

# **THULAMELA MUNICIPALITY**



## **DRAFT RISK APPETITE AND TOLERANCE FRAMEWORK**

**2024/2025**

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## 1. INTRODUCTION

Risk management is a management tool. It is important to note that some risks will not be managed or fully resolved within a particular financial year due to their nature or size.

It is therefore necessary to have indicators and guidelines available that will assist the management to take the necessary action in order to reduce and mitigate these particular risks.

In taking appropriate action, the Management should have tracking measures or systems in place to track risk mitigation progress and efforts taken by the Municipality and to direct timely interventions where required.

Such responses should be based on adequate information that is accurate and validated to play a crucial role when the management discusses the available treatment options in terms of a particular risk.

It will be important to identify not only the risks for the Municipality but also the impact of being exposed or the likelihood of occurrence, including being able to look at the size of the risk in order to identify the required phased reduction process.

Additional considerations in risk reduction would be the possibility of audit qualification due to the particular risk which requires a particular treatment option for immediate implementation to mitigate the exposure level for the Municipality.

Given the dynamics, it is important for the Thulamela Local Municipality to make an informed decision on how much risk it accepts as part of normal management practice. This level of acceptable risk is known as the "risk appetite" and establishes the benchmark for the Thulamela municipality's risk tolerance levels and the development of a risk management strategy.

Once the risk appetite has been clearly defined, robust governance strategies that will ensure that day-to-day decisions are made in line with the Municipality's risk appetite should be implemented. In other words, a defined risk appetite should be embedded into the Municipality's strategies and risk culture to ensure that the risk exposures remain within the acceptable range/ exposure levels.

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## 2. OBJECTIVES

The objectives of risk appetite and tolerance framework are to:

- Clearly define and articulate the Thulamela Local Municipality Services Risk **Appetite**;
- Establish parameters for determining **Risk Tolerance Levels** relative to an objective;
- Align the risk appetite with the risk management strategy;
- Monitor the risks identified to be within their tolerance levels;
- Improve management control and coordination of risk taking across the organisation; and
- Enhance risk response decisions.

## 3. SCOPE

The risk appetite and tolerance framework should be used and implemented by all Municipality officials.

## 4. DEFINITIONS

### 2.1. RISK APPETITE LEVEL:

Risk appetite is the amount of risk the Municipality is willing to accept in achieving its objectives. The amount of risk exposure or potential adverse impact from an event the Municipality is willing to accept or retain. Risk appetite statements may be expressed qualitatively and/ or quantitatively and managed with respect to either an allocated individual initiative and/or in the aggregate. Think of risk appetite as the amount that the Municipality actively ventures in pursuit of rewards- also known as its goals and objectives.

### 2.2. RISK TOLERANCE LEVEL:

Risk tolerance levels are the acceptable levels of variation relative to the achievement of the objectives. The limitation of the Municipality capacity to take risks must be considered. Expressed in quantitative terms that can be monitored, risk tolerance often is communicated in terms of acceptable or unacceptable outcomes or as limited levels of risk. Risk tolerance statements identify the specific minimum and maximum levels beyond which the Municipality is unwilling to lose.

