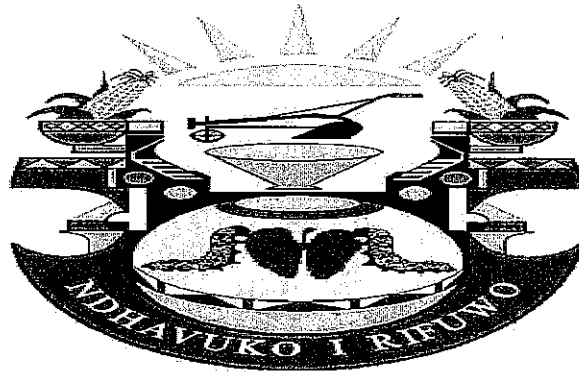


GREATER GIYANI MUNICIPALITY



RISK APPETITE AND TOLERANCE FRAMEWORK 2024/2025

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1. PURPOSE OF THE RISK APPETITE FRAMEWORK:

After all risks for the 2023/2024 financial year have been identified as well as root causes and possible consequences established, all risks should be rated to identify the acceptable, tolerable, unacceptable level.

The reasons why risks are rated, is to:

- I. Allow the municipality to use its scarce resources to focus on mitigating the high rated risk.
- II. Allow the municipality to identify those risk that if not mitigated, may result in the municipality not reaching one or more of its strategic objectives.
- III. Allow the municipality to identify those risk that if not mitigated, may results in the destruction of the municipality operations.

To rate all risks, the risk rating table as well as the risk tolerance table are being utilized. The challenge is that the rating tables allows for a huge amount of subjective opinion.

The above challenge leads to the following questions:

- I) How can the amount of subjective opinion in the rating of risk be minimized?
- II) How can the amount of subjective opinion in the establishment of tolerance level be minimized?

The instrument that can be utilized to minimize subjective opinion is to establish the risk appetite, with regard to every strategic objective of the municipality.

This document is part of the Risk Management Framework of the municipality and must be read in conjunction with the following documentations:

- I) Risk Management Policy
- II) Risk Management Strategy
- III) Risk Management Implementation plan
- IV) Risk Management, Anti-Fraud and Anti-Corruption Committee Charter
- V) Fraud Prevention Policy
- VI) Fraud Prevention Plan and Strategy
- VII) Whistle Blowing Policy
- VIII) Risk Management Key Performance Indicators
- IX) Risk Management Assurance Plan

2. SCOPE OF THE DOCUMENT

This document will include the following:

- I. Definition of key concepts.
- II. Strategic goals of the municipality.
- III. Risk appetite and tolerance overview
- IV. Greater Giyani risk appetite and tolerance statements
- V. Risk appetite and tolerance per strategic objective per categories:
- VI. Risk rating and ranking methodology
- VII. 2022/2023 Strategic Risks:
- VIII. Profiling of 2023/24 Strategic risks:

3. DEFINITION OF KEY CONCEPTS

3.1 Risk Appetite:

This term refers to the amount of residual risk that the institution is willing to accept. The purpose of risk appetite is to indicate the point at which a risk becomes serious enough for the institution to start mitigating and managing the risk.

3.2 Risk Appetite Limit:

The level of risk which if breach by the municipality's risk profile, would necessitate immediate escalation and corrective actions.

3.3 Risk Tolerance:

Risk tolerance is the amount of risk the institution is capable of bearing (as opposed to the amount of risk it willing to bear).

3.4 Risk Capacity:

It is the maximum level of risk in which a firm can operate, while remaining within the constraints implied by capital and funding need and its obligations to stakeholders.

4. STRATEGIC GOALS OF THE MUNICIPALITY

The municipality has the following strategic goals per Key Performance Area:

Goal 01: Spatial Rational

Goal 02: Institutional Development and Transformation

Goal 03: Infrastructure Development and Basic Service Delivery

Goal 04: Local Economic Development

Goal 05: Financial Viability

Goal 06: Good Governance and Public Participation

5. RISK APPETITE AND TOLERANCE OVERVIEW:

- Greater Giyani Municipality's risk appetite is directly linked to its strategic objectives and addresses material risks, setting clear boundaries and expectations by establishing quantitative limits and qualitative statements.
- It also establishes quantitative measures of loss or negative outcomes that can be aggregated and disaggregated.
- Qualitative statements complement quantitative measures, set the overall tone for the Municipality approach to risk taking and articulate clearly the motivations for taking on, or avoiding certain types of risks.
- The risk appetite statements can be articulated in the following summary statement that is easy for all stakeholders to understand and addresses the levels and types of risk the Municipality is willing to accept to achieve its objectives.

