HARRY GWALA DEVELOPMENT AGENCY (PTY) LTD

[REG. No: 2011/001221/07]

POLICY: RISK APPETITE AND TOLERANCE

Administrative Responsibility:	Chief Executive Officer
Implementing Department / Departmental Unit	Risk Management Unit

RISK APPETITE AND TOLERANCE POLICY

POLICY DOCUMENT CONTROL

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V1	Manager Internal Audit and Risk Management	13 April 2026	

TABLE OF CONTENT

1. Definition of Terms

No.	Term	Definition
1.1.	Municipal Entity Board	The governing body and custodian of governance
1.2.	Accounting Officer	The Chief Executive Officer
1.3.	Audit Committee	An independent committee constituted to review the effectiveness of control, governance and risk management within the municipal entity, established in terms of section 166 of the MFMA.
1.5.	Controls	A control is any measure or action that modifies risk. Controls include any policy, procedure, practice, process, technology, technique, method, or device that modifies or manages risk. Risk treatments become controls, or modify existing controls, once they have been implemented. The ultimate purpose of controls is to minimize the potential impact of identified emerging risks.
1.6.	COSO	Commission of Sponsoring Organizations
1.7.	COSO Framework	It is an internal control integrated framework which was commissioned by the Committee of Sponsoring of Organisations to give guidance on enterprise risk management, internal control and fraud deterrence designed to improve organizational performance and governance.
1.8.	Enterprise Risk Management	Enterprise risk management is a continuous, proactive and systematic process, effected by a entity's executive authority, accounting officer, management and other personnel, applied in strategic planning and across the Entity, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of the entity's objectives and optimize opportunities to enhance performance.
1.9.	Risk	Risk is uncertainty of the outcome, whether positive opportunity or negative threat, of actions and events with a possible impact on the achievement of the entity's objectives.
1.10.	Inherent Risk	This is the product of the probability of occurrence and the severity of outcome, prior to control measures.
1.11.	Residual Risk	This risk is after considering the effectiveness of management's risk response (controls)
1.12.	Internal Audit	Internal Audit refers to an independent, objective assurance and consulting activity designed to add value and improve HGDA's operations.

1.13.	ISO	International Organization for Standardisation
1.14.	ISO 31000	An international standard published in 2009 and updated in 2018 that provides principles and guidelines for effective risk management. The application of these guidelines can be customized to any organization and its context. It provides a common approach to managing any type of risks and is not industry or sector specific.
1.15.	Key Risk Indicator	A measure used in management to indicate how risky an activity is. Key risk indicators are metrics used by organizations to provide an early signal of increasing risk exposures in various areas of the enterprise. They monitor changes in the levels of risk exposure and contribute to the early warning signs that enable organizations to report risks, prevent crisis and mitigate them in time.
1.16.	Risk Appetite	Risk appetite is the amount and type of risk that HGDA is willing to take to meet its strategic objectives. A range of appetites exist for different risks, and these may change over time. "Risk appetite" is measured at the strategic objective level where the risk tolerances are aggregated for the specific risks impacting directly on the objectives. This measure is used to express the appetite in terms that are appropriate for the strategic objective.
1.17.	Risk Appetite statement	A written articulation of the aggregate level and types of risks that the entity is willing to accept, or to avoid in order to achieve its objectives.
1.18.	Risk Tolerance	Risk tolerance is the level of risk exposure for identified risks which the Municipal Entity Board may accept when considering the appropriate mitigation measures. It provides management with clear guidance on the risk identified.
1.19.	Risk Tolerance Statement	Explains the Entity's capacity to handle different levels of risk. It should describe the level of risk that the Municipal Entity is willing and able to accept.
1.20.	Risk Bearing Capacity	The maximum amount of risk that an entity is able to absorb in the pursuit of strategy and business objectives.
1.21.	Risk Bearing Capacity Statement	Explains the maximum amount of risk the Entity is able to handle in line with its mission/ values/ strategic goals, without exposing itself to the point where its existence and survival is under threat.
1.22.	Risk Threshold	A quantified limit or parameter within which risk can be taken or managed. The collective name for risk appetite, risk tolerance and risk bearing capacity.
1.23.	Risk Assessment	The overall process of identifying, analysing and evaluating risk. The risk assessment process should consider risks that are significant to the achievement of the Entity's objectives. This is a continuous

		process, requiring regular reviews, as and when internal and external changes influence the Entity's strategies and objectives.
1.24.	Risk Owner	The person accountable for managing a particular risk.
1.25.	Risk Management Committee	A committee appointed by the Accounting Officer responsible for overseeing risk management activities within the Agency.
1.26.	Risk Management Policy	Serves as a foundation for the HGDA's enterprise-wide risk management activities, as it encapsulates Management's philosophy and approach to risk management.

