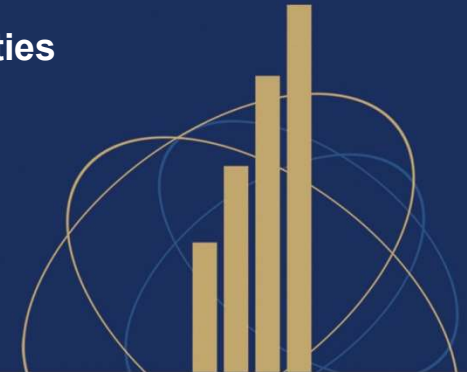




**Title: Governance and Risk Management in South African Municipalities**

**Author: Ms SP XOKI (MBA, CRM-PRAC)**

**Date 04 MARCH 2024**



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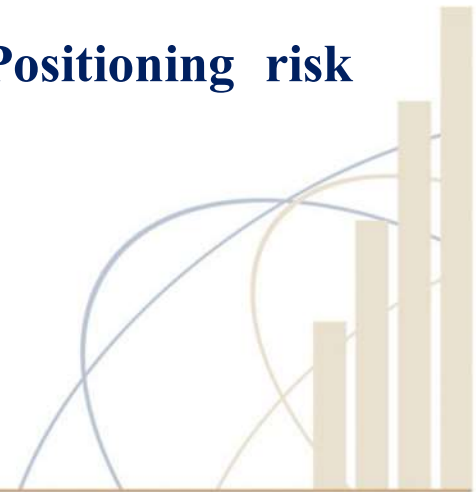
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# PRESENTATION OUTLINE



1929 - 2024

- ✓ Purpose of the presentation
- ✓ Introduction-Good governance
- ✓ Reflections on the state of governance of Municipalities in SA
- ✓ Roles and responsibilities to effective governance and risk management
- ✓ Risk Management Process
- ✓ Legislative Mandate governing risk Management
- ✓ Challenges to effective risk management
- ✓ Compliance requirements in local government
- ✓ Our role as young professionals to challenge the status quo: **Positioning risk management to be a strategic partner.**

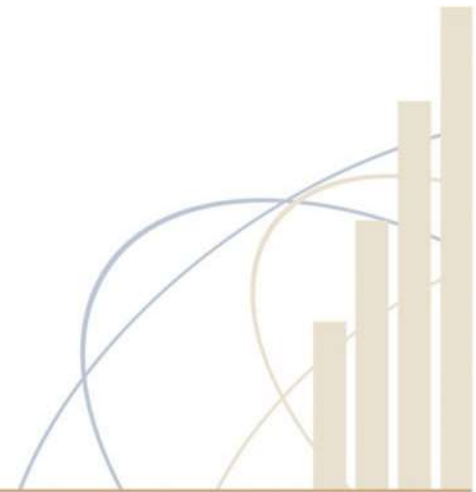


# PURPOSE OF THE PRESENTATION



1929 - 2024

- To reflect on the governance of municipalities in South Africa
- To share the status of risk management within South African Municipalities and stimulate discussion on how to improve on risk management practices: positioning risk management to be a strategic partner- ***Risk Management deserves a seat on the table.***



# INTRODUCTION –GOOD GOVERNANCE



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- Municipalities have a mandate to deliver quality services to the people of South Africa.
- This means that as they are entrusted with public funds, those charged with governance have a responsibility to ensure that the basic values and principles outlined on chapter 10 of the Constitution of the Republic of South Africa are adhered to always.
- One of the fundamental principles of good governance is ensuring that there is effective, efficient and transparent systems of financial management, internal control and risk management,

# STATE OF GOVERNANCE OF MUNICIPALITIES



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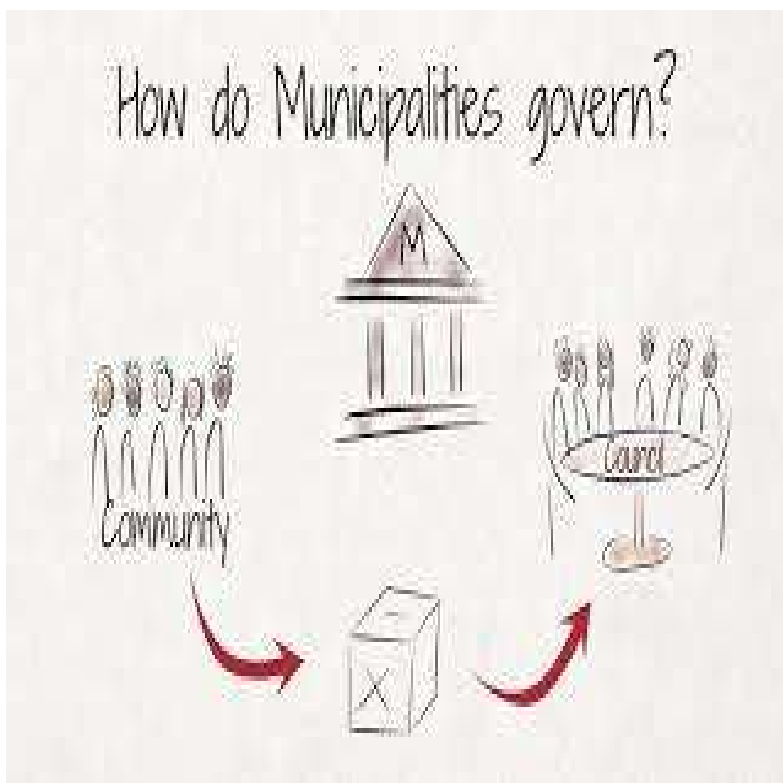


