

To citizenship

"For to be free is not merely to cast off one's chains, but to live in a way that respects and enhances the freedom of others."

– Nelson Mandela

To a life that respects and enhances freedom...
Rand Water is committed to sound governance that underpins a free society.



Governance and Risk Review

Governance

Rand Water operates on strong corporate governance principles that is representative of the interests of all stakeholders. The governance framework is aligned with King II and complies with the provisions of the Public Finance Management Act 1 of 1999 (PFMA) and the Protocol on Corporate Governance for Public Utilities.

This framework underpins the organisation's risk-based, integrated approach to internal controls that are entrenched throughout management and governance processes, and is constantly reviewed. Governance structures are focused on providing leadership within a framework of effective controls that make it possible to assess and manage risk throughout the organisation.

The Governance Portfolio is broadly concerned with organisational governance, an increasingly important aspect of managing Rand Water. Its key components are Forensic Audit, Internal Audit and the Group Secretariat. The portfolio also manages the organisation's social responsibility initiatives through the Rand Water Foundation and the Community-Based Projects Department (CBPD). These will be integrated into a single vehicle, primarily driven by the Rand Water Foundation, in the 2008/09 financial year.

Rand Water and the Public Finance Management Act, Act 1 of 1999 (PFMA)

As a public entity, Rand Water operates in terms of the PFMA. In terms of the PFMA, the accounting authority and accounting officers are accountable for the use of resources to deliver services to communities. The Act emphasises:

- regular financial reporting;
- independent auditing and supervision of internal control systems;
- improved accounting standards;
- a greater focus on output and performance; and
- increased accountability at all levels.

Shareholder's compact

Every year, in terms of the PFMA, Rand Water is obliged to conclude a shareholder's compact with its shareholder, the Minister of Water Affairs and Forestry (the Minister). The compact sets out the mandate that Rand Water is committed to, together with the organisation's key performance indicators for the year. One of the Board's responsibilities is to keep the Minister informed on all major developments affecting the organisation. This is achieved through:

- quarterly reports to the Minister;
- the annual report;
- detailed five-year business plans;
- direct contact between the Chairperson and; and
- ongoing engagement with the Department of Water Affairs and Forestry.

The Board

Role

Sound governance entrenched by the Board is integral to the sustainability of Rand Water. The Board is appointed by the minister. It has a board charter, detailing processes and procedures that regulate the functioning of the Board. Similarly, Board committees have formal and written terms of reference to ensure that duties are discharged optimally within the mandate the Board has conferred on each committee.

The Board is the core of Rand Water's governance system and is responsible for:

- providing clear strategic direction to the organisation;
- ensuring that the appropriate management structures are in place;
- promoting a culture of ethical behaviour;
- entrenching sound corporate governance through an integrated governance structure; and
- compliance with all the relevant laws, regulations and codes of practice.

The Board has a duty to address matters of significance and the concerns of all stakeholders, taking into account greater demands for accountability, and to recognise and balance the interests of all stakeholders.

Composition

The Board represents a broad range of skills and expertise to ensure an appropriate balance, to bring a sense of perspective and to add value and insight in strategic decision making.

There are 14 non-executive board members, and one executive board member, the Chief Executive (CE). In line with best practice, the roles of Chairperson and CE are separate. The term of office of a non-executive board member is for a period of no more than four years. Non-executive board members may be reappointed by the minister for a period of no more than three consecutive terms in office.



Rand Water Board and committee structures

Rand Water Board Chairperson Jean Ngubane

D Coovadia
M Doms
MJ Ellman
YJ Love
MJ Maluleke
NM Maseko
NP Mayathula-Khoza
SP Makhsha (nee Mothibi)

P Ndumo
JM Ngubane (Chairperson)
Z Manyere (Acting Chief Executive)
FAO Otieno
MM Petlane
F Saloojee
M Tsheke

Executive Committee Jean Ngubane

Responsibilities include overseeing implementation of strategy, development of strategic policies, monitoring, budgeting and financial controls.

