

OVERSTRAND MUNICIPALITY



FRAUD AND RISK MANAGEMENT POLICY

*Approved by Council
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LIST OF ABBREVIATIONS, TERMINOLOGY AND DEFINITIONS

In this policy, unless the context indicates otherwise, a word or expression, to which meaning has been assigned in the Municipal Finance Management Act (“MFMA”) and the Local Government Risk Management Framework (“framework”), has the same meaning.

In interpreting the under-mentioned definitions, cognizance must also be taken of the definitions as encapsulated in applicable enabling legislation and framework.

Terminology	Definition
Accounting Officer (AO)	In relation to a municipality, the Municipal Manager (as referred to in section 60 of the MFMA). A person appointed in terms of section 82 (a) or (b) of the Municipal Structures Act, who is the head of administration.
AGSA	Auditor General of South Africa
A senior official who is the head of the IAA.	A senior official who is the head of the IAA.
Chief Risk Officer (CRO)	A senior official who is the head of the RMU.
Combined Assurance (CA)	A process that seeks to optimise the scope of assurance to the OM by harmonising the work of various providers of assurance through eliminating fragmentation and duplication of efforts.
Competent	Having the knowledge and skills to accomplish a certain task
Council	The Municipal Council as referred to in section 18 of the Municipal Structures Act, and as defined in section 1 of the MFMA.
Conflict of interest	A person’s private interests interferes or is perceived to interfere with the interests of the OM. This usually happens when the interest impairs the employee’s ability to act impartially.
Corruption	The giving or offering, receiving or agreeing to receive, obtaining or attempting to obtain any benefit which is not legally due to or by a person who has been charged with a duty or power by virtue of any employment, to do any act or omit to do any act in relation to that power or duty.
Enterprise-wide Risk Management (ERM)	A systematic, co-ordinated and inclusive process which uses the Institution’s strategy (IDP) and objectives (SDBIP) as the focal point to manage the range of risks and optimisation of opportunities to enhance the achievement of the strategy and objectives.
Event	An incident or occurrence from internal or external sources that affects the achievement of the OM’s objectives.
Favouritism	The practice of giving unfair preferential treatment to one person or group at the expense of another.
Fraud	An unlawful and intentional making of a misrepresentation, which is prejudicial or potentially prejudicial to another. The term is used to describe acts such as deception, bribery, forgery, extortion, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts, collusion etc.

Terminology	Definition
Impact	A result or effect of and event. The impact of an event can be positive or negative. A negative event is referred to as a “risk”. Impact can also be referred to as consequence.
Incident	A risk that has actualised.
Inherent Risk	The exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors. The risk to OM in the absence of any actions management might take to alter either the risk’s impact or likelihood.
Integrated Development Plan (IDP)	A single, inclusive and strategic plan aimed at the integrated development and management of a municipality, as envisaged in Chapter 5 of the Municipal Systems Act.
Internal Auditing (IA)	An independent, objective assurance and consulting activity designed to add value and improve the institution’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
IAA	Internal Audit Activity/Unit
Joint Audit & Performance Committee (JAPAC)	An independent committee constituted to review the control, governance and RM within the OM, established in terms of section 166 of the MFMA.
King IV	The King Code of Corporate Governance for South Africa, 2016 for corporate governance best practice (Specifically “Part 6.2: Supplement for municipalities”).
Likelihood / Probability	The probability of the event occurring and can also be referred to as severity.
Management	Collectively, all levels of management personnel and officials of the OM responsible for planning, organising, leading and controlling municipal activities. In other words, everyone except the CRO, CAE and staff reporting to them, who are deemed to be independent of management in the exercise of their responsibilities for RM.
MFMA	Municipal Finance Management Act (Act No. 56 of 2003), whose aim is to secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government; to establish treasury norms and standards for the local sphere of government; and to provide for matters connected therewith.
Municipality	When referred to as — a) an institution, means as a municipality as described in section 2 of the Municipal Systems Act 32 of 2000; and b) a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998).
Municipal Services	Local government matters listed in Part B of Schedules 4 and Part B in Schedules 5 to the Constitution, and any function assignment to a municipality in Section 9 or 10 of the Municipal Systems Act (Act 32 of 2000).
OM	Overstrand Municipality
Operational Risk	Risks that affect the achievement of the SDBIP, mainly resulting from inadequate or failed internal processes, actions of staff, loss of key

