



# The Msunduzi Municipality

INTERNAL AUDIT UNIT

*Auditing to Enhance, Protect and Promote Service Delivery'*



**RISK MANAGEMENT COMMITTEE CHARTER**

**AUGUST 2019**

**NOTE:** *This charter should be read in conjunction with the Msunduzi Enterprise Wide Risk Management Policy and Risk Management Methodology*

**TABLE OF CONTENTS**

1.	Definitions	3-7	
2.	Abbreviations	7-8	
3.	Purpose	9	
4.	Organization	9	
	4.1	<i>Constitution of the Risk Management Committee</i>	9
	4.2	<i>Composition of the Risk Management Committee</i>	9
	4.3	<i>Secretariat to the Risk Management Committee</i>	10
5.	Statement of Policy	11	
6.	Frequency of Meetings	11	
7.	Authority of the Risk Management Committee	12	
8.	Reporting and Accountability by the Risk Management Committee	13	
9.	Duties & Responsibilities of the Risk Management Committee	13	
10.	Removal from Office of the Risk Management Committee Members	14	

## CHARTER AND TERMS OF REFERENCE

1. For purposes of this charter, unless the context indicates otherwise, the –

“**Accounting Officer**” in relation to a municipality means the municipal official referred to in Section 60 of the Municipal Finance Management Act No. 56 of 2003 (“the MFMA”).

“**Action Owners**” these are the officials assigned specific responsibility for implementation of risk responses / further actions in the Enterprise wide risk management Strategy.

“**Adequate Control**” – Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization’s risks have been managed effectively and that the organization’s goals and objectives will be achieved efficiently and economically.

“**Audit Committee**” means an independent advisory body established in terms of Section 166 of the MFMA to advise the Municipal Council, Political Office Bearers, the Accounting Officer and management staff of the municipality on matters relating to internal financial control and internal audits, enterprise wide risk management, and others;

“**Auditor-General**” means the person appointed as Auditor-General in terms of Section 193 of the Constitution of the Republic of South Africa, Act 108 of 1996 (as amended) (“the Constitution”), and includes a person

- (a) acting as Auditor-General;
- (b) acting in terms of a delegation by the Auditor-General; or
- (c) designated by the Auditor-General to exercise a power or perform a duty of the Auditor-General.

“**Chief Audit Executive**” – describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.

“**Chief Risk Officer**” – describes a person in a senior position responsible for effectively managing the enterprise wide risk management activity in accordance with the enterprise wide risk management policy and the charter and the job description of the incumbent.

“**Controls**” (Control Techniques) – Any action taken by management, the Executive Committee and Council, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. It includes the policies, procedures and methods, which ensure that adverse events, which may be negatively, affect successful achievement of the process objectives, are prevented or detected and corrected. It includes soft controls such as the management style, ethics, communication, control environment, etc.

**“Control Environment”** – The attitude and actions of the Council and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- ✚ Integrity and ethical values.
- ✚ Management’s philosophy and operating style.
- ✚ Organizational structure
- ✚ Assignment of authority and responsibility
- ✚ Human resource policies and practices.
- ✚ Competence of personnel.

**“Control Processes”** – the policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the enterprise wide risk management process.

**“Effect”** – The risk or exposure management and/or other encounter because the condition is not the same as the criteria (the impact of the difference). In determining the degree of risk or exposure, internal auditors should consider the effect their audit findings may have on the organization’s financial statements.

**“Effectiveness”** – to ascertain whether the system is functioning as intended.

**“Effective Control”** – Present when management directs systems in such a manner as to provide reasonable assurance that the organization’s objectives and goals will be achieved.

**“Efficiency”** – Objectives and goals are accomplished in an accurate and timely fashion with minimal use of resources.

**“Enterprise-Wide Risk Management”** is a structured and systematic approach to set best course of action under uncertainty by identifying, assessing, implementing controls, monitoring and communicating risk issues in an ongoing basis throughout the municipality.