6. GREATER GIYANI RISK APPETITE AND TOLERANCE STATEMENTS:

Strategic Objectives	Risk Appetite and Tolerance Statements
Competent, Innovative and Accountable Team	- All Employees and Councilors who represent the municipality will act according to the highest ethical standards at all times. - The Municipality invests in knowledge and intellectual property to achieve strategic objective in line with its mandate. - The Municipality has no appetite for risk that might damage its reputation. - The Municipality has low appetite for poor performance.
Sound Electronic Governance	- The Municipality is committed to sound governance practices and adherence to good governance principles. - Zero tolerance to fraud and corruption. - Greater Giyani exists for the purpose of its stakeholders, and as such strives to meet stakeholder expectations. It does so however, with full recognition that certain stakeholder group expectations may be

Strategic Objectives	Risk Appetite and Tolerance Statements
	conflicting. Stakeholder expectations will be met on an impact analysis (vs cost) basis. - Zero tolerance to non-compliance with all applicable laws and regulations.
Inclusive Economic Growth with Sustainable Development:	- The Municipality has low appetite for the Economic growth rate of lower than the 2.3% of the Country. - Investment returns (for economic growth within the Municipality) are recognized as the pillar for stimulating economic growth within the Municipality to attract and retain investment which will lead to job creation and business opportunities. - Has low to zero appetite, when more than 30% of labor force in the Municipality are without Jobs.
Sound Financial Management:	- GGM strives to balance financial management and operational continuity effectively and efficiently. Some risks are acceptable (if only temporary) for investment gain, but a long-term unfavorable position should be avoided. An acceptable level of liquidity should be maintained to meet foreseeable cash flow requirements. (Liquidity ratio of 1:1). - Material misstatements in financial reports and other reports are not acceptable.

Strategic Objectives	Risk Appetite and Tolerance Statements
	- Zero tolerance to lack of security and insurance for safeguarding of its assets.
Healthy Social Environment:	- Has a low to zero tolerance when it comes to employee and broader stakeholder occupational health and safety risk. - There is further a low appetite for risk exposure relating to non-delivery of basic services, health & safety (including public safety), infrastructure delivery, environmental and regulatory compliance.
Sustainable infrastructure and service provisioning:	- Low tolerance when it comes to poor maintenance of infrastructure and delays in infrastructure projects. - Zero tolerance when it comes to poor service delivery of basic service to its citizens. - Low tolerance to the rollover of 10 projects per financial year. - No appetite for poor performance by service provider
Integrated Regionalized Planning	- Low appetite for Land inventions and mushrooming of informal settlements therefore the Municipality invest in land development with the objective of providing land for human settlement and business.

7. RISK APPETITE PER STRATEGIC OBJECTIVE PER CATEGORIES:

In line with the Risk Management Methodology of the Municipality, risk appetite is expressed by means of the impact and likelihood categories and resulting overall Risk Matrix Heat map with its Escalation Categories.

Goal 01: Competent, Innovative and Accountable Team:

TYPES OF CONSEQUENCES									
Severity Description		FINANCIAL			OPERATIONAL	HUMAN RESOURCE	HEALTH AND SAFETY	PUBLIC	REPUTATION
Score	Impact								
5		> R500 000	> 3 Month Business Interruption	> 4/5 Top Management positions is vacant	Multiple death on duty	Distraction of properties	International Press/ TV/ Radio		
4	Major	R300 000 – R500 000	> 2 Month Business Interruption	3 / 5 Top Management position is vacant	One death/permanent disability	Long term impact on public memory and major political implication (total service delivery shut down)	National Press/ TV/ Radio		
3	Moderate	R200 000 – R300 000	> 1 Month Business Interruption	2 / 5 Top Management position is vacant	Multiple Injury on duty	10 community uprising within the Municipality	Reginal Press/TV/Radio		
2	Minor	R100 000 – R200 000	<60 minutes of Business Interruption	1 / 5 Top Management position is vacant	Incident Report, No loss of time	No environmental impact/ damage	Local Press		
1	Insignificant	< 10 000	Unnoticed Interruption	No treatment required	First Aid, No loss of time	No environmental impact/ damage	Customer Complaint		