Terminology	Definition
	personnel, failure of IT systems, failure of equipment, the actions of regulatory authorities, customers, suppliers and the public, as well as other external events that impact the objectives.
Priority/ Key Risk	Risk that is rated high on either inherent or residual level. Risk that need to be acted upon that possess a serious threat to the OM.
Project Risk	Risk that are identified for all major projects, covering the whole lifecycle and for long-term projects.
Residual Risk	The exposure remaining after the mitigating effects of management intervention(s) to control such exposure, i.e. the remaining risk after management has put in place measures to control the inherent risk.
Risk	a) The effect of uncertainty on the achievement of the OM's IDP and SDBIP caused by the presence of risk factors; and/or b) The failure to optimise opportunities to enhance the achievement of the IDP and SDBIP.
Risk Appetite	Refers to the amount and type of risk that the municipality is willing to take in order to achieve its strategic objectives and deliver public services. It represents the level of uncertainty or potential loss that the municipality is prepared to accept in its decision-making processes, considering factors such as legal, financial, social, and environmental risks.
Risk Factor	Any threat or event that creates, or has the potential to create risk.
Risk Management (RM)	A systematic, coordinated set of activities and methods used to direct and to control OM risks, including a set of principles, frameworks and related processes.
Fraud and Risk Management Committee (FARMCO)	A committee appointed by the AO to apply specialist skills, knowledge and experience and assist him/her to dispose of his/her responsibilities for all matters concerned with the establishment, maintenance and functioning of the municipality's system of RM, especially the management of priority risks.
Risk Management Unit (RMU)	A business unit that reports to and supports the CRO to fulfil his/her functions.
Risk Owner	The person accountable for managing a particular risk linked to the objective(s) he/she is responsible for.
Risk Response	Strategies developed by Management to reduce or eliminate the threats and factors that create risks.
Risk Tolerance	It represents the boundary or threshold of risk within which the municipality is comfortable operating, beyond which corrective actions or justification and approval are required.
Service Delivery and Budget Implementation Plan (SDBIP)	A detailed plan approved by the Mayor of a municipality in terms of section 53(1)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget.
SOP	Standard Operating Procedure
Strategic Risk	Risks connected with strategy selection, implementation or revision which affects the achievement of the IDP. Strategic risks occur both from poor business decisions as well as the failure to effectively implement good decisions.
3LoA	3 Lines of Assurance

1 INTRODUCTION

The AO has committed OM to implement and maintain an effective, efficient and transparent system of fraud prevention, anti-corruption and integrated RM. The policy is designed to provide all role players with the necessary information to enable them to understand the roles and responsibilities of their office in terms of fraud prevention, anti-corruption and RM.

The OM subscribes to the principles of good corporate governance, which requires conducting business in an honest, ethical and transparent manner.

The OM is committed to prevent and combat corrupt and fraudulent activities and behavior at all levels of the municipality. In addition to promoting the prevention, detection, investigation and sanctioning of fraud and corruption, the policy is also intended to assist in promoting ethical conduct within the OM.

2 MISSION

To support the OM in ensuring that its strategic objectives are achieved without compromising the stakeholders' trust and the quality of municipal services, by implementing effective risk management, fraud prevention, and anti-corruption approach, while leveraging the benefits of risk management to enhance overall performance.

3 OBJECTIVES

The policy is developed to assist management in making risk-informed decisions that will enable management to achieve OM strategic objectives.

4 BENEFITS

The integrated risk management process plays a vital role in supporting the municipality in achieving its objectives. The benefits include:

- more sustainable and reliable delivery of services;
- enhance decision making underpinned by appropriate rigor and analysis;
- reduced waste;
- preventing, detecting and proactive response to fraud and corruption;
- few/ limited occurrence of unexpected incidents and circumstances;
- help avoid damage to the municipality's reputation and image;
- help ensure effective reporting and compliance with laws and regulations;
- better value for money through more efficient use of resources; and
- improved project and programme management for enhanced outputs/ outcomes.

5 APPLICABLE LEGISLATION

Section 62(1)(c)(i) of the Local Government: MFMA provides that, the AO of a municipality is responsible for managing the financial administration of the municipality, and must 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 above RM responsibilities can be delegated to municipal officials in terms of Section 79 (1)(b) of the MFMA.

The AO has committed the municipality to implement and maintain an effective, efficient and transparent system of RM to adhere with MFMA. The process of RM is aligned with the National Treasury Public Sector and Local Government RM Framework and principles as set out in the King IV Report on Governance for South Africa 2016.

Section 112(m)(i) of the MFMA requires that the municipality must implement measures for “combating fraud, corruption, favouritism and unfair and irregular practices in municipal supply chain management...”. It further states in section 115(b) that the municipality must “take all reasonable steps to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices.”

The potential occurrence of fraud and corruption is not limited to the supply chain management system. The OM is therefore committed to implementing fraud prevention and anti-corruption measures to reduce the likelihood of fraud and corruption.

Further to the above, Section 165(2)(a) of the MFMA requires IAA to follow a risk-based audit plan; and Section 165(2)(b)(iv) requires IAA to advise the AO and report to the JAPAC on matters relating to risk and RM.

In terms of MFMA Section 166(2)(a)(ii), oversight of the RM process is conducted by the JAPAC.

The following also forms a significant part of managing risk, fraud and corruption:

- Constitution of the Republic of South Africa (Act No. 108 of 1996)
- Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings (No. 430 of 2014)
- Prevention and Combating of Corrupt Activities Act (Act No. 12 of 2004)
- Protected Disclosures Act (Act No. 26 of 2000)
- Code of Conduct for Councilors, Schedule 1 of the Municipal Systems Act (Act No. 32 of 2000)
- Code of Conduct for Municipal Staff Members, Schedule 2 of the Municipal Systems Act (Act No. 32 of 2000)
- Overstrand Municipality Code of Ethics for Municipal Staff

6 INTEGRATED RM SUPPORTING FRAMEWORKS

The following frameworks guide the RM practices of OM:

- Committee of Sponsoring Organizations of the Treadway Commission: Enterprise Risk Management – Integrated Framework (COSO ERM Framework)
- Public Sector/ Local Government Risk Management Framework (PS/LG RMF)
- King Codes of Governance Principles
- International Organization for Standardization – Standard 31000 (ISO 31000)

The municipality is continuously implementing new initiatives and redesigning systems and processes to align with the best practices outlined in RM frameworks to enhance its RM maturity.

POLICY CONTENT

The municipality is exposed to a wide variety of risks. These risks include strategic, operational, and other material risks that require comprehensive controls and ongoing oversight to manage effectively.