**“Exposure”**- Susceptibility / vulnerability of an entity or component of an entity to a risk.

**“ERM”** – Enterprise risk management is a process, adopted by Council, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

**“Framework”** is the totality of the structures, methodology, procedures and definitions that the municipality has chosen to use to implement its enterprise wide risk management processes.

**“Governance”** – The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

**“Inherent Risk”** is an adverse event or action that is intrinsic to the operations of a Business that may affect an organization’s ability to achieve its objectives. This is the organization’s risk exposure assuming there are no controls and is measured on the basis of the likelihood of occurrence and the impact should it occur.

**“Integrity”** is the quality or state of being of sound moral principle; uprightness, honesty, and sincerity; the desire to do the right thing, to profess and live up to a set of values and expectations.

**“Internal audit unit”** is a component within the Msunduzi Municipal Council that is established in terms of Section 165 of the MFMA.

**“Internal Controls”** are measures, methods, techniques, systems whether manual, electronic or otherwise, policies, procedures and processes that have been put in place by management to prevent, detect and correct a risk.

**“Likelihood”** is a probability of adverse event causing a risk to materialize.

**“Municipality”** means a Msunduzi Municipality established in terms of Section 155 of the Constitution.

**“Municipal Council or Council”** means a municipal council of Msunduzi established in terms of Section 157 of the Constitution.

**“Municipal Entity”** means a company, co-operative, trust, fund or any other corporate entity established in terms of any applicable national or provincial legislation and which operates under the ownership control of one or more municipalities; and includes, in the case of a company under’ such ownership control, any subsidiary of that company; or a service utility.

**“Operational Risks”** are risks that relate to the operational processes of the municipality.

**“Rating Scales”** means the scales adopted by Msunduzi Municipality in measuring the likelihood and impact of risk exposures and the effectiveness of existing controls.

**“Reasonable assurance”** means that the concept RM, no matter how well designed and operated, cannot provide a guarantee regarding achievement of the municipality’s objectives because of inherent limitations of RM.

**“Residual risk”** is the remaining risk after management has taken action to alter the risks likelihood or impact.

“**Risk**” threat that an event or action will adversely affect an organization's ability to achieve its objectives and to execute its strategies successfully.

“**Risk appetite**” is the broad based amount of risk the municipality is willing to accept in pursuit of its mission (vision).

“**Risk Assessment**” is a process of ascertaining the probability and impact of uncertain events or how potential events might affect the achievement of objectives.

“**Risk Management Charter**” – is a formal document that defines the enterprise wide risk management activity’s purpose, authority, and responsibility. It establishes the enterprise wide risk management activity’s position within the organization and defines the scope of enterprise wide risk management activities.

“**Risk Management Committee**” means a management committee of the Msunduzi Municipality established and appointed by the Accounting Officer to assist the municipality in discharging its enterprise wide risk management responsibilities made up of Senior Managers.

“**Risk Management Framework**” is a document that incorporates, enterprise wide risk management policy, enterprise wide risk management strategy and enterprise wide risk management methodology.

“**Risk officers**” mean officers performing enterprise wide risk management support functions to the business units.

“**Risk Owners**” these are officials with accountability over management of risks.

“**Risk tolerance**” is the acceptable variation relative to the achievement of an objective.

“**Risk officers**” mean officers performing enterprise wide risk management support functions to the business units.

“**Risk Bearing Capacity**” – is the maximum amount of risk that the organization is able to accept in line with its mission / values / strategic goals, without exposing it to the point where its existence and survival is under threat.

“**Root Cause**” – means the underlying problem (problem at root) that gives rise to a risk.

“**Section 57 Manager**” – is an official appointed in writing by the Council in terms of Section 57 of the Local Government: Municipal Systems Act, Act 32 of 2000, as an administrative head of the Business Unit and delegated the responsibility for enterprise wide risk management, financial management and internal controls under his/her Unit and is directly accountable to the Municipal Manager.