- The outcomes of the external audit conducted by the AGSA gives a view on the state of governance of the different municipalities.
- The AGSA in its report to its standing committee indicated that for the 2022/23 MFMA audits, 268 material irregularities amounting to an estimated value of R5.19 billion were identified.
- A majority of these relates to procurement, payments, resource management, revenue management and interests & penalties.
- In the 2021/22 financial year only 38 out of the 257 municipalities were able to achieve clean audits.
- This draws a picture that there is more work that needs to be done and ensuring that there are effective and efficient systems in place.
- It is therefore important to understand the roles and responsibilities of the different role players contributing to good governance.

## ROLE AND RESPONSIBILITIES: MUNICIPAL COUNCIL



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The Council of a municipality is the highest decision-making body, it has legislative authority to make by-laws and ensure implementation of thereof.

To approve the budget and policies of the municipality.

It has a responsibility to hold the administration accountable for the affairs of the municipality including financial management, governance, etc.

Council has a responsibility to ensure that the resources of the municipality are used in an effective, efficient and economical manner.

obtaining assurance from management that the Institution's strategic choices were based on a rigorous assessment of risk.

Council has a responsibility to gain an understanding of the Municipality's risk profile and take interest in monitoring that those risks that have a significant impact on the Municipal objectives are mitigated.

## ROLE AND RESPONSIBILITIES: ACCOUNTING OFFICER



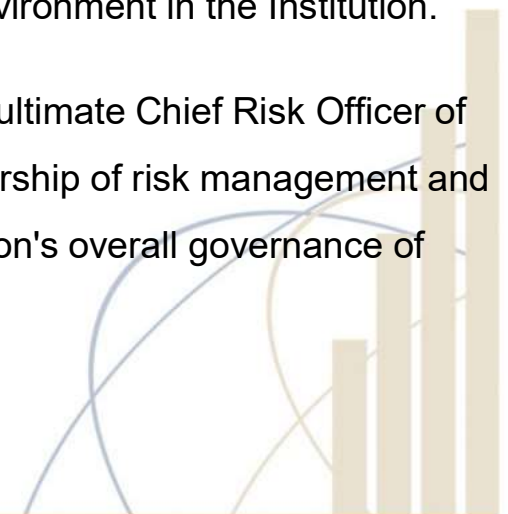
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The Accounting officer is the head of administration who holds the primary legal accountability for financial management in terms of the MFMA.

He/ She has the duty to ensure that the Municipality has an effective, efficient and transparent system of internal controls, risk management and financial management.

The Accounting Officer sets the tone for integrity, ethics and other factors of the control environment in the Institution.

The Accounting Officer is the ultimate Chief Risk Officer of the Institution, assumes ownership of risk management and is accountable for the Institution's overall governance of risk



## Tone at the Top

*Management must lead by example!*



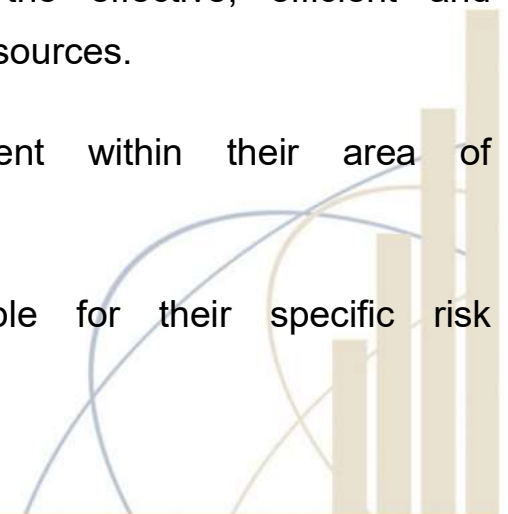
Section 78 of the MFMA extends the responsibility of good governance to Senior Management and staff.

Senior Manager have a responsibility to ensure that they take all reasonable steps within their respective areas of responsibility to ensure that the system of financial management and internal control established for the municipality is carried out diligently.

They are responsible for the effective, efficient and economic use of Municipal resources.

Monitoring risk management within their area of responsibility; and

Holding officials accountable for their specific risk management responsibilities.



## ROLE AND RESPONSIBILITIES: STAFF



1929 - 2024



Staff has a responsibility to ensure that they carry their duties with care and diligence adhering to policies and legislation.