The municipality adopted an integrated approach to RM that enables it to be equipped to identify events that may have an impact on achieving its objectives and to manage risks according to the defined risk appetite.

7 OVERSTRAND MUNICIPALITY'S FRAUD AND RM APPROACH

The RM principles contained in this policy apply at both strategic and operational levels within the municipality.

Our positive approach to RM means that we will consider the risk of activities that could go wrong, as well as the impact of not taking opportunities or capitalising on corporate strengths. All RM activities will be aligned with the municipality's objectives and priorities, and aim to protect and enhance the reputation and standing of the municipality.

Fraud prevention and anti-corruption measures form part of the system of RM of the municipality. These measures are embedded in the municipality's policies and procedures, which must be adhered to by both municipal officials and external stakeholders.

Furthermore, internal controls designed to prevent and detect fraud and corruption form part of the broader internal control framework of the municipality.

The Policy should be read in conjunction with the Fraud and RM Strategy and the Implementation Plan.

8 ROLE PLAYERS IN FRAUD AND RM PROCESS

Every person within the municipality has a role to play in the fraud and RM process. The primary responsibility for identifying and managing risks lies with Management. The responsibilities of each role player are formally defined in the Fraud and RM Strategy of the municipality.

8.1 INTEGRATED FRAUD AND RM OVERSIGHT

8.1.1 Municipal Council

The municipal Council takes an interest in RM, including the prevention of fraud and corruption, to the extent necessary to obtain comfort that, properly established and functioning systems of RM are in place, to protect it against significant risks and reputational damage.

8.1.2 Joint Audit & Performance Audit Committee (JAPAC)

The JAPAC's responsibility, in so far as it relates to fraud and RM is to provide an independent and objective view of the effectiveness of the municipality's RM process and to provide recommendations for improvement where necessary.

8.1.3 Fraud and Risk Management Committee (FARMCO)

The members of the FARMCO are appointed by the AO and consists of the external and independent Chairperson, independent member of the JAPAC, Directors (members), CRO (invitee), CAE (invitee). The AO can also consider other invitees and external members, where necessary. The Committee's role is to apply its combined specialist skills, knowledge and experience to assist the AO to dispose of his/ her responsibilities for all matters concerning the establishment, maintenance and functioning of the municipality's system of RM, especially the management of priority risks.

8.2 RM IMPLEMENTERS

8.2.1 AO (Municipal Manager)

The AO is ultimately responsible for RM, including the prevention of fraud and corruption and unethical conduct within the municipality. By setting the tone at the top, the AO promotes accountability, integrity and other factors that will create a positive control environment and support ERM.

8.2.2 Directors / Risk Owners

Directors endorse and support the municipality's Risk Management (RM) philosophy by integrating it into the day-to-day operations of their respective directorates. As designated risk owners, they hold ultimate accountability for managing the risks within their areas of responsibility. Accordingly, they are required to actively monitor RM activities and intervene where necessary to ensure effective risk mitigation and control.

8.2.3 Risk Action Owners

"Risk Action Owner" refers to the person responsible for implementing the risk mitigation plans, known as risk actions.

8.2.4 Other Officials

Other officials have the responsibility to integrate the risk RM strategy and policy into their department's operational routines. They must also implement risk actions to address/ manage organisational risks.

8.3 RM SUPPORT

8.3.1 RMU

The primary responsibility of the municipality's RMU is to coordinate RM processes to support the municipality in achieving its strategic objectives.

8.3.2 CRO

The CRO serves as the custodian of the Fraud and Risk Management Strategy and is responsible for coordinating risk management activities across the municipality.

The CRO's primary responsibilities include applying their specialist expertise to support the integration of risk management within the municipality and to optimise its benefits to enhance organisational performance.

8.3.3 Risk Officers

The Risk Officers responsibilities are to assist the CRO with the implementation of the Fraud and RM plan and provide support to the staff of the municipality in matters related to risk management.

8.3.4 Risk Champions

The Risk Champions' responsibilities are to intervene when RM efforts are being hampered and to provide guidance and support on the management of problematic risks and risks of a transversal nature that require the involvement of multiple people to address.

8.4 RM ASSURANCE PROVIDERS

8.4.1 IAA

The role of IAA in RM is to provide an independent, objective assurance to the AO, Municipal Council, FARMCO and the JAPAC on the effectiveness of RM within the OM and to provide recommendations for improvement where necessary.

8.4.2 AGSA

The AGSA provides an independent opinion on the effectiveness of the system of RM.

9 ERM PROCESS

The ERM process consists of eight (8) components.



ERM Process (COSO ERM Integrated Framework)

9.1 INTERNAL ENVIRONMENT

The internal environment encompasses the tone of the municipality's management and plays a critical role in shaping the risk awareness and culture among employees. It is the foundation for all other components of RM, providing discipline and organisational structure.

9.1.1 FRAUD AND RM PHILOSOPHY

The municipality is committed to the optimal management of risk to achieve its vision of being a "centre of excellence" and deliver services at the standard expected by the community.

The municipality has adopted an enterprise-wide integrated approach to manage its risks, including fraud risks. By embedding the RM process throughout the municipality and into key business processes such as planning, operations and new projects, the municipality will be better equipped to identify events affecting its objectives and to manage related risks.

All directorates should work together in a consistent and integrated manner to manage risk exposures, with the overall objective of reducing risk and optimising opportunities.

