

CHIEF ALBERT LUTHULI MUNICIPALITY

The transparent, innovative and developmental municipality that improves the quality of life of its people



RISK MANAGEMENT POLICY 2024/25

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CONTROL SHEET

<i>Policy Number</i>	
Policy Name	Risk management policy
Policy Status	Review
Date of last Approval	27/July/ 2023
Policy review / Development	Policy to be reviewed
Date of next review	This policy shall remain effective until such time approved otherwise by Council and may be reviewed whenever it is necessary to align it with changes of relevant legislation or operations
Purpose	The purpose of this document is to set out the Municipality's Risk Management Policy that provides a framework to identify, assess and manage potential risks and opportunities. In order to provide a way for managers to make informed management decisions.
Aims and objectives	The objectives of this Risk Management policy is to assist management to make informed decisions which will; Improve the municipality's performance on decision making and planning; Promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefit the municipality is encouraged
Policy custodian	Risk Manager
Related Policies and Legislations	<ul style="list-style-type: none"> • <i>National Treasury Regulations</i> • <i>Treasury risk management framework</i>
Approving authority	Council
Applicability	This policy applies to the entire personnel of the municipality
Amendments to the Policy	<ul style="list-style-type: none"> • No amendments were done on the document. The policy is submitted for review and approval in preparation for the new financial year 2024-25
Policy Benchmark and References	All Gert Sibande District Municipalities.
Stakeholders Consulted	All municipal personnel
Accountability	The Municipal Manager is accountable for the proper implementation of this policy In terms of section 62(1 (c) (i) and (ii)) of local government: Municipal Financial Management Act 2003(Act no 56 of 2003, MFMA)

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RISK MANAGEMENT POLICY

STATUTORY FRAMEWORK

1. In terms of section 62(1 (c) (i) and (ii)) of local government: Municipal Financial Management Act 2003(Act no 56 of 2003, MFMA) the Municipal Manager is responsible for managing the Municipality's financial administration. For this purpose the Municipal Manager must take all responsible steps to ensure, amongst others, that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and control and of internal audit operating in accordance with any prescribed norms and standard in order to give effect to the above, the Municipal Manager has established the risk management committee of the municipality.

The Risk Management committee is an oversight committee made up of senior management and independent members; responsible to the accounting officer for the monitoring of risk management (i.e. to assist in designing, implementing and coordinating the institution's risk management initiatives) the risk management committee is responsible for assisting the accounting officer in addressing its oversight requirement of risk management and evaluating and monitoring the institutions performance with regards to risk management.

2. Section 120 of the MFMA empowers the Municipality to enter into a public –private partnership agreement, if it can demonstrate that the agreement will, amongst other things, transfer appropriate technical, operational and financial risk to the private party.

3. Section 165 of the MFMA requires that the municipality must have an internal audit unit. The internal audit unit must prepare a risk-based audit plan and an internal audit program for each financial year. It must also advise the Municipal Manager and report to the audit committee on the implementation of the internal audit and matters relating to internal audit, internal controls, accounting procedures and practices and risk and risk management.

The Municipal Manager must have an Audit Committee. The Audit committee is independent advisory bodies, which must, amongst other things, advise the council, the Municipality's political office bearers, the Municipal Manager and the Management staff on the matters relating to internal financial control, Internal Audit and Risk Management

4. Regulation 9 of the Municipal Supply Chain Management Regulations (notice no 868 of 30 may 2005) prescribed that the Municipal Supply chain management must describe in sufficient detail effective system for risk management. Such a risk management system must, in terms of regulation 41 provide for the identification, consideration and avoidance of potential risk in the supply chain management system. The risk management provision of the supply chain management policy include-

4.1 The identification of risk on case by case basis

4.2 The allocation of risk to the party best suited to manage such risk

4.3 Acceptance of the cost of the risk where the cost transferring the risk is greater than that of retaining it

4.3 The management of risk in a pro-active manner and provision of adequate cover for residual risks, and

5 The assignment of relative risk to the contracting parties through clear and unambiguous contract documentation.

1. PURPOSE

1.1 The purpose of this document is to set out the Municipality's Risk Management Policy and amongst other things it includes the following:

- 1.1.1 The *objectives* of our Risk Management policy;
- 1.1.2 *Definitions* of relevant terms;
- 1.1.3 *Risk management principles*;
- 1.1.4 Relative *responsibilities*;
- 1.1.5 The Municipality's '*Risk identification and Tolerance*';
- 1.1.6 The *Risk Framework* and how it will work;
- 1.1.7 Risk management measures and

2 How Risk Management contributes to providing an *Assurance*.

- 2.1 Risk Management in the municipality provides a framework to identify, assess and manage potential risks and opportunities. It provides a way for managers to make informed management decisions.
- 2.2 Effective Risk Management affects everyone in the Municipality. To ensure a widespread understanding, Executive Management and all operational/business unit managers should be familiar with, and all staff and councilors are aware of, the principles set out in this document.

2. RISK MANAGEMENT OBJECTIVES

- 2.1 The objectives of this Risk Management policy is to assist management to make informed decisions which will;
 - 2.1.1 Improve the municipality's performance on decision making and planning;
 - 2.1.2 Promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefit the municipality is encouraged;
 - 2.1.3 Provide a sound basis for integrated risk management and internal control as components of good corporate governance.
- 2.2 The improvements and benefits which effective Risk Management should provide are;
 - 2.2.1 An increased likelihood of achieving the organization's aims, objectives and priorities;
 - 2.2.2 Prioritizing the allocation of resources;
 - 2.2.3 Giving an early warning of potential problems;
 - 2.2.4 Prevention of fraud and corruption
 - 2.2.5 Reduced waste ;and
 - 2.2.6 Providing everyone with the skills to be confident risk takers.

3. DEFINITIONS

CALM Risk management policy

For the purpose of this policy, the following words will be defined as follows:

3.1 "Accounting Officer" means: The Municipal Manager as defined in terms of section 54 of the Municipal systems Act or any person delegated as such;

3.2 "Audit Committee" means: An independent advisory body constituted in terms of section 166 of the Municipal Finance Management Act 56/2003;

3.3 "Chief Audit Executive" means: A senior official within the Municipality responsible for internal audit unit;

3.4 "Chief Risk Officer" means: A senior official within the Municipality responsible for risk Management unit;

3.5 "Executive Authority" means: Executive authority as defined in terms of section 11 of the Municipal Systems Amendment Act;

3.6 "Inherent Risk" means: The exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors.

3.7 "Internal Auditing" means: An independent, objective assurance and consulting activity designed to add value and improve Municipality's operations. It helps the Municipality to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

3.8 "King IV" means: The King Code of Corporate Governance for South Africa 2016.

3.9 "Management" means: Managers appointed in terms of section 56 of the Municipal System Amendment Act and managers directly accountable to municipal managers.

3.10 "Municipality": for the purpose of this policy, municipality shall mean Chief Albert Luthuli Municipality.

3.11 "Other Official" means: An official other than the Accounting Officer / Authority, Management, Chief Risk Officer and his/her staff.

3.12 "Residual Risk" means: The remaining exposure after the mitigating effects of deliberate management intervention(s) to control such exposure (the remaining risk after Management has put in place measures to control the inherent risk).

3.13 "Risk" means: A threat (actual or potential) that causes uncertainty in the achievement the Council's Objectives.

3.14 "Risk Appetite" means: The amount of residual risk that the Institution is willing to accept.

3.15 "Risk Champion" means: A person who by virtue of his/her expertise or authority champions a particular aspect of the risk management process, but who is not the risk owner.

3.16 "Risk Factor" means: Any threat or event which creates, or has the potential to create risk.

3.17 "Risk Management" means: is a continuous, proactive and systematic process, effected by the Municipality's executive authority, accounting authority, management and other personnel, applied in strategic planning and across the Municipality, designed to identify potential events that may affect the Municipality, and manage risks to be within its risk tolerance, to provide reasonable assurance regarding the achievement of objectives.