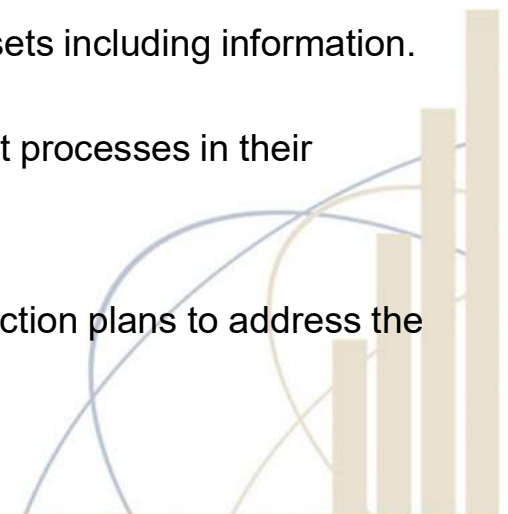
To ensure effective, efficient and economic use of Municipal resources.

To ensure that any unauthorized, irregular, fruitless and wasteful expenditure is avoided.

Safe keeping of municipal assets including information.

Applying the risk management processes in their respective functions;

Implementing the delegated action plans to address the identified risks;



## ROLE AND RESPONSIBILITIES: RISK MANAGEMENT

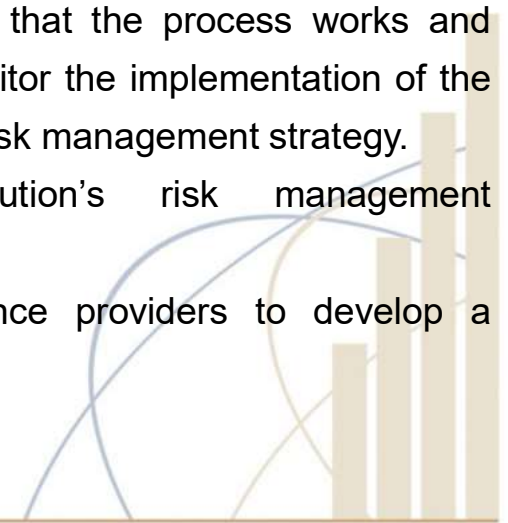


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The risk Management function is responsible for the following:

- Working with senior management to develop the institution's vision for risk management.
- Develop in consultation with management, the Institution's risk management framework incorporating, inter alia, the;
  - ✓ Risk Management policy, Risk Management strategy
  - ✓ Risk Management Implementation plan
  - ✓ Risk identification and assessment methodology
  - ✓ Risk appetite and tolerance
- To ensure an ongoing basis that the process works and continues to work, i.e. to monitor the implementation of the risk management and fraud risk management strategy.
- Communicating the institution's risk management framework to all stakeholders.
- To work with other assurance providers to develop a combined-assurance plan.



# ROLE AND RESPONSIBILITIES: INTERNAL AUDIT



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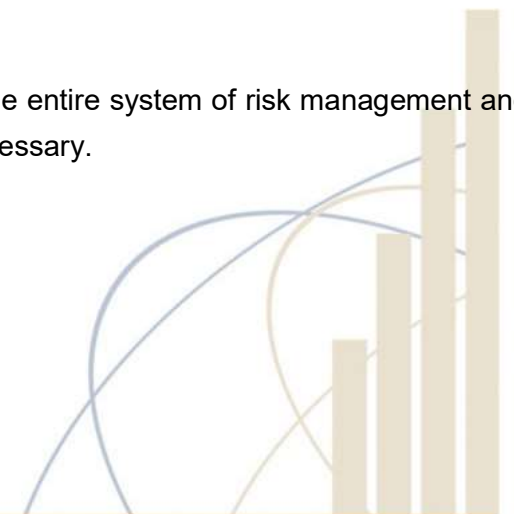
Section 165(2)(b)(iv) mandates Internal audit unit to prepare a risk based internal audit plan and an audit program for the year.

Internal Audit has a responsibility of providing and independent assurance regarding the risk management activities of the City, hence, providing independent assurance that management has identified the institution's risks and has responded effectively. Internal audit may also play an advisory and consulting role to Management regarding risk management matters.

Providing independent assurance as to whether the risk management strategy, risk management implementation plan and fraud prevention plan have been effectively implemented within the institution;

IA has the responsibility to provide assurance over the design and functioning of internal control .

Internal Auditing must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.



## ROLE AND RESPONSIBILITIES: RISK MANAGEMENT COMMITTEE



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Some municipalities do not have a separate risk management committee, while some have.

The risk management committee is a committee of the Accounting officer who responsibility is to assist him with fulfilling His risk management responsibility.

The committee is often chaired by an independent external person and may have other external members who have the necessary skills and expertise.

Review risk management related policies and recommend for approval. evaluate the extent and effectiveness of integration of the risk management framework within the Institution;

Evaluate the effectiveness of the mitigating strategies implemented to address the priority risks of the Institution;

Review the material findings and recommendations by assurance providers on the system of risk management and monitor the implementation of such recommendations;

# ROLE AND RESPONSIBILITIES: AUDIT COMMITTEE



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Audit committees are established in terms of section 166 of the MFMA.

It is an independent committee responsible for oversight of the Institution's control, governance and risk management.