Goal 02: Sound Electronic Governance:

TYPES OF CONSEQUENCES						
Severity	Description	FINANCIAL	OPERATIONAL	LEGAL AND COMPLIANCE	INFORMATIONAL TECHNOLOGY	GOOD GOVERNANCE
Score	Impact					
5		> R500 000	Leads to project termination and loss of ability to sustain ongoing operations	Catastrophic legal regulatory consequences that could result in significant penalties /fines	Over 5 days without ICT Services Continuity.	> 50% of the Internal Audit and Auditor General finding not resolved
4	Major	R300 000 – R500 000	Significant impact on achievement of strategic and operative objective	Severe legal regulatory consequences that could result in significant penalties /fines	> 5 Days without ICT Service Continuity	> 20% of the Internal Audit and Auditor General finding not resolved
3	Moderate	R200 000 – R300 000	Disruption of normal operations for 1 day.	Significant legal regulatory consequences that could result in significant penalties / fines	> 3 Days without ICT Service Continuity	> 10% of the Internal Audit and Auditor General finding not resolved
2	Minor	R100 000 – R200 000	No material impact on achievement of the objective	Minor legal/ regulatory consequences that could result in penalties	> 1 Days without ICT Service Continuity	<10 % of the Internal Audit and Auditor General finding not resolved
1	Insignificant	< 10 000	Unnoticed Interruption	Insignificant Legal Impact	<60 minutes of or without ICT services	No Action required

Goal 03: Inclusive Economic Growth with Sustainable Development:

TYPES OF CONSEQUENCES						
Severity Description		FINANCIAL	OPERATIONAL	LEGAL AND COMPLIANCE	ENVIRONMENTAL	REPUTATION
Score	Impact					
5		> R500 000	Closing of existing mines and big business	Catastrophic legal regulatory consequences that could result in significant penalties /fines	Permanent damage to environment by mines and firms	Long term impact on public memory and major political implication (total service delivery shut down)
4	Major	R300 000 – R500 000	Significant impact to mines and Big Business	Severe legal regulatory consequences that could result in significant penalties /fines	Damage to environment by Mines and Firms	Medium term public with minor political implications
3	Moderate	R200 000 – R300 000	Disruption of normal operations of Mines and Big Business	Significant legal regulatory consequences that could result in significant penalties / fines	Significant Impact to environment by Mines and Firms	Regulator inquiry with medium term impact on public memory
2	Minor	R100 000 – R200 000	No material impact to operation of Mines and Big Business	Minor legal/ regulatory consequences that could result in penalties	Minor impact to environment	Affects significant number of the service areas but with likely Short-term impact on public memory
1	Insignificant	< 10 000	Negligible impact	Insignificant Legal Impact	Insignificant Impact to environment	Contained within the individual services area.

Goal 04: Sound Financial Management:

Severity Description		TYPES OF CONSEQUENCES					
		FINANCIAL	OPERATIONAL	LEGAL AND COMPLIANCE	SUPPLIERS	STAKEHOLDERS	EXPENDITURE
5	Score Impact	> R500 000	Current ratio is 0.5:1	Withdrawal of funds	> 90 days to pay creditors	> 150 days to adjudicate tenders	> 50 % Actual Expenditure
4	Major	R300 000 – R500 000	Current ratio is 1:1.	> 2 % irregular, Fruitless and Wasteful and Unauthorized Expenditure	> 60 days to pay creditors	> 100 days to adjudicate tenders	> 70 % Actual Expenditure
3	Moderate	R200 000 – R300 000	Current ratio is 1.5:1	> 1 % irregular, Fruitless and Wasteful and Unauthorized Expenditure	> 30 days to pay creditors	> 90 days to adjudicate tenders	≥ 95 % Actual Expenditure
2	Minor	R100 000 – R200 000	Current ratio is 2:1	0 % irregular, Fruitless and Wasteful and Unauthorized Expenditure	≤ 30 days creditors payment period	≤ 60 days adjudicate tenders	100% expenditure
1	Insignificant	< 10 000	Current ratio is < 2:1	No treatment required	No treatment required	≤ 30 days adjudicate tenders	No treatment required

Goal 05: Healthy Social Environment:

