MUNICIPAL GRATUITY FUND

RISK MANAGEMENT POLICY

Edition: 09/12/2020

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EDITION : DECEMBER 2020

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1. PURPOSE AND SCOPE

1.1. This Policy document sets out the framework that governs the risk management principles and processes for the Municipal Gratuity Fund (MGF) and shall be reviewed every three years by the Trustees of the Fund.

1.2. The scope of this Policy applies to the MGF which is a defined contribution arrangement where the Member is directly exposed to the underlying investment performance risk.

1.3. The strategic intent of implementing this Policy is to create an environment in which risk management is consistently applied to protect the Members interests in the MGF.

1.4. The principles are based on the King II Report on Corporate Governance, Pension Fund Circular 130 and other relevant international risk management standards and frameworks.

1.5. This Policy should also be read together with the detailed policies, standards and procedures applicable to the MGF.

1.6. Should there be any disparity between this Policy and any framework, this Policy shall be referred to, unless otherwise agreed upon by the Trustees of the MGF.

2. OBJECTIVES OF ENTERPRISE RISK MANAGEMENT

2.1. <u>Definition of risk:-</u>

Risks are defined as uncertain future events or potential loss conditions which could influence the achievement of MGF's objectives, including strategic, investment, operational, financial and compliance objectives.

2.2. <u>Definition of risk management</u>:-

Enterprise risk management (ERM) is a process, effected by an entity's Board of directors, 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.

2.3. Enterprise risk management encompasses the following aspects:

2.3.1. Alignment of risk appetite and organisational strategy;

2.3.2. Improved ability to understand and react to risks;

2.3.3. Reduction in losses, with an increased awareness of the risk impacts, and a more integrated risk response;

2.3.4. Ability to identify and manage multiple and cross organisational risks; and

2.3.5. Opportunities are identified, and a uniform response created.

2.4. These capabilities will result in:

2.4.1. Optimising the MGF's performance;

2.4.2. Safeguarding the MGF's investments;

2.4.3. Compliance with applicable laws, regulations and supervisory requirements; and

2.4.4. Responsible behaviour towards all stakeholders.

3. RISK MANAGEMENT FRAMEWORK

3.1. General Committee:

The General Committee which comprises representatives from the MGF participating employers has an annual general meeting where a disclosure of the MGF risk management process and its key risks should be tabled for information purposes.

3.2. Management Committee:

The MGF Board of Trustees, referred to as the Management Committee and hereafter as the BOARD, is ultimately accountable for risk management and to provide the MGF Members with assurance in this regard. It should comprise members with sufficient technical and management expertise with ethical standards that are above reproach. It should display formal support of risk management and relevant corporate governance standards. The BOARD's performance in this regard should be evaluated annually. The Management Committee also fulfils the role of Audit Committee on which level comprehensive financial, operational, member administration and member record related risks are monitored both in terms of independent external audits and detailed independent internal audits.

3.3. Executive Committee:-

The role of a Risk Committee will be performed by the Executive Committee, hereafter referred to as the EXCO. The person appointed by the BOARD with the designated role of Risk Champion should be present at EXCO meetings on request of the EXCO and there should be adequate representation from other stakeholders when risks are discussed. A formal annual risk identification and assessment workshop will be arranged by the EXCO. Furthermore, risk management should be a standing agenda item at EXCO meetings.

3.4. MGF Objectives:-

The BOARD will document the MGF's objectives and will ensure that they have been communicated and understood by all those delegated to manage risk on behalf of the MGF.

3.5. Risk Appetite:-

In alignment with the MGF's objectives, the BOARD will define and document its risk appetite and risk tolerance levels in terms of financial and/or non-financial measures. Any chosen investment or operational strategy must be within the approved risk appetite.

3.6. Skills and Training:-

The BOARD will ensure that adequate protocols are in place to ensure that the competence and skills of personnel and service providers are suited to required risk management tasks, and where necessary, suitable training is undertaken.

3.7. Risk Register:-

The EXCO should develop and continuously update profiles of risks it is exposed to.

3.8. Risk Identification:-

An annual formal process managed to identify events that may impact the strategic, investment and operational objectives should be in place, taking into account internal and external factors, historic events/trends, events arising with no historic precedent (incorporating scenario and/or stress analysis) and interdependencies between events. The causes/risk factors should be determined for each risk event.

3.9. Risk Assessment:-

An annual formal risk assessment process managed by the BOARD should be in place. Likelihood, impact and overall risk rating tables should be defined by the BOARD.

3.10. Risk Response / Control Activities (also referred to as Management Actions):-
For each identified risks, one or a combination of the following responses should be chosen:

- Avoidance – terminate activity;
- Reduction – treat risk by using controls to reduce likelihood and/or mitigate impact;
- Sharing – transfer risk (eg. insurance); and
- Acceptance – tolerate risk.

Each risk response must be documented, be assigned to a suitable individual, have a due date and be monitored against due dates.

3.11. Key Performance / Risk Indicators:-

For key risks and where appropriate, relevant key performance/risk indicators should be developed, monitored and reported upon as a standing item at the BOARD meetings. A key performance/risk indicator is a quantitative metric representing one or more goals, objectives or critical success factors.

3.12. Monitoring:-

The following should be monitored and evaluated on a regular basis:

3.12.1. Risk management process (at least annually by the BOARD with an independent risk management process audit every third year);

3.12.2. Management actions/controls (ongoing by operations management and the EXCO); and

3.13. <u>Information, Communication and Risk Reporting</u>:-

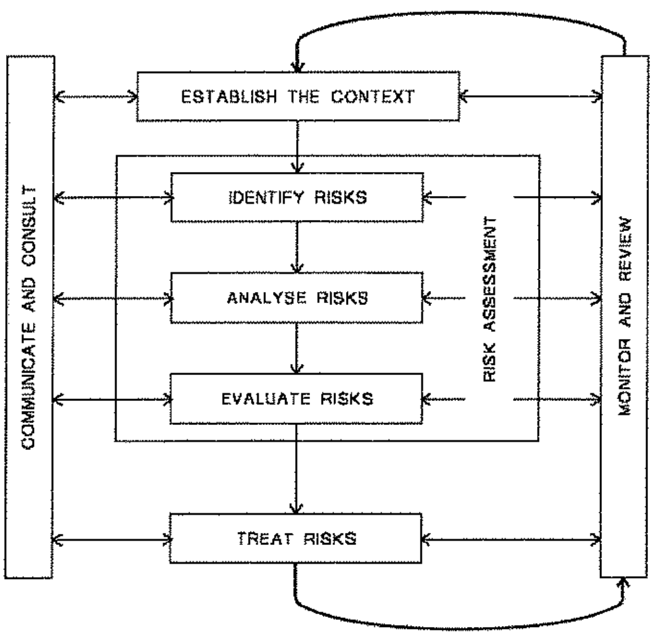
Risk information should be regularly communicated to relevant stakeholders as indicated in Appendix A with strict adherence to the minimum formal reporting requirements as stipulated in this Policy.

3.13.1. Risk information to be reported includes:- 1) key risks (including mitigation strategy, impact and likelihood), 2) material changes to the risk profile, 3) summaries of significant control breakdowns / losses, 4) breaches of regulations or limits, 5) the results / status of assurance work to date, and 6) claims, incidents, potential litigation;

3.13.2. The BOARD will make an annual disclosure concerning the MGF's risk management processes and key risks.

3.14. <u>Risk Management Process</u>:-

The risk management process to be followed is continuous as outlined by the diagram below.



3.14.1. Establishing the Context involves evaluating the internal and external operational environment of the fund as well as reviewing and confirming strategic objectives, fund objectives, risk appetite and risk tolerance.

3.14.2. Risk identification includes risks impacting strategic and operational objectives of the fund, interdependence of risks, risk categories and opportunities.

3.14.3. Risk analysis involves rating the impact and likelihood of the risk, determining the causes, consequences/impacts, controls and risk mitigations.

3.14.4. Risk evaluation deals with the risk response strategy such as tolerate, treat, transfer or terminate the risk.

3.14.5. The treatment deals with implementing the selected risk response controls and management actions.

3.14.6. The communication and consultation requires adequate communication of risks and risk events between trustees, the Principal officer and administration staff.

3.14.7. Monitoring and review requires regular monitoring and reporting on risks.

3.15. Risk Escalation:-

Proper escalation procedures should be in place to ensure that material risk issues are reported timeously and to the appropriate user/s, in particular the MGF Risk Champion and the MGF Chairperson.