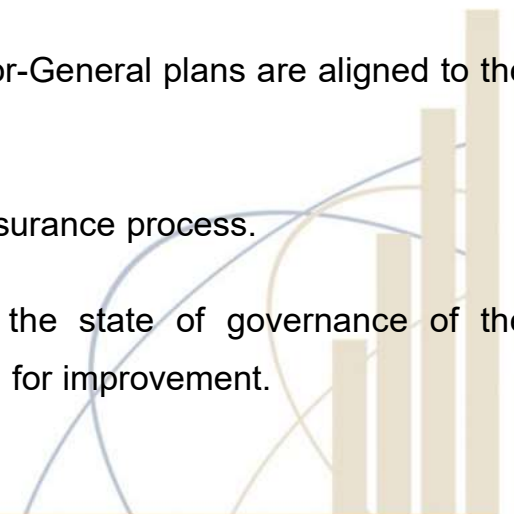
The Audit committee provides an independent view on the effectiveness of internal controls, risk management activities of the Municipality.

reviewing and providing regular feedback to the Accounting Officer on the adequacy and effectiveness of risk management in the Institution, including recommendations for improvement;

Ensuring that the Internal Audit and Auditor-General plans are aligned to the risk profile of the Institution;

Providing oversight over the combined assurance process.

To report to Council giving a view on the state of governance of the municipality and making recommendations for improvement.



# RISK MANAGEMENT

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# INTRODUCTION TO RISK MANAGEMENT



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- Risk is about the uncertainty of events, including the likelihood of such events occurring and its effects, both positive and negative, on the achievement of the municipality's objectives.
- Risks include uncertain events with a potential positive effect on the municipality (i.e. value creation opportunity) not being captured or not materializing.
- The starting point to identifying risks is first understanding the strategic objectives of the organization and understand the broader goal of the organization in delivering its mandate in order to achieve the desired outcomes.

# LEGISLATIVE MANDATE & GUIDING FRAMEWORKS



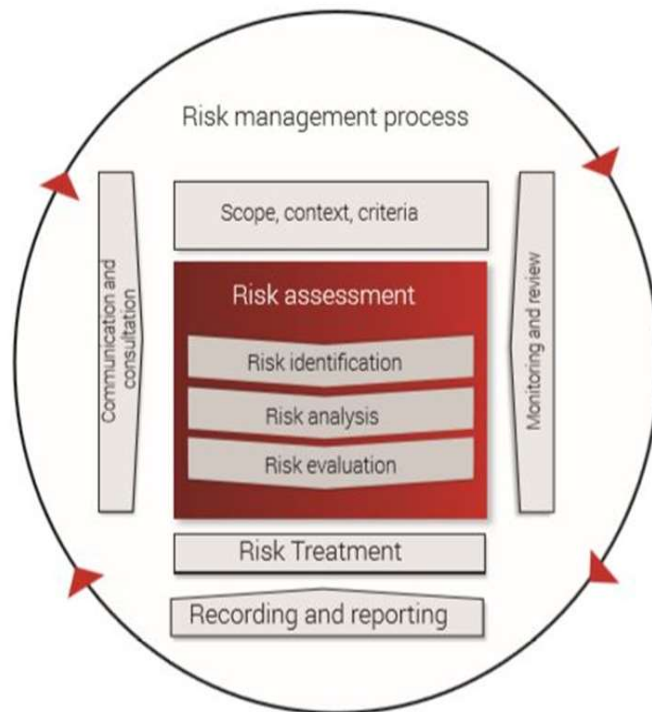
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- Constitution of the Republic of South Africa, 1996 (Chapter 10).
- Section 62(1)(c)(iii) of the Municipal Finance Management Act, mandates the Accounting Officer to take all reasonable steps to ensure that the municipality has and maintains effective and efficient systems of financial and risk management and internal controls.
- Section 78 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) extends the responsibility of risk management to Senior Management and officials of the municipality
- National Treasury's Public Sector Risk Management Framework guides institutions to identify risks emanating from the strategic choices made, seriously considering whether such choices weaken or strengthen the institution's ability to execute its Constitutional mandate.
- King IV principle 11 states that the governing body should govern risk in a way that supports the organization's strategic objectives.
- ISO: 31000:2018 provides guidelines on managing risks faced by organizations.
- COSO Framework is internationally recognized framework for designing, implementing and assessing internal controls
- The National Treasury had developed the Public sector as well as the local government risk management framework which serves as a guide for the effective and efficient implementation of risk management and control.