Severity Description		TYPES OF CONSEQUENCES					
		FINANCIAL	OPERATIONAL COMPLIANCE	LEGAL AND COMPLIANCE	HEALTH AND SAFETY	ENVIRONMENTAL	REPUTATION
Score	Impact						
5		> R500 000	Inability to render fire and rescue service >24hrs	Catastrophic legal regulatory consequences that could result in significant penalties /fines	Increase in HIV/Aids rate	Air/ water pollution	International Press/ TV/ Radio
4	Major	R300 000 – R500 000	When it takes 3hrs and more to respond to an emergency call	Severe legal regulatory consequences that could result in significant penalties /fines	Increase in cases of substances and alcohol Abuse	Hazmat Spillage	National Press/ TV/ Radio
3	Moderate	R200 000 – R300 000	Failure to respond to one emergency call	Significant legal regulatory consequences that could result in significant penalties / fines	Abuse of Human and Children	Illegal Dumping	Reginal Press/TV/Radio
2	Minor	R100 000 – R200 000	Minor impact to the operations of Health and Safety	Minor legal/ regulatory consequences that could result in penalties	No treatment required	Sewerage/ drainage failure	Customer Complaint
1	Insignificant	< 10 000	Insignificant Legal Impact	Insignificant Legal Impact	No treatment required	No environmental impact	Positive publicity

Goal 06: Sustainable Infrastructure and Service Provisioning:

Severity	Description	TYPES OF CONSEQUENCES						
		FINANCIAL	OPERATIONAL	LEGAL AND COMPLIANCE	HEALTH AND SAFETY	STAKE HOLDERS	ENVIRONMENTAL	REPUTATION
Score	Impact						INFRASTRUCTURE	
5		> R500 000	> 15 projects completed after the initial completion date	Catastrophic legal regulatory consequences that could result in significant penalties /fines	Death on duty on site	> 50% of the population are without Water	Catastrophic damage to water/Roads and Electricity Infrastructures Maintenance	International Press/ TV/ Radio
4	Major	R300 000 – R500 000	10 – 15 projects completed after the initial completion date	Severe legal regulatory consequences that could result in significant penalties /fines	Multiple fatalities and significant disabilities on site	> 30% of the population are without Water due to High Water	Extensive damage to water/Roads and Electricity Infrastructures Maintenance and poor quality	National Press/ TV/ Radio
3	Moderate	R200 000 – R300 000	4 – 8 projects completed after the initial completion date	Significant legal regulatory consequences that could result in significant penalties / fines	Multiple Injury on duty on site	> 25% of the population are without Water	Significant damage to water/Roads and Electricity Infrastructures due to Lack of Maintenance and poor quality	Reginal Press/TV/Radio
2	Minor	R100 000 – R200 000	2 – 4 projects completed after the initial completion date	Minor legal/regulatory consequences that could result in penalties	Incident Report, No loss of time	> 10% of the population are without Water	Minor disruption to supply of water and Electricity / Accessibility of the Road.	Customer Complaint
1	Insignificant	< 10 000	< 2 projects completed after the initial completion date	Insignificant Legal Impact	First Aid, No loss of time	< 2% of the population are without Water	No environmental impact	Positive publicity

Goal 07: Integrated Regionalized Planning:

TYPES OF CONSEQUENCES								
Description		Score	Impact	FINANCIAL	OPERATIONAL	LEGAL AND COMPLIANCE	ENVIRONMENTAL	REPUTATION
5				>R200 000	>2 years without Developing new land for settlement and business	Catastrophic legal regulatory consequences that could result in significant penalties /fines	Lack of land of human settlement	International Press/ TV/ Radio
4			Major	R100 000 – R200 000	> 18 months without developing new land for settlement and business	Severe legal regulatory consequences that could result in significant penalties /fines	Expanding informal human Settlements.	National Press/ TV/ Radio
3			Moderate	R40 000 – R100 000	> 12 months without developing new land for settlement and business	Significant legal regulatory consequences that could result in significant penalties / fines	Significant expansion of informal settlements	Reginal Press/TV/Radio
2			Minor	R10 000 - R40 000	< 6 month without developing new land for settlement and business	Minor legal/ regulatory consequences that could result in penalties	No environmental impact	Customer Complaint
1			Insignificant	< R 10 000	No impact	Insignificant Legal Impact	No environmental impact	Positive publicity

8. RISK RATING AND RANKING METHODOLOGY

For every risk it is important that you consider the nature and the scope of the risk and then rate the risk accordingly. Risks will be individually ranked by each participant.

