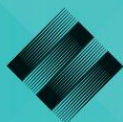# MEETING
– AGENDA –
Ngā Take

AUDIT AND RISK COMMITTEE
Komiti Taiwhenua

AR21-4
Thursday, 4 November 2021
Council Chambers
Barkes Corner, Tauranga
1.30pm

Western Bay of Plenty District Council

Audit and Risk Committee

Membership

Chairperson	Cr James Denyer
Deputy Chairperson	Cr Murray Grainger
Members	Cr Grant Dally Cr Mark Dean Cr Monique Gray Cr Anne Henry Cr Kevin Marsh Cr Margaret Murray-Benge Deputy Mayor John Scrimgeour Cr Allan Sole Cr Don Thwaites Mayor Garry Webber Mark Maloney – Independent Member
Quorum	6
Frequency	Quarterly

Role

To provide assurance and assistance to the Western Bay of Plenty District Council on management of Council's risk, financial control and compliance framework, and its external accountability responsibilities.

Scope

- Recommend to Council an appropriate risk management strategy and monitor the effectiveness of that strategy.
- Monitor the Council's external and internal audit process and the resolution of any issues that are raised.
- Review key formal external accountability documents such as the Annual Report in order to provide advice and recommendation in respect to the integrity and appropriateness of the documents and the disclosures made.
- Provide a forum for communication between management, internal and external auditors and the governance level of Council.
- Ensure the independence and effectiveness of Council's internal audit processes
- Oversee the development of the council's Annual Report.
- Oversee the development of financial policies.
- Monitor existing corporate policies and recommend new corporate policies to prohibit unethical, questionable or illegal activities.
- Support measures to improve management performance and internal controls.

Responsibilities:

External Audit and External Accountability
- Engage with Council's external auditors regarding the external audit work programme and agree the terms and arrangements of the external audit in relation to the Annual Report.
- To recommend the adoption of the Annual Report and the approval of the Summary Annual Report to Council.
- Review of the effectiveness of the annual audit.
- Monitor management response to audit reports and the extent to which external audit recommendations concerning internal accounting controls and other matters are implemented.

Internal Audit
- In conjunction with the Chief Executive and the Group Manager Finance and Technology Services, agree the scope of any annual internal audit work programme and assess whether resources available to Internal Audit are adequate to implement the programme.
- Monitor the delivery of any internal audit work programme.
- Assess whether any significant recommendations of any internal audit work programme have been properly implemented by management. Any reservations the Internal Auditor may have about control risk, accounting and disclosure practices should be discussed by the Committee.

Risk Management
- Review the risk management framework, and associated procedures to ensure they are current, comprehensive and appropriate for effective identification and management of Council's financial and business risks, including fraud.
- Review the effect of Council's risk management framework on its control environment and insurance arrangements.
- Review whether a sound and effective approach has been followed in establishing Council's business continuity planning arrangements.
- Review Council's fraud policy to determine that Council has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

Other Matters
- Review the effectiveness of the control environment established by management including computerised information systems controls and security. This also includes a reviewing/monitoring role for relevant policies, processes and procedures.
- Review the effectiveness of the system for monitoring Council's financial compliance with relevant laws, regulations and associated government policies
- Engage with internal and external auditors on any specific one-off audit assignments.
- Consider financial matters referred to the committee by the Chief Executive, Council or other Council committees.

Power to Act:

The Committee is delegated the authority to:
- Receive and consider external and internal audit reports.
- Receive and consider staff reports on audit, internal control and risk management related matters.
- Make recommendations to the Council on financial, internal control and risk management policy and procedure matters as appropriate.
- To approve the Auditors' engagement and arrangements letters in relationship to the Annual Report.

Notice is hereby given that a Audit and Risk Committee Meeting will be held in the Council Chambers, Barkes Corner, Tauranga on:
Thursday, 4 November 2021 at 1.30pm

Order Of Business

1 PRESENT

2 IN ATTENDANCE

3 APOLOGIES

4 CONSIDERATION OF LATE ITEMS

5 DECLARATIONS OF INTEREST

Members are reminded of the need to be vigilant and to stand aside from decision making when a conflict arises between their role as an elected representative and any private or other external interest that they may have.

6 PUBLIC EXCLUDED ITEMS

7 PUBLIC FORUM

A period of up to 30 minutes is set aside for a public forum. Members of the public may attend to address the Board for up to five minutes on items that fall within the delegations of the Board provided the matters are not subject to legal proceedings, or to a process providing for the hearing of submissions. Speakers may be questioned through the Chairperson by members, but questions must be confined to obtaining information or clarification on matters raised by the speaker. The Chairperson has discretion in regard to time extensions.

Such presentations do not form part of the formal business of the meeting, a brief record will be kept of matters raised during any public forum section of the meeting with matters for action to be referred through the customer contact centre request system, while those requiring further investigation will be referred to the Chief Executive.

8 PRESENTATIONS

9 REPORTS

9.1 SUMMARY OF AUDIT AND RISK AGENDA TOPICS NOVEMBER 2021

File Number: A4348429

Author: Kumaren Perumal, Group Manager Finance and Technology Services

Authoriser: John Holyoake, Chief Executive Officer

EXECUTIVE SUMMARY

1. The purpose of this report is to provide the Audit and Risk Committee (the Committee) with an overview of the content of the reports relating to risk, treasury, external and internal audit, and other organisational matters covered in the meeting agenda.

RECOMMENDATION

1. That the Group Manager Finance and Technology Services report dated 4 November 2021 titled 'Summary of Audit and Risk Agenda Topics November 2021' be received.

2. That the Committee agree the draft Work Plan for 2022.

BACKGROUND

3. The purpose of the Committee work plan is to coordinate the delivery of the Committee's role to provide assurance and assistance to Council on the management of Council's risk, financial control and compliance framework and its external accountability responsibilities. A Work Plan for 2022 for the Committee's approval is attached to this report (**Attachment 1**).

WBOPDC INTERIM AUDIT 2020-2021

4. The interim audit for the 2020-2021 financial year has now been completed and the report from Audit New Zealand is attached (**Attachment 2**). The report sets out the findings from the audit together with management comments to the findings. A representative from Audit New Zealand will attend the meeting to present the report.

RISK AND ASSURANCE UPDATE

5. A Risk and Assurance update report from Council's newly appointed Senior Assurance and Risk Specialist is included in the agenda setting out current work carried out to date.

TREASURY UPDATE

6. A report on the treasury related risks in the current economic climate and its impact on Council's operating environment is provided separately.

QUARTERLY REVIEW OF COUNCIL RISK PROFILE

7. Council's risk profile report provides a background to the existing top eleven organisational risks that have been identified by Council. Status updates on the top eleven risks are reported on a quarterly basis. The purpose of the report is to present the top eleven risks for the Committee to consider, discuss and advise on potential changes for future risk reporting.

AUDIT MONITORING REPORT (EXTERNAL/INTERNAL)

8. The Audit Monitoring Report provides a status update on management's response to outstanding audit recommendations raised by Audit New Zealand, as part of the external audit process and KPMG's internal audit review of Council's asset management planning processes and key financial controls.

HEALTH AND SAFETY REPORT

9. A separate report has been submitted by the Group Manager for People and Customer Services on health and safety matters.

LITIGATION REPORT

10. A separate report has been submitted by the Group Manager for Policy, Planning and Regulatory Services on litigation matters.

AON INSURANCE

11. Representatives from Aon Insurance will attend the March 2022 Committee meeting to provide an update on the outcomes from the insurance renewal process to be completed in November 2021. The outcomes will be factored into the 2022-23 Annual Plan budget.

ATTACHMENTS

1. **November 2021 Committee - 2022 Draft Audit and Risk Committee Workplan** ⇩
2. **WBOPDC Interim Audit FY 2021** ⇩

Western Bay of Plenty District Council
Audit and Risk Committee
2022 Work Plan

Workstream		Committee meeting dates			
		Mar 2022	Jun 2022	Aug 2022	Dec 2022
Risk Management					
Quarterly review of Risk Profile		✓	✓	✓	✓
Refresh of Risk Management Policy & Framework		✓			
Recut Council's Risk Register based on refreshed Policy & Framework		✓			
Internal Audit (Senior Assurance and Risk Specialist / KPMG)					
3 Year Assurance Work Programme		✓			
Internal Audit Reporting / Assurance		✓	✓	✓	✓
Policy / Strategy Input					
Review and input into various policies and strategies		✓	✓	✓	✓
Insurance / Treasury / Tax					
Insurance (Aon)		✓			
Treasury Update		✓	✓	✓	✓
Tax Governance Framework			✓		
External Audit and External Accountability					
Audit Arrangements Letter 2021-2022			✓		
Review of Accounting Policies, Key Accounting Estimates and Update on Asset Revaluation Results				✓	
Approval of Draft Annual Report 2021-2022				To be Advised	
Final Audit Management Report 2021-22				To be Advised	
Audit Management Monitoring Report		✓	✓	✓	✓
Health and Safety Report		✓	✓	✓	✓
Litigation Update Report		✓	✓	✓	✓

A3925183

745 Cameron Road, Tauranga 3112
PO Box 621, Tauranga 3144
Telephone (04) 496 3099

21 October 2021

Garry Webber
Mayor
Western Bay of Plenty District Council
Private Bag 12803
Tauranga Mail Centre
Tauranga 3143

Dear Garry

Interim audit of the year ended 30 June 2021

1   Introduction

We have completed our planned interim audit work for the year ended 30 June 2021.

The focus of our interim visit was assessing the District Council's (the Council)'s internal controls.

