



Meeting of the Hawke's Bay Regional Council

Date: Wednesday 26 May 2021
Time: 11.00am
Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Attachments Excluded From Agenda

Item	Title	Page
12.	Section 36 Charges – Freshwater Science and Monitoring Cost Recovery Charges	
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Annual Freshwater Science Charges

What are the annual freshwater science charges?

Section 36 of the Resource Management Act enables Councils to recover costs incurred in respect of its duties for monitoring the state of the environment.

The Regional Council recovers around 35% of the cost of freshwater monitoring and investigation directly from resource consents holders and the remaining 65% is funded by the general rate.

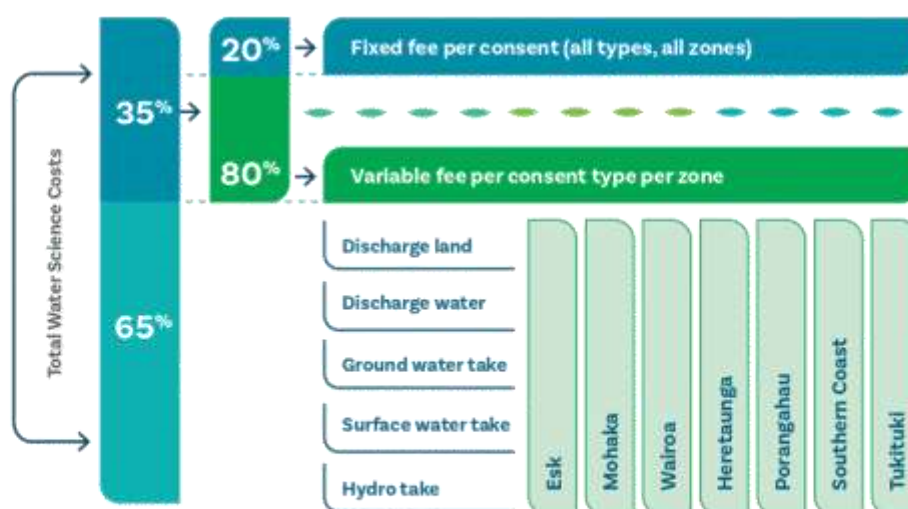
Total freshwater science charges recovered from consent holders were \$2.0 million in 2019/20, and are estimated to be \$2.2m for the 2020/21 financial year, and \$2.4m for 2021/22.

What is the current freshwater science charges regime?

The current charges for each consent depends on which of the seven zones the consent is in: Wairoa, Mōhaka, Esk, Heretaunga, Tukituki, Porangahau or Southern Coast.

The charge includes:

- a **20% fixed charge** of the total recovered cost which is the same for all consents
- a **variable charge of 80%** which is split between zone based activity. This is calculated based on individual allocated volume (m³) for water takes, per litre/second for hydro water takes, and a pollution index score for discharge consents, or the dairy herd size for dairy discharges to land in the Mōhaka zone.



Why do we want to change it?

Proportionality

Consent holders have told us that the current charges for discharge consents do not recognise their activity in proportion to other consents. We agree that charges should reflect the scale of the consent holders discharge into the environment.

Certainty

The current charges are based on actual consent numbers and costs as evaluated at the end of the financial year. Consent holders have told us they want to know what their charges will be in advance, so they can reasonably manage their finances.

Consistency

Charges will be region wide to ensure consistency across the region for similar activities and from year to year. Changes in charges will be assessed as part of each Long Term Plan if there is a significant change to the water science programme costs.

Simplicity

Consent holders have told us that the current charges are difficult to understand.

Why do I have a decrease in my charges?

- Discharges to land consents have less costs allocated to them than discharges to water
- Small discharge consents have less of a charge than larger consents
- The charges are region wide, instead of being allocated to zones where some had a lower number of consent holders to share the costs
- There are some new exemptions (see page 4).

Why do I have an increase in my charges?

- Discharges direct to water are charged at a higher rate than discharges to land
- Charges will reflect the scale of the consent holder's discharge into the environment
- Some zones have had a lower allocation of costs or a larger number of consent holders to share those costs, and we are proposing to move to a region wide average.

What is the proposed freshwater science charges regime?

Our proposed fee structure will be a variable fee based on the consent type and scale.