3.18 "Risk Management Committee" means: A committee appointed by the Accounting Officer / Authority to review the Institution's system of risk management.

3.19 "Risk Management Unit" means: A business unit responsible for coordinating and supporting the overall Institutional risk management process, but which does not assume the responsibilities of Management for identifying, assessing and managing risk.

3.20 "Risk Owner" means: The person accountable for managing a particular risk.

3.21 "Risk Tolerance" means: The amount of risk the Institution is capable of bearing (as opposed to the amount of risk it is willing to bear)

4. RISK MANAGEMENT PRINCIPLES

4.1 The principles contained in this policy and strategy will be applied at both corporate and operational levels within the municipality.

4.2 The municipality's Risk Management Policy and Strategy will be applied to all operational aspects of the Municipality and will consider external strategic risks arising from or related to other government municipality's and the public, as well as wholly internal risks.

4.3 Our positive approach to risk management means that we will not only look at the risk of things going wrong, but also the impact of not taking opportunities or not capitalizing on corporate strengths.

5. GENERAL PRINCIPLES

5.1 All risk management activities will be aligned to corporate aims, objectives and the municipality priorities, and aims to protect and enhance the reputation and standing of the municipality.

5.2 Risk assessment will form part of the municipality strategic planning, business planning and investment/project appraisal procedures.

5.3 Risk management will be founded on a risk-based approach to internal control which will be embedded into day to day operations of the municipality.

5.4 Our risk management approach will inform and direct our work to gain an assurance on the reliability of the municipality systems.

5.5 Managers and staff at all levels will have the responsibility to identify, evaluate and manage or report risks, and will be equipped to do so.

5.6 We will foster a culture which provides for spreading best practice, lessons learnt and expertise acquired from our risk management activities across the municipality for the benefit of the entire municipality.

6. PRINCIPLES FOR MANAGING SPECIFIC RISKS

6.1 Risk Management in the municipality should be proactive and reasoned. Corporate and operational risks should be identified, objectively assessed, and, where this is the appropriate response, actively managed.

6.2 The aim is to anticipate, and where possible, avoid risks rather than dealing with their consequences. However, for some Key areas where the likelihood of a risk occurring is relatively small, but the impact is high, we may cover that risk by developing Contingency Plans. For an example, we must develop Business Continuity Plans and or Disaster Recovery Plans. This will allow us to contain the negative effect of unlikely events which might occur.

6.3 In determining an appropriate response, the cost of control/risk management, and the impact of risks occurring will be balanced with the benefits of reducing and or managing risk. This means that we should not necessarily set up and monitor controls to counter risks where the cost and effort are disproportionate to the impact or expected benefits.

6.4 We also recognize that some risks can be managed by transferring them to a third party, for example by contracting out, Public Private Partnership arrangements, or by insurance.

6.5 Risk assessments should be done prior budget processes are done and prior the approval of the IDP, to be able to incorporate them in the municipal IDP.

7. RISK MANAGEMENT CYCLE

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- Step 1
The control environment
- Step 2
Objective setting
- Step 3
Risk identification
- Step 4
Risk assessment
- Step 5
Risk responses
- Step 6
Control effectiveness
- Step 7
Information and communication
- Step 8
monitoring

8. RESPONSIBILITIES

RESPONSIBILITIES FOR RISK MANAGEMENT

8.1 THE MUNICIPAL MANAGER

The total process of risk management which includes a related system of internal controls is the responsibility of the MM. Amongst other things; the Municipal Manager is responsible for;