We will continue to work closely with management to ensure our final audit visit runs smoothly. At this time management has indicated no delays are anticipated in the preparation of the financial statements and the non-financial information.

2   Control environment

The control environment reflects the overall attitudes, awareness, and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy, and is the context in which the accounting system and control procedures operate. Management, with the oversight of the Council, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures, and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We have performed a high-level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the Council and management to establish and maintain effective management procedures and internal controls.

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We consider that a culture of honesty and ethical behaviour has been created. The elements of the control environment provide an appropriate foundation for other components of internal control.

3   Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented, and maintained by the Council and management.

We reviewed the internal controls in your information systems and related business processes. Our review included the controls in place for your key financial systems including revenue, expenditure, payroll, creditors, debtors, property, plant and equipment, and banking. We also, where appropriate, reviewed the systems in place to collect the results throughout the year for the key performance targets.

We are satisfied that the other controls identified are capable collectively of preventing, or detecting and correcting material misstatements.

The findings from our work to date on the internal control environment and our recommendations for improvements are set out below.

3.1   Payroll Masterfile changes

The Council produces an integration report which details the changes made to its payroll systems, HR.net, and IMS.

We note that the report shows only payroll masterfile changes that have been made in HR.net and not those made directly to IMS.

Although this report is reviewed, it does not currently reflect a complete list of changes made to the payroll masterfile. We note that the review is performed by a user with full access rights to these systems.

The current lack of segregation of duties raises the risk of unapproved changes being made to the system.

We recommend a complete payroll masterfile changes report, reflecting changes made in both HR.net and IMS, be produced for each pay run and independently reviewed, with supporting documentation available to validate all the changes made to the payroll system.

Management comment

We will review current processes and identify opportunities to address this matter over the 2021/22 financial year.

3.2 Asset disposal forms

We understand that an "authority to dispose" form is prepared and signed-off as evidence of approval for assets that are disposed of by the Council.

During our walkthrough of this process staff confirmed this form was signed before disposal, however, in one instance a signed authority to dispose form could not be located.

We also noted that this form is not used to notify the accountant and support the disposal. We have been advised that most assets for disposals will be identified through the GL, which could be through a cash receipt being processed, or, for example, if the accountant has been informed of a sale and purchase agreement for land and buildings.

We recommend an authority to dispose form is prepared and signed as evidence of approval for each asset disposal and that these forms are kept on file.

We also recommend that approval forms are used to support the disposal of assets in the fixed asset register to ensure the fixed asset register is complete and accurate, and does not include assets that have been disposed of.

Management comment

Asset Managers will be reminded of their responsibilities to ensure that the appropriate form, depending on the disposal method, is completed. Any forms, once approved, will be forwarded to the accountant for action.

3.3 Key service performance controls – lack of formal review

From our discussions with the Networks Team Leader we noted that all water services Call Centre Requests (CCRs) are reviewed by the Field Engineer - Water. We also noted that all dry weather sewerage overflow CCRs are reviewed by the Networks Team Leader. These reviews are integral to ensuring the accuracy of performance reported from the CCRs in question, however, neither review includes a documented sign off as evidence of the review.

We recommend that the Council retains evidence of the formal review of all water service and dry weather sewerage overflow CCRs.

Management comment

Every single job completed by our maintenance contractor last year was reviewed individually for accuracy and signed-off by a staff member. The records are available upon request. These records are held in a SQL database maintained by Council's IT Department.

3.4 Timeliness of work in progress review

During our review of the system documentation we noted the project manager reviews the overall capitalisation and ensures all costs being capitalised meet the definition of an asset.

There is a risk to timeliness due to the review over costs being performed at the date of capitalisation. This means if any operating costs are found in the project code, a journal is created to remove them and expense the line. Where a project takes longer than the financial year to complete, there is a risk that expenses are not expensed in the correct period.

We recommend the timely review and management of project costs by project managers to ensure operational expenditure and capital expenditure are recognised in the correct accounting periods.

Management comment

Project Managers have received training regarding good asset recognition and disposal practices. We have agreed that they will review their spending quarterly to allow for timely asset capitalisation as well as ensuring any spending is recognised in the correct accounting periods. This is an ongoing improvement and is balanced with their overall responsibilities as a project manager.

4   Fraud considerations

In May 2021, we requested the Council and management's responses to our fraud questionnaire which covers:

- the Council and management's assessment of fraud risk processes;

- a description of the monitoring of management's fraud prevention responsibilities;

- the Council and management's view of the culture of honesty and ethical behaviour by management and staff; and

- an assessment of the potential for management override of controls for preventing and detecting fraud.

Please ensure that these questionnaires are completed and provided to us. If you become aware of any actual or suspected frauds, please remember to inform us as soon as possible.

5   Audit timing

You may be aware that the auditing profession (like many others) has been significantly impacted by the border closures in response to the Covid-19 pandemic. Normally, New Zealand relies on bringing in auditors from overseas to manage the auditing workload at this time of the year (the CA firms rely on global mobility programmes, and equally we second from the CA firms to assist us with capacity). Without that flow of overseas auditors, the workload for auditors here has increased and we have seen staff exiting the audit industry in New Zealand. The impact of this is that all the firms carrying out work for the Auditor-General are having difficulty managing workloads with their scarce resources.

Chartered Accountants Australia and New Zealand recently published information about the auditor shortage based on a survey of the 13 largest accounting and auditing firms, noting in excess of 200 senior vacancies (this was covered in the NBR on 18 May 2021). The shortage of auditors is now acute and affecting our ability to carry out all this year's public sector audits on time. We are continuing to work through the options for responding to these circumstances and liaising with the Office of the Auditor-General on a way forward. Like last year, the Office of the Auditor-General prioritised audit work for differing groups of entities. Our most significant priorities are the public organisations that contribute to the financial statements of Government and those that have capital market reporting obligations. After that, decisions are influenced by significance to country, region, and communities.

Recognising the pressure auditing firms are facing, the FMA has recently announced [extensions to reporting timeframes for financial market companies,](#) due to the shortage of auditors. So far this is the only extension that has been announced that we are aware of.

Our priority, given the circumstances we are facing this year, is to maintain the quality of our audit work to maintain trust and confidence in the public sector. We are also very committed to looking after our staff and their wellbeing as best we can. Although we would much rather not be the cause of your own timetable or statutory deadlines being missed, we will not be able to put the deadlines ahead of a high-quality audit nor ahead of people's safety and wellbeing.

6   Useful publications

Based on our knowledge of the District Council, we have included links to some publications that the Council and management may find useful.

Description	Where to find it
Covid-19 Impact on Public Sector Reporting	
The state of emergency in response to the Covid-19 coronavirus has significantly impacted most public sector entities. The consequences for the completion of annual reports and the annual financial statements are one part of this impact. We have developed a series of Bulletins in response: • revaluations of property, plant and equipment and investment property; • service performance reporting; and • financial reporting.	On our website under good practice. Link: [Covid-19 impact on public sector reporting](#)

Description	Where to find it
Client substantiation file	
When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively. We have put together a toolbox called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a toolbox to help you collate documentation that the auditor will ask for.	On our website under good practice. Link: https://www.auditnz.govt.nz/publications-resources/csf
Good practice guides	
The OAG's website has been updated to make it easier to find good practice guidance. This includes resources on: • audit committees; • conflicts of interest; • discouraging fraud; • good governance; • service performance reporting; • procurement; • sensitive expenditure; and • severance payments.	On the OAG's website under good practice. Link: https://www.oag.govt.nz/good-practice

7   Conclusion

We wish to thank management and staff for their assistance during our interim visit.

If there is any further information you require, please contact me or Warren Goslett, Audit Manager.

Yours sincerely

Clarence Susan
Appointed Auditor

9.2   RISK AND ASSURANCE UPDATE

File Number: A4359085

Author: Tashina Abraham, Senior Assurance and Risk Specialist

Authoriser: Kumaren Perumal, Group Manager Finance and Technology Services

EXECUTIVE SUMMARY

The purpose of this report is to provide an update on key items of risk and assurance work that have commenced to date and upcoming work to be presented at the March 2022 Committee meeting.

RECOMMENDATION

That the Senior Assurance and Risk Specialist's report dated 4 November 2021 titled 'Risk and Assurance Update' be received.

BACKGROUND

1.   Key items of work progressed in the last two months include completion of a review of the existing Business Continuity Plans (BCP). The review included changes made to the structure of the BCP Response Team, BCP templates to help highlight critical functions of the various teams, assigning key accountabilities, functional interdependencies between teams and ensuring internal/external contacts are up to date.

2.   The next phase has commenced with the rollout of BCPs via individual meetings held with second and third tier managers to discuss the BCPs applicable to their groups.

3.   The complete rollout of the BCPs across the organisation and documentation of critical functions should be completed by 30 November 2021

4.   Committee feedback on the Risk Profile Report on Council's top eleven risks will be factored into the risk management approach.

5.   A revised Risk Management Policy and the Framework will be presented at the March 2022 Committee meeting.

6.   A full review of the risks from the Council's current risk profile will be analysed and individual meetings will be held with respective risk owners to identify risks based on triggers, impacts, assign risk ratings, controls and planned mitigations. This will be presented at a Committee workshop in March 2022.

7.   Implementation of the Three-Year Assurance Work Programme including integration with Council's Risk Profile will be presented at the Audit and Risk Committee meeting in March 2022.

9.3   TREASURY UPDATE REPORT

File Number: **A4348432**

Author: **David Jensen, Finance Manager**

Authoriser: **Kumaren Perumal, Group Manager Finance and Technology Services**

EXECUTIVE SUMMARY

1.   This report provides an overview of the risks associated with Council's treasury function and the procedures in place to mitigate those risks.