2. Introduction

Risk Appetite is the amount and type of risk that HGDA is willing to take in order to meet its strategic objectives. While Risk Tolerance is the level of risk exposure for identified risks which the Municipal Entity Board may accept when considering the appropriate mitigation measures. Risk Appetite and Tolerance are an integral part of the Enterprise Risk Management (ERM).

Enterprise risk management is a continuous, proactive and systematic process, effected by a entity's executive authority, accounting officer, management and other personnel, applied in strategic planning and across the entity, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of the entity's objectives and optimize opportunities to enhance performance.

The Risk Appetite and Tolerance policy has been developed in line with the Risk Management Framework. The need for a Risk Management Framework is mandated by the Municipal Finance Management Act (MFMA) section 62 and 95, National Treasury Public Sector Risk Management framework, King report on corporate governance, ISO 31000 as well as COSO framework. Therefore, this framework is aligned to the principle of COSO, ISO and the public sector Risk Management Framework published by National Treasury.

The management of risk at strategic, programme, project and operational levels need to be integrated so that the levels of activity within the entity support each other.

The Risk Appetite and Tolerance considerations should therefore be part of the Risk Management Plan of the Entity which should be embedded in the strategic planning process and in the normal working routines and activities of the Entity at operational level.

3. Legal and Regulatory Mandate

In developing this framework, reference was made to the following mandates in line with the HGDA's Risk Management Framework of which Risk Appetite and Tolerance are part of:

- Municipal Finance Management Act (MFMA) Act no 56 of 2003
- National Treasury Public Sector Risk Management Framework
- The King IV Report on Corporate Governance
- ISO 31000/2009 (International Standards for Risk Management)
- COSO (The Committee of Sponsoring Organisations)

4. Purpose of the Policy

The purpose of the Risk Appetite and Tolerance policy is to provide guidance on the process of developing and implementing risk thresholds. In particular, it aims to assist HGDA to set risk thresholds.

The policy provides a structured approach to management, measurement, and control of risks. HGDA has developed the overall risk appetite for the Entity to make certain that there is a governance process in place to ensure that the entity does not take unacceptable risks. The policy further provides early warning alert to Management Committee (MANCO) and oversight committees when adverse risk trends reach unacceptable limits.

The Harry Gwala Development Agency's risk appetite and tolerance levels are directly linked to its strategic objectives and addresses material risks, setting clear boundaries and expectations by establishing limits.

The risk appetite and tolerance statements set the overall tone for the Agency approach to risk taking and articulate clearly the motivations for taking on or avoiding certain risks.

The risk appetite and tolerance statements can be articulated in the summary statement that is easy for all stakeholders to understand and addresses the level s and types of risks the Agency is willing to accept to achieve its objectives

This document is part of the risk management frameworks of the Entity and must be read in conjunction with the risk management frameworks.

5. OBJECTIVES

The objectives of risk appetite and tolerance policy are to:

- Clearly define and articulate the Harry Gwala Development's Risk appetite
- Establish parameters for determining risk tolerance levels relative to its objectives;
- Align risk appetite to risk management strategy
- Monitor the risks identifies within their tolerance levels
- Improve management control and coordination of risk taking across the organisation; and
- Enhance risk response decisions.

6. Scope and Application

This policy applies throughout the Entity in as far as risk management is concerned. The scope of the document is as follows:

- Definition of key concepts
- Strategic goals of the entity
- Risk appetite and tolerance
- Harry Gwala Development Agency risk appetite and tolerance overview
- Risk appetite and tolerance per strategic risk per categories
- 2025/2026 Strategic Risks
- Profiling of 2026/2027 Strategic Risks

7. HARRY GWALA DEVELOPMENT's RISK APPETITE AND TOLERANCE STATEMENT

7.1. Risk Appetite

Risk Appetite is the amount and type of risk, at a broad level, that the Entity is willing to accept in pursuit of its strategic objectives which is ***Minor and insignificant.*** Risk Appetite reflects the risk management philosophy that the Municipal Entity Board wants MANCO to adopt and, in turn, influence its risk culture, operating style, and decision-making. It sets the boundary around the amount and type of risk HGDA might pursue.