To further implement the enterprise-wide approach, OM has taken a number of steps to reinforce a culture of disciplined risk-taking, as outlined in this policy.

9.1.2 Ethics

RM is performed by humans. The effectiveness of RM activities is directly influenced by the ethical behavior of the people responsible for RM, which includes their professionalism and commitment to executing their RM responsibilities.

A lack of ethics is a contributing factor to a variety of risks, either being the cause of the risk itself or the cause of ineffective control measures. Therefore, RM initiatives can only be successful in an ethical environment with adequate management support.

The municipality has a Code of Conduct and Code of Ethics for Municipal Staff in place to regulate the conduct and ethical behavior expected in the workplace.

9.1.3 Risk Appetite and Tolerance

It is both prudent and risk-intelligent for a municipality to define its risk appetite in alignment with its risk-bearing capacity. A clearly articulated risk appetite provides essential guidance for informed decision-making across all levels of management.

There is no universal or standardised risk appetite statement applicable to all organisations, nor is there a singular "correct" level of risk appetite. The determination of an appropriate appetite requires management to make informed choices, balancing the trade-offs associated with higher or lower levels of risk tolerance. A well-defined risk appetite statement establishes the parameters for risk-taking and serves as a threshold beyond which additional risk should not be accepted.

To support clarity in risk response decisions, the municipality's risk appetite should be defined per risk category, thereby articulating its tolerance for specific types of risks.

The municipality's risk appetite will be reviewed and, where necessary, revised in response to significant changes in the risk landscape or during the annual risk assessment process. Adjustments will be made to ensure continued alignment with acceptable risk levels.

The municipality is committed to proactively managing all controllable risks to ensure that exposures remain within defined appetite levels, thereby mitigating the potential for unforeseen losses and protecting the municipality's reputation.

The OM's risk appetite [**levels**] and its associated approach to managing risks across various categories are outlined as follows:

Risk Appetite Range	Low	Moderate	High
Risk taking vs reward	A cautious approach towards risk-taking, <i>i.e.</i> , adopting a conservative approach, avoiding unnecessary risks and prioritizing stability.	A balanced and informed approach to risk taking, <i>i.e.</i> risk-taking acceptable if it is well-informed, balanced, and aligned with strategic goals	Aggressive risk taking is justified, <i>i.e.</i> willingness to take bold risks where the potential rewards significantly outweigh the risks involved.
Impact on strategies/objectives	Willing to accept a small negative impact in pursuit of strategic objectives	Willing to accept some negative impact in pursuit of strategic objectives	Willing to accept a large negative impact in pursuit of strategic objectives
Preferred risk response approach	Risks that cannot be effectively treated or transferred are avoided (Risk mitigation or avoidance)	No specific preference towards the risk response approach, an appropriate approach will depend on the type and amount of risk.	Risk beyond OM's control is accepted. A risk within OM's control will be treated
Risk response decision criteria	Risk response actions are taken even though prevention costs are greater than expected incident costs.	Risk response actions are made based on cost effectiveness, management priorities and potential outcomes.	Accept higher levels of risk with caution where justified, but ensure strong monitoring and contingency planning.

Based on the above, the following risk appetite statements shall guide the decision-making of OM's management and must be read in conjunction with the annually reviewed Risk Appetite and Tolerance document, as approved by the Council. While the municipality may adopt a more conservative approach in specific instances, it is not permitted to exceed the established risk appetite without appropriate escalation. Any proposal to relax or deviate from these statements must be referred to the Council for consideration and recommendation. Accordingly, decision-makers are authorised to expose OM to levels of risk that align with the approved appetite statements.

Risk appetite description	Risk appetite statements
Low Appetite	<p>The OM has a low appetite for non-compliance with legal and regulatory requirements, including deliberate and purposeful violations of legislative and regulatory requirements. We commit to a high level of compliance with relevant legislation, regulation and governance principles, where breaches will be remedied as soon as practicable.</p> <p>The OM has a low appetite for risks relating to economic crime and commits to a zero tolerance for fraud and corruption. We are committed to deterring and preventing fraud and corruption, and will take a serious approach to cases or suspected cases of fraud and corruption perpetrated by our employees and contractors and will respond fully and fairly in such cases.</p> <p>The OM has no appetite for fatalities in the workplace and will take the necessary measures to create a safe working environment for our staff after considering all critical areas. We will not allow behaviour that could harm staff while at work.</p> <p>The OM has a low appetite for the compromise of processes governing the use of its information, its management and publication. We commit to ensure that information is authentic, appropriately classified, conserved and managed in accordance with relevant requirements. This further means that we have a low appetite for cyber security risks.</p> <p>The OM has a low appetite for the careless management of its assets, resulting in loss of fixed, current and moveable assets.</p> <p>The OM has a low appetite for third party performance and/or contract management risks and will hold all parties/suppliers accountable for contracted services.</p> <p>The OM has a low appetite for risks that impact the availability of our systems, which support our core and critical business functions.</p> <p>The OM has a low appetite for security-related risks, including those relating to physical security, access to information and data and cyber security.</p> <p>The OM has a low appetite for risks that may negatively impact audit outcomes, quality of financial statements, cost structures and overall financial sustainability. This includes risks affecting the effectiveness of the SCM process, which is a critical enabler of service delivery.</p> <p>The OM has a low risk appetite for risks that could have a negative</p>