**“Section 57 manager** is an official appointed in writing by the Council in terms of Section 57 of the Local Government: Municipal Systems Act, Act 32 of 2000, is directly accountable to the Municipal Manager.

**“Senior Managers”** are Section 57 Managers reporting directly to the Municipal Manager. **“Strategic”** is used with objectives having to do with high level goals that are aligned with and support the entity’s vision (mission).

**“Strategic Risk”**- means a risk with direct bearing to the mandate / strategic objective of an organisation.

**“Weighting of Inherent Risk Components”** means the scale assigned to the importance of priority between the likelihood and impact, measured in percentage terms, adopted by the municipality to determine the overall inherent risk rating.

## 2. ABBREVIATIONS

**“ÄO”** – Accounting Officer

**“AC”** – Audit Committee

**“AG”** - Auditor General

**“CAE”** - Chief Audit Executive

**“CRO”** – Chief Risk Officer

**“GM”** – General Manager

**“IAU”**- Internal Audit Unit

**“IDP”**- means the Integrated Development Plan

**“COSO”** – Committee of Sponsoring Organizations of the Treadway Commission.

**“ISO”** – International Organization for Standardization (International Standardization Organization) Definition: comes from the Greek word “ISOS,” which means equal. The name used for the standards organization is the same in all countries. It consists of standards institutes in 164 countries that work together to create industry standards. ISO has developed more than 19 000 standards in a variety of areas. Standards include guidelines for health care technology, environmental health and safety, mechanical systems, electronics, engineering disciplines, logistics and distribution, energy and food technology. ISO31 000 is a guideline for enterprise wide risk management and ISO 9001 focuses on quality management.

**“ERM”** – Enterprise-Wide Risk Management

**“MFMA”**- Municipal Finance Management Act No. 56 of 2003

**“RBC”** – Risk Bearing Capacity

**“RMC”** - Risk Management Committee”

**“RMF”** – Risk Management Framework

**“SDBIP”**- means Service Delivery and Budget Implementation Plan



### **3. PURPOSE**

The purpose of this charter is to:

- 3.1 provide parameters on the organisation, functioning and the position of the Risk Management Committee ('the RMC') within the Msunduzi Municipal structures;
- 3.2 define the scope, statement of policy, authority, activities & terms of reference;
- 3.3 create common understanding between the Msunduzi Local Municipal Council ('the Council'), Political Leadership, Management and the RMC members; and
- 3.4 serve as a reference in case of disagreements and disputes arising between Council Political Leadership, Management and the members of the RMC on matters relating to the functions, powers and authority of the RMC.

### **4. ORGANISATION**

#### **4.1 Constitution of the Risk Management Committee**

- 4.1.1 The RMC shall be established and appointed by the Accounting Officer of the Msunduzi Municipality to assist him to fulfil his risk management in accordance with Section 62 (1) (c) (i) of the Municipal Finance Management Act, Act 56 of 2003 (MFMA) which places the responsibility of ensuring that the municipality has and maintains effective, efficient and transparent system of risk management and internal control to the Accounting Officer;
- 4.1.2 The RMC shall ensure that there are effective and efficient risk management systems, practices and procedures and provide recommendations for improvement to the Accounting Officer and Council.

#### **4.2 Composition of the Risk Management Committee**

- 4.2.1 The RMC shall consist of the City Manager, all General Managers and the Senior Manager in the Office the City Manager, and shall be formally appointed by the Accounting Officer. The City Manager shall be the Chairperson RMC.
- 4.2.2 In the absence of the Chairperson of the RMC from a specific meeting, the members present shall elect a chairperson from the members present to act as chairperson for that meeting.
- 4.2.3 The members, as a collective, shall possess the divest knowledge of local government, including familiarity with the concepts, principles and best practices of risk management, such that they can contribute meaningfully to the advancement of risk management within the municipality.

4.2.4 The following officials shall be the standing invitees to the RMC:

- (a) Chief Risk Officer;
- (b) Chief Audit Executive: Internal Audit Unit; and
- (c) Manager: Assurance Services.

