MSUKALIGWA LOCAL MUNICIPALITY

RISK APPETITE POLICY AND FRAMEWORK 2026/27

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1. INTRODUCTION AND BACKGROUND

Being a Municipality with the responsibility to deliver excellent services, which are accompanied by obligations which carry risks. The Municipality has obligations towards its community and staff it serves, as well as its stakeholder.

The Institution operates in the public sector environment which is burdened with unique challenges such as inadequate capacity, excessive bureaucracy and silo mentality, limited resources, competing priorities and infrastructure backlogs to mention a few. Such difficulties increase the risk profile of the Msukaligwa Local Municipality as a whole and place an extra duty of care on municipal management to contain risks within acceptable limits.

Msukaligwa Local Municipality identifies the need for risk management to feature as a consideration in strategic and operational planning, day-to-day management and decision making at all levels, locations and regions within its domain of control.

An effective framework should provide a common framework and comparable measures across the municipality for senior management and Council to communicate, understand, and assess the types and level of risk that they are willing to accept. It explicitly defines the boundaries within which management is expected to operate when pursuing the municipality's strategy.

The Risk tolerance relates to Risk Appetite, Management should consider the relative importance of the related objectives and aligns Risk Tolerance with Risk Appetite. Knowing the Risk Tolerance helps ensures that the department remains within its Risk Tolerance and achieve its objectives. An effective Risk Appetite Framework is a critical component of an effective risk management and governance framework within an organisation.

1.1. DEFINITIONS

1.1. 1. Risk

An unwanted outcome, actual or potential, to the Municipality service delivery and other performance objectives, caused by the presence of risk factor.

1.1.2. Risk Appetite Framework

The framework that outlines the risk acceptance parameters, escalation process and minimum actions required for the management of risks that are within and/or outside the Municipality's Risk Appetite. The objective of the Risk Appetite Framework is to articulate the process that will be adopted to embed Risk Appetite and its disciplines into the management protocol.

1.1.3. Risk Appetite

The amount and type of risk the Municipality is willing to accept in line with its strategic goals. The amount of residual risk that the Department is willing to accept.

1.1.4. Residual Risk

The remaining exposure after the mitigating effects of deliberate management intervention to control such exposure (the remaining risk after management interventions to exercise control over such factors.

1.1.5. Inherent Risk

The exposure arising from risk factors in the absence of deliberate management interventions to exercise control over such factors.

1.1.6. Risk Tolerance

The maximum amount of risk the organization is willing to take for each risk type.

1.1.7. Risk Bearing Capacity (RBC)

The maximum amount of risk that the Municipality is able to accept in line with government priorities, its strategic goals, without exposing it to the point where its survival is under threat and faces financial constraints.

2. PURPOSE

The purpose of the Risk Appetite Framework is to define and communicate key strategic risk appetite related concepts and criteria. Guide management in setting goals and making decisions so that the Municipality is more likely to achieve its goals and sustains its operations.

The concept of this policy should provide clear guidance on which risk are acceptable or unacceptable to the Municipality, which will assist in making informed decisions across the various Departments within the Municipality.

3. OBJECTIVES OF A RISK APPETITE FRAMEWORK

The Risk Appetite Framework of the Msukaligwa Local Municipality (MLM) was designed to achieve the following objectives:

- Clearly articulates the type and amount of risk MLM is comfortable in taking to deliver on strategy.
- Helps management understand the scope of their decisions within the risk-taking process and clarifies management's responsibilities and boundaries for risk.
- Serves as a guidepost in strategy setting and in allocating resources, where it represents the acceptable balance of growth, risk and return.
- Helps to prioritize mitigation actions for risks outside of risk appetite.
- Supports Council oversight and management actions to bring/keep the Municipality's risk profile within its risk appetite or determine whether its risk appetite requires recalibration.

4. REGULATORY RAMEWORK

This Risk Appetite derives its mandate from the following prescripts:

- Constitution of the Republic of South Africa, 1996;
- Municipal Finance Management Act (MFMA), (Act No. 56 of 2003);
- COSO Enterprise Risk Management;
- Msukaligwa Local Municipality Risk Management Plan and Strategy;
- Risk Management Framework; and
- Treasury Regulations, 2005;

5. BENEFITS OF EFFECTIVE RISK APPETITE FRAMEWORK

According to COSO Framework guidelines the following benefits are from an effective risk appetite framework:

- It is strategic and is related to the pursuit of organizational objectives;
- Forms an integral part of corporate governance;
- Guides the allocation of resources;
- Guides the municipality's infrastructure, supporting its activities related to recognizing, assessing, responding to, and monitoring risks in pursuit of organizational objectives;
- Influences the municipality's attitudes towards risk;
- Is multi-dimensional, including when applied to the pursuit of value in the shor term and the longer term of the strategic planning cycle; and
- Requires effective monitoring of the risk itself and of the municipality's continuing risk appetite; and
- Enhanced risk management strategy decisions through quantification of risk appetite.

