

AGENDA



P O Box 747, Gisborne, Ph 06 867 2049 Fax 06 867 8076
Email service@gdc.govt.nz Web www.gdc.govt.nz

MEMBERSHIP: Bruce Robertson (Independent Chair), Andy Cranston, Larry Foster, Pat Seymour, Terry Sheldrake, Rehette Stoltz (Mayor) and Josh Wharehinga

AUDIT & RISK Committee

DATE: Wednesday 16 March 2022

TIME: 9:00AM

AT: Te Ruma Kaunihera (Council Chambers), Awarua, Fitzherbert Street, Gisborne

AGENDA – OPEN SECTION

1. Apologies	3
2. Declarations of Interest.....	3
3. Confirmation of non-confidential Minutes	4
3.1. Confirmation of non-confidential Minutes 23 November 2021	4
3.2. Action Sheet.....	10
4. Leave of Absence.....	10
5. Acknowledgements and Tributes.....	10
6. Public Input and Petitions.....	10
7. Extraordinary Business	10
8. Notices of Motion	10
9. Adjourned Business.....	10
10. Reports of the Chief Executive and Staff for INFORMATION	11
10.1 22-62 Ernst & Young Audit Plan - 30 June 2022	11
10.2 22-45 Internal Audit Report.....	26
10.3 22-43 Health and Safety Update.....	35
10.4 22-50 2021-22 Insurance Renewal	47
10.5 22-63 Council Strategic Risk Management Report	64
11. Public Excluded Business	83
11.0. Resolution to Exclude the Public.....	83

Audit and Risk

Reports to:	Council
Chairperson:	Independent Chairperson
Membership:	Mayor Stoltz, Deputy Mayor Wharehinga, Chairs
Quorum:	Half of the members when the number is even and a majority when the membership is uneven.
Meeting frequency:	Quarterly (or as required)

Purpose

To assist the Council to exercise due care, diligence and skill in relation to the oversight of:

- the robustness of the internal control framework;
- the integrity and appropriateness of external reporting, and accountability arrangements within the organisation for these functions;
- the robustness of risk management systems, process and practices;
- internal and external audit;
- accounting practice and, where relevant, accounting policy;
- compliance with applicable laws, regulations, standards and best practice guidelines for public entities; and
- the establishment and maintenance of controls to safeguard the Council's financial and non-financial assets.

The Audit and Risk Committee Chair is responsible for submitting an annual report to the Council covering the Committee's operations and activities during the preceding year.

Terms of Reference

Internal Control Framework

- Consider the adequacy and effectiveness of internal controls and the internal control framework including overseeing privacy and cyber security.
- Enquire as to the steps management has taken to embed a culture that is committed to probity and ethical behaviour.
- Review the processes or systems in place to capture and effectively investigate fraud or material litigation, should it be required.
- Seek confirmation annually, and as necessary, from internal and external auditors, attending Councillors, and management, regarding the completeness, quality and appropriateness of financial and operational information that is provided to the Council.

Risk Management

- Review and consider Management's risk management framework in line with Council's risk appetite – which includes policies and procedures to effectively identify, treat and monitor significant risks, and regular reporting to the Council.
- Assist the Council to determine its appetite for risk.
- Review the principal risks that are determined by Council and Management, and consider whether appropriate action is being taken by Management to treat Council's significant risks. Assess the effectiveness of, and monitor compliance with, the risk management framework. Consider emerging significant risks and report these to Council, where appropriate.

Internal Audit

- Review and recommend the annual internal audit plan; such plan to be based on the Council's risk framework.
- Monitor performance against the plan at each regular quarterly meeting.
- Monitor all internal audit reports and the adequacy of Management's response to internal audit recommendations.
- Monitor compliance with the Delegations Manual.

External Audit

- Annually review the independence and confirm the terms of the audit engagement with the external auditor appointed by the Office of the Auditor General. This includes the adequacy of the nature and scope of the audit, and the timetable and fees.
- Review all external audit reporting, discuss with the auditors and review action to be taken by management on significant issues and recommendations and report to Council as appropriate.

Compliance with Legislation, Standards and Best Practice Guidelines

- Review the effectiveness of the system for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), with Council's own standards, and Best Practice Guidelines.

Powers

The Audit and Risk Committee, within the scope of its role and responsibilities, is authorised to:

- obtain any information it needs from any employee and/or external party (subject to their legal obligation to protect information);
- discuss any matters with the external auditor, or other external parties (subject to confidentiality considerations);

The Audit and Risk Committee has no executive powers and is directly responsible to Council.

3.1. Confirmation of non-confidential Minutes 23 November 2021

MINUTES

Draft & Unconfirmed



P O Box 747, Gisborne, Ph 867 2049 Fax 867 8076
Email service@gdc.govt.nz Web www.gdc.govt.nz

MEMBERSHIP: Bruce Robertson (Independent Chair), Andy Cranston, Larry Foster, Pat Seymour, Terry Sheldrake, Rehette Stoltz (Mayor) and Josh Wharehinga

MINUTES of the AUDIT & RISK Committee

Held in Te Ruma Kaunihera (Council Chambers), Awarua, Fitzherbert Street, Gisborne on Tuesday 23 November 2021 at 10:00AM.

PRESENT:

Independent Chair Bruce Robertson, Mayor Rehette Stoltz, Andy Cranston, Larry Foster, Pat Seymour and Terry Sheldrake.

IN ATTENDANCE:

Chief Executive Nedine Thatcher Swann, Director Lifelines David Wilson, Director Internal Partnerships James Baty, Chief Financial Officer Pauline Foreman, Chief of Strategy & Science Jo Noble, Finance Manager Melanie Hartung, Risk Partner Steve Breen, Democracy & Support Services Manager Heather Kohn and Committee Secretary Jill Simpson.

Secretarial Note: Director Environmental Services & Protection Helen Montgomery attended via audio visual link.

1. Apologies

MOVED by Cr Stoltz, seconded by Cr Sheldrake

That the apologies from Crs Cranston and Wharehinga for lateness be sustained.

CARRIED

2. Declarations of Interest

There were no interests declared.

3. Confirmation of non-confidential Minutes

3.1 Confirmation of non-confidential Minutes 22 September 2021

MOVED by Bruce Robertson, seconded by Cr Stoltz

That the Minutes of 22 September 2021 be accepted as amended.

CARRIED

3.2 Action Sheet

Item 10.2 Draft Insurance Strategy & Wreck Removal Cover:

- Smaller incidences are covered by private insurance.
- A preliminary meeting with the Port has occurred.
- A formal report will be presented at the next Audit & Risk Committee.

3.3 Governance Work Plan

Noted.

4. Leave of Absence

There were no leaves of absence.

5. Acknowledgements and Tributes

There were no acknowledgements or tributes.

6. Public Input and Petitions

There were no public input or petitions.

7. Extraordinary Business

There was no extraordinary business.

8. Notices of Motion

There were no notices of motion.

9. Adjourned Business

There was no adjourned business.

10. Reports of the Chief Executive and Staff for DECISION

10.1 21-224 Woody Beach Debris Across Tairāwhiti - Addressing the Short-Term Problem and Establishing a Long Term Council Position

Director Liveable Communities Michele Frey spoke to the report. Focus is around establishing a long term position for Council which is more sustainable for this region.

Discussions included:

- Once debris reaches the sea it is difficult to track back to its origin, therefore the issues need to be identified at the source.
- After recent significant rain events the forestry industry played a significant part in cleaning up beaches.
- Costs are rising for the beach clean-up because of the method of future disposal as burn-offs are no longer the direction we wish to head.
- Staff have been working closely with Department of Conservation and are very aware of the environmental factors in play, so it is a high priority that the clean-up balance is right.

MOVED by Cr Stoltz, seconded by Cr Seymour

That the Audit & Risk Committee amends the recommendation as follows:

1. Recommends that council
 - a. Notes the short-term approach to dealing with woody debris this summer, and associated costs, noting these costs are unbudgeted.
 - b. Endorses the development of a formalized Woody Debris Emergency Response Plan (note this would be an annex to the overarching Flood Response Plan).
 - c. Approves proceeding with a methodology to address the medium to long-term woody debris issue.

CARRIED

11. Reports of the Chief Executive and Staff for INFORMATION

11.1 21-257 Health and Safety Update

Health & Safety Manager David Wilkinson attended and spoke to the report. Director Internal Partnerships James Baty updated the Committee on the Vaccination Policy for staff, Councillors and Contractors.

Discussions included:

- Guidelines from Local Government New Zealand on the Vaccination Policy were only on 'Governance'.
- Conversations are being held around the type of approaches to be taken to protect and support staff when the traffic light system comes into play.
- The low vaccination rate in our region is a high risk for Council.
- Vaccination brings a lot of freedom.
- There are distinguishing factors based on vaccination status.
- Regular meetings occur with contractors, so they are aware of Council's Vaccination Policy.
- Council will be requiring proof of Vaccination Passports from staff and members of the public entering the building. Discussions have occurred regarding staff and elected members interaction with non-vaccinated members of our community and their participation in the democratic process. One method could be to join meetings via zoom. There has been a Comms exercise around what does this mean for our community and how Council can support non-vaccinated persons to participate in a way that also respects the employees of Council in terms of their health and safety requirements.
- Council's approach to the traffic light system will have a bigger influence on the public domain and how they interact with Council.
- The vast majority of people will be fully vaccinated so will only need to focus on the minority.

Secretarial Note: Cr Cranston arrived at 10.30am.

Further discussion on the report included:

- Staff are being encouraged to report anything that occurs that could have contributed to an accident or an incident. This information will help to identify trends.
- Driver training opportunities and initiatives are planned around safe driving.

Secretarial Note: Cr Wharehinga arrived at 10.38am.

- Nineteen summer students have commenced work at Council. Staff will be building on last year's induction process and focusing more effort and emphasis on driver training for students.
- Reporting will increase to ascertain if the near misses are improving.
- There has been an increase across Council's workplaces on violence and aggression towards staff. Situation and Awareness training is taking place early December 2021.
- There is good CCTV coverage at Council facilities and staff are trained to assist one another in an incident.

It was noted that future reports to the Committee should show the following:

- A 6 week period graph showing incidences as well as the 12 month graph.
- Focus more on the systems.
- A broad sense of our challenges not just what's happening in-house.

MOVED by Cr Seymour, seconded by Cr Foster

That the Audit & Risk Committee:

1. Notes the contents of this report.

CARRIED

11.2. 21-177 Internal Audit Update February - November 2021

Manager Finance Melanie Hartung attended and highlighted the work Internal Audit have been doing particularly around the external grant funding. Approximately \$80m has been received to 30 June 2021 and Internal Audit have provided the oversight and assurance to our sponsors as well as our external funders. This work will continue as we move through the redevelopment of the Olympic Pool and the Wastewater Treatment Plant as well as the remaining PGF projects.

Discussions included:

- Not only does Internal Audit staff give assurance and oversight, but they also investigate ways to make system improvements.

- Regarding the three-year internal audit programme, the Internal Audit team will work with the Audit & Risk Committee to develop a plan based on the risks. Once refined it will be workshopped with wider Council.
- Regarding the Koha Policy, payment is made preferably by direct debit.

MOVED by Cr Sheldrake, seconded by Cr Seymour

That the Audit & Risk Committee:

1. Notes the contents of this report.

CARRIED

11.3 21-263 Council Strategic Risk Management Report

Risk Partner Steve Breen attended advised that the Risk Bowtie for Civil Defence has been updated since the September report. It identifies further treatments which are currently being worked through with the Civil Defence team directly. A report is being prepared to Council with recommended actions on the strategic risk for People and Capability which will bring its identified current residual risk level of 'major' back within Council's risk appetite of 'moderate' or below. The deep dive into the Impact of Externally Driven Change identified some overlaps with other strategic risks, in particular overall Council strategy and strategic relationships. Further work is being carried out across all three to better define each area of risk and how they are managed. The table on page 59 will be updated to show the current status of all Council's strategic risks as the assessments are completed.

Discussions included:

- The table on page 59 of the agenda is reliant of feedback from Senior Management.
- One action may affect a number of controls, so it is difficult to have a linear, one control, one action. There is ambiguity with one action having multiple impacts.
- Future tables will more accurately identify which existing controls will be affected by additional treatment.
- Substantial work has been done by Council's Strategic Planning team looking at different hazards across Tairāwhiti and how we map our responses.

MOVED by Cr Stoltz, seconded by Cr Seymour

That the Audit & Risk Committee:

1. Notes the updates to the individual strategic risks and their risk appetites contained in this report.

CARRIED

11.4 21-265 Compliance Monitoring and Enforcement Metrics 2020/2021

Compliance Monitoring and Enforcement Manager Gary McKenzie attended via audio visual link and answered questions of clarification. It was noted that the report only reflects the regional function of Compliance and Enforcement, so for a regional council it does not take in the district function.

Discussions included:

- The 55% confirmed breaches relating to resource consents is high and staff are working with consent holders to improve compliance rates including education programmes.
- In relation to monitoring of consents staff look at the highest risk activities first ie the ones that have the biggest effect on the district.

It was noted that the Enforcement Policy was adopted in August. This Policy outlines our purpose and principles by which we promote and enforce compliance with the Resource Management Act. In terms of resourcing levels, Council is relatively low, however when looking at the high-end prosecutions required overall, we punch above our weight. Referring to the 20% high risk areas, it requires quite a few hours for our Enforcement Officers to prepare evidence, so on balance we do relatively well.

MOVED by Cr Stoltz, seconded by Cr Seymour

That the Audit & Risk Committee:

1. Notes the contents of this report.

CARRIED

Secretarial Note: The meeting adjourned at 11.30am for morning tea and reconvened at 11.45am.

12. Public Excluded Business

Secretarial Note: These Minutes include a public excluded section. They have been separated for receipt in Section 14 Public Excluded Business of Council.

13. READMITTANCE OF THE PUBLIC

MOVED by Cr Stoltz, seconded by Cr Foster

That the Council:

1. Re-admits the public.

CARRIED

14. Close of Meeting

There being no further business, the meeting concluded at 12.45pm.

Bruce Robertson

INDEPENDENT CHAIR

3.2. Action Sheet

Meeting Date	Item No.	Item	Status	Action Required	Assignee/s	Action Taken	Due Date
22/09/21	10.2	21-137 Draft Insurance Strategy & Wreck Removal Cover	In progress	Provide a further update to the Committee on the relationship between the Port and Gisborne District Council with respect to insurance and risk responsibilities.	Andrew Haughey	<p>12/11/2021 Andrew Haughey</p> <p>There will be an annual meeting with the Port Company to update shipping movements and any new risks. This will inform Council of the need for insurance cover. Updated shipping movements for the past year have already been supplied. In addition, there is a scheduled meeting with the Port Company to discuss and understand their risks and mitigation covers (eg insurance) that they have in place. This is to inform Council of exposure to any residual risks.</p>	02/11/2021

10. Reports of the Chief Executive and Staff for INFORMATION



22-62

Title: 22-62 Ernst & Young Audit Plan - 30 June 2022

Section: Finance & Affordability

Prepared by: Melanie Hartung - Finance Manager

Meeting Date: Wednesday 16 March 2022

Legal: No

Financial: No

Significance: **Low**

Report to AUDIT & RISK Committee for information

PURPOSE

The purpose of this report is to provide the proposed Audit Plan from Ernst & Young (EY) for Council's 2021/22 Annual Report and any significant changes from the 2020/21 Audit Plan.

SUMMARY

The Audit Plan covers the primary objectives of the audit and its key components, scope, significant risks, accounting matters and timing.

Council can raise any matters of concern with the auditors. These matters can then be incorporated within the Audit Plan for the reporting year. This will allow the auditors to perform additional checks to make sure that those areas of concern are represented fairly within the financial statements in terms of generally accepted accounting principles (GAAP) and reporting standards.

The Audit & Risk Committee is a forum for the auditors to identify, discuss and escalate any significant concerns that they may have about any aspects of the financial statements prepared by management.

The key areas of the 2021/22 Annual Report the auditors have noted they will focus on are:

- Infrastructure Assets
- Integrity of rates strike, rates invoicing and collection
- Grants and Subsidies
- Non-financial performance information reporting
- Controls over expenditure, procurement, and tendering; and
- GDC (Gisborne District Council) Group consolidation.

Key changes to the Audit Plan from 2020/21 include:

- Stuart Mutch replaces David Borrie as appointed auditor of the Council for 2022. Stuart continues to be supported by Loren Hunt.
- The materiality threshold has increased to \$2.2m (prior year \$2m), being 2% of forecasted expenditure with errors more than \$110k (prior year \$104k) being reported to the Audit and Risk Committee.
- COVID-19 is no longer an area of focus.

EY Auditors Stuart Mutch and Loren Hunt will be available during the Committee meeting to answer any questions that may arise from the Audit Plan.

The Audit Plan is appended in **Attachment 1**.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Audit & Risk Committee:

- 1. Notes the contents of this report.**

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: audit, risk, finance, Ernst & Young.

ATTACHMENTS

1. Attachment 1 - GDC Audit plan - final [**22-62.1** - 13 pages]

Gisborne District Council

Audit Plan for the year ending
30 June 2022

Issued: 23 February 2022



WELCOME



Dear Audit and Risk Committee Members

We are pleased to present our Audit Plan ("Plan") for the audit of the financial statements and service performance information of Gisborne District Council ("GDC") and its controlled entities ("the Group") for the year ending 30 June 2022. This Plan outlines the scope of our services, identifies Ernst & Young ("EY") professionals that will serve you and presents our understanding of some key considerations that will affect the 30 June 2022 audit.

We conduct our audit in accordance with the Auditor General's auditing standards which incorporate International Standards on Auditing (New Zealand). Our audit will be conducted to provide reasonable assurance that the financial statements and service performance information for the year ending 30 June 2022 are free of material misstatement.

Our Plan has been prepared based on our understanding of GDC and the local government sector. We have considered, and will continue to consider, GDC's current and emerging operating risks and assess those that could materially affect the financial statements and performance reporting and align our procedures accordingly. The Plan will be responsive to your needs and will maximise audit effectiveness so we can deliver the high quality audit you expect.

Should you have any questions or comments, please do not hesitate to contact us on 027 489 9378 (Stuart) or 027 404 5923 (Loren).