Rating on Impact:

When rating a risk on the impact of the risk on the business, should it occur, you need to consider what the extent of the impact of that risk will be on the area of the business, which it affects. Some risks may have a major impact on one objective, yet a fairly low impact on the organization as a whole.

“Impact can be defined as the material loss to the organization, should that risk materialize”

Impact will be rated on a scale of 1 to 5 as follows:

Example: Impact on service delivery		
Score	Impact	Consequence
5	Critical	Negative outcomes or missed opportunities that are of <u>critical importance</u> to the achievements of the objectives
4	Major	Negative outcome or missed opportunities that are likely to have a relatively <u>substantial impact</u> on the ability to meet objectives.
3	Moderate	Negative outcome or missed opportunities that are likely to have a relatively <u>moderate impact</u> on the ability to meet objectives.
2	Minor	Negative outcomes or missed opportunities that are likely to have a relatively <u>low impact</u> on the ability to meet objectives.
1	Insignificant	Negative outcomes or missed opportunities that are likely to have a <u>negligible impact</u> on the ability to meet objectives

Rating on Likelihood (probability)

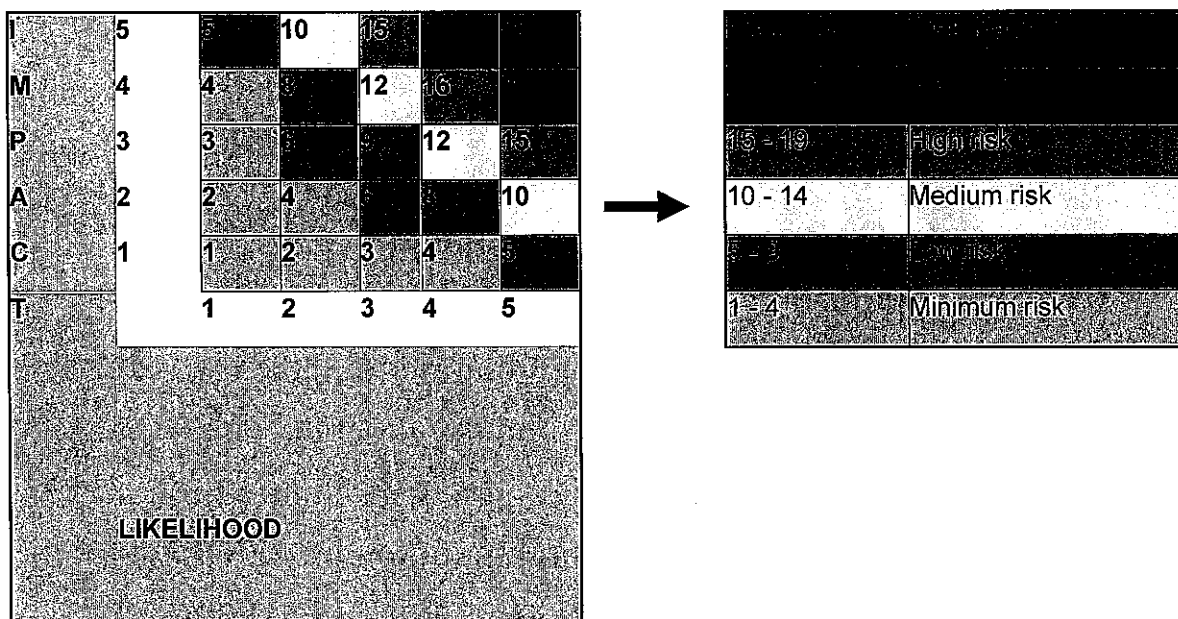
“Likelihood can be defined as the probability of an adverse event, which could cause materialization of the risk, may occur.”