6. CHARACTERISTICS OF EFFECTIVE RISK APPETITE FRAMEWORK

According to the COSO Framework a well-defined risk appetite should have the following characteristics;

- Directly links to the organisational objectives, business and stakeholder expectations;
- Clearly defined or stated to be able to be communicated throughout the organization, effectively monitored and adjusted overtime;
- Reflective of all key aspects of the business;
- Facilitate embedding risk appetite into the Municipality's risk culture;
- Acknowledges a willingness and capacity to take on risk;
- Considers the skills, resources and technology required to manage and monitor risk exposures in the context of risk appetite;

7. METHODOLOGY

Risk management is a process that requires the municipality to pay closer attention to the developments both in the external and internal control environments.

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

Involvement of all personnel and at all levels of management ensures that risk management activities are applied consistently across all levels within the municipality. Again, the philosophy that everybody is a risk manager, ensures that everybody is involved in risk management process and risk management is integrated into their day-to-day activities.

The methodology to be followed will be:

7.1. CRITERIA

Risk appetite should be evolved from and support the strategic planning and objectives of the municipality. The risk appetite framework helps articulate the risk to the municipality that could potentially have impact on the achievement of the strategic objectives. The municipality should take into account:

- The municipality's strategy;
- If the municipality has a zero tolerance approach regarding compliance, it should be clearly documented in policies and as such enforced;
- Before setting risk appetite, it helps to classify risk into different categories that the municipality is, or may be, exposed to in the pursuit of its objectives;
- It is important to have a holistic view of all the risks to which the municipality is exposed, including what approach it will take in managing them; and capacity and maturity of the risk management function.

7.2. STAKEHOLDER ENGAGEMENT

The municipality should engage with all stakeholders to ensure that both risk taking and control activities are aligned and that possible differences are identified at this stage. All stakeholders need to be at least considered when setting risk appetite to ensure that all the acceptable risks are identified as per the strategic objectives.

7.3. DEVELOPMENT OF THE RISK APPETITE

The development of the risk appetite takes the following into account:

- Obtain all the risk registers for the municipality;
- Sort the risk as per the risk registers from high to low;
- Determine from the stakeholders how much risk taking capacity the municipality is willing to take as per the risk registers;
- Once agreed on the number of the risk that the municipality is willing to take, this becomes the risk appetite;
- Obtain the Integrated Development Plan (IDP) for the municipality and align the strategic objectives with the identified risks, determine the risk appetite per strategic objectives for each functional area.
- Finally the municipality will need to formalise the results of the above process through the documentation of the municipality's risk appetite in a formal Risk Appetite statement.

7.4. APPROVAL

The risk appetite statement should then be approved by the Accounting Officer (Municipal Manager) prior to communicating the document across the municipality.

7.5. IMPLEMENTATION

After the approval of the risk appetite framework by the Accounting Officer (Municipal Manager), it should be:

- Clearly communicated and cascaded through the municipality during departmental monthly meetings:
- Integrated into the risk management framework; and
- Actively used in the strategic management of the municipality.

7.6. REVIEW

The Risk Appetite Statement should be reviewed annually, or whenever there is a significant change to the municipality's operating environment to ensure alignment with the ever evolving municipal strategy, risk environment and the municipal performance. And that it remains current and relevant to all legislature and guidelines of Risk Management in the Public Sector.

7.7. CONTRAVENTIONS

Any person who contravenes or fails to comply with any provision of this Policy may be subjected to disciplinary action.

8. ROLES AND RESPONSIBILITIES

There are various role players with defined responsibilities to ensure the Risk Appetite Framework of the MLM is embedded and complied with effectively at the MLM. Key role players and their responsibilities are defined as follows:

8.1. The Accounting Officer (Municipal Manager)

The Municipal Manager is ultimately responsible for risk management within the municipality. The Municipal Manager is accountable to the Council regarding the effectiveness of the risk management process. By setting the tone at the top, the Municipal Manager promotes accountability, integrity and other factors that create a positive control environment.