4.2.5 The RMC may invite Risk Champions and any other managers or officials of the municipality to appear before the committee to provide pertinent information, reports, clarity on issues or answer questions, as it deems necessary.

#### 4.3 Secretariat to the Risk Management Committee

4.3.1 A secretariat shall be provided by Corporate Services to the committee, to prepare and distribute the committee agenda packs in consultation with the Chairperson of the RMC, Chief Risk Officer and Chief Audit Executive: Internal Audit Unit.

4.3.2 The Committee Officer shall forward the notice of each meeting of the Committee to all members no later than fourteen (14) calendar days prior to the date of the meeting. The notice shall confirm the venue, time and date.

4.3.3 The agenda packs of the RMC shall be distributed to all stakeholders seven calendar (7) days before the ensuing Risk Management Committee meeting.

4.3.4 The Committee Officer shall electronically record and also document all the proceedings of the Risk Management Committee meetings and keep the recordings for a period of at least five years before they can be destroyed or erased, or as determined by the archives legislation.

4.3.5 The Committee Officer shall ensure that draft minutes are verified by the Chairperson of the Committee and circulate draft minutes of the Risk Management Committee meetings to all members, Chief Audit Executive: Internal Audit Unit, Chief Risk Officer and Manager: Assurance Services and any other official who was present at the meeting within two weeks of the Risk Management Committee meeting.

4.3.6 Minutes shall be kept of all meetings of the Risk Management Committee, and all the summary of deliberations of the committee must be included therein. The Committee Officer shall keep a register of all resolutions of the Risk Management Committee in a separate document which shall be devised by the Risk Management Committee.

4.3.7 The secretariat shall keep all Risk Management Committee matters strictly confidential and shall not disclose any matters to any official and member of the public.

**5. STATEMENT OF POLICY**

- 5.1 The MFMA has established the legal framework for risk management in the Public Sector that enforces risk management practices. Risk Management is about managing a potential inability by the municipality to fulfil the requirements of the Constitution. It is for this reason that the Constitution of the Republic of South Africa is the fundamental foundation of risk management.
- 5.2 The Msunduzi Municipality considers risk management in light of the constitutional imperatives. The preamble of our Constitution and Chapter 2 of the Constitution deals extensively with the Bill of Rights. Under the Bill of Rights Section 24 to 30 and S30 are relevant to the imperative of the Constitution versus risk management.
- 5.3 The Msunduzi Municipality is aware that no organization is functioning in a risk-free environment and as a public institution we are susceptible to risks associated with the fulfilling of our constitutional mandate.
- 5.4 The Msunduzi Municipality is committed to achieve its vision as set out in its City Development Strategy and other planning documents and to contribute towards building a “better life for all”. We therefore consider risk management as an integral part of our strategy and operations and management tool to assist in achieving our service delivery objectives.
- 5.5 In terms of International Standards of Organisations [ISO] 31000:2009 - Risk Management, risks affecting organizations can have consequences in terms of economic performance and professional reputation, as well as environmental, safety and societal outcomes. Therefore, managing risk effectively helps organizations to perform well in an environment full of uncertainty.
- 5.6 In terms of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise risk management is a process, effected by an entity’s board of directors (Council), management and other personnel, applied in strategy setting and across the organization, designed to identify potential events that may affect the organization, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of organization’s objectives.

**6. FREQUENCY OF MEETINGS**

- 6.1 The committee shall meet at least six times a year, with authority to convene additional meetings, as circumstances require.
- 6.2 All committee members are expected to attend each meeting, in person. A quorum must consist of 50% plus one member.
- 6.3 Whenever a quorum cannot be achieved, the Chairperson shall adjourn the meeting for a period not exceeding fourteen [14] days.

