

Mā tō tātou takiwā
For our District

Audit, Risk and Finance
Committee

Risk and Assurance Report
February 2023



**Western
Bay of Plenty**
District Council

Contents

1. Risk Management	3
Risk Management Work Programme	10
2. Internal Audit (IA)	12
2.1 Internal Audit Plan 2022/23 to 2025/26	12
2.2 Assurance Plan Summary	14

1. Risk Management

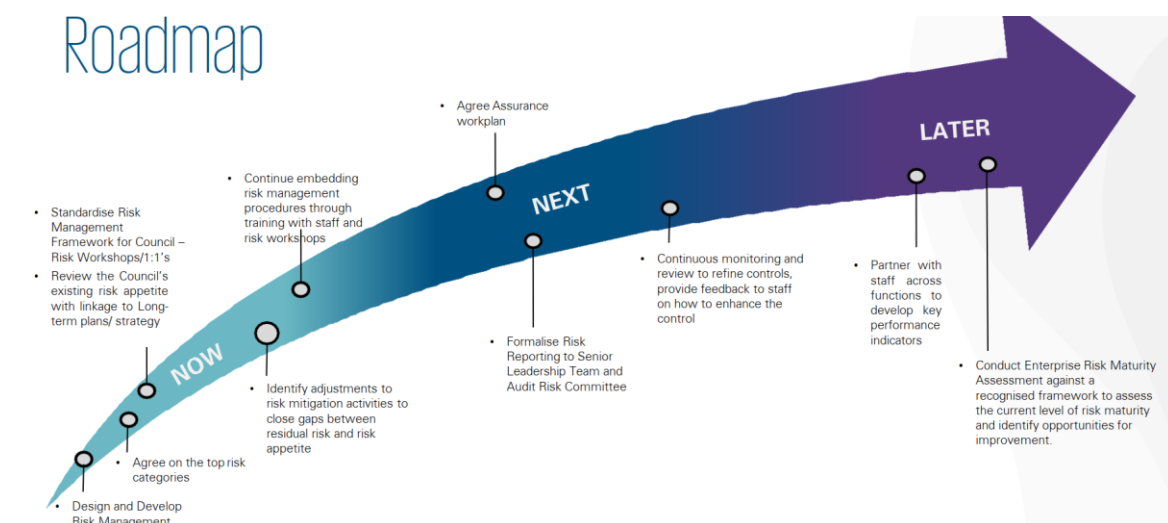
1.1 Purpose of Report

This report is to provide an update on: –

- KPMG Post Risk Workshop recommendations and progress to maturity of the roadmap (covered in the Risk Management Work Programme)
- WBOPDC Strategic Risk Register
- Infrastructure Operational Risk Register
- The Risk Management Work Programme

1.2 Background

WBOPDC has a Strategic Risk Register identifying its top 8 risks. The Strategic Risk Register is what SLT believes to be their top 8 risks as of May 2022. The Strategic Risk Register will be revisited in March 2023 with SLT to update the register and identify any new strategic risks.



1.3 Strategic Risk Register

Purpose

The Council's Strategic Risk Register has been implemented to ensure that:

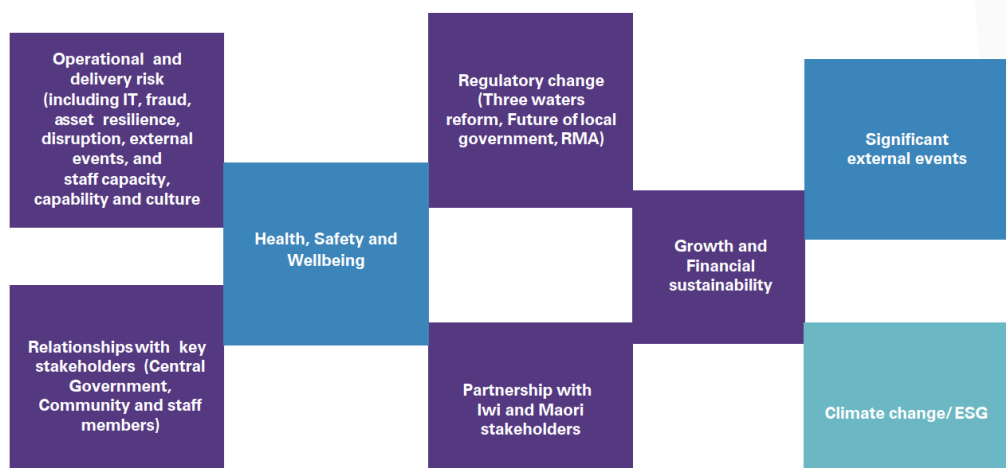
- Strategic risks are identified.
- Strategic risks are assessed – Inherent Rating (in the absence of controls).
- Effectiveness of existing controls is evaluated.
- Residual risk is assessed.
- Risk treatment options are considered.
- Target Risk is assessed.
- Actions are determined and prioritised.
- Action plans are implemented within a certain timeframe.