RECOMMENDATION

That the Finance Manager's report dated 4 November 2021 titled 'Treasury Update' be received.

BACKGROUND

2.   This report provides an update on the treasury-related risks presented on 4 November 2021.

INTEREST RATE RISK

3.   'Interest Rate Risk' is the risk that either investment returns will fall materially short of forecast, or that financing costs will exceed projections due to adverse movements in interest rates.

4.   The Reserve Bank raised the Official Cash Rate (OCR) to 0.50% in its Monetary Policy Statement on 6 October 2021 despite New Zealand being in various stages of Covid-19 lockdown, noting that 'while economic uncertainty remains elevated due to the prevalent impact of Covid-19, cost pressures are becoming more persistent'. The Reserve Bank noted that further increases in the OCR may be needed as New Zealand experienced more widespread cost increases.

5.   Statistics New Zealand released the September 2021 quarter Consumer Price Index (CPI) on 18 October 2021 which confirmed that inflation is rising quickly across broad aspects of the New Zealand economy. The CPI rose 2.2% over the September quarter, taking Year on Year CPI to 4.9% as at 30 September 2021. This is likely to impact future decisions of the Reserve Bank regarding increases to the OCR.

6.   Council's interest rate hedging remains within policy, and we have a large degree of price certainty relating to our borrowing costs for the next 12 months due to our mixture of fixed and floating rate debt. Planned capital expenditure for 2021/2022 is forecast to ramp up over the December 2021 and March 2021 quarters and staff are forecasting Council's borrowing needs for the remainder of the financial year in order to establish whether any potential changes to Councils' hedging position within policy is needed.

LIQUIDITY AND FUNDING RISK

7.   'Liquidity Risk' is the risk that Council may not have enough liquid cash or committed facilities on hand to fund operations. This is due to the fact that Council's cash flow is dependent on the maturity of cash investments and loans.

8.   Council began the 2021/2022 financial year in a strong cash position with the first rate instalment due over September/October 2021.   The 2021-2031 Long Term Plan contained a significant step change in capital and operational budgets, which will require an increased level of funding over the next ten years.

9.   Council sources its funding from the Local Government Funding Agency Limited (LGFA), which is a highly rated financial institution owned by local authorities across the sector, in conjunction with central government, with the express purpose of generating funding for New Zealand local authorities. Council's funding risk is deemed to be low while cash requirements are expected

to increase as Council delivers on the 2021-2031 Long Term Plan. Council can raise funding quickly and regularly through the LGFA.

10.   Council has had confirmation of Waka Kotahi funding levels for the next three years. In order to address Waka Kotahi's funding gap, the central government lent the agency an additional $2 billion which has meant that Council's subsidy levels are largely to budget in 2021/2022. There are changes in some categories of transportation expenditure that are eligible for subsidy and Council staff are working through the implications of these changes for Council's transport work programme.

FOREIGN EXCHANGE RISK

11.   'Foreign Exchange Risk' is the risk that volatile movements in foreign currency may adversely affect the cost to Council of entering into arrangements with offshore parties.

12.   Council did not enter into significant foreign exchange contracts and this risk remains low.

COUNTERPARTY CREDIT RISK

13.   'Counterparty Credit Risk' is the risk of losses occurring as a result of a counterparty default.

14.   Council continues to require credit ratings of 'A' or higher when placing funds on deposit. This requirement may need to be revised, depending on the current review of bank credit ratings by their respective rating agencies.

15.   While there is a possibility that banks may receive a lower rating, they are not yet considered at risk of default. Council continues to view its counterparty risk as low.

9.4   QUARTERLY REVIEW OF RISK PROFILE

File Number: **A4348643**

Author: **Tashina Abraham, Senior Assurance and Risk Specialist**

Authoriser: **Kumaren Perumal, Group Manager Finance and Technology Services**

EXECUTIVE SUMMARY

1.   Council's Risk Profile is a review of all major risks and the activities being undertaken to mitigate those risks. This report seeks to verify that the risks being reported remain the most appropriate and establish whether Council wish to add any further risks to the list.

RECOMMENDATION

1.   That the Senior Assurance and Risk Specialist's report dated 4 November 2021 titled 'Quarterly Review of Council's Risk Profile' be received.

2.   That the report relates to an issue that is considered to be of low significance in terms of Council's Significance and Engagement Policy.

3.   That the Committee reviews each of the top eleven risks identified below.

4.   That the Committee agrees which existing risks should be retained and reported on a quarterly basis.

5.   That the Committee considers whether to add any new risks either as main topics or as individual risks under existing risk areas.

BACKGROUND

2.   In June 2017, Council met to discuss and debate what were considered to be the top 10 risks facing Council at that time and decide which risks would be reported on a quarterly basis. Before that time, risks had been collected in a risk register that contained around 23 major risks. The realignment of the ten top risks into a 'Risk Profile' allowed for the amalgamation of some risks, such as those relating to Civil Defence emergencies, into a single category rather than reporting each one separately. A review the 'Risk Management Policy' and development of a 'Risk Management Framework' is planned to commence in November 2021 for consideration at the next Committee meeting. A quarterly review of Council's key risks will be incorporated into the Assurance Work Programme based on the revised Risk Management Policy.

REFRESHING THE RISK REPORTING

3.   Councillors are asked to consider the following eleven risks which are being currently reported on a quarterly basis. Under each of the eleven risk areas a number of individual risks were called out, so that activity and mitigating actions could be identified and shown in each subsequent report.

Current Risk Area	Individual Risks in last Risk Profile
Health and Safety	• Compliance with Health and Safety laws • Leadership accountability • Accreditation of contractors
Staffing	• Attraction and retention of staff • Staff engagement

Current Risk Area	Individual Risks in last Risk Profile
	• Succession planning
Crisis Management	• Civil Defence Emergency Management response to natural disasters • Business Continuity Planning • COVID-19 learnings
External Macroeconomics	• Changes to Government policy or funding • Environmental factors • Changes to water management • Economic conditions
Digital Ecosystem	• Renewal and update of hardware and software • Cyber Security • New ways of working
Infrastructure	• Unplanned Asset failures • Unplanned risk around purchase and construction of infrastructure • Contractors and tenders • Procurement • Impact of sea level rise
Project Delivery	• Shortage of Project management skills and resources • Lack of a standard methodology • Contractor management skills
Community Engagement	• Maintaining engagement with residents and ratepayers • Ensure that views and feedback are given
Regulatory Compliance	• Loss of building inspection accreditation • Difficulty finding staff with specific skills • Use of external firms and cost involved • Impact of poor accreditation decisions in the past • Potential to delay development
Growth and impact on infrastructure	• Incorrect growth assumptions • Rates burden impact on affordability • Cost of new infrastructure • Funding and timing of regional roading projects • Availability of new land for development
Fraud	• Susceptibility of financial systems to fraud • Increased risk in times of financial stress • Management time required if fraud discovered.

CHANGES IN THE CURRENT RISK ENVIRONMENT

4.   Risks around the following topics need to be considered to reflect recent changes in the risk environment. The key factors are outlined below:

- Uncertainty in the Local Government Sector

    The current Three Waters review, alongside the Resource Management Act and the Future of Local Government reforms have resulted in some uncertainty as to what local government will look like in the future.

    A close watch should be kept on the emerging risks from the Three Waters Project:

> ➤ Level of compensation for transfer of Council's infrastructure assets for Water, Stormwater and Wastewater to Government except for taking over the debt related to the Three Waters

> ➤ The need for detailed consultation with community and hence a fair assessment of the community's expectations and Council's response

> ➤ Council will lose direct control and the traditional aspects of ownership of assets once transferred. Decision-making processes may undermine Council's ability to effectively influence the provision of infrastructure to support growth in the community.

- <u>Transportation and Funding</u>

National Land Transport Programme for local roads maintenance has created a shortfall in funding from Waka Kotahi NZ Transport Agency in 2023/2024 due to reduced funding in the maintenance activity. The budget is under additional pressure due to cost escalation and materials shortages as a result of Covid and the tight construction sector. The funding is sufficient for the first two years but will be under stress in year three. The new road maintenance contract will come into effect in year three and the impact of the procurement process is unclear.

- <u>Operational Risk Management</u>

While Council has a risk register in place there is room for improvement in the understanding of risk, causes, controls and assurance. In particular, naming controls that can provide the right kind of information to provide assurance. A control is tested for its effectiveness to provide assurance to mitigate a risk. Recognising the difference between assurance and control will play a vital role.

- <u>Risk of Fraud</u>

The Mayor, Chief Executive and Group Manager Finance and Technology Services have completed fraud questionnaires as part of the annual audit process. One of the questions raised the need to complete a formal fraud risk assessment for the organisation.

In response a fraud risk assessment will be conducted as part of the ongoing assurance work programme. This will include working with the Finance Team to review any identified fraud risks, the preventative controls in place and if any further preventative controls require implementation.

- <u>Digital Ecosystem (update from previous quarter)</u>

In response to the recent cyber attacks experienced in New Zealand the IT Team has planned testing and review of the Cyber Security response plan to commence in November 2021.

- <u>Crisis Management (update from previous quarter)</u>

Recent weather events have highlighted the need for a co-ordinated and planned response. A workshop will be run by the Infrastructure Services Team with Elected

Members later this financial year to provide direction on the Emergency Management function, roles, responsibilities and expectations from both Council and the community.

5. **Attachment 1** – Risk Profile

The heat map on page two has been updated to reflect the agreed change at the August Committee meeting. This change includes:

- Risk 7 - Project Delivery Management – has been moved into the 'likely' category.