The roles of the Municipal Manager relating to the risk appetite include the following:

- Establish an appropriate risk appetite for the Municipality (in collaboration with the Chief Risk Officer(CRO) and Chief Financial Officer(CFO)) which is consistent with the Municipality's short- and long-term strategy, business plans, risk capacity;
- Be accountable, together with the CRO, CFO, and Directors of other MLM departments, for the integrity of the risk appetite framework, including the timely identification and escalation of breaches in risk limits and of material risk exposures;
- Ensure, in conjunction with the CRO and CFO, that the risk appetite is appropriately translated into risk limits for MLM departments incorporate risk appetite measures into their strategic and financial planning, as well as decision making processes;
- Ensure that the organisation-wide risk appetite statement is implemented through consistent supplementary risk appetite statements or specific risk limits for MLM departments;
- Provide leadership in communicating risk appetite to internal and external stakeholders so as to help embed appropriate risk taking into the Municipality's risk culture;
- Set the proper tone and example by empowering and supporting the CRO and CFO in their responsibilities, and effectively incorporating risk appetite into decision-making processes;
- Ensure MLM departments have appropriate processes in place to effectively identify, measure, monitor and report on the risk profile relative to established risk limits on a continual basis;

- Dedicate sufficient resources and expertise to Risk Management, Internal Audit and provide adequate IT infrastructure to help provide effective oversight of adherence to the risk appetite framework;
- Act in a timely manner to ensure effective management, and where necessary mitigation, of material risk exposures, in particular those that are close to or exceed the approved risk appetite statement and/or risk limits; and
- Establish a policy and process for notifying the Executive and Council of serious breaches of risk limits and unexpected material risk exposures.

8.2. Management (All Departmental Head)

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

In discharging their high level responsibilities relating to risk appetite, management:

- Ensure alignment between the approved risk appetite and planning, compensation, and decision-making processes of the municipality;
- Embed the risk appetite statement and risk limits into management's activities so as to embed prudent risk taking into the municipality's risk culture and day to day management of risk;
- Establish and actively monitor adherence to approved risk limits;
- Implement controls and processes to be able to effectively identify, monitor and report against allocated risk limits;
- Act in a timely manner to ensure effective management, and where necessary, mitigation of material risk exposures, in particular those that exceed or have the potential to exceed the approved risk appetite and/or risk limits; and
- Escalate promptly breaches in risk limits and material risk exposures to the CRO and senior management in a timely manner.

8.3. Chief Risk Officer (CRO)

Accountability for risk management in the municipality is assigned to the Accounting Officer (Municipal Manager) and is sub-delegated to the CRO to facilitate and coordinate the development and implementation of risk.

The CRO provides specialist expertise in providing a comprehensive support service to ensure systematic, uniform and effective enterprise risk management. The CRO plays a vital communication link between operational level, management, senior management, risk management committee and other relevant committees.

High level responsibilities to achieve this include:

- Develop an appropriate risk appetite for the municipality that meets the needs of the municipality;
- Obtain approval for the risk appetite framework and updates and regularly report on the Municipality's risk profile relative to risk appetite;

- Actively monitor the Municipality's risk profile relative to its risk appetite, strategy, business and capital plans, risk capacity;
- Establish a process for reporting on risk and on alignment (or otherwise) of risk appetite and risk profile with the Municipality's risk culture;
- Ensure the integrity of risk measurement techniques and Management Information Systems that are used to monitor the Municipality's risk profile relative to its risk appetite;
- Provide support in the establishment of, in collaboration with the MM and CFO, appropriate risk limits for departments that are prudent and consistent with the Municipality's risk appetite statement;
- Independently monitor business line and risk limits and the Municipality's aggregate risk profile to ensure they remain consistent with the Municipality's risk appetite;
- Act in a timely manner to ensure effective management, and where necessary mitigation, of material risk exposures, in particular those that are close to or exceed the approved risk appetite and/or risk limits; and
- Escalate promptly to the MM any material risk limit breach that places the Municipality at risk of exceeding its risk appetite, and in particular, of putting in danger the financial condition of the Municipality.

8.4. The Chief Financial Officer

- Develop an appropriate risk appetite for the Municipality (in collaboration with the MM and CRO) which is consistent with the Municipality's short- and long-term strategy, business and capital plans, and risk capacity;
- Incorporate risk appetite into the Municipality's compensation and decision-making processes (in collaboration with the MM and CRO), including business planning and risk assessment processes;
- Work effectively with the CRO and MM to establish, monitor and report on adherence to applicable risk limits;
- Act in a timely manner to ensure effective management, and where necessary mitigation, of material risk exposures, in particular those that are close to or exceed the approved risk appetite and/or risk limits within the CFO function; and
- Escalate promptly to the MM breaches in risk limits and material risk exposures that would put in danger the Municipality's financial condition.

