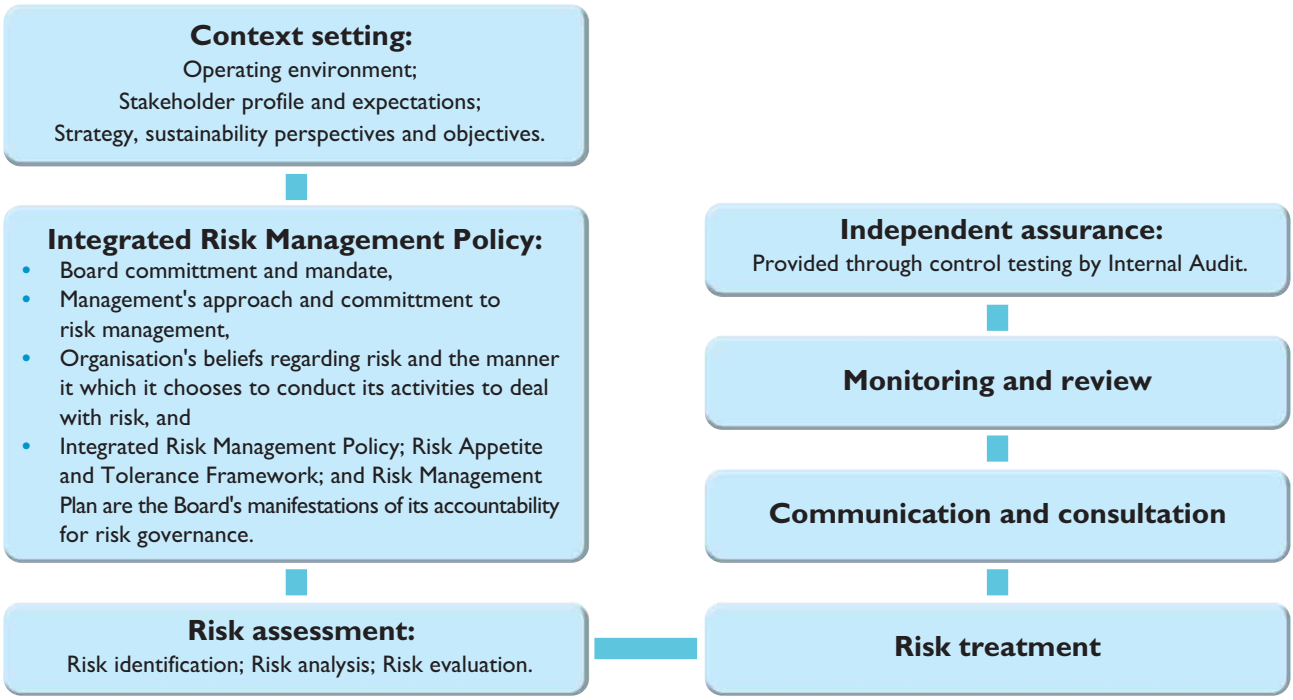
7. RISK MANAGEMENT

7.1 INTEGRATED RISK MANAGEMENT FRAMEWORK

Umgeni Water defines risk as all sources of uncertainty that could, positively or negatively, affect the organisation's ability to achieve its strategic objectives and outcomes. Risk management in the organisation is guided by an Integrated Risk Management Framework. In the past year, the Board of Umgeni Water improved the Integrated Risk Management framework by aligning it to the SANS 31000 Risk Management Principles and Guidelines, as well as, to King III. Umgeni Water's risk management process is aligned to strategy, which ensures a focused and directed process of risk management in the organisation.