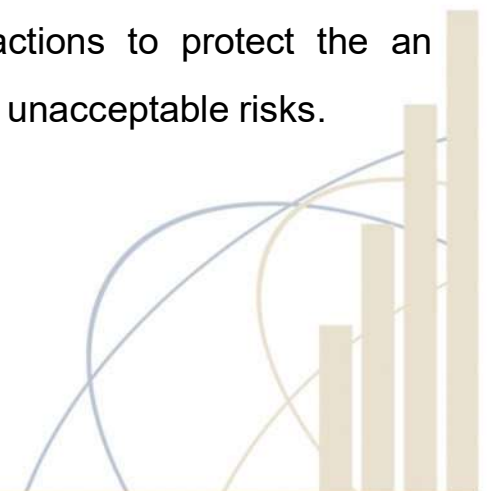
# RISK MANAGEMENT PROCESS



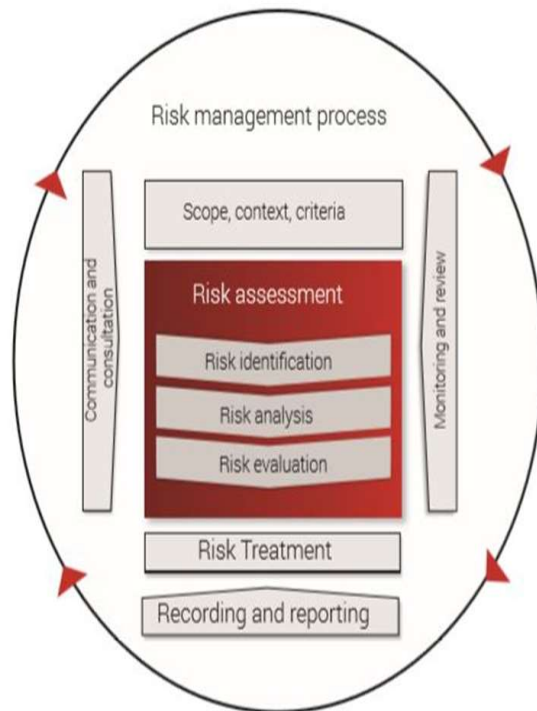
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- Many organisations including the public sector follows a process based on the fundamentals of International ISO Standard 31000:2018, which is the commonly used risk management framework.
- It is an analysis and problem-solving technique designed to provide a logical process for the selection of treatment plans and management actions to protect the an organisation against unacceptable risks.



# RISK MANAGEMENT PROCESS: SCOPE, CONTEXT



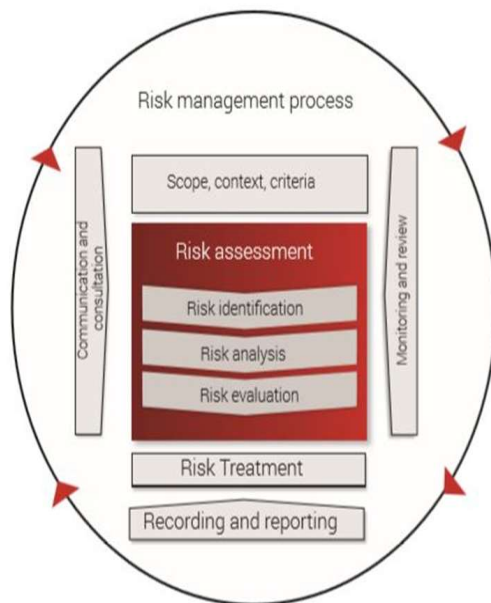
It is important for municipalities or organizations to define the scope for its risk management activities .

Risks can be assessed at different levels which includes strategic, operational, program or project level.

Importantly to consider when deciding on the scope is the following:

- a) The strategic objectives of the municipality or organization.
- b) Available resources
- c) Required risk assessment tools and techniques
- d) Decisions to be made.
- e) The organization should specify the amount and type of risk that it may or may not take, relative to objectives.

# RISK MANAGEMENT PROCESS: RISK ASSESSMENT



Risk assessment is the process the municipality undertakes to identify, analyze, evaluate and treats its risks. Risks are assessed in terms of likelihood and impact, to measure the severity of the risks.

When conducting a risk assessment, it is important to consider not only internal factors as risks by their nature can either be internal or external.

Risk assessment is not only limited to identifying what can go wrong but allows an organization to explore available opportunities that can take them closer to the achievement of its strategic objectives.

There are different techniques used to assess risks which include the PESTEL (analysis of external factors), SWOT analysis.

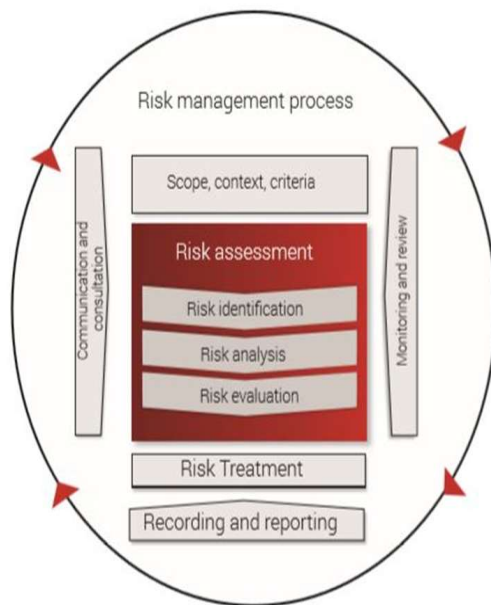
# RISK MANAGEMENT PROCESS: RISK TREATMENT



1929 - 2024

Risk management is not only about identification of risks but what becomes crucial is the mitigation thereof.

There are different risk responses which management can choose from depending on the risk appetite of the organization & its risk bearing capacity:



A) Risks may be terminated or avoided a decision can be taken to terminate a particular business process.

B) Risks may be transferred to another party so that the responsibility is shared.