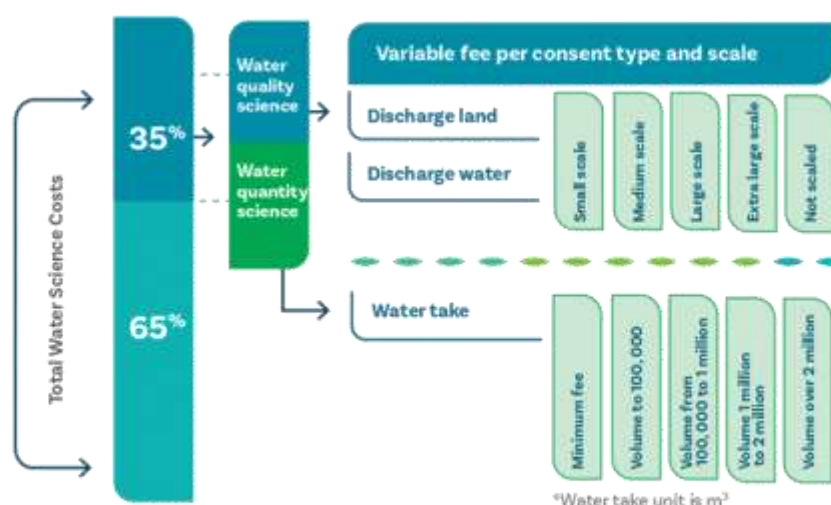
Charges to consent holders to discharge to land and water will be based on the scale of the discharge activity, and charges for consent holders of water takes will be based on the deemed weekly volume of the consent.

Charges will be determined based on budgeted freshwater science costs and a set fee schedule in the Annual Plan or Long Term Plan each year in advance of the year the charges will be invoiced.

When would these proposed fees become effective?

These changes are subject to consultation and final confirmation by the Regional Council. If adopted, the proposed new charge regime would see invoices issued between February and March 2022 covering the period 1 July 2021 to 30 June 2022.

The current financial year charges will still be generated in the old methodology, and invoices for these will be issued early July 2021 (covering the period 1 July 2020 to 30 June 2021).



Discharges to land/water:

The charges for discharge to land or water consents will be based on the scale of the consented discharge activity (as defined in table 2), and based on whether the receiving body of the discharge is land or water. The proposed fee schedule for 2021/22 is in table 1.

Table 1

Annual fixed charge to consent holders for Freshwater Management Research/Investigations & Monitoring: DISCHARGE CONSENTS (excl GST)					
Primary purpose of discharge	Small Scale	Medium Scale	Large Scale	Extra-Large Scale	Not Scaled
Discharge to Water (per consent)					
Drainage, Sewage, Stormwater & Wastewater	\$1,538	\$3,075	\$6,150	\$7,688	NA
Solid Waste	NA	NA	NA	NA	\$3,075
Other	NA	NA	NA	NA	\$1,538
Discharge to Land (per consent)					
Drainage, Sewage, Stormwater & Wastewater	\$769	\$1,538	\$3,075	\$3,844	NA
Solid Waste	NA	NA	NA	NA	\$1,538
Other	NA	NA	NA	NA	\$769

Table 2

Discharge consent category scale definitions				
Primary purpose of discharge	Small Scale	Medium Scale	Large Scale	Extra-Large Scale
Drainage	Max discharge rate: < 100 l/s	Max discharge rate: 100 to 1,000 l/s	Max discharge rate: 1,001 to 10,000 l/s	Max discharge rate: > 10,000 l/s
Sewage	Max discharge: < 50 m ³ /day	Max discharge: 50 to 200 m ³ /day	Max discharge: 201 to 1,000 m ³ /day	Max discharge: > 1,000 m ³ /day
Stormwater	Catchment area: < 5 Ha	Catchment area: 5 to 10 Ha	Catchment area: 11 to 50 Ha	Catchment area: > 50 Ha
Wastewater	Dairy & Piggery operations: Herd size < 400 cow equiv*. All other operations: Max discharge < 100 m ³ /day	Dairy & Piggery operations: Herd size 400 to 1,000 cow equiv*. All other operations: Max discharge 100 to 2,000 m ³ /day	Dairy & Piggery operations: Herd size 1,001 to 3,000 cow* equiv. All other operations: Max discharge 2,001 to 4,000 m ³ /day	Dairy & Piggery operations: Herd size > 3,000 cow equiv*. All other operations: Max discharge > 4,000 m ³ /day
Solid waste and other	No scale applied. HBRC may apply scale factor to "non-scaled" discharge consents if outliers become apparent.			

*Sheep, goats and pigs are converted to cow equivalents using the following conversions;
6.5 sheep = 1 cow equiv, 8.13 goats = 1 cow equiv, 3.75 pigs = 1 cow equiv.

To find out more about discharging to air, land or water, go to [hbrc.govt.nz](https://www.hbrc.govt.nz) and search #airlandwater

Water takes:

The charges for water take consents will be based on the consented weekly volume of take (not actual use), at the proposed 2021/22 rates set out in table 3 below.