Risk 6 - Renewals and maintenance of infrastructure on page 70 has been updated to include an additional risk around adverse impact on project delivery due to supply chain disruptions (additional pressure on the contracting market and materials which are in short supply due to Covid-19).

NEXT STEPS

6. **Attachment 1** shows the summary of our current key risks which have been updated to reflect announcements and potential risks.

7. A full review of the key risks will be undertaken this quarter based on the revised Risk Management Policy and the timeline for a deep dive of the above risks will be incorporated into the Assurance Work Programme. This work should be treated as a priority so that we can effectively manage council's strategic and operational risks.

8. The risk profile is currently maintained manually. There is an opportunity to migrate the information into a risk database (Ozone Web). The database requirements have been discussed with the IT Team and is currently being evaluated for cost and availability for staff to access.

SIGNIFICANCE AND ENGAGEMENT

9. The Local Government Act 2002 requires a formal assessment of the significance of matters and decision in this report against Council's Significance and Engagement Policy in order to guide decision on approaches of engagement and degree of options analysis. In making this formal assessment it is acknowledged that all reports have a high degree of importance to those affected by Council decisions.

10. In terms of the Significance and Engagement Policy this decision is considered to be of low significance because residents and ratepayers are not affected by the review even though the risk may occur later. Ratepayers and residents would only be affected if a significant risk occurred.

The top three residual risks for Council and the District being:

- A major natural disaster in the region;

- A major macroeconomic change impacting the national and regional economy; and

- Events impacting Council's ability to deliver timely on projects.

ENGAGEMENT, CONSULTATION AND COMMUNICATION

Interested/Affected Parties	Planned Communication	
Western Bay of Plenty District Council SMT and Finance Team	Appropriate staff to be notified accordingly.	Planned

Tangata Whenua	Regular communication would be undertaken by Council in the event of a major risk eventuating. Civil Defence would deal with any emergency communications.	
General Public	Regular communication would be undertaken by Council in the event of a major risk eventuating. Civil Defence would deal with any emergency communications.	

ISSUES AND OPTIONS ASSESSMENT

The Committee is requested to review the previously selected top eleven risks for their continued relevance, decide if these require amendment and consider if there are additional risks that should be added to the list.	
Reasons why no options are available **Section 79 (2) (c) and (3) Local Government Act 2002**	**Legislative or other reference**
Council has agreed to regularly review its strategic risk as part of good governance and best practice. Emerging issues and changes in the operational environment necessitate a regular review of Council's strategic risk. As a result, it is likely that risks will be reprioritised and changed over time in response to environmental influences, legislative changes, government policy and the like.	

STATUTORY COMPLIANCE

11.   The recommendation in this report complies with Council's current Risk Management Policy.

FUNDING/BUDGET IMPLICATIONS

Budget Funding Information	**Relevant Detail**
Not currently applicable	If changes to the risk priorities result in risk mitigation actions, there may be budget implications.

ATTACHMENTS

1.   **November 2021 Council - Review of Council Risk Profile ATTACHMENT A** ⇩ 📄

Western Bay of Plenty
District Council
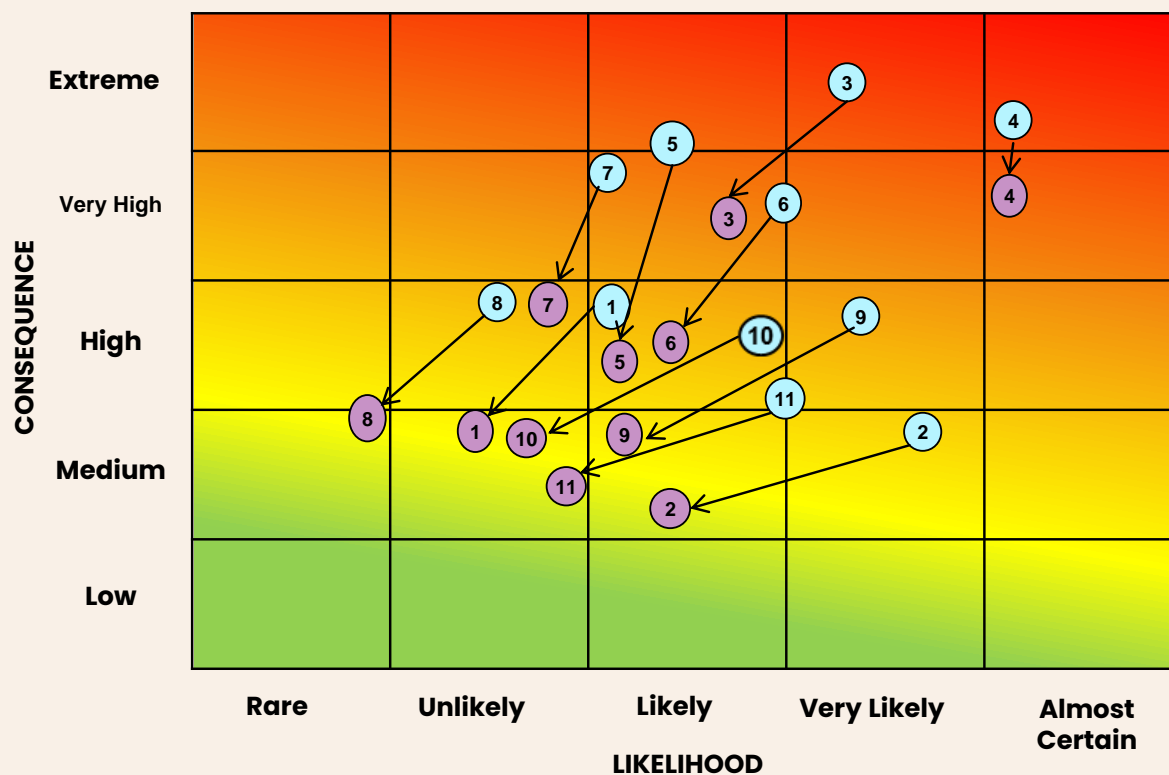
AUDIT & RISK COMMITTEE

4 November 2021

A4046102

RISK PROFILE

Summary of Key Risks

The following are the top risks to the achievement of WBOPDC's business objectives. Detail on each risk, associated mitigations and monitoring mechanisms are set out on subsequent pages.

#	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

KEY ◯ Inherent Risk   ◯ Residual Risk

Western Bay of Plenty District Council

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Summary of Key Risks – Definitions

The Summary of Key Risks contains likelihood categories which can be given a probability percentage and description (see table below).

Rating	Probability	Description
Almost Certain	>90%	Virtually certain to occur in the next three years.
Very Likely	>70%	Will probably occur in most circumstances in the next three years. A common occurrence.
Likely	>40%	Could occur at some stage Some history of occurrence in the past.
Unlikely	>20%	Could occur but little chance of occurrence in the next three years.
Rare	<10%	May occur only in exceptional circumstances. No history, but a remote chance that it may occur.

Each square on the Summary of Key Risks table equates to a risk rating (below left) and each risk rating has a level of ownership within the organisation (in the table on the right).

High	High	Very High	Extreme	Extreme
Medium	High	Very High	Very High	Extreme
Low	Medium	High	Very High	Very High
Low	Medium	Medium	High	Very High
Low	Low	Low	Medium	High

Risk Rating	Risk ownership within Council
Extreme	Senior Management Team
Very High	Senior Management Team
High	Relevant General Manager
Medium	Third Tier Manager
Low	Relevant Manager

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Key Risks

	Inherent Risk	Current Assessed Residual Risk	Council Target Residual Risk
1. Health & safety compliance risks	**High**	**Medium**	**Low**

1. Provision of a safe and healthy workplace for all employees.
2. Health & Safety at Work Act 2015 increases accountability for all levels of management.
3. Asbestos in our buildings identified as our major H&S risk.
4. Induction of all contractors onto our worksites to ensure any risks or hazards are highlighted.

Risk Appetite Rationale

- Compliance with health and safety is important in terms of upholding Council's reputation and public perception.
- Safety and well-being of people is one of Council's primary concerns.
- Focussed on the 'right thing to do'.

Key Mitigations

- Appropriate training in Health & Safety at Work Act is given to all staff.
- Hazard Registers completed for all Council work sites.
- Asbestos identified where present in all locations. Observational assessments are being completed.
- All departments are represented on our Health & Safety Committee.
- Vault Reporting system is used to record all accidents, injuries & near misses.
- Use of the Contractor Pre-Qualification Scheme to ensure consistent H&S standards by all contractors used by Council.
- Healthy Home Compliance certificates being completed for all of Council's pensioner housing.
- Competent and qualified staff

Significant Planned Additional Mitigations	Owner(s)	Timing	Status
• New Regulations on Asbestos Management – plans for each location where it is present	Strategic Property	2020 – 21	Ongoing
• Asbestos Management Plan review	Strategic Property	Regularly	Ongoing
• Officers (CEO and Group Mangers) Due Diligence Plan	Health and Safety	Regularly	Ongoing

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Key Risks

	Inherent Risk	Current Assessed Residual Risk	Council Targe2t Residual Risk
2. Attraction, retention and engagement of key staff	**Medium**	**Medium/Low**	Low

1. Uncertainty in the Local Government Sector
2. Competitive market and cost of housing .
3. Competition from other nearby Council employers.
4. Need to recruit specialist roles with skills that are in high demand.
5. Succession planning needed in areas with retiring staff.

Risk Appetite Rationale

- Key staff are required to support Council's operations and drive achievement of strategic objectives.
- Difficulty in finding qualified individuals for specific roles i.e. Building Control.
- Developing the right culture.