- 8.1.1 Setting the tone at the top by supporting risk management and allocating resources towards the implementation thereof.
- 8.1.2 Establishing the necessary structures and reporting lines within the institution to support risk management
- 8.1.3 Consider and act on recommendations from the audit committee, internal audit, risk management committee and other appropriate structures for improving the overall state of risk management
- 8.1.4 Influencing an institutional "risk aware " culture
- 8.1.5 Place the key risks at the forefront of the management agenda and devote personal attention to overseeing their effective management
- 8.1.6 Hold management accountable for designing, implementation, monitoring and integrating risk management principles into their day-to-day activities
- 8.1.7 Approve the risk management strategy, risk management policy, risk management implementation plan and fraud risk management policy
- 8.1.8 Holding the structure responsible for risk management activities accountable for adequate performance
- 8.1.9 Ensuring that a conducive control environment exists to ensure that identified risks are proactively managed.
- 8.1.10 Approving the institution's risk appetite and risk tolerance
- 8.1.11 Leverage the audit committee, internal audit, risk management committee and other appropriate structures for assurance on the effectiveness of risk management
- 8.1.12 Provide all relevant stakeholders with the necessary assurance that the key risks are properly identified, assessed ,mitigated and monitored
- 8.1.13 Provide appropriate leadership and guidance to senior management and structure responsible for various aspects of risk management.

8.2 RESPONSIBILITIES OF THE RISK MANAGEMENT COMMITTEE INCLUDE:

- 8.2.1 Review the risk management policy and strategy and recommend for approval by the accounting officer
- 8.2.2 Review the risk appetite and tolerance and recommend for approval by the accounting officer
- 8.2.3 Review the institutional risk identified and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of risk register.
- 8.2.4 Evaluate the effectiveness of mitigating strategies to address the material risks of the institution
- 8.2.5 Report to the accounting officer any material changes to the risk profile of the institution
- 8.2.6 Review the fraud prevention policy and recommend for approval by the accounting officer
- 8.2.7 Evaluate the effectiveness of the implementation of the fraud prevention policy
- 8.2.8 Review any material finding and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses
- 8.2.9 Develop goals, objectives and key performance indicators for the committee for approval by the accounting officer
- 8.2.10 Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management activity
- 8.2.11 Set out the nature, role, responsibilities and authorities of the risk management function within the institution for approval by the accounting officer and oversee the performance of the risk management function
- 8.2.12 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.

8.3 MANAGEMENT RESPONSIBILITIES RELATING TO RISK MANAGEMENT:

- 8.3.1 Acknowledges the "ownership" of risks within their functional areas and all responsibilities associated with managing such risks
- 8.3.2 Cascades risk management into their functional responsibilities
- 8.3.3 Empowers officials to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation and on-going opportunities for skills development
- 8.3.4 Hold officials accountable for their specific risk management responsibilities
- 8.3.5 Maintain the functional risk profile within the institution's risk tolerance and appetite
- 8.3.6 Provides report on the functional risk management consistent within the institution's reporting protocols (including appearing before committees)
- 8.3.7 Aligns the functional and institutional risk management methodologies and processes
- 8.3.8 Implements the directives of the accounting officer concerning risk management
- 8.3.9 Maintain a harmonious working relationship with the manager risk management and supports him/ her in matters concerning the functions risk management
- 8.3.10 Maintain a harmonious working relationship with the risk champion and supports the risk champion in matters concerning the functions risk management
- 8.3.11 Keeps key functional risks at the forefront of the management agenda and devote personal attention in overseeing the management of these risks.
- 8.3.12 Ensure that risk management forms part of their performance contract.

