

# KWADUKUZA MUNICIPALITY



## ETHICS, FRAUD AND RISK MANAGEMENT COMMITTEE

### TERMS OF REFERENCE

FINANCIAL YEAR 2025/2026

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## **1. PREAMBLE**

Risk is inherent in all administrative and business activities. Risks are such events or the conditions that has a harmful or negative impact on the organizational goal or its business objectives. The exposure to the consequences of uncertainty constitutes a risk. Every member of the Organisation continuously manages risk. The systematic approaches to managing risk have evolved and are now regarded as good management practice. The objective these terms of reference are to provide a framework on how the Ethics, Fraud and Risk Management Committee will provide support to the accounting officer, who in turn supports Council in how to manage the risks, ethics and fraud related matters affecting the sphere of the activities of the organization to maximize opportunities and minimize the adversity. The Committee's Scope & function will be overarching on the functions of Ethics, Fraud and Risk Management and as such will be referred to the Ethics, Fraud and Risk Management Committee.

## **2. OBJECTIVES**

The Ethics, Fraud and Risk Management Committee is an oversight and support committee which assists the Accounting Officer who in turn supports Council in discharging their responsibility for ethics, fraud and risk management by reviewing the effectiveness of the Municipality's ethics, fraud and risk management systems, practices and procedures and providing recommendations for improvement.

## **3. LEGAL MANDATE**

- a) The Ethics, Fraud and Risk Management Committee is a committee appointed by the Accounting Officer (Municipal Manager) as an oversight Committee.
- b) **Section 62(1)(c)(i) of the Municipal Finance Management Act, 2003** requires that: The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure (c) that the municipality has and maintains effective, efficient and transparent systems (i) of financial and risk management and internal control
- c) **Section 3.2.1 of the Treasury Regulations** states the following:

“The accounting officer must ensure that a risk assessment is conducted regularly so as to identify emerging risks of the institution. A risk management strategy which must include a fraud prevention plan, must be used to direct internal audit

effort and priority, and to determine the skills required of managers and staff to improve controls and to manage these risks”

- d) In terms of **Section 78 of the Municipal Finance Management Act**, Risk management responsibilities are extended to all Executive Directors and other officials of municipalities. This implies that responsibility for risk management vests at all levels of management and personnel and is not limited to only the Municipal Manager, the Risk Management Unit or Internal Audit Division.

e) In terms of **Section 22(b) of the Public Sector Risk Management Framework** the high-level responsibilities of the Accounting Officer /Authority should include delegating the responsibilities for risk management and internal formations such as the Risk Management Committee & Fraud Prevention Committee.

f) In terms of **Section 24(1) of the Public Sector Risk Management Framework** The Risk Management Committee is appointed by the Accounting Officer / Authority to assist them to discharge their responsibilities for risk management

- g) And other frameworks and best practices -
- i. Public Sector Risk Management Framework.
  - ii. COSO; and
  - iii. ISO 31000.

#### **4. COMPOSITION**

4.1 Members of the Ethics, Fraud and Risk Management Committee shall be appointed in writing by the Accounting Officer:

The committee shall consist of the following members

- a) Independent Chairperson of the committee
- b) Municipal Manager
- c) All Executive Directors

d) Proxy's (at the level of Directors) as nominated by Executive Director's in their Absence

4.2 An external independent person as Chairperson of the committee shall be appointed by the municipal council.

4.3 The following shall be the standing invitees to Ethics, Fraud and Risk Management committee meetings:

- (i) Director Internal Audit.
- (ii) Director Risk & Compliance.
- (iii) Assistant Manager Risk & Ethics.
- (iv) Director Performance Monitoring & Evaluation.
- (v) Director Integrated Development Planning.
- (vi) Director Legal;
- (vii) Director ICT.
- (viii) Director Human Resources.
- (ix) Business Unit Risk Champions.
- (x) Any other official that committee may require from time to time.

4.4 The municipality shall provide secretariat services to the Ethics, Fraud and Risk Management committee

## 5. ROLES AND RESPONSIBILITIES

### 5.1 Responsibilities of Ethics, Fraud and Risk Management Committee

The duties of the Committee shall be to:

- a) Ensure that ethics, fraud and risk assessments are conducted regularly to identify emerging risks for the Municipality.
- b) Review the institution's risk identification and assessment methodologies, after satisfying itself of their effectiveness in timeously and accurately identifying and assessing the institution's risk.
- c) Review the Municipality's risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register.
- d) Evaluate the extent and effectiveness of integration of risk management within the Institution's business units.
- e) Evaluate the effectiveness of the mitigating strategies implemented to address the material risks of the Institution.
- f) Monitor progress on implementation of action plans developed as part of the risk management process.