C) Risks may be treated to reduce the risk exposure, importantly is the cost vs benefit when choosing an appropriate response.

D) Risk may be tolerated meaning the institution chooses to accept that the risk exists and may choose to monitor it, this occurs when the risk is low.

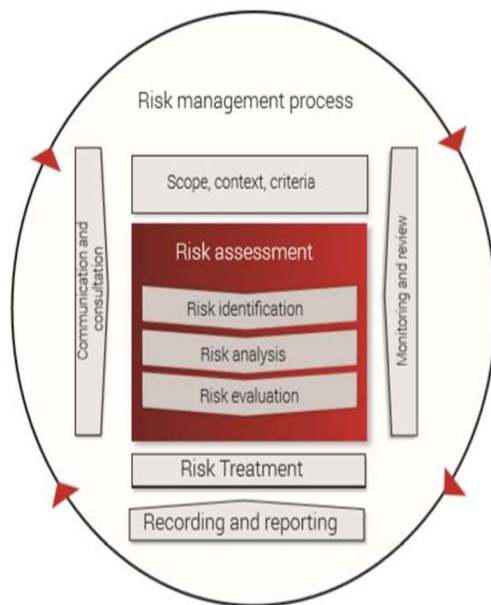
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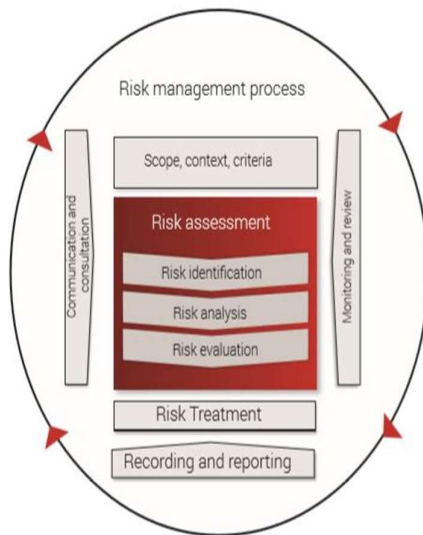
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# RISK MANAGEMENT PROCESS: RECORDING & REPORTING



The outcomes of the risk management process should be properly recorded and reported. Risk registers are a product of risk assessments, it record the following:



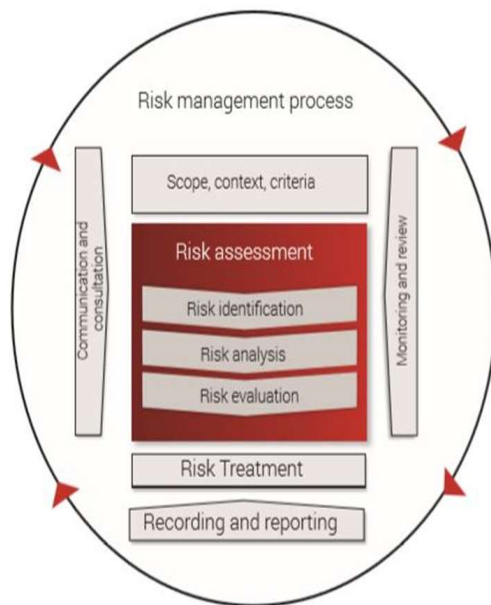
- A) Key Risk indicator
- B) Risk Name
- C) Risk description
- D) Root causes
- E) Risk rating both inherent and residual
- F) Mitigation action plan

Reporting should be a process not only limited to the oversight structures, its should start at departmental level move to Management meetings and consequently to the oversight structures. Reporting frequency should be clearly outlined for example it can be monthly for management, quarterly for oversight structures and risk management forms part of the annual report.

# RISK MANAGEMENT PROCESS: MONITORING



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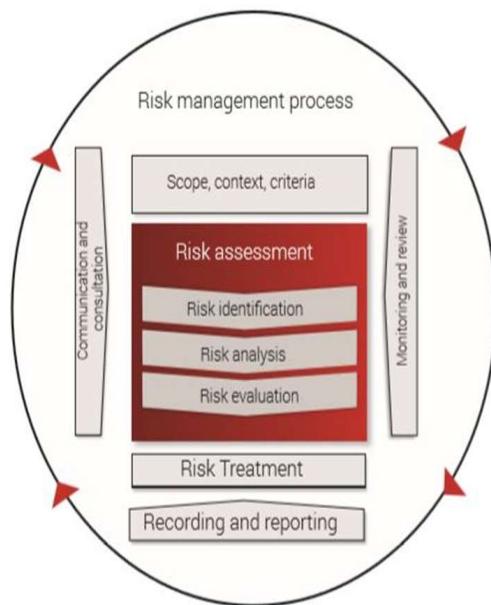
- Monitoring is essential to ensure that the risk management strategy is effective and efficient and if not, then remedial steps need to be taken.
- Monitoring reviews includes planning, gathering and analyzing information, recording results and providing feedback. As part of monitoring the following can be performed:
  - ❖ Review periodic status reports.
  - ❖ Analysis of trends and patterns.
  - ❖ Report on the status of the risk strategy implementation.

