risks are considered in management's risk assessment and response.

9.4. Step 4: Risk Assessment

In risk assessment, management considers the mix of potential future events relevant to the municipality and its activities. This entails examining factors including the municipality's size, complexity of operations and degree of regulation over its activities that shape the municipality's risk profile and influence the methodology it uses to assess risks.

9.4.1. Inherent and Residual Risk

Management considers both inherent and residual risk. Inherent risk is the risk to the municipality in the absence of any actions management might take to alter either the risk's likelihood or impact. Residual risk is the risk that remains after management responds to the risk. Risk assessment is applied first to inherent risks. Once risk responses have been developed, management then uses risk assessment techniques in determining residual risk.

9.4.2. Impact and Likelihood

Uncertainty of potential events is evaluated from two perspectives likelihood and impact. Likelihood represents the possibility that a given event will occur, while impact represents its effect. Likelihood and impact are commonly used terms, although some institutions use terms such as probability, and severity or consequence. (Refer to Annexure A and B).

9.5. Step 5: Risk Response

9.5.1. Identifying Risk Responses

Risk responses fall within the following four categories:

1. **Avoidance** – Action is taken to exit the activities giving rise to risk. Risk avoidance may involve exiting a product line, declining expansion to a new geographical market, or selling a division.
2. **Reduction** – Action is taken to reduce the risk likelihood or impact, or both. This may involve any of a myriad of everyday business decisions.
3. **Sharing** – Action is taken to reduce risk likelihood or impact by transferring or otherwise sharing a portion of the risk. Common risk sharing techniques include purchasing insurance products, pooling risks, engaging in hedging transactions, or outsourcing an activity.
4. **Accept** – No action is taken to affect likelihood or impact.

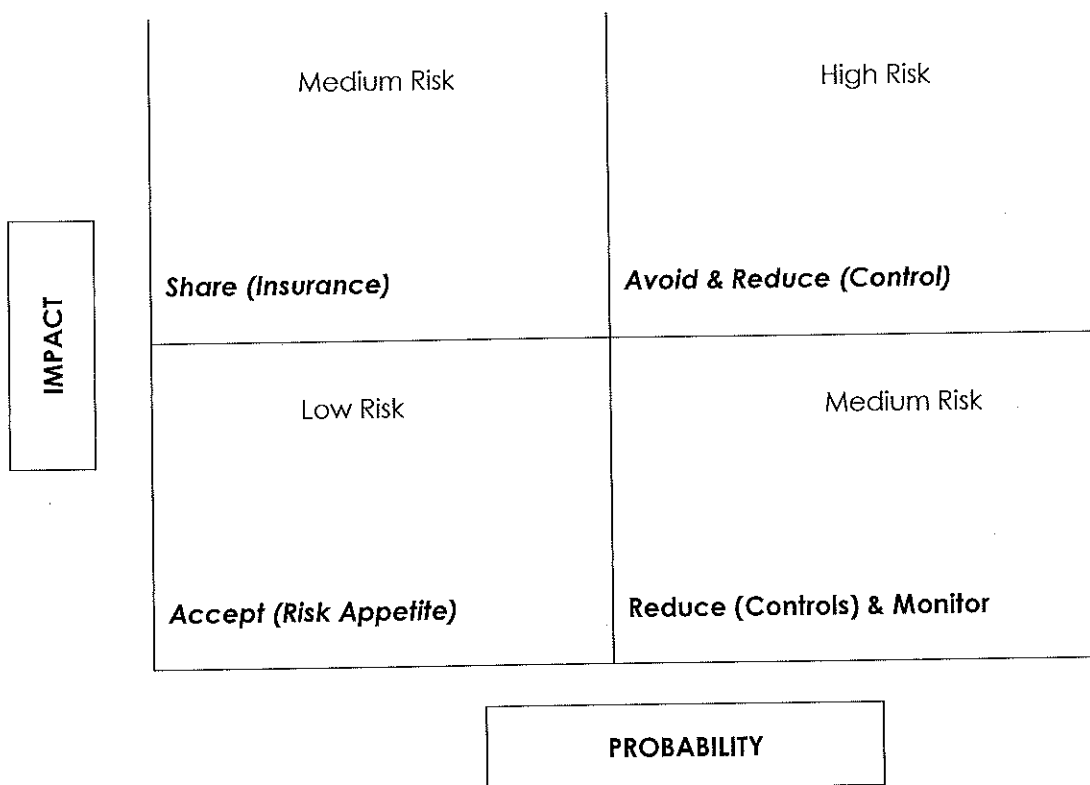


FIGURE 2: Risk Response Strategy

9.5.2. Evaluating Possible Risk Responses

Inherent risks are analysed and responses evaluated with the intent of achieving a residual risk level aligned with the municipality's risk tolerances. Any of several responses may bring residual risk in line with risk tolerances, and sometimes a combination of responses provides the optimum result. Similarly, certain responses will affect the risk of multiple potential events. Because risk responses may address multiple risks, management may discover that additional actions are not warranted. Existing procedures may be sufficient or may need to be performed better. Accordingly, management considers how individual responses, or combinations of responses, interact to affect potential events.

