

# The Uncertain Times

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Welcome to the third edition of **The Uncertain Times** – a regular newsletter bringing you snippets from the Business and Risk Management Industry, informative articles from our consultants and some lighter reading.

In this edition we discuss the emerging risk of water shortages as well as the importance of ensuring the quality of risk registers and have a short chat about the ever feared Risk Appetite and Tolerance.



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## Risk Appetite and Tolerance: Easy to implement key requirements

Written by Vanessa Thurlwell

Decisions around Risk Appetite and Tolerance (RAT) could potentially have far-reaching consequences for any organisation, but so often, organisations fear the RAT development process and there are many misconceptions.

The level at which the RAT debate should take place is therefore of critical importance as are the decisions that will eventually be taken. The main aim is for the organisation to determine if any specific activity fits within its risk appetite or not and this leads to treatment decisions being made.

### But what do we need to do to get started?

Develop a RAT Framework which should meet the following criteria:

- Should be reflective of strategy, stakeholder expectations and all key aspects of the business
- Acknowledges a willingness and capacity to take on risk
- Is documented as a formal risk appetite statement
- Considers the skills, resources and technology required to manage risk
- Contains both quantitative and qualitative measures
- Is periodically reviewed and reconsidered with reference to evolving conditions
- Has been approved by the Board

Follow these simple steps to develop your RAT Framework:

1. Review current strategic and risk management environment
2. Interviews with key role players
3. Develop the RAT framework
4. Engage with the Board and Senior Management to achieve buy-in and approval and ensure alignment with existing processes

Ensure the following considerations are taken into account:

- Obtaining the support and approval of decision makers
- Ensure RAT is adding value as a decision making tool
- Ensuring RAT informs decisions where an easy solution is not readily obvious
- RAT levels must be defensible
- The organisation must consider risks to the objective and of the objective
- The severity scale MUST be granular (more than one consequence type)

**Vanessa Thurlwell** has 11 years of experience in risk management, primarily enterprise and operational risk management. Vanessa's specialist skills include advisory and implementation at all phases of the risk management cycle, analysing risk management maturity and conducting gap analyses against risk frameworks, developing risk appetite and risk management frameworks, facilitating risk management activities including risk assessments, reporting, control assessments and conducting training at all levels in an organisation.

Contact us for any advice or assistance in the following areas:

- Enterprise Risk Management
- Emergency and Business Continuity Management
- Governance and Compliance
- Risk Management Software Solutions
- Internal Audit
- Corporate Secretarial
- Environmental Risk Management
- Sustainability Risk Management
- Human Failure Analysis

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## Water shedding, is it the next thing risk practitioners and executives should worry about?

Written by: Oliver Laloux

With regular electricity load curtailment events in many parts of the country a frequent reminder that Eskom cannot supply all of its customers the electricity they want or need, many of us often focus on the state of our electricity demand/supply shortfall, from Board level deliberations to dinner table discussions. Are executives and the public at large focussed on 'now' problems, rather than future uncertainties?

Similar to the supply/demand dynamics at play in the energy sector, it has been known for decades that Southern Africa is a water scarce region. The amount of available water is extremely limited whilst demand for this life sustaining substance increases, exponentially, unabated. Combine too little supply with increasing demand, rapid urban growth, well publicised infrastructure failings, a lack of skills and planning and industrial growth, and we get a picture where the various factors at play do not add up. South Africa is currently ranked as the 30<sup>th</sup> driest country, well above areas like California and India where serious water challenges have already arisen.

Unlike electricity, where we have a level of control and options over its production, there remains few commercially and environmentally viable means of producing water. Sea water desalination seen by many as a silver bullet remains costly, technically challenging and fraught with environmental consequences. In many respect, we are dependent on rainfall patterns, available infrastructure, including dams, bulk water schemes and treatment facilities and the ongoing maintenance of this infrastructure. We are equally dependent on good demand side management to reduce and re-use the little resource that we have. We are dependent on public perceptions and public behaviour towards water. As a water scarce country, we are one of the few using drinking water quality to flush toilets and run factories. Anyone who has visited Singapore will quickly realise that in that country, this would be considered criminal. If a supply/demand balancing act is not achieved and our attitudes changed, and we need to aim for it now, the consequences to our country, economy and society will make the power shortages seem insignificant.

When the supply runs dry, the taps run dry. The problem is that the taps will run dry for a long time, not the current 2 or 3 hours experienced with the load curtailment program. What would you do if your house, factory, place of work had no water for a week, a month, 90 days? The solution is never an easy one as it involves a complex range of issues including making the entire water consumer lifecycle economically viable, meeting social and development goals, educating the public to become water wise, reducing our current water reticulation waste of 30-40 % at municipal level, funding infrastructure and maintenance requirements against competing interests and many others.

Good work is being done and many plans exist, from individual bulk water utility strategic plans to the Department of Water and Sanitation's 2020 vision and the government's 5 point water and sanitation plan. Much of the current work is however in 'plans' and not in 'actions'. There has been fair media coverage lately intimating that serious political will is necessary to address our water risks. We suggest that waiting for political will is not the answer. Every risk practitioner should understand the situation and ascertain the consequences that this risk can have on an organisation and its assets and get the message to the Board or senior structures. The more our society and leaders become aware of the problem, the more focussed we will become at finding the solutions or risk treatment options; only one of them may be political will.