MJ Maluleke
NM Maseko
Z Manyere
MM Petlane
M Tsheke
YJ Love*
FAO Otieno

Audit Committee MM Petlane

Responsibilities include reviewing internal and external audit plans and reports, recommending annual financial statements to the Board for approval and assessing management's performance with regard to financial matters.

D Coovadia
P Ndumo
JM Ngubane#
M Doms

Capital Investment Committee F Saloojee

Responsibilities include evaluating and making recommendations to the Board on new business ventures, capital investment proposals and capital investments above R20 million.

MJ Ellman
MJ Maluleke
FAO Otieno

Farm Committee MM Petlane

Responsible for the winding-up of the organisation's farming operations, which ceased on 30 December 2006.

M Doms
NP Mayathula-Khoza

Remuneration Committee YJ Love

Responsibilities include overseeing the development of general policies on executive management's remuneration, determining criteria to measure performance of executives, the awarding of bursaries and approving HR policies.

NP Mayathula-Khoza
FAO Otieno
MM Petlane
F Saloojee
JM Ngubane#
M Doms

Risk Committee MM Petlane

Responsibilities include assisting the Board in discharging its risk management responsibilities, considering risk strategy and policies, and assessing the effectiveness of risk management and controls processes.

MJ Ellman
SP Makhsha

Treasury Committee D Coovadia

Responsibilities include establishment and monitoring of the treasury policies and a treasury risk-management framework, as well as developing investment, funding and liquidity strategies.

NP Mayathula-Khoza
SP Makhsha
JM Ngubane#

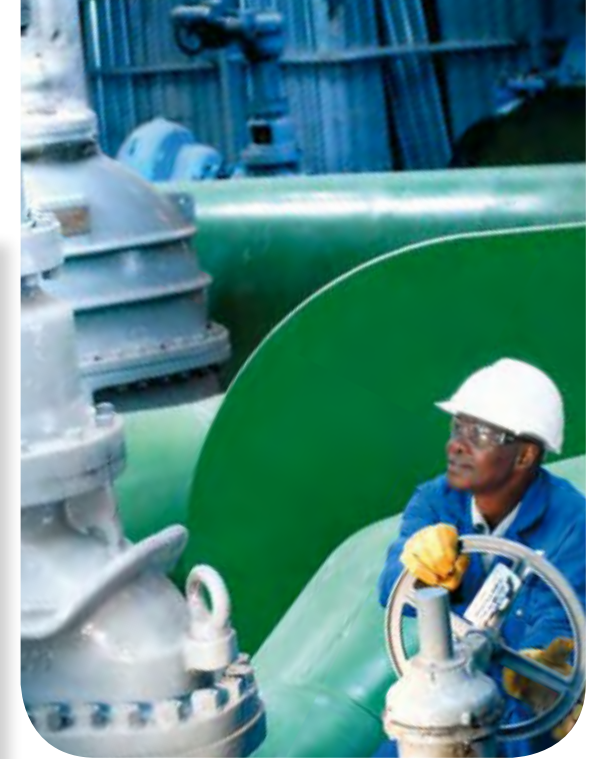
* - alternate
- ex officio

Governance and Risk Review continued

Summary of attendance of Board and sub-committee meetings
July 2007- June 2008

Surname	Initials	Board		Executive		Capital Investment		Audit		Treasury		Remuneration		Risk	
		A	B	A	B	A	B	A	B	A	B	A	B	A	B
Ngubane	JM	11	11	10	8			2	2			7	7		
Coovadia	D	11	7					4	4	2	2				
Dooms	M	11	10					4	4			7	7		
Ellman	MJ	11	10			7	6							3	3
Love	YJ	11	6	0	0							7	6		
Maluleke	MJ	11	11	10	8	7	7								
Maseko	NM	11	8	10	5										
Mayathula-Khoza	NP	11	7							2	2	7	5		
Makhesha	P	11	5							2	0			3	2
Ndumo	P	11	11					4	4						
Otieno	FAO	11	8	10	5	7	5					7	5		
Petlane	MM	11	9	10	8			4	4			7	7	3	3
Saloojee	F	11	8			7	7					7	4		
Tsheke	M	11	10	10	6										

A – Total number of meetings
B – Total meetings attended



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Board performance

The effectiveness and performance of all board members is assessed annually. The Board reviews its own role and effectiveness. The Chairperson of the Board reviews the performance of the CE, and the CE annually reviews the performance of executive management.