**7. AUTHORITY OF THE RISK MANAGEMENT COMMITTEE**

- 7.1 The Risk Management Committee shall have the necessary authority to request management to appear before it to account for their delegated responsibilities in respect of risk management.
- 7.2 The committee acts in terms of the delegated authority of the Accounting Officer as recorded in the terms of reference.
- 7.3 The committee has access to the records, facilities and any other resources necessary to discharge its duties and responsibilities;
- 7.4 The committee has the right to obtain professional advice to assist with the execution of its duties, subject to an approved process;
- 7.5 The committee makes the recommendations to the Accounting Officer that it deems appropriate on any area within the ambit of its terms of reference where action or improvement is required.

**8. REPORTING AND ACCOUNTABILITY BY THE RISK MANAGEMENT COMMITTEE**

- 8.1 The Risk Management Committee shall draft and adopt a Risk Management Committee Report which shall be presented to the Audit Committee by the Chairperson of the Risk Management Committee on quarterly, summarizing the activities, recommendations and decisions/resolutions of the Risk Management Committee during each quarter and financial year end.
- 8.2 The Risk Management Committee Reports shall include but not limited the matters related to the following:
  - 8.2.1 Progress on Top 10 risks implementation plan
  - 8.2.2 Progress on Risk Management Strategy;
  - 8.2.3 Risk Profile/Register; and
  - 8.2.4 Other matters of interest.
- 8.3 The Risk Management Committee shall draft and adopt and Risk Management Committee Report which shall be presented to the Audit Committee by the Chairperson of the Risk Management Committee on quarterly basis and also as and when it is deemed necessary.

**9. DUTIES & RESPONSIBILITIES OF THE RISK MANAGEMENT COMMITTEE**

The Risk Management Committee shall amongst other things be responsible for the following:

- 9.1 Review the risk management policy and strategy and recommend any changes for approval by Council;
- 9.2 Review the risk appetite and tolerance and recommend any changes for approval by Council;
- 9.3 Review the Municipality's risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register;
- 9.4 Consider the appropriateness of management's risk appetite and risk tolerance in accordance with the risk management strategy set by the Accounting Officer;
- 9.5 Evaluate the effectiveness of mitigating strategies to address the material risks of the Municipality;
- 9.6 Review and monitor implementation of risk management strategy including its effectiveness in managing the risks facing the Municipality;
- 9.7 Provide regular feedback to the Accounting Officer on the adequacy and effectiveness of risk management in the Municipality, including recommendations for improvement.
- 9.8 Evaluate the overall efficiency and effectiveness of the risk management function through
- 9.9 reports by Chairperson of the Risk Management Committee as well as oversight provided by Accounting Officer on risk management strategy;
- 9.10 Report to the Accounting Officer any material changes to the risk profile of the Institution;
- 9.11 Review the fraud prevention policy and recommend for approval by the Accounting Officer;
- 9.12 Evaluate the effectiveness of the implementation of the fraud prevention policy;
- 9.13 Review any material findings and recommendations by assurance providers on the system of internal controls and monitor that appropriate action is instituted to address the identified weaknesses;
- 9.14 Develop goals, objectives and key performance indicators for the Committee for approval by the Accounting Officer;
- 9.15 Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management activity;
- 9.16 Set out the nature, role, responsibility and authority of the risk management function within the Municipality for approval by the Accounting Officer, and oversee the performance of the risk management function;
- 9.17 Provide proper and timely reports to the Accounting Officer on the state of risk management, together with aspects requiring improvement accompanied by the Committee's recommendations to address such issues.

**10. NON-ATTENDANCE OF MEETINGS**

- 10.1 The Accounting Officer shall institute disciplinary measures for member of the RMC: -
  - 10.1.1 fails to attend two consecutive meetings without reasonable justification; or
  - 10.1.2 if the conduct of the member is in contravention of the Disciplinary Procedures and Code.

**Approved by the Council**

**Date:**

APPROVED and ADOPTED

.....  
**Signature of the Speaker:**

**Adopted by the RISK MANAGEMENT COMMITTEE**

**Date:**

.....  
**Signature of the Chairperson of the RISK MANAGEMENT COMMITTEE:**