Improving Council's capability and maturity in risk management supports the direction of Future Ready Together, Council's strategic plan for its internal services activities. The Strategic Risk Register covers risks relating to the growth and performance of the Western Bay of Plenty District Council.

The Strategic Risk Register will be reviewed every quarter by the Senior Leadership Team for their respective areas, to:

- Identify new risks if any.
- Reassess if ratings need to change for existing risks, assess whether the residual risks are exceeding Council's risk appetite and intervene accordingly.
- Add/update controls, prioritize and assign actions.
- Monitor performance of controls and action plans for effectiveness.

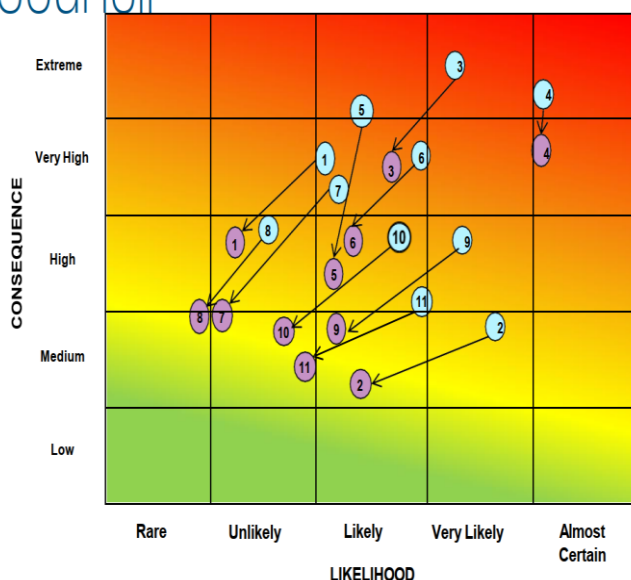
Risk categories agreed by Councillors



Risk name and description	Risk owner	Risk settings	Risk appetite rationale
Operational risk The risk of delay or inability to deliver and execute on projects or services provided by the Council or regular Council operations as a result of the failure of internal processes or controls, systems, or inadequate staff members available. This may result in financial losses and loss of reputation from IT/cyber risk events, fraud events, internal process/control failure, and inadequate or inappropriate people capacity, capability, and culture.	Group Manager - Finance and Technology Services Group Manager - Infrastructure Services for project delivery risks and asset resilience		Delivery of key projects and the long-term plan is critical to the achievement of planned community outcomes and is central to the key strategic vision of the Council. The Council has a 'Low' risk appetite for the management of operational risk which could cause potential delays in project delivery, impact the Council's operations, quality of service delivery, and result in failure to meet community expectations.
Health, Safety and Wellbeing The risk of harm, injury or illness of/to employees, contractors, volunteers or community members accessing the Council's premises, sites, or events, and not meeting legal HSW requirements, as a result of an unsafe work environment and failure to meet workplace obligations. This could potentially lead to death or serious harm or injury, adverse impacts on staff/contractor mental health and well-being, financial losses, and (costs for) fines and reputational damage.	Group Manager - Finance and Technology Services		The Council understands the importance of providing a safe working environment to its employees, contractors, volunteers, and members of the community and ensuring that everyone is adequately supported during stressful times (like the current pandemic). The Council recognises this as its key priority and has a 'Low' risk appetite for the risk, considering some risks will be outside of its ability to control. Health, Safety and Wellbeing risks will not be traded-off while delivering on its strategic objectives.
Relationships with key stakeholders (Central Government and Community) WBOPDC's inability to maintain a strong strategic relationship with the Central Government, its agencies, and the wider Community. This may potentially lead to a loss of opportunities, the ability to adequately influence, respond and adapt to the changing and complex government reforms and community expectations, and deliver on the Council's long-term plan outcomes.	TBA		The Council aims to have an increased engagement with the community to be able to understand, identify, manage and deliver on their expectations and develop a strong relationship. This reflects in the Council's 'Low' risk appetite. Further, the Council targets to improve and establish a strategic relationship with Central Government and key government agencies to gain additional insights and guidance to anticipate and support potential opportunities for development in the region, and has a 'Medium' risk appetite for managing the risk.
Partnership with Iwi and Mana Whenua There is a risk that WBOPDC doesn't deliver on the commitments to Iwi/Tangata Whenua (supporting Maori and Iwi businesses through social procurement), treaty principles and obligations, and fails to maintain a trusted relationship with Iwi and Maori communities and meet their expectations resulting in loss of reputation and failure to deliver on key projects.	Group Manager - Policy Planning and Regulatory Services		The Council has the ambition to prioritise and build upon the key relationships with Iwi and Maori stakeholders. This is important to deliver on the Council's strategy and long-term plan but will need to be balanced with the wider community plans and expectations. The Council has a 'Medium-High' risk appetite for managing the risk.