9.5.3. Evaluating Effect of Response on Likelihood and Impact

In evaluating response options, management considers the effect on both risk likelihood and impact, and understands that a response might affect likelihood and impact differently. The potential response to assessment of likelihood and impact may consider past events and trends, and potential future scenarios. In evaluating alternative responses, management determines their potential effect typically using the same units of measure for the objective and associated risks as established in the risk assessment component.

9.6. Step 6: Control Activities

Control activities are policies and procedures, which are the actions of people to implement the policies, to help ensure that management's risk responses are carried out.

9.6.1. Types of Control Activities

Many different descriptions of types of control activities have been put forth. Internal Controls can be preventative, detective or corrective by nature.

- Preventative Controls are designed to keep errors or irregularities from occurring in the first place.
- Detective Controls are designed to detect errors or irregularities that may have occurred.
- Corrective Controls are designed to correct errors or irregularities that have been detected.

9.6.2. Controls over Information Systems

With widespread reliance on information systems, controls are needed over significant systems. Two broad groupings of information systems control activities can be used. The first is general controls, which apply to many if not all application systems and help ensure their continued, proper operation. The second is application controls, which include computerised steps within application software to control the technology application. Combined with other manual process controls where necessary, these controls ensure completeness, accuracy and validity of information.

9.6.3. General Controls

General controls include controls over information technology management, information technology infrastructure, security management and software acquisition, development and maintenance. These controls apply to all systems from mainframe to client/server to desktop computer environments.

9.6.4. Application Controls

Application controls are designed to ensure completeness, accuracy, authorisation and validity of data capture and processing. Individual applications may rely on effective operation of controls over information systems to ensure that data is captured or generated when needed, supporting applications are available and interface errors are detected quickly. One of the most significant contributions of computers is the ability to prevent errors from entering the system, as well as detecting and correcting them once they are present. To do this, application controls depend on computerised edit checks. These consist of format, existence, reasonableness and other checks on the data that are built into an

application during development. When properly designed, they can provide control over entered data.

9.7. Step 7: Information and Communication

The municipality identifies and captures information financial and non-financial, relating to external as well as internal events and activities relevant to managing the municipality. This information is delivered to personnel in a form and timeframe that enable them to carry out their risk management and other responsibilities.

9.8. Step 8: Monitoring

Risk management changes over time. Risk responses that were once effective may become irrelevant; control activities may become less effective, or no longer be performed; or the municipality's objectives may change. This can be due to the arrival of new personnel, changes in the municipal structure or direction, or the introduction of new processes. In the face of such changes, management needs to determine whether the functioning of each risk management component continues to be effective. Monitoring can be done in two ways: through on-going activities or separate evaluations.

9.8.1. On-going Monitoring Activities

Many activities serve to monitor the effectiveness of enterprise risk management in the ordinary course of running the business. These include regular management and supervisory activities, variance analysis, stress testing, comparisons, reconciliations and other routine actions.

9.8.2. Separate Evaluations

While on-going monitoring procedures usually provide important feedback on the effectiveness of other risk management components, it may be useful to take a fresh look from time to time, focusing directly on risk management effectiveness. This also provides an opportunity to consider the continued effectiveness of the on-going monitoring procedures. Separate evaluations would be performed by the Internal Audit unit and will assess the existence and functioning of the eight (8) elements of the risk management process at a point in time.

10. Detailed Implementation Plan

Since the establishment of the Risk management Shared Services section at the Overberg District Municipality, this municipality will fall in with their implementation plan as we cannot differ from them

Appendix A: Categories of risk

Categories of risk	
Municipal categories	
Strategic risks	<p>Strategic objectives are high-level goals aligned with and supporting the municipality's mission and vision. Strategic objectives reflect management's efforts as to how the municipality will look to create value for its stakeholders.</p> <p>Strategic risks are those events, which could have a negative effect on the achievement of this municipality's strategic objectives as noted in the IDP.</p>
Operational risks	<p>Operational objectives pertain to the effectiveness and efficiency of the municipality's operations, including performance, revenue goals and safeguarding resources against loss. They vary based on management's view about structure and performance.</p> <p>Operational risks are those events that may affect the achievement of the directorate's operational objectives.</p>
Reporting risks	<p>Reporting objectives pertain to the reliability of reporting. They include internal and external reporting and may involve financial and non-financial information.</p> <p>Reporting risks are those events that may affect the achievement of the municipality's reporting objectives.</p>
Compliance risks	<p>Compliance objectives pertain to adherence to relevant laws and regulations. They are dependent on external factors, such as environmental regulations and tend to be similar across all entities in some cases and across and industry in others.</p> <p>Compliance risks are those events that may affect the achievement of the municipality's compliance objectives.</p>
Fraud risk	<p>Fraud management objectives pertaining to an intentional act to secure an unlawful or unfair gain.</p> <p>Fraud risks are those events that may affect the achievement of the municipality's strategic and operational objectives.</p>
Project Risk	<p>Project management objectives pertaining to the management of capital and other projects</p> <p>Project risk is an uncertain event that, if it occurs, has a positive or negative effect on the prospects of achieving project objectives</p>
Other risk categories	
External risks	<p>The risk arising from 3rd parties, outsourcing, external system failure, external criminal activities and catastrophes.</p>
Financial risks	<p>Potential factors to consider includes:</p> <ul style="list-style-type: none"> • Cash flow adequacy and management thereof • Financial losses