*Selected definitions of Risk Appetite and Tolerance*

Source	Risk Appetite definitions	Risk Tolerance definitions
ISO Guide 73: 2009 Risk Management Vocabulary	Amount and type of risk that an organization is willing to pursue or retain	Organisation's or stakeholder's readiness to bear the risk after risk treatment in order to achieve its objectives.
COSO Strengthening Enterprise Risk Management for Strategic Advantage, 2009	A broad-based description of the desired level of risk that an entity will take in pursuit of its mission	Reflects the acceptable variation in outcomes related to specific performance measures linked to objectives the entity seeks to achieve.
KPMG understanding and articulating risk appetite, 2009	The amount of risk, on a broad level, that an organization is willing to take on in pursuit of value.	Risk thresholds, or tolerance, are the typical measures of risk used to monitor exposure compared with the stated risk appetite.
Towers Perrin, What's your risk appetite, Emphasis 2009 by J. David Dean and Andrew F. Giffin	The amount of total risk exposure that an organization is willing to accept or retain based on risk-reward trade-offs: <ul style="list-style-type: none"> <li>• Reflective of strategy, risk strategies and stakeholder expectations.</li> <li>• Set and endorsed by board of directors through discussions with management.</li> </ul>	The amount of risk an organization is willing to accept in the aggregate( or occasionally within a certain business unit or for a specific risk category): <ul style="list-style-type: none"> <li>• Expressed in quantitative terms that can be monitored.</li> <li>• Often expressed in acceptable/unacceptable outcomes or levels of risk.</li> </ul>

**5. THE BENEFITS OF RISK APPETITE AND TOLERANCE**

Both the risk appetite and risk tolerance set the boundaries of how much risk a Municipality is prepared to accept.

It provides a framework from knowingly taking risks within the defined boundaries, it improves the ability of the oversight committee to challenge the recommendations of management by providing a benchmark or boundary of the level of risk that is defined as acceptable and it can be formally considered as part of strategic decision making.

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By operating within the risk tolerance level, it provides management with a greater degree of assurance that the Municipality remains within its risk appetite level which in turn provides a higher degree of comfort to the organization that it will achieve its objectives.

Defining the appropriate level of risk appetite and tolerance for TLM will assist management in:

- Knowing the risk appetite helps the management and the oversight structures to
- make informed risk decisions, after weighing in the risks vs rewards
- It improves the understanding and expectations that management and other stakeholders have of the Municipality, and enables risk/reward decision making
- It increases the consistency with which information about risks is communicated and / or escalated within the Municipality
- It improves the focus and perspective on risk analyses and risk data that in turn improves reporting of Municipal risks and leads to better risk data for decision making
- It improves reporting and analysis of Municipal risks, and leads to better risk data
- It improves the focus and perspective on, and attention to, risk analyses and risk data
- It leads to more efficient and effective activities related to regulatory, compliance and audit matters
- It results in more cost-effective management and monitoring of risk
- Encourages SMART principle planning within the allocated resources e.g. human and financial
- Setting risk tolerance is very important as it assists the institution to make decisions based on what has been determined to be acceptable risk levels
- It also assists in determining the risk that could be detrimental to the Municipality's existence. This helps with setting risk or control indicators and with monitoring.

## **6. TLM GOVERNANCE OVER RISK APPETITE AND TOLERANCE LEVEL**

Since risk appetite is useful to TLM, it is vital that it is subject to governance structures throughout the functions of the Municipality. It is of great importance that the risk oversight committee retains governance over its risk appetite framework of the below key points.

- Approval: Accounting officer approves the development of the risk appetite and tolerance level.

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- **Measurement:** The Municipality needs to be a regular and consistent measurement against the framework and demonstration that the framework is used in practice within the directorate.
  - **Monitoring:** The Risk Management committee needs to deal with breaches of appetite or tensions that arise from its implementation.
  - **Learning:** The Risk Management section ensures that there is continuous learning within the Municipality in terms of Risk management aspects. Learning from the implementation of the risk appetite and tolerance levels is required, so that it becomes more embedded into the Municipality day-to-day operations.

## **7. MANAGEMENT RESPONSIBILITY:**

The level of risk that an organization is willing to accept is a management decision. There is no right or wrong question on how to treat risk actions in determining the correct decision response.

The only important indicator would be to gather adequate and valid data to be able to make informed decisions that would not have a negative impact or would reduce the likelihood or reasonable assurance of the Municipality to achieve its objectives.

The risk management strategy will differ from organization to organization depending on the strategy approach adopted by management of the Municipality.

Internal and External stakeholders must understand the risk chosen by the Municipality and invest in accordance with their own risk tolerance levels.