Key Mitigations

- Innovative solutions by using staff from other Councils in Building Control and providing services to others.
- Training opportunities through local tertiary providers.
- Staff retention & succession planning exercises undertaken.
- Flex-working policy implemented.
- Reputation as 'good employer'
- Implementation of Future Ready initiative
- Identification of career opportunities through the identification of career paths.

Significant Planned Additional Mitigations	Owner(s)	Timing	Status
Benefit and wellness initiatives	Various	2021	Ongoing
Future Ready programme	Various	2021	Ongoing
Provision of career opportunities	Various	2021	Ongoing
Rewards and Recognition	Various	2021	Ongoing

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Key Risks

	Inherent Risk	Current Assessed Residual Risk	Council Target Residual Risk
3. Crisis management	**Extreme**	**High**	**Medium/High**

1. Response to natural hazard disasters (earthquake, flood, tsunami & volcanic eruption).
2. Increased risk from climate change risks such as flooding, inundation, and coastal erosion.
3. Insurance – uncertainty over 60-40% arrangements with central government.
4. Ensuring that crisis, pandemic and business continuity plans are fit for purpose.
5. Community expectation in the response phase for Council to perform in a co-ordinated and planned manner

Risk Appetite Rationale

- Higher residual risk due to many of these factors being outside of Council's control.
- There's a focus on particular areas, where risks and vulnerabilities are seen as higher (e.g. Waihi Beach, Maketu, Pukehina Beach).
- Individual risk appetites for different sub-categories: Civil Defence: Low, Non-Civil Defence: High.

Key Mitigations

- Council has a key role in local Civil Defence & Emergency Management, hosted in our building and supported by staff training & familiarity.
- Collaboration with other Councils and Lifelines.
- Natural hazard modelling for coastal erosion, flooding, tsunami has led to new mapping for the district.
- Crisis, Business Continuity and Pandemic planning all undertaken.
- Improved loss modelling & cover from insurance brokers Aon. Annual revaluations of all our assets for insurance purposes.
- Business Continuity Planning / Crisis Management Plan updated
- CDEM resourcing and training
- Building community resilience

Significant Planned Additional Mitigations	Owner(s)	Timing	Status
Natural hazard modelling to meet new Regional Policy Statement requirements Workshop with Council roles, responsibilities and expectations for response, recovery and welfare	Tony Clow Gary Allis	2018-2023 2021/2022	Ongoing To commence

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Key Risks

	Inherent Risk	Current Assessed Residual Risk	Council Target Residual Risk
4. External macroeconomic and other events e.g. central government policy changes, economic conditions	**Extreme**	**High**	**Medium**

1. Changes to management of 3 Waters & new government regulator for drinking water.
2. Review and change to the Resource Management Act
3. Central Government review of Local Government functions, purpose etc.
4. Environmental impacts from new policy directives and climate change locally.
5. International, national & local economic conditions.
6. Impact of Zero Carbon Amendment Bill.
7. Roading policy decisions by Central Government affecting State Highways in particular funding
8. COVID-19 – government ability to continue effective management of COVID-19 risk.

Risk Appetite Rationale

• Council's aim is understand what could happen, what the effects might be and influence outcomes where it can.

Key Mitigations

• Keep up to date with change proposals and consider potential impacts to Council, district and communities
• Joint lobbying of government through sector groups such as LGNZ & Taituara.
• Use of local partners; SmartGrowth, Priority One, Urban Form and Transport Initiative (UFTI).
• Collaboration with other local Councils.
• Develop contacts with local business and industry groups to understand sector risks and drivers.

Significant Planned Additional Mitigations	Owner(s)	Timing	Status
Implementation of Future Ready Together initiative – purpose to ensure organisation is flexible, agile and successfully manages change no matter what reform or challenge come its way	CEO	2021-2023	In progress

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Key Risks

	Inherent Risk	Current Assessed Residual Risk	Council Target Residual Risk
5. Digital ecosystem – resiliency of systems, cyber security, IT service delivery, data and information management and compliance	High	Medium	Low

1. Risk that WBOPDC systems are not resilient enough to provide continuity of services to the business.
2. Risk that WBOPDC security suites are not adequate to prevent cyber attacks.
3. Risk that IT are unable to deliver required level of services to the business.
4. Risk that the appropriate controls are not in place to manage data to the correct level of authorisation.

Risk Appetite Rationale

- WBOPDC invest in the appropriate level of funding in order to mitigate the digital risks.
- Technology is fundamental to the way Council does business and the risk profile is best practice and best of breed where economically viable.
- If the data centre has a catastrophic failure Council could potentially lose one day's data.

Key Mitigations

- WBOPDC operate best of breed infrastructure production with disaster recovery systems and cloud backups. All systems undergo regular maintenance.
- Under policy Council uses expert third party advice and implementation of our security suite. WBOPDC has a fully zoned network security infrastructure.
- WBOPDC employs an IT operations framework that includes full control reporting of system events, change management and service requests. Council IT governance and operational controls are audited annually by Audit NZ and we operate a continuous improvement programme of its systems and services.
- There is an IT access policy in place setting out the control access levels for authorisation, authentication and administration of all corporate data. Council is compliant with Information Management legislation, for example Privacy Act and Public Records Act and have implemented Policy to manage.

Significant Planned Additional Mitigations	**Owner(s)**	**Timing**	**Status**
Planning for migration to "software as a service" where appropriate when systems are renewed. Ozone ERP is to be replaced in the future, planning to go to local government ERP vendors through a tender evaluation in 2022. Datacom CRM pilot to commence in June 2021	Marion Dowd Marion Dowd		Ongoing Ongoing
Testing and review of the Cyber Security response plan	Richard Gilligan	Commence in Nov 2021	To be commenced

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Key Risks

	Inherent Risk	Current Assessed Residual Risk	Council Target Residual Risk
6. Renewals and maintenance of infrastructure	**High**	**Medium**	**Medium/Low**

1. Does current infrastructure meet the needs of the current population?
2. Will current infrastructure meet the needs of the population for the infrastructure's remaining estimated lifetime?
3. Are growth estimates accurate?
4. Risks from unexpected asset failures.
5. Risks during purchase & construction of new assets.
6. Contractors unwilling to tender, either due to difficulties working with Council's, lack of capacity or full order books.
7. Potential negative impacts of COVID-19 on companies who may tender for work with Council – e.g. supply of raw materials from overseas.
8. Problems arising from not following correct procurement processes.
9. Impact of highway upgrades on adjacent underground utilities and the roading network.
10. Impact of sea level rise on local government infrastructure.
11. Other agencies not supporting/investing to match growth e.g. Waka Kotahi TNL timing.
12. Supply Chain disruptions cause additional pressure on the contracting market and materials.

Risk Appetite Rationale

- Need to ensure our infrastructure meets functional requirements and fit for purpose.
- Individual risk appetites for different sub-categories, e.g. Bridges: low, Renewals: moderate.

Key Mitigations

- Structure Plans estimate future asset requirements and growth profiles.
- Asset Management Plans in place for all infrastructure activities which predicts asset renewal requirements.
- Infrastructure spending is approved through the LTP/Annual Plan process.
- Significant improvement in procurement processes.
- Joint procurement e.g. solid waste, 3 waters maintenance contract, ONRC Road Maintenance Contract with Waka Kotahi
- Regional and subregional planning e.g. UFTI, SmartGrowth, Spaces & Places.
- Council will continue to advocate for key infrastructure.

Significant Planned Additional Mitigations	Owner(s)	Timing	Status
Implementation of Watercare IT system for 3 waters joint contract	Marion Dowd	2021 - 2022	Ongoing
Renewal of Joint Road Maintenance contract with NZTA	Gary Allis	2021 - 2023	Ongoing

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Key Risks

	Inherent Risk	Current Assessed Residual Risk	Council Target Residual Risk
7. Project delivery risks	Very High	High	Medium

1. Contracting market, shortage of resources
2. Consulting market, shortage of resources
3. Price pressure
4. Internal resourcing, shortage of skilled staff, salary pressure
5. Ability to receive funding from Waka Kotahi

Risk Appetite Rationale

- Utilise alternative procurement methodology e.g. collaborative contracts, Early Contractor Involvement (ECI), major variations to existing contracts, dispensation to procurement procedures.
- Modification to levels of service and design standards to reduce price
- Clearly defined risk ownership in contracts, Council takes more risk

Key Mitigations

- Early contractor engagement on forward work programme
- Timing work to ensure reliable pipeline
- Engage Tier 2 and 3 contractors
- Alternative procurement methods and contracts e.g. unit rates, hourly rate, ECI
- Alternate procurement methods and contracts e.g. unit rates, hourly rate, ECI

Significant Planned Additional Mitigations	Owner(s)	Timing	Status
Future Ready Organisation initiative – development and implementation of project and change management frameworks	Various	2021 - 2023	Ongoing
Build internal staffing capacity and project specific resources e.g. Kerbside	Various	2021 – 2023	Ongoing
Westlink Contract extension with two year programme	Gary Allis	2021	Ongoing

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Key Risks

	Inherent Risk	Current Assessed Residual Risk	Council Target Residual Risk
8. Community engagement risks (general community and key stakeholders)	**Medium**	**Medium/Low**	**Low**

1. Obligation to engage with residents and community & demonstrate that this has been done.
2. Fostering greater community participation.
3. Providing good customer service.
4. Use of Council land & venues for private events & Compliance with the Health & Safety at Work Act.

