# Kelda Group Risk and Assurance Policy

KeldaGroup

## Contents



## 1 Purpose and scope

The aim of Kelda's policy is to establish and embed best practice risk management and assurance in normal business process and culture. This will help us achieve Kelda's objectives and drive value by improving Kelda's ability to predict and prepare for challenges to the achievement of its objectives and support the creation and protection of value in the company.

It should be applied consistently to all activities, decisions and processes associated with the normal operation of the company. It should be read and implemented by all leaders and managers and cascaded to their teams.

## 2 Definitions

A *risk* is the effect of uncertainty on the achievement of one or more of Kelda's objectives. It can be a threat or an opportunity. A hazard is something with the potential to cause harm.

*Risk management* is the on-going process to identify, measure, manage, monitor and report risk.

*Assurance* provides management, leadership, our regulators and customers with confidence that risk and reward are being managed to the level that is agreed, understood and acceptable.
We operate using ISO31000 guidelines and specification.

## 3 Kelda risk management principles

**Transparent risk culture:** All risks are measured, managed, monitored and reported.

**Proactive:** Kelda risk management is dynamic with risks and opportunities identified and escalated to be managed at the appropriate level of the business.

**Risk governance:** All risks are subject to appropriate controls and governance.

**Risk appetite:** A clearly defined risk appetite framework is aligned to the business strategy and reflects the Board's approach to risk taking.