The Municipality should communicate the levels of risks accepted annually. This would also improve the transparency of the risk management processes, financial and

performance reporting as the actions and decisions taken by the Municipality can be measured against the risk appetite level as these results will be communicated to the public.

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## 8. APPROACH TO DEFINING THE RISK APPETITE/TOLERANCE LEVELS

A holistic approach of consultation with management has been followed to have a comprehensive risk appetite /tolerance framework considering both the qualitative and quantitative measures.

The qualitative approach considers what the overarching attitude to risk taking is and how this attitude relates to the expectations of the Municipality's stakeholders. The qualitative approach considers actual financial measures (capital expenditure, budgets and monetary values) to determine the exact amount of capital the Municipality is prepared to put at risk.

## 9. RISK APPETITE STATEMENT

The Municipality is committed to maintaining an effective, efficient and transparent system of risk management that supports the achievement of the Municipality's strategic and operational objectives. This concerted effort is attributed to the Municipality's risk culture.

Our risk appetite guides us how much risk we are willing to seek or accept to achieve our objectives. We recognize we will need to take risks, both in our ordinary business operations and to achieve the priorities set out in our **Integrated Development Plan (IDP) 2021-2026**. Good risk management ensures we make well-informed decisions, and we understand the associated risks. By ensuring that we properly respond to risks we will be more likely to achieve our priorities. It also provides control and a high level of due diligence consistent with our responsibilities in managing government resources.

We recognize effective risk management considers not just threats but also opportunities. So, our approach to risk is to seek the right opportunities and, where possible, minimize threats. By encouraging managed risk-taking and considering all the available options we seek a balance between caution and innovation.

Our risk appetite reflects our current position; encouraging managed risk taking for minor to moderate level risks but controlling more closely those risks that come further up the scale. Our appetite for risk will vary over time depending on our ambitions and priorities and the environment we work in. Beyond our risk appetite is our risk tolerance. This sets the level of risk that is unacceptable, whatever opportunities might follow. In such instances we will aim to reduce the risk to a level that is within our appetite.

**10. RISK APPETITE MATRIX**

We illustrate our risk appetite and tolerance in the matrix below. The **YELLOW** shaded area represents the outer limit of our risk appetite, and the **RED** area indicates tolerance. As Thulamela Local Municipality, services we are not willing to take risks that have significant negative consequences on the achievement of our objectives. The matrix also illustrates how we monitor risks. The municipality’s highest-level risks (those with a combined score of **14** and above) are reported to Top Management Committee and Risk Management Committee for consideration and guidance.

Risk rating	Inherent risk magnitude	Residual risk
15-17	High	Unacceptable level of risk, except under unique circumstances or conditions – High level of control intervention required to achieve an acceptable level of residual risk
8-14	Medium	Unacceptable level of risk, except under unique circumstances or conditions – Moderate level of control intervention required to achieve an acceptable level of residual risk
1-(to)7	Low	Mostly acceptable – Low level of control intervention required, if any

**11. RISK RESPONSES**

Risk Rating	Guidance to Risk Owners
<p>Risks at this level sit above the tolerance of the municipality and are such magnitude that they form the TLM Top (10) ten biggest risks.</p> <p>The municipality is not willing to take risks at this level and action should be taken immediately to manage the risk.</p>	<p>Identify the actions and controls necessary to manage the risk down to an acceptable level. If scored above 14, report the risk to the Risk Management Committee and Risk Management Resource Team Leader/ or Chief Risk Officer.</p> <p>Steps will be taken to collectively review the risk and identify any other possible mitigation (such as controls).</p>