Climate change The failure to adequately identify, understand, address and respond to climate change regulations, reforms, and requirements including reducing greenhouse gas emissions, and considering the wider impacts prior to providing the consent under Resource Management Act, Building Act, and similar legislations.	Group Manager - Policy Planning and Regulatory Services Group Manager - Infrastructure Services		Currently, there is still uncertainty about the government response and expectations relating to climate change to enable the Council to appropriately plan its response. The Council recognises the importance of increasing focus on climate change risks and is determined to support the identification of climate change risk, monitoring and assessing the impact. This drives the Council's 'Medium' risk appetite.
Growth and financial sustainability The risk that WBOPDC is unable to manage financial risks resulting from growth opportunities and therefore has a significant impact on Council's ability to deliver and execute its district growth objectives.	Group Manager - Finance and Technology Services		Effective management of funds and ensuring financial sustainability is fundamental to successfully delivering on the Council's growth objectives and long-term plan for the region and meeting the desired community outcomes. The Council has a conservative approach to its financial strategy considering the limited opportunity for obtaining additional funding support from the government. The Council has a 'Low-Medium' risk appetite for the risk and will need to be balanced with the delivery and achievement of the planned growth outcomes.
Regulatory change (Three waters reform, Future of local government, RMA) There is a risk that Council does not identify, understand the impact, advocate and respond to the changing regulatory reforms being considered by the Government. This also extends in the impact these new requirements has on delivery of current priorities. The risk could potentially impact the Council's operations and its ability to re-prioritise and allocate adequate resources to meet the changing expectations resulting in delay in projects, delivery of services, reputational loss, failure to meet the government expectations and non-compliance with regulatory requirements.	Group Manager - Policy Planning and Regulatory Services for developing the strategy and making informed decisions for the project. Group Manager - Infrastructure Services for implementation of the regulatory reforms including Three Waters.		The Council acknowledges and anticipates an increase in the legislative changes being introduced by the Central Government and these can have a significant impact on the Council's strategy. The Council has a 'High' risk appetite which reflects a limited ability to control the changes being introduced and its aim to engage early on to support sector advocacy on key topics and work closely with the government agencies to understand the planned changes and their impacts.
Significant external events WBOPDC's failure to appropriate design, prepare and execute on its Business Continuity Plan and/or Crisis Management Plan while responding to significant external events (including natural calamities, pandemic, and other macro-economic events) which may have a potential impact on the Council's ability to provide its services and continued impact on its operations.	Group Manager - Finance and Technology Services for business continuity. Group Manager - Infrastructure Services for crisis management to develop and respond to significant events.		The Council recognises that continued operation of critical Council activities, movement of resources, successful implementation of business continuity or crisis management plan to effectively support the community and ensure community well-being during significant external events. The 'Medium' risk appetite highlights the limited ability to control the occurrence, and predict the nature and extent of the potential impact of significant external events.

We would like to advise the Committee that below were previously key strategic risks that was presented to Council. The purpose of presenting this is to advise the Committee that what was previously highlighted as our strategic risks has changed and the updated strategic risks has been updated as advise earlier in the document.