8.4 A RESPONSIBILITY OF THE RISK MANAGER INCLUDES:

- 8.4.1 Develop the overall enterprise risk management vision, risk management strategy, risk management policy, as well as risk appetite and tolerance levels for approval by the accounting officer
- 8.4.2 Communicating the risk management policy, risk management strategy and risk management implementation plan to all stakeholders in the institution
- 8.4.3 Setting up of the risk management structure and risk management reporting lines within the institution
- 8.4.4 Continuously driving the risk management process towards best practices
- 8.4.5 Developing a common risk assessments methodology that is aligned with the municipality's objectives at strategic and operational levels for approval by the accounting officer
- 8.4.6 Coordinating risk assessments within the municipality on a regular basis
- 8.4.7 Sensitising management timeously of the need to perform risk assessments for all major changes, capital expenditure, projects, institutional restructuring and similar events and assist to ensure that the attendant processes, particularly reporting, are completed efficiently and timeously
- 8.4.8 Participating in the development of the combined assurance plan for the institution, together with internal audit and management.
- 8.4.9 Ensure effective information systems exist to facilitate overall risk management improvement within the institution
- 8.4.10 Continuously transferring risk management principles and practices through training interventions, to all stakeholders within the institution.
- 8.4.11 Advising management in the development of financing structures
- 8.4.12 Performing an analysis to identify emerging risks facing the institution for further action and investigation
- 8.4.13 Collating and consolidating the results of the various assessments within the institution
- 8.4.14 Analysing the results of the assessment process to identify trends, within the risk and control profile, and develop the necessary high level control intervention to manage these trends
- 8.4.15 Compiling the necessary reports to the Risk Management committee and Audit committee
- 8.4.16 Providing input into the development and subsequent review of the fraud prevention strategy, business continuity plans occupational health, safety and environmental policies and practices and disaster management plans.
- 8.4.17 Compile and maintain risk register and reports on risk management activities; and conduct regular risk monitoring

8.5 A RESPONSIBILITY OF RISK CHAMPIONS INCLUDES:

- 8.5.1 Empowers officials to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation and on-going opportunities for skills development
- 8.5.2 Maintain the functional risk profile within the institution's risk tolerance and appetite
- 8.5.3 Provides report on the functional risk management consistent within the institution's reporting protocols.
- 8.5.4 Aligns the functional and institutional risk management methodologies and processes
- 8.5.5 Maintain a harmonious working relationship with the manager risk management and supports him/ her in matters concerning the functions risk management
- 8.5.6 Raise the profile and benefits of risk management amongst Directorate/service colleagues from day to day business as usual.
- 8.5.7 Challenge the content of the strategic risk register to ensure, in particular, that it reflects any significant new risks emerging and that monitoring systems are suitably robust.

- 8.5.8 Be a focal point by which services managers/ team leaders can see views to the formal risk management process thereby including operational risk management in directorate management teams
- 8.5.9 Ensure the practice of managing risk is made intrinsic to all municipal activities.

8.6 OTHER OFFICIALS

Other officials shall:

- 8.6.1 Integrate risk management into their day-to-day activities;
- 8.6.2 Ensure that their delegated risk management responsibilities are executed and continuously report on progress against planned mitigation
- 8.6.3 Participate in risk identification and risk assessment within their respective units;
- 8.6.4 Implement the risk responses to address the identified risks;
- 8.6.5 Provide information and cooperation with other role players;
- 8.6.6 Maintain and monitor the functioning of the internal controls

8.7 AUDIT COMMITTEE

The Audit Committee is an independent committee responsible for oversight of the Council's control, process, governance and risk management. The responsibilities of the Audit Committee with regard to risk management are formally defined in its charter. The Audit Committee provides an independent and objective view of the Municipality's risk management effectiveness.

- 8.7.1 Setting strategic directions with regards to the establishment of Risk Management Strategy.
- 8.7.2 Evaluation of whether management is setting the importance of risk management culture within the municipality
- 8.7.3 Monitor whether the risk management systems are effective and integrated with IDP objectives

8.8 INTERNAL AUDIT

The role of the Internal Auditing in risk management is to provide an independent, objective assurance on the effectiveness of the Municipality's system of risk management. Internal Auditing must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.

9 EXECUTIVE AUTHORITY

The Executive Authority (Mayoral Committee) takes an interest in risk management to the extent necessary to obtain comfort that properly established and functioning systems of risk management are in place to protect the Municipality against significant risks.

10. RISK IDENTIFICATION AND TOLERANCE

10.1 Risk identification

The municipality shall consider and assess the risk implications of all actions it undertakes in relation to both existing and proposed activities, systems and procedures. All risks identified will be evaluated and documented, together with the processes which mitigates those risks, and who is accountable for them.