Yours faithfully

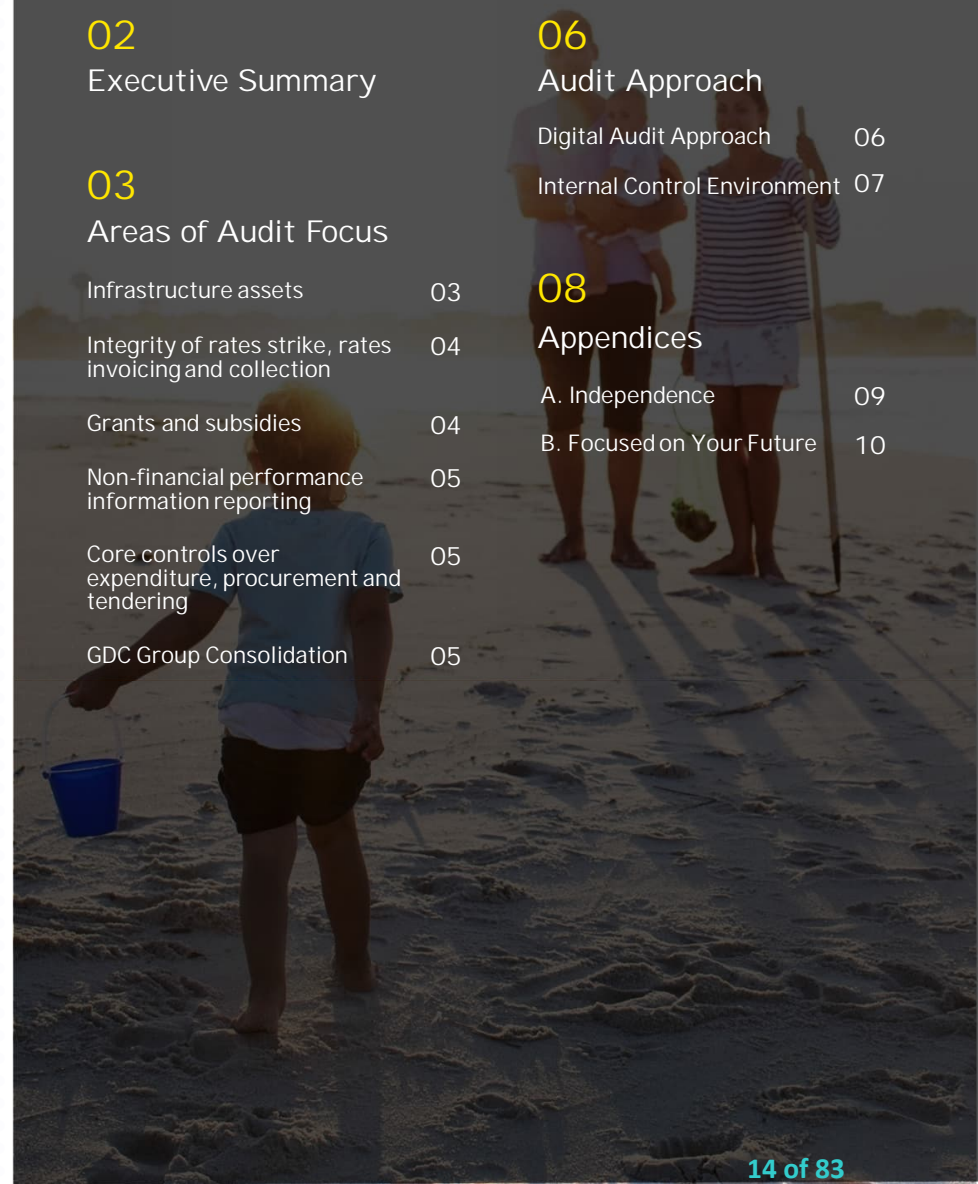


Stuart Mutch
Partner
23 February 2022

Loren Hunt
Manager
23 February 2022

CONTENTS

02	Executive Summary		06	Audit Approach	
				Digital Audit Approach	06
03	Areas of Audit Focus			Internal Control Environment	07
	Infrastructure assets	03	08	Appendices	
	Integrity of rates strike, rates invoicing and collection	04		A. Independence	09
	Grants and subsidies	04		B. Focused on Your Future	10
	Non-financial performance information reporting	05			
	Core controls over expenditure, procurement and tendering	05			
	GDC Group Consolidation	05			



EXECUTIVE SUMMARY

6

AREAS OF AUDIT FOCUS



key focus areas identified that remain broadly consistent with the prior year.

The areas of audit focus and the level of complexity or management judgement to be applied are:

- | | | | |
|---|---------------|---|------------|
| ▶ Infrastructure assets | HIGH | ▶ Non-financial performance information reporting; | LOW |
| ▶ Integrity of rates strike, rates invoicing and collection | MEDIUM | ▶ Controls over expenditure, procurement and tendering; and | LOW |
| ▶ Grants and subsidies | MEDIUM | ▶ GDC Group consolidation. | LOW |

AUDIT APPROACH



We continue to invest in transforming to an increasingly data-driven audit, leveraging our technology through data analytics and automation. We will look to further expand this where appropriate, focusing on opportunities that will provide audit efficiencies and insights.

Details of our controls-based approach are outlined on page 7. As in prior years we seek to test controls over the key financial statement processes and therefore expect to take a control based approach for the following processes:

- ▶ Expenditure and accounts payable;
- ▶ Payroll and related employee entitlements; and
- ▶ Rates setting and collection.

YOUR EY TEAM & FEE



Stuart Mutch replaces David Borrie as appointed auditor of the Council for 2022. Stuart continues to be supported by Loren Hunt.

The audit fee for the 3 years ending 30 June 2022 is set out in our audit proposal letter. The agreed fee for 2022 is \$188k, plus OAG overhead of \$16k.

PLANNING MATERIALITY



Our audit is planned to obtain reasonable assurance of detecting misstatements that we believe could be, individually or in aggregate, material to the financial statements.

Our materiality threshold has been set at \$2.2m, being 2% of forecasted expenditure. We will report to the Audit & Risk Committee errors of more than \$110k.

TIMING



We will continue to work with management to confirm the 2022 audit timeline, in order for Council to adopt the 2022 Annual report prior to 2022 Council elections.

INDEPENDENCE



We remain in compliance with the NZICA Code of Ethics and Professional and Ethical Standard 1: *Code of Ethics for Assurance Practitioners* as well as the Office of the Auditor General's independence requirements, and in our professional judgment, the engagement team and the Firm are independent. We have the appropriate controls in place to ensure we remain independent throughout the audit.

Infrastructure assets

Background

- ▶ Infrastructure assets represent a significant component of the Council's balance sheet with carrying values of the following amounts at 30 June 2021:

Assets	\$million
Roading	1,731
Three waters	272
Other infrastructure assets	95
Total value	2,098

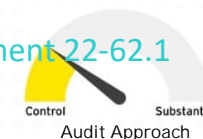
- ▶ Roading assets are revalued annually by an independent third party, Stantec. Three water and flood control assets have a triennial full revaluation cycle, WSP will complete a full revaluation of these assets for the 30 June 2022 financial statements, with indexation based revaluation movements considered in intervening years.
- ▶ There is a risk that the useful life assumptions used in the valuations are not reflective of up to date information maintained in the Council's Asset Management Plans.
- ▶ GDC continue to complete roading infrastructure work associated with the Provisional Growth Fund support secured. The contract with the Ministry of Business, Innovation and Employment covers a period through to 2024.
- ▶ Misclassification of maintenance and/or capital expenditure given nature and useful life of work completed is also a risk.
- ▶ The 2021-2031 Long Term Plan, including Asset Management Plans and infrastructure strategy outlines the current condition and performance of assets, as well as future plans for each asset class.

Planned Audit Approach

- ▶ For roading and three water assets, we will review the respective valuations for appropriateness and obtain a reliance letter from the independent valuers engaged by GDC. In particular, we will review key inputs to the valuation and consider valuation techniques for appropriateness as well as appropriateness of data used in valuation.
- ▶ For any asset classes that are not being revalued in the current year, we will examine the assumptions underlying the historical valuation against current asset management plans to assess whether the value remains materially correct.
- ▶ We will review the fixed asset reconciliation of underlying data to the general ledger with a focus on significant additions and disposals during the year.
- ▶ We will examine the appropriateness of depreciation against the estimated useful lives in the Council's accounting policies. We will also consider the useful lives included in the most recent valuations.
- ▶ We will test on a sample basis the classification procedures relating to capital, renewal and maintenance work as well as cut off at year end for capital works to check it is consistent with work completed at that point.
- ▶ We will examine significant asset impairments and management's assessment for indicators of impairment.
- ▶ We will test, on a sample basis, the accounting for significant additions and disposals of assets during the year.
- ▶ We will consider work performed in respect of the 2021-2031 Long Term Plan including understanding of asset condition and performance and assess asset valuations in the context of this work.
- ▶ We will maintain a watching brief on the progress made by central government in relation to reforms and ownership change to three waters. We will work with Council to ensure appropriate disclosures are included in the financial statements.

Relevant accounting standards: PBE IPSAS 17 *Properties, Plant and Equipment*

Level of complexity or management judgement: **HIGH**



Integrity of Rates Strike, Rates invoicing and collection

Background

- ▶ Rates income levied represents the Council's primary revenue source. There is specific legislation in place which must be adhered to for the rates set to be lawful. In the local authority context, failure to comply with rating law and the associated consultation requirements can create significant risks to the integrity of rates revenue.
- ▶ The requirement for there to be consistency between the rates resolution, Funding impact statement and the Finance Policy in the LTP is fundamental because this is the thread that links community consultation to the rates levied by GDC forming the core of the Council's revenue.
- ▶ The accuracy of a rates strike is dependent on the integrity of the rates database. The reliability of the rates billing system should ensure rates are billed appropriately.
- ▶ Recent legal challenges against certain local authorities have identified a range of issues relating to the legislative compliance, and therefore legality of rates sought.

Grants and Subsidies

Background

- ▶ the government's Crown infrastructure fund granted GDC a climate resilience package to support the Waipoua River Flood Control project as well as a grant for the redevelopment of the Olympic swimming pool. Both projects are ongoing during 2022.
- ▶ Council receive NZTA funding to subsidise costs associated with local roads. The funding assistance rate is typically 68% with higher amounts being available in certain circumstances such as for emergency works.
- ▶ As at 30 June 2021, \$5.4m funding was received from Department of Internal Affairs (DIA) and recorded as revenue in advance. \$11m funding has been approved in 2022, for which \$7.5m is being used to fund the Waste Water Treatment Plant.
- ▶ GDC recognise a liability until work is conducted and objectives met ahead of revenue being recognised.

Planned Audit Approach

- ▶ We will review GDC's rate resolution for the financial year and its linkage to the Long Term Plan.
- ▶ We will review GDC's procedures for ensuring the rates set are compliant with the Local Government Rating Act and test that the rates set are being applied appropriately to the rating database and invoiced accordingly.
- ▶ We will test the controls over the rates levying process to assess whether these are operating effectively.
- ▶ On a sample basis, we will undertake a review of billing to specific ratepayers and subsequent collection.
- ▶ Certain rate paying groups represent a higher collection risk. We will examine any provision for doubtful rates debtors to consider whether it is appropriate in the circumstances.

Relevant accounting standards: PBE IPSAS 23 *Revenue from Non-Exchange Transactions*
Level of complexity or management judgement: **MEDIUM**



Planned Audit Approach

- ▶ Obtain new agreements, amendments or correspondence between GDC and the Crown in respect of funding approved.
- ▶ We will review GDC's procedures for revenue recognition and monitoring the conditions of the various grants.
- ▶ We will check, on a sample basis, that revenue is being recognised in line with obligations/undertakings being satisfied.
- ▶ We will examine cost claims to NZTA, DIA and MBIE, on a sample basis, to check the expenditure is allowed to be claimed and funding assistance rate applied is appropriate.
- ▶ For a sample of revenue recognised in the year across all grants, we will vouch receipt of funds to cash received.

Relevant accounting standards: PBE IPSAS 23 *Revenue from Non-Exchange Transactions*
Level of complexity or management judgement: **MEDIUM**

Low Risk Focus Areas



Audit Approach



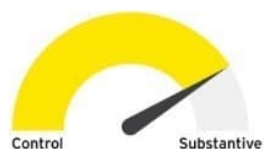
Areas of Audit Focus



Background



Planned Audit Approach



Non-financial performance information reporting

LOW

- ▶ GDC is required to report its performance against levels of service expectations and performance measures included in the LTP. These measures are key to the Council providing a “performance story” to the community.
- ▶ Our audit opinion on the service performance information covers compliance with generally accepted accounting practice, and whether the service performance report fairly reflects the Council’s actual service performance for the period.
- ▶ 2022 will be the first year of reporting against service performance measures outlined in the 2021-2031 LTP.
- ▶ There is a risk of inadequacy of reporting systems to monitor performance and of risk of potential failure to adequately report the provision of core utility services to the public.

- ▶ Our audit procedures will focus on assessing completeness and effectiveness of GDC’s non-financial performance reporting.
- ▶ We will update our understanding of key performance reporting processes and review methodologies applied by GDC.
- ▶ We will check, on a sample basis, the measures have been accurately reported on and outputs have been achieved where stipulated.
- ▶ Review mandatory performance measures stipulated by the Non-Financial Performance Measures rules 2013 and ensure all required measures have been appropriately included in GDC’s reporting.
- ▶ Provide feedback on the overall annual report and the summary annual report.

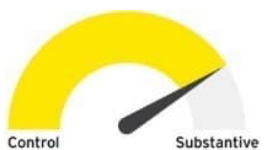


Core controls over expenditure, procurement and tendering

LOW

- ▶ Appropriateness of Councillor and management expenditure is an area of interest to ratepayers.
- ▶ Council’s capital works procurement programme involves significant cash flows and complex long term contract management.
- ▶ Areas of expenditure such as travel, accommodation, training and catering can present opportunities for personal benefit (or perceived personal benefit).

- ▶ In considering expenditure and procurement, we will review Council’s policies to check if there is adequate guidance regarding the procedures for handling sensitive expenditure and conflicts of interest within the organisation and policies are consistent with best practice guidelines issued by the OAG in 2020. This includes the following types of expenses; travel, training, consultant fees, use of credit cards and Councillor expenses. We will also give consideration to Procurement and Contract tendering processes.



GDC Group Consolidation

LOW

- ▶ GDC is the sole shareholder of Gisborne Holdings Limited (GHL) and therefore are required to consolidate GHL and prepare Group financial statements in line with PBE IPSAS 6.
- ▶ GHL is a for profit entity and prepares their stand-alone financial statements in line with IFRS for-profit accounting standards.
- ▶ Consolidation for GDC is required to translate differences in accounting treatment of GHL to Public Sector PBE accounting standards and eliminate any inter-entity transactions between GDC and GHL.

- ▶ We will update our understanding of the consolidation process for GDC group accounts.
- ▶ We will review all material consolidation journals posted for completeness and accuracy, in line with GDC’s accounting policies and PBE IPSAS 6.
- ▶ As part of our review of the financial statements we will ensure Group disclosure requirements are appropriately reflected.

Digital Audit Approach

Your purpose built digital audit for now, next and beyond

Digitalisation continues to be one of the most important drivers of transformation, especially in these changing times. The effects of the COVID-19 pandemic have disrupted the normal accounting and reporting cycle for many companies and accelerated the digitalisation of working environments. It is even more critical now for companies to share trustworthy and readily available financial information for stakeholders.

- ▶ Gisborne District Council stakeholders rightfully demand audits of the highest quality.
- ▶ Gisborne District Council want to ensure that audits are leveraging your latest investments in systems, technology and data.
- ▶ Gisborne District Council want greater transparency of the audit process.
- ▶ Gisborne District Council expect auditors to ask meaningful and insightful questions about your data throughout the audit.

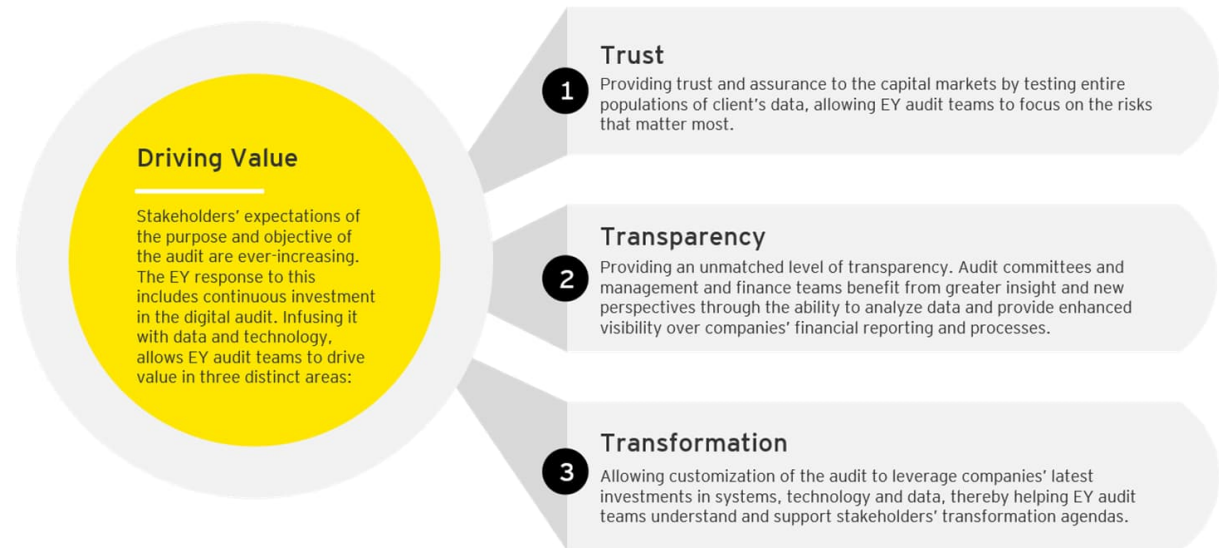
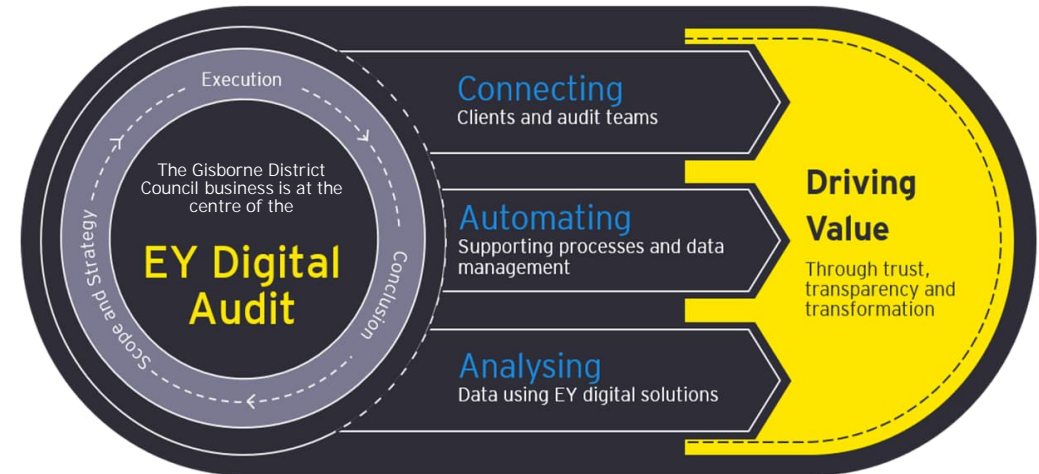
Data-driven Audit

To meet the expectations of stakeholders, regulators and clients of a modern audit, EY has invested over a \$1bn in new technology, revolutionising our professional practice. This is the EY Digital Audit, the first data-driven audit.

As a result of EY's transformation journey, it stands today as the only global organization with the data, technology and people to provide a globally consistent, fully scalable and data-driven audit.

With the EY Digital Audit analysing large or full sets of data from our clients' data population, we are responsive to the changing risk profiles of our clients. This helps establish trust, not just in our clients' financial reporting but also in the capital markets as a whole. Data-driven procedures can bring insights to management and audit committees alike, enabling them to be proactive in investigating issues and addressing risks. This new level of transparency changes the client experience significantly and helps to make the audit more valuable.

The EY Digital Audit improves the way our auditors look at risk, reduces management burden in supporting the audit and provides new insights to improve Gisborne District Council's finance processes.



Internal Control Environment

The primary responsibility for the design and operating effectiveness of the internal control environment, including the prevention and detection of fraud and error, rests with those charged with governance and management.

We obtain an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit is not designed to express an opinion on the effectiveness of internal control we are required to communicate significant deficiencies in internal control to you.

Our assessment of internal controls covers:

- ▶ The control environment including entity level controls
- ▶ GDC's risk assessment procedures
- ▶ The design and operating effectiveness of internal controls (including IT general controls)
- ▶ Monitoring of controls (internal audit and self-assessment)

We provide management with a report on control findings during the audit process, outlining our findings and our recommendations on where improvements in internal controls can be made. Where significant deficiencies come to our attention, we will communicate these to the Committee.








Assessing the Risk of Fraud

Our responsibility as the external auditor is to consider the risk of fraud and the factors that are associated with it so as to provide reasonable assurance that the financial statements are free from material misstatement resulting from fraud. However, it is important to note that while our external audit work is not primarily directed towards the detection of fraud or other irregularities, we will report any matters identified during the course of our work.



When developing our Audit Plan we use professional judgement in determining whether a fraud risk factor is present. We determine fraud risk factors in the context of the three conditions generally present when fraud occurs (i.e., incentive/pressure, opportunity and attitude/rationalisation).