- g) Monitor the management of significant risks to the Municipality, including emerging and prospective impacts.
- h) Review the material findings and recommendations by assurance providers on the system of risk management and monitor the implementation of such recommendations.
- i) Ensure that the Risk Management strategy and policy is clearly communicated to all officials using the intranet/Website/Staff and Councillor Induction workshops.
- j) Ensure that the Risk Management strategy is incorporated into a culture of the Municipality, and that it is embedded in the behavior and mind-set of its staff.
- k) Review reports of significant incidents and major frauds (both potential and actual) including the evaluation of the effectiveness of the response in investigating any loss and preventing future occurrence
- l) Make recommendations to the Council on the development of the strategy, policy, procedures and processes on all ethical matters.
- ~~m) Make recommendations to Council on steps to be taken to establish a culture of integrity and honesty in all the Municipal dealings.~~
- n) Ensure that the Ethics and Fraud Management strategy and fraud prevention plan is implemented.
- o) Review and monitor the development and adoption of, and compliance with, the Municipality's ethical due diligence policies and procedures covering:
  - i. business relationships and activities, including the Municipalities agents and intermediaries.
- p) Review & Monitor quarterly Compliance Management reports to keep under review the adequacy and effectiveness of the Municipality's Compliance Function.
- q) Review and recommend to the Council the approval of the following:
  - I. Enterprise-wide Risk Management Policy
  - II. Enterprise-wide Risk Management strategy
  - III. Ethics and Fraud implementation plan

IV. Enterprise-wide Risk Management implementation plan

V. Ethics, Fraud and Risk Management Committee Terms of Reference.

**VI. Ethics, Fraud and Risk Management Charter .**

- r) At least once a year, review its own performance, ~~Constitution~~ **Charter** and terms of reference to ensure it is operating at maximum effectiveness and recommend at changes it considers necessary to the Council for approval.

**5.2 Responsibilities of Chairperson**

- a) Reporting to Audit Committee quarterly and Council **on the effectiveness of the Municipality's ethics, fraud and risk management systems, practices and procedures and providing recommendations for improvement.**
- b) **interact with the Audit Committee to share information relating to material risks of the Institution.**
- c) **provide timely and useful reports to the Accounting Officer and Council on the state of risk management, together with accompanying recommendations to address any deficiencies identified by the Committee.**
- d) Provide technical and capacity building support on **ethics, fraud and** risk management and related matters to the municipality as and when required.
- e) Ensure the alignment of the organizational risks with the strategic plan and objectives of the Municipality.
- f) Review the results of the ethics, fraud and risk assessment to determine material risks to which the Municipality may be exposed to and to evaluate strategies to mitigate those risks.
- g) Review any material findings and recommendations by assurance providers on the system of Risk Management and Internal Audit to ensure that risks emanating from audit findings and forensic investigations are included in the risk register and that relevant mitigating plans are put in place timeously.
- h) Monitor the reporting of risk **matters** by management with particular emphasis on significant risks or exposures and the appropriateness of the steps management has taken to reduce the risk to an acceptable level.

- i) Recommend to the Accounting Officer appropriate remedial action where it is found that any Executive Director has failed to execute his/her risk management responsibilities.
- j) develop its own key performance indicators for approval by the Accounting Officer Authority.

## **6. POWERS AND AUTHORITY**

6.1 The Chairperson of the Committee shall escalate all Ethics, Fraud and Risk Management issues to the Accounting Officer, Audit Committee and Council timeously through formal reports which include the minutes, resolutions and action plans of the committee.

6.2 ~~RAC~~ The Ethics, Fraud and Risk Management Committee may call upon any staff member of other committees to seek clarity on matters related to risk management ,fraud and ethics.

## **7. MEETINGS**

- a) The Committee shall meet at least four (4) times per annum.
- b) The Chairperson of the committee or a majority of the permanent members of the Committee may convene additional meetings as circumstances may dictate.
- c) In the absence of the Chairperson the Municipal Manager shall assume chair responsibilities.
- d) Attendance is compulsory and a non-attending member must notify the Municipal Manager; and send an apology for non-attendance prior to the meeting.
- e) Every member/proxy present at a meeting shall sign the attendance register, which shall be kept by the committee secretary for record purposes.
- f) It is compulsory for permanent members of the Committee to attend at least three standard meetings annually and may nominate a proxy once in a year to attend the ordinary meetings on his / her behalf .



## **8. QUORUM OF MEETINGS**

- a) Quorum shall be constituted by 50% ~~plus one~~ of the Committee members.
- b) In case non-attendance by the member, the member may appoint a proxy as well as submit a formal apology with the proxy.
- c) Formal appointment of a proxy by the member being represented is required.
- d) The proxy shall be at least one level below the permanent member level.
- e) Proxy cannot attend more than 25% of the 4 ordinary meetings.
- f) Should the quorum not be formed within 30 minutes, the meeting shall be adjourned.

## **9. KEY SUCCESS FACTORS.**

The success of the committee shall be evaluated based on the following factors:

- i. Performance against the Terms of Reference.
- ii. Implementation of the enterprise-wide risk management plan.
- iii. Implementation of the Fraud & Ethics implementation plan
- iv. Annual self-evaluation of the Ethics, Fraud and Risk Management Committee members.

## **10. REVIEW OF THE TERMS OF TERMS OF REFERENCE**

- a) The Committee shall review the terms of reference annually or when the need arises to ensure that they remain relevant with the Committees authority, objectives and responsibilities.
- b) All changes and or amendments to the terms of reference shall be recommended for approval by the Accounting Officer.

## **11. APPROVAL**

The Ethics, Fraud and Risk Management Committee Terms of Reference is formally adopted by Municipal Council and implemented by KwaDukuza Municipality with effect from the date of approval of the Council.

**RECOMMENDED BY:**

**30/06/2025**

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**MUNICIPAL MANAGER**

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**DATE**

**RISK MANAGEMENT COMMITTEE**

**ADOPTED BY KDM COUNCIL:**

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**COUNCIL RESOLUTION**

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**DATE**