Risk appetite description	Risk appetite statements
	<p>impact on service delivery to the people of Overstrand, e.g, risks relating to the provision of core and mandated municipal services to the public.</p> <p>The OM maintains a low risk appetite for activities or decisions that may harm its reputation, credibility, or public trust. The municipality is committed to upholding high standards of ethical conduct, transparency, and accountability in all its operations and interactions with stakeholders.</p> <p>The OM maintains a low risk appetite for any risks that may hinder meaningful community participation in municipal affairs. The municipality recognises public involvement as a fundamental component of good governance, transparency, and inclusive decision-making. OM is committed to ensuring that all legislative and policy requirements for community engagement are met, and that platforms for public consultation are accessible and effective.</p> <p>The OM maintains a low risk appetite for risks associated with ineffective change management processes that may disrupt service delivery and is therefore committed to ensuring that all change initiatives are managed in a structured, transparent, and inclusive manner.</p>
Moderate Appetite	<p>External risks refer to events or circumstances originating outside the control of OM. While such risks may result in either negative impacts or potential opportunities, the municipality has limited ability to influence their likelihood. However, OM can take measures to mitigate their impact and manage the associated consequences.</p> <p>Accordingly, OM has a moderate risk appetite for external risks, recognising the importance of monitoring, adapting to, and responding effectively to such influences. This includes:</p> <ul style="list-style-type: none"> • Risks affecting the economic environment, such as interest rates, exchange rates, stock market fluctuations, GDP performance, inflation, employment levels, and investment conditions. • Risks related to changes or developments within the legislative and regulatory framework. • Environmental challenges, including those arising from climate change, natural disasters, or resource constraints. • Risks associated with the broader political landscape. • Social risks originating from external dynamics, such as

Risk appetite description	Risk appetite statements
	<p>urbanization; and</p> <ul style="list-style-type: none"> • Broader socio-economic risks, including unemployment, labour migration, poverty, housing shortages, and rising crime levels. <p>OM remains committed to proactive planning and resilient strategies to manage the potential impacts of these external risks while leveraging any associated opportunities for community benefit.</p>
High Appetite	<p>OM has a high appetite for excellence and innovation through the adoption of technology. The municipality recognises that digital transformation is essential to adapt to regulatory, societal, and broader environmental changes. However, such initiatives will be implemented within approved budgetary provisions and guided by a comprehensive cost-benefit analysis, while balancing other municipal priorities.</p>

9.1.4 Risk Tolerance

It is important for the OM to make an informed decision on the amount of risk the it is capable of bearing as part of normal management practice. Council has no (zero) tolerance for fraud and corruption and any risk pertaining to the safety of its employees.

Risk tolerance guides operating units/ departments as they implement risk appetite and communicates a degree of flexibility. Risk tolerances are a more specific subset of the risk appetite and dissect the assertions that make up the risk appetite statement. Whereas risk appetite is considered in the context of strategic planning and objectives, risk tolerance is considered in developing tactical objectives. That is, it addresses how much deviance from a specific objective the department is willing to allow.

The risk tolerance levels should be determined per risk. The following ranges apply:

- Risks with a **low appetite** must have tolerance levels ranging between 1 and 5;
- Risks with a **moderate appetite** must have tolerance levels ranging between 5.1 and 15;
- Risks with a **high appetite** must have tolerance levels ranging between 15.1 and 25.

For example, if a residual risk is rated within the range of 15.1 to 25 but the risk appetite is defined as **moderate**, this indicates misalignment. In such a case, management must strengthen controls or implement additional mitigation measures to reduce the residual risk rating into the acceptable tolerance range of 5.1 to 15 for a moderate appetite.

9.2 OBJECTIVE SETTING

ERM ensures that management has in place a process to set objectives and that the chosen objectives support and align with the OM's mission and are consistent with its risk appetite.

9.3 EVENT IDENTIFICATION

Event identification is the process of identifying potential risk events, including fraudulent activities that may affect the OM's ability to successfully implement strategies and achieve its objectives. Internal and external events affecting the achievement of objectives must be identified, distinguishing between risks and opportunities.

Management should consider all risk factors as well as those that may occur in the future, when identifying events.

9.4 RISK ASSESSMENTS

Risk assessments allow the OM to consider the extent to which potential events might have an impact on the achievement of key objectives. The OM assess events from two perspectives, namely impact and likelihood and normally uses the quantitative method i.e. risk rating scales for both the inherent and residual basis.

The purpose of risk assessment is to assist the OM to prioritise the risks in order of importance so that they can be addressed accordingly.

Assessments should be re-performed for the priority risks when significant environmental and/or organisational events occur, but at least once a year, to determine the changes on the status of risks and whether these demands further management action.

9.5 RISK RESPONSE

Having assessed relevant risks, management determines how it will respond to align the risks with the OM's risk appetite and risk tolerance, in other words how to bring the residual risk rating within acceptable levels.

9.6 Type of Response

Risk responses fall into one or more of the following categories:

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

In instances where risks are unavoidable and beyond management's control, response strategies should include proactive measures such as forward planning and advocacy. Support from Council, as well as provincial and national government, is essential in these situations and should be sought when necessary.

9.7 CONTROL ACTIVITIES

The OM must establish and implement policies and procedures to ensure that risk responses are effectively carried out. Control activities occur throughout the municipality, at all levels and in all functions/ departments. They include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties, etc.

Management is responsible for designing, implementing and monitoring the effective functioning of the system of internal controls. Without derogating from the above, everyone in the municipality should also have responsibilities for maintaining effective systems of internal controls, in line with their delegated authority.