Controls Reliance

Set out below is the level of controls reliance we expect to achieve over the key financial statement process. In the course of any audit, there are areas where a controls reliance approach is not appropriate and where a substantive audit approach is more efficient or effective.

Process	Reliance On Internal Controls
Financial statement close	
Expenditure and accounts payable	
Payroll and related employee entitlements	
Rates setting and collection	
Infrastructure asset management	
Non-financial performance reporting	
Other revenue - fees and subsidies	

APPENDICES

- A. Independence

9
- B. Focus on Your Future

10

A. Independence

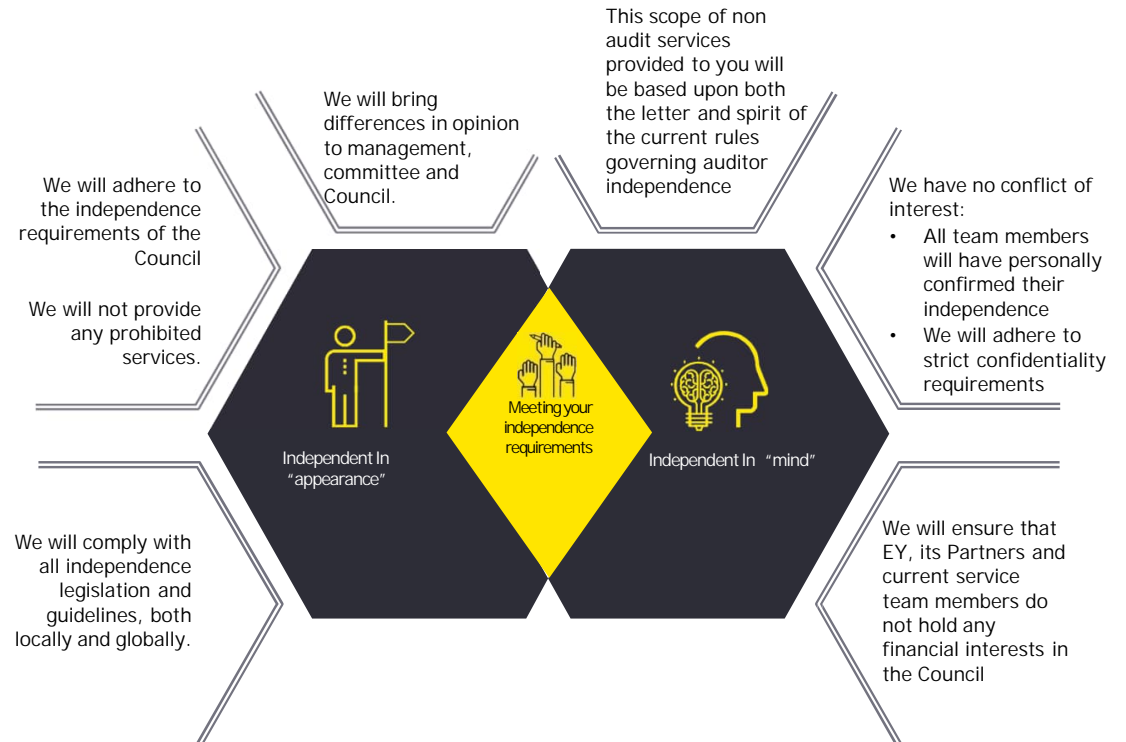
Independence is fundamental to EY as our ongoing reputation and success is connected to our ability to meet both the Council's and broader regulatory independence requirements.

We have consistently complied with all professional regulations relating to auditor independence including those outlined in:

- ▶ PES 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)
- ▶ Independence requirements of the Office of the Auditor-General

Accordingly, we ensure that there are controls in place and actions taken on a regular basis that mitigate any risks to our independence.

There are no matters that, in our professional judgement, bear on our independence which need to be disclosed to the Audit Committee.



B. Focused on Your Future

Regulatory

Sector matters

There continues to be ongoing change in the legislative and regulatory space for local authorities.

Three waters review

- ▶ The Government has established a dedicated water regulator, Taumata Arowai, to help ensure safe drinking water and deliver improved environmental outcomes from New Zealand's wastewater and stormwater systems. In August 2020, Council signed a non-binding Memorandum of Understanding (MOU) with the Crown for the three waters reform. The reform is a three-year work programme which proposes that councils will no longer be responsible for the delivery of three waters services, which would be instead delivered by large-scale asset owning entities. Much of the policy is still to be developed, with further announcements expected in 2022.

B. Focused on Your Future

Climate Risk Disclosure

Questions for Councils to consider

New Zealand is witnessing a significant change in climate-related organisational risk. Climate change is not limited to a solely environmental concern, for many organisations, it presents a material financial risk. The increasing awareness of climate-related risks is driving Counsellors, directors, managers and those in governance roles in New Zealand to question what they can and should be doing to assess and manage climate risks.

Climate Risk Disclosures

The Taskforce on Climate-related Financial Disclosures (TCFD) is a framework developed by the Financial Stability Board for organisations to disclose how climate change is being addressed as a systemic financial risk to their business and the economy.



of the top 1100 global companies now disclose climate-related financial risks in line with some of the TCFD recommendations.



of New Zealand's top 200 companies do not disclose any climate information whatsoever, while the level of information provided by those that do is generally low.

Highlights of the TCFD recommendations:

- Applicable to all organisations
- Disclosures to be included in financial filings
- Designed to solicit decision-useful, forward-looking information for financial markets
- Focused on risks and opportunities from the transition to a low carbon economy and the physical changes expected from climate change

Core elements of recommended climate-related financial disclosures



Regulatory

Core elements of recommended climate-related financial disclosures



In New Zealand a recent legal opinion commissioned by The Aotearoa Circle concluded company Directors, trustees and fund managers have requirements to consider climate risk in decision making. The New Zealand Government plans to make climate related disclosures mandatory for some organisations, particularly listed issuers and licenced insurers, registered banks and investment managers.



As stakeholder expectations change some of the climate related risks may become material to the users. And therefore require disclosure in the financial statements, regardless of the numerical impact

What are the key aspects of New Zealand's proposed climate reporting regime?

The key aspects of the proposed climate-related financial disclosures reporting regime include:

- The adoption of principles-based mandatory (comply-or-explain) climate-related financial disclosures, with the TCFD reporting framework being the default 'comply'.
- The mandatory (comply-or-explain) reporting regime would come into effect for financial years commencing on or after six months after the regulations are introduced.
- The disclosure requirements would apply to: listed issuers, registered banks, licenced insurers and investment managers.
- After the first year, non-disclosure would only be allowable on the basis of a preparer's analysed and reported conclusion that they see themselves as not being materially affected by climate change, with an explanation as to why.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

© 2022 Ernst & Young, New Zealand
All Rights Reserved.

ED None

This report is intended solely for the information and use of the Audit and Risk Committee, other members of the Council and senior management of Gisborne District Council, and should not be used for any other purpose nor given to any other party without our prior written consent. We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of this report, the provision of this report to the other party or the reliance upon this report by the other party.

ey.com



Title: 22-45 Internal Audit Report
Section: Internal Audit
Prepared by: Tina Swann - Internal Audit Partner
Meeting Date: Wednesday 16 March 2022

Legal: No

Financial: No

Significance: **Low**

Report to AUDIT & RISK Committee for information

PURPOSE

The purpose of this report is to provide an update on activities of internal audit projects completed and/or currently in progress.

SUMMARY

This report provides a summary of the internal audit activity for the period December 2021 to 28 February 2022.

Over the last four months, Internal Audit has continued monitoring and providing ongoing support to the following major projects receiving external grant funding with an update to follow in this report:

- a. Kiwa Pools
- b. Wastewater Treatment Plant Upgrade; and
- c. Waipaoa River Flood Control.

Two new audit reviews were completed recently that relate to changes arising from Local Government (Rating of Whenua Māori) Amendment Act 2021 which occurred in July 2021.

The previous road safety review was temporarily put on hold due to significant weather events during 2021 winter months and the 2021 COVID-19 lockdown. This is now in the final stages of completion and will be reported on at the next Audit & Risk Committee meeting in June 2022.

Council is currently planning the replacement of our Enterprise Resource Planning (ERP) and Enterprise Content Management (ECM) systems with phase one of the implementation due to start in March 2022. As part of this project rollout, Internal Audit will be heavily involved in the system configuration and design to ensure appropriate internal controls and audit trails are put in place for all financial processes. This involvement is critical to correctly set-up workflows and authorisation levels and so will become the major focus of internal audit for the next six months.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Audit & Risk Committee:

- 1. Notes the contents of this report.**

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: Internal Audit, PGF funding, Kiwa Pools, Waipaoa River Flood Control

BACKGROUND

1. Internal Audit is an independent and objective assurance, consulting, and advisory service, which aims to assist the organisation to accomplish its objectives. This is done by bringing a systematic disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.
2. The Audit & Risk Committee is responsible for monitoring the work of Internal Audit. To facilitate this, Internal Audit provide a quarterly report of its progress which includes a high-level summary of the work completed and an assessment of the level of assurance provided. This report covers the period December 2021 to February 2022.
3. When reports have been agreed and finalised with the Manager and Director concerned, an action plan is drawn up to implement improvements. These assignments are scheduled for follow-up reviews.

DISCUSSION and OPTIONS

Updates and Current Work Programme

4. **Attachment 1** is a table detailing the current internal audits and reviews. Incomplete audits are shown as work-in-progress or ongoing, noting the status reached, which will be reported on in subsequent reports, once finalised.

External Grant Funding

5. The total external grants and subsidies expected to be received for the financial year ending 30 June 2022, was \$61.3m. In relation to the specific projects noted below we expect to receive \$50.7m broken down as follows:

<u>Project name</u>	<u>Budget 2022 (m)</u>
Wastewater Treatment Plant upgrade	7.5
- Muriwai pipeline and reticulation	2.7
- Ruatoria water supply development	0.5
- Preparation for reform	0.3
Waipaoa River Flood Control	2.7
Olympic Pool (Kiwa) Redevelopment	26.7
PGF	
- Route Security Structural	3.7
- 50 Max	0.6
- East Cape rock protection	6
	<hr/> 50.7

6. Supporting each of the major project teams for Kiwa Pool development, Waipaoa River Flood Control and the Wastewater Treatment Plant will continue with assistance from our Management Accounting team to ensure assurance is provided to project sponsors and funders that the funding is managed appropriately.
7. Regular monthly meetings with key project team members are being managed to monitor and assist with project forecasting and cash flows to ensure budget and project milestones are met in accordance with the funding requirements.

8. The remaining projects under the Provincial Growth Fund (PGF) roading programme will continue with two main workstreams for East Cape Road and Route Security Structural to focus on. There is expected to be considerable progress on these two projects for the months April to June 2022.
9. These works are in different phases of procurement with the East Cape Road rock contract to purchase rock due to finish in May with physical works expected to finish in August 2022.
10. Route Security Structural covers impacts of road closures due to weather events with renewal of several different culverts and bridges. This body of work is due to be completed in December 2022.

Road Safety Review

11. As noted at the last Audit & Risk Committee meeting (**Report 21-177**), the Safer Journeys strategy is to target road safety education programmes to high and medium risk areas. The programme is funded 75% from Waka Kotahi and 25% rate funded.
12. The previous review was carried out in June 2019. There was some delay in this latest review due to several weather events during the 2021 winter months, in addition to the 2021 COVID-19 lockdown period. This review was redesignated to a lower priority to be resumed early in 2022 looking at the previous recommendations around contract management and appropriateness of expenditure.
13. A final report on this progress will be provided at the next Audit & Risk Committee meeting in June 2022.

Non-rateable Māori Land Application and Rates Refund Review

14. Two new internal processes were developed because of the changes made to the Local Government (Rating of Whenua Māori) Amendment Act 2021 in July 2021. These were:
 - a. Making unused Māori freehold land unrateable; and
 - b. Write-off rates arrears by Chief Executive.
15. Council can now make unused Māori freehold land unrateable with a statutory remission process to encourage development where previously outstanding rates on the property may have been a barrier to obtaining a lessee.
16. The legislative changes support whānau and aim to stimulate regional development through whenua by reducing the barriers for owners of Māori freehold land with rates arrears who want to use, occupy, build houses on, and develop their whenua.
17. In addition, the legislation allows treatment of multiple blocks of Māori freehold land from a parent block to be treated as one for rating purposes which ensures the correct rating treatment can be applied.
18. The Chief Executive also has the power to write-off rates arrears for Māori freehold land and general land where satisfied that the rates are uncollectable, and in addition for the rating unit of Māori freehold land where the ratepayer is a deceased owner. This legislative change also supports the future use and development of the land.

19. These new processes were developed and documented to include internal controls and ensure separation of duties where decisions need to be made, noting any potential conflicts of interest. As these processes are empowered under the changes to the Act, statutory delegations of authority precede the normal financial delegations and are noted in the new processes.
20. Two existing processes were also updated:
 - a. Direct debit payments for rates payments; and
 - b. Rates refund process.
21. The process for completing direct debit applications for rates payments was recently made available on-line. The existing process was updated and documented to consider the banking and audit requirements and to streamline this process.
22. The rates refund process was also examined and subsequently documented to ensure appropriate audit controls were included and the correct delegated approval process was incorporated to the existing process.
23. The final proposal for the new processes and updates to the direct debit and rate refund processes have been provided to the revenue team for review and will be confirmed in due course.

Regional Integrated Ticketing System (RITS) implementation

24. As recommended by the Waka Kotahi audit completed in July 2020, some improvement was needed in the area of public transport. Following audit completion, a meeting was held with Journeys Managers to discuss the audit recommendations.
25. It was proposed to move from using the current Smartcard system and Ridewise mobility vouchers on our city buses to the new Regional Integrated Ticketing System (RITS) system for greater visibility and control of information.
26. Various key areas of Council have been involved in discussions around the implementation of this system with Internal Audit being involved in the RITS project through to implementation to monitor financial impacts and provide a financial lens during this set-up phase.
27. Internal Audit has joined a Finance Subgroup across nine other Councils currently using Bee Cards issued from the RITS system who meet monthly to address any concerns and system/reporting issues.
28. Otago Regional Council (ORC) is the lead Council in this consortium and the main contact for any system issues to direct to the software supplier. They also manage the one bank account linked to the website where customers are encouraged to purchase top-ups for the Bee Cards, although they will also be able to purchase top-ups from Customer Services and the Library. ORC receives funds to the account and does a settlement twice a month to the other Councils for any purchases made in their region.
29. We are on track with discussions around implementation, however awaiting Council to sign the contract to join the consortium which is expected by end of February.

30. Once a signed contract is in place, web on-line purchases will be available to Council from April with a view to Go Live on 2 May 2022. A further update will be provided at the June meeting.

Future Focus

Tax Compliance

31. As part of Council's tax risk and governance framework, each year an area is selected for an external review and evaluation of Council's tax compliance. Recent reviews have included PAYE, Payday filing and Goods and Services Tax (GST).
32. This year we would like to review Fringe Benefit Tax (FBT). This review will be undertaken by PricewaterhouseCoopers (PwC) and is likely to occur in April or May 2022.

Replacement of ERP and ECM Systems

33. With the pending replacement of our legacy ERP system, Ozone, this involves 36 different modules that support the majority of functions at Council. Over the coming months, the main focus of Internal Audit will be setting up the financial modules in the new system. It is important that the design and configuration of these modules and workflows are set-up to enable auditable trails and separation of duties with appropriate authorisation levels put in place throughout. This includes identifying new business processes to achieve service potential and ensuring these are sufficiently documented for training of staff once we transition to the new system.
34. With Internal Audit identified as one of the subject matter experts on this topic, the team will play a key part in determining and managing the system controls that are put in place.
35. To enable this to happen, Internal Audit will assist the project team to contribute to the design, system configuration and user acceptance testing during phase one due to start in March 2022.
36. During the period mentioned above, key finance advisors from our Management Accounting team, will provide support and oversight of externally grant-funded projects as well as PGF-funded projects.

Three Year Internal Audit Programme

37. Management is currently reviewing each of Council's strategic and organisational risks and apply the risk appetite framework to assess each of their inherent risk, the control environment to manage the risk and the resulting residual risk.
38. It is not expected to complete the risk bowties across all areas of Council until the end of 2022, which will then determine the overall organisational risk and will lead into the development of the three-year internal audit programme.

ASSESSMENT of SIGNIFICANCE

Consideration of consistency with and impact on the Regional Land Transport Plan and its implementation

This Report: **Low** Significance

Impacts on Council's delivery of its Financial Strategy and Long-Term Plan

Overall Process: **Low** Significance

This Report: **Low** Significance

Inconsistency with Council's current strategy and policy

Overall Process: Low Significance

This Report: Low Significance

The effects on all or a large part of the Gisborne district

Overall Process: Low Significance

This Report: Low Significance

The effects on individuals or specific communities

Overall Process: Low Significance

This Report: Low Significance

The level or history of public interest in the matter or issue

Overall Process: Low Significance

This Report: Low Significance

39. The decisions or matters in this report are considered to be of **Low** significance in accordance with Council's Significance and Engagement Policy.

TANGATA WHENUA/MĀORI ENGAGEMENT

40. Māori engagement is not required in relation to internal audit activities.

COMMUNITY ENGAGEMENT

41. The community will not be engaged in relation to internal audit activities.

CLIMATE CHANGE – Impacts / Implications

42. There will be no effect on greenhouse gases nor climate change as a result of the matters in this report.

CONSIDERATIONS

Financial/Budget

43. This report does not have a significant impact financially on Council budgets.

Legal

44. While there are no legal requirements in relation to internal audit activities, the Internal Audit function assists in our statutory requirements. The combined mix of internal and external audit coverage supports the Audit & Risk Committee members to fulfil their governance responsibilities.

POLICY and PLANNING IMPLICATIONS

45. There are no policy and planning implications.

RISKS

46. The risk profile and risk appetite will help focus the internal audit programme over the next three years.

NEXT STEPS

Date	Action/Milestone	Comments
Mar–Aug 2022	Internal Audit to join project team for design, configuration, and implementation of new ERP system.	Internal Audit to relocate to join project team.
Nov 2021–June 2022	Continue to provide support and oversight of externally funded projects and PGF-funded projects.	Ongoing support provided by Management Accounting for the next six months.
April/May 2022	Tax compliance review of Fringe Benefit Tax.	To be undertaken by PricewaterhouseCoopers (PWC).
2 March 2022	Go Live implementation of Regional Integrated Ticketing System (RITS) system. Web on-line purchases available from April 2022.	Internal Audit working with Council project team towards implementation once consortium contract is signed.
Jun–Dec 2022	Sample review of audits revisited to ensure existing controls are present and remain effective.	This will be undertaken by the Risk Partner and Internal Audit Partner.
Jun–Dec 2022	Development of a three-year internal audit programme.	Risk appetite being refined across Council and on completion the programme will be developed by Steve Breen and Tina Swann in conjunction with Bruce Robertson.

