

SYSTEMATIC RISK MANAGEMENT IN GERMAN MUNICIPALITIES

Jonas Heesch

University of Library Studies and Information Technologies

Abstract: *The article analyzes the importance and necessity of systematic risk management in German municipalities. It is established that local authorities, like companies, are exposed to a variety of risks, including financial, personnel, IT and reputational risks. Despite these risks, unlike private companies, there are no legal requirements for systematic risk monitoring in the public sector. The following section provides a rough description of the structure of municipal risk management, from the creation of a risk mission statement and risk inventory through to risk assessment and the implementation of measures. It is pointed out that both preventive and detective measures are required for effective risk management. In addition, the importance of a risk culture within the administration and the active involvement of managers and employees is emphasized. Particular attention is paid to the need for the use of IT-supported systems in larger administrations, while existing measures are often sufficient in smaller municipalities. The article concludes by stating that an unprepared crisis situation such as the recent pandemic leads to avoidable errors and inefficiencies.*

Keywords: *Municipality, risk monitoring, risk management system, risk mission statement, risk inventory, risk assessment*

INTRODUCTION

German municipalities also face risks, just like companies. Slumps in trade tax and staff problems can lead to reputational damage.

Many local authorities initially appear to be insufficiently prepared for the latest risks. Even outside of the recent pandemic, municipal action is associated with risks. The retirement of the baby boomer generation, the demands of digitalization and the risks of climate change could lead to staff shortages in the near future. However, financial risks or IT security risks have not yet been taken into consideration.

It is striking that public bodies, unlike the private sector and public companies, have no statutory requirements for risk monitoring and management. Although the municipal budget regulations of the federal states often require statements on opportunities and risks in the management report/financial report, in practice these statements are often limited to generalities and the obvious. For example, it is pointed out that cost increases in construction projects are possible and that there is a threat of interest rate increases for municipal loans, but there is no systematic basis.

In contrast to private-sector companies, insolvency is ruled out by law for municipalities, cities and districts. Nevertheless, the risks to which they are exposed should be analyzed systematically.

RESEARCH METHODOLOGY

The occurrence of events that result in a negative deviation from a specific target, is referred to as a 'risk'. An 'opportunity' is an event that brings you closer to your goal than expected (Seidel 2011, 26). For this reason, risks and opportunities are not limited to the financial side of a municipality. Reputational risks, IT risks, political risks and personnel risks must also be taken into account. The primary task of risk management is to systematically avoid the unprepared occurrence of these and other risks. zu vermeiden. Successful risk management in the municipality requires a risk culture, which should be described in a mission statement for the municipality (Romeike/Hager 2020, 135). It should be emphasized that the topic

of ‘risk management’ is of fundamental importance for the municipality’s managers. It is essential that the municipality’s management board not only talks about risk management, but also supports and helps shape the process. Managers and employees should also be involved by acquiring expertise at different levels and transferring responsibility to the operational level.

Financial risks can cause public administrations to lose their ability to manage themselves. The higher-level authority (municipal supervisory authority) can take supervisory measures ranging from the obligation to draw up a budget protection concept to forced administration if a municipality is unable to balance its budget over several financial years. However, reputational risks can have a more subtle but equally lasting effect on the municipality.

Late-recognized cases of embezzlement in local government often lead not only to direct financial losses, but also to a loss of trust in the administration on the part of citizens. This can lead to a decline in voluntary commitment and less identification with the local authority. To prevent these risks, it is advisable to implement a municipal risk management system. The operational implementation of the risk management system begins with the risk inventory following the adoption of a risk mission statement by the local authority.

The aim of the risk inventory is to systematically identify potential risks, developments and trends that could jeopardize the realization of municipal objectives (Gräf 2011, 35).

In order to identify risks, it is advisable to use existing systems within the municipality, for example the organizational structure at department, division or office level. This structural risk identification within the organization helps to clearly address the risk. This organizational structural risk identification supports a clear addressing of the risk to a department and its managers as the ‘risk owner’. Risk identification is illustrated below using an example process (risk inventory).

Table 1. Risk inventory (process)

Department	Environment	Object	Explanation	Responsible person
Building Authority	Allocation	Supplements	Significant supplements that are equivalent to a new contract award are subject to repeated tendering.	Max Mustermann

The next step involves a more detailed description of the identified risk and an initial rough assessment. An assessment is made as to whether the risk is relevant in the analyzed period or whether it cannot currently be taken into account. It must be taken into account that the expenditure for risk mitigation must always be commensurate with the consequences in the event of a risk materializing.

Table 2. Initial risk assessment (compliance risk)

Explanation	Detailed risk	Existence	Note
Supplements are erroneously updated on the basis of old contracts	Lack of technical expertise Different evaluation of offers	Relevant	...

A detailed assessment of the relevant risks should follow a rough risk assessment. The hazards to which the municipality is exposed without countermeasures must be documented (Gleißner 2022, 216).

In this phase, the probability of occurrence and the potential for damage are determined for each identified risk.