Summary of key risks previously presented to the Council



#	Strategic Risk Areas
1	Health & safety compliance
2	Attraction, retention and engagement of key staff
3	Crisis management
4	External macroeconomic and other events e.g. horticulture disease and central government policy change
5	Digital ecosystem – resilience, cyber security, service delivery, data & information management
6	Renewals and maintenance of infrastructure
7	Project delivery management
8	Community engagement (general community and key stakeholders)
9	Regulatory compliance
10	Growth and impact on infrastructure planning
11	Risk of Fraud

Operational Risk Register

Background

Risk and Assurance (R&A) carried out an assessment as to how the business groups were managing their operational risk. The discussion with the four business groups highlighted that for most part of the business there were no operational risk registers maintained. We noted however, that the businesses do have active discussions about risk on most matters, but these are not recorded and tracked to ensure that these risks are managed with appropriate action plans and tracked. With this information Risk and Assurance has developed a Risk Management Work Programme that will provide the assurance that operational risks across the organisation are identified, analysed, evaluated, treated, recorded and reported.

The Infrastructure Business Group has provided their risk registers to R&A. Reported below is only the Extreme and High risks identified.

Infrastructure
Transport Business Unit

Risk	Cause/Drivers	Consequence	Risk Rating
Incorrect growth Assumptions WBOPDC – Corporate	<ul style="list-style-type: none"> New Zealand economy changes between growth and/or recession Global financial issues impact immigration to region Population demographics change 	<ul style="list-style-type: none"> Growth rate declines Settlement patterns not achieved in growth nodes Developers fail Infrastructure finding issues Ratepayer burden increases 	High Risk
Systems Failure (IT/IS/major systems) WBOPDC – Corporate	<ul style="list-style-type: none"> Failure of key systems Technology unavailable to perform Council Services 	<ul style="list-style-type: none"> Council Services not fully operational Significant downtime Inappropriate service delivery methods Costs of systems recovery Staff diverted from project work to remediation activity 	High risk
Slips on roadside slopes affecting network availability	<ul style="list-style-type: none"> Age of earthworks Ineffective drawing Climatic changes 	<ul style="list-style-type: none"> Blockages to the network Damage to County structures 	High Risk
Floods–Large	<ul style="list-style-type: none"> Climate change leading to greater incidence of extreme rainfall event Widespread storm event over sustained period 	<ul style="list-style-type: none"> Disruption traffic over significant area Significant damage to Council's roading network Damage to public property Significant public displacement over a considerable period Support third party flood alleviation work 	High Risk
Katikati Bypass	<ul style="list-style-type: none"> Transit funding reduced/reduced (removed) B/C falls below cut-off 		High Risk

Utilities Unit

Risk	Cause/Drivers	Preventative Measure	Risk Rating
Introduction of contaminating material into the distribution system Possible hazards: Germs; chemical determinants (dependent on the nature of the material)	Cross connections (unknown)	Chlorination of water	High Risk
Re-suspension of contaminants in sediments in the distribution system Possible hazards: Germs; chemical determinants, turbidity.	Water flows too low resulting in: decay of chlorine microbiological colonisation of surfaces.	<ul style="list-style-type: none"> Chlorination of water Cleaning/flushing programme in place, especially through low-flow and dead-end areas 	High risk
Re-suspension of contaminants in sediments in the distribution system Possible hazards: Germs; chemical determinants, turbidity.	Inadequate cleaning programme.	<ul style="list-style-type: none"> Chlorination of water Cleaning/flushing programme in place, especially through low-flow and dead-end areas 	High Risk
Contaminated water supply	Caused by operator that has worked at wastewater treatment plants	Chlorination of water Installation of one of the following backflow prevention devices depending on the level of risk to the supply: <ul style="list-style-type: none"> reduced pressure backflow prevention device. non-testable double check valve testable double check valve 	High Risk

No, inadequate, faulty, or incorrectly installed backflow prevention device Possible hazards: Germs; chemical determinants	The backflow prevention device has been removed to maintain the water flow and not been replaced.	Chlorination of water Annual inspection, testing and replacement, where necessary, of backflow prevention devices.	High Risk
Not enough free available chlorine Possible hazards: Germs not killed.	High chlorine demand coupled with poor dose control.	<ul style="list-style-type: none"> • Daily operator checks. • Weekly calibration against standards • Six monthly independent checks of calibration • Real time monitoring via SCADA in place 	High Risk
Too much free available chlorine Possible hazards: Chlorine; possibly high levels of trihalomethanes, haloacetic acids, chloral hydrate and chlorate (hypochlorite chlorination); possible heavy metals (from corroded fittings).	Low chlorine demand coupled with poor chlorine dose control.	<ul style="list-style-type: none"> • Daily operator checks. • Weekly calibration against standards • Six monthly independent checks of calibration Real time monitoring via SCADA in place	High Risk

Extreme
High
Medium
Low
Very Low

Risk Management Work Programme

The proposed Risk Management Work Programme is designed to capture all strategic, operational and project risks. These risks will be collated to provide Management with a periodic update on the status of the risks being managed at WBOPDC. The programme involves collation of all risks by business units and the subsequent risk assessment process being undertaken to rate each risk.