ATTACHMENTS

- Attachment 1 - Audit and Risk Report February 2022 [22-45.1 - 1 page]

Appendix 1:

	Internal Audits/Reviews undertaken	Objective	Start date	Status	Outcomes	Audit Opinion
2020-02 #4	PGF review	Review of PGF contracts applied across the various projects checking for compliance and providing support plus ensuring reporting requirements are met with NZTA and PDU	Sep-20	Open	There are two PGF projects still active - East Cape Road and Route Security Structural. Ongoing support is being provided to programme managers to reinforce correct processes for reporting and compliance. These are expected to be completed in August and December 2022 respectively.	Ongoing
2021-01 #2	Waipaa River Flood Control	To review and monitor the contract and reporting requirements for this project	Feb/Mar-21	Open	Monthly meetings with Project Manager where support is provided with financial information, forecasting and assisting with reporting requirements	Ongoing
2021-01 #3	Olympic Pool (Kiwa) new development	To review and monitor the management of the \$40m funding granted for the Complex upgrade and review contract and reporting requirements	Feb/Mar-21	Open	Monitoring expenditure and forecasts with regular meetings with Project Manager/Administrator review reporting and compliance requirements. Additional monitoring of cashflow and milestone payments to ensure Council is receiving funding in a timely manner a funding is retrospective.	Ongoing
2021-02 #1	Road Safety Audit Review	Revisit previous review to see if recommendations and improvements have been implemented	Feb-21	Open	Review was redesignated to a lower significance due to 2021 lockdown and several weather events late last year. Contract documentation and supporting vouchers have been reviewed with final report and recommendations due to be provided to Management by early next month.	Work in progress
2021-08 #1	Waste Water Treatment Plant	To review and monitor the contract and reporting requirements for this project	Aug-21	Open	Monitoring expenditure and forecasts with regular meetings with Project Manager/Administrator review reporting and compliance requirements.	Ongoing
2021-10 #2	Non-rateable Maori land application and rates refund review	Review new process around non-rateable Maori land and document rates refund process	Oct-21	Open	New processes set up and documented for Chief Executive Write Offs and Maori Freehold Land being made non-rateable. The new legislation allows these blocks of land to pursue a remission process for development and also enables Council to treat multiple blocks of land as one block for rating purposes which ensures the correct rating treatment can be applied. Direct debit process has been updated and the rates refund process has been documented. Each of these processes now include appropriate internal controls with checks and balances in place to ensure separation of duties and conflicts of interest are managed to mitigate risk. Final report has been sent to Management and awaiting responses and discussion.	Completed - awaiting Management responses
2021-10 #3	Regional Integrated Ticketing System (RITS) implementation	Involvement in RITS project through to implementation to monitor and review financial implications	Oct-21	Open	Initial meeting with group on 11 October to discuss financial impacts and how new system will be implemented. Joined Finance Sub-Group with 9 other Councils using RITS system. Proposed Go Live date is 2 May 2022 - currently awaiting contract to be signed so further meeting can be setup to determine financial impacts.	Work in progress

Title: 22-43 Health and Safety Update
Section: People & Capability
Prepared by: David Wilkinson - Health & Safety Manager
Meeting Date: Wednesday 16 March 2022

Legal: Yes

Financial: No

Significance: **Low**

Report to AUDIT & RISK Committee for information

PURPOSE

The purpose of this report is to update the Audit & Risk Committee with specific information on critical health, safety and wellbeing risks, and controls to mitigate these risks at all Gisborne District Council workplaces.

SUMMARY

The Gisborne District Council has duties under the Health & Safety at Work Act 2015 (HSWA) and its associated Regulations. These include:

- Applying due diligence to ensure Council, through its Chief Executive, provides resources and support to meet legal health and safety obligations.
- Ensuring that significant health and safety risks have been identified and that robust controls are implemented to mitigate these risks, and that they are reviewed regularly.
- Assurance that all workers are confident that Council is providing a safe workplace for its workers and other persons.
- Confirming that Council is compliant with health and safety legislation and striving to continuously improve health and safety systems and culture.
- Ensuring all workers are valued and that their health, safety, and wellbeing is essential to the overall success of Gisborne District Council.
- Ensuring senior management and councillors are aware of their duties under s.44 "Due Diligence" and understand Council risks and resources available to mitigate.
- Providing key information relating to these matters at a governance level.
- Specific focus on the present COVID-19 situation, working collaboratively with the risk manager to ensure we have plans, controls, and resources available.

The decisions or matters in this report are of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Audit & Risk Committee:

- 1. Notes the contents of this report.**

Authorised by:

James Baty - Director Internal Partnerships

Keywords: health and safety, wellbeing, critical risks, contractor management, HSWA, boots on the ground,

BACKGROUND

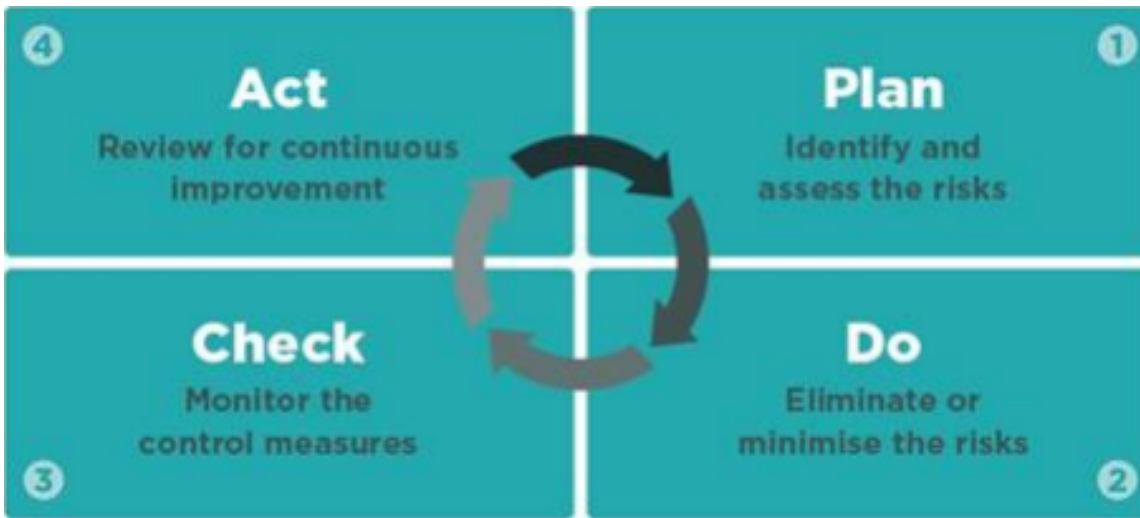
- 1. The Health & Safety at Work Act (HSWA), being well established, provides regular opportunities to review case law and related precedents together with frequent Regulator media reports. Since the last Committee meeting WorkSafe have announced changes to health and safety regulations providing more clarity and certainty for businesses and better health and safety for workers. These proposed changes focus on plant, machinery, structures, scaffolding, vehicles, and tools. Consultation will commence early 2022 with the final regulations expected to be in place by late 2022.
- 2. Our focus continues to be on critical risks, staff wellbeing, and building a culture where all our workers feel supported, understand the risks associated with their work, and what controls are needed to mitigate these. Accordingly, this report provides several updates.

DISCUSSION and OPTIONS

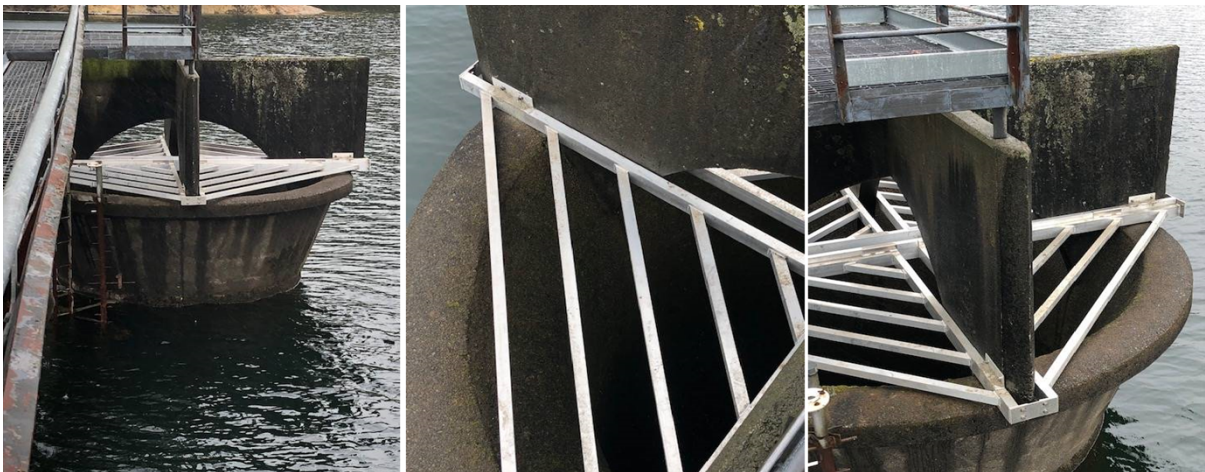
- 3. Gisborne District Council recognises that a well-functioning health and safety system relies on participation, leadership, and accountability. HSWA sets out the principles, duties, and rights in relation to workplace health and safety. A guiding principle of HSWA is that workers and others need to be given the highest level of protection from workplace health and safety risks, as is reasonable.
- 4. A review of Council's strategic risks included Health & Safety, resulting in several options to ensure ongoing continuous improvement.

Identified Health and Safety Operational Risks

- 5. Healthy and safe work starts with identifying and understanding what our work-related health and safety risks are. It then involves implementing what is reasonable and practicable to eliminate those risks. Where the risk cannot be eliminated, it must be minimised so far as is reasonably practicable.
- 6. We follow the "Plan-Do-Check-Act" four steps model to help manage our work health and safety risks:



7. We focus on critical risks first before managing less serious risks. Teams are required to review work activities on an ongoing basis and to identify any new risks that need to be managed. We work with other businesses where we have shared work risks (e.g., share a workplace or in a contracting chain). In addition, we ask workers for input on not only identifying health and safety risks but also when choosing solutions. We believe people are more likely to take responsibility and make good choices if they have been involved in the conversation, remembering that workers are the eyes and ears of our business. They could suggest practical, cost-effective solutions and often do.
8. Teams have identified their operational risks and these, together with controls, are reviewed on an annual basis or post any incident/accident. We have introduced a business partnership model with teams assigned their health and safety support. To support we have implemented a Business Partnership Model where the HomeSafe team collaborate and review team risks developing minimum risk guidelines for staff and contractors to follow.
9. A list of 28 critical risks are highlighted and reviewed at regular Central Organising Roopu (COR) meetings. These critical risks included uncertified lifting equipment and non-compliant edge protection. The final outstanding risk (Williams Dam Sluice grill) has now been successfully installed and closed off.



10. Much of Council's medium to high-risk work is undertaken by contractors. Before becoming a Council approved contractor, a health and safety assessment is undertaken with the contractors who are required to pass a pre-qualification check of their health and safety systems using our pre-qualification system SHE. 'SHE' helps us make smarter health and safety decisions, all backed by data and supported by rigorous process. Changes to the pre-approval process (cross-accreditation with Totika) have been ratified and additional training for staff across Council is under way. Council staff who engage medium or high-risk contractors then undertake a check of any qualifications, licensing, safety plans and associated documentation before work commences. Monthly monitoring of contractors undertaking physical work is required by the person responsible for engaging or a suitable project consultant/team. Examples are the floodwater and roading network maintenance projects which have dedicated health and safety roles to verify and assure performance that is overseen by the HomeSafe team.
11. Retaining health and safety representatives is an on-going risk. Finding replacements can be challenging and increases training related costs.

12. Our top ten identified operational risks are:
- Conflict, violence, and aggression
 - Falls from heights
 - Driving and vehicle safety
 - Working in the road corridor
 - Contractor management
 - Confined spaces and access
 - Isolated, remote, lone working
 - Hazardous substances, including asbestos
 - Mental health and wellbeing
 - Staff turnover and retention.
13. HomeSafe and Risk teams remain vigilant around the ever-changing COVID-19 situation across New Zealand and worldwide. GDC's COVID-19 vaccination policy has been ratified and we are working closely with contractors to ensure their compliance. The more highly transmissible Omicron strain has led to increased focus on vaccination booster rates and compliance with the COVID-19 Protection Framework (traffic light system). Essential 'critical' workers have been added to the Government's Close Contact Exemption Scheme Critical Services Register, and additional Rapid Antigen Testing (RAT) kits have been ordered to complement existing stock.
14. Clear documentation is available to all staff via Naumai (staff intranet) and other communication channels, ensuring we are well prepared particularly in terms of resources, business continuity plans and PPE for an anticipated COVID-19 Omicron variant resurgence in Tairāwhiti.

Compliance

15. Workplace health and safety is not just about compliance with every letter of the law. It is about making sure our basic proposition about workplace health and safety is cemented in our organisation's culture. To this end, several compliance initiatives are under way or completed.
16. Gisborne District Council continues to play a key role in the local Te Tairāwhiti Asbestos Liaison Protocols where Council, Hauora Tairāwhiti, Fire & Emergency New Zealand and WorkSafe jointly support the reduction of occupational and public health risks associated with the exposure to asbestos. A recent discovery of some historical Asbestos Containing Materials (ACM) on Titirangi proved the value of protocols. Site assessments and remediation plans are in progress.

Contractor Management

17. Working closely with approved contractors includes regular meetings where health and safety is reviewed, including accident and incident data. Additional contractor near miss reporting is monitored to evaluate trends and comparisons with reported Injury rates (**Table 1.0**) The benefit of collaboration not only ensures that Council complies with requirements under Section 34 of HSWA (overlapping duties) but also achieves benefits when exchanging learnings.

Table 1.0

Near Miss reporting - Tier 1 Contractors

	2021	Aug	Sept	Oct	Nov	Dec	2022
	July						Jan
Fulton Hogan	1	6	0	4	3	2	3
Downers	0	2	1	2	2	1	2
Siteworx	1	1	0	0	1	1	0
Rec Services	3	1	3	2	0	2	1
Waste Management	4	3	2	1	1	0	0
Apollo (Kiwa Pools)	0	0	0	0	1	0	0
McConnell Dowell (W/Treat)	0	0	1	0	0	1	0
Floodworks Project	-	-	-	-	0	0	0
GDC	5	1	1	6	1	5	4



18. Gisborne's branch of NZISM (New Zealand Institute of Safety Management) continues to promote safety in Tairāwhiti. Members include many of Council's key contractors who get opportunities for training and personal development.

Due Diligence by Officers

19. HSWA outlines who is an 'Officer' and what their duties are. In councils 'Officers' include Mayors, Councillors and Chief Executives. An officer must exercise due diligence to ensure that Council complies with all its duties or obligations under HSWA.
20. To ensure all elected members fulfil due diligence in their capacity as an officer, health and safety reports to the Audit & Risk Committee will also be included in the subsequent Council agenda. The updates to the Governance Structure and Terms of Reference ([Report 20-219](#)) will mean that such information in the future will be accompanied by any recommendations from the Audit & Risk Committee.
21. Part of the role of an Officer of a PCBU ^[1] is to ensure that there is a safe workplace and that Council has required resources available. We achieve this in several ways:
 - a) COR (including the Chief Executive) meet weekly and discuss health and safety. Regular reviews of health and safety risks are undertaken – including general data, trends, accident data, critical risks and changes to guidance, standard operating procedures and health and safety Information.
 - b) The Chief Executive and COR ensure sufficient finance is made available as and when required.
 - c) Directors attend Health and Safety Committee meetings.

[1] Person in Control of a Business or Undertaking

Keep Up-to-date with Health and Safety Matters

22. Due diligence includes taking reasonable steps to acquire, and keep up-to-date, knowledge of work health and safety matters Section 44(4)(a) of HSWA.
23. There have been no significant notifications from WorkSafe, whose focus has been on compliance around the COVID-19 framework, with several infringement fines in retail and hospitality trades ranging from \$4000 to \$12,000 for non-compliance.

Whakaari/White Island update

24. WorkSafe laid charges against 13 parties, three of which were under HSWA Section 44: "Officers Duties". All 13 defendants pleaded not guilty, with the next hearing in March 2022 and trial set for July 2023. A venue for the trial is yet to be confirmed. The outcome will likely lead to an increased awareness of Officer Duties under Section 44 of HSWA

Worker Participation

25. One of the key requirements of health and safety legislation is that it is mandatory to have active worker participation. We formally apply this in two ways:
 - a) By having nominated Health and Safety Representatives, who cover a specific work group across Council. Currently each representative operates in this role for a period of two years. Health and Safety Representatives are consulted on worker health and safety matters, involved in investigations, meet quarterly and are given a variety of training opportunities during their term.
 - b) All workers are encouraged to report accidents, incidents and near misses through the VAULT system (our health and safety management platform). A mobile VAULT app is available, and all staff are encouraged to use.

Our Key Processes

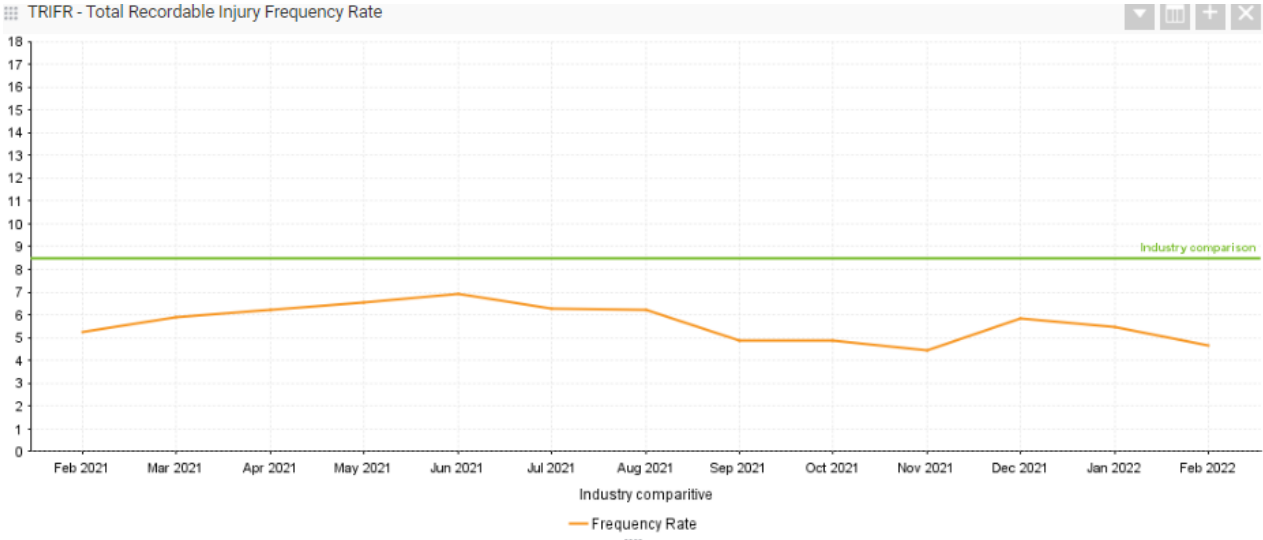
- Facilitate **Employee Participation or WEPR** (Worker engagement, participation, and representation) process in line with HSWA regulations.
- Manage the VAULT health and safety system which aligns with AS/NZ 4801 Occupational Health and Safety Management systems and provides a repository for all health and safety information, hazard registers, risk registers, compliance registers and monitors improvement actions and investigations.
- Lead the Health and Safety Risk Management process which is a core function of the VAULT system. The risk module has a sophisticated structure that fully integrates with all outputs of VAULT where risk assessments and controls are monitored and continually improved.
- Contribute to the **BOPLASS Mahi Tahi LG Collaboration Portal** which provides a shared resource where Council health and safety policy, guidance and related material is freely available, and members meet on a quarterly basis.
- Coordinate the **Audit and Review Process** from within VAULT. Scheduling and improvement actions are applied to individuals and monitored until close-out.