Table 3. Risk assessment (gross risk)

Probability of occurrence				Risk class	Potential damage
Frequency	Complexity	Personnel qualification	Technical support		
Frequent to very frequent annually.	High to very high complexity	Low qualification	Not available	Very high	...

Risk management can only be effective if there is an appropriate response to risks. Those responsible, both managers in the administration and those responsible for risk, must determine which measures have already been taken in the administration to manage risk. New measures should be established where there are gaps. For example, further training (Seidel 2011, 45) can be installed as an effective category of compliance measures (see Table 4).

Table 4. Measures (compliance measure category (Part I))

Measure Category	Previous measures	Enquiries	Possible measures	
			Preventive	Detective
Fortbildung	keine	...	Employee training, follow-up by Internal Audit	Contract award audit by Internal Audit

It is advisable to divide the measures into preventive and detective measures. Preventive measures help to avoid risks from the outset, while detective measures help to uncover risk situations that have already been realized.

It is often necessary to take additional measures to deal with risks that have not yet been taken into account (Diederichs 2023, 301). Finally, an assessment of the risks should be carried out after the application of measures (see Table 5).

Table 5. Measures with net risk (compliance measure category (Part II))

				Net risk
Result	Realization		Controls	Risk class
	Personal responsibility	Delegation		
...	Employee training	Contract award audit by Internal Audit	Internal audit	medium

It ensures that risks are systematically avoided or minimized by categorizing them and linking them

directly to measures and responsibilities.

A risk management system is not a rigid construct. Ongoing monitoring is required to regularly assess the effectiveness of the existing monitoring procedures both internally and externally (by internal audit) (DIIR Auditing Standard No. 2 2023, 14). Monitoring should essentially be a part of the risk management process that was planned in advance.

Incorporating the described processes of a risk management system into day-to-day municipal work requires a considerable amount of work. Those responsible must always bear in mind that local authority employees must be able to deal with risks. All local authorities have a large number of instructions and guidelines, such as the ‘four-eyes principle’, which in some cases has been extended to 12 or more eyes. However, there is often a lack of systematization and documentation.

During the last pandemic, it became clear that an unprepared crisis inevitably leads to avoidable errors and inefficiencies in dealing with the situation.

In larger administrations, IT-supported systems must be used. In smaller municipalities, however, it is often sufficient to record, structure and, if necessary, expand existing measures.

RESULT

There is an urgent need to establish systematic risk management in German municipalities in order to be prepared for a variety of challenges. In particular, financial risks, staff shortages due to demographic change, IT security threats and reputational risks require a structured approach. Although many local authorities recognize risks, there is often a lack of systematic and legally regulated risk monitoring, which can lead to inefficient action in crisis situations.

Preventive and detective measures and the establishment of a strong risk culture are crucial to the success of a risk management system. Managers and employees must be actively involved in the process and risk management processes must be consistently monitored and adapted. In larger administrations in particular, IT-supported systems should be used to optimize management, whereas in smaller local authorities, simplifying and structuring existing measures can often be sufficient.

CONCLUSION

In view of the increasing complexity of challenges such as digitalization, climate change and demographic change, the importance of professional risk management will continue to grow in the coming years. Local authorities must continuously develop their structures and processes in order to not only respond to risks, but also to recognize and exploit opportunities. New technologies such as artificial intelligence and machine learning could enable even more precise risk identification and assessment in the future. It may also become necessary to establish legal requirements for risk monitoring in public administration in order to ensure uniform standards and better prepare local authorities for future crises.

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СИСТЕМНО УПРАВЛЕНИЕ НА РИСКА В ГЕРМАНСКИТЕ ОБЩИНИ

Резюме: Статията анализира значението и необходимостта от системно управление на риска в германските общини. Установено е, че местните власти, подобно на дружествата, са изложени на различни рискове, включително финансови, свързани с персонала, ИТ и с репутацията. Въпреки тези рискове, за разлика от частните компании, в публичния сектор не съществуват законови изисквания за систематичен мониторинг на риска. В следващия раздел е представено приблизително описание на структурата на управлението на риска в общините – от създаването на декларация за мисията и списък на рисковете до оценката на риска и прилагането на мерки. Посочва се, че за ефективното управление на риска са необходими както превантивни, така и мерки за набеязването му. Освен това се изтъква значението на културата на риска в администрацията и активното участие на ръководителите и служителите. Особено внимание се обръща на необходимостта от използване на системи, поддържани от ИТ, в по-големите администрации, докато в по-малките общини съществуващите мерки често са достатъчни. Статията завършва с констатацията, че липсата на подготвеност за кризисна ситуация, каквато беше неотдавнашната пандемия, води до грешки и неефективност, които могат да бъдат избегнати.

Ключови думи: община, мониторинг на риска, система за управление на риска, мисия за риска, опис на риска, оценка на риска

Йонас Хеш, докторант

Университет по библиотекознание и информационни технологии

Email: JonasHeesch@web.de