Categories of risk	
	<ul style="list-style-type: none"> • Wasteful expenditure • Budget allocations • Financial statement integrity • Revue collection • Increasing operational expenditure
Process risk	Failure in the design and execution of key management
Intellectual property risk	Inability to enforce patents and trademarks
Human Resource risk	<p>Risk relating to human resources in the municipality. These risks can have an effect with regards to:</p> <ul style="list-style-type: none"> • Integrity and honesty • Recruitment • Skills and competence • Employee wellness • Employee relations • Retention • Occupational health and safety
Ethics, integrity and fraud	These risks relates to illegal or improper acts by employees resulting in a loss of the asset or resources.
Information Technology risks	<p>The risk relating specifically to the municipality's IT objectives, infrastructure and recruitment requirements. Possible consideration could include the following when identifying applicable risks:</p> <ul style="list-style-type: none"> • Security concerns • Technology availability • Applicability of IT infrastructure • Integration/interface of the systems • Effectiveness of technology • Obsolescence of technology
Reputation risk	Factors that could result in the tarnishing of the municipality's reputation, public perception and image.
Infrastructure risk	The risk of loss due to the possibility that the infrastructure or equipment in an area may be insufficient to complete a project.
Emerging risk	Newly developing or changing risks which are difficult to quantify and which may have a major impact on an the municipality

Appendix B: Risk assessment parameters

Table 1: Potential loss / impact rating table

The impact quantification table presented below must be used in the key risk identification process to assess the impact of the identified risks on Cape Agulhas Municipality's ability to achieve its stated objectives. Council approval is required in order to ensure consistent application of the criteria and comparability between assessed risks.

Severity rating	Service delivery	Safety and environmental	Reputations	Financial
Catastrophic 5	Risk event will result in widespread and lengthy disruption in continuity of service delivery for at least 48 hours	<ul style="list-style-type: none"> Major environmental damage Fatality or multiple serious injuries (permanent disability) to personnel or members of the public 	<ul style="list-style-type: none"> Placed under administration or Commission of inquiry or adverse negative media coverage Lack of public confidence 	<ul style="list-style-type: none"> Significant cost overrun of >20% over budget or underspending budget Effect on revenue / asset base of >10%
Critical 4	Disruption in service delivery for a period ranging between 24 and 48 hours over a significant area	<ul style="list-style-type: none"> Significant environmental damage Life threatening injury or multiple serious injuries (hospitalisation) to personnel or the public 	<ul style="list-style-type: none"> Intense public, political or media scrutiny 	<ul style="list-style-type: none"> Major cost overrun of between 10% and 20% over budget or under spending budget Effect on revenue/asset base of between 5% and 10%
Serious 3	Disruption in service delivery or disruption for a period between 8 and 24 hours over a regional area	<ul style="list-style-type: none"> Lower level environmental impact Serious injury causing hospitalisation 	<ul style="list-style-type: none"> Scrutiny required by governance and assurance committee 	<ul style="list-style-type: none"> Moderate impact on revenue and asset base
Significant 2	Brief local inconvenience (work around possible) Loss of an asset with minor impact on operations	<ul style="list-style-type: none"> Little environmental impact Minor injury on First Aid treatment case 	<ul style="list-style-type: none"> Scrutiny required by administration and management committees and/or independent assurance providers to prevent escalation 	<ul style="list-style-type: none"> Minor impact on revenue and asset base
Minor 1	No impact on business or core systems	<ul style="list-style-type: none"> No environmental impact Injury not requiring medical treatment 	<ul style="list-style-type: none"> Internal review 	<ul style="list-style-type: none"> Insignificant financial loss

Table 2: Likelihood rating table

This is the likelihood that the identified risk will occur, at the estimated impact level within a specific period of time (between 18 months and three years).