## 4 Kelda risk management process

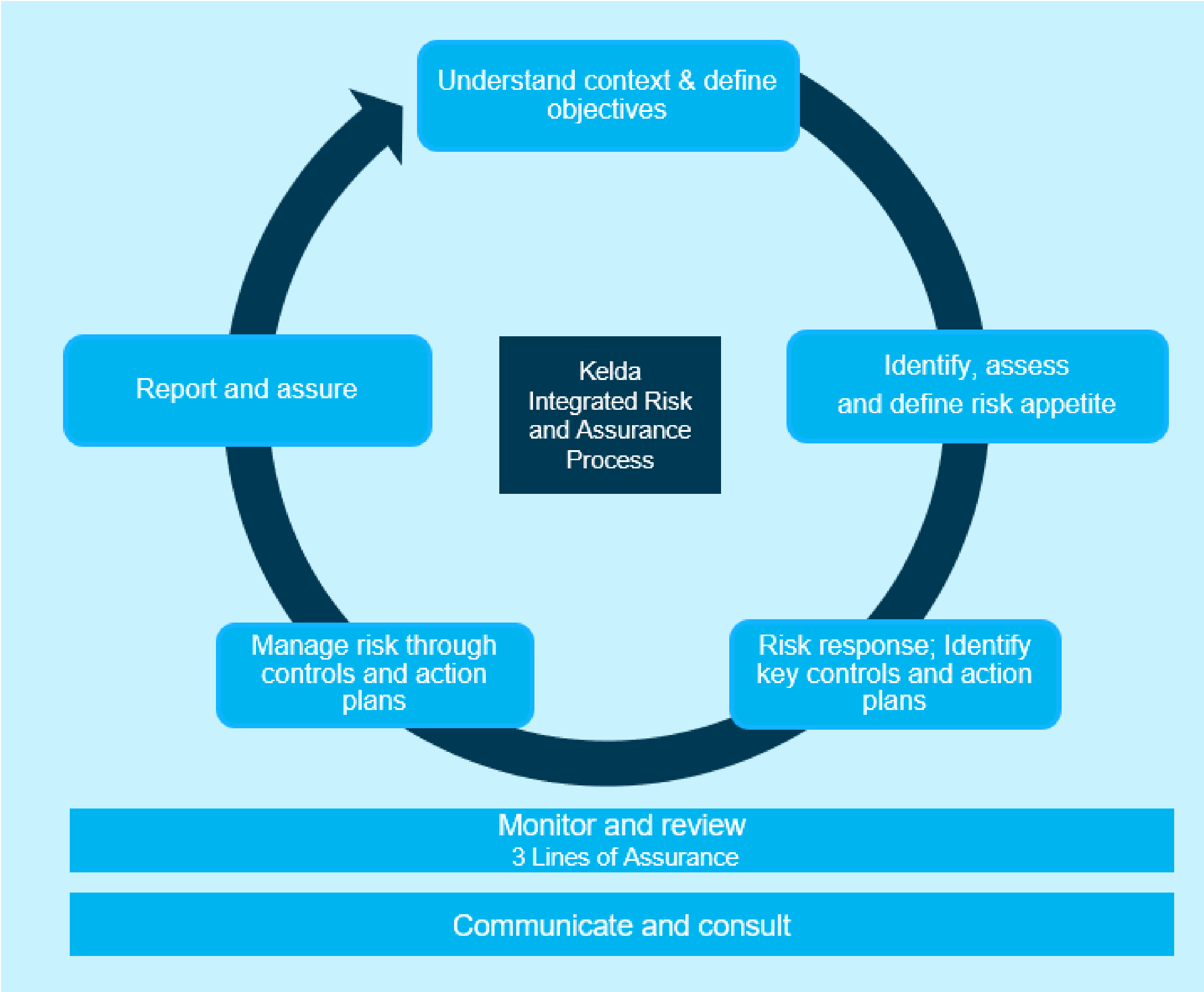



Figure 1: Kelda's risk management process (based on ISO31000:2018)

***Understand context and objectives*****:** Everyone should be clear about the objective of their role and the business process they are operating. It is important to understand the context of that process and monitor the impact of changes on the nature or level of risk.

***Risk assessment***

***1 - Identify risks:*** It is everyone's responsibility to identify what might go wrong, hazards or opportunities we might take. These should be recorded in the appropriate risk register, or at a hub meeting, to enable effective risk assessment and allocation to a risk owner. Risk may be identified by managers reviewing a process, those who own a process, or by staff external to that process. The acceptable level of risk should be defined by the risk owner.

***2 - Measure risks*****:** The likelihood of a risk event arising and the severity of the impact should be determined through risk analysis referring to Kelda's probability guidance, the Kelda Group risk scale and matrix or local asset or operational risk guidance. Risk Champions will support and ensure consistency. Leadership teams, working with the Risk & Compliance Team, should consider the relationship between risks and the overall impact using scenario analysis.

***3 - Define risk appetite and escalate:*** The acceptable level of risk should be defined by the risk owner bearing in mind Kelda's risk appetite statement. This available on the Kelda Group Risk Management SharePoint site: https://yorkshirewater.sharepoint.com/sites/yw-51/Pages/Home.aspx. Risks should be escalated to be managed at the appropriate level of the business. The criteria for escalating a risk to leadership team level, for inclusion on the corporate risk register, are set out in the Kelda Group Risk Matrix and escalation approach. This is reviewed annually by Risk Committee, see the Kelda Group Risk Management SharePoint site.
***Risk response:*** Risks will be managed through one of the following responses:

- **Terminate**: remove the hazard and related risk, this may stop an activity or operation
- **Treat:** use controls to reduce the likelihood or impact of the risk
- **Transfer:** move the risk to another entity, typically through insurance
- **Tolerate**: make a conscious decision to accept the risk, and monitor
- **Take:** explore the upside of the risk taking new opportunities.

***Monitoring and review*****:** Assurance that risk is being mitigated to the level understood by management and Board will be monitored across the three lines of assurance, see Appendix 1, and action taken to address issues raised.

- First line: robust risk and control environment, effective operation of policy and procedure
- Second line: oversight teams provide consistent monitoring of operation of the control environment
- Third line: independent assurance over the operation of the control environment.

Integrated assurance ensures that managers and leaders receive sufficient, meaningful assurance against Corporate Risks, our core processes and principal legislative or regulatory obligations at the right time to support decision making. This integrated approach builds the pyramid of assurance to provide the Board and Kelda Management team with comfort that risks are being identified and escalated to be managed appropriately at the right level of the business.
The level of assurance required by management and leadership is proportionate to the level of risk and risk appetite. Good assurance is timely to decisions being made, evidence based and acted upon. Kelda maps the assurance over corporate risk to ensure that it is sufficient, integrated and understood. Assurance should enhance quality but should not be relied on in place of processes and controls designed to manage the business.

***Recording and reporting*****:** Risk reporting is designed to provide those responsible for risk management throughout Kelda with the appropriate information to undertake their role effectively. It is timely, succinct and relevant. It combines visual symbols with text to ensure those responsible understand the level of risk, speed of onset, risk treatment, treatment status. Reports highlight key messages and recommended actions.
***Communication and consultation:*** Effective communication and consultation is critical to the successful management of risk. Conversations on risk are not one-off standalone events, but important factors at every point of the process. It is vital that staff at all levels across the organisation are involved if risk management is to be truly embedded and a useful management tool.