Process Gaps or Improvement Opportunities

26. Improvement opportunities identified include:

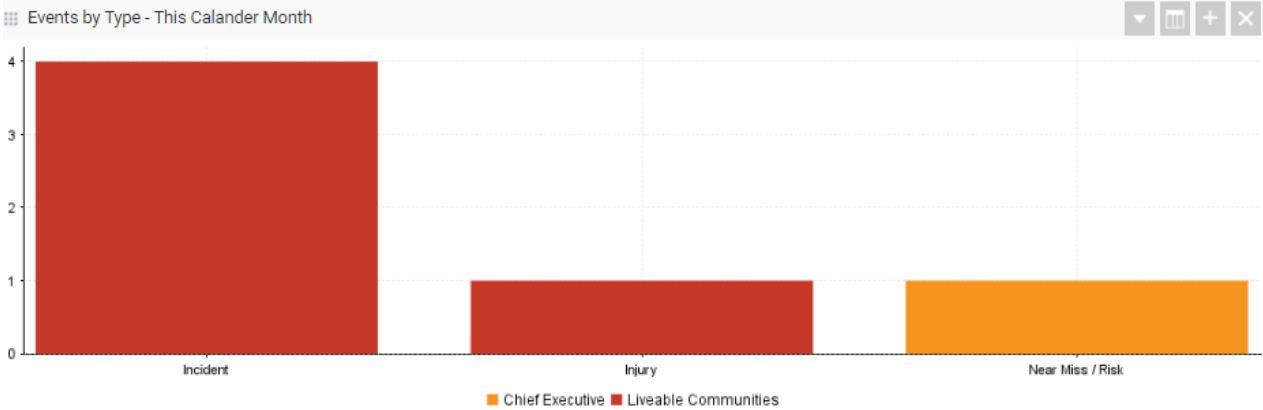
- Some aspects of VAULT remain not well understood or utilised. Additional training is required, targeting managers and their teams.
- Staff and contractors encouraged to ensure prompt reporting of events that include near misses.
- Health and wellbeing initiatives require further development and implementation – additional HomeSafe resource engaged, and wellbeing team assembled.
- Managers/Team Leaders regularly engage with those working from home.
- Health and safety culture recognition and rewards scheme requires formalisation.
- Audit and review of major contractors is ongoing and requires further enhancement.
- Accountability – annual health and safety KPIs assessment and review requires completion following year-end.
- Staff turnover adds pressure to depleted teams and People & Capability team. Increased focus on staff recruitment, retention, and succession planning.

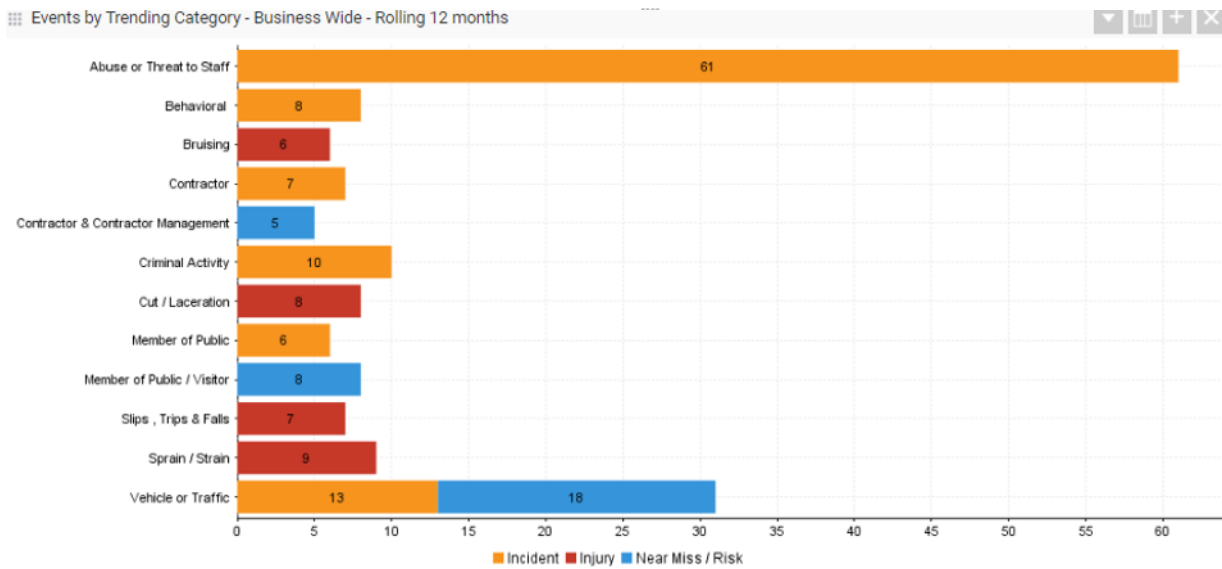
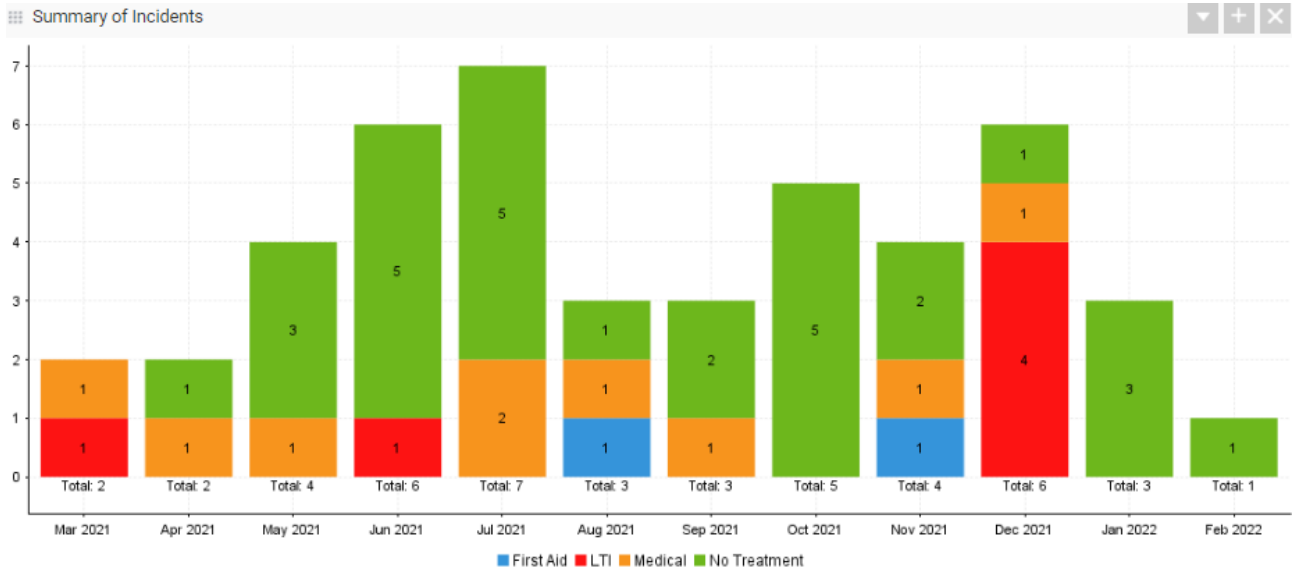
Accident and Incident Statistics



Drag a report here

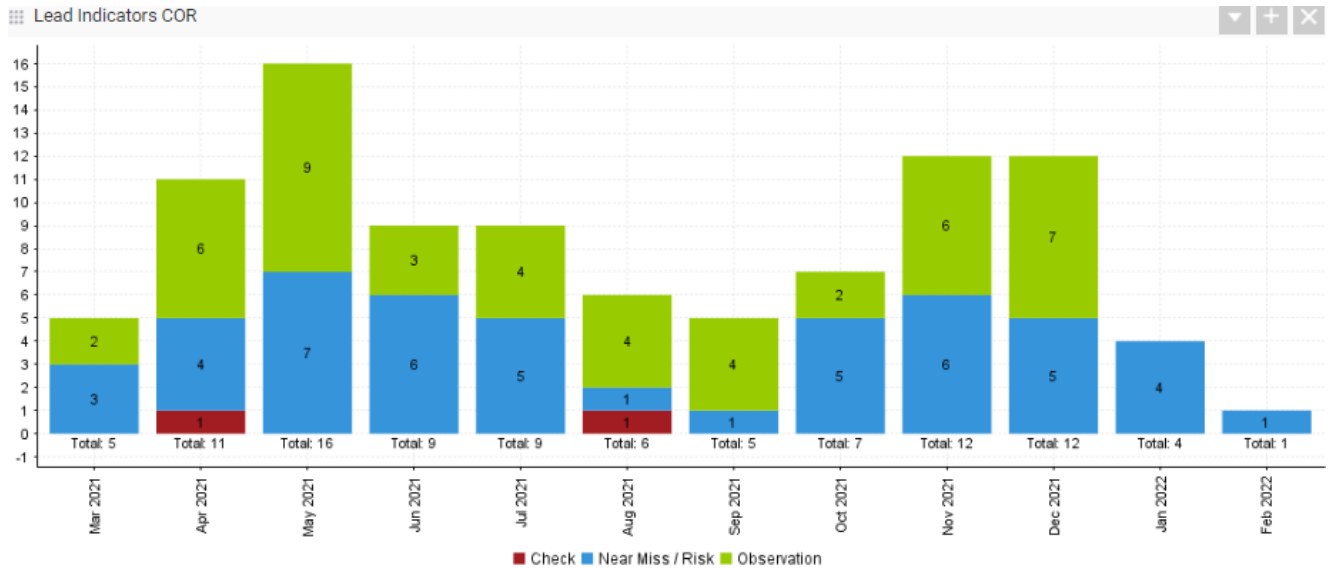
Drag a report here





Incident	Fav	Adverse
Abuse or threat to staff		> 10
Behavioral		> 8
Bruising		> 6
Contractor & Contractor Management		> 1
Member of public		> 1
Slips, Trips & Falls		> 1
Vehicle or traffic		> 1
Criminal Activity	< 7	
Sprain/Strain	< 4	
Contractor	< 1	
Cut/Laceration	-	
Member of public/Visitor	-	
Variance from last report		

- Abuse and behavioural incidents increase (Library), mainly compliance with requirements/ COVID-19.



- Low reporting for January due to holidays and many staff working from home.

Key/Explanation:

- **Total Recordable Injury Frequency Rate (TRIFR):** Shows our performance gauged against similar organisations. It is an industry standard reporting calculation based on (recorded incidents x 200,000) / total number of hours worked.
- Events by trend (last 12 months) highlight top 3 events as: vehicle and driving, conflict and aggression and an increase in criminal damage to GDC facilities.

Contractor reporting

27. With significant numbers of contractors engaged in Council work, many on short duration works, obtaining accurate and timely data can be challenging. Main Contractors continue to have regular meetings with their GDC counterparts where health & safety is the first item on the agenda. Incidents, accidents and near misses are reviewed and any recommendations arising shared.

Notifiable events:

- In the past 12 months no Council staff have been involved in events requiring notification to WorkSafe.
- Two notifiable events incurred by contractors were notified to WorkSafe.
 - Fulton Hogan/Siteworx – ruptured underground gas pipes.
 - Waste Management – worker under training fell from refuse truck, injuring arm.

Other events of note:

- Laceration of pollex caught in gate hinge. Investigation completed and improvement opportunities completed.
- Inner harbour jumping area: Swimmer sustained laceration to foot.

ASSESSMENT of SIGNIFICANCE

Impacts on Council's delivery of its Financial Strategy and Long-Term Plan

Overall Process: Low Significance

This Report: Low Significance

Inconsistency with Council's current strategy and policy

Overall Process: Low Significance

This Report: Low Significance

The effects on all or a large part of the Gisborne district

Overall Process: Low Significance

This Report: Low Significance

The effects on individuals or specific communities

Overall Process: Low Significance

This Report: Low Significance

The level or history of public interest in the matter or issue

Overall Process: Low Significance

This Report: Low Significance

28. The decisions or matters in this report are considered of Low significance in accordance with Council's Significance and Engagement Policy.

TANGATA WHENUA/MĀORI ENGAGEMENT

29. While no tangata whenua engagement was required to complete this report we are respectful when partnering with our community and organisations and ensure Te Tiriti o Waitangi – The Treaty of Waitangi is recognised in our daily work.
30. HomeSafe team actively promote the principles of Te Tiriti o Waitangi – The Treaty of Waitangi.

COMMUNITY ENGAGEMENT

31. No community engagement was required to complete this report. All teams – including HomeSafe – are responsible for the safety and wellbeing of our workers and community. Contractor management and requests for service from our community may require input and guidance from the HomeSafe team.

CLIMATE CHANGE – Impacts / Implications

32. There are no impacts or implications on climate change, however we require regular re-evaluation of risks from the impact of increased extreme weather events.

CONSIDERATIONS

Financial/Budget

33. Any financial implications relating to this report will be met from within existing budgets.

Legal

34. HSWA and associated regulations were introduced in 2016 and have now embedded. Significant fines have been highlighted in the media for PCBUs who have not taken all reasonably practicable steps to mitigate health and safety risks. Any notifiable events have the potential to be investigated by the government regulator (WorkSafe).

POLICY and PLANNING IMPLICATIONS

35. There are no policy and planning implications to consider. Health and safety is inherent in all areas of Council work.

RISKS

36. HSWA and its associated regulations require a PCBU to take all reasonably practicable steps to ensure the safety of its workers. There remains a risk to workers, Council reputation and regulatory censure due to any unidentified or unknown risks or failure of workers to follow safe work procedures. Risks to GDC workers' health and wellbeing have increased, compounded by COVID-19 and associated requirements, including working from home. The majority of known critical risks identified are well managed.

37. Staff turnover and availability of competent replacements can also have a detrimental effect on business operations and indeed added pressure on teams that may be under resourced until replacements sourced.

[1] Person in Control of a Business or Undertaking

Title: 22-50 2021-22 Insurance Renewal
Section: Finance & Affordability
Prepared by: Andrew Haughey - Senior Procurement Manager
Meeting Date: Wednesday 16 March 2022

Legal: Yes

Financial: Yes

Significance: **Low**

Report to AUDIT & RISK Committee for information

PURPOSE

The purpose of this report is to provide an update on the renewal of Council's Insurance for 1 November 2021 – 31 October 2022 and to update the actions arising from the Insurance Strategy. An update on the relationship between the Eastland Port and Gisborne District Council with respect to insurance and risk responsibilities will also be reported on.

SUMMARY.

Insurance Renewals for 2021/22

Council continues to purchase its insurance as part of the Bay of Plenty Local Authority Shared Services (BOPLASS) group of Councils.

Insurance cover for material assets is separated into above ground cover (buildings, equipment, motor vehicles) and below ground cover (water infrastructure and flood protection). Liabilities insurances (public, professional indemnity, statutory and employer) from the other main group cover.

Our insurance premium is \$1.3m, up 8% compared to last year.

The key policy movements are:

- Infrastructure insurance premiums increased by 6%
- The Harbourmaster/Wreck Removal cover insurance is \$10 million for wreck removal cover (last year \$5m). This is in line with Audit & Risk Committee recommendations on 22 September 2021 ([Report 21-137](#)).
- Public/Professional Indemnity insurance premium increased by 10%.
- Cyber insurance premium increased by 17% due to the increased potential of cyber-attacks.

Insurance Strategy

Council adopted the Insurance Strategy in September 2021. Five key strategies were identified with three being critical, with review occurring in 2021/22. These are:

- A review of valuation and inclusion of insurance values (under way)
- Review of earthquake maximum probable loss for infrastructure (later this year)
- Refine Property Schedule Development Process (continuously being reviewed).

Coastal Waters

Council is responsible under The Maritime Transport Act 1994 for wreck removal on and around our coastal waters. There are a number of risks or financial costs that could arise in protecting our bay. This includes wreck removal, marine oil spills and damage to property from collisions.

A meeting between Eastland Port, Insurers and Gisborne District Council occurred in February 2022. It was agreed that every six months, meetings will be held to continue the discussion on shipping movements, Port insurance and respective risk responsibilities.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Audit & Risk Committee:

- 1. Notes the contents of this report.**

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: Insurance Renewals, Insurance Strategy, Wreck Removal, Risk Responsibility

BACKGROUND

2021/2022 Insurance Renewal

1. Insurance is one way to manage the risk of an event or action that will adversely affect Council's ability to achieve its objectives and execute its strategies successfully.
2. In response to recent events, the global insurance industry has been put under significant pressure and reinsurance costs have increased substantially. New Zealand's insurance industry is not exempt from the pressure, which has affected New Zealand's reinsurance costs. The flow-on effect of rising costs is insurers increasing their premiums.
3. Gisborne District Council (Council) is part of the Bay of Plenty Local Authority Shared Services (BOPLASS). The LASS model now includes 66 local authorities in five groups based on geography and risk profile. The model proves to be a sustainable and cost-effective approach to securing annual insurance coverage, with AON acting as the insurance broker for the collective.
4. Insurance cover for material assets is separated into above-ground cover (buildings, equipment, motor vehicles) and below-ground cover (water infrastructure, flood protection). Typically, our below-ground cover has been secured via London insurers, with above-ground cover provided by local markets.
5. Liability insurances (public, professional indemnity, statutory, employer) form the other main group cover.

DISCUSSION and OPTIONS

2022/21 Insurance Renewal

6. Below is a summary of the current market conditions:
 - The current business climate is still complex due to the ever-evolving impact of the pandemic.
 - Emerging risks are being faced including an increase in cyber issues and supply chain issues.
 - Limited appetite in market to cover emerging risks.
 - Market still hard, although pricing increases appear to be easing slightly.
 - Strong focus on quality data and accurate valuations is what is required today.
 - Markets are still looking to restrict coverage through amendments to policy terms and conditions.
7. Council Insurance cost comparisons from last year to this year (**Table 1**). The outcome of the insurance renewal is an **8%** increase on all Insurance policies – Increasing from \$1.2 million to \$1.3 an increase of \$98k for 16 policies.

Table 1

Policy	2020-21 Declared Values	2020-21 Premium (GST excl)	2020-21 GST	2020-21 Premium (GST Inc)	2021-22 Declared Values	2021-22 Premium (GST excl)	2021-22 GST	2021-22 Premium (GST Inc)	Premium Change	% Premium Change
Material Damage Fire Only		140,144	21,022	161,166		\$ 140,144	\$ 21,022	\$ 161,166	\$ -	0%
Material Damage Excluding Fire	\$ 259,545,468	\$ 321,995	48,299	370,294	\$ 265,090,287	\$ 346,923	\$ 52,038	\$ 398,961	\$ 24,928	8%
Infrastructure	\$ 519,462,090	292,671	43,901	336,572	\$ 478,047,820	\$ 310,321	\$ 3,408	\$ 313,728	\$ 17,650	6%
Harbourmaster / Wreck removal		\$ 57,565	\$ 8,635	\$ 66,200		\$ 77,565	\$ 11,635	\$ 89,200	\$ 20,000	35%
Crime		\$ 14,248	\$ 2,137	\$ 16,385		\$ 16,831	\$ 2,525	\$ 19,355	\$ 2,583	18%
Corporate Travel		\$ 919	\$ -	\$ 919		-\$ 781	\$ -	-\$ 781	-\$ 1,700	-185%
Personal Accident		\$ 19,195	\$ 2,879	\$ 22,074		\$ 20,370	\$ 1,529	\$ 21,899	\$ 1,175	6%
Motor Vehicle	\$ 1,724,060	\$ 25,922	\$ 3,888	\$ 29,810		\$ 26,040	\$ 3,906	\$ 29,946	\$ 118	0%
Employers Liability & Statutory liability		9,875	1,481	11,356		\$ 10,363	\$ 1,554	\$ 11,917	\$ 488	5%
Public Liability & Professional Indemnity		\$ 282,520	\$ 42,378	\$ 324,898		\$ 312,118	\$ 41,155	\$ 353,273	\$ 29,598	10%
Marine Hull New Vessel		\$ 960	\$ -	\$ 960		\$ 990	\$ 148	\$ 1,138	\$ 29	3%
Forestry		\$ 1,618	\$ 2	\$ 1,620		\$ 1,888	\$ 2	\$ 1,890	\$ 270	17%
Machinery Breakdown	\$ 4,251,165	\$ 7,855	\$ 1,178	\$ 9,033		\$ 7,855	\$ 1,178	\$ 9,034	\$ 0	0%
Cyber		\$ 16,370	\$ 2,456	\$ 18,826		\$ 19,146	\$ 2,872	\$ 22,018	\$ 2,776	17%
Civil Defence Emergency		\$ -		\$ -					\$ -	#DIV/0!
Business Interruption		\$ 1,514	\$ 227	\$ 1,741		\$ 1,716	\$ 257	\$ 1,973	\$ 202	13%
Sub Total	\$ 784,982,783	\$ 1,193,371		\$ 1,193,371	\$ 743,138,107	\$ 1,291,488	\$ 143,230	\$ 1,434,718	\$ 98,117	8%
AON Brokerage fee		\$ 31,475	\$ 4,721	\$ 36,196		\$ 31,475	\$ 4,721	\$ 36,196	\$ 0	0%
Total		\$ 1,224,846		\$ 1,224,846		\$ 1,322,963	\$ 147,951	\$ 36,196	\$ 98,117	8%

Table 2 Commentary of changes to the Council's insurance cover	
Policy	Commentary of changes for 2021/22
Material Damages	This premium increased due to a rise in declared values resulting from 2021 revaluation of land and buildings. Contract Works Insurance with a Contract Value up to NZD \$1,000,000 shall be automatically covered, which can suit smaller contractor jobs who do not insure.
Infrastructure	Declared values has reduced due to the Wastewater Treatment Plant being now solely included in the Material Damage policy as an above-ground asset.
Cyber	Cyber insurance increased to 17% due to the increase of potential cyber-attacks.
Public liability & professional indemnity	Public/Professional Indemnity increased by 10%. Berkshire Hathaway (57%) and QBE (38%) & Chubb 5% cover this policy with a limit of \$15m on each of these policies.