7.2. Risk Tolerance

Risk Tolerance is the degree, amount, or volume of risk that the Entity is willing to withstand. The Entity is willing to tolerate medium risk exposure. This reflects the Entity's attitude towards risk. The risk tolerance has three sub-levels, namely Acceptable (Low deviation) ***Minor and insignificant***, Endurable (Medium deviation) ***Moderate*** and Undesirable (High deviation) – ***Extreme and Major***. These sub-levels aim to proactively identify the deviations, using indicators. Moreover, they assist monitor the deviation.

7.3 The Harry Gwala Development Agency's Board of Directors as governance assurance providers will not accept progress on the implementation of risk mitigating plans that is below 80% for all the risk profiles of the Agency per reporting period

The table below reflects the Agency's risk appetite and tolerance statements in alignment with the identified strategic risks:

No.	Strategic risks	Risk Appetite and Tolerance Statement
1.	Inability to realise the Agency's mandate	- The Agency adopts a low appetite and tolerance to the inability to realise its mandate - The Agency has low risk appetite for reputational damage - The Agency has low appetite for poor performance. The Agency will not accept performance that is below 80% per reporting period. - The Agency adopts a low appetite and tolerance to non-compliance - The agency adopts a low appetite and tolerance of vacancy rate for critical skills to be no more than 4% in a year cycle
2.	Inability to attract and retain investment into the district for the stimulation of the economy	- The Agency adopts a low risk tolerance in the establishment of less than 02 strategic partnerships. - The Agency adopts a low risk tolerance in attracting investment with the rand value a minimum R500 000 annually.
3.	Inadequate strategies to promote sustainable district- wide economic growth	- The Agency adopts low tolerance in non-mobilisation of resources for developed business plans (Pole treatment plant and water bottling facility) - The Agency adopts a low to zero tolerance in facilitating less than 05 signed off take agreements.
4.	Financial Unsustainability	- HGDA strives to balance financial management and operational continuity effectively and efficiently. Some risks are acceptable (if only temporary) for investment gain, but a long-term unfavourable position should be avoided. An acceptable level of liquidity should be maintained to meet foreseeable cash flow requirements (Liquidity ratio of 1:1) - In accordance with the MFMA, the Agency adopts a low risk appetite for all forms of loss resulting from unauthorized/irregular expenditure and wasteful or fruitless expenditure. - The Agency is not willing accept and tolerate any risk of poor financial management

		- Misrepresentation of Annual Financial Statements will not be acceptable. - Zero tolerance to lack of security and insurance of safeguarding of its assets.
5.	Vulnerability to Fraud and Corruption	- The Agency has no appetite and tolerance for fraud and corruption. It has no appetite for any dishonest or fraudulent behaviour and is committed to preventing such behaviour. The entity takes very serious approach to cases, or suspected cases, of fraud or corruption perpetrated by its staff, management, Municipal Entity board members and service providers and responds fully and fairly in accordance with the provisions of the Code of Conduct.

8. Risk Appetite and Tolerance Reporting Dashboard Template

The following dashboard template provides a high-level overview reporting of the residual risk rating per risk category:

Strategic Risks	Risk Residual Score	Risk Trend	Required Action
Inability to realise the Agency's mandate	Moderate	⟷	MANCO intervention required
Inability to attract and retain investment into the district for the stimulation of the economy	Critical	⬆	Report to the Municipal Entity Board for their intervention
Inadequate strategies to promote sustainable district- wide economic growth	Moderate	⬆	MANCO intervention required
Financial Unsustainability	Critical	⟷	MANCO intervention required
Vulnerability to Fraud and Corruption	Moderate	⟷	Business as usual
Information and Communication Technology	Major	⬆	Urgent action required by Management

Legend:

⬆ Risk has increased

⟷ Risk has remained unchanged

⬇ Risk has reduced

9. Roles and Responsibilities

For every strategy to be effective it needs key role players to implement, risk management is not a function of a particular level or rather the Top Management, but it is everybody's business.

9.1. Municipal Entity Board

The executive authority should take 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 Entity against significant risks.