Likelihood will be rated on a scale of 1 to 5:

Example: Certainty of occurrence		
Score	Likelihood	Occurrence
5	Common	The risk is already occurring or is likely to occur more than once within the next 12 months.
4	Likely	The risk could easily occur and is likely to occur at least once within the next 12 months.
3	Moderate	There is an above average chance that the risk will occur at least once in the next 3 years
2	Unlikely	The risk occurs infrequently and is likely to occur within the next 3 years
1	Rare	The risk is conceivable but is only likely to occur in extreme circumstance

Applying the parameters to the risk matrix to indicate what areas of the risk matrix would be regarded as high, medium or low risk (see the example below);

Risk Index = Impact X Likelihood



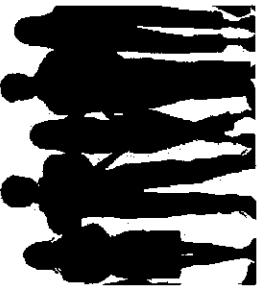
9. RISK ACCEPTANCE LEVEL AND ACTIONS TO BE TAKEN:

Below is the municipality's risk acceptability level and proposed Actions per Risk Magnitude:

Risk Index	Risk Magnitude	Risk Acceptability	Proposed mitigating steps
15 – 19	High risk	Unacceptable risk	Take action to reduce risk with highest priority
10 – 14	Medium risk	Unacceptable risk	Take action to reduce risk, inform management
5 – 9	Low risk	Accept Risk	No risk reduction – control, monitor, inform management
1 – 4	Minimum risk	Accept Risk	No risk reduction – control, monitor, inform management

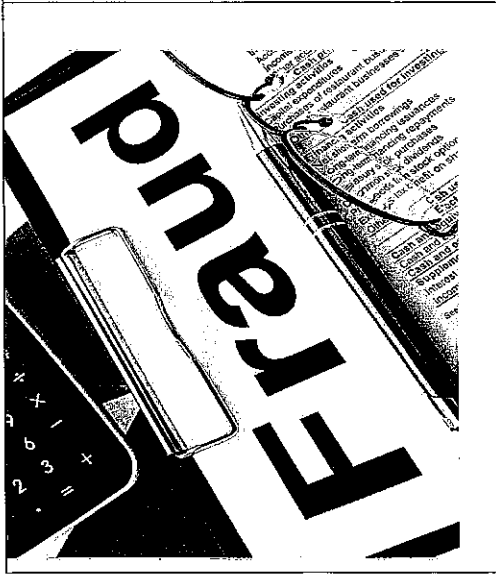
10. 2020/2021 STRATEGIC RISKS:

1. KPA 1: Institutional Development and Transformation:

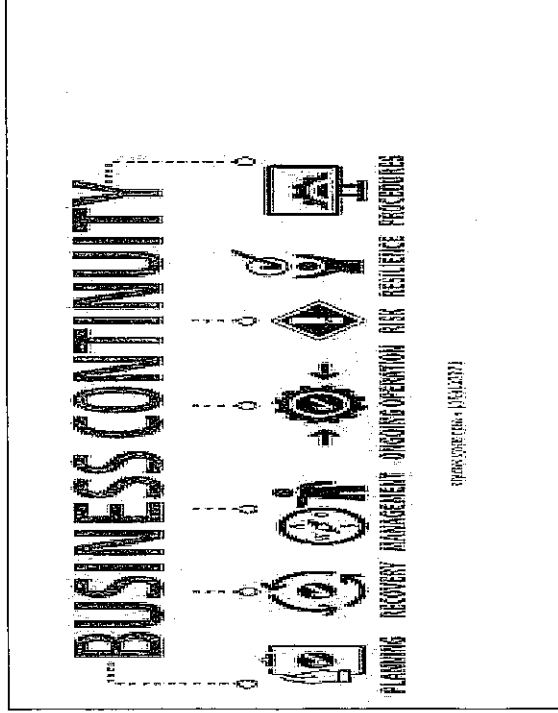
	Strategic Objective	Risks/Threats	Root causes	Impact	Likelihood	Residual Risk
	Competent, Innovative and Accountable Team	Inadequate organizational performance	1. Low staff morale due to the low grading of the municipality 2. The non-standardization of benefits and the application of the policy (Travel allowance and PMS) 3. Non-compliance with the PMS policy (1-3)	5	4	20

2. KPA 2: Good Governance and Public Participation:

	Strategic Objective	Risks/Threats	Root causes	Impact	Likelihood	Residual Risk
	Sound Electronic Governance	Failure to retain clean governance (audit)	1. Nonadherence to sound document Management controls 2. Lack of understanding of records management 3. Non implementation of Internal Audit,	3	3	9