3.16. Incident Logging:

The relevant details of incidents or operational events that result in financial loss as well as those events that are considered near misses should be properly recorded and reported at the EXCO and the BOARD. A high frequency of incidents would require a loss database to be maintained. Events contained in the databases should then be referenced to a risk in the risk register.

3.17. Outsourced operations:

Where MGF outsources some of its functions to a 3rd party, the following must be borne in mind:

3.17.1. The BOARD remains accountable for ensuring that the business and reputation risks are adequately addressed;

3.17.2. Due to the new relationship, new and/or different risks may arise, and should be properly assessed;

3.17.3. The EXCO should assess whether its business partner employs acceptable risk management frameworks;

3.17.4. Business relationships with outsourced service providers which are key to the MGF supply chain should be defined in documented service level agreements;

3.17.5. Service level agreements with outsourced service providers should be reviewed regularly; and

3.17.6. The performance of outsourced service providers should be monitored against applicable service level agreements.

3.17.7. The BOARD should ensure that there is a reasonable right of recourse in the event that there is any breach of delegated functions by the service provider.

3.18. Insurances:-

The BOARD must ensure that MGF has taken out adequate insurance cover to indemnify the Fund against any loss suffered by the Fund which cannot otherwise be recovered, including losses arising from negligence.

3.19. Business Continuity:-

The BOARD must ensure that adequate business continuity management measures are in place whereby potential impacts that threaten an organisation are identified and a appropriate framework is implemented. The business continuity framework must build resilience and the capability for an effective response to threats thereby safeguarding the interests of MGF's key stakeholders, reputation, trust and value creating activities.

3.20. Risk Types:-

The types of risk to be identified should not be limited to those which have a financial consequence, but should include all risks that impair the governance and operations of the fund.

3.21. Sensitivity Analysis:-

Sensitivity analysis and stress tests on key risk factors should be requested by the BOARD to provide an indication of potential losses to the various portfolios under various scenarios.

3.22. Statutory Audit:-

The statutory audit conducted by independent external auditors should cover the annual financial statements, investment processes and general operational and administrative processes.

4. RISK MANAGEMENT ROLES AND RESPONSIBILITIES

4.1. The **BOARD** are responsible for the following:

4.1.1. The ultimate responsibility for the management of risks and the overall control environment;

4.1.2. Ensuring that an effective risk management capability (including structure and resources) has been established in the entity with a mandate to design, implement, monitor and report on the risk management process;

4.1.3. Approve policies, procedures and approval frameworks that set the level of risk which can be subject to the decision-making of authorised persons / committees and above which escalation to the BOARD is required;

4.1.4. Reviewing the risk appetite to achieve the best balance between risk and return;

4.1.5. Reviewing the strategy and resultant risk profile, to ensure that the entity they direct operates within its risk appetite;

4.1.6. Requesting relevant information regarding the most significant risks and their applicable controls and management actions, resulting in their acceptance of the level of risk reported or requesting of further action to mitigate or increase the level of risk exposure;

4.1.7. Ensuring adequate disclosure for the annual report with regard to risk management;

4.1.8. Fulfil its corporate governance responsibilities in respect of risk management;

4.1.9. Ensure that persons nominated and appointed to its subcommittees are suitable and appropriate;

4.1.10. Appointing a person designated as the Risk Champion / Co-ordinator of the risk management process;

4.1.11. Advocate a culture that supports the risk management objectives of MGF; and

4.1.12. Ensuring that the correct investment products are offered to Members and that Member communication is effective.

4.2. The **EXCO** will assist the BOARD to fulfil its responsibilities with regard to risk management. It is appointed by the BOARD to monitor the effectiveness of the risk management processes. It is accountable to the BOARD for:

4.2.1. Establishing enterprise risk management strategies, policies and procedures, including defining roles and responsibilities and participating in setting goals for implementation and monitoring;

4.2.2. Establishing a common risk management language that includes, where appropriate, common measures around likelihood and impact, and common risk categories;

4.2.3. Designing, implementing and monitoring the process of risk management, including ensuring that all the elements described in the risk management framework are embedded in organisational operations and processes and providing assurance to the BOARD to this effect;

4.2.4. Clearly communicating the MGF risk management requirements to all relevant parties in the organisation and framing accountability and authority for enterprise risk management in the organisation;

4.2.5. Reviewing the MGF risk information and reports;

4.2.6. Promoting an enterprise risk management competence and culture throughout the MGF; and

4.2.7. Considering market and credit risk as outlined in the Investment Policy Statement.

4.3. The **Risk Champion** should perform the following:

4.3.1. Coordinate the risk activities within the EXCO and provide feedback to the BOARD in this regard;

4.3.2. Collect, aggregate and monitor the MGF risk information in a central integrated risk management system;

4.3.3. Research and provide advice on risk management best practices;

4.3.4. Be the risk conscience of the MGF;

4.3.5. Liaise with key assurance providers to coordinate the proper management of risks;

4.3.6. Escalate to the Chairman of the BOARD any significant changes in key risks as well as material risk issues that pose an immediate threat to the business and require deliberate management intervention to reduce the exposure, the impact or the likelihood of the risk;

4.3.7. Co-ordinate risk management communication with stakeholders; and

4.3.8. Report the progress and/or status of the above-mentioned items to the BOARD on a regular basis, and in the required format.

4.4. **MGF Operational areas** should:

4.4.1. Implement and apply the risk management framework and techniques in their planning, operating and reporting activities;

4.4.2. Formalise risk management roles and responsibilities;

4.4.3. Embed risk, control and compliance responsibilities within individuals' job descriptions and performance objectives;

4.4.4. Identify and evaluate the risks faced by their area of operation;

4.4.5. Conduct ongoing monitoring of risk profiles and the updating of changes;

4.4.6. Design, operate and monitor a system of internal control acceptable to the EXCO;

4.4.7. Escalate to the MGF Risk Champion any significant changes in key risks as well as material risk issues that pose an immediate threat to MGF and require deliberate management intervention to reduce the exposure, the impact or the likelihood of the risk.

4.4.8. Record, investigate, respond to and report any complaints and incidents in accordance with the governing procedure where:

4.4.8.1. A complaint is an oral or written grievance;

4.4.8.2. An incident is an event which could or does result in unintended harm or loss. Incidents refer to operational errors;

4.4.9. Update their policies and procedures and communicate the changes to key affected persons;

4.4.10. Update their Business Continuity Plans with key changes and communicate to key affected persons;

4.4.11. Implement all MGF higher level policies;

4.4.12. Promote a risk management culture within the operational area; and

4.4.13. Report the progress and/or status of the above-mentioned items to the EXCO on a regular basis, and in the required format.

4.5. **Internal Audit** should perform the following:

4.5.1. Evaluate the adequacy and effectiveness of enterprise risk management, and recommend relevant improvements; and

4.5.2. Evaluate the reliability of reporting.

4.6. The **External Auditors** are responsible to assess the adequacy and effectiveness of the risk management process as part of their statutory audit to the extent that they deem necessary for the external audit purposes.

5. REFERENCES

5.1. INTERNATIONAL STANDARDS

5.1.1. AS/NZS 4360:2004 : **Australian/New Zealand Standard – Risk Management** (2004)

5.1.2. COSO : **Enterprise Risk Management Framework** (2004)

5.1.3. IOD : **King II – King Report on Corporate Governance** (2002)

5.1.4. RMSA : **The Institute of Risk Management South Africa - Code of Practice** (2004)

Figure1 – Municipal Gratuity Fund Governance Structure

Key responsibilities	**Key roles**
	MUNICIPAL GRATUITY FUND MEMBERS
Total process of risk management and internal control	**MGF BOARD**
Assist the BOARD in reviewing the risk management process	**MGF EXCO**
• Design • Implement • Ongoing monitoring • Evaluate • Report	**FORUMS** • Audit • Manager Reviews • Trustee Training • Other

Appendix A – Reporting Requirements

The following table sets out the requirements for risk management reporting and review, including responsibilities and frequencies.

No.	Report Description	Reporting Responsibility	Review Responsibility	Frequency
1	Disclosure of Risk Management Process and Key Risks	Principal Officer	BOARD	Annual
2	Performance of the BOARD in relation to Risk Management	BOARD Self-Assessment	BOARD	Annual
3	MGF Objectives	EXCO	BOARD	Annual
4	Risk Appetite	EXCO	BOARD	Annual
5	Risk Management Process	EXCO	BOARD	Annual
6	Risk Management Process Audit / Actuarial	Internal Auditor / Actuary	BOARD	Every third year
7	Key Risk Register Incl. Risks and controls	EXCO	BOARD	Annual
8	Risk Identification	EXCO	BOARD	- Annual Workshop - Meetings
9	Risk Assessment	EXCO	BOARD	- Annual Workshop - Meetings
10	Risk Response / Control Activities	EXCO	BOARD	Meetings
11	Key Performance / Risk Indicators	EXCO	BOARD	Included in monthly BOARD Agenda
12	Recorded Losses	EXCO	BOARD	Per Incident
13	Outsourced Operations	EXCO	BOARD	Every third year
14	Business Continuity	EXCO	BOARD	Every third year
15	Sensitivity Analysis	EXCO	BOARD	Adhoc
16	Statutory Audit	External Auditor	BOARD	Annual

Appendix B – Definition of MGF Risk Types

Actuarial risk: The risk of inappropriate actuarial assumptions and advice.