10.2 Maximum risk exposure / risk tolerance

The municipality shall accept a commercial level of risk such that the long-term sustainability of the municipality is reasonably assured. Where new risks arise which exceed the stipulated measures set by the Accounting Officer and the Chief Financial Officer, they will be:

- i. Evaluated as stipulated in this policy;
- ii. Immediately reported to the Accounting Officer;
- iii. Monitored through the risk management process; and
- iv. Promptly reported to the Chief Financial Officer together with a management strategy of the identified risk.

The proposed management strategy could fall into one or more of the following categories:

- a) Accept the risk;
- b) Reduce the risk
- c) Spread the risk
- d) Transfer the risk
- e) Avoid the risk
- f) Monitor the risk

10.2.1 Acceptable risks

10.2.1.1 All personnel should be willing and able to take calculated risks to achieve their own and the municipality's objectives and to benefit the municipality. The associated risks of proposed actions and decisions should be properly identified, evaluated and managed to ensure that exposures are acceptable.

10.2.1.2 Within the municipality, particular care is needed in taking any action which could;

- i. Impact on the reputation of the municipality;
- ii. Impact on performance;
- iii. Undermine the independent and objective review of activities;
- iv. Result in fine by regulatory bodies; or
- v. Result in financial loss.

10.2.1.3 Any threat or opportunity which has a sizeable potential impact on any of the above should be examined, its exposures defined and it should be discussed with the appropriate line manager. Where there is significant potential impact and high likelihood of occurrence it should be referred to the risk committee.

10.2.2 Prohibited Risk Areas

10.2.2.1 Municipality policies and guidelines should show if there are any mandatory processes and procedures which should be complied with, e.g. the MFMA. Full compliance with these standards is required and confirmation of compliance will be sought in the Municipality's annual report. Non-compliance with prescribed procedures constitutes an unacceptable risk.

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10.2.2.2 Some risks are acceptable provided the prescribed organisational process is followed, e.g. expenditure proposals, staff recruitment, and designated responsibilities/authorities are adhered to.

11. RISK FRAMEWORK

11.1 The Municipality will maintain a Strategic risk register as a basis for implementing and monitoring the risk management activities. This profile will include details of the *Impact and Likelihood* of each of the risks identified, indicate *Ownership/Responsibility* and specify an *Action Plan* for treatment. This will be reviewed and updated yearly. Progress of the risk management programme will be a standing top management meeting agenda item.

11.2 To help to meet their responsibilities to identify, evaluate and manage operational risks, departments should maintain:

- i. An operational and corporate Risk profile which details the priority (impact and likelihood) and ownership within the departmental
- ii. A risk management action plan;
- iii. Evidence of regular reviews and monitoring of the profile and action plan, e.g. minutes of committee meetings.

12. ASSURANCE

11.1 The use of this risk management approach should help to identify areas of great concern for a detailed review.

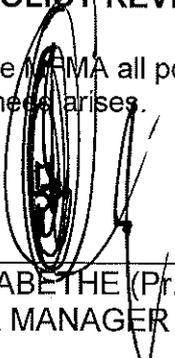
11.2 The Corporate Risk Profile will assist Internal Audit Function to direct its limited resources to those areas of great concern. For the corporate risks identified by management, internal audit will evaluate the effectiveness of the existing controls and risk management responses. The internal audit assurance will include an assessment of the reliability and effectiveness of the municipality's overall Risk Management programme.

13. RISK MEASUREMENT

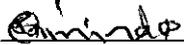
Risk shall be assessed by considering estimates of likelihood, severity and consequence. Risk analysis may be undertaken using both quantitative and qualitative measures. Where possible all risk exposures should be measured using a quantitative or financial outcome and/or human resource implications. Where quantitative measures are not possible, risks shall be measured using the relevant qualitative criteria.

14. POLICY REVIEW AND APPROVAL

In terms of the MAMA all policies must be reviewed and approved by council on annual basis or when the need arises.



MR. ME THABETHE (Pr. Tech. Eng)
MUNICIPAL MANAGER



CLLR. S.V GININDA
COUNCIL SPEAKER