Risk Appetite Rationale

- Council is very careful on external communications
- Customer service is important to us

Key Mitigations

- Survey conducted for community events run and supported by Council as appropriate
- Community Boards, Bang the Table, community events, connector groups all play a part in engaging with the community.
- Surveys are conducted to gauge community satisfaction.
- Community Engagement Framework now in place and staff trained.
- Comprehensive risk plans are required for events on council property. All dealings and approval of events on Council land has a process to go through and staff sign-off is required.

Significant Planned Additional Mitigations	Owner(s)	Timing	Status
Community and Environment strategies are being developed	Emily Watton	2020-21	Ongoing
Maintain engagement skills and provide ongoing training	David Pearce	2021	Ongoing

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Key Risks

	Inherent Risk	Current Assessed Residual Risk	Council Target Residual Risk
9. Regulatory compliance	**High**	**Medium**	**Low**

1. Loss of regulatory compliance accreditation from IANZ, MBIE and MPI.
2. Finding staff with the right skills and qualifications.
3. Lack of local training providers.
4. Employing external contractors & the impact on cost.
5. Failure to provide adequate Code of Compliance certificates.
6. Potential to delay development and building work.
7. Change to case law around 10 year liability for leaky building claims may lead to re-opening cases.
8. Failure of after hours contractor to provide services i.e. noise control, animal control etc
9. Abatement notices – inadequate process for review and monitoring, resulting in lodgement of appeals.
10. Infringement notices – not meeting legislative requirements which impacts on reputational and financial risk.

Risk Appetite

• These risks are within Council's control and is important to Council's reputation of high quality service delivery

Key Mitigations

• Quality & Systems specialist role created to ensure continuity of accreditation.
• Use of PROMAPP to provide consistent documentation and processes.
• Use of external contractors to cover workload.
• Improved training & qualification process.
• Development of earthquake prone building policy.
• Sound procurement policy and practices for engaging contractors.

Significant Planned Additional Mitigations	Owner(s)	Timing	Status
Work Programme developed using the suggested improvements from the QC's report on Bella Vista	Chris Nicholson et al	2020 / 2021	Ongoing
Reintroduce Cadet positions	Chris Nicholson et al	2021	Ongoing
Career progression framework	Chris Nicholson et al	2021	Ongoing
Maintain watching brief and develop responses to future legislation e.g. Resource Consent monitoring, RMA changes	Alison Curtis	2021	Ongoing

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Key Risks

	Inherent Risk	Current Assessed Residual Risk	Council Target Residual Risk
10. Growth and impact on infrastructure planning	**Medium**	**Medium**	**Low**

1. Incorrect growth assumptions, leading to incorrect estimates for costs and revenues.
2. Cost of infrastructure needed by new developments.
3. Ensuring sufficient land for housing demand
4. Plan changes do not proceed due to appeals or inadequate infrastructure

Risk Appetite Rationale

• Out of council's control but has a big impact on infrastructure planning, community wellbeing and the provision of housing.

Key Mitigations

• Regular review of population growth estimation
• Regular update of infrastructure schedules
• Establishment of sub regional relationships to manage growth in partnership with local and central government agencies.
• Well planned community and landowner engagement and structured project management.
• Boundary changes relating to Tauriko West & planning for other areas

Significant Planned Additional Mitigations	Owner(s)	Timing	Status
Infrastructure impact on planning, future development & financial reporting	Various	Ongoing	Ongoing
Development of Sub-Regional Housing Action Plan	Various	Ongoing	Ongoing
Omokoroa Communications Strategy	Luke Balvert	Ongoing	Ongoing

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Key Risks

	Inherent Risk	Current Assessed Residual Risk	Council Target Residual Risk
11. Risk of Fraud	**Medium**	**Medium**	**Low**

- Ability of finance systems and dual controls to prevent fraud.
- Risk of increased fraud in times of financial stress.
- Management time required (remediation, court cases, etc) if fraud is discovered.

Risk Appetite Rationale

- Council has zero appetite for internal fraud.

Key Mitigations

- Dual authorisation for purchases. Purchasing and procurement process.
- Accounting checks and reconciliations on a regular basis.
- Conflict of interest declarations.
- External auditors (KPMG) and Audit New Zealand investigations.
- Delegated financial authorities and segregation of duties.
- Secure passwords.
- Checks on bank account number changes and changes to supplier records.
- Updated Fraud Policy issued to staff.
- Appointment of an Internal Auditor
- In-house internal audit function

Significant Planned Additional Mitigations	Owner(s)	Timing	Status
- Responses to audit issues raised	Finance	Annual	Ongoing
- Six weekly meetings with Audit NZ	Finance	Six weekly	Ongoing

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9.5   UPDATE ON OUTSTANDING AUDIT ITEMS (INTERNAL/EXTERNAL) NOVEMBER 2021

File Number: **A4348436**

Author: **Tashina Abraham, Senior Assurance and Risk Specialist**

Authoriser: **Kumaren Perumal, Group Manager Finance and Technology Services**

EXECUTIVE SUMMARY

1.   The purpose of this report is to provide status updates on management's response to recommendations raised in management reports as part of the following processes:

      (a)   The audit of the Long-Term Plan and Annual Report carried out by Council's external auditor Audit New Zealand; and

      (b)   Internal audit reviews carried out by Council's internal auditor KPMG as part of the internal audit work programme.

2.   The status updates on open external and internal audit recommendations have been amalgamated into one report **(Attachment 1)**. Closed audit items are available separately on Stellar.

RECOMMENDATION

That the Senior Assurance and Risk Specialist's report dated 4 November 2021 titled 'Update on Outstanding Audit Items (Internal/External) November 2021' be received.

BACKGROUND

Audit New Zealand

3.   The Local Government Act 2002 requires Local Authorities to have their Annual Reports and Long-Term Plans audited by the Office of the Auditor-General. The Office of the Auditor-General has appointed Audit New Zealand as Council's audit service provider.

4.   The process for auditing the Annual Report and Long-Term Plan involves Audit New Zealand issuing an opinion that the information published in these documents fairly presents the Council's financial position and complies with legislation.

5.   At the conclusion of each audit, Audit New Zealand provide a management report highlighting any issues they find, the degree of severity of the issue and a recommendation. Issues raised by Audit New Zealand are classed as 'Urgent, Necessary or Beneficial'.

KPMG

6.   During the 2016/2017 financial year KPMG was appointed as Council's internal auditor under a Bay of Plenty Local Authority Shared Services (BOPLASS) arrangement and worked with staff to establish a three-year internal audit plan. The audit plan was presented at the February 2020 Audit and Risk Committee. The audit plan outlined the intended areas of focus for 2017, 2018 and 2019, with confirmation sought from senior management on an annual basis.

7.   The annual internal audit plan review for 2018 identified asset management and key financial controls as areas of internal audit focus. Status updates to the key findings are included in the attached 'Audit Monitoring' table (**Attachment 1**).

ATTACHMENTS

1.   **Audit Monitoring Table (Internal/External)** ⬇ 📄

Audit Monitoring Table – Outstanding Management Report Items from External Audit of Annual Report

2019-2020 ANNUAL REPORT			
Audit Recommendation	**Priority**	**Management response**	**Status update**
Rates Resolution			
Ensure the rates resolution is fully compliant with the Local Government (Rating) Act. In the local authority context, failure to comply with rating law and the associated consultation requirements can create risks for the revenue coming from rates. Therefore, we are required to obtain reasonable assurance that local authorities are complying with legal requirements that could put significant rates revenue at risk. As part of our audit work, we reviewed the rates setting process for the 2020/21 financial year and noted the following issues: ● the 2020/21 rates resolution mentions the incorrect financial year in certain places, specifically "for the financial year commencing on 1 July 2019 and ending on 30 June 2020"; ● the rates resolution also states "the Western Bay of Plenty District Council sets that the water consumption rates (set under section 19 of the Local Government (Rating) Act) for the financial year commencing 1 July 2020 and ending on 30 June 2021 will be invoiced twice during the year and the due dates for payment will be 30 days from the date of each invoice being issued." Section 24 of the Local Government (Rating) Act 2002 states "A local authority must state, in the resolution setting a rate (a) the financial year to which the rate applies; and (b) the date on which the rate must be paid or, if the rate is payable by instalments, the dates by which the specified amounts must be paid." We consider that this requirement has not been fully met, as specific due dates for water rates are not disclosed in the resolution; and ● the actual rates for the 2020/21 year are not disclosed in the rates resolution but are disclosed in the Rates Setting Report included in the Council meeting agenda pack (June 2020). We would expect the rates adopted by Council to be disclosed in the rates resolution itself. We noted management had engaged Simpson Grierson to review the rates resolution and these matters had been identified in their review. We understand that the Council was addressing the rating year issue and the inclusion of the rating information as part of its 24 September 2020 meeting. The issue with the water rates invoicing remains outstanding. We recommend the District Council ensures the rates resolution is fully compliant with the Local Government (Rating) Act.	**Necessary**	**May 2021** The issues relating to the reference to the 2020/21 financial year has been resolved through a resolution of the Council meeting held on 24 September 2020. The issue relating to water rates in Council's Rates Resolution has previously been raised in the 2016/17 Audit Management Letter and closed in the 2018/19 Audit Management Letter after an assessment of our 2018/19 Rates Resolution was performed. The matter was revisited during the 2019/20 audit and assessed by Audit New Zealand's technical team who did not deem the issues to be of significance to impact the 2019/20 audit opinion. Given Council's current meter reading process it is not possible to provide certainty of when meters will be read across our District, Council is not able to include further information with our Rates Resolution. Council will incorporate the rates to be adopted in the Rate Setting Report for 2021/22.	**November 2021 Update** The outstanding issue regarding water rate dates in Council's rate resolution is being reviewed in conjunction with the implementation of the joint 3-Waters Contract with Downer who were successfully awarded the contract. This implementation includes a change to water meter reading processes intended to resolve the outstanding issue.