8.5. Risk Management Anti-fraud and corruption Committee (RMAFCC)

In discharging its oversight responsibilities relating to the risk appetite framework:

- Recommend and ensure that the risk appetite framework is approved by the Council;
- Evaluate the effectiveness of mitigating strategies implemented to address the material risks of the municipality (treatment action plans);
- Ensure that the committee is informed of all changes to the risk management strategy, implementation plan, policy and framework;
- Review and monitor the effectiveness of risk control systems, the reliability and accuracy of risk management reporting and fraud prevention plan;

- Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses; and
- Provide guidance to the CRO and other relevant risk management stakeholders on how to manage risks within the risk appetite level;

8.6. Risk Management Assurance Providers

Internal Audit

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

Responsibilities of Internal Audit in the risk appetite process include:

- Routinely include assessments of the risk appetite framework on an organisation-wide basis as well as on an individual department basis;
- Identify whether breaches in risk limits are being appropriately identified, escalated and reported, and report on the implementation of the risk appetite framework to the MM and senior management as appropriate;
- Independently assess periodically the design and effectiveness of the risk appetite framework and its alignment with strategic objectives;
- Assess the effectiveness of the implementation of the risk appetite framework, including linkage to organisational culture, as well as strategic and business planning, and decision-making processes;
- Assess the design and effectiveness of risk measurement techniques and management information systems used to monitor the Municipality's risk profile in relation to its risk appetite;
- Report any material deficiencies in the risk appetite framework and on alignment (or otherwise) of risk appetite and risk profile with risk culture to the MM and senior management in a timely manner; and
- Evaluate the need to supplement its own independent assessment with expertise from third parties to provide a comprehensive independent view of the effectiveness of the risk appetite framework.

9. Risk Appetite Statement

The Municipality's risk appetite is directly linked to its strategic direction and addresses the Municipality's 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's approach to risk taking and articulate clearly the motivations for taking on, or avoiding certain types of risks.

- In Managing risk within the Municipality, a Risk Appetite must be set. Risk appetite is the amount of residual risk the Municipality is willing to accept ensuring achievement of their objectives.
- Risk assessment need to be performed, in this regard management will then identify risks and establish the Risk Appetite level in respect of such risks that have been identified.
- A Strategic Plan document is developed for the medium term framework. An annual performance report is developed in the beginning of the financial year.
- The Municipality must develop the risk appetite for each strategic objectives.
- The Municipality has the following Strategic Objectives;

9.1. Strategic Objectives

- To provide sustainable and reliable services to communities;
- To improve viability and management of municipal finances;
- To build a capable workforce to deliver services;
- To strengthen public participation, corporate governance and accountability;
- To coordinate efforts to address unemployment, poverty and encourage shared economic growth and Development; and
- To ensure long term planning that provides for social cohesion and spatial transformation.
- The Municipality must ensure the achievement of the set objectives.
- Strategic risks that where identified by the Management as per the objectives that may give an indication of a threshold that if crossed, might require a need to allocate resources to mitigate a risk.

9.1.2. The Risk Appetite for the set Strategic Objectives;

- The Municipality will set its Risk Appetite at medium level 10 and any risk higher than the rating level of 10 will not be accepted

9.2. Risk Ratings Legend and Explanations

8.2.1. <u>UNACCEPTABLE RISKS</u>

Risk index	Risk magnitude	Risk acceptability	Proposed actions
21-25	Maximum risk	Unacceptable Take action to reduce risk with highest priority	
15 -20	High Risk		
10-14	Medium risk	Unacceptable Take action to reduce risk, inform management.	

8.2.2. ACCEPTABLE RISKS

5-9	Low risk	Acceptable	No risk reduction – control, monitor, inform management.
1-4	Minimum risk	Acceptable	No risk reduction - control, monitor, inform management.

- As and when risks are identified, action plan will be developed to address the residual risk for medium, high and maximum risks.

10. CONCLUSION

It is clear that the process of determining an appropriate risk appetite is a challenging one. Apart from the many practical challenges which must be overcome, ranging from achieving a consistent understanding of risk management terminology to the identification of the range of risks being borne, there are many technical aspects to be tackled as well.

These include how to measure risks and how to set risk appetite. The process of identification, rating and mitigating of enterprise risks, allows the municipality to use risk intelligence as a management tool, to prevent any hindrances that might affect the organisation in achieving its strategic objectives.

Risk appetite needs to become embedded into the municipality. It does not stand alone, but rather fits into the risk management process. It requires support from key control functions such as Internal Audit, Compliance, and Risk Management in order to operate effectively. Above all though, it needs to achieve buy-in from all stakeholders.

Greater understanding of risk and the risks being faced by the municipality is a powerful tool for aligning stakeholder interests and ultimately giving the municipality the best chance of achieving its strategic goals and objectives.

11. REVIEW OF THE POLICY/FRAMEWORK

The risk appetite policy will be reviewed every 5 years (with alignment to the political term) or as and when required to incorporate changes in the prescribed norms and standard governing its existence to ensure that it remains current and relevant to all legislature and guidelines of Risk Management in the Public Sector.

12. AUTHORITY

Authority	Date
Recommended by Chairperson of Risk Management, Anti-Fraud and Corruption Committee:	
Approved by Municipal Manager: Mr M Kunene	
Approved by Council	**Council resolution number LM 899/07/2025**