2022/21 Insurance Strategy

8. The adopted Insurance Strategy in [Report 21-137](#) includes reviewing and assessing risk, governance practices, culture, decision-making and systems in the following areas:
 - Property (First Party asset exposures, including business Interruption).
 - Liability (Third-Party liability exposures).
 - Technology (First and Third-Party cyber exposures).
 - Retention (Risk tolerance, retained risk and available risk financing tools).
9. In addition, a completed risk profile identified critical and major priorities in the strategy.
10. Five key strategies were identified in the risking profiling process which will be reviewed and updated on a three yearly cycle.

Table 3 Key Strategies		
No.	Strategy	Risk Profile
1	Appropriate valuation methods for insurance.	Critical
2	Undertake earthquake probable maximum loss assessment for infrastructure assets.	Critical
3	Update insurance schedule and approaches (eg. low value property).	Major
4	Review the risk retention (or residual financial exposure).	Major
5	Review Enterprise Risk Management framework and processes.	Major

Key	
Critical	Prioritise for first year of work plan. Impacts most significant policies by premium spend.
Major	Will be prioritised for second year of work programme.

11. **Strategy 1: Appropriate Valuation Methods for Insurance**

- Timeline 2022
- Suitable asset valuations are critical to ensure the full amount required to reinstate the asset from insurers.
- The methodology used is consistent and based on Asset Manager’s knowledge and financial reporting.

Action:

- To move to industry's best practice, the Council will move to use its external valuation companies to add insurance valuations. In Progress

Table 4 below illustrates the transition across key asset classes to move forward.

Table 4					
Valuation Type	Three Waters	Buildings	Park Assets	Roading	Forestry
Valuation Reporting using external companies	Yes	Yes	Yes	Yes	Yes
Valuation Reporting for insurance purposes using external companies currently	No	No	No	Not Required	Yes
Valuation Reporting for insurance purposes using external companies going forward	Yes	Yes	Yes	Not Required	Yes

12. **Strategy 2: Undertake Earthquake Probable Maximum Loss Assessment for Infrastructure Assets**

- Timeline 2022
- In 2016 Council engaged AON and Tonkin & Taylor to undertake natural hazard loss modelling for major infrastructure assets.
- The report is now considered historic due to changes in asset base, asset values and modelling methodologies.

Action:

- An update the Earthquake and Tsunami Loss Estimate Analysis for Infrastructure and Building Assets is in progress now. Expected to be completed in time for the 2022/23 insurance renewal process

13. Strategy 3: Refine Property Schedule Development Processes

- Timeline 2022
- The Property Schedule Council currently provides to insurers is based on several historical approaches. For example, a policy of not insuring assets is determined by our excess cost of \$25,000 – being the level the Council will look at for Material Damage Insurance.
- The Council Material Damage Policy insures 183 Council assets ranging in value from \$3,800 to \$44 million.
- Assessing assets' criticality determines whether to insure the asset and, if insured, determines the appropriate basis of settlement (ie. reinstatement, indemnity or declared conditions).

Actions:

- To refine processes and apply best practice, a framework will be designed with criteria to determine the basis for guidelines to more consistently inform future insurance decisions.
- Ensure that, when capital works are completed, new assets are immediately added to the Property Schedule.

14. Strategy 4: Review Risk Retention Analysis

- Timeline 2023

Actions:

- Review Council's Risk Appetite Matrix that has an unbudgeted loss threshold of 40% difference in budget or an impact greater than \$2 million.
- Review at a governance level which will define the organisation's desired approach to accepting and managing risks across different asset groups.
- Review current process for assessing the costs and benefits of risk retention options and strategies, eg. deductible levels, self-insurance of specific assets.

15. Strategy 5: Review Enterprise Risk Management Frameworks and Processes

- Timeline 2023 to 2024
- A robust Enterprise Risk Management framework includes options for managing risks – such as avoiding, reducing, accepting, or transferring the risk. The organisation's approach to all these options is of interest to insurance, especially in a hard market which is characterised by higher premiums, more stringent terms and conditions and limited capacity for large exposures.
- Enterprise Risk Management is the overarching driver of an organisation's approach to risk management and insurance.
- The organisation leverages risk management to create and protect value.

Actions:

- Review current risk maturity and establish a benchmark.
- Review Enterprise Risk Management frameworks and processes with the Council's Managers in line with Council's Risk Management Policy.

Table 3 – Insurance Strategy Timelines

2021/22	2022/23	2023/24
Ensure asset valuations are suitable for insurance purposes	Undertake risk retention analysis	Undertake property underwriting surveys for major sites (<\$20m value and/or water treatment plants)
Update earthquake Probable Maximum Loss assessment for infrastructure assets	Undertake assurance review of Enterprise Risk Management framework and processes	Continue to work closely with broker to improve and communicate risk profile to insurers
Improve property schedule development processes based on Aon guidance	Work with Aon to raise risk maturity at Council through review of risks framework in line with best practice	Refresh Insurable Risk Profile
Continue to work closely with broker to improve and communicate risk profile to insurers	Continue to work closely with broker to improve and communicate risk profile to insurers	Review and update Insurance Strategy

Wreck Removal Update

16. The Maritime Transport Act 1994 (33J) covers the steps which regional councils may take to remove and deal with any wreck within its region that is a hazard to navigation – including requiring the owner of the wreck, or an agent of the owner, to remove the wreck within a time and in a manner satisfactory to the regional council.
17. As was noted in the Wreck Removal Loss Estimate Study prepared for Council by their Insurers (included in [Report 21-137](#)), The Maritime Transport Act 1994 is not prescriptive in its definitions of responsibility and liabilities between Maritime NZ and the respective regional council, in the event of the vessel owner not having insurance for wreck removal.
18. As per the Act, the primary responsibility lies with the vessel owner and insurers to cover removal costs. In a scenario where they do not, Council's Wreck Removal Cover may then be triggered. It was therefore recommended that Council take a conservative approach and mitigate the potential costs of wreck removal on the basis that it bears the primary obligation if the vessel owner does not take responsibility. For this reason, Council's current Wreck Removal Liability Policy insurance cover was increased from \$5m to \$10 m ([Report 21-137](#)) at Audit & Risk committee on 22 September 2021.
19. A meeting was held with Council staff, Eastland Port and insurance representatives on 10 February to discuss the matter of wreck removal insurance cover for both Council and Eastland Port, and associated risks.
20. It was concluded that in every instance of a wreck, the first port of call for insurance will be with the shipping company. Shipping companies are required to meet Port State standards, and this includes insurance. Meeting Port State standards is a requirement which ships must meet before they are permitted to enter any NZ port.
21. Council and Eastland Port both have wreck removal insurance cover to manage their own risks and requirements.
22. While Eastland Port has no navigational responsibilities, they do regulate and ensure that small and leisure vessels have adequate insurance before entering the port area. The Port would only likely use their wreck insurance if there was an operational imperative that warranted it.

23. The responsibility of checking the insurance status of larger vessels currently lies with an independent agent who is a representative of the shipping companies.
24. The Maritime Transport Act 1994 also states in section 33K that the Director of Maritime New Zealand may require Council to remove or deal with a wreck. If the Council does not comply, the Director of Maritime New Zealand may take action and forward the bill to Council. It is important to note that this is solely Council – and not the Port – that may be so directed.
25. A 6 monthly meeting has been set up between Eastland Port and Council staff to touch base and review this work on a regular basis.

ASSESSMENT of SIGNIFICANCE

Consideration of consistency with and impact on the Regional Land Transport Plan and its implementation

Overall Process: **Low** Significance

This Report: **Low** Significance

Impacts on Council's delivery of its Financial Strategy and Long Term Plan

Overall Process: **Low** Significance

This Report: **Low** Significance

Inconsistency with Council's current strategy and policy

Overall Process: **Low** Significance

This Report: **Low** Significance

The effects on all or a large part of the Gisborne district

Overall Process: **Low** Significance

This Report: **Low** Significance

The effects on individuals or specific communities

Overall Process: **Low** Significance

This Report: **Low** Significance

The level or history of public interest in the matter or issue

Overall Process: **Low** Significance

This Report: **Low** Significance

26. The decisions or matters in this report are considered to be of **Low** significance in accordance with Council's Significance and Engagement Policy.

TANGATA WHENUA/MĀORI ENGAGEMENT

27. No Tangata Whenua engagement was required to complete this report.

COMMUNITY ENGAGEMENT to attend

28. No Community engagement was required to complete this report.

CLIMATE CHANGE – Impacts / Implications

29. Rising sea levels and extreme weather events are likely to impact on future insurance premiums and availability. Overtime material damage insurance premiums are likely to continue to rise or insurance may be withdrawn for the most at-risk areas.
30. Council will have to consider whether to continue to insure, to self-insure in some form, or accept higher excess levels or increase limits of liability.
31. The frequency of weather events are also likely to increase, leading to higher exposure to wreck removal costs in the future.

CONSIDERATIONS

Financial/Budget

32. Total insurance premiums for the period 1 November 2021 to 31 October 2022 are \$1.3 million (excl GST), with total declared assets of \$753 million. Our insurance cover is for material assets which are separated into above-ground cover (buildings, equipment, motor vehicles) and below-ground cover (water infrastructure, flood protection). Liability insurance – such as the Wreck and Harbourmaster Liability Policy – is from Council's other main group cover.
33. Accurate and quality data will be key mitigations to minimise the likelihood of insurers adding higher 'risk allowances' into the calculations for final premium due to insufficient information being provided from Council. Reviewing what to insure and on what basis (e.g. full replacement or indemnity) will also play a part in making sure we optimise insurance cover and do not over-insure.
34. However, while trying to minimise the costs of over-insuring, it is equally – if not more – important to make sure that we are not under-insured, especially in areas where Council may be exposed to high financial recovery or liability costs.
35. The costs of the premium need to be weighed against the potential exposure to an event that may occur in the future with high financial consequences.

Legal

36. The Council's legal section is involved with all Insurance renewals, as well as holding records of historical events and any potential claims.

POLICY and PLANNING IMPLICATIONS

37. With the adoption of the Insurance Strategy and the annual renewal process, individual insurance policies are reviewed. This includes limit exposures (through worst-case loss scenarios), continuing reviewing risk profile, risk retention and valuation methods for the underlying assets.

RISKS

38. Insurance is used as a tool to minimise the risk of financial costs arising from an unforeseen event.
39. The full insurance schedule for 2020/21, with descriptions, deductibles (excess) and limits of liability is provided in **Attachment 1**.
40. It does not make sense for Council to insure all our assets. A summary of current asset classes is included as **Attachment 2**.
41. There is a risk of having high insurance coverage – as the costs of premiums will be borne by today's ratepayers. However, the risk of under-insuring, when there is an unforeseen event with high financial impacts to Council, means future ratepayers will have to bear the costs.
42. Optimising insurance cover requires an Enterprise Risk Management approach. This gives assurance based on the best available information, and the Insurance Strategy provides direction and guidance on Council's response to managing risk.

NEXT STEPS

Date	Action/Milestone	Comments
August 22	Six monthly meeting with Eastland Port to continue strengthening our discussion re Port Insurance and respective risk responsibilities	
March 22 onwards	Update the Insurance Strategy including <ul style="list-style-type: none">• Review the insurance values using the external valuation process.• Undertake an earthquake probable maximum loss assessment for infrastructure assets.	

ATTACHMENTS

1. Attachment 1 - 2020 2021 Insurance Policy Descriptions A1668248 A2034076 A2035172 [22-50.1 - 4 pages]
2. Attachment 2 - 2020 2021 Asset insurance coverage or exclusion A1668552 A2034073 A2035230 [22-50.2 - 2 pages]

ATTACHMENT 1 - Policy Descriptions

Cover	Description	Deductibles	Limit of Liability (BOPLASS)	Sublimit of Liability (GDC)
Material Damage (excluding Fire)	All risks including earthquake, but excluding fire.	Each claim \$25k. Natural disaster perils: 5% of Material Damage site value, minimum \$5k each site Pre-1935 property 10% of Material Damage site value, minimum \$10k each site.	\$2.968b across BOPLASS	Various sublimits as per GDC Material Damage site schedule.
Material Damage (Fire)	Fire, including fire caused by any natural disaster.	Each claim \$25k. 5% of Material Damage site value, minimum \$5k each site. Pre-1935 property 10% of Material Damage site value, minimum \$10k each site.	\$30m	Various sublimits as per GDC Material Damage site schedule.
Business Interruption	Consequential Loss resulting from physical loss or damage to any property used by the Insured.	Various loss period deductibles	\$ 8m Additional Increased Costs of Working (shared). \$ 650k Claims Preparation. Indemnity Period: 24 Months.	\$ 302,000 Loss of rents receivable. Indemnity Period 24 Months.
Infrastructure Insurance (below ground assets)	Physical loss caused by a Natural Catastrophe Event including: Earthquake, Natural Landslip, Flood, Tsunami, Tornado, Windstorm, Volcanic Eruption, Hydrothermal & Geothermal activity and Subterranean Fire and resulting Business Interruption.	\$1.5m	\$500m combined across BOPLASS councils	\$250m Gisborne District Council
Machinery Breakdown/ Explosion	Boiler Machinery breakdown risks and Boiler explosion risks normally excluded under the Material Damage - Excluding Fire policy.	Per claim \$2k Transformers Up to \$20,000 in Value and/or Pumps in excess of 30kw – \$5k Transformers in Excess of \$20,000 in Value – \$10k		\$1m Gisborne District Council
Forestry	Forests as declared against loss to trees including harvested trees awaiting transportation from harvest area caused by Fire, Hail Strike, Malicious Damage and Impact.	0.75% of total sum insured for each forest location separated by >5km. Minimum of \$10k per claim.		\$1.3m Gisborne District Council

Cover	Description	Deductibles	Limit of Liability (BOPLASS)	Sublimit of Liability (GDC)
Motor Vehicle	Unforeseen and unintended damage to own vehicles.	Standard 1% vehicle sum insured, minimum of \$500 Plus Age and Inexperienced drivers excess applicable to all Insured Vehicle, when being driven by any person: Under 21 years of age \$1,000 Aged 21 to 25 years of age \$500 Aged 25 and over and licensed less than 2 years \$500	Third Party Liability Property Damage \$20m Bodily Injury \$20m Aggregate Limit \$20m	Own Damage Market Value of the Insured Vehicle at the time of loss
Combined Public Liability and Professional Indemnity	Public Liability Liabilities to third parties for property damage and/or personal injury arising from and in connection with the Insured's operations, for all amounts which the Insured is held legally liable to pay. Professional Indemnity Claims made or notified during the period of insurance arising from an actual or alleged acts, errors or omissions or conduct omitted or committed in connection with the services provided by the Insured.	Public Liability (Primary) Each claim - costs and expenses inclusive - \$10k. Professional Indemnity (Primary) Each claim - costs and expenses inclusive - \$25k Other than claims relating to Building Act - \$100k	Public Liability (shared BOPLASS) Any one occurrence & in the aggregate anyone period of insurance - \$145m. Professional Indemnity (shared BOPLASS) Any one occurrence & in the aggregate anyone period of insurance - \$145m.	Public Liability (Primary) Any one occurrence & in the aggregate anyone period of insurance - \$15m. Public Liability (Primary) Any one occurrence & in the aggregate anyone period of insurance - \$15m.
Combined Harbourmaster's Liability & Wreck Removal	All sums for which the Insured is legally liable for whilst exercising the statutory powers and duties of Harbour Master	Harbour Masters Liability Each and Every Loss, Costs Inclusive - \$50k Wreck Removal Each and Every Loss, Costs Inclusive - \$100k	Harbour Masters Liability Any one Claim and in the Annual Aggregate in Any One Period of Insurance - \$10m Wreck Removal Any one Claim and in the Annual Aggregate in Any One Period of Insurance - \$10m Defence Costs Any one claim and aggregate in any one period of insurance -\$1m	

Cover	Description	Deductibles	Limit of Liability (BOPLASS)	Sublimit of Liability (GDC)
Combined Employers Liability & Statutory Liability	<p>Employers Liability Liability arising out of claims made by Employees for Bodily Injury outside the scope of the Accident Compensation Corporation scheme.</p> <p>Statutory Liability Defence Costs, Fines (to the extent allowable by law), and Reparation Orders arising out of an unintentional breach or breaches of an Insured Act.</p>	<p>Employers Liability \$1k Each & Every Claim (including Defence Costs)</p> <p>Statutory Liability \$10k Each & Every Claim (including Defence Costs)</p>	<p>Employers Liability \$1m in the aggregate for Loss (excluding Defence Costs) \$1m in the aggregate for defence costs</p> <p>Statutory Liability \$1m in the aggregate for Loss (excluding Defence Costs) \$1m in the aggregate for defence costs</p>	
Fidelity Guarantee (Crime)	Direct financial loss suffered by the Insured as a result of a criminal act committed by an employee and arising from or connection with any single, continuous or repeated acts.	\$50k Each & Every Claim (including Costs)	\$2m Any one loss and in the aggregate any one Period of Insurance.	
Personal Accident	<p>Covering Insured persons for benefits in respect of injury (including death) as a result of an accident.</p> <p>Cover includes 270 Full Time Staff, plus 107 part-time, fixed term, casual staff and Elected Members</p>		<p>\$100k per claim, \$1m aggregate during any one period of insurance.</p> <p>For all claims during any one period of insurance for accidents occurring during non-scheduled air travel \$500k.</p> <p>Various prorated benefits including:</p> <ul style="list-style-type: none"> • Accidental death and disablement • Weekly Injury Benefit • Fractured Bones • Bodily injury resulting in Surgery outside NZ • Bodily injury resulting in loss or damage to teeth • Sickness resulting in surgery 	

Cover	Description	Deductibles	Limit of Liability (BOPLASS)	Sublimit of Liability (GDC)
Travel	All employees or directors of the Insured or persons authorised by the Insured travelling overseas on authorised business travel or private travel if declared by the Insured, Spouses (including common-law) and families of an Insured Person.	Each and every claim \$0 Electronic Equipment only \$250	Various, including limits for: <ul style="list-style-type: none"> • Care and concierge • Overseas medical and evacuation • Cancellation and disruption • Baggage and personal effects • Personal accident and sickness • Vehicle excess waiver • Personal liability • Kidnap ransom and detention • Political and natural disaster evacuation • Search and rescue expenses • Alternative employee/resumption of assignment • Health • Wellbeing 	
Cyber Liability	Costs associated with managing and recovering from a significant cyber-attack.	\$25k Each and every claim, actual or suspected breach or extortion threat.		\$2.5m in the aggregate (excluding damages) \$2.5m in the aggregate for damages.
Marine Hull	Unintended and unforeseen physical loss or damage to insured vessel	\$500 each and every claim		Third Party Liability \$5m

ATTACHMENT 2: Assets insured or not insured**ASSETS INSURED**

Material Damage (above ground assets)	<p>Classes of assets insured include:</p> <ul style="list-style-type: none"> • cemetery assets (e.g. crematorium) • staff and community housing (e.g. pensioner flats, dwellings, garages) • community property (e.g. museum buildings) • Gisborne airport (e.g. land and airside assets) • reserves assets (e.g. buildings, changing sheds, grandstands) • library • monuments (e.g. sculptures, memorials, fountains) • Olympic Pool (e.g. pools, buildings covers) • toilets (Bright St only) • theatres soil conservation reserves (e.g. dwellings, buildings) • water supply assets (e.g. treatment plants, reservoirs, pump stations) • waste water assets (e.g. treatment plants, pump stations)
Infrastructure (below ground assets)	<p>Classes of assets insured include:</p> <ul style="list-style-type: none"> • flood control (e.g. stopbanks, channels, culverts, rip-rap, groynes, piles) • solid waste (e.g. bores, leachate systems) • sewer (e.g. reticulation, manholes, service lines, pump stations and control systems) • stormwater (e.g. reticulation and in drain structures) • water (e.g. dams, bores and filters, reticulation pipes) <p>Infrastructure assets have a declared value of \$478m (2021/22). In a natural disaster, current arrangements are that central government will pay up to 60% of restoration costs for damage to infrastructure services, assuming those assets have been properly maintained and that the local authority can meet costs for the remaining 40%. Council is insured for its 'share' up to \$250m.</p>
Vehicles	All vehicles are insured except rural fire vehicles and tankers.
Machinery breakdown	Major generators, pumps and switchboards including the Wastewater Treatment Plant.
Forestry	Council owned woodlots (67ha) and Waerenga O Kuri Reserve (170ha), but not including Pamoā joint venture (insured by Juken NZ).