Compliance risk: Risk of not complying with laws and regulations as well as internal policies.

Environmental risk: Environmental Risk is the risk of actual or potential threat of adverse impacts on living organisms and the environment by effluents, emissions, wastes, resource depletion and the like arising from industrial and suchlike activities or climate changes.

Governance risk: Governance risk is the risk of not achieving competitive returns while maintaining ethical integrity in the activities of the board, participating employers and members.

Investment risk: Risk of losses from value changes of financial instruments (market) and/or losses from borrowers not meeting their obligations (credit)

- <u>Market risk</u>: Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (e.g. for fixed interest instruments this translates to changes in market interest rates).
- <u>Credit risk</u>: Credit risk is the risk that a counter party to a financial instrument might become unable, less likely or unwilling to fulfil its contractual obligations.
- <u>Currency risk</u>: Currency risk is the risk that the Rand value of a financial instrument, liability or profit conversion will fluctuate owing to changes in foreign exchange rates.
- <u>Inflation risk</u>: Inflation risk is the risk that the purchase power (real return) of an investment portfolio decreases or is undermined due to a higher than expected inflation rate.

Legal risk: Legal and litigation risk is the risk that the company will be exposed to contractual obligations which have not been provided for.

Legislative risk: Legislative Risk is the risk of sustaining a loss on an investment as a result of government action ie an amendment, inaction or abolition of one or more laws that may directly impact a given investment.

Operational risk: Operational risk is the risk of unexpected loss due to human error and/or failures of processes, systems and controls.

- <u>Liquidity risk</u>: Liquidity or cash management risk is the risk relating to the difficulty/inability to access/raise funds to meet commitments associated with financial instruments, liabilities or policy contracts.
- <u>Outsourced Services risk</u>: The risk of reliance and non-performance of outsourced service providers
- <u>Human Resources risk</u> : HR risk emanates from people in the business and other people related matters.
- <u>Process risk</u>: Process risks emanate from the business processes.
- <u>Information and Technology risk</u>: Information and IT Risk is the risk of obsolescence of infrastructure, deficiency in integration, failures or inadequacies in new or existing systems or networks and the loss of accuracy, confidentiality, availability and integrity of data.
- <u>Communication risk</u>: Risks relating to incorrect and delayed communication to stakeholders.

Political risk: Risks emanating from political events and conditions. Investment's returns could suffer as a result of political changes or instability in a country. Instability affecting investment returns could stem from a change in government, legislative bodies and other foreign policy makers.

Reputation risk: Reputation risk is the risk that the actions (including "doing nothing") of a company (e.g. the treatment of clients, employment equity, social responsibility) harms its reputation and brand. Reputation risk includes the risk of losses by not meeting stakeholders' expectations.

Strategic risk: Strategic risk is the risk that the strategy is inappropriate, that it cannot be implemented or that it is impacted by external factors.

Appendix C – List of MGF Risk Profiles

BOARD
EXCO
Internal Admin Operations
EB Administration
Actuarial
Investment Consulting
Asset Management
Custodian
Pension Backed Lending

Appendix D – Risk Assessment Tables

Impact

Level		% Deviation from set target	Description
1	Insignificant	‹ 1	Minor impact on the fund's strategy or operational activities. Minor stakeholder concern.
2	Very Minor	1 – 3	
3	Minor	3 – 5	
4	Moderate Minus	5 – 7.5	Moderate impact on the fund's strategy or operational activities. Moderate stakeholder concern.
5	Moderate	7.5 – 10	
6	Moderate Plus	10 – 15	
7	Significant	15 – 20	Significant impact on the fund's strategy or operational activities. Significant stakeholder concern.
8	Major	20 – 25	
9	Extreme	› 25	

Likelihood

Level		% Chance of Occurrence	Description
1	Rare	‹ 1	Has not occurred. Unlikely to occur.
2	Highly Unlikely	1	
3	Unlikely	5	
4	Possible Minus	10	Could occur more than once within the time period (for example – 10 years)
5	Possible	15	
6	Possible Plus	20	
7	Likely	33	Potential of it occurring several times within the time period (for example 10 years). Has occurred recently.
8	Highly Likely	50	
9	Almost Certain	› 50	

Risk Ratings

Risk evaluation ratings are the product of impact and likelihood and are ranked as follows:

Rating Range	Risk Evaluation
<= 18	Low risk, acceptable, tolerate
19 – 42	Medium risk, cautionary, consider additional risk mitigation
>=43	High risk, treat risk (management actions and control improvements)

Appendix E – Glossary of Risk Management Terms

Application Controls – Programmed procedures in application software, and related manual procedures, designed to help ensure the completeness and accuracy of information processing. Examples include computerized edit checks of input data, numerical sequence checks and manual procedures to follow up on items listed in exception reports.

Cause – Underlying internal or external factor that results in an event.

Compliance – Having to do with conforming with laws and regulations applicable to an entity.

Computer Controls – 1. Controls performed by computer, i.e., controls programmed into computer software. 2. Controls over computer processing of information, consisting of general controls and application controls.

Control – 1. A noun, denoting an item, e.g., existence of a control – a policy or procedure that is part of internal control. A control can exist within any of the eight components. 2. A noun, denoting a state or condition, e.g., to effect control – the result of policies and procedures designed to control; this result may or may not be effective internal control. 3. A verb, e.g., to control – to regulate; to establish or implement a policy that effects control.

Criteria – A set of standards against which measurements can be made to determine effectiveness.

Deficiency – A shortcoming.

Design – 1. Intent. As used in the definition, enterprise risk management is intended to provide reasonable assurance as to achievement of objectives; when the intent is realized, the system can be deemed effective. 2. Plan; the way a system is supposed to work, contrasted with how it actually works.

Effected – Used with enterprise risk management: devised and maintained.

Enterprise Risk Management System (or Process, or Architecture) – A synonym for enterprise risk management applied in an entity.

Entity – An organization of any size established for a particular purpose. An entity, for example, may be a business enterprise, not-for-profit organization, government body or academic institution. Other terms used as synonyms include organization and enterprise.

Ethical Values – Moral values that enable a decision maker to determine an appropriate course of behavior; these values should be based on what is "right," which may go beyond what is legally required.

Event – An incident or occurrence, from sources internal or external to an entity, that could affect the implementation of strategy or achievement of objectives.

Exposure – Portion of the range of possible outcomes of future events for which the entity is susceptible to loss.

General Controls – Policies and procedures that help ensure the continued, proper operation of computer information systems. They include controls over information technology management, information technology infrastructure, security management, and software acquisition, development and maintenance. General controls support the functioning of programmed application controls. Other terms sometimes used to describe general controls are general computer controls and information technology controls.

Impact – Result or effect of an event. There may be a range of possible impacts associated with an event. The impact of an event can be positive or negative relative to the entity's related objectives.

Inherent Limitations – Those limitations of all enterprise risk management systems. The limitations relate to the limits of human judgment; resource constraints and the need to consider the cost of controls in relation to expected benefits; the reality that breakdowns can occur; and the possibility of management override and collusion.

Inherent Risk – The risk to an entity in the absence of any actions management might take to alter either the risk's likelihood or impact.

Integrity – 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 Control – A process, effected by an entity's Board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

Internal Control System – A synonym for Internal Control, applied in an entity.

Management Intervention – Management's actions to overrule prescribed policies or procedures for legitimate purposes; management intervention is usually necessary to deal with non-recurring and non-standard transactions or events that otherwise might be handled inappropriately by the system.

Management Process – The series of actions taken by management to run an entity. Enterprise risk management is a part of and integrated with the management process.

Manual Controls – Controls performed manually, not by computer (contrast with Computer Controls (1)).

Operations – Used with "objectives" or "controls": having to do with the effectiveness and efficiency of an entity's activities, including performance and profitability goals, and safeguarding resources.

Opportunity – Possibility that an event will occur and positively affect the achievement of objectives.