Figure 7.1: Umgeni Water's integrated risk management process



Integrated Risk Management Governance structure

- The **Board** is ultimately accountable for integrated risk management, providing guidance and direction and is kept informed of the status and effectiveness of the risk management system.
- The **Audit Committee** monitors the status of strategic risks quarterly, the overall effectiveness of the organisation's risk management function, and its implementation by management, and reports the status to the Board.
- The **Corporate Risk Management Committee,** which comprises the Audit Committee Chairman, the Executive, Senior Managers and the divisional Risk Champions monitors the status of strategic and operational risks and approves them prior to strategic risk submissions to the Audit Committee.
- The **Executive** and **Senior Management** undertake risk assessments on an on-going basis to review the organisation's strategic risks and identify emerging risks and report these to the Corporate Risk Management Committee, Audit Committee and the Board.
- Risk Owners who are the **General Managers,** supported by **Divisional Risk Champions** integrate risk management into their day-to day management processes to continually identify emerging risks, review, treat and monitor the status of the risks assigned to them.

Figure 7.1: Umgeni Water's strategic risks aligned to current strategic perspectives

92% of strategic risks are treated to a level ≥ 50% overall control strength. Table 7.1 further ranks risks in accordance with the risk appetite and tolerance framework. Nine of the organisation's risks are outside the risk appetite level but within the tolerance level. One risk is outside both the risk appetite and tolerance level, namely, final wastewater effluent quality compliance. Progress with initiatives to bring this risk within the risk appetite level has been made and progressive improvements noted over the twelve-month period. The risk will only be brought within the appetite and tolerance level once planned capital improvements (within the five-year business plan) have been implemented.

7. RISK MANAGEMENT CONTINUED...

Table 7.1: Assessment of the major risks.

Risk Description	Treatment Approach
Risk outside both the risk appetite and risk tolerance levels (has been signed-off by the CE and Board).	
1. Wastewater effluent quality	Wastewater effluent quality standards are not being met. There are initiatives in place at each works to address this, details of which are covered under Product Quality section of this report.
Risks outside the risk appetite level, but within the risk tolerance level (have been signed off by Executive Management).	
2. Failure to Supply	Critical supply infrastructure has been identified and interventions are being implemented, details of which can be found under the Customer Satisfaction and Infrastructure Stability sections of this report.
3. Emergency Preparedness Plans (Operations)	Although emergency preparedness plans were reviewed to improve internal and external communications in the short-term, Umgeni Water is in the process of aligning its current Business Continuity Management (BCM) programme with best practise which includes development of a BCM Policy, an overarching BCM plan, to which all site-specific plans will be aligned.
4. Water resources availability	Water resource and demand management initiatives and modelling of hydrological impacts of climate change. Supply diversification initiatives, namely wastewater reuse and detailed feasibility of two seawater desalination plants. Development, by DWA, of the Mkomazi Water Project, for which the detailed feasibility level assessment is underway.
5. Skills availability and attraction	Implementation of succession plans and learnership programmes. Implementation of an approved workforce plan over a five-year period. Implementation of a salary broad-banding framework in 2012/2013.
6. Relations with customers	Improved implementation of customer engagement plan. Independent customer satisfaction surveys and response to issues raised.
7. Protection and safeguarding of assets	Implementation of the servitude policy and procedure. Investigation of options for management of encroachment, in particular, at Henley Dam, and resolution of community land claims.
8. Health and safety performance	Appointment of a dedicated SHEQ Manager (by October 2012). Implementation of NOSA and further embedding of the OHSAS 18001 safety management system. Enhancement of construction safety management.
9. Climate change	Simulation using additional climate change models is discussed under the Conserving our Natural Resources section of this report.
10. Potable Water quality	Product quality non-compliance is addressed under the Product Quality section of this report as it relates to Mvoti, Maphephethwa WTWs and the iLembe borehole schemes and small WTWs.

Financial risks, sustainable tariff, credit risk concentration and liquidity risk are detailed in the financial section of this annual report.

Emerging Risks / Opportunities

In line with the regular revisions of our strategy and as required by our governance structures, the Board, assisted by its sub-committees, Executive and Senior management regularly review the internal and external landscape that affect Umgeni Water's risk profile with a view of identifying and maintaining a watch on possible emerging risks:

- Water sector institutional realignment,
- Water pricing, and
- Sustainability of energy supply.

Durban Heights Water Treatment Works, 2012