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Audit Monitoring Table – Outstanding Management Report Items from External Audit of Annual Report

Ensure all aspects of any legislative changes are actioned.	Priority	Management response	Status update
Legislative changes regarding the "four well beings" Last year the Government passed the Local Government (Community Well-being) Amendment Act 2019 (2019 No 17) (the Amendment) which made a number of changes to the Local Government Act 2002 (the Act). The overall purpose of the Act remains "to provide for democratic and effective local government that recognises the diversity of New Zealand communities". The Amendment re-instated one of the key contributors to achieving that purpose. The purpose is to provide "for local authorities to play a broad role in promoting the social, economic, environmental, and cultural well-being of their communities, taking a sustainable development approach". Part 3, clause 23 (d) of the Act now requires that "an annual report must, in relation to each group of activities of the local authority, describe any identified effects that any activity within the group of activities has had on the social, economic, environmental, or cultural well-being of the community". The initial draft annual report did not contain the necessary disclosure under the Amendment. We brought this to management's attention and the disclosure was added into the final document. We noted that other aspects of the Amendment had been actioned such as updating the templates for decision making documents and for agenda items to include consideration of the well beings. We recommend the District Council ensures all aspects of any legislative changes are actioned.		**May 2021** Council continues to monitor legislative changes and will ensure that legislative changes are enacted as required.	**November 2021 update** Council continues to hold a watching brief on any legislative changes and will ensure that legislative changes are enacted as required. The nature of this recommendation means that the issue will never be fully closed, however staff will continue to keep this issue in mind.
Project Management			
Management contracted KPMG to undertake a review of the District Council's Project Management processes during the audit period. The review identified a number of areas for improvement and made recommendations accordingly. We recommend the District Council considers the recommendations from KPMG on Project Management and implements improvements considered appropriate and financially viable.	N/A	**October 2020** Council's response to the KPMG report on project management is ongoing and a workplan for implementation of the recommendations is underway.	**November 2021 Update** A Project Lifecycle diagram (Project Management Framework) has been completed and a recommendatory report prepared. The report identifies tasks required to implement the framework across the organization.

2017-2018 ANNUAL REPORT

Audit Recommendation	Priority	Management response	Status Update
Asset Improvement Programme			
The Council creates a formal asset improvement programme in response to the valuer's recommendations and puts an action plan in place to address the issues in a timely manner. We followed up on this recommendation during our final audit visit and noted from our review of the valuation report for transport that Opus has disclosed some improvements which we have identified as largely consistent with recommendations made in the 2017 valuation report, with the exception of points 3, 4 and 5 which are new. **2019-2020 Audit Management Report Final** We noted from our review of the valuation report for transport that Opus has disclosed some improvements which we have identified as largely consistent with recommendations made in the 2017 valuation report.	Necessary	**October 2020** The Council has a number of workstreams underway to improve processes relating to asset information, including the recommendations made in the Opus Report.	**November 2021 Update** The draft 2021 Roading valuation is currently being reviewed. **August 2021 Update** We are still waiting on further information from WSP New Zealand on the asset valuation improvements. We expect these to be included in their latest revaluation report for 2021. We have discussed the recommendations from the 3 waters revaluation and will program these over the next year. No recommendations were made for our other revaluations.

Audit Monitoring Table – Outstanding Management Report Items from External Audit of Annual Report

GL Reconciliations			
The Council ensures all reconciliations are prepared and reviewed in a timely manner to ensure that any problems or inaccuracies can be detected early, and rectified. During our interim audit, we reviewed a sample of bank, creditor, debtor, payroll and suspense account reconciliations and found the following: • In all of the above we noted instances of untimely review. • Regarding debtors reconciliations, there was one instance where there was no sign-off by the person preparing the reconciliation. • Regarding suspense accounts, there was two instances where there was no evidence of the reconciliation having been reviewed. **2019-2020 Audit Management Interim Report – October 2020** **General Ledger** We still note instances where reconciliations have not been prepared or reviewed in a timely manner. We identified instances where creditor, payroll clearing accounts, debtor and suspense accounts reconciliations were completed two months after month end. **No evidence of review for Masterfile change report** We noted the July 2019 report did not evidence the review from the Finance Manager or Senior Financial Planner. However, other reports we sighted had been appropriately reviewed.	Necessary	**October 2020** **General Ledger** There are two reconciliation processes that are awaiting fixes from our IT provider, Datacom. Other delays related to handover issues with a departing staff member and Council expects these have been addressed going forward. **Masterfile change report** While the reports had been prepared and reviewed, the date was missing from the signature. This has been corrected going forward. **June 2019** Monthly finance processes have been strengthened following a number of staff changes. All reconciliations are prepared and reviewed within 20 days of month-end.	**November 2021 Update** Staff have made large inroads closing off most recommendations. A newly filled position within the finance team is envisaged to take responsibility for reconciliations moving forward.
Contract Management System			
The Council considers improving the functionality of its contract management system. There has been no progress made to date and no progress is expected until the 2019/20 period. **2019-2020 Audit Management Interim Report – October 2020** Based on our discussions with the procurement team, no further progress has been made with regards to the Contract Management functionality.	Beneficial	**October 2020** It is expected that Council will seek improvements to the procurement system once a pathway to a new ERP system is established by senior management. **June 2019** This will be reviewed as part of the 2019/20 work programme.	**November 2021 Update** This matter is on hold and will be considered as part of Council's new ERP project signaled in the LTP. **August 2021 Update** This matter is on hold and will be considered as part of Council's new ERP project signaled in the LTP.

2018-2028 LTP AUDIT (MANAGEMENT REPORT ITEMS)		
Update of the Asset Management Plans	Priority	Status Update
During the LTP audit, we noted that the Asset Management Plans (AMPs) will not be updated with resulting changes from the consultation process until after the LTP is adopted. Given the AMPs are intended to drive the strategies and model, it is important that the AMPs reflect the information within the LTP. We recommend that Council updates the Asset Management Plans with changes resulting from the consultation process to ensure there is alignment between the LTP and the underlying information.	Recommended	**November 2021 Update** The Water, Stormwater and Wastewater Asset Management Plans have now been updated with the outcomes from the LTP. The Reserves and Facilities Asset Management Plan is being rewritten and updated as part of the Annual Plan process. The remaining Asset Management Plans will be updated by late November through to end of December.

Audit Monitoring Table – Outstanding Management Report Items - Internal Audit

ASSET MANAGEMENT PLANNING INTERNAL AUDIT 2019 (KPMG)			
Audit Finding	**Audit Recommendations**	**Priority**	**Status update**
Asset data management processes, systems and analytics: Asset portfolios lacking clarity of data requirements and transition risk during new asset database implementation	• In parallel with the SAMP development, document the group level asset management processes and the AssetFinda interface requirements for asset data, analytics and information. Reference these processes within the SAMP.	**High**	**November 2021 Update** Documentation of processes is ongoing.
	• Establish a simple but robust data model for property portfolio assets, wastewater treatment plants and other asset classes that are not well documented. Undertake a review of data gaps and collect and maintain asset registers for all asset classes in accordance with data model requirements. Embed processes of data management in the organisation.		**November 2021 Update** Loading of existing buildings and components is continuing. We continue to develop our treatment plant data with support from our collaborative partners Tauranga City Council and Watercare. Council has engaged an engineer to develop more accurate asset diagrams for our wastewater and water treatment plants. This will be linked to our new Asset Management System going forward.
	• Actively promote the benefits of AssetFinda to staff with an asset management remit. Communication of the benefits of a high standard of asset data can improve motivation to maintain data. Consider the use of dashboards which are tailored to user type's e.g storm water engineers, pensioner housing property managers, making asset and portfolio reporting easier and improving supporting information for business cases.		**November 2021 Update** We will be further developing our reporting in line with the model being used by Watercare
	• Develop a roadmap to close out the AssetFinda system implementation process and establish a clear brief of organizational information requirements to inform asset portfolio data models. Establish a clear project delivery structure for the works with senior management sponsorship and formal reporting and assign adequate resources to achieve a successful close out.		**November 2021 Update** There have been some delays with the implementation of work management for reserves maintenance contract, but this has restarted and we are due to implement the first phase this quarter.
Variable application of asset management within asset portfolios: Decision making, business cases, benefits realization, quantified risk management, and condition assessments	• Undertake a review and improvement initiative for the corporate property Asset Management Plan to achieve an adequate level of asset management maturity. Provide support to the business unit to establish and embed robust asset management processes.	**Medium**	**November 2021 Update** Support for asset management processes is ongoing.
	• Consider greater application of value illustration in investment planning and proposals and seek greater transparency around decision making. Make better use of appropriately scaled business case and benefits realization methodologies to existing and new investment requirements.		**November 2021 update** No further update. **August 2021 Update -** No further update. **May 2021 Update -** The project proposal template has been reviewed and activities have used this template to prepare their projects as part of the 2021/31 Long Term Plan process.