Table 3

Charges to consent holders for Freshwater Management Research/Investigations & Monitoring: WATER TAKES		
	Annual Variable charge rate (excl GST)	
	\$	Units
Minimum charge	\$205	Per consent
Volume up to 100,000 m ³	\$0.065	Per m ³ deemed weekly volume
Volume from 100,000 to 1,000,000 m ³	\$0.045	Per m ³ deemed weekly volume
Volume from 1 million to 2 million m ³	\$0.022	Per m ³ deemed weekly volume
Volume above 2 million m ³	\$0.006	Per m ³ deemed weekly volume

For example, if your consented weekly take is 110,000 m³, then your charge will be based on the following:
100,000m³ @ \$0.065 per m³ = \$6,500 Plus 10,000 m³ @ \$0.045 = \$450 **Total charge (exc GST) = \$6,950**

Exemptions

We are proposing to amend and/or introduce new exemptions for the freshwater science charges:

Current exemptions	Proposed exemptions
Discharges to improve the environment	AMENDED Discharges or water takes for activities with the primary objective of improving the environment
Discharges that are released once or for a very short period and which have no or negligible environmental impact	AMENDED Discharge to land or water, or water takes, released or taken once, or for a very short period, and which have no environmental impact
Discharge to land consents for domestic effluent from a single domestic dwelling	AMENDED Discharge to land consents for domestic effluent for single domestic dwellings, or where the maximum daily discharge is less than or equal to 2m ³
	NEW Water take consents for the purpose of frost protection, based on the short period of use, and that typically the consent holder also has another water take consent at the same location for irrigation purposes
	NEW Discharges to water for the primary purpose of generating hydroelectricity
	NEW Where there are two or more discharge to land consents relating to the same activity at the same location, only the largest scaled discharge consent will attract the freshwater science charge
	NEW Where there are two or more discharge to water consents relating to the same activity at the same location, only the largest scaled discharge consent will attract the freshwater science charge

To find out more go to hbrc.govt.nz and search #takingwater

Our science work

The Annual Freshwater Science Charges help to fund vital environmental monitoring work to understand and sustainably manage the region's public resources. Our science work is for the public good and conducted on behalf of consent holders for the benefit of the region. The sustainable use of the region's resources promotes economic development and sustains our communities.

If you want to find out more about freshwater quality monitoring, go to hbrc.govt.nz and search #freshwater
For information about groundwater monitoring, go to hbrc.govt.nz and search #groundwater

Hawke's Bay Regional Council

Internal Assurance Framework

February 2021

Version	Issue Date	Event	Status
0.1	18 February 2021	Peer Review	Endorsed
0.2	23 February 2021	Executive Leadership Group	Endorsed
1.00	5 May 2021	Finance Audit & Risk Sub-committee	

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1 Purpose and Objective of the Framework

The purpose of HBRC's internal assurance framework is to outline a structured and systematic approach for undertaking independent internal reviews and internal audits. Ensuring that every internal review or internal audit offers advice on areas for improvement at any level of the organisation. Independent internal assurance reviews evaluate performance that ultimately assists HBRC to deliver more effectively on its goals and objectives. While providing confidence to Governance and Senior Leaders that the 'right' things are being delivered in the 'right' way.

Independent internal assurance reviews, include, but are not necessarily limited to:

- audits of key management system e.g. quality (ISO9001), health and safety, asset management, information security, environmental etc
- organisational internal audits e.g. post project implementation reviews
- operational internal audits e.g. Instrument calibration
- S17a, and
- debrief reports e.g. post incidents or continuity reviews

The objective of the internal assurance framework is to provide:

- A proactive and holistic approach to HBRC's internal assurance where internal reviews and internal audits are determined using fact based and data driven rationale
- Councillors with validation that HBRC's is effectively running its corporate or operational business to meet HBRC's fiduciary or strategic obligations
- Guidance to ensure consistency on how internal assurance reviews are undertaken and evaluated enabling review findings to be compared and resources effectively prioritised
- An independent evaluation of the adequacy, efficiency, and effectiveness of HBRC's system of internal controls
- Assurance on compliance with HBRC's policies, procedures, contractual or legal obligations, standards, and management systems
- An assessment on HBRC's significant activities to ensure they are effective in design and therefore efficiently delivering on the organisations purpose
- a mechanism to fulfil obligations under section 17a of the Local Government Act by proactively targeting S17a assurance reviews on either high-cost or high-risk activities. And, where delivery of part or all of activities are undertaken by a different entity the contract or agreement covers key matters e.g. SLA's, performance assessment, risk management, accountabilities, and reporting.

Internal assurance itself does not deliver outcomes. However, effective risk management and assurance are critical elements of good governance. And, good governance helps build trust and confidence with HBRC's key stakeholders. A proactive, robust and structured assurance programme facilitates constructive conversations about risks and focusses actions on priorities that 'make a difference'.