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		<p>Risks that remain at this level will be escalated to Top (10) ten risk of the municipality, which will be actively monitored and provide guidance on the ongoing management of risks at this level.</p>
8-14	<p>These risks are within the upper limit of risk appetite. While these risks can be tolerated, controls should be identified to bring the risk down to a more manageable level where possible.</p>	<p>Identify controls to treat the risk impact /likelihood and seek to bring the risk down to a more acceptable level. These risks should be monitored and reviewed monthly. If unsure about ways to manage the risk, consult with the Risk Management Resource Team Leader/ or Chief Risk Officer. Risks at this level will feature in a quarterly risk update to Risk Management Committee who will provide oversight and support if needed.</p>
1-7	<p>These risks sit on the borders of the Thulamela Loca; Municipality's risk appetite and so while they do not pose an immediate threat, they are still risks that should remain under review. If the impact or likelihood increases, then risk owners should seek to manage the increase</p>	<p>Keep these risks on the radar and update as and when changes are made, or if controls are implemented. Movement in risks should be monitored, for instance featuring as part of a standing management meeting agenda. Responsibility for monitoring and managing these risks sits within the departments/or divisions.</p>

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## 12. RISK APPETITE AND TOLERANCE TABLE

The risk appetite and tolerance table below give an indication as how Thulamela implements its risk appetite and tolerance using the risk appetite matrix.

Risk Categories	Key Risk Indicator	Appetite (R&E)	Risk Appetite	Risk Tolerance
1. Information Technology	<ul style="list-style-type: none"> <li>System downtime</li> <li>Incidence of irrecoverable data loss</li> </ul>	Acceptable	<ul style="list-style-type: none"> <li>Not less than 95% downtime on all networks</li> <li>No more than 2 incidences of hacking leading to major financial losses</li> </ul>	<ul style="list-style-type: none"> <li>No more than 4 minor incidences of hacking leading to financial losses</li> </ul>
2. Compliance/Regulatory	<ul style="list-style-type: none"> <li>Non-adherence</li> <li>System without update patches</li> <li>System availability</li> </ul>	Unacceptable	<ul style="list-style-type: none"> <li>No appetite for unauthorised access to systems confidential data</li> </ul>	<ul style="list-style-type: none"> <li>Limited tolerance for unauthorised access to systems confidential data</li> </ul>
3. System	<ul style="list-style-type: none"> <li>Number of system interruptions with impact reintegration of offenders</li> </ul>	Acceptable with caution	<ul style="list-style-type: none"> <li>Appetite on reintegration of offenders</li> </ul>	<ul style="list-style-type: none"> <li>Tolerance on reintegration of offenders</li> </ul>
4. Human resources (teaching training and learning)	<ul style="list-style-type: none"> <li>Increase in number of training programme</li> <li>No. of personnel being trained per financial year</li> </ul>	Unacceptable	<ul style="list-style-type: none"> <li>The municipality expresses more appetite of trained per financial year</li> </ul>	<ul style="list-style-type: none"> <li>The municipality does tolerate more trained per financial year</li> </ul>

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Draft Risk Appetite and tolerance framework