Policy – Management's dictate of what should be done to effect control. A policy serves as the basis for procedures for its implementation.
Procedure – An action that implements a policy.
Reasonable Assurance – The concept that enterprise risk management, no matter how well designed and operated, cannot guarantee that an entity's objectives will be met. This is because of Inherent Limitations in all enterprise risk management systems.

Reporting – Used with "objectives": having to do with the reliability of the entity's reporting, including both internal and external reporting.

Residual Risk – The remaining risk after management has taken action to alter the risk's likelihood or impact.

Risk – The possibility that an event will occur and adversely affect the achievement of objectives.

Risk Appetite – The broad-based amount of risk a company or other entity is willing to accept in pursuit of its mission or vision.

Risk Management – The identification, assessment and response to risk to a specific objective.

Risk Tolerance – The acceptable variation relative to the achievement of objectives.

Stakeholders – Parties that are affected by the entity, such as shareholders, the communities in which the entity operates, employees, customers and suppliers.

Strategic – "Used with objectives": having to do with high-level goals that are aligned with and support the entity's mission.

Uncertainty – Inability to know in advance the exact likelihood or impact of future events.

Value – A measure of worth, utility or importance of an entity to its stakeholders.

Variance – The degree of difference between the expected outcome and actual outcome.

Volatility – Sensitivity of actual outcomes to unexpected changes.

Municipal Gratuity Fund Risk Register

No	Stat. Audit Ref.	Profile	Function / Process	Category	Risk	Risk Description	Causes	Consequences / Impact	Controls / Mitigation	Impact Rating	Likeli-hood Rating	Risk Rating
1		Board	Corporate Governance	Governance	**Chairing**	Inadequate impartiality in chairing of BOT meetings	Inadequate skills	Incorrect and inappropriate decisions	Diversified representation on EXCO and BOT	7	2	14
2		Board	Corporate Governance	Governance	**Representation**	Inadequate representation on BOT for participating employers and members Break in continuance	Incorrect trustee election process	Breach of code of conduct	Independent trustee election process Rotational terms of office	5	3	15
3		Board	Corporate Governance	Governance	**Decision-making**	Flawed decision-making by Trustees	Incorrect or incomplete supporting information provided	Decisions not based on accurate facts	External service providers and industry experts employed. Highly skilled and credible CEO employed	7	3	21
4		Board	Corporate Governance	Governance	**Information Dissemination**	Inadequate dissemination (insufficient and delayed) of information to Trustees on the Board	Poor secretarial services	Inadequate time to prepare for meetings	Efficient support staff and time standards employed	5	3	15
5		Board	Corporate Governance	Governance	**Trustee Expertise**	Inadequate Trustee experience, expertise and ongoing education	Lack of information/ communication and commitment	Poor and inappropriate decisions	Continuous trustee education, detailed supporting documentation and employing services of industry experts	6	3	18
6		Board	Corporate Governance	Governance	**Trustee Participation**	Inadequate participation of all Trustees at BOT meetings	Lack of information/ communication and commitment	Insufficient debate of critical issues	High level of commitment from BOT	6	3	18
7		Board	Corporate Governance	Governance	**Trustee Preparation**	Inadequate preparation by Trustees for BOT meetings	Lack of information/ communication and commitment	Insufficient debate of critical issues	High level of commitment from BOT	7	3	21
8		Board	Corporate Governance	Governance	**Conflict of Interest**	A Trustee makes a decision in respect of a matter he/she is conflicted on	Trustee does not declare interests	Incorrect and/or biased decisions with potential reputational damage	Request trustees at each meeting to declare potentially conflicting interests	4	3	12
9		Board	Legislative Framework	Strategic / Legislative	**Single Public Service**	Rationalisation of municipal retirement funds	Bargaining council decision	MGF not accredited and closed down	Political lobbying and labour/legal intervention	5	4	20
10		Board	Legislative Framework	Strategic / Legislative	**Retirement Reform**	Timeous implementation of retirement reform legislation	Legislation	Non-compliance	Monitoring of developments	2	5	10

Municipal Gratuity Fund Risk Register

No	Stat. Audit Ref.	Profile	Function / Process	Category	Risk	Risk Description	Causes	Consequences / Impact	Controls / Mitigation	Impact Rating	Likeli-hood Rating	Risk Rating
11	14A & PFA S15	Board	Statutory	Compliance	**Fund Rules**	Fund Rules not complied with	Inadequate governance and controls	Breach of member rights and employment conditions	FSCA, external administrator and in-depth monthly reporting	9	2	18
12	14E	Board	Statutory	Compliance	**Regulatory Compliance**	Compliance with regulatory requirements and applicable legislation	Negligence and/or oversight	Regulatory intervention and sanction	Appointment of experts and assurances from service providers	8	4	32
13		Board	Statutory	Compliance	**Compliance with POPI**	The Fund/its Service Providers do not comply with the requirements of the Protection of Personal Information Act	Negligence and/or oversight	Regulatory intervention and sanction	Implement for Fund and obtain assurances from service providers	4	3	12
14	15A	Board	Other matters	Operational - Process	**S37C Benefits**	S37C disposition of benefits	Ineffective administration	Fund rules not applied and executed	FSCA, external administrator and in-depth monthly reporting	6	3	18
15		Board	Other matters	PO appointment	**Replacement of PO**	Retirement of the PO leaves a knowledge gap	Retirement of PO	The vast knowledge of the PO must be transferred to the new appointed PO	3 month period for transfer corporate memory and initiate the new PO	7	4	28
16		Board	Other matters	Staff resignation	**Replacement of competent staff member**	Due to the small staff component in the office the resignation of one staff member could have a significant impact	Retirement/resignation	Staff members are respected by Fund members and the possibility of not appointing compe-tent staff may impact negatively on the reputation of the Fund	Sufficient time to recruit and train the new staff member should be allowed for. Source of a suitable candidate.	5	5	25
17		Exco	Investments	Investment	**Investment Decisions**	Exco and BOT make investment decisions not considering investment consultant's advice	Belief that Exco and/or BOT are more skilled than consultant	Potentially poor or good investment decision	Recommendations substantiated with detailed documentation and ample opportunity for vigorous debate	7	3	21
18		Exco	Investments	Investment	**Strategic Asset Allocation**	Incorrect asset allocation for MGF products	Incorrect recommendation by asset consultant	MGF products do not deliver expected investment returns	Employ service of a reputable and FSCA approved asset consultant, in alignment with the IPS	6	3	18
19		Exco	Investments	Investment	**Manager Selection & Mandate Allocation**	Inappropriate manager selection and related mandate allocation	Recommendation by asset consultant not adhered to	MGF products do not deliver expected investment returns	Employ service of a reputable and FSCA approved asset consultant, manager visits and presentation	6	3	18

Municipal Gratuity Fund Risk Register

No	Stat. Audit Ref.	Profile	Function / Process	Category	Risk	Risk Description	Causes	Consequences / Impact	Controls / Mitigation	Impact Rating	Likeli-hood Rating	Risk Rating
20		Exco	Investments	Investment / Political / Environmental	**Market Downturn**	Exposure to market downturn for all investments	Inappropriate range of risk profiled investment products, including extreme events.	Member's investment expectations are not met. Members close to retirement are exposed to market volatility	Range of risk profiled products with extensive member communication	7	5	35
21		Exco	Investments	Investment / Political / Environmental	**Market Sector Risk**	Negative over- and under-weight sector positions relative to performance	Investment beliefs and philosophy	Underperformance at times	Constant monitoring and commitment to philosophy and beliefs	7	4	28
22		Exco	Investments	Investment	**Manager / Product Combination**	Inappropriate manager and product combinations	Incorrect recommendation by asset consultant	Disappointing investment returns	Recommendations substantiated with detailed documentation & ample opportunity for vigorous debate	8	2	16
23		Exco	Investments	Investment / Legislative / Political / Environmental	**Investment Objective**	Failure to achieve investment objectives	Incorrect expectations of investment products and knowledge thereof	Inappropriate member investment options elected	Ongoing communication and reporting to members	4	5	20
24		Exco	Investments	Investment	**Credit Risk Defaults**	Credit risk exposure through counterparty failure and defaults	Exposure to high risk counter parties	Potential loss to members and/or a long time to recover losses	Regulation 28 of the Pension Fund Act sets specific limits to counterparty exposure in order to safeguard members. Compliance and credit exposures reported on a monthly basis to BOT	4	3	12
25		Exco	Investments	Investment / Political	**Foreign Investments**	Foreign exchange allowances insufficient for optimum foreign exposure	Incorrect asset allocation	Jeopardise opportunities to diversify sources of investment return	Asset allocation recommendations substantiated with detailed documentation and ample opportunity for vigorous debate	4	3	12
26		Exco	Investments	Investment	**Tactical Asset Allocation**	Incorrect ranges for tactical asset allocation	Inappropriate tactical asset allocation ranges approved by BOT	Too much or too little risk introduced through tactical asset allocation decisions	Monthly reporting by asset consultant	3	3	9