ASSETS NOT INSURED

There are a number of reasons why council does not insure all assets, some of which include:

- assets are not insurable (e.g. land)
- intangible assets (e.g. software, digital aerial photography)
- compound assets, bought as one but unlikely to be lost together (e.g. street furniture, fencing)
- assets not likely to be replaced if destroyed (e.g. Churchill Park Goal)
- small value assets and plant under the minimum material damage insurance excess (deductible) which is currently \$25k
- living assets (e.g. river protection trees)
- assets thought to be hardy and unlikely to be fully lost (e.g. concrete block toilets, boat ramps, car parks)
- gifted assets that cannot be replaced in their current form (e.g. artworks and public art)
- assets that are 'self-insured' and damage subsidised by grants (e.g. local roads and bridges).
- motorbikes and other lower value vehicles.

Non-insured assets that are lost/damaged are generally replaced by operational maintenance budgets or by Long Term Plan/Annual Plan capital budget items.

Title: 22-63 Council Strategic Risk Management Report
Section: Finance & Affordability - Performance
Prepared by: Steve Breen - Risk Partner
Meeting Date: 16 March 2022

Legal: No

Financial: Yes

Significance: **Low**

Report to AUDIT & RISK Committee for information

PURPOSE

The purpose of this report is to inform the Audit & Risk (A&R) Committee on the status of Gisborne District Council's strategic risks.

SUMMARY

Management continues to review Council's strategic and organisational risks and apply the risk appetite framework to each to assess their inherent risk, the control environment to manage that risk, and the resulting residual risk.

This report provides a status update for the:

- Legal Compliance
- Natural Environment strategic risks; and
- Updates relating to:
 - Civil Defence', 'Health and Safety', 'People and Capability', 'Finance', and 'Fraud and Corruption' strategic risks reported to the 23 November 2021 A&R Committee meeting and progress on the remaining strategic risks.
 - Individual strategic risks and their risk appetites.

Deep dives on 'Information and Technology' (as a component of Business Continuity strategic risk) and 'Procurement' are to be conducted as part of the 16 March Audit & Risk Committee meeting and form a separate part of the meeting under public excluded and referenced in **Public Excluded Report 22-69**.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Audit & Risk Committee:

- 1. Notes the contents of this report.**

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: audit & risk, strategic risk, CDEM

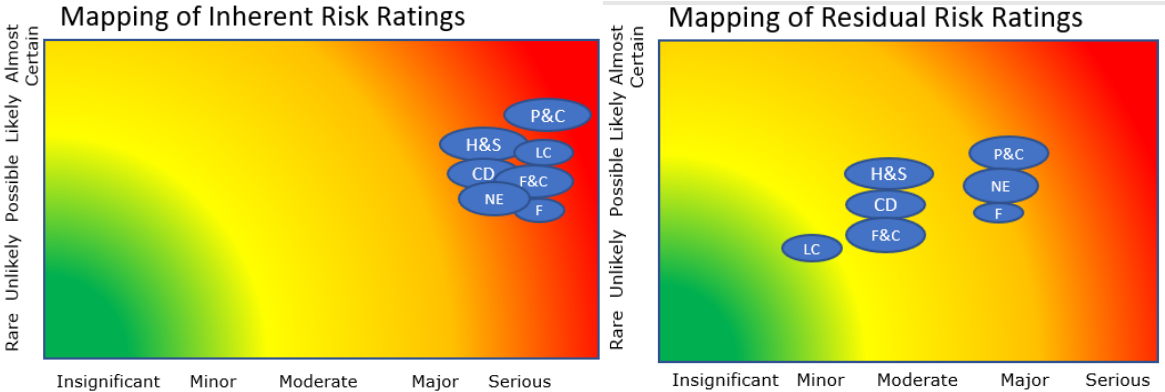
BACKGROUND

1. This report provides an update on Council's strategic risks and risk activities for the period ending March 2022.
2. The Council is progressively applying its risk appetite framework to each of the Council's 13 identified strategic risks. Each strategic risk will be assessed in terms of its inherent risk, the control environment to manage that risk, and the resulting residual risk.
3. Work is being undertaken across all the strategic risks and the Strategic Risk Update Summary Table below shows the completed risk assessments to date and where the risk assessments and deep dives for each risk are proposed.

Strategic Risk Update Summary Table

Strategic Risk	Inherent Risk	Residual Risk	Proposed Deep Dive	Risk Assessment completed by
Health and Safety	Serious	Moderate	23 November '22	Completed
Civil Defence	Serious	Moderate	23 November '22	Completed
People and Capability (including projects/change management and service delivery)	Serious	Major	Completed	Completed
Impact of Externally Driven Change	New risk: level to be determined following deep dive	New risk: level to be determined following deep dive	Completed	21 September '22
Overall Council Strategy (including strategic relationships)	To be reassessed following deep dive	To be reassessed following deep dive	23 November '22	21 September '22
Treaty Commitments	New risk: to be determined following deep dive	New risk: to be determined following deep dive	21 September '22	21 September '22
Financial (including fraud and corruption)	Serious (Major)	Major (Moderate)	Completed	Completed
Capital Projects	New risk: to be determined following deep dive	New risk: to be determined following deep dive	18 May '22	18 May '22
Natural Environment (including ability to monitor and report)	Major	Major	18 May '22	18 May '22
Legal Compliance	Minor	Minor	21 September '22	Completed
Infrastructure Asset Management	To be reassessed	To be reassessed	21 September '22	18 May '22
Procurement	To be reassessed	To be reassessed	16 March '22	18 May '21
Business Continuity (including Information and Technology (IT))	To be reassessed	To be reassessed	16 March '22 (IT deep dive)	21 September '22

A residual risk 'heat map' forms part of risk reporting and has been provided below for the risks assessed to date: 'Health and Safety' (H&S); 'Civil Defence' (CD), 'People and Capability' (P&C); 'Finance' (F), 'Fraud and Corruption'(F&C); 'Legal Compliance' (LG) and 'Natural Environment' (NE):



4. More risks will be added to the heat maps as they are assessed. The maps are supported by the summary table as below:

No	Risk	Inherent	Control Environment	Residual	
1	Health and Safety (H&S)	Serious	Effective	Moderate	
2	Civil Defence (CD)	Serious	Effective	Moderate	
3	People and Capability (P&C)	Serious	Ineffective	Major	
4	Impact of Externally Driven Change	Serious	tbc	tbc	
5	Overall Council Strategy (including strategic relationships)	Serious	tbc	tbc	
6	Treaty Commitments	Major	tbc	tbc	
7	Financial (F), including Fraud and Corruption, (F&C)	Serious	Effective	Major	
8	Capital Projects	Major	tbc	tbc	
9	Natural Environment (including ability to monitor and report)	Serious	Ineffective	Major	
10	Legal Compliance	Serious	Effective	Minor	
11	Infrastructure Asset Management	Serious	tbc	tbc	
12	Procurement (P)	Serious	Effective	Moderate	
13	Business Continuity (including Information and Technology)	Serious	tbc	tbc	
		Control Environment:	Controls are present and effective	Controls ineffective in some areas	Controls are missing or not effective

DISCUSSION and OPTIONS

Civil Defence Emergency Management (CDEM) Strategic Risk

5. The CDEM strategic risk is defined as the risk that the CDEM Group 'is unable to provide appropriate response and recovery operations.'
6. The current residual risk level for **CDEM** is assessed as '**Moderate**,' which is within our overall Council risk appetite.
7. This 'Moderate' level of risk has been achieved by revising the existing CDEM risk bowtie following the September A&R Committee meeting resulting in a number of additional actions (treatments) being added. These 'treatments' are proposed or are in progress as follows:
 - a. Further training is scheduled: In Progress. Training for Civil Defence operational team (supported by National Emergency Management Agency (NEMA)) is ongoing. May require additional budget where risks and specific training are identified.
 - b. Workshop with Councillors to assist clarifying Council CDEM operational responsibilities and accountabilities: Proposed Civil Defence involves both local Council and NEMA roles and responsibilities. Clarity of both will improve resource allocation and responsiveness.
 - c. The existing Civil Defence Risk Bowtie has been updated and the revised draft (**Attachment 1**) is being reviewed: In Progress. Service improvements since the bowtie was developed have overtaken the current version, which requires updating to reflect the current operating environment.
 - d. Establish a natural hazards work programme to monitor and manage natural hazards: Proposed. Adopt the same approach as taken with water security. May require additional budget and/or reprioritisation of existing work commitments.
 - e. Implementation of medium-term actions of 2018/19 CDEM Review Plan recommendations: In Progress. Majority of short-term recommendations implemented but ongoing delivery of full recommendations required. May require additional budget and/or re-prioritisation of existing work commitments
 - f. Sharing of local and national expertise and resources to ensure the right level of decision-making experience and competency for an event. In Progress. This will also build relationships and the development of consistent operational platforms between regions
8. Operationally, Council is able to meet its Civil Defence commitments. However the current risk assessment identifies the need for continued training to ensure the region has suitably qualified and capable personnel as needed. The training requirements will be further developed as part of the bowtie review and within the wider CDEM Group Plan.
9. This active focus on the treatments identified will reduce the residual risk level to 'Moderate' which meets the Council's risk appetite.

Health and Safety Strategic Risk

10. The Health and Safety (H&S) strategic risk is defined as 'the inability to adequately protect council staff and the community, from hazards or events which compromise their physical and emotional wellbeing, while delivering Council services'.
11. The current residual risk level for **Health and Safety** is assessed as '**Moderate**' which is within Council's overall risk appetite.
12. This assessment is based on the continued delivery of the Treatment Options identified in **Attachment 2** and managing the emerging risk of increased staff turnover and challenges with replacing key roles with suitably qualified persons. This creates pressures on mental wellbeing for teams with less resources and increased workloads (staff and leadership), with loss of experienced individuals/managers who were competent around H&S and risk management for their teams. This emerging risk is being managed through the actions being delivered under 'People and Capability' below.

People and Capability Strategic Risk

13. The People and Capability (P&C) strategic risk is defined as 'the Council doesn't have the right people with the right skills and attitudes.
14. The current residual risk level for **People and Capability** is assessed as '**Major**' which is outside Council's overall risk appetite.
15. Council's response to this risk is identified in **Report 22-24**.
16. While there is a national shortage of talent contributing to the difficulty in attracting talent to fill the roles available, Council is using contracted personnel and consultants where possible to maintain service delivery.
17. The following additional treatments are proposed in support of the existing controls in place:
 - a. Exit interviews are conducted to determine root cause for leaving so that preventative interventions can be developed: **Complete**.
 - b. Active succession planning introduced to critical areas of Council: **In Progress**.
 - c. Dashboard of key metrics reported to COR meetings: **Complete**.

Finance Strategic Risk

18. The Finance strategic risk is defined as 'failure to be financially sustainable'.
19. The current residual risk level for **Finance** is assessed as '**Major**' which is outside Council's overall risk appetite.

20. This 'Major' level of risk is based on management taking a more prudent approach to Finance given the current uncertainty in the financial operating environment. This approach seeks to minimise the impact of an economic or financial shock and while this is outside Council control and is not something we have experienced yet, the assessment is that this is probable. Therefore, a prudent approach is to treat this area of risk accordingly and introduce further actions to manage the impact if an event were to occur.
21. The additional actions focus on three areas of activity: Treasury management; insurance cover; and exposure to CCTO liabilities with the following treatments being introduced to our existing controls in order to bring the residual risk back from Major to within Council's risk appetite:
 - a. Treasury: Increased monitoring and cashflow forecasting, close monitoring of interest rate movements to cover requirements, ability to reprioritise spending (case-by-case assessments), scenario modelling: **In Progress**
 - b. Insurance: Group interest rate strategy review that policies are adequate: **In Progress**
 - c. CCTO liabilities: Review of CCTO operation and activity: **In Progress**
22. Treasury management is being driven by disruption to the supply chain potentially requiring Council to pay a premium in order for works to be completed and against a background of rising interest rates. While current controls are present and effective, increased monitoring of planned delivery and cashflow forecasting will assist in achieving optimal prices.
23. Management is currently working through an insurance strategy to ensure that group insurance policies are adequate. This involves working through the valuation process and assessing the existing cover and contributes to the risk assessment of Major as it is currently a work in progress.
24. While the CCTO is a limited liability company the Council may be exposed to liability at a group level. Management are therefore currently reviewing this potential exposure and erring on the side of caution with the assessment of Major until this review is completed.

Fraud and Corruption

25. The Fraud and Corruption strategic risk is defined as 'wrongful or criminal deception for personal gain'.
26. The current residual risk level for **Fraud and Corruption** is assessed as '**Moderate**' which is within Council's overall risk appetite.
27. This 'Moderate' level of risk is based on one additional treatment now adopted as a control: the implementation of the new fraud, corruption, and bribery policy adopted at the **23 June 2021 Audit & Risk Committee** meeting (report reference: **21-90**) and the following treatment:
 - a. Review of Conflict of Interest Policy including reviewing it against consistency of all organisational policies; **In Progress**
 - b. review of systematic mechanisms for recording and capturing conflicts, including actions that may need to arise from recorded conflicts. **In Progress**

Legal Compliance Strategic Risk

- 28. The Legal Compliance risk is defined as 'legal and policy non-compliance'.
- 29. The current residual risk level for **Legal Compliance** is assessed as '**Minor**' which is within the Council's overall risk appetite.
- 30. The existing Legal Compliance risk bowtie has been reviewed and remains at a 'Minor' level of risk. There have been additions to two controls to improve their effectiveness as follows:
 - a. Control 3: Framework, processes, guidance documentation and best practice, peer networks, sector groups, list serves
 - b. Control 8: Review and improvement of systems and processes
- 31. This 'Minor' level of risk has also been achieved through the introduction of a review action (treatment) for several controls to confirm that their systems and processes have been updated since the risk bowtie was first developed, as follows:

Existing Control	Additional Treatment	Status
1. Legal and compliance register/staff attestation, hire practices, expectations framework, training	Establish compliance register	Proposed
1. Legal and compliance register/staff attestation, hire practices, expectations framework, training	Review hire practices, expectations framework, training are up-to-date	Proposed
2. Internal policy management framework, governance work programme, internal communication, training for relevant staff, e.g. warrants	Review that processes are up-to-date	Proposed
3. Regular reporting and review process	Review that process is being followed	Proposed
4. Formal training programmes, internal legal support, peer networks, sector groups, list serves	Review that processes are up-to-date	Proposed
7. COR's review and response to non-compliance	Review that processes are up-to-date	Proposed

- 32. Operationally the Council is meeting its legal compliance commitments. However, it is timely since the previous Legal Compliance risk bowtie was completed, to check that systems and processes are working as intended or if further improvements can or need to be made to meet new legislative requirements.
- 33. This active focus on the treatments identified will continue to maintain the residual risk level at 'Minor' which is within Council's risk appetite.

Natural Environment Strategic Risk

- 34. The Natural Environment strategic risk is defined as 'failure to sustainably manage our natural environment'.
- 35. The current residual risk level for **Natural Environment** is assessed as '**Major**' which is outside the Council's overall risk appetite of 'Moderate'.
- 36. This assessment is based on the need to increase the capability and capacity of the staff resource available for this area of work. There is currently a nationwide shortage of people who have the necessary skills and expertise required which has the potential to impact on Council's ability to maintain effective staffing levels.
- 37. Management is taking several steps to address this area of risk which are part of the wider approach being taken by Council to improve recruitment and retention levels. The result of these actions will see the residual risk reduce from 'Major' to 'Moderate', which is within the Council's risk appetite.
- 38. Management is further reviewing the existing Natural Environment risk bowtie for improvements to the risk causes and consequences and their associated preventative and mitigating controls. This is to better align actions and resources to the current operating environment and managing this area of risk within Council's risk appetite. A further report to this Committee will identify these proposed changes.
- 39. The following table summarises the additional actions (treatments) being taken or are proposed to bring this area of risk within Council's risk appetite and to further improve how this area of risk is managed:

Additional Treatment	Status
Review of resourcing required to meet communications, monitoring, reporting and enforcement requirements across those controls requiring them	Proposed
Hiring practices reviewed to improve recruitment and retention outcomes	In Progress

- 40. Operationally the Council is meeting its Natural Environment compliance commitments and this focus on updating the risk bowtie and the treatments identified are intended to return the residual risk level to within Council's risk appetite.

General Risk Management

- 41. Management continues to develop and complete the risk assessments for the remaining strategic risks. This work is being disrupted because of the Council need to comply with the national response to the COVID-19 pandemic. The move to the traffic light system of dealing with COVID-19 outbreaks, followed shortly thereafter by the emergence of the Omicron variant nationally and in Tairāwhiti has meant additional effort has been required by Council to meet its obligations for keeping its personnel and the wider community safe and minimising the impact of COVID-19.

42. This additional effort has directly impacted the Business Continuity Risk with Council registering for the Close Contact Exemption Scheme Critical Services Register and identifying the critical workers to be covered by this register. Council managers have been updating their Business Continuity Plans alongside this effort to account for operational changes needed because of the emergence of the Omicron COVID-19 variant.
43. The Procurement strategic risk is in its final stages of consultation across council functions to ensure that the risk bowtie and residual risk assessment more accurately reflect the operating environment and account for changes introduced since the original bowtie was developed.
44. This work finalising the Procurement risk assessment process is required as part of the process for completing the risk assessments for 'Infrastructure Asset Management' and 'Capital Projects' and further work is being carried out to better define the Capital Projects risk alongside the existing Major Projects workstream.
45. Management has been working through the new strategic risks of 'Impact of External Change' and 'Treaty Commitments' to better define the nature of their risk to the Council and how they relate to, or impact on, the existing risks of 'Overall Council Strategy' and 'Strategic Relationships'.
46. It is intended that the 3-year internal audit programme will be developed over the coming 6 months as management complete the risk assessments and identify those areas of risk control to be included in the programme.

ASSESSMENT of SIGNIFICANCE

Consideration of consistency with and impact on the Regional Land Transport Plan and its implementation

Overall Process: **Medium** Significance

This Report: **Low** Significance

Impacts on Council's delivery of its Financial Strategy and Long Term Plan

Overall Process: **Medium** Significance

This Report: **Low** Significance

Inconsistency with Council's current strategy and policy

Overall Process: **Medium** Significance

This Report: **Low** Significance

The effects on all or a large part of the Gisborne district

Overall Process: **Medium** Significance

This Report: **Low** Significance

The effects on individuals or specific communities

Overall Process: **Medium** Significance

This Report: **Low** Significance

The level or history of public interest in the matter or issue

Overall Process: **Medium** Significance

This Report: **Low** Significance

47. This report is part of a process to arrive at a decision that will/may be of **Low** level in accordance with the Council's Significance and Engagement Policy
48. This report is part of the Council risk management process and will inform future Council decision-making across Council functions and therefore the level of significance will be informed by the functions this process is applied to.