Management should develop the internal control architecture through:

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

The internal control architecture should include:

- management controls to ensure that the OM'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; and
- information technology controls to ensure security, integrity and availability of information.

9.7.1 Risk Action Plans

The action plans to reduce the risk (referred to as risk actions) are developed to reduce areas with high residual risk exposure, to be within the accepted risk parameters.

The proposed risk actions must be practical. The person responsible for the implementation of the risk action, referred to as the risk action owner, must have or be able to obtain the funds, personnel, assets, skills and time required to implement the risk action.

10 RISK PROFILE

All the information regarding the risk or set of risks and the accompanying RM procedures collectively constitutes the OM's risk profile. This risk profile should be used to measure the maturity of the municipality's RM process.

10.1 IMPLEMENTATION

10.1.1 Commitment

The Fraud and RM Strategy, Policy and Fraud Prevention & Anti-Corruption Plan must be accepted and embraced by all stakeholders of the OM for it to be properly implemented and adhered to. The provisions set out in the Strategy and Policy are mandatory and must be executed accordingly. Municipal officials are accountable for their implementation.

The OM is committed to eliminating fraud and fosters a culture of zero tolerance towards fraud and all its activities. The OM therefore undertakes to combat all forms of fraud and corruption as well as to remain proactive in the fight against fraud and corruption.

The OM will investigate all allegations of fraud, corruption, theft, maladministration or any other dishonest activities of a similar nature. This includes the suspicion that fraud is occurring, attempts to commit fraud or incidents where fraud has already occurred. The outcome of these investigations must then be used to apply appropriate remedies to the full extent of the law.

The OM will develop and enforce appropriate prevention and detection controls. The

primary means of detecting fraud must remain a sound system of internal control and regular internal audits.

Prevention and detection controls comprise existing financial and other control measures, as well as monitoring mechanisms implemented by OM in accordance with applicable policies and regulations.

10.1.2 Awareness

The stakeholders of the OM must be aware of the Fraud and RM Strategy, Policy and the Implementation Plan and have knowledge of its contents.

10.1.3 Training

Municipal officials must receive training on how to comply with the Fraud and RM Strategy, Policy and applicable legislation, to ensure they understand and can effectively fulfill their responsibilities related to fraud prevention, anti-corruption, and RM.

10.2 PROTECTION OF WHISTLE-BLOWERS

Management has identified a process for the protection of whistle-blowers to encourage reporting of unethical and fraudulent activities within OM. The processes are outlined in Annexure A of the Fraud and RM Strategy.

11 INFORMATION AND COMMUNICATION

11.1 Internal Communication

Relevant risk management information must be identified, captured, and communicated in a timely and appropriate manner to enable management and employees to fulfill their responsibilities. Communication should occur through various channels, including email, file sharing, telephone, and face-to-face interaction. Effective communication must flow vertically and horizontally across all levels of the municipality.

The OM's risk communication and reporting process is aimed at supporting enhanced decision making and accountability through:

- disseminating relevant, timely, accurate and complete information;
- providing information of appropriate content, granularity and style to the respective stakeholders to empowers officials to take proper risk actions, managers to manage risk within their portfolios, oversight functions and regulatory authorities to oversee risk management efficacy and citizens to be kept informed; and
- communicating responsibilities and actions.

The reporting requirements regarding RM have been included in the responsibilities of the following role players and can be found in the documents outlined below:

Role player	Document
FARMCO	FARMCO Terms of Reference
JAPAC	JAPAC Charter
CRO	RM Strategy, RM Implementation Plan
Risk Action Owners	SOP for Risk Action updates

Other role players not listed above are required to report as instructed by law, to ensure compliance with all mandatory reporting on risk and RM, for example:

- disclosures required in the annual financial statements and annual report;
- reporting instructions of provincial and national government; and
- reporting instructions of oversight and regulatory authorities.

11.2 Community/ Public

Structures and processes must be created and maintained to encourage and enable the public to effortlessly communicate corrupt and/or fraudulent activities involving the OM, e.g public participation engagements i.e Ward Committee structures and other public participation structures in place, newsletters/ bulletins and National Fraud hotline.

11.3 Suppliers

Fraud prevention and anti-corruption measures must be stipulated in the OM's supply chain policies with regard to the procurement of goods and/or services and supplier performance/ contract management.

12 MONITORING

The ERM system, including fraud prevention and anti-corruption measures, is subject to continuous monitoring and adjustment as needed. This is achieved through ongoing monitoring activities, separate evaluations, or a combination of both.

Monthly monitoring is integrated into routine management activities, with the Risk RMU responsible for overseeing ERM on a continuous basis.

The scope and frequency of separate evaluations are determined by the assessed level of risk and the effectiveness of ongoing monitoring. These evaluations may be conducted by the RMU or the Internal Audit Activity (IAA). Where deficiencies are identified, management must implement appropriate corrective actions, such as

awareness initiatives or training interventions.

Continuous training and awareness are essential to ensure that officials remain informed and up to date with emerging risk issues.

13 INTEGRATION OF RM PLANS/ POLICIES

Various separate plans and policies exist to address specific areas such as fraud, information technology, occupational health and safety, disaster management, and compliance. Each contains relevant risk information and mitigation measures.

To ensure a comprehensive view of the OM's risk landscape, all risk-related information and mitigation plans of the municipality should be consolidated into a single, integrated risk register.

14 COMBINED ASSURANCE

Combined assurance optimizes and maximizes the level of risk, governance and control oversight over the OM's risk landscape, by integrating, coordinating and aligning the RM and assurance processes within the municipality.