This framework is designed to take a risk-based and proactive approach to assurance. The framework positions assurance so that it is less about compliance and more about demonstrating good assurance thinking based on clear understanding of risk, outcomes and objectives being sought.

2 Definitions

- **Annual Internal Assurance Plan** – overarching assurance plan for HBRC that provides the complete internal assurance picture for HBRC by incorporating Independent Internal reviews, such as, internal audits, S17a reviews, post implementation reviews and debrief reports
- **Annual Enterprise Internal Audit Plan** – is a subset of the annual enterprise assurance plan and contains the enterprise specific internal audits, such as, management system audits, data analytics etc
- **Annual Operational Internal Audit Plan** – are internal audits undertaken within the organisation and generally assess the effectiveness of process execution
- **Assurance Universe** – lists HBRC's enterprise risks and gives visibility of what enterprise audits have occurred against the risks over the previous four years
- **Audit Sponsor** – HBRC's Audit Sponsors approves any assurance review to be undertaken and therefore endorses and supports the review as it progresses within their business
- **Control** – as process that either reduces, the likelihood or consequence of a risk event
- **Critical Risk** – sometimes refer to as 'key risks' or 'enterprise risks', these are the risk event most material to an organisation
- **Critical Control** – sometimes referred to as 'key controls', these are main controls that reduce the likelihood or impact of the risk event. They are important as they may be the only control or because the degree to which they mitigate the risk event.
- **Enterprise Risk Management** – the process of planning, organising, leading, and controlling the activities of an organisation to either minimise the effects, or seize opportunities, from uncertainty that impacts an organisation's objectives.
- **Event** – when there is a change to circumstances that triggers a risk response
- **Internal Auditor** - An internal auditor is an auditor who is appointed by Group Managers of HBRC Council to carry out the internal audit function. Generally, for operational audits it is a staff member of HBRC that acts as an internal auditor, whereas for enterprise internal audits or internal assurance reviews HBRC appoints an external expert.
- **Key Management Systems** – Management systems describe the procedures and interactions within an organisation that are needed to achieve its objectives. The "management systems approach is intended to improve effectiveness and efficiency, increase customer satisfaction and better manage risk.
- **Mitigation** – specific measures taken to minimise, manage or eliminate unacceptable risks
- **Operational Audits** – are reviews undertaken in the operational business, generally below Tier three. These reviews focus on the key processes, procedures, system, as well as internal control which the main objective is to improve productivity, and the efficiency and effectiveness of the operation
- **Post Implementation Review** - at a minimum are conducted after completing significant projects with the purpose to evaluate whether project objectives were met, outputs delivered, and project management reviewed. Lessons learned in the project are documented formally for future HBRC benefit.
- **Post Incident Review** – are conducted to evaluate HBRC's response to an incident or event and ensure an effective recovery. Reviews apply to high priority incidents or external events where the BCP needed to be enacted. The output of the review identifies potential findings detailing how the incident could have been handled better
- **Section 17a** – audit the cost effectiveness and robustness whilst seeking efficiencies and cost reductions of current arrangements for providing local infrastructure, services and regulatory functions at regular intervals or when service levels significantly change
- **Three Lines of Defence Model** - strengthens communications on risk management, assurance, and control by clarifying essential roles and duties for various parts of governance, management, and day-to-day operations

3 Applied Standard for HBRC's Internal Assurance Framework

HBRC's framework adopts 'in principle' the 'Institute of Internal Auditors' (IIA) guidelines for good internal auditing practices. Including, the IIA's definition of internal audit:

'Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operation. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance processes.'

Therefore, the methodologies used in this framework have been purposely designed against the definition and principles of the IIA to guide internal assurance reviews and internal audits.

HBRC's risk and assurance programme is based on the three lines of defence model, see figure one below. The Office of the Auditor-General in New Zealand defines the three lines of defence model as a useful way to clearly and effectively strengthen communications on risk management, assurance, and control by clarifying essential roles and duties for various parts of governance, management, and day-to-day operation.