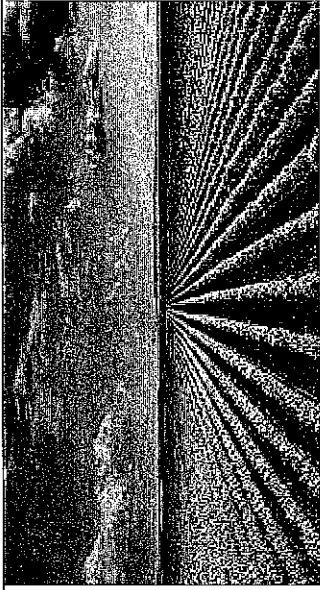
			Audit Committee and AG recommendations 4. The non-review of AFS 5. Changes in Regulations 6. Misstatements in the AFS and APR (Lack of accountability by managers) 7. Ineffective Governance structures		
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3. KPA 2: Good Governance and Public Participation:

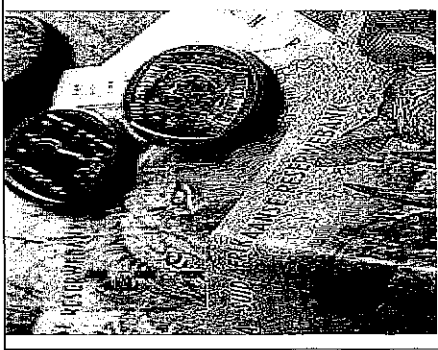
	Strategic Objective Sound Electronic Governance	Risks/Threats Lack of Business Continuity	Root causes 1. Systems Failure 2. Business Continuity plan not comprehensive enough to address pandemic 3. Inadequate Back-up 4. Ineffective maintenance of infrastructure	Impact 5	Likelihood 5	Residual Risk 25
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				5. Load shedding		
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4. KPA 3: Local Economic Development:

	Strategic Objective	Risks/Threats	Root causes	Impact	Likelihood	Residual Risk
	Inclusive Economic Growth with Sustainable Development	Inadequate support to SMME's, Cooperatives and informal traders	1.Non functionality of LED forums 2. Inability to access funding and non-financial support 3. Inability to access private sector market 4. Low skills base of local entrepreneurs	5	4	20
						

5. KPA 4: Financial Viability and Financial Management:

	Strategic Objective Sound Financial Management	Risks/Threats Inability to achieve financial sustainability	Root causes 1. Dependency on grants (GGM) 2. Other functions not generating enough revenue (Fire Services, Municipal Health) 3. Inability to collect revenue (Local Municipalities) 4. Inability to pay Bulk purchases (Local Municipalities) 5. Non-payment of services (Local Municipalities) 6. Non cost-effective tariffs (Local Municipalities)	Impact 4	Likelihood 4	Residual Risk 16

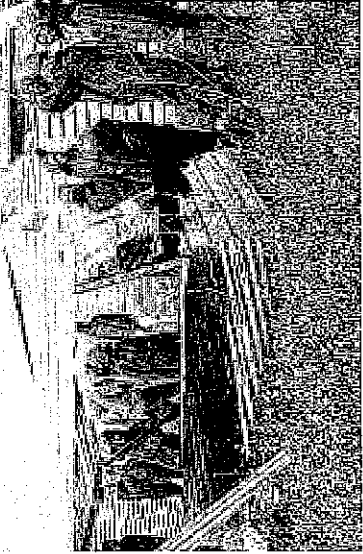
6. KPA 5: Basic Service Delivery and Infrastructure:

	Strategic Objective	Risks/Threats	Root causes	Impact	Likelihood	Residual Risk
	Healthy Social Environment	Inadequate swift water rescue response	1. Insufficient diving skills and specialized rescue services 2. Inadequate specialized rescue technicians	4	5	20

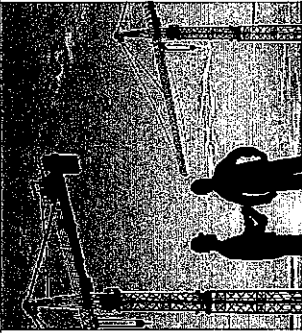
7. KPA 5: Basic Service Delivery and Infrastructure:

	Strategic Objective	Risks/Threats	Root causes	Impact	Likelihood	Residual Risk
	Healthy Social Environment	Inadequate provision of basic environmental health services	Inadequate skills 2. Inadequate implementation of MHS by laws	5	4	20