Municipal Gratuity Fund Risk Register

No	Stat. Audit Ref.	Profile	Function / Process	Category	Risk	Risk Description	Causes	Consequences / Impact	Controls / Mitigation	Impact Rating	Likeli-hood Rating	Risk Rating
27		Exco	Investments	Operational - Process	**Manager Investment Mandate**	Incorrect manager investment mandates	Inappropriate selection and appointment of managers	Incorrect execution of investment strategy	Detailed motivation and recommendation by asset consultant as well as presentation to trustees before appoint-ment and awarding of mandate	8	2	16
28		Exco	Investments	Operational - Process	**Credit Risk Parameters**	Incorrect credit risk parameters in investment mandate	Exposure to high risk counter parties	Potential loss to members and/or a long time to recover losses	Regulation 28 of the Pension Fund Act sets specific limits to counter-party exposure in order to safeguard members. Compliance and credit exposures reported on a monthly basis to BOT	4	2	8
29		Exco	Investments	Operational - Outsourced Services	**Fees**	Failure of outsourced service providers to be transparent on their fees	Absence of detailed reporting and controls	Fund pays fees that it is not aware of	Transparent reporting and adequate financial controls	2	1	2
30	3A	Exco	Investments	Investment	**Investment Strategy**	Investment strategy not appropriate for the Fund	Investment strategy not aligned to risk profile of investment products	Not meeting Fund's investment objective	Employ service of a reputable and FSCA approved asset consultant. Annual review of IPS.	8	3	24
31		Exco	Investments	Investment / Political	**Currency Risk**	Value of foreign financial instruments change	Changes in foreign exchange rates	Soft breach of mandate/Regula-tion 28. Decrease in investment return	Hedging? Reporting by Asset Consultant on currencies, tolerance bands & action. Asset Consultant to propose a control mechanism	5	6	30
32		Exco	Investments	Investment / Political	**Inflation risk**	Real return of investment is negative over a rolling 12 month period	High inflation rate or low investment returns	Purchase power of investment decreases	Minimise exposure to money market portfolios, optimal cash flow management & review investment strategy. Asset Consultant to propose a control.	7	4	28
33		Exco	Operations	Operational – Process	**Inadequate fidelity cover**	Fidelity cover insurance does not cover all activities of the Fund & its officers	Insurers hold monopoly & dictates exclusions	Financial loss to members & possible liability for representatives of the Fund	Determine if exclusion is covered by service provider insurance. Manage exclusions by frequent reporting?	7	3	21

Municipal Gratuity Fund Risk Register

No	Stat Audit Ref	Profile	Function / Process	Category	Risk	Risk Description	Causes	Consequences / Impact	Controls / Mitigation	Impact Rating	Likeli-hood Rating	Risk Rating
34		Int. Admin Ops	Communica-tion	Operational - Communication	**Local Authority Communica-tion Flow**	Failure of local authorities to distribute information given to them by MGF	Lack of co-operation by participating Employers	Member dissatisfied and uninformed	Full reliance on participating Employers	5	5	25
35		Int. Admin Ops	Communica-tion	Operational Outsourced Services	**EB Member Admin Data**	Inaccuracy of EB member admin data such as risk benefit statements	Software inadequacy and system not updated	Delayed and inaccurate member communication and distrust of members about Fund's competency	Process control with the Administrator	7	3	21
36		Int. Admin Ops	Communica-tion	Operational Process	**Beneficiary Identification**	Failure to accurately trace and identify correct beneficiaries	Beneficiaries from multiple families. Lack of information sources and addresses. In-complete nomination forms and non-disclosure	Incorrect allocation of benefits and delayed payments. Payment from the Fund to compensate beneficiaries not traced.	Tracing Agents and improved communications with members through workshops. Attach beneficiary forms to benefit statements.	6	3	18
37		Int. Admin Ops	Monitoring	Compliance	**Asset Manager SLA Breach**	Breach by asset managers of mandate limits in SLA	Lack of compliance monitor	Reputational damage	Asset Consultant risk and attribution analysis detection	3	4	12
38		Int. Admin Ops	Monitoring	Operational - Process	**Member SLA Breach Resolution**	Delayed resolution of SLA breaches unique to specific members	External factors (e.g. tax)	Reputational damage	Member complaints	6	3	18
39		Int. Admin Ops	Monitoring	Operational - Outsourced Services	**Asset Consultant Reporting**	Asset Consultant risk and attribution analysis reporting delays and inaccuracies	Time constraints	Uninformed decisions, compliance, mandates and legal	Asset Consultant & P.O. Compliance monitoring	3	6	18
40		Int. Admin Ops	Monitoring	Operational - Outsourced Services	**Actuarial Reporting**	Delayed actuarial reports	Delayed audit reports	Reputational damage	P.O. monitors	5	3	15
41		Int. Admin Ops	Monitoring	Operational - Outsourced Services	**External Audit Delivery**	External auditors fail to deliver promised services and audited financial statements	Incompetency	Reputational damage & potential financial lack	P.O. monitors Appoint reputable auditors	5	3	15
42		Int. Admin Ops	Monitoring	Operational - Outsourced Services	**Medical Assessments**	Medical assessors delayed medical assessments for members' medical disability	Lack of co-operation from member	Member risk benefits delayed. Reputational risk to Fund.	Monitor list	4	4	16

Municipal Gratuity Fund Risk Register

No	Stat Audit Ref	Profile	Function / Process	Category	Risk	Risk Description	Causes	Consequences / Impact	Controls / Mitigation	Impact Rating	Likeli-hood Rating	Risk Rating
43		Int. Admin Ops	Monitoring	Operational - Process	**Asset Manager Liaison**	Inadequate asset manager liaison and relationship management	Time constraints	Information loss	P.O. initiative	5	3	15
44		Int. Admin Ops	Monitoring	Operational - Outsourced Services	**Asset Manager Appointment / Disinvestment**	Errors in the appointment and disinvestments from asset managers	Asset Consultant errors	Poor governance	P.O. monitors	6	3	18
45		Int. Admin Ops	Trustee Services	Governance / Compliance	**Internal Policy Compliance**	Non-compliance with internal policies (gift, code of conduct, declaration of interests)	Oversight	Poor corporate governance.	Gift register & centralise in P.O. office	6	3	18
46		Int. Admin Ops	Trustee Services	Governance	**Trustee Education / Training**	Inadequate trustee education and training related to financial industry and investments	Lack of opportunities	Poor investment decisions	Apply investment consultants advice	7	3	21
47		Int. Admin Ops	Trustee Services	Governance	**Representative Election / Appointment**	Flawed process for representative election and appointment	Fraud Local authority rep appointments non-compliant with fund rules	Possible governance risk	Municipal manager co-operation	3	6	18
48		Int. Admin Ops	Secretarial services	Operational - Process	**Travelling of key persons**	Travelling by key persons in the same airplane.	Disaster	Loss of continuity	Separate travelling	6	3	18
49		Int. Admin Ops	Secretarial Services	Operational - Process	**BOT Resolution Delays**	Delays in the execution of the Board of Trustee resolutions	Time constraints	Various depending on resolution	P.O. monitors	6	3	18
50		Int. Admin Ops	Secretarial Services	Governance	**Meeting Quorums**	Failure to achieve quorums at meetings	Lack of commitments	Invalid meetings	Rescheduling of meetings	7	1	7
51		Int. Admin Ops	Secretarial Services	Operational - Process	**Meeting Packs**	Failure to compile meeting packs accurately, timeously and completely	Delays in month-end information, lack of availability of up-to-date info	Inconvenience to trustees	P.O. enforces SLA's	6	1	6
52		Int. Admin Ops	Secretarial Services	Operational - Process	**Industry Information**	Failure to report adequately on industry developments	Lack of info	Various depending on subject	P.O. liaise with industry	7	2	14
53		Int. Admin Ops	Secretarial Services	Governance	**Meeting Minutes**	Inaccurate meeting minutes with unclear and executable resolutions	Inexperience on incompetency	Various depending on nature	P.O. controls	7	2	14
54		Int. Admin Ops	Secretarial Services	Operational - Process	**Document Safekeeping**	Inadequate safe custody of documentation including minutes, contracts, agreements	Negligence	Inconvenience	Electronic archiving	7	3	21