Likelihood factor	Qualification criteria
Almost certain 5	The risk is almost certain to occur in the current circumstances. The risk is already occurring, or is likely to occur more than once within the next 12 months.
Likely 4	More than an even chance of occurring. The risk could easily occur, and is likely to occur at least once within the next 12 months.
Possible 3	Could occur quite often. There is an above average chance that the risk will occur at least once in the next 3 years.
Unlikely 2	Small likelihood but could happen. The risk occurs infrequently and is unlikely to occur within the next 3 years.
Rare 1	Not expected to happen – event would be a surprise. The risk is conceivable but is only likely to occur in extreme circumstances.

Table 3: Control effectiveness rating table

The following criteria enable management to rate control effectiveness for identified risks:

Effectiveness category	Qualitative criteria
Very good 5	Risk exposure is effectively controlled and managed
Good 4	Majority of the risk exposure is effectively controlled and managed
Satisfactory 3	There is room for some improvement
Weak 2	Some of the risk exposure is controlled, but there are major deficiencies
Unsatisfactory 1	Control measures are ineffective

Appendix C: Risk matrices

Inherent risk exposure matrix

	<i>Almost certain</i>	<i>Likely</i>	<i>Possible</i>	<i>Unlikely</i>	<i>Rare</i>
<i>Catastrophic</i>	Extreme 90	Extreme 65	High 40	Moderate 20	Insignificant 10
<i>Critical</i>	Extreme 63	High 45.5	Moderate 28	Low 14	Insignificant 7
<i>Serious</i>	High 45	Moderate 32.5	Low 20	Low 10	Insignificant 5
<i>Significant</i>	Moderate 28.5	Low 19.5	Low 12	Insignificant 6	Insignificant 3
<i>Minor</i>	Insignificant 9	Insignificant 6.5	Insignificant 4	Insignificant 2	Insignificant 1

Residual risk exposure matrix

	<i>Very good</i>	<i>Good</i>	<i>Satisfactory</i>	<i>Weak</i>	<i>Unsatisfactory</i>
<i>Extreme</i>	Priority 1 81	Priority 1 52	Priority 2 26	Priority 4 8	Priority 5 2
<i>High</i>	Priority 1 56.2	Priority 2 36.4	Priority 3 18.2	Priority 5 5.6	Priority 5 1.4
<i>Moderate</i>	Priority 1 40.5	Priority 2 26	Priority 4 13	Priority 5 4	Priority 5 1
<i>Low</i>	Priority 2 25.66	Priority 3 15.6	Priority 4 7.8	Priority 5 2.4	Priority 5 0.6
<i>Insignificant</i>	Priority 4 8.1	Priority 5 5.2	Priority 5 5.07	Priority 5 0.8	Priority 5 0.2

Appendix D: Glossary of terms

Terminology	Definition
Chief Risk Officer	A senior official who is the head of the risk management unit.
Impact	The magnitude of the impact on the municipality should the risk materialise.
Inherent risk	The exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors.
Internal Audit	An independent objective assurance and consulting activity designed to add value and improve an organisation'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 III	The King Code of Corporate Governance of South Africa 2009
Residual risk	The remaining exposure after the mitigating effects of deliberate management intervention(s) to control such exposures (the remaining risk after management has put in place measures to control the inherent risk).
Risk	An unwanted outcome, actual or potential, to the Institution's service delivery and other performance objectives, caused by the presence of risk factor(s). Some risk factor(s) also present upside potential, which management must be aware of and be prepared to exploit. This definition of risk also encompasses such opportunities.
Risk appetite	The amount of residual risk that the Institution is willing to accept.
Risk assessment	The overall process of identifying, analysing and evaluating risk.
Risk champion	A person who by virtue of his/her expertise or authority champions a particular aspect of the risk management process, but who is not the risk owner.
Risk factor	Any threat or event which creates, or has the potential to create risk.
Risk management	A systematic and formalised process to identify, assess, manage and monitor risks.
Risk Management Committee	A committee appointed by the Accounting Officer / Authority to review the Institution's system of risk management.

Terminology	Definition
Risk management unit	A business unit responsible for coordinating and supporting the overall Institutional risk management process, but which does not assume the responsibilities for management for identifying, assessing and managing risks.
Risk owner	The person accountable for managing a particular risk.
Risk policy	Serves as a foundation for the Municipality's ERM activities, as it encapsulates management's philosophy and approach to risk management.
Risk profile	Identification and listing of risks, typically in order of highest to lowest based on qualitative or quantitative measurements approved by management.
Risk ratings	The analysis of risks identified in terms of impact and likelihood to obtain an inherent risk rating. The final rating assessment relates to control confidence and offset against the inherent risk assessment leaves the residual risk assessment exposure rating.
Risk strategy	The approach adopted for associating and managing risks based on the municipality's objective, strategies and programmes.
Risk tolerance	The amount of risk the Institution is capable of bearing (as opposed to the amount of risk it is willing to bear).