A Combined Assurance Model for the strategic risks and risks above the defined risk appetite and tolerance is created and updated quarterly to ensure that the OM's most significant risks receive adequate assurance.

The combined assurance activities of the OM are conducted in accordance with the Combined Assurance Policy Framework.

15 BUSINESS CONTINUITY

Business continuity is an integral part of RM. In the event of extended service outages caused by factors beyond the OM's control, the municipality must be able to restore services to the widest extent possible within a minimum timeframe.

A Business Continuity Plan guides all continuity efforts, and a dedicated Business Continuity Committee has been established to oversee the implementation of these activities.

16 ERM MATURITY

The RM processes of the municipality will be assessed on a yearly basis by the IAA, reviewed by FARMCO and the AO, and monitored by the JAPAC.

The assessment will inform the development of the Risk Management Implementation Plan for the next financial year, incorporating initiatives to address identified gaps and

enhance the ERM maturity of the OM.

17 FUNDING FOR FRAUD AND RM

The key risk management frameworks and governance guidelines, such as ISO 31000:2018, the King IV Report on Corporate Governance (2016), the COSO ERM Framework (2017), and the Local Government Risk Management Framework (2021) outline principles and expectations that collectively establish a standard for capacitating RM functions in an organisation, including a municipality.

The Council must ensure that adequate resources, including skilled personnel, time, funding, and tools are allocated to support the implementation, maintenance, and continuous improvement of fraud prevention, risk management, and control measures.

The CRO is responsible for managing the operating and capital expenditure of the Risk Management Unit.

The cost of implementing and enhancing internal controls lies with the respective Risk Owners, who must make provision for such expenses within their operational or capital budgets.

Financial commitments toward fraud prevention and risk management should be evaluated based on cost-benefit considerations and the value they deliver to the municipality.

Top management must demonstrate commitment by assigning responsibilities and ensuring the RM function is adequately capacitated.

18 POLICY REVIEW

The Fraud and RM Policy will be reviewed by FARMCO and the AO, and approved by the Municipal Council as and when necessary.

Review history:

Policy Section	Risk Management Unit
Current update	29 October 2025
Previous reviews	30 August 2023
	24 June 2020
	27 June 2018
	31 May 2017
	29 March 2017
	30 March 2016
	29 April 2015
	30 April 2014
26 June 2013	
Approved by Council	25 November 2009

Overstrand Municipality

Annual Risk Assessments - May 2025: Review of Risk Appetite & Tolerance

Overstrand Municipality maintains a risk appetite that supports the pursuit of its strategic objectives while protecting public resources. For a risk with a low appetite, the tolerance levels should be between 1-5. For a risk with a moderate appetite, the tolerance levels should be 5.1 – 15; and for a risk with a high appetite, the tolerance levels should be 15.1 – 25. For example, when a residual risk is rated and the resulting tolerance level is between 15.1-25 for a risk with a medium appetite, more controls should be implemented to move the tolerance level to 5.1-15 (medium).

The acceptance of a residual risk is dependent on the risk appetite for a specific risk category, as indicated below:

Risk Category	Description	Risk Type	Overall Appetite	Tolerance
Litigation	Risks related to legal actions against the municipality. Litigation can possibly emanate from: Claims by staff, councillors, the public, service providers and other third parties;	Internal	Low	≥1 ≤ 5
Material Resources/ Assets	Risks involving physical assets, equipment and resources used to deliver services and fulfill municipal mandates. Possible aspects to consider include: Availability of material resources/ assets (amount and quality); Costs and means of acquiring resources; Damage to municipal buildings or any material asset, due to natural disasters, lack of maintenance etc, requiring significant repair costs	Internal	Low	≥1 ≤ 5
Service Delivery/ core services of the directorate	Every institution exists to provide value for its stakeholders. The risk will arise if the appropriate quality of service is not delivered to the citizens. Risks affecting the quality and efficiency of services provided to the community. Example: Delays in waste collection services due to operational issues, leading to public dissatisfaction	Internal	Low	≥1 ≤ 5
Information Technology	Risks related to the Municipality's IT systems and infrastructure, including hardware, software and the processes involved with the use of IT. Can you operate without the use of technology and what is your appetite for non-availability of technology in providing your core services? Example: Cyberattacks compromising sensitive municipal data and disrupting services	Internal	Low	≥1 ≤ 5
Third Party Performance	Risks related to the Municipality's dependence on the performance of a third party. Risk in this regard could be that there is a likelihood that a service provider might not perform according to the service level agreement entered into with the Municipality. Non-performance could include: Failure to perform, causing delays and increased costs; Not rendering the required/ correct service in time, etc.	Internal	Low	≥1 ≤ 5
Economic Environment	Risks arising from economic conditions and trends. E.g. Economic downturns leading to reduced municipal revenue from taxes and fees. Factors to consider include: Inflation; Interest rates; Unemployment rate; World economy; GDP growth rate;	External	Medium	≥5 ≤ 15
Political Environment	Risks related to political changes and instability. E.g. A change in political leadership results in shifts in policy priorities, affecting ongoing projects. Possible factors to consider include: Political unrest; Local, Provincial and National Elections; Changes in office bearers; Political interference Disruptive actions in municipal operations by other political parties and external political organisations;	External / Internal	Medium	≥5 ≤ 15
Social Environment	Risks related to the Municipality's social environment. Possible factors to consider include: Unemployment; Migration of workers; Poverty; Poor living conditions / Housing backlog; Increasing crime in certain areas requiring additional resources for law enforcement	External	Medium	≥5 ≤ 15