Executive authority is accountable to the Municipal Entity Board, which provides oversight. The Municipal Entity Board has a major role in defining what it expects in integrity and ethical values and can confirm with its expectations through oversight activities. The Municipal Entity Board provides oversight with regards to risk management by:

a) Approving the risk appetite set for the entity
b) Approving risk tolerance and risk profiles
c) Understanding priority risks
d) Understanding the extent to which management had established effective risk management
e) Ensuring risk response for priority risk are effective
f) Ensuring that the Entity's risk management framework is effectively implemented and maintained.

9.2. Accounting Officer

The ultimate responsibility for risk management in the entity lies with the Accounting Officer. The Accounting Officer must promote a culture of risk management that affects the integrity and other factors of a positive control environment. The Accounting Officer must:

a) Ensure that risk management is integrated into all strategic management processes and that the significant risks are addressed
b) Ensure that the strategic plan of the entity indicates specific outputs and service delivery targets and that all significant risks are taken into consideration in the development of strategic plan
c) Ensure that the risk assessment is carried out in accordance with the relevant legislation and best practices
d) Set the risk tolerance level
e) Approve risk management strategy and know the extent to which management has established effective risk management in the municipal entity Board
f) Ensure that s/he is informed of the significant risks, along with actions taken by management in ensuring effective risk management.
g) The Accounting Officer will provide the Municipal entity Board and other stakeholders with assurance that key risks are properly identified, assessed, mitigated and monitored.

h) The Municipal entity Board deliberates on the risk profile of the entity as presented by the accounting officer and provide stakeholders with assurance that key risks are properly identified, assessed, mitigated and monitored.
i) The Accounting Officer will set an appropriate tone by supporting and being seen to be supporting the Entity's aspirations for effective management of risks.
j) The Accounting Officer will ensure that the Municipal entity Board maintains a formal risk management policy for the Entity.
k) The Accounting Officer will formally evaluate the effectiveness of the Entity's risk assessment process once a year and report to the municipal entity Board.
l) The Accounting Officer will confirm that the risk management process is accurately aligned to the strategy and performance objectives of the entity and report to the Municipal entity Board.
m) The Accounting Officer will delegate responsibilities for risk management to management and internal formations such as the risk management committee, Finance Committee, Information and Communication Technology Committee.
n) The Accounting Officer will hold Management accountable for designing, implementing, monitoring and integrating risk management into their day-to-day activities.
o) The Accounting Officer will approve the risk management policy, strategy, and implementation plan.
p) The Accounting Officer will approve the Fraud Prevention Policy, strategy and implementation plan.
q) The Accounting Officer will leverage the Audit Committee, internal Audit, external Audit and Risk Management Committee for assurance on the effectiveness of risk management.
r) The Accounting Officer will ensure appropriate action in respect of the recommendations of the Audit Committee, Internal Audit, External Audit and Risk Management Committee to improve risk management.

9.3. The Audit Committee

The Audit Committee is an independent committee responsible for oversight of the Entity's control, governance and risk management. The Audit Committee should provide an independent and objective view of the Entity's risk management effectiveness. Responsibilities of the Audit Committee, where there is a separate Risk Management Committee should include:

i. Reviewing and recommending disclosures on matters of risk in the annual financial statements.
ii. Provide regular feedback to the Accounting Officer on the adequacy and effectiveness of risk management in the Agency, including recommendations for improvement.
iii. Ensuring that the internal and external audit plans are aligned to risk profile of the Entity.
iv. Satisfy itself that it has appropriately addressed the following areas;
a) Financial reporting
b) Fraud risks
c) Internal financial controls

d) IT risks as they relate to financial reporting

v. Evaluate the effectiveness of internal audit in its responsibilities for risk management.

9.4. Risk Management Committee

The risk management committee is appointed by the Accounting Officer to assist in discharging his responsibilities for risk management. The membership of the risk management committee should compromise of both management and external members with the necessary blend of skills, competencies and attributes including the following critical aspects:

a) An intimate understanding of the Agency's mandate and operations.
b) The ability to act independently and objectively in the interest of the Entity
c) A thorough knowledge of risk management principles and their application

The Chairperson of the Risk Management Committee should be an independent external person, appointed by the Accounting Officer.