8. KPA 6: Spatial Rationale:

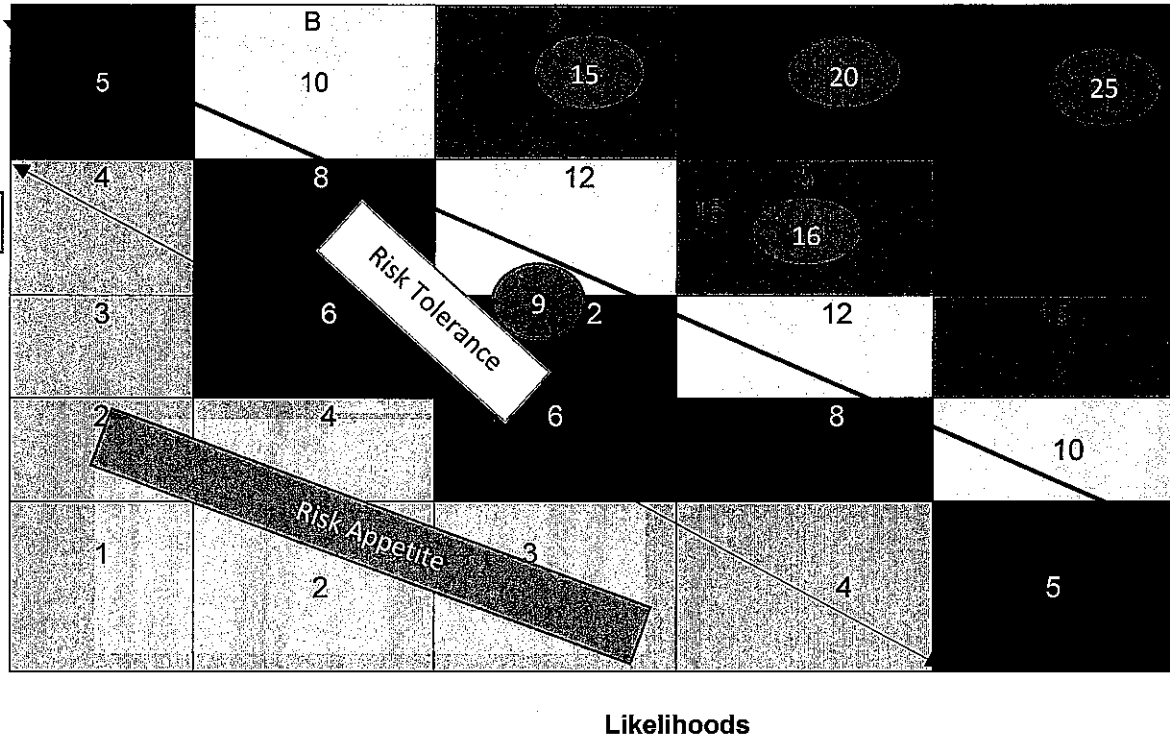
	Strategic Objective	Risks/Threats	Root causes	Impact	Likelihood	Residual Risk
	Integrated Regionalized Planning	Mushrooming of Informal settlements and housing backlogs	1.Unavailability of Municipal owned land in urban areas for human settlement 2.Ineffective IGR structures to coordinate human settlement initiatives	5	4	20

9. KPA 5: Basic Service Delivery and Infrastructure:

	Strategic Objective	Risks/Threats	Root causes	Impact	Likelihood	Residual Risk
	Sustainable Infrastructure and Service Provisioning	Inability to reduce service delivery backlogs	1.Decreased water resources 2. Limited Financial resources 3.Aging bulk water infrastructure leading to water loss at local municipalities	5	3	15

11. PROFILING OF 2022/2023 STRATEGIC RISKS:

All the Strategic Risk of the Municipality are outside the Risk Appetite and Tolerance Levels. Below is the Hit Map profiling the Nine (9) Strategic Risks?



12. CONCLUSION

The risk appetite is a tool that must be used as part of the risk rating processes to identify risks on the Enterprise Risk Register which are:

- Acceptable Risks
- Tolerable Risks
- Unacceptable Risks
- Strategic Risks,

This will allow the municipality to focus on scarce resources to successful mitigate all risks that have become a reality and that might jeopardize municipal service delivery.

13. REVIEW

The Risk Appetite Statement shall be reviewed as and when required within the cycle of 5 years.

Signed By:

The Mayor

CLLR ZITHA T

Signature

17/05/2024

Date