Audit Monitoring Table – Outstanding Management Report Items - Internal Audit

ASSET MANAGEMENT PLANNING INTERNAL AUDIT 2019 (KPMG)			
Audit Finding	**Audit Recommendations**	**Priority**	**Status update**
	• Apply risk management principles to asset failure risk to determine the vulnerable, sensitive or critical assets. Communicate significant risk issues to senior management and implement appropriate risk mitigation tactics.		**November 2021 Update** Currently being reviewed with the Assurance and Risk Specialist. **August 2021 Update** No further update. **May 2021 Update** This will require further consideration by the asset management working group and is likely to be developed over the medium term and completed by the end of this year.
	• Undertake asset management system effectiveness reviews on an annual basis and report deficiencies against agreed asset management system maturity levels to senior executives.		**November 2021 Update** This will be a future area of focus for the asset management working group and is scheduled for 2022. **August 2021 Update** No further update. **May 2021 Update** With the Asset Management Plan peer review process completed this will be a future area of focus for the asset management working group.

KEY FINANCIAL CONTROLS INTERNAL AUDIT 2018 (KPMG)			
Audit Finding	**Audit Recommendations**	**Priority**	**Status Update**
Implement segregation of duties and review system access rights of the Accounts Team.	• An exception report should be generated and reviewed prior to the payment run to identify any unauthorized changes to the creditor master file.	**High**	**CLOSED** **This recommendation has been addressed.** **August 2021 Update** Independent review by management still continues.

9.6   HEALTH AND SAFETY REPORT

File Number: **A4354807**

Author: **Lauren Schild, Executive Assistant, People and Customer Services**

Authoriser: **Jan Pedersen, Group Manager People And Customer Services**

EXECUTIVE SUMMARY

1.   Health and Safety Report

This report provides a summary of:

- The health and safety performance across the organisation;

- Significant health and safety risks and safety events for the reporting period; and

- The progress against the health and safety strategy and work programme.
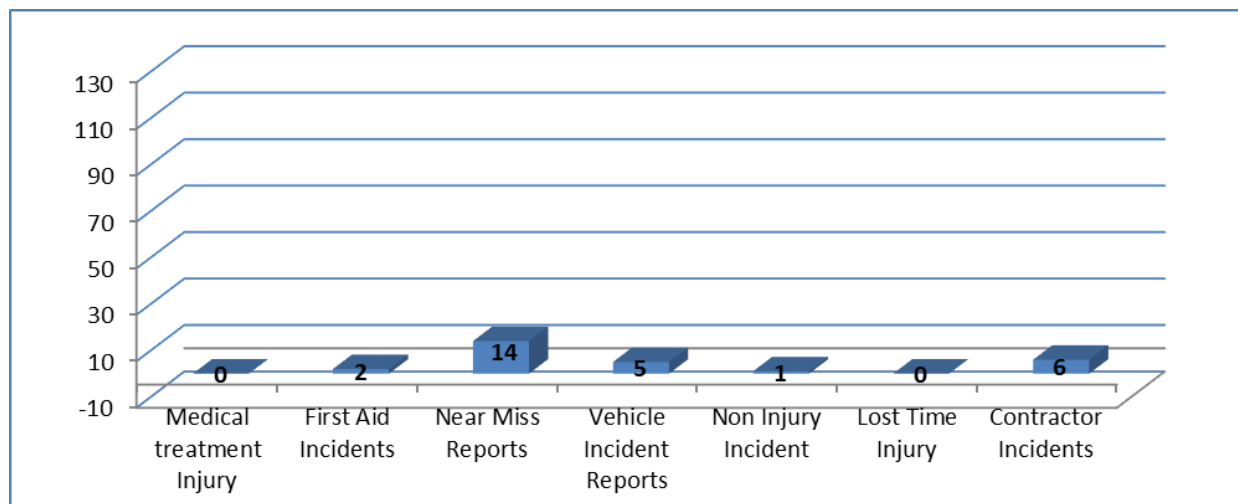

RECOMMENDATION

That the Executive Assistant, People and Customer Service's report dated 4 November titled 'Health and Safety Report' be received.
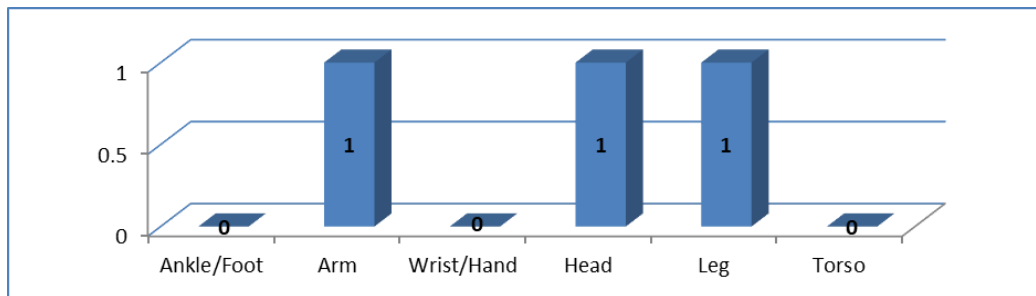

BACKGROUND

2.   Health and Safety Performance

The graph and data below provide an overview of Council's Health and Safety performance.

Summary of Safety Events – 1 July 2021 – 30 September 2021

Types of Injuries Sustained, Year to Date – 1 July 2021 - 30 September 2021

Te Puna Quarry Park Volunteer Fatality:

Council was advised on 27 July 2021 by the Te Puna Quarry Park Committee that a volunteer digger operator (owner operator) was involved in a serious accident which subsequently resulted in a fatality.

Worksafe have now concluded their investigations and advised that no further action will be taken with Te Puna Quarry Park. Council has expressed its deepest condolences with the respective family and the Park Committee regarding the loss of their volunteer.

The Te Puna Quarry Park land is owned by the Department of Conservation with control and management vested into Council. Council has a management agreement with the Te Puna Quarry for the day-to-day operations and management.

Following the fatal event, Council has undertaken an independent legal and safety review to ensure that all aspects of management agreement and health and safety obligations are met.

Aggressive Customers

Council staff were involved in five separate verbally aggressive customer interactions throughout the reporting period. Four safety events relate to incidents that took place at the Te Puke Library and Service Centre and one relates to an animal control incident. The four   Te Puke Library and Service Centre events relate to customer non-compliance through the COVID-19 alert level two period, in which customers became verbally aggressive when asked to scan in or wear a mask. The animal control incident relates to concerns around the personal safety of a staff member. Three of the safety events were reported to the Police and resulted in two separate trespass notices issued at the Te Puke Library and Service Centre.

Mitigation safety controls includes "on site" security services at Te Puke Library and Service Centre, improved CCTV and continuous review of safety protocols. EAP counselling services were also provided to the affected staff.

3.   **Accident/Incident Frequency Rates**

The metrics reported are:

- Lost Time Injury Frequency Rate (LTIFR). This is the average number of lost time injuries per 200,000 hours worked;

- Total Recordable Injury Frequency Rate (TRIFR). This is the average number of recorded injuries per 200,000 hours worked; and

- Lost Time Injuries (LTI's).

Metrics	Council's year to date records	Local Government Industry Benchmark
Average LTIFR (year to date)	0	2.5
Average TRIFR (year to date)	2	7
Average Lost Time Injuries (LTI). Recorded (year to date) of LTI's.	0	3

4.   Summary of Safety Events - Year to Date – 30 September 2021

Safety Events	Year to Date Results FY 2022 (Q,1)	Year to Date Results FY 2021	Year to Date Results FY 2020	Year to Date Results FY 2019
Medical Treatment Injury	0	3	5	1
First Aid Incidents	2	34	8	23
Near Miss Reports	14	41	49	33
Vehicle Reports	5	7	11	38
Non-Injury Incident	1	26	15	51
Lost Time Injury	0	2	3	4
Contractor Incidents	6	106	150	123
Total Safety Event Reports **Year to Date**	**28**	**219**	**241**	**273**

5.   Health and Safety Hazard Risk Management

The following high-risk hazards and risk were focussed on:

- Lone worker devices were implemented for high-risk activities for the Water Treatment Operators, Animal Services Officers and Compliance staff in order to support lone/isolated staff undertaking duties in remote locations.

- A review of Council's traffic management protocols was completed within the reporting period.

- Council's safety team are focussing on managing contractor safety which included reviewing health and safety documentation and completing site inspections. This included the Kerbside Collection Programme, and the Ōmokoroa Urbanisation Project.

6.   COVID-19 Management Planning and Policy

Council continues to monitor and respond to updates from Central Government's communication and guidelines for COVID-19 and will communicate key safety messages from central government to all staff and elected members.

Remote access working is being continually tested to ensure staff can continue to work from home, if required.

Council has recently developed a draft COVID-19 vaccination policy for staff, including a risk assessment for high customer contact roles.

7.   Health and Safety Strategic Work Programme

- Policy and guideline reviews;
- Safety site inspections and audits;
- Contractor management, including an online induction programme;
- Incident and accident safety management; and
- Engagement and training with safety and wellbeing.

Throughout the reporting period staff attended the following training:

- Traffic management;
- Mental health and resilience training;
- First aid.

Policies and procedures recently reviewed included:

- Officers due diligence;
- Hazard management; and
- Traffic Management Policy and associated standard operating procedures.

Council has a pro-active wellbeing group, which includes a holistic approach to health, and wellbeing. A number of activities were carried out for the reporting period, including mental health workshops, resilience training and physical exercise groups.

8.   Health and Safety Committee

Council has an active Health and Safety Committee, which includes representation from across the organisation and senior management. The Health and Safety Committee meet on a monthly basis and review safety events, policies and new legislation.

10 INFORMATION FOR RECEIPT

11 RESOLUTION TO EXCLUDE THE PUBLIC

RECOMMENDATION

That the public be excluded from the following parts of the proceedings of this meeting.

The general subject matter of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48 of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48 for the passing of this resolution
11.1 - Litigation Update	s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7