The responsibilities of the Risk Management Committee should be formally defined in a charter approved by the Accounting Officer. In discharging its governance responsibilities related to risk management, the risk management committee should:

a) Review risk management framework and strategy and recommend for approval by the Accounting Officer
b) Review the risk inherent risk appetite and tolerance/ risk thresholds set by the Entity and recommend for approval by the Accounting Officer
c) Review the Entity's risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register
d) Evaluate the effectiveness of mitigating strategies to address the material risk of the Entity.
e) Report to the Accounting Officer any material changes to the risk profile of the Entity.
f) Review the fraud prevention policy and recommend for approval by the accounting officer.
g) Evaluate the effectiveness of the implementation of fraud policy.
h) Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses.
i) Develop goals, objectives and key performance indicators to measure the effectiveness of risk management activity.
j) Set out the nature, role, responsibility and authority of risk management function within the Entity for approval by the Accounting Officer and oversee the performance of risk management functions.
k) 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.

9.5. Management

Management is responsible for executing their responsibilities and for integrating risk management into the operational routines. High level responsibilities of Management include:

a) Empowering officials to perform effectively in their risk management responsibilities, comprehensive orientation and ongoing opportunities for skills development.
b) Aligning the functional risk management methodologies and processes with the area of responsibility.
c) Developing personal attention to overseeing the management of key risks within the area of responsibility.
d) Maintain a cooperative relationship with the Risk Management Unit and Risk Champion
e) Provide risk management report.
f) Maintain proper functioning of the control environment within their area of responsibilities.
g) Monitoring risk management within their area of responsibility
h) Holding officials accountable for their specific risk management responsibilities.

9.6. Risk Champion

The Risk Champion is a person with the skills, knowledge, leadership qualities and power of office required to champion an aspect of risk management.

The key part of Risk Champion's responsibility should involve intervening in instances where the risk management efforts are being hampered, for example, by lack of cooperation by management and other officials and lack of institutional skills expertise.

The Risk champion should add value to the risk management process by providing guidance and support to manage "problematic" risks and risks of transversal nature that require a multiple participant approach.

In order to fulfil his/her function, Risk Champion should possess:

a) A good understanding of risk management concepts, principles and processes.
b) Good analytical skills
c) Expert power
d) Leaderships and motivational qualities
e) Good communication skills

The Risk Champion should not assume the role of the Risk Owner but should assist the Risk Owner to resolve problems.

9.7. Internal Audit

The role of the Internal Audit in risk management is to provide an independent, objective assurance on the effectiveness of the Entity's system of risk management. Internal Audit must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary. Internal Audit must develop its internal audit plan based on the key risk areas. In terms of the Global Internal Audit Standards, determining whether risk management processes are effective is a judgement resulting from the Internal auditor's assessment that:

a) Institutional objectives support and align with the Agency's mission
b) Significant risks are identified and assessed
c) Risk responses are appropriate to limit risk to an acceptable level.

d) Relevant risk information is captured and communicated in a timely manner to enable the Accounting Officer, Management, Risk Management Committee and other officials to carry out their responsibilities.

9.8. Staff of HGDA

All staff of HGDA have a responsibility to ensure that they take all reasonable steps within their respective areas of responsibility to ensure:

a) That they system of financial management and internal control established for the Entity is carried out diligently.
b) That the financial and other resources of the Entity are utilised effectively, efficiently, economically and transparently.
c) That any unauthorized, irregular or fruitless and wasteful expenditure and any other losses are prevented.
d) Implement risk management processes in their day to day work
e) Monitoring progress in managing job-related risks, reporting to the line Manager, Section Head or Head of Department.

9.9. External Audit

The External Auditor (Auditor General South Africa) provides an independent opinion on the effectiveness of risk management, usually focusing on:

a) Determining whether the risk management policy, strategy and implementation plan are in place and are appropriate.
b) Assessing the implementation of the risk management policy, strategy and implementation plan.
c) Reviewing the risk identification process to determine if it is sufficiently robust to facilitate the timely, correct and complete identification of significant risks, including new and emerging risks.
d) Determining whether management action plans to mitigate the risks are appropriate and are being effectively implemented.

10. Review of the Risk Appetite and Tolerance policy

Management will annually review the Risk Appetite and Tolerance policy to ensure that it remains relevant with the Municipal Entity's Board authority, objectives and responsibilities. All changes or amendments to the policy will be discussed and approved by the Accounting Officer.

11. Approval of the Risk Appetite and Tolerance policy

The Risk Appetite and Tolerance policy is endorsed by the Accounting Officer and approved by the Municipal Entity Board.

NAME	SIGNATURE	DESIGNATION	DATE
MR Q MNGUNI		Chief Executive Officer	30 JUNE 2026