#	Review	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sept 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24
<p><i>The risk workshops will be carried out by introducing the risk management framework prior to running the workshops (the risk management framework will be reviewed by KPMG and sent to SLT for approval)</i></p> <p><i>For each business unit there will be two workshop sessions.</i></p> <p><i>Session 1 – Identification of risk, Inherent risk rating</i></p> <p><i>Session 2 – Risk analysis (mitigating controls in place) and residual risk</i></p>														
1.	Strategic Risks													
	SLT Risk Workshop	✓			✓			✓			✓			
2.	Operational Risks													
	Infrastructure													
	Transportation		✓	✓		✓	✓		✓	✓				
	Utilities		✓	✓		✓	✓		✓	✓				
	Resource Recovery and Waste Treatment & Solid Waste		✓	✓		✓	✓		✓	✓				
	Reserves and Facilities		✓	✓		✓	✓		✓	✓				

#	Review	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sept 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24
	Corporate Services													
	Finance			✓	✓		✓	✓		✓	✓			
	IT management			✓	✓		✓	✓		✓	✓			
	People and capability			✓	✓		✓	✓		✓	✓			
	Regulatory Service Group													
	Compliance and monitoring	✓	✓		✓	✓		✓	✓					
	Building Service	✓	✓		✓	✓		✓	✓					
	Development Engineering	✓	✓		✓	✓		✓	✓					
	Environment	✓	✓		✓	✓		✓	✓					
	Strategy and Community Group													
	Strategic Management			✓	✓		✓	✓		✓	✓			
	Kaupapa Māori			✓	✓		✓	✓		✓	✓			
	Community and Strategy			✓	✓		✓	✓		✓	✓			
	Customer Service			✓	✓		✓	✓		✓	✓			
	Governance			✓	✓		✓	✓		✓	✓			

2. Internal Audit (IA)

2.1 Internal Audit Plan 2022/23 to 2025/26

Executive Summary

Purpose of the Internal Audit Plan

The purpose of this Internal Audit Plan is to provide the Council and the Audit and Risk Committee with a balanced risk-based approach to gaining assurance over its risk management and internal control environment.

The plan has needed to recognise and account for the continuous significant Council and economic impact from Covid-19 and other natural disasters. The planned coverage for 2023/24 are as follows.

- Financial Contributions inputs, setting and billing.
- Capital spend/project management: Sample test and review key project controls.
- Probity/sensitive expenditure controls, analysis and sample-test.
- Food licence, Resource Consent, Building Consent, Animal Control – billing, issuing, & compliance/enforcement.
- Management of forestry.
- GST, PAYE and FBT tax compliance evaluation.
- Infrastructure renewals planning and prioritisation – Water.
- Infrastructure renewals planning and prioritisation – Property & Reserves.
- Property Lease Management.
- Environmental, Social and Governance –Sustainability Framework
- IT software license management
- Asset purchase and disposal (non-construction)

As the Council control environment matures and the organisation manages disruption, our aim continues to not solely focus on stewardship, but also leadership and influencing. The Internal Audit Plan will be updated to ensure scheduled reviews and focus remains relevant by considering Council's risks.

Development of the Internal Audit Plan

There is an intention to focus on extending the plan to continue to a three-year horizon, maintaining alignment with Council's risk management efforts, and keeping a realistic delivery that provides core and targeted coverage over key risks and controls.

We have utilised available risk registers, senior management engagement, external consultant's knowledge base, methodology and insights from wider NZ Councils, and our

experience within WBOPDC to identify and prioritise assurance coverage. This allows internal audit to take a risk and control approach for each engagement at the planning, execution, and reporting stages.

An outline of the process followed to produce the Internal Audit Plan is included below:

- Consideration of resourcing and the Council's pandemic response/recovery challenges, with a preference toward application over heightened risks and controls.
- Utilised risk identification, treatment and ongoing exposure at Chief Executive, General Manager and Unit Manager's meetings to identify and evaluate updates and changes to risks and associated mitigations.
- Discussed Internal Audit Plan and Scope with KPMG.