## 5 Responsibility

***All Kelda staff*****:** Identifying risk in their work, highlighting areas of concern, and recording in the appropriate register. Implementing and operating controls over risk by consistently applying company policy and procedure.

***Management*****:** Developing a transparent risk culture for the identification, escalation and management of risk and encouraging all staff to instil risk awareness in their behaviour. Ensuring the ownership of risk is properly allocated to permit clear responsibility for establishing and implementing controls or action plans. Reviewing the design and implementation of controls, including the application of company policy and procedure. Implementing agreed actions from oversight and independent assurance functions to improve controls.

***Risk owners*****:** Measurement, management, and where relevant, escalation of the risk. Gaining sufficient assurance on the design and implementation of controls, including the application of company policy and procedure, and ensuring the implementation of agreed actions.
***Leadership teams*****:** Ensuring a transparent risk culture for risk identification and escalation across the Business Unit. Identifying and assessing the impact of interrelated risks through risk scenarios. Overseeing the establishment and maintenance of control frameworks to manage the risk being borne by the Business Unit to appetite, gaining assurance over its design and operation. Establish and monitor action plans to manage escalating and emerging risks. Coordinating integrated assurance across leadership team risks, monitoring the outcome and overseeing the implementation of agreed actions.

***Risk Committee*****:** Assessment of the risk management and assurance framework and process, including this policy, and overview of the risk position. Reporting risk issues to KMT, BAC, Board, Board Investment Committee (BIC) and Regulation Committee as required.

***Kelda Management Team (KMT*****):** Manage the overall risk being borne by the business to appetite. Ensure that resources are deployed to manage risk to appetite.

***Audit Committee (BAC*****):** Understand the risk management and assurance framework and process, including this policy, providing comfort to Board on its adequacy. This includes forming a view on the adequacy of the process to support the disclosures in the Annual Report and Financial Statements. Review relevant individual material risks.

***Board*****:** Understand and assess the acceptability of the total risk borne by the business and set risk appetite. Review individual material risks.

***Risk & Compliance Team*****:** Development and maintenance of an effective risk management system to facilitate the effective management of risk across Kelda.