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The acceptance of a residual risk is dependent on the risk appetite for a specific risk category, as indicated below:

Risk Category	Description	Risk Type	Overall Appetite	Tolerance
Natural Environment/ Environmental services	Risks relating to environmental factors and natural disasters and its impact on normal operations. Consider factors such as: Flooding damages roads and utilities, necessitating extensive repairs and recovery efforts; Environmental degradation; Spillage; Pollution; Invasion of alien species;	External	Medium	≥5 ≤ 15
Compliance/ Regulatory	Risks associated with adherence to laws and regulations such as the Constitution, Municipal Structures Act, Municipal Systems Act, Municipal Finance Management Act, related regulations, Council By-Laws, etc.	Internal	Low	≥1 ≤ 5
Human Resources	Risks involving municipal staff and workforce management. These risks can have an effect on human capital with regard to: Poor Ethics - integrity and honesty; Poor Recruitment processes; Lack of Skills & competence; Staff wellness; Labour relations issues; Staff retention/ turnover	Internal	Low	≥1 ≤ 5
Knowledge and Information Management	Risks relating to the Municipality's management and use of information. E.g. Loss of critical data due to inadequate backup systems, impacting decision-making. In identifying the risks consider the following aspects related to information management: Availability of information; Stability of the information; Integrity of information; Relevance of the information; Retention; and Safeguarding of information	Internal	Low	≥1 ≤ 5
Loss / Theft of Assets	Risks that the Municipality might suffer losses and experience disruptions due to either theft or loss of an asset of the Municipality. The risk refers to the general meaning of asset and can include items accounted for as expenditure (tools of trade)	Internal	Low	≥1 ≤ 5
Occupational Health and Safety	Risks related to the health and safety of municipal employees, such as: Injury on duty; Sickness caused by unhygienic working ; outbreak of disease within the work environment Mental trauma as a result of incidents at work; Work related injuries, sickness and trauma, including psychological treatment; Safety of work processes, procedures and guidelines; Adequacy and availability of protective clothing and equipment. * Risks related to compliance with provisions of the Occupational Health and Safety Act will be categorised as a compliance risk.	Internal	Low	≥1 ≤ 5
Fraud and Corruption	Risks relating to offences of fraud and corruption committed by staff, councillors and the public which are or potentially could be prejudicial to the Municipality. E.g. Embezzlement of municipal funds by an employee, leading to financial losses and reputational damage, etc.	Internal	Low	0
Financial Environment	Risks encompassing the entire scope of general financial management, include: Cash flow adequacy and management thereof; Financial losses; Unauthorised, irregular and fruitless and wasteful expenditure; Budget deficits requiring cuts to essential service; Financial statement integrity; Poor revenue collection; Increasing operational expenditure.	Internal	Low	≥1 ≤ 5
Reputational Risks	Risks impacting the municipality's public image. E.g. Negative media coverage of service delivery failures eroding public trust.	Internal	Low	≥1 ≤ 5

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The acceptance of a residual risk is dependent on the risk appetite for a specific risk category, as indicated below:

Risk Category	Description	Risk Type	Overall Appetite	Tolerance
Cultural Environment	Risks relating to the Municipality's overall culture and control environment. The various risks related to organisational culture include: Ineffective communication channels; Lack of cultural integration; Poor ethics and values; Goal misalignment; and ineffective management style	Internal	Low	≥1 ≤ 5
Interdepartmental and interrelated functions	Risks arising from the interrelatedness and interdependence of the Municipality's directorates / departments on each other in order to seamlessly perform their functions and meet their objectives. Factors to consider include: Lack of co-operation; Directorate / Departmental decisions negatively impact on another directorate / department; Inadequate / poor communication between directorates / departments; Friction between directorates / departments.	Internal	Low	≥1 ≤ 5
Intergovernmental functions	Risks arising from the Municipality's dependence on other government departments and entities in order for the Municipality to seamlessly perform its functions and meet its objectives. Risks can arise due to a government department or entity's: Lack of co-operation; Shifting of responsibilities; Inefficiency / Delays in executing its responsibilities; Lack of consultation with the Municipality or a representative body (e.g. SALGA) before taking a decision that affects the Municipality; Inadequate / Unclear communication; Failure to perform its legally mandated functions; Delivering at a standard below the expectations / requirements of the Municipality.	External	Low	≥1 ≤ 5
Community Participation	Risks related to public engagement and involvement. Example: Low community participation in decision-making processes leads to dissatisfaction and protests, include: Lack of participation by businesses in economic development and employment initiatives; Poor cooperation with the tourism industry to increase the tourist attraction of Overstrand.	Internal	Low	≥5 ≤ 15
Change Management	Risks associated with implementing changes within the municipality. Example: Resistance to new policies and procedures causing delays and disruptions.	Internal	Low	≥5 ≤ 15

Prepared by:

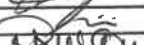
CRO  Date: 29 May 2025

Reviewed and confirmed by:

CFO  Date: 2025/06/12

Director: Community Services  Date: 12/06/2025

Director: Planning & Development  Date: 10/6/25

Director: Infrastructure Services  Date: 10.6.25

Director: Corporate Services  Date: 10.06.2025

Director: Municipal Public Safety  Date: 2025/06/10

Recommended by:

Municipal Manager  Date: 17/06/25