Municipal Gratuity Fund Risk Register

No	Stat Audit Ref	Profile	Function / Process	Category	Risk	Risk Description	Causes	Consequences / Impact	Controls / Mitigation	Impact Rating	Likeli-hood Rating	Risk Rating
55		Int. Admin Ops	Liaison	Operational - Communication	**Participating Employers Liaison**	Failure to conduct adequate liaison with participating employers	Inaccessibility of employers	Communication gaps	P.O. enforces	4	6	24
56		Int. Admin Ops	Liaison	Operational - Communication	**Member Liaison**	Failure to conduct adequate liaison with members	Time constraints	information and confidence failure	P.O. enforces	6	3	18
57		Int. Admin Ops	Liaison	Operational - Communication	**Service Provider Liaison**	Failure to conduct adequate liaison with service providers	Negligence	Poor governance	P.O. responsibility	7	1	7
58		Int. Admin Ops	Liaison	Operational - Communication	**Industry Liaison**	Failure to conduct adequate liaison with industry and local government	Networking failure	Loss of info	P.O. responsibility	4	4	16
59		Int. Admin Ops	Liaison	Operational - Communication / Political	**Government Liaison**	Failure to conduct adequate liaison with government	Networking failure	Loss of info	P.O. responsibility	3	3	9
60		Int. Admin Ops	Compliance	Governance	**Good Governance**	Failure to practise good governance of MGF	Collective failure	Reputational damage and potential loss	Monitor compliance	8	3	24
61		Int. Admin Ops	Compliance	Compliance	**Finance Statement Sign-off**	Failure to sign-off financial statements within 6 months	Late auditing	Reputational damage	P.O. Monitors	5	2	10
62		Int. Admin Ops	Compliance	Operational - Outsourced Services	**Contributions Collections**	Failure of the Administrator to timeously collect contributions from participating employers and members	Failure by employer to execute payments	Financial loss for members and forfeiting of risk benefits	P.O. acts if breach in compliance	6	7	42
63		Int. Admin Ops	Compliance	Compliance	**Actuarial Valuation**	Failure to comply with actuarial valuation requirements every 3 yrs.	Failure by *valuer*	Breaching legislation	P.O. monitors	6	1	6
64		Int. Admin Ops	Compliance	Compliance	**Pension Funds Directives**	Non-compliance with directives from registrar of pension funds as contained in PF circulars	Not receiving directives	Various depending on PF subject	P.O. liaise with industry	7	2	14
65	1A	Int. Admin Ops	Annual Financial Statements	Operational - Outsourced Services	**Financial Statement Disclosure**	Financial statement disclosure is not in terms of the Pension Funds Act and the basis of accounting applicable to retirement Fund in South Africa	Inexperienced auditor	Reputational damage	Appoint reputable auditors	7	1	7

Municipal Gratuity Fund Risk Register

No	Stat Audit Ref	Profile	Function / Process	Category	Risk	Risk Description	Causes	Consequences / Impact	Controls / Mitigation	Impact Rating	Likeli-hood Rating	Risk Rating
66	11B	Int. Admin Ops (+EB Admin)	Benefits	Operational – Process	**Insurance Policy Recoveries**	Recoveries from insurance policies are not received	Claims not submitted	Financial loss	P.O. monitors	8	1	8
67	14B	Int. Admin Ops	Statutory	Operational – Process	**Trustee Decision Execution**	Trustee decisions not effected	Time constraints	Various depending on decision	P.O. monitors	7	1	7
68	14C& PFA S15	Int. Admin Ops	Statutory	Compliance	**Fidelity Cover**	Fidelity cover is not in place as required by the Act, including service providers such as investment managers	Negligence	Potential financial loss	P.O. monitors	8	1	8
69	14D	Int. Admin Ops (+Inv. Consulting)	Statutory	Compliance	**Contracts and Agreements**	Contracts and agreements with service providers not formalised or not complied with	Time constraints or negligence	Potential financial loss	P.O. monitors	8	2	16
70	14G	Int. Admin Ops (+EB Admin)	Statutory	Compliance	**Rule Amendment Implementatio n**	Rule amendments implemented prior to receipt of approval from Registrar	Oversight	Various depending on subject	P.O. monitors	7	1	7
71		EB Admin	Administrat or processes	Operational - Outsourced Services	**Member Administration Services**	Inadequate member administration services	System downtime	Breach SLA	SLA with Administrator	7	3	21
72		EB Admin	Administrat or processes	Operational - Outsourced Services	**Fund Administration Services**	Inadequate fund administration services	System downtime	Breach SLA	SLA with Administrator	7	3	21
73		EB Admin	Administrat or processes	Operational - Outsourced Services	**Cash Flow Data**	Incorrect daily cash flow data feeds	System failure and / or malfunction	Investment mandate compliance breaches into asset allocation	SLA with Administrator	5	4	20
74		EB Admin	Administrat or processes	Operational - Outsourced Services	**Portfolio Value Data**	Incorrect daily portfolio value data feeds	Wrong files from asset managers	Investment trades done on incorrect information	SLA with Administrator	7	3	21
75		EB Admin	Administrat or processes	Operational - Outsourced Services	**Investment Consultants Relationship**	Inadequate working relationship between EB administrator and investment consultants	No daily files from asset managers	No unit prices can be released, thus no trades or payments	SLA with Administrator	4	4	16
76		EB Admin	Administrat or processes	Operational - Outsourced Services	**EB Admin Reporting**	Poor EB Admin service delivery and failure to meet reporting deadlines	System downtime/staff turnover	Breach SLA	SLA with Administrator	6	4	24
77		EB Admin	Administrat or processes	Operational - Outsourced Services	**Member Details**	Member details are incorrect, in particular beneficiary details	Administrator dependant on participating employers	Aggrieved member (reputational damage)	SLA with Administrator	5	4	20

Municipal Gratuity Fund Risk Register

No	Stat. Audit Ref.	Profile	Function / Process	Category	Risk	Risk Description	Causes	Consequences / Impact	Controls / Mitigation	Impact Rating	Likeli-hood Rating	Risk Rating
78		EB Admin	Administrator processes	Operational - Outsourced Services	**Death Benefit Pay out Process**	Inadequate application of processes in member death benefit pay outs	Lack of monitoring process by supervisor	Delay in payments /breach of SLA	SLA with Administrator	5	4	20
79		Board	Statutory	Compliance	**Regulatory Compliance**	Death benefit of a member not distributed within 12 months	Unable to obtain information timeously	Penalty from Regulator	Use alternative means to collect information	4	4	16
80		EB Admin	Administrator processes	Operational - Outsourced Services	**Disability Benefit Pay out Process**	Inadequate application of processes in member disability benefit pay outs	Rules not followed	Delay in payments /breach of SLA	SLA with Administrator	4	4	16
81		EB Admin	Administrator processes	Operational - Outsourced Services	**Service Termination Pay out Process**	Inadequate application of processes in member service termination benefit pay outs (resignations, retrenchments, dismissals)	System downtime/ SARS downtime	Delay in payments / breach of SLA	SLA with Administrator	6	4	24
82	PFA S15	EB Admin	Administrator processes	Operational - Outsourced Services	**Death Benefit Pay out Errors**	Errors (invalid, incomplete and/or inaccurate) in member death benefit pay outs	Incorrect info supplied by employer/ beneficiaries	Incorrect payments	SLA with Administrator	5	4	20
83	PFA S15	EB Admin	Administrator processes	Operational - Outsourced Services	**Disability Benefit Pay out Errors**	Errors (invalid, incomplete and/or inaccurate) in member disability benefit pay outs	Incorrect info supplied by employer/ member	Payment into incorrect bank account	SLA with Administrator	4	4	16
84	PFA S15	EB Admin	Administrator processes	Operational - Outsourced Services	**Service Termination Pay out Errors**	Errors (invalid, incomplete and/or inaccurate) in member service termination benefit pay outs (resignations, retrenchments, dismissals)	Incorrect info from employer/member. Fraud	Payment into incorrect bank account or delayed	SLA with Administrator	5	4	20
85		EB Admin	Administrator processes	Operational - Outsourced Services	**MGF Product Unit Purchases**	Delayed purchases of MGF product units via Fundamental	Late member contributions and adjustments	Impact on cash flows	SLA with Administrator	5	4	20
86	2A	EB Admin	Members' liability	Operations – Outsourced Services	**Members Fund Credit Values**	Incomplete and inaccurate recording of members' fund credit values	Incorrect unit prices loaded	Member values are under/ over-stated	SLA with Administrator	7	3	21
87	2B	EB Admin	Members' liability	Operations – Outsourced Services	**AL Mismatch**	Asset and liability mismatch	Incorrect in/ disinvestments	Non-balancing triangle	SLA with Administrator	4	4	16
88	4A & PFA S15	EB Admin	Reserves	Operations – Outsourced Services	**Member Reserve Accounts**	Incorrect reserve accounts and distribution to members	Incorrect payments made for death & disability	Reserve account can be under funded	SLA with Administrator	7	3	21