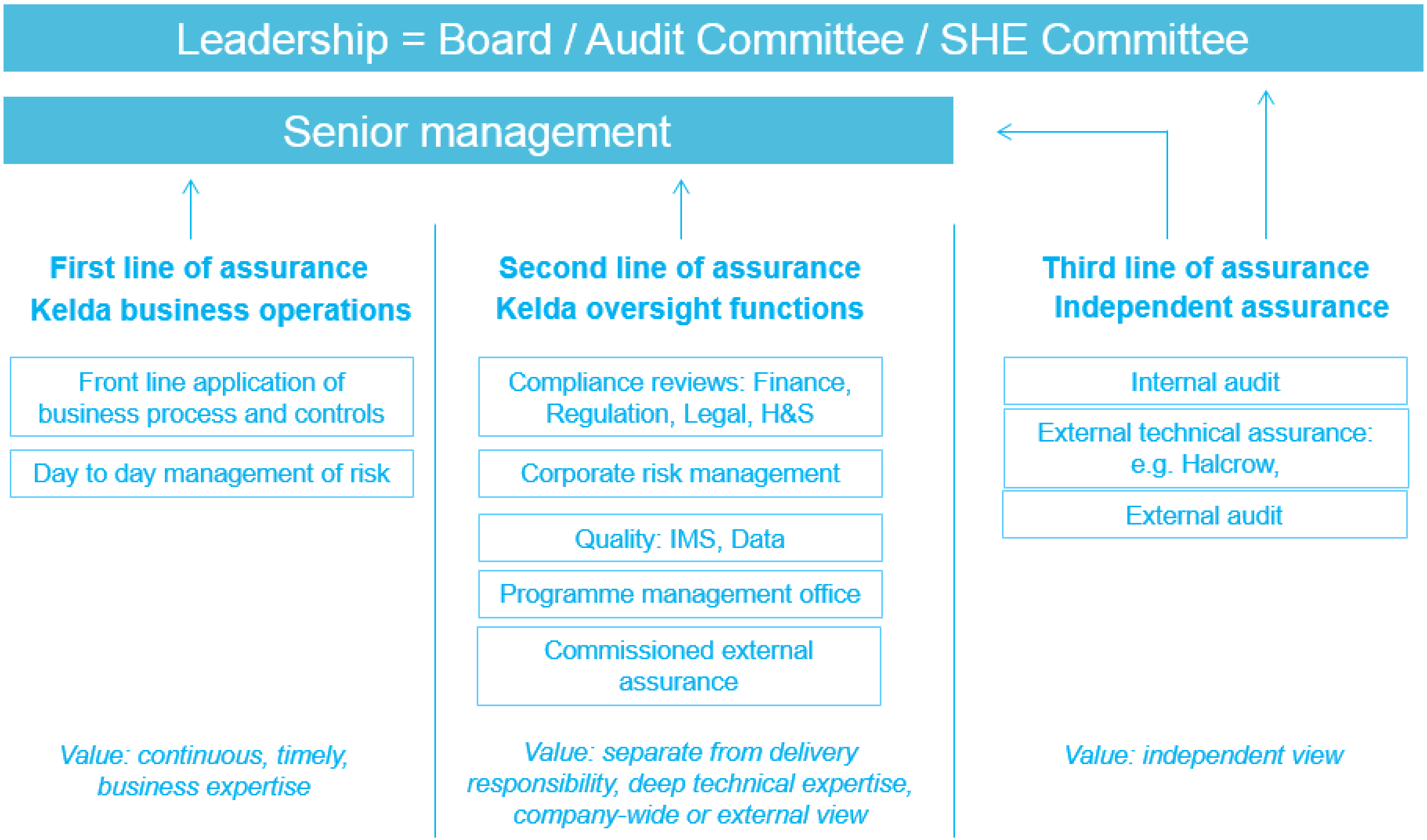
***Risk Champions*****:** Support leadership teams deliver effective, efficient risk management across all services, particularly risk monitoring and escalation.

**Review:** This policy will be reviewed annually with Risk Committee and updated as required.

## Appendices

Appendix 1: Kelda three lines of assurance model
Appendix 2: Kelda risk management responsibility and accountability

**Appendix 1: Kelda three lines of assurance model**



## Appendix 2: Kelda risk management: responsibility and accountability

# RACI

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| # | What | Responsible | Accountable | Consulted | Informed |
|---|---|---|---|---|---|
| 1 | Understand and assess the acceptability of the total risk being borne by the business<br>Setting the risk appetite for the Kelda<br>Ad hoc reviews of material risks | KMT via Risk Committee | Board | Directors T2's | Leadership Teams Risk Owners |
| 2 | Understand the risk identification, management and assurance framework and process, providing comfort to Board on its adequacy. This includes forming a view on the adequacy of the process to support the disclosures in the Annual Report and Financial statements<br>Ad hoc review of material financial risks | KMT via Risk Committee | Board Audit Co | Directors T2's Specialist Advisors | Leadership Teams Risk Owners |
| 3 | Understand and assess the acceptability of the totality of Safety, Health and Environment risk being borne by the business<br>Ad hoc review of material H&S risks | KMT via Risk Committee | SHE Committee | Directors T2's | Leadership Teams Risk Owners |
| 4 | Manage the overall risk being borne by the business to appetite. Ensure that resources are deployed to manage risk to appetite | Directors T2's | KMT via Risk Committee | Directors T2's | Leadership Teams Risk Owners |
| 5 | Oversight and facilitation of the operation of the risk identification, management and assurance framework and process and overview of the risk position<br>Reporting risk issues to KMT, BAC, Board, BIC and Regulation Committee as required | Risk and Audit Team | KMT via Risk Committee | Directors T2's | Leadership Teams Risk Owners |
| 6 | Risk identification and escalation. Implementation and maintenance of the controls framework to manage the risk being borne by the Business Unit to appetite. Establish and monitor action plans to manage escalating and emerging risk | Directors T2's Leadership Teams | KMT | Risk and Audit Team, Specialist Advisors | All Colleagues |

Version Control

Policy Owner:  Rachel Lindley Head of Risk and Internal Audit

Date of adoption:  September 2018

Date of last update/review:  May 2019