Monitoring starts with the risk owners, they have a responsibility to ensure that risks are mitigated within their areas and any emerging risks are timeously identified and reported. Risk Management should be a standing item in all departmental meetings.

# RISK MANAGEMENT PROCESS: COMMUNICATION



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- Risk Management is everybody's responsibility, this simply means that everyone in the organization should be aware of the risks facing their organization and be able to use that information for decision making and improving ones performance.
- Risk management unit or department needs to use available platforms such as the Municipal website, intranet, email etc. to raise awareness and share information not only risks that have already been identified, share information on trends and potential emerging risks and their impact thereof.
- Information can be shared through facilitating workshops and holding trainings, for risk management to be effective all stakeholders should know their role and own the process.

# BARIERS TO EFFECTIVE RISK MANAGEMENT



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- Lack of buy in from management; risk management not supported and resourced properly.
- Misalignment of risk management to other functions such as planning, budgeting, performance management and not being embedded into organizational culture.
- Risk Management is often taken and as a compliance matter; and not appreciated its value add to the organization.
- Poor timing of risk assessments, particularly the strategic risk assessment-many municipalities do not understand that risk management is part of planning and should be treated as such.
- Improper positioning of Risk Management Unit;
- Lack of technical capacity within the unit responsible for risk management.
- Silo approach to risk management, there are risks that cut across the institution and therefore needs joint efforts to mitigate. Further risk management unit or department can not work alone as a stand alone function, they are part of the organization.
- Lack of internalization of key ERM concepts;
- No clear roadmap for improvement; and
- Ineffective governance structures.

**COMPLIANCE  
MANAGEMENT**



# HIGH- LEVEL COMPLIANCE MANAGEMENT REQUIREMENTS



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- Firstly, it is important to acknowledge that the local government space is highly legislated, and it is a duty of every stakeholder to ensure that they fully comply.
- The compliance management function may be housed at legal services, or some municipalities have a compliance management unit responsible for the management of the general mandate of the Compliance Function which is to ensure that the standard risk-based compliance processes, controls and systems are applied consistently by all and to ensure that the risk of non-compliance is minimized in an effective and efficient manner across the Municipality.
- In this regard staff must be conversant with compliance guidelines and/or technical guidance notes applicable to their specific area of responsibility.
- An appropriate compliance culture, including the desired ethical behaviour should be promoted throughout the Municipality
- Due to the complex and wide scope of compliance management, it is important that an organization defines its compliance universe and adopt a focused approach thereof. The approach is to ensure compliance with planning, legislative driven plans, by-laws, policies and applicable legal prescripts.

# HIGH- LEVEL COMPLIANCE MANAGEMENT REQUIREMENTS



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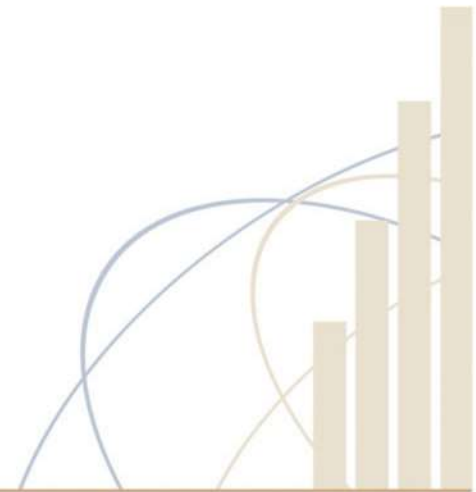
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# HIGH- LEVEL COMPLIANCE MANAGEMENT REQUIREMENTS EXAMPLES



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- There are different pieces of legislation applicable to the local government space such as the:
  - ❖ The Constitution of the Republic of South Africa, 1996
  - ❖ Municipal Finance Management Act, No.56 of 2003
  - ❖ Division of revenue Act
  - ❖ Municipal Systems Act 32 of 2000
  - ❖ Municipal structures Act 117 of 2008
  - ❖ National Environmental Management Act 107 of 1998
  - ❖ Protection of personal information Act 4 of 2013
  - ❖ Labour relations Act 66 of 1995