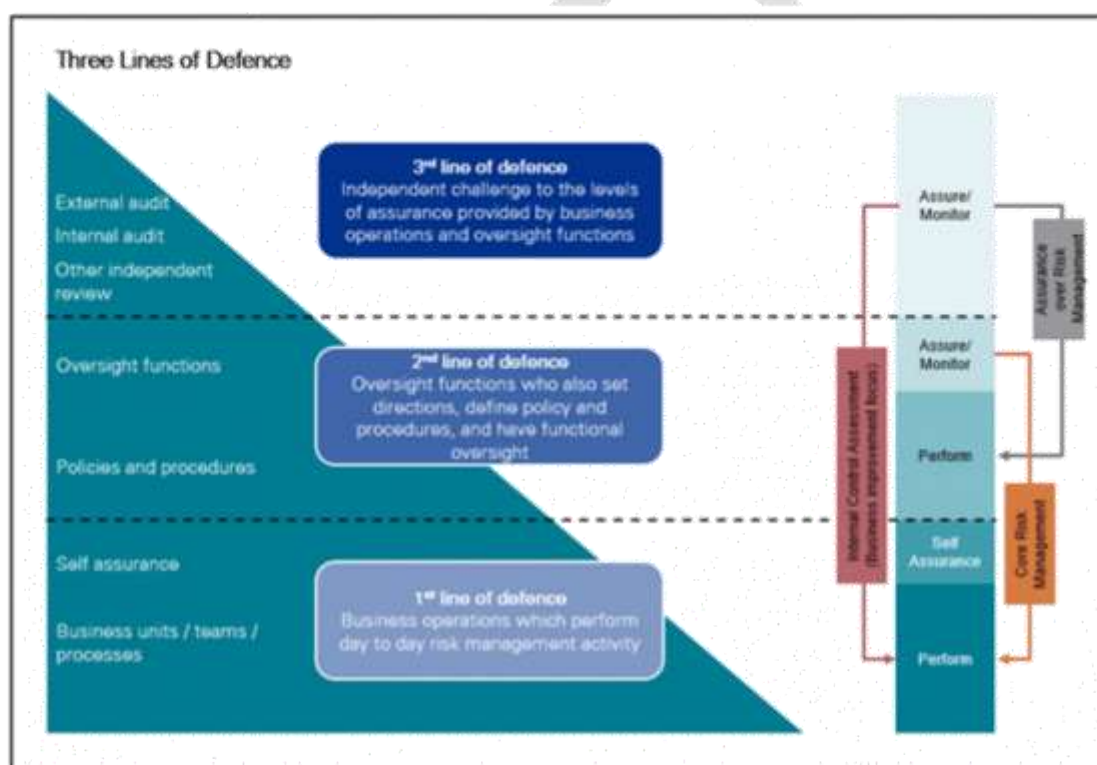


Figure 1: Three Lines of Defence Model source - <https://oag.parliament.nz/good-practice/audit-committees/what-works/three-lines-of-defence>

This Internal Assurance framework provides guidance for all HBRC independent internal reviews and internal audits that fall into the criteria of the third line of defence. Reviews undertaken in line with this framework are part of HBRC's third line of defence and provide validation and confidence to the Council, the Finance Audit and Risk Committee (FARS) and the Executive Leadership Team (ELT).

HBRC's Risk Management Framework focuses on the first and second lines of defence. Activities undertaken as part of the first and second line of defence provide oversight to senior management and the ELT but are not sufficiently independent to provide third line assurance, see figure two below.