As separate, ring-fenced entities, Rand Water Services (RWS) and the Rand Water Foundation (RWF) have independent boards from that of Rand Water. The CE of Rand Water is a RWS board member. The performance of the various board members is assessed by their respective chairpersons.

Remuneration

The minister determines the remuneration of the board members.

Going concern

The board is satisfied that Rand Water has adequate resources to sustain its operation for the foreseeable future. Accordingly, Rand Water continues to adopt the going-concern basis in preparing its accounts. The independent auditors concur with this basis.

Group secretariat

The primary responsibilities of the Company Secretary include:

- guidance to the Board on their duties, responsibilities and powers, as well as guidance on compliance and broader governance developments;
- ensuring access to information in order to enhance the decision-making process;
- raising matters that may warrant the Board's attention; and
- ensuring and facilitating compliance with the relevant laws, regulations and codes of good practice.

Code of ethics

Rand Water is a diverse organisation united by its code of ethics. The code comprises a defined set of

rules that sets out clearly what is expected, leaving no grey areas and covering issues such as:

- values of the organisation;
- conflict of interest;
- reporting of irregularities;
- gifts;
- confidentiality;
- relationships with other employees, society and suppliers; and
- image.

Employees are constantly made aware of their responsibilities and accountabilities in terms of the code of ethics. Executive management and line managers are responsible for communicating, implementing and monitoring compliance with the code.

Failure to observe the provisions of the code may result in transgressors being disciplined in accordance with the procedures set out in Rand Water's disciplinary code.

Legal compliance

Rand Water complies with a broad body of legislation, including sectoral, financial and environmental legislation, in particular the Water Services Act, Act 108 of 1997, as amended, and the PFMA, setting out the exact operational and fiduciary duties of the Board. Rand Water's Legal Services and Group Governance ensure that the organisation keeps abreast of changing legislation.

Internal audit

Rand Water has an established internal audit function in compliance with the relevant statutes. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve Rand Water's operations. The department reports directly to the Group Governance Executive and has access to the Audit Committee and the Chief Executive.

The department assists Rand Water to accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of

risk management, control and governance processes. A three-year internal audit plan harnesses the audit effort, taking into consideration the integrated risks as identified in the corporate risk register. The three-year audit plan is developed in consultation with management, and is approved by the Audit Committee.

Forensic audit

The overarching function of the Forensic Audit Unit is to detect, investigate and report fraud, corruption, management neglect and noncompliance with policy, procedures and legislation. The unit also assists management with the prosecution of identified offenders and the recovery of identified losses, and performs background checks on Rand Water employees. In addition, the unit provides the external auditors with forensic reports, highlighting identified high risk areas.

The department is authorised to initiate proactive audits or investigations into processes, procedures and practices in the organisation to establish compliance with policies and procedures. Employees are encouraged to make use of an independent fraud hotline, maintained and monitored off site to enhance confidentiality.

External audit

The external auditors fulfil a statutory duty, providing an independent assessment of Rand Water's systems of internal financial control and annual financial statements. The external auditor's plan is reviewed by the Audit Committee to ensure that significant areas of concern are covered, without infringing on the external auditor's independence and right to audit.

The organisation's external auditors are SizweNtsaluba VSP. They are responsible for independently auditing and reporting on the financial statements in accordance with South African Generally Accepted Accounting Practice and in alignment with International Financial Reporting Standards (IFRS), the PFMA and the Water Services Act.



Risk management

Risk management is the process whereby business risks in an organisation are identified, evaluated and controlled. It incorporates all risks facing the organisation, not only physical and insurable or pure risks.

Risk management therefore has critical links to all aspects of the organisation, including the following areas:

- Corporate governance
- Community focus
- Structures and processes
- Standards of conduct
- Service delivery arrangements.