# OUR ROLE AS YOUNG PROFESSIONALS



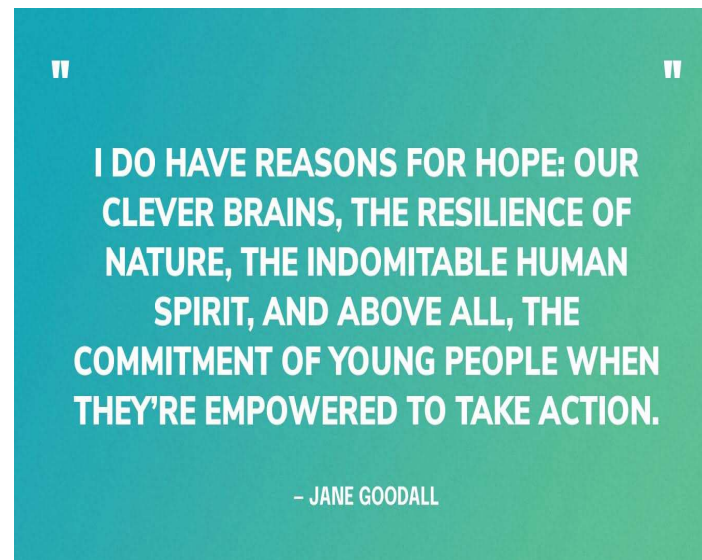
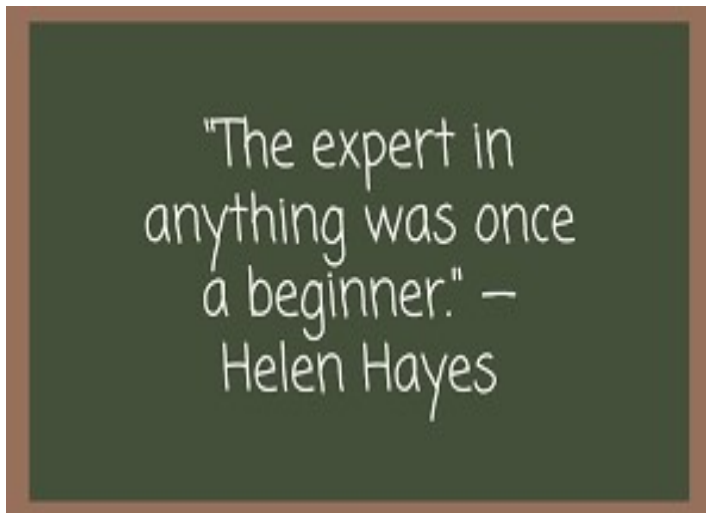
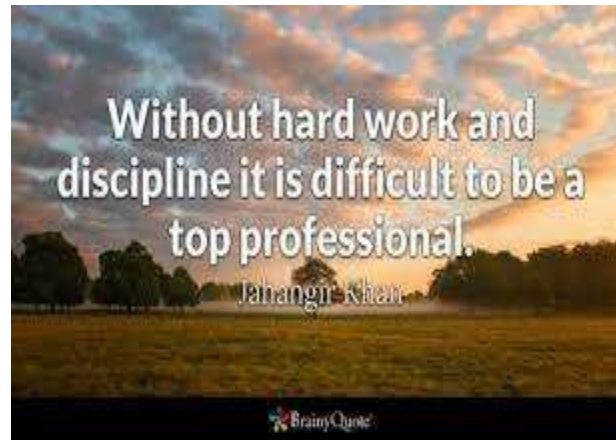
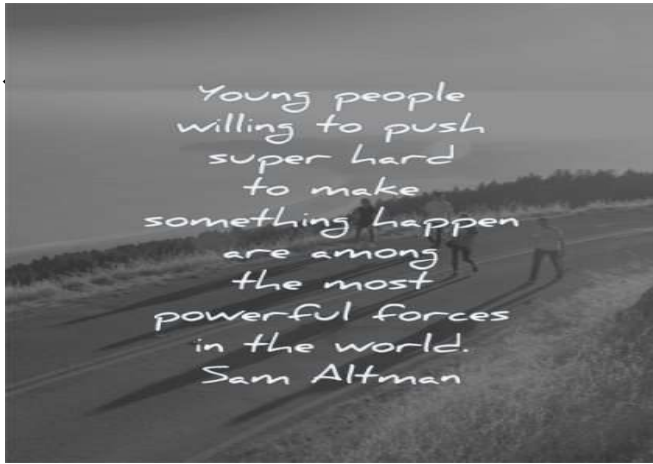
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- ❖ Risks are not static, this means that as young professionals we must be updated at all times, spend time in research and continuous development.
- ❖ Risk professionals must be team players with good communication skills, they must be action orientated and solution driven – in this way they can help the Risk Management function to be more effective and play a pivotal role in carrying out this risk mandate effectively.
- ❖ Professionals should have enough influence within their team, which is backed up by their genuine interest and basic knowledge about the risk process.
- ❖ Be able to partner to in raising awareness on the good governance principles, avoid a 'silo' approach.
- ❖ Among the many qualities is passion and commitment to challenge the status quo.
- ❖ “True to the concept of ERM and the principles of combined assurance, synergy should be established between the Risk Management Unit, Risk Management Committee and internal functions concerned with specialised risk management activities, including but not limited to those for: strategy planning and management; occupational health and safety; environmental risk management; disaster management , business continuity management; internal audit , performance management, etc.” **SANS 31000:2019**

# OUR ROLE AS YOUNG PROFESSIONALS

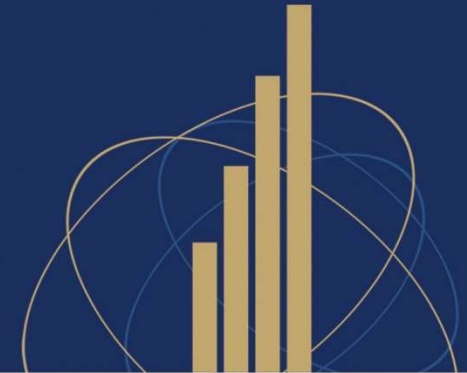


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# Thank You!



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