Council context

Some key contexts in considering internal audit coverage and approach:

- The Council is an organisation with approximately 300 staff disbursed across multiple sites, \$86m operating spend (excluding depreciation) and with approximately \$1.7B asset base.
- Risk management maturity is ongoing with areas to be brought to a level of better understanding and discipline for capturing, escalating and managing risks (this is covered under the risk management section).

Internal Audit objective and scope

Internal Audit has a core objective, scope and coverage outlined in its Charter. The Internal Audit Plan maintains alignment with these and will deliver a mix of evaluation, assurance and improvement advice.

Alongside the independent assurance role, a key principle of Internal Audit is to add value by assisting Council achieve its objectives. There are a number of ways in which internal audit seeks to support Council in achieving its objectives/goals and outcomes whilst fulfilling its assurance role.

These include:

- Engaging with the business and stakeholders to provide leadership, advice and foster improvements in controls and control-environment.
- Building capability and platform to develop and deliver nimble focused reviews along with a continuous assurance programme with different forms of key-control assurance;
- Providing capacity to deliver prompt reactive assurance engagements (for example concerning crises response, matters of probity, fraud or potential conflicts of interest);

- Evaluation and practical relevant advice for risk management improvement, efficiency and economy of resources, and business processes (rather than merely assessment); and
- Continued engagement with the business, post review completion, ensuring visibility, accountability and remediation of issues raised in reports.

2.2 Assurance Plan Summary

The proposed Internal Audit Plan is presented in summary below, with an indication of period scheduled and reference to risk coverage. The plan will continue to be monitored for potential change to ensure it remains dynamic and assurance coverage is appropriately prioritised. The full objective and scope of these engagements along with resourcing, will be confirmed during the review planning stage and agreed with the relevant Review Sponsor.

The details of the review objective and scope for the selected key risks areas for FY23/24 will be presented verbally at the Committee meeting.

#	Review	FY 23/24	FY 24/25	FY 25/26
Core / cyclic coverage				
Key Risks Areas				
1.	Rates setting, billing, remissions & collection.		✓	
2.	Financial Contributions inputs, setting and billing.	✓		
3.	Procurement Accounts payable, banking and transaction controls. Operational spend monitoring/management. Probity/sensitive expenditure controls, analysis and sample-test.	✓		
4.	Payroll processing.			✓
5.	Capital spend/project management: Sample test and review key project controls.	✓	✓	
6.	Financial controls: reconciliations, reporting, ledger administration and overhead/internal allocations.		✓	
7.	Contract management.		✓	
8.	Third party governance or contractor's management	✓		
9.	Health & Safety – Contractor		✓	
10.	Employee recruitment – Flexible working		✓	
11.	LIMs preparation, billing and issuing.			✓
12.	Fraud Governance Framework	✓		

#	Review	FY 23/24	FY 24/25	FY 25/26
13.	Alcohol, Food licence - billing, issuing, & compliance Resource consent – billing & issuing. Building consent – billing & issuing. Animal control - billing, issuing, & enforcement.		✓	
14.	Resource consent and Building Consent – enforcement. Resource consent compliance.	✓		
15.	Site operational controls, cyclic visit: (Pools, community facilities, service desks, libraries, nurseries, park-sites).		✓	
16.	Asset Management Review <ul style="list-style-type: none"> Fleet Management Asset purchase and disposal (non-construction) 		✓	
17.	Management of Forestry	✓		
18.	Environmental, Social and Governance: - Sustainability Framework	✓		
19.	Lockdown key controls assurance (if applicable)	✓	✓	✓
20.	Cash Control Review			✓
21.	Facilities maintenance and security		✓	
22.	Treasury & cash flow management.			✓
23.	GST, PAYE and FBT tax compliance evaluation	✓		
24.	IT software licence management	✓		
25.	Credit management		✓	
26.	Asset purchase and disposal (non-construction)	✓		
27.	Infrastructure renewals planning and prioritisation	Prope rty & Reser ves ✓	Roadi ng ✓	
28.	Parks management/operations		✓	
29.	Property Lease Management	✓		

#	Review	FY 23/24	FY 24/25	FY 25/26
30.	Grant award: application evaluation, payment & performance		✓	
31.	Events: booking, billing, management		✓	
32.	Cyber Security & Privacy / Public Records Act compliance		✓	