## On a lighter note...



### Funny Health and Safety Slogans

- We upped our Safety Standards – up yours!
- Follow the safety rules or you will be fired before you hit the ground
- In case of fire, exit building before tweeting about it
- While on a ladder, never step back to admire your work

### Mondial's New Training Company



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To read the full article, click [HERE](#) ➡

**Oliver Laloux** has a BSc TRP-Honours and MSc. He is the CEO of Mondial Consultants and a prior director of a large risk consultancy. Oliver has over 20 years' experience in enterprise risk management and project risk management as well as various elements of health, safety, environmental and quality (HSEQ) management. He has been the lead for numerous consulting projects, specialist Enterprise Risk Management (ERM) projects, project governance assignments and due diligence surveys in both South Africa and abroad, including clients in various sectors of industry.

# The Absolute Necessity of Risk Register Quality

Written by Craig Smith

Clear, rigorous, reliable and transparent risk information will instil confidence in regulators, investors and other stakeholders.

*With large amounts of material being fed into risk databases by a growing number of people, often not risk management specialists and often with more pressing commitments, and without the skill and guidance needed to do something that may be complex, it is not surprising that the resulting risk registers may sometimes be sub-optimal.*

Occasionally the risk assessment process creates risk registers that are almost unusable and lacking in credibility. In some cases, months or even years of work are needed to reorganise and clean up the material, then rebuild its reputation.

The introduction of risk management software also requires that the risk information has a consistency and integrity to ensure that the software can generate valuable outputs. That information primarily originates from risk registers and will have to meet a minimum standard or data integrity risks can result if the source data is poorly crafted.

In an effort to improve the quality and standing of risk registers within the organisation it is necessary to constantly review the available risk registers to provide detailed, educational feedback to authors of risk registers that enables them to improve their content and write better material in future.

When risk registers become more widespread and numerous, more and more people are pulled in to write content for them. Where a short list of 'risks' might once have been written primarily by one person (with suggestions from others perhaps), it becomes more likely that several people will be writing items, perhaps separately and from their different perspectives.

Confusing and inconvenient inconsistency is a potential problem when this happens. Even putting people into one room for a workshop does not entirely eliminate the problem of different perspectives because people are usually asked just to suggest 'risks', without due regard for the perspective that led to their suggestion or following a common consistent process that enables proper context setting ahead of their completion. All too often too much time is spent on the wrong components of the risk assessment process and result in sub-optimal risk outputs in the registers.

In addition, the writers and contributors of 'risk' ideas today are less likely to be risk specialists, which can lead to technically incorrect content such as risk factors confused with 'risks', causes and impacts being mistaken as risks, inaccurate risk-to-control mapping and control definitions that are captured as control failings.

Low quality content means that time is wasted on:

- confused, protracted discussions in risk assessment workshops and risk review meetings;
- unnecessary mental effort every time someone has to read or revise any of the text;
- enquiries to establish what risk and control descriptions mean so that they can be summarised for reporting; and
- resolving problems resulting from control weaknesses being obscured by unclear wording and ubiquitous logical flaws.

Evaluating the quality of risk registers is not a well-established practice yet and in reviewing risk register quality it is difficult to comprehensively and discretely evaluate and record all of the weaknesses that prevail.

Organisations should review their risk registers on a regular basis as a minimum and communicate changes and emerging risks with the risk management unit. Consolidating, coordinating, summarising and reporting on risks require the use of consistent and uniform risk registers. Standard templates for the risk register should be utilised with no deviations.

The quality and consistency of the text in the register should be evaluated according to clarity, suitability, and consistency.

In order for risk managers to get risk registers to an adequate level so that sufficient reliance can be placed on their content, substantial awareness and skills level training is required. This would allow the risk management unit to facilitate the consistent consolidation, aggregation, monitoring, improvement, reporting and oversight of risks and risk management matters within the organisation.

The consequences of poorly developed and written risk registers can be seen in numerous examples of failed projects, damaged corporate reputations and dissatisfied stakeholders, both in the private and public sectors. Risk registers assist organisations in supporting their objectives and the risk register is an important assurance tool.

Each year we see events that demonstrate that organisations in South Africa, regardless of type, are not immune to the consequences of poor risk management. These events suggest current approaches to risk management may not be as developed as they could be. The ramifications are varied, but include loss of reputation, productivity and financial loss, death and injury, and prosecutions through our judicial system. All of these aspects could have been covered, evaluated and managed through a consistent and robust application of risk assessments and risk registers.

To read the full article, click [HERE](#) ➡

**Craig Smith** (PrEng, MBA) has 17 years' experience in the field of risk management and during that time has consulted to a range of clients in various industry sectors and regions.

Craig is a dedicated organisational and strategic risk management consultant, a risk culture strategist who is passionate about organisational capacity building and performance management. There is no ideal organisational culture for governance or risk management but Craig can assist in developing your organisation's level of maturity by providing a proven programme with supporting processes.