Municipal Gratuity Fund Risk Register

No	Stat. Audit Ref.	Profile	Function / Process	Category	Risk	Risk Description	Causes	Consequences / Impact	Controls / Mitigation	Impact Rating	Likeli-hood Rating	Risk Rating
89	4B & PFA S15	EB Admin	Reserves	Operations – Outsourced Services	**Reserve Structure and Allocations**	Complex reserve structure and allocations to reserve accounts not in accordance with the Fund rules	Trustee decision	Building blocks not available / problem to balance accounts	SLA with Administrator	4	3	12
90	4C	EB Admin (+ Actuarial)	Reserves	Operations – Outsourced Services	**Reserve Account Transfers**	Transfers through reserve accounts not in compliance with the Pension Funds Act	Incorrect funds allocated/ withdrawn	Fund accounting incorrect allocated funds	SLA with Administrator	4	3	12
91	5A	EB Admin	Bank	Operations – Outsourced Services	**Bank Balances**	Existence, valuation and completeness of bank balances	Negative cash flow	Bank recons not done on time	SLA with Administrator	4	4	16
92	5A	EB Admin	Bank	Operations – Outsourced Services	**Unallocated Deposits**	Unallocated deposits in the bank account raises queries with the FSCA on the financial statements	Municipalities pay money into the Fund's bank account without providing supporting documentation	Unallocated deposits remain in the bank account and raises queries with the FSCA	SLA with Administrator	3	5	15
93	6A & PFA S15	EB Admin	Debtors	Operations – Outsourced Services	**Outstanding Contributions**	Outstanding contributions at year-end	Councils not adhering to Pension Funds Act	Late payment interest / members not receiving returns on contribution	SLA with Administrator	5	7	35
94	6B	EB Admin	Debtors	Operations – Outsourced Services	**Debtors**	Other debtors including investment returns	Reporting incorrect	Wrong decisions made by Board	SLA with Administrator	4	4	16
95	7A	EB Admin	Creditors	Operations – Outsourced Services	**Understated Accruals**	Understated accruals for general expenses and benefits	Budget under-stated	Not enough cash in bank account	SLA with Administrator	4	4	16
96	8A & PFA S15	EB Admin	Contributions	Operational – Outsourced Services	**Contribution Amounts**	Incorrect contribution amounts paid over to the Fund and not in terms of Fund's rules	Council paying incorrect %	Contributions cannot be invested	SLA with Administrator	5	5	25
97	8B & PFA S15	EB Admin	Contributions	Operational – Outsourced Services	**Late Contributions**	Late paid contributions	Councils do not have funds	Penalty interest raised	SLA with Administrator	6	7	42
98		Int. Admin Ops	Compliance	Operational Outsourced Services	**Contributions allocations**	Failure of the Administrator allocate the contributions f participating employers and members according to the Fund Rules	Failure by the Administrator's staff	Breaching Fund Rules	Internal Quality Control to be done by the Administrator	2	4	8
99	8C & PFA S15	EB Admin	Contributions	Operational – Outsourced Services	**Contribution Allocations**	Incorrect contributions allocated on a member level	Incorrect schedules received or human error	Over or under investment on member record	SLA with Administrator	7	3	21

Municipal Gratuity Fund Risk Register

No	Stat. Audit Ref.	Profile	Function / Process	Category	Risk	Risk Description	Causes	Consequences / Impact	Controls / Mitigation	Impact Rating	Likeli-hood Rating	Risk Rating
100	10A	EB Admin	Expenses	Operational – Outsourced Services	**Expenses**	Invalid expenses	Paid without an invoice	Incorrect payments made	SLA with Administrator	4	3	12
101	11A	EB Admin	Benefits	Operational – Outsourced Services	**Benefits**	Invalid and inaccurate benefits	Death/disability not calculated according to rules	Incorrect payment made to member/ beneficiaries	SLA with Administrator	4	4	16
102	12A & PFA S15	EB Admin	Transfers	Operational – Outsourced Services	**Fund Transfers**	Invalid and inaccurate transfers in/out of the Fund	Info supplied incorrect	Fund credits will be incorrect	SLA with Administrator	7	3	21
103	13A	EB Admin	Membership numbers	Operational – Outsourced Services	**Membership**	Invalid and inaccurate membership numbers	System mismatch	Incorrect fund credit allocated to member	SLA with Administrator	3	4	12
104	15B	EB Admin	Other matters	Operational – Outsourced Services	**SARB Reporting**	SARB reporting requirements	Failure to comply	Report by finance department	SLA with Administrator	5	3	15
105	PFA S15	EB Admin	Housing loans	Operational – Outsourced Services	**Housing Loans (Direct)**	Housing loans getting in arrears	Council not working on Administrator's schedule	Member loan amount increases monthly	SLA with Administrator	4	5	20
106		EB Admin	IPA	Operational – Outsourced Services	**Investment Product Administration**	Incorrect unit prices released	Incorrect files received from asset managers	Member fund credits incorrect	All prices checked for accuracy before release	7	3	21
107		EB Admin	IPA	Operational – Outsourced Services	**Investment Product Administration**	Delay in release of unit prices	Unit price does not agree with market movement/ files incorrect from asset managers	Cannot process transactions	Client informed immediately	4	4	16
108		EB Admin	Operations	Operational – Outsourced Services	**Access to social Networking sites**	Unauthorised external parties obtains access to the Fund's data through any means, including portable devices	Allowing EB Administration employees access to social networking sites	Breach of confidentiality, loss or corruption of data or fraud	AB Administrator employees do not have access to social networking sites on EB Administrator's network	5	3	15
109		EB Admin	Operations	Operational – Outsourced services	**Hacking of network**	Unauthorised external parties hacks the network of the Administrator	Inadequate security measures	Breach of confidentiality, loss or corruption of data or fraud	Up-to-date Firewall Hardware & Software Applying the latest hardware & desktop security policies Fully controlled & monitored access of users to networks and applications	6	3	18
110		EB Admin	Operations	Operational – Outsourced Services	**Switches**	Delay in execution of exit switch to money market	Administrator staff negligent	Possible investment loss	SLA monitored on C-Flow	3	4	12

Municipal Gratuity Fund Risk Register

No	Stat Audit Ref.	Profile	Function / Process	Category	Risk	Risk Description	Causes	Consequences / Impact	Controls / Mitigation	Impact Rating	Likeli-hood Rating	Risk Rating
111		EB Admin	Operations	Operational – Outsourced Services	**Switches**	Delay in execution of automated life stage switch	SEB RFA staff negligent	Possible investment loss	SLA monitored on C-Flow	8	3	24
112		EB Admin	Operations	Operational – Outsourced Services	**Switches**	Delay in execution of member investment choice switch	SEB RFA staff negligent	Possible investment loss	SLA monitored on C-Flow	4	4	16
113		Asset Manager	Investment Process	Operational - Outsourced Services	**Member Switches**	Incorrect values applied in member switches	Incorrect transactions processed	Incorrect member values	Internal controls between Administrator and Asset Consultant	6	3	18
114		EB Admin	Operations	Operational – Outsourced Services	**Benefits**	Delay in payment of benefits to members	SARS rejected, bank rejected, no unit prices	Upset members	SLA monitored on C-Flow	4	4	16
115		EB Admin	Operations	Operational – Outsourced Services	**Information**	Security breach in disclosure of Fund confidential information	Administrator supplies info without mandate	Upset member	Security policy and confidentiality undertaking	3	4	12
116		EB Admin	Administrator processes	Operational – Outsources services	**Fee Recovery Process**	EB Administrator fails to recover asset management fees from member records	Failure to follow process	Extraordinary transactions on member records	Reporting on a monthly basis by EB Administrator	1	1	1
117		EB Admin	Administrator processes	Operational – Outsources services	**SARS recovery of tax**	SARS withdraws PAYE payment from the Fund's bank account without due warning.	Mismatch between SARS & EB Administration records	Cash flow of Fund undermined.	EB Administrator to ensure that records are up to date	3	3	9
118		EB Admin	Administrator processes	Operational – Outsourced Services	**Fraud**	Submit fraudulent documentation for payment of benefits	Bank changes due to rejection	Member not paid. Financial loss.	Document verification process in client services	6	4	24
119		EB Admin	Administrator processes	Operational – Outsourced Services	**Fraud**	Fraud committed in processing phase of payments	Internal fraud	Member not paid. Financial loss	SLA with Administrator Segregation of duties, sign off & double checking	4	4	16
120		EB Admin	Administrator processes	Operational – Outsourced Services	**Fraud**	Fraud committed in payment phase of paying benefits i.e. Business Integrator	Internal/bank fraud	Member not paid. Financial loss	SLA with Administrator Segregation of duties, sign off & double checking	4	4	16
121		EB Admin	Administrator processes	Operational – Outsourced Services	**Statutory charges**	Inaccurate calculations made for statutory payments	Human error	Over/under payment of statutory charges	SFA makes calculations. Checked & signed off	4	4	16
122		EB Admin	Administrator processes	Operational – Outsourced Services	**Deposits**	Deposits in the bank account not identified and invested (other than contributions)	Section 14 transfer / single transfers in	Investment loss	ROTs monitored by client services. Weekly GL & bank recons	5	4	20