5.	<p>Health &amp; Safety</p> <ul style="list-style-type: none"> <li>Number of reported incidents</li> <li>Number of findings from the OHS inspection conducted</li> <li>Inmate fatalities or injuries</li> </ul>	<ul style="list-style-type: none"> <li>Low appetite on compromised inmate safety</li> <li>Anything below % on safety of inmates</li> </ul>	<ul style="list-style-type: none"> <li>Zero tolerance to compromised safety of inmate</li> </ul>
6.	<p>Human resources</p> <ul style="list-style-type: none"> <li>Staff Turnover</li> <li>%/No. Skilled employees</li> </ul>	<p>Acceptable with caution</p> <ul style="list-style-type: none"> <li>The vacancy rate at top and senior management to be no more than 8%.</li> </ul>	<ul style="list-style-type: none"> <li>The vacancy rates for critical skills to be no more than 4% in a year cycle.</li> </ul>
7.	<p>Infrastructure / Project risks</p> <ul style="list-style-type: none"> <li>% infrastructure failure</li> </ul>	<p>Acceptable with caution</p> <ul style="list-style-type: none"> <li>8% on repairs and maintenance of infrastructure</li> <li>Zero appetite of replacement of infrastructure that is beyond useful life</li> </ul>	<ul style="list-style-type: none"> <li>6% on repairs and maintenance infrastructure</li> <li>Zero tolerance of replacement of infrastructure that are beyond useful life</li> </ul>
8.	<p>Procurement / SCM</p> <ul style="list-style-type: none"> <li>Delay in payment of supplies</li> <li>Tender malpractices</li> </ul>	<p>Acceptable</p> <ul style="list-style-type: none"> <li>Fewer days appetite to non-payment of supplies</li> </ul>	<ul style="list-style-type: none"> <li>Zero tolerance to non-compliance</li> <li>30 days tolerance to non-payment of supplies</li> </ul>
9.	<p>Service delivery</p> <ul style="list-style-type: none"> <li>Poor coordination and leadership reassigned</li> <li>Fragmented approach to execution management implementors</li> </ul>	<p>Acceptable</p> <ul style="list-style-type: none"> <li>The Municipality will accept Facilitation of engagements with stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>The Municipality expresses tolerance on facilitation of engagements with stakeholders</li> </ul>

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	<ul style="list-style-type: none"> <li>Inconsistence in management strategic planning</li> </ul>		<ul style="list-style-type: none"> <li>The Municipality will accept Development of sustainable strategic initiative</li> </ul>	<ul style="list-style-type: none"> <li>The Municipality expresses tolerance Development of sustainable strategic initiative</li> </ul>
10.	<ul style="list-style-type: none"> <li>Financial</li> <li>Increase in budget constraints</li> <li>Poor management of claims processes</li> <li>Lack of payment modality</li> </ul>	<p>Acceptable with caution</p>	<ul style="list-style-type: none"> <li>The Municipality will not accept incorrect disclosure or reporting</li> <li>The Municipality is not willing to accept any risk of poor financial management</li> <li>The Municipality will accept interaction with National Treasury to lobby for budget</li> </ul>	<ul style="list-style-type: none"> <li>The Municipality will zero tolerance of incorrect disclosure or reporting</li> <li>The Municipality will not tolerate any risk of poor financial management</li> <li>The Municipality will tolerate interaction with National Treasury to lobby for budget</li> </ul>

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### 13. THE REVIEW OF THE RISK APPETITE AND TOLERANCE FRAMEWORK

The risk appetite will be reviewed annually by the municipality to ensure that the appetite and tolerance levels are still appropriate.

### 14. MONITORING & EVALUATION

14.1 The Chief Risk Officer must monitor the effectiveness of the risk appetite and tolerance framework on a quarterly basis.

14.2 The Risk Management Committee must assess effectiveness of the risk appetite and tolerance framework on a quarterly basis.

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

14.4 The Risk Management Committee must evaluate, at least annually, its performance in line with the responsibilities outlined in the approved Risk Management Charter. The external evaluation will be conducted by Provincial Treasury through Key Performance Indicators.

### 15. FRAMEWORK ADMINISTRATION

15.1 This Framework shall be reviewed annually to reflect the current stance on risk management.

15.2 The amendments to the framework will be sent to the Risk Management Committee by the Chief Risk Officer for inputs and to the Accounting Officer by the Chairperson of the Risk Management Committee for recommendation.

### 16. APPROVAL

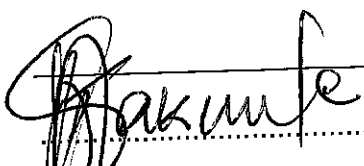
THIS FRAMEWORK HAS BEEN REVIEWED BY CHIEF RISK OFFICER:

  
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**ACTING SENIOR MANAGER  
SIKHWIVHILU N.M**

31/05/2024  
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**DATE**

  
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**MAKUMULE MT  
MUNICIPAL MANAGER**

31/05/2024  
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