TANGATA WHENUA/MĀORI ENGAGEMENT

49. The level of engagement has primarily been internally facing to date as the areas of risk are identified. This will then inform the level of engagement and process for engagement to be followed.

COMMUNITY ENGAGEMENT

50. The outcomes of determining the Council's strategic risks and risk appetite for each will inform Council's decision-making and the allocation of resources to deliver the Long Term Plan objectives supported by an appropriate risk management strategy and approach.
51. The level of community engagement will be determined by the areas of risk identified and the degree to which they directly affect the community.

CLIMATE CHANGE – Impacts / Implications

52. The level of climate change impact and its implications will be determined by the areas of risk identified and the extent to which they affect climate change.

CONSIDERATIONS

Financial/Budget

53. There are no direct financial implications in relation to receiving this report.
54. The financial impact will be determined by the resource allocation required to meet Council's risk appetite for the areas of risk identified.

Legal

55. This report is part of Council's obligations to operate in a prudent manner by identifying and reducing relevant risks to the delivery of its services and activities.

POLICY and PLANNING IMPLICATIONS

56. This report is consistent with Council's Risk Management Framework.

RISKS

57. This report is part of Council's wider organisational risk management process which seeks to minimise risk across the Council organisation. The process being undertaken as set out in this report will be applied to map the rest of the strategic risks.

NEXT STEPS

Date	Action/Milestone	Comments
March onwards	Determine if the Council is currently exposed to any risks beyond its risk appetite.	Complete in conjunction with Internal Audit for the assurance programme. Reported within Audit & Risk Committee
March onwards	Develop the annual internal audit plan.	Complete in conjunction with the profiling of each strategic risk and subject to further consideration by Audit & Risk Committee.
March onwards	Plan and conduct deep dive risk sessions with the Audit & Risk Committee.	Complete in conjunction with Internal Audit for the assurance programme. Reported within Audit & Risk Committee.

ATTACHMENTS

1. Attachment 1 - CDEM Residual Risk Assessment [**22-63.1** - 1 page]
2. Attachment 2 - Health Safety Residual Risk Assessment [**22-63.2** - 1 page]
3. Attachment 3 - People and Capability Residual Risk Assessment [**22-63.3** - 1 page]
4. Attachment 4 - Financial Residual Risk Assessment (1) [**22-63.4** - 1 page]
5. Attachment 5 - Fraud and Corruption Residual Risk Assessment [**22-63.5** - 1 page]
6. Attachment 6 Legal Compliance Residual Risk Assessment [**22-63.6** - 1 page]
7. Attachment 7 - Natural Environment Residual Risk Assessment [**22-63.7** - 1 page]

Civil Defence and Emergency Management (CDEM) Residual Risk Assessment

Inherent Risk Level	Existing Controls	Control Effectiveness	Applicable Categories	Likelihood	Consequence	Result	Residual Risk Level	Residual risk outside appetite (i.e.)	Treatment Options	Owner	Status	Comments	Applicable Categories	Likelihood	Impact	Result	Residual Risk Level (after treatment)
Serious	1. Recruit and provide contracts for Controllers (not employed by Council)	Control is present and effective	People	Almost certain	Major	Major	Major	Yes	Further training is scheduled	CDEM Manager	In progress	Training for CD operational team (supported by national CDEM) ongoing. May require additional budget where risks and specific training identified.	People	Almost certain	Minor	Moderate	Moderate
	2. Controller and recovery manager training is implemented by CDEM manager	Control is present and effective							Workshop with Councilors to assist clarify Council CDEM operational responsibilities and accountabilities	CDEM Manager	Proposed	CD involves both local Council and national CDEM roles and responsibilities that clarity will improve resource allocation and responsiveness					
	3. On-going Exercise and Training Programme for CDEM and Council staff in place, required training completed by June 2022	Control is present and effective							Current Risk Bowtie model was developed in 2019 and is outdated. Review being conducted	CDEM Manager	In progress	Service improvements since the bowtie was developed have overtaken the current version which requires updating to reflect current operating environment					
	4. Function specific training for recovery managers	Control is not effective	Regulatory and legal compliance	Possible	Minor	Minor	Minor		Establish a Hazards work programme in place to monitor and manage hazards	Hub Director	Proposed	Adopt same approach as taken with water security. May require additional budget and/or re-prioritisation of existing work commitments	Regulatory and legal compliance	Possible	Minor	Minor	
	5. Update the Group Plan and the detailed plans that sit under it (including the Strategic Communications Plan (SCP))	Control is ineffective in some areas							Implementation of medium term actions of 2018/19 CDEM Review Plan recommendations	CDEM Manager	In progress	Majority of short term recommendations implemented but on-going delivery of full recommendations required. May require additional budget and/or re-prioritisation of existing work commitments					
	6. Interim ECC set up while dedicated facility established	Control is ineffective in some areas	Reputation	Possible	Minor	Moderate	Moderate		Sharing of local and national expertise and resources to ensure the right level of decision making experience and competency for an event	CDEM Manager	In progress	This will also build relationships and the development of consistent operational platform between regions	Reputation	Possible	Minor	Moderate	
	7. Hazards work programme in place to monitor and manage hazards	Control is missing or not effective															
	8. Implementation of 2018/19 CDEM Review Plan and outlined recommendations	Control is ineffective in some areas	Asset performance and service delivery	Possible	Major	Moderate	Moderate						Asset performance and service delivery	Possible	Moderate	Moderate	
	9. Provision of the right level of decision making experience and competency for	Control is present and effective															
	10. Strategic Communications Plan (SCP) in place as part of the Group Plan	Control is present and effective															
	11. Welfare Plan Framework in place and applied as appropriate	Control is present and effective															

Health and Safety Residual Risk Assessment

Inherent Risk Level	Existing Controls	Control Effectiveness	Applicable Categories	Likelihood	Consequence	Result	Residual Risk Level	Residual risk outside appetite (i.e Moderate)	Treatment Options	Owner	Status	Applicable Categories	Likelihood	Impact	Result	Residual Risk Level (after treatment)	
Serious	1. Policy, framework and reporting align with Worksafe & Safe Places (best practice)	Controls are present and effective	Health, safety & wellbeing	Almost certain	Moderate	High	Moderate	Yes	H&S incidents are reviewed to identified lessons learned and develop improvement actions	Manager	Complete	Health, safety & wellbeing	Possible	Moderate	Moderate		
	2. Trained, enabled and empowered workforce – culture supports H&S kaupapa	Controls ineffective in some areas							Development of LMS system to ensure Managers are supported (resourced) in team leader and management roles having clear development pathways.	Hub Director	In progress						
	3. Capacity planning across the organisation, budgets are prioritised by managers, and where necessary, COR	Controls are present and effective							Efficient recruiting process	Hub Director	In progress						
	4. SHE/Totika pre-qualification, contract monitoring and reporting to COR	Controls ineffective in some areas							Staff training combined with robust assurance and verification audits	Homesafe /Managers	In progress						
	Steve Breen (Steve.Breen@gdc.govt.nz) is signed in			Regulatory and legal compliance	Possible	Minor	Low		Moderate	Review initiatives - H&S reps acknowledgement	Homesafe /Managers	In progress	Regulatory and legal compliance	Possible	Moderate	Moderate	Moderate
	6. Formal check and review scheduled by Home Safe team with reporting via Vault	Controls are present and effective	Full teams in place, Managers and teams trained & competent							Homesafe	In progress						
	9. Standard Operating Procedures (SOPs)	Controls ineffective in some areas	SOPs need to be developed within several med-high risk teams to set clear H&S expectation and required for staff to meet							Homesafe /Managers	In progress						
	8. Staff personal accident insurance and other liability insurances	Controls are present and effective									Complete						
	9. Dedicated and trained crisis management team, succession planning, work prioritisation	Controls are present and effective	Ongoing training, recruitment as required							Hub Director	In progress						
	10. H&S representative group and communications team to assist crisis management team with external communications	Controls are present and effective	H&S representatives planned 2 year training regime							Homesafe	Complete						
	11. Effective communications from crisis team internally and externally	Controls are present and effective									Complete						
			Reputation	Possible	Minor	Low				In progress	Reputation	Unlikely	Moderate	Moderate			

People and Capability Residual Risk Assessment

Inherent Risk Level	Existing Controls	Control Effectiveness	Applicable Categories	Likelihood	Consequence	Result	Residual Risk Level	Residual risk outside appetite (i.e Moderate)	Treatment Options	Owner	Status	Applicable Categories	Likelihood	Impact	Result	Residual Risk Level (after treatment)		
Serious	1. Council external branding, strategic communication	Controls are present and effective	Health, safety & wellbeing	Almost certain	Moderate	Major	Major	Yes	Exit interviews are conducted to determine root cause for leaving that preventative interventions can be developed	James Baty	Complete	Health, safety & wellbeing	Almost certain	Minor	Moderate	Moderate		
	2. Remuneration and reward package	Controls ineffective in some areas							Active succession planning introduced to critical areas of Council	James Baty	In-progress							
	3. Organisational/hub structure review/change proposals and implementation plans	Controls are present and effective	Planned delivery of commitments	Possible	Moderate	Moderate			Major	Yes				Planned delivery of commitments	Possible		Minor	Minor
	4. Strategic HR review barriers to attracting and retaining staff	Controls ineffective in some areas																
	5. Talent recruitment and retention strategy	Controls ineffective in some areas																
	6. Establish performance and feedback process to support staff culture and engagement	Controls are present and effective																
	7. Regular reporting of people & capability organisational metrics	Controls are present and effective									Dashboard of key metrics reported to COR meetings	James Baty	Complete					
	8. Sound recruitment processes	Controls ineffective in some areas	Report to Council recommending further actions to be taken and additional resources required	James Baty	In Progress													
	9. Performance management framework	Controls are present and effective																
	10. Safe processes for staff to provide feedback	Controls are present and effective	Reputation	Possible	Minor	Minor												
	11. External communications to actively manage negative publicity and rebuild the public's trust	Controls ineffective in some areas																
		People	Almost certain	Moderate	Major						People	Possible	Moderate	Moderate				

Finance Residual Risk Assessment

Inherent Risk Level	Existing Controls	Control Effectiveness	Applicable Categories	Likelihood	Consequence	Result	Residual Risk Level	Residual risk outside appetite (i.e. Moderate)	Treatment Options	Owner	Status	Applicable Categories	Likelihood	Impact	Result	Residual Risk Level (after treatment)			
Serious	1. Council ability to urgently repriorities & reduce capital/community level service spending; financial scenario modelling; additional bank facility; 6 weekly financial forecasting and planning cycle reporting to Finance Committee; adequate insurance strategy and cover	Controls are present and effective	Financial	Possible	Moderate	Moderate	Major	Yes	Monitoring capital programme and case-by-case assessment to manage costs; Scenario modelling; Group interest rate strategy review that policies are adequate	Hub Director	In-progress	Financial	Possible	Moderate	Moderate	Major			
	2. Defined LTP/AP budget process, financial and project management processes	Controls are present and effective							Programme of financial training implemented	Hub Director	In-progress								
	3. Reporting, forecasting & monitoring to project steering group and committees; strategic and budget process supported by justification and LTP assumptions; Contractual clauses and safeguards	Controls are present and effective							Review existing controls to confirm effectiveness	Hub Director	Proposed								
	4. Training in financial management, monitoring and reporting requirements for all budget holders	Controls ineffective in some areas	Planned delivery of commitments	Possible	Moderate	Moderate			Major	Yes				Planned delivery of commitments	Possible		Moderate	Moderate	Major
	5. Group insurance strategies that cover CCTO risk	Controls ineffective in some areas																	
	6. Optimal treasury management processes and policies	Controls ineffective in some areas	Reputation	Possible	Minor	Minor			Major	Yes				Reputation	Possible		Minor	Minor	Major
	7. Financial and contract mechanisms to prioritise work program	Controls are present and effective																	
	8. Early communication with key stakeholders and the community with key messages	Controls are present and effective	Regulatory and legal compliance	Unlikely	Minor	Minor			Major	Yes				Regulatory and legal compliance	Unlikely		Minor	Minor	Major
	9. Manage capital and operational spending	Controls are present and effective																	
	10. Managing within reporting benchmarks, covers, rates and debt affordability and essential services	Controls are present and effective	Regulatory and legal compliance	Unlikely	Minor	Minor			Major	Yes				Regulatory and legal compliance	Unlikely		Minor	Minor	Major
	11. Use of external contractors, shared services arrangements, external funding, reduction in Council spending, re-structure service delivery	Controls are present and effective																	

Fraud and Corruption Residual Risk Assessment

Inherent Risk Level	Existing Controls	Control Effectiveness	Applicable Categories	Likelihood	Consequence	Result	Residual Risk Level	Residual risk outside appetite (i.e. Moderate)	Treatment Options	Owner	Status	Applicable Categories	Likelihood	Impact	Result	Residual Risk Level (after treatment)
Major	1. HR hiring practices, credit & reference checking, contractor appointment and payment process, fraud training and awareness sessions	Controls ineffective in some areas							New fraud, corruption and bribery policy implemented	Hub Director	Complete					
	2. Audit of process (3rd & 4th lines of defence); identification of high risk processes, reconciliations, documentation, process maps	Controls are present and effective	Financial	Possible	Moderate	Moderate			Spot checking of goods and services delivered against payments made and review of variances	Hub Director	In-progress	Financial	Possible	Moderate	Moderate	
	3. Segregation of duties, organisational culture programmes	Controls are present and effective														
	4. Visible control processes, internal communications	Controls are present and effective														
	5. Transparency and reporting of gifts/koha - potential conflicts of interest; prepare SOP for high risk roles; Conflict of Interest Register set up; CCTO group treasury policy, tax governance, procurement policy	Controls are present and effective	Planned delivery of commitments	Possible	Minor	Minor	Moderate	No				Planned delivery of commitments	Possible	Minor	Minor	Moderate
	6. Strategic external communications plan	Controls are present and effective														
	7. Internal audit, investigation, HR/Fraud, corruption and bribery policy/protected disclosure policy; EAP reporting hotline set up to report instances	Controls are present and effective														
	8. Regular internal audit reviews and revisiting prior reviews to ensure compliance; CCTO set up as a limited liability company	Controls are present and effective														
	9. Organisational culture programs; HR performance review	Controls are present and effective	Reputation	Possible	Minor	Minor						Reputation	Possible	Minor	Minor	
	10. Contractual/disciplinary clauses and execution	Controls are present and effective														
			Regulatory and legal compliance	Unlikely	Minor	Minor						Regulatory and legal compliance	Unlikely	Minor	Minor	

Legal Compliance Residual Risk Assessment

Inherent Risk Level	Existing Controls	Control Effectiveness	Applicable Categories	Likelihood	Consequence	Result	Residual Risk Level	Residual risk outside appetite (i.e. Moderate)	Treatment Options	Owner	Status	Applicable Categories	Likelihood	Impact	Result	Residual Risk Level (after treatment)		
Serious	1. Legal and compliance register/staff attestation, hire practices, expectations framework, training	Controls ineffective in some areas	Financial	Possible	Minor	Minor	Minor	No	Review hire practices, expectations framework and training that they are current and up-to-date	Hub Director	In-progress	Financial	Possible	Minor	Minor	Minor		
	2. Internal policy management framework, governance work programme, internal communication, training for relevant staff e.g. warrants	Controls ineffective in some areas							Review that processes are up-to-date	Hub Director	Proposed							
	3. Frameworks, processes, guidance documentation and best practice, peer networks, sector groups, list serves	Controls are present and effective	Regulatory and legal compliance	Unlikely	Minor	Minor			Review that process is being followed	Hub Director	Proposed	Regulatory and legal compliance	Unlikely	Minor	Minor			
	4. Regular reporting and review process	Controls are present and effective							Review that processes are up-to-date	Hub Director	Proposed							
	5. Formal training programmes, internal legal support, peer networks, sector groups, list serves	Controls are present and effective							Review that processes are up-to-date	Hub Director	Proposed							
	6. Delegations manuals, procurement policy, procedural checklist, training	Controls are present and effective	Reputation	Possible	Minor	Minor								Reputation	Possible		Minor	Minor
	7. COR's review and response to non-compliance	Controls are present and effective																
	8. Review and improvement of systems and processes	Controls are present and effective	Planned delivery of commitments	Unlikely	Minor	Minor								Planned delivery of commitments	Unlikely		Minor	Minor
	9. Strategic external communications plan	Controls are present and effective																
	10. Management support for staff concerns (channel for confidential issues to be escalated)	Controls are present and effective																

Natural Environment Residual Risk Assessment

Inherent Risk Level	Existing Controls	Control Effectiveness	Applicable Categories	Likelihood	Consequence	Result	Residual Risk Level	Residual risk outside appetite (i.e. Moderate)	Treatment Options	Owner	Status	Applicable Categories	Likelihood	Impact	Result	Residual Risk Level (after treatment)
Serious	1. Communication and engagement programme targeted at education and awareness - dedicated staff/resource to support delivery and provide guidance and advice to the community	Controls ineffective in some areas	Environment	Possible	Moderate	Moderate	Major	Yes	Review of resourcing required to meet communications, monitoring, reporting and enforcement requirements across those controls requiring them	Hub Director	Proposed	Environment	Possible	Moderate	Moderate	Moderate
	2. Climate change implications and response factored into Infrastructure Strategy and Long-Term Plan	Controls ineffective in some areas	Health, safety & wellbeing	Possible	Moderate	Moderate										
	3. Risk based compliance monitoring and enforcement programme with frequent reporting to management	Controls ineffective in some areas	People	Almost certain	Moderate	Major										
	4. HR hiring practices, appropriate budget provisions to deliver activities/LOS agreed with the community and to meet regulatory requirements	Controls ineffective in some areas	Financial	Unlikely	Moderate	Moderate										
	5. RMA planning documents consistent with national direction and regulations, with an effective monitoring and review plan in place	Controls are present and effective	Regulatory and legal compliance	Possible	Moderate	Moderate										
	6. Root cause analysis/immediate and longer term actions to determine and resolve the issue	Controls are present and effective	Reputation	Possible	Moderate	Moderate										
	7. Longer term and on-going communications and involvement with key stakeholders to drive behaviour change - SOPs, MOUs	Controls are present and effective	Planned delivery of commitments	Unlikely	Moderate	Moderate										
	8. Early warning systems, monitoring and business continuity planning in place to respond to incidents quickly, with remediation and enforcement action as required.	Controls ineffective in some areas														
	9. Crisis management plan/standard operating procedures. Subject matter expert support - internal and external. Supplier panels, sharing resources with other councils. Early engagement with regional leadership and sector agencies relevant to the event to mitigate the impact	Controls ineffective in some areas														

11. Public Excluded Business

11.0. Resolution to Exclude the Public

RESOLUTION TO EXCLUDE THE PUBLIC

Section 48, LOCAL GOVERNMENT OFFICIAL INFORMATION and MEETINGS ACT 1987

That:

1. The public be excluded from the following part of the proceedings of this meeting, namely:

Confirmation of Confidential Minutes

Item 4.1 Confirmation of Confidential Minutes 23 November 2021

INFORMATION Reports

Item 11.1 22-47 Litigation Risk and Legal Issues

Item 11.2 22-69 Strategic Risk Deep Dive Background Report

2. This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information & Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act which would be prejudiced by the holding of the whole of the relevant part of the proceedings of the meeting in public are as follows:

Items 11.1 7(2)(h) Maintain legal professional privilege.

Items 11.2 7(2)(j) Enable any Council holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).