Three Lines of Defence Model - Oversight and Assurance Recipients

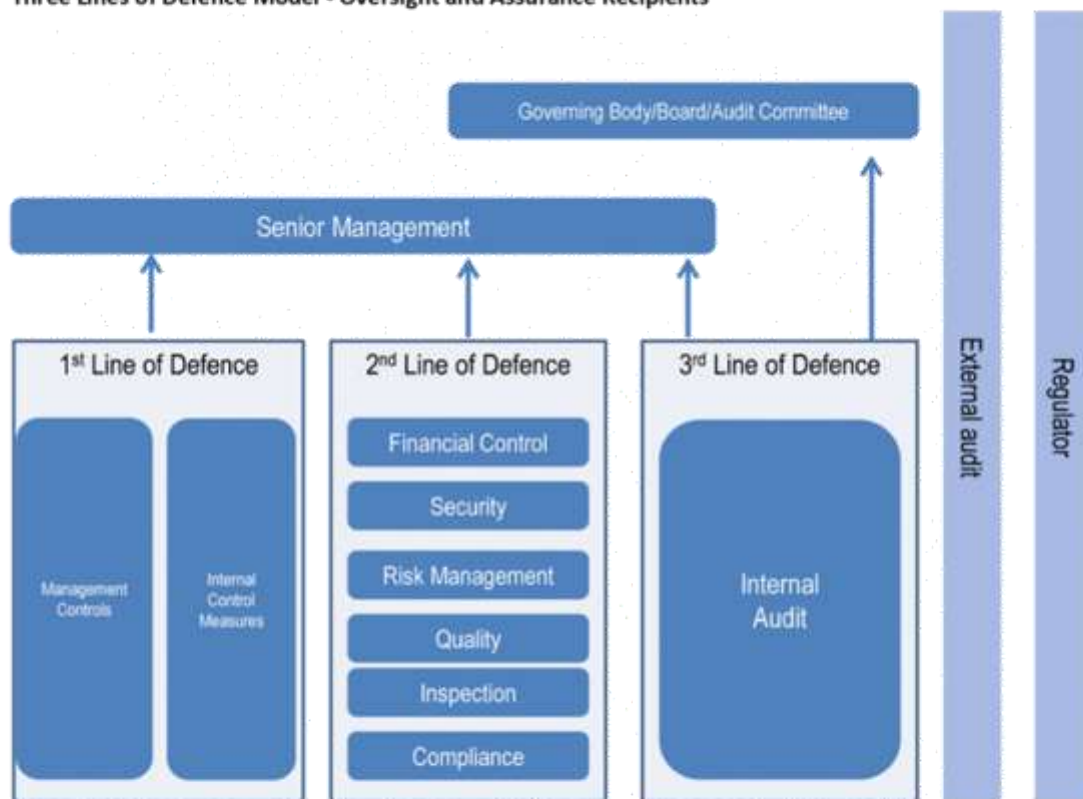


Figure 2: IIA Position Paper: Three Lines of Defence in Effective Risk Management and Control (2013)
 - [IIA Position Paper: The Three Lines of Defence in Effective Risk Management and Control \(January 2013\)](#)

The guidelines for independent internal assurance reviews that fall into the third line of defence criteria as outlined in this document are intended to be scalable depending on:

- The criticality of the activities being reviewed
- The type of assurance review being undertaken
- Level of the organisation requiring assurance

For operational audits, these guidelines are intended to enable audit integration across HBRC's key management systems. Therefore, one audit and designated auditor can assess multiple types of operational risks. For example, if an auditor is undertaking an operational (process) audit for H&S risks they can also review the quality, and information security risks within that process.

In addition, due to the size of the organisation it is not practical to staff a fully independent internal audit team to undertake HBRC's operational audits. Therefore, to maintain a level of independence auditors executing operational audits must be independent to the process being audited i.e. not the process owner of responsible for executing the process.

Oversight of operational audits is provided by the Risk and Assurance Lead in conjunction with the key Management Systems Owners: Health and Safety (HSMS), Quality (QMS), Asset (AMS), and Information (ISMS) and Environmental (EMS).

4 Principles of HBRC's Internal Assurance Framework

4.1 Overview

As outlined by the IIA application of the following critical elements should provide the principles to promote an effective internal assurance framework that drive quality reviews:

- Independence – there must be sufficient independence from the activity, process or system that is being audited to ensure impartiality free of interference from management. Internal assurance reviews that contemplate HBRC's enterprise management systems or strategy, including S17a reviews, should be undertaken by a provider that is external to HBRC
- Mandate – recipients of the assurance should endorse and mandate each audit contained within the plan i.e. the annual enterprise assurance plan is endorsed by the Finance Audit and Risk Sub-Committee (FARS), and the annual operational internal audit plan for key management system is endorsed by the Executive Leadership Team (ELT) or a Group Manager e.g. Health and Safety or Quality
- Unrestricted access – internal assurance reviews should be completed with unrestricted access to employees, property, and records
- Adequate resourcing – resourcing and funding must be comparable to the materiality of the assurance sort i.e. sufficient budget must be put aside to enable a robust annual enterprise internal audit plan. Similarly, project budgets for transformational corporate projects must be sufficient to undertake a post implementation review at the end of the project
- Staff competency – staff undertaking the internal audits are sufficiently trained
- Standardised audit process that includes the following elements:
 - Annual audit planning
 - Pre-audit planning
 - Clear benchmarking as a basis for the assessment evaluation eg standards or operating procedures, depending on the level of the audit
 - Evidential based
 - Clear and fact-based reporting with:
 - Findings or observations
 - Recommendations, and
 - Management comments
 - Mechanism to track progress of corrective actions

5 Application of the Internal Assurance Framework

HBRC's internal assurance framework is assurance by design. Assurance by design means that it is not a one-time activity it is planned and budgeted from the outset.

For both the enterprise and operational annual internal audit plans HBRC applies a risk-based approach to determine the frequency of reviews or internal audits.

Considerations when establishing the annual enterprise internal audit plan should also include:

- Critical controls that are identified within the enterprise risk report – note at this level controls relate to management systems (system audits), key organisational policies and significant activities (S17a), linked to HBRC's strategy
- Material changes in the external environment that HBRC's operates e.g. new regulations or legislation that are directly relevant to HBRC
- Local of global internal audit trends
- Post incident review of a material event
- Post implementation review for large or transformational projects
- Emerging issue (internal and external)
- Enterprise compliance with high-risk legislation, regulation, contracts, and standards

Figure three below outlines the hierarchy of assurance type reviews that are undertaken at HBRC.