Municipal Gratuity Fund Risk Register

No	Stat. Audit Ref	Profile	Function / Process	Category	Risk	Risk Description	Causes	Consequences / Impact	Controls / Mitigation	Impact Rating	Likeli-hood Rating	Risk Rating
123		EB Admin	SEB RFA processes	Operational – Outsourced Services	**Deposits**	The GEPF transfers assets to the Fund without following the Section 14 approval process	GEPF refuses to be subject to the PFA	Compliance breach	Post transfer applications are made by the Fund to rectify the breach caused by the GEPF	3	7	21
124		EB Admin	SEB RFA processes	Operational – Outsourced Services	**Disaster recovery**	Inability to retrieve member/fund records and/or data	Destruction or corruption of data	Fund unable to pay benefits	Disaster recovery and back-up processes active	8	2	16
125		Inv. Consulting	Advice	Operational - Outsourced Services	**Investment Advice**	Incorrect investment consulting advice	Consultant lacks in-depth research, knowledge of industry, efficiency, manager and client liaison and consultation	Incorrect and inappropriate recommendation of investment strategy and decisions	Depth of Team, w.r.t. experience, qualifications and team-based approach	8	2	16
126		Inv. Consulting	Advice	Operational - Outsourced Services / Legislative / Political	**Investment Management**	Investment consulting not inclusive of all developments within the investment management universe	Investment consultant not externally focussed	Incorrect and inappropriate recommendation of investment strategy and decisions	Continuous scrutiny of the investment universe and regular engagements with industry experts as part of asset consultants investment process	5	2	10
127		Inv. Consulting	Advice	Operational - Outsourced Services	**Structured Products**	Investment consulting fails to give adequate advice on structured products	Investment consultant not knowledge-able	Inappropriate solutions recommended to BOT	Consultations with structured solutions experts and endorsed by CIO of asset consultancy	8	2	16
128		Inv. Consulting	Advice	Operational - Outsourced Services	**Asset Management Performance Reporting**	Investment consulting provides inadequate explanation for asset manager performance	Lack of understanding and knowledge of contributors and detractors to performance	Incorrect and inappropriate decisions by BOT	Transparency in monthly performance reporting	7	2	14
129		Inv. Consulting	Implemen-tation	Operational - Outsourced Services	**Investment Transition**	Investment consulting fails to manage the transition of investments and disinvestments adequately with regard to the amounts and timing of cash flows with the EB administrator	Inadequate controls, ineffective transition process and lack of communication	Investment transition not optimised, subjecting the Fund to potential market risk	Transition process is divided amongst different members of the team and is subjected to internal audit requirements and controls	7	2	14

Municipal Gratuity Fund Risk Register

No	Stat. Audit Ref.	Profile	Function / Process	Category	Risk	Risk Description	Causes	Consequences / Impact	Controls / Mitigation	Impact Rating	Likeli-hood Rating	Risk Rating
130		Inv. Consulting	Implemen-tation	Operational - Outsourced Services	**Structured Products**	Investment consulting fails to properly record CAP and FLOOR structures in writing	Investment consultant not knowledge-able	Inappropriate solutions recommended to BOT	Details of structured products are captured in writing, with supporting documentation from, communicated and approved by EXCO	8	2	16
131		Inv. Consulting	Implemen-tation	Compliance	**IPS Investment Guideline Compliance**	Non-compliance with the life stage model investment guidelines as recorded in the Investment Policy Statement	Negligence	Member legal action	Asset Consultant Legal and Compliance teams do independent compliance reporting and also monitored at Sanlam Group level	8	3	24
132		Inv. Consulting (+ Asset Manager)	Liaison / Communi-cation	Operational - Outsourced Services	**AM / IC Relationships**	Inadequate working relationships between investment consultants and asset managers	Investment Consultant not externally focussed and not managing relationships with asset managers	Investment Consultant not fully informed of developments at manager level that could have a future bearing on the performance of the manager	Asset Consultant is a client of the asset managers and it is paramount that an excellent working relationship and sharing of information exists in the best interest of the client	3	2	6
133		Inv. Consulting	Liaison / Communi-cation	Operational - Outsourced Services	**Asset Manager Changes**	Inadequate information and communication about asset manager changes to people, processes and value propositions	Investment Consultant not externally focussed and not managing relationships with asset managers	Investment Consultant not fully informed of developments at manager level that could have a future bearing on the performance of the manager	Responsibility for asset managers assigned to a team of three, with one person in the role of lead consultant. Removes scope for personal biases and preferences and ensures a more objective view.	3	3	9
134	14F	Inv. Consulting	Implementa-tion	Compliance / Legislative	**Regulation 28 Compliance**	Non-compliance with the prudential investment guidelines as detailed in Regulation 28 of the Pension Funds Act	Negligence	Action from the FSCA and asset manager at risk of being fined and licence suspended	Compliance teams do independent compliance reporting and also monitored at Sanlam Group level	6	3	18
135	3B & PFA S15	Asset Manager (+ Inv. Consulting)	Implementa-tion	Compliance	**Mandate Non-compliance**	Mandates provided to investment managers not complied with	Negligence	Manager at risk of mandate being terminated and action from the FSCA to suspend their licence	Asset Consultant's Compliance Officer do independent reporting on mandate compliance	6	3	18

Municipal Gratuity Fund Risk Register

No	Stat. Audit Ref.	Profile	Function / Process	Category	Risk	Risk Description	Causes	Consequences / Impact	Controls / Mitigation	Impact Rating	Likeli-hood Rating	Risk Rating
136	3D	Asset Manager (+ Inv. Consulting)	Investments	Operations – Outsourced Services	**Investment Profit/Loss**	Profit/loss on sale of investments – segregated portfolios	Capturing error, system error, incorrect brokers note	Incorrect financial reporting and incorrect member records	Underlying manger is responsible for accurate accounting and reporting	7	1	7
137	9A	Asset Manager (+ Custo-dian)	Investment income	Operational – Outsourced Services	**Investment Financial Records**	Incorrect dividend, and interest income received and recorded in the financial statements in respect of segregated portfolios	Accrued of received income incorrectly captured. System error, incorrect payment of interest, lack of or incorrect bank recons	Incorrect financial reporting and incorrect member records	Underlying manger is responsible for accurate accounting and reporting	7	1	7
138	9B	Asset Manager (+ Inv. Con-sulting)	Investment income	Operational – Outsourced Services	**Insurance Policies Profit/Loss**	Incorrect profit/loss on sale of units/insurance policies	System error, incorrect recording, lack of recons	Incorrect financial reporting and incorrect member records	Recon done between asset manager statement and administrators records.	7	1	7
139		Actuarial		Operational - Outsourced Services	**Actuarial Advice**	Inappropriate actuarial advice	Inexperienced actuary	Mismatching	None	8	1	8
140		Actuarial		Operational - Outsourced Services	**Valuations**	Inaccurate valuations	Inexperienced valuer	Liability Errors	None	8	1	8
141	3C & PFA S15	Custodian	Investments	Operations – Outsourced Services	**Investment Valuations**	Existence and valuation of investment holdings	System failure	Financial loss	Audit	8	2	16
142	PFA S19 (5)	Pension Backed Lending	Loans	Operational – Outsourced Services	**Guarantees (PBL)**	Invalid or inaccurate guarantees issued	Bank processes	Financial loss	Verification of list	8	2	16
143	PFA S19 (5)	Pension Backed Lending	Loans	Operational – Outsourced Services	**Early settlement of loan**	Bank requests settlement of loan of active member due to default of monthly instalment	Default of monthly instalment by member	Prejudice of other members	Enforce section 19(5) of Pension Funds Act	5	6	30