Risk management is an integral part of good governance and is a process whereby:

- There is shared awareness and understanding within the organisation of:
 - the nature and extent of the risks it faces;
 - the extent and categories of risks regarded as acceptable; and
 - the likelihood and potential impacts of the risk materialising.
- There is regular and ongoing identification, evaluation, management, monitoring and reporting of risks aimed at improving the ability to reduce the incidence or impact on the organisation of risks that do materialise;
- An appropriate assessment is made of the cost of operating particular controls relative to the benefit obtained in managing the related risk.

The process should be ongoing, embedded in the Rand Water culture and have the potential to reorient all staff around performance and improvement.

Rand Water does indeed have a good culture of managing risk. A significant number of embedded processes, resources and structures are in place to address risk management needs. These range from internal audit systems, insurance and risk finance, IT security, and compliance processes to quality management and a range

of other line management interventions. The Board monitors Rand Water's risk management performance in a structured way and Rand Water has an unwavering commitment to these practices.

Since 2005, Rand Water has supported an integrated enterprise approach to risk management that addresses the risks facing Rand Water in pursuing its strategy and facilitates the effective recognition and management of such risks. During the past twelve months, the focus has changed from managing risk in a reactive way to a more proactive approach to risk management. Rand Water has embarked on implementing an integrated end-to-end enterprise risk management system (ERMS) that will make it possible to start analysing trends and identifying key risk indicators across the organisation.

Risk management is not about eliminating risk, but about optimising operations by understanding risk and managing it more effectively.

As part of the process of understanding risks, Rand Water documents the risks and threats that could prevent the organisation from achieving its strategic objectives. These risks and threats include, but are not limited to:

- the political climate;
- financial performance and indicators;
- environmental and social disasters;
- health threats; and
- human resources issues.

Rand Water manages and mitigates these risks through the controls identified in its strategic risk register. The control mechanisms in the strategic risk register are weighted to determine whether there is any residual risk exposure. If there is, appropriate actions are taken to rectify shortcomings. These interventions are translated into business plans with the appropriate budget allocation and the responsible individual's performance contract to ensure implementation of the identified interventions.

One of the most traditional ways of managing and mitigating any potential exposure TO identified risks and threats is through risk financing or insurance.

Rand Water has adopted the process of enterprise-wide risk management (EWRM) and risk financing forms an integral part of the EWRM process. Risk Finance provides appropriate, flexible, innovative and dynamic solutions that seek to manage both inherent and residual risk, following annual risk assessments conducted by Rand Water. Any risk financing mechanism adopted by Rand Water must be comprehensive and cost effective. The ultimate aim is to ensure Rand Water's sustainability and continued growth.

As dictated by the EWRM process, the risk financing solutions will adequately address all risks facing the organisation, that is, both pure and business risks.

Rand Water's aim is to move away from using the traditional placement of insurance cover, combined with self-insurance funding as the only appropriate risk financing mechanism.

Rand Water is actively pursuing the use of alternative risk transfer mechanisms, specifically the use of cell captives and other appropriate mechanisms.

All risk financing related activities and mechanisms are managed in a holistic way. Key to this is ensuring that all risk financing activities are consolidated and managed centrally, taking into account Rand Water's business requirements and processes

Risk Financing activities are centred around Rand Water's sustainability and continued growth and support Rand Water's drive to move towards effective implementation of the triple bottom line.

Cost of risk (CoR) is used as a key indicator of the effectiveness of Rand Water's risk management

Governance and Risk Review continued

initiatives. CoR comprises all the organisation's risk related costs and is expressed as a percentage of turnover for the period under review. The main components of CoR are insurance costs (statutory and non-statutory), cost of self-insured or self-retained losses, risk control costs and corporate administration costs (including risk personnel costs).

Strategic risk register

Rand Water's strategic risk register records risks and threats that could prevent the organisation from achieving its strategic objectives. These include, but are not limited to, ensuring reliability of water supply to Rand Water's customers.

The strategic risk register also identifies controls to mitigate identified risks. The control mechanisms in the strategic risk register are weighted to determine whether there is any residual risk exposure. If there is, appropriate actions are identified to rectify shortcomings. These action plans are translated into business plans with budget allocations to ensure implementation. They are also translated into individual performance contracts to ensure effective tracking.

Risk governance framework