Figure 3: Hierarchy of HBRC assurance reviews and key review report recipients

6 Internal Assurance Roles and Responsibilities

6.1 Council

- Promotes a culture of transparency and continuous improvement
- Delegates to the appropriate Committee oversight of relevant independent internal assurance review, including to the FARS oversight of the annual enterprise internal audit plan (refer figure 3)
- Delegates to the Finance Audit and Risk Sub-Committee oversight, monitoring and tracking of high and medium priority issues and actions raised through the annual internal assurance plan

6.2 Finance Audit and Risk Sub-Committee (FARS)

- Oversees the effectiveness of HBRC's internal assurance function, activities and output
- Receive from staff, for approval recommendations to improve this internal assurance framework
- Ensures a culture exists that encourages transparency and open discussions on potential risks and corrective actions maximising the value of internal assurance to HBRC
- Receive from staff and approves the annual enterprise internal audit plan that forms part of the annual enterprise assurance plan
- Receive an update on any operational audits with 'major' findings

6.3 Executive Leadership Team (ELT)

- ELT meeting in the month preceding the FARS meeting to approve the annual enterprise internal audit plan. The Risk and Assurance Lead must present to the ELT for discussion and endorsement the proposed risk-based annual enterprise internal audit plan. The proposed full annual assurance plan should also be present to ELT so ELT can proactively consider the breadth and completeness of HBRC's annual assurance
- Oversee the execution of the FARS approved annual enterprise internal audit plan
- Ensure adequate budget is planned and resourced with appropriately trained internal auditors to execute the individual audits
- For all internal assurance findings oversee the tracking of the corrective actions until the action is closed
- Receive an update on any operational audits that have 'high' findings reported
- Approve the operational audit plans for HBRC's key management systems and ensure that operational audits for common processes consider all types of operational risks e.g. Information Security Management (Cyber) Systems (ISMS), Quality Management System (QMS), Health and Safety Management System (HSMS), and the Environmental Management System (EMS)
- Support a culture of transparency and continuous improvement

6.4 Group Managers

- Approve the annual operational audit plans for key management systems that sit within a specific Group e.g. Asset Management System (AMS)
- Support the ELT to drive a culture of transparency and continuous improvement by supporting this assurance framework within the business
- Ensure adequate resourcing and skill is allocated to execute all individual operational audits as set out in the annual operational internal audit plan
- Approve any independent internal assurance reviews and act as Audit Sponsor for any engagement performed within their Group

- Approve management comments and corrective action plans for operational audits with 'major' findings
- Work with the management system owner to nominate competent staff to fulfil the role of 'Designated Internal Auditor' for an agreed tenure

6.5 Risk and Assurance Lead

- Prepares the proposed annual enterprise assurance plan for endorsement by the ELT, including proposed S17a reviews
- Prepares for FARS endorsement the annual enterprise internal audit plan, being a subset of the annual enterprise assurance plan
- In conjunction with the provider engaged to undertake each enterprise internal audit report and present all findings to the ELT and then the FARS
- Help coordinate the execution of enterprise internal assurance reviews that are additional to the enterprise internal audits e.g. S17a reviews. Ensure final report is provided to the overseeing Committee with a copy subsequently provided to FARS for noting
- For all high or medium findings oversee and track progress of the corrective actions with the current action owners' and report the milestone progress to the FARS through regular dashboard reporting – review findings include any enterprise assurance e.g. S17a or enterprise internal audits
- Oversee the execution of the annual enterprise internal audit plan, as a subset of the annual enterprise assurance plan and report progress to the FARS
- Work with the management system owners to ensure a risk based annual operational internal audit plan is developed for each of HBRC's key management systems, these include, but are not limited to: HSMS, QMS, ISMS, EMS, AMS and FEMP's
- Work with the Management System Owners to ensure any major findings from the operational audits are made visible and reported to the ELT, and, as appropriate, through to the FARS
- Fit for purpose training for internal auditors is agreed and implemented

6.6 Key Management System Owners

- Hold the advisory role for operational audits for the respective management system
- Work with the Group Managers and other Management System Owners to nominate appropriate Designated Internal Auditors
- Prepare the risk based annual operational internal audit plan and seek approval for the plan from the ELT or respective Group Manager
- Oversee the execution of the annual operational internal audit plan, ensure that execution of audits comply with this Internal Assurance Framework
- Report at least quarterly the status of completion of the annual operational internal audit plan to the Risk and Assurance Lead
- Ensure any 'major' operational audit findings are reported promptly to the relevant Group Manager and the Risk and Assurance Lead
- Track the progress of corrective actions from the operational audits to ensure that they are satisfactorily closed out, report corrective action progress, as required, to the Risk and Assurance Lead
- Ensure that internal auditors nominated by the Group Managers are competent and trained
- Have a comprehensive understanding of this Internal Assurance Framework

6.7 Designated Internal Auditors

- Scope, plan, execute and report all operational audits identified in the annual operational internal audit plan
- Ensure all operational audits undertaken are reported to the relevant Management System Owner
- Be familiar with this internal assurance framework with particular emphasis on section 7: Internal Assurance – Process Execution
- Participate in any formal auditor training, as required
- Maintain independence and objectivity when undertaking any operational audit
- Assign operational audit findings for corrective action

6.8 All Staff

- Be available and constructive participants in any designated audit
- Provide access to documentation, as required for internal audit
- Openly provide evidence of processes or activities being audited
- Ensure corrective actions are completed within agreed timeframes

7 Internal Assurance – Process Execution

7.1 Overview

To execute any internal audit there are four key stages. These stages are also applicable when undertaking broader independent internal assurance type reviews covered by this framework or those reviews contained within the annual enterprise internal assurance plan.

The four stages include:

1. Planning
2. Fieldwork
3. Reporting, and
4. Follow-up

The next sub-sections of this document explain in more detail each of the four steps in this process.



Figure 3 – HBRC Internal Assurance Process

7.1.1 Planning

The first stage of HBRC's internal audit process is planning. Planning is separated into two distinct activities:

1. The annual plans that cover the
 - Annual internal assurance plan audit
 - Annual enterprise internal assurance plan, and
 - Annual operational internal audit plans
2. Pre-review (audit) initiation planning

7.1.1.1 Annual Internal Assurance Plan

The annual internal assurance plan is the overarching assurance plan for HBRC. The independent assurance reviews that make up this plan are intended to provide assurance to HBRC's governing body being, Council. The intention of an overarching annual internal assurance plan is that a proactive approach to assurance is taken that covers the breadth and depth of HBRC activities. That encompasses

all types of assurance reviews. HBRC enterprise assurance plan may include the following types of reviews:

- enterprise internal audit as outlined in HBRC'S annual enterprise internal audit plan (includes management system audits and critical enterprise controls)
- Section 17a
- Post implementation review for transformational corporate projects
- post incident reviews, and
- business interruption debrief reports

Enterprise internal assurance reviews are usually large and undertaken by an external provider to ensure objectivity and independence is maintained. Due to the nature of the review (e.g. S17a) and its relevance to a specific activity the final report is provided to the relevant Committee responsible for the activity being reviewed. However, in these instances the report will be presented to the FARS for noting after it has been through the responsible Committee.

7.1.1.2 Annual Enterprise Assurance Plan

HBRC's annual enterprise internal audit plan is a subset of the annual enterprise assurance plan and is prepared by the Risk and Assurance Lead. To ensure a proactive identification of enterprise audits HBRC adopts a risk-based approach rather than a pure cyclical approach. Therefore, to identify audits for the draft plan the Risk and Assurance Lead considers:

- Critical controls that are identified within the enterprise risk report – note at this level controls relate to management systems (system audits), key organisational policies, and significant activities
- Material changes in the external environment that HBRC's operates e.g. new or changing regulations or legislation that is material to HBRC's operation or mandate
- Local or global internal audit trends
- Post incident review of material events
- Post implementation review for significant or transformational projects
- Assurance universe dashboard that outlines independent enterprise reviews that fall under this framework undertaken over past five years.
- Emerging issue (internal and external)
- Enterprise compliance with high risk legislation, regulation, contracts, and standards
- Budgets, and
- Resourcing

The annual enterprise internal audit plan also includes some cyclical audits this is to provide assurance that where appropriate quality and compliance standards are maintained e.g. data analytics.

The Risk and Assurance Lead drafts the annual enterprise internal audit plan and presents to the ELT for endorsement. Once endorsed by the ELT the Risk and Assurance Lead incorporates annual enterprise internal assurance reviews and presents to the FARS for approval. By incorporating the 'other' internal assurance type reviews that make up the plans the FARS have a complete picture for enterprise assurance for the year.

The execution of the annual enterprise internal audit plan remains the responsibility of the Risk and Assurance Lead while the execution of other independent internal assurance reviews that form the remaining part of the annual internal assurance plan remain the responsibility of the ELT. However, the Risk and Assurance lead will take responsibility for providing a dashboard status report that updates the FARS Councillors on the progress status for the full annual enterprise assurance plan.

7.1.1.3 Annual Operational Internal Audit Plans

The International Organisation for Standardisation (ISO) deem the principle of internal audit to represent sound business practice. Therefore, HBRC supports the development of an annual operational

internal audit plan for all key management systems operating within the organisation. The purpose of the annual operational internal audit plan is to provide assurance to the Group Manager and the broader ELT that operational processes are being undertaken as designed and that the internal controls of the business are operating in a way that safeguards the business from its operational risks. In addition, operational audits within the plan help facilitate continuous improvement.

The Institute of Internal Auditor (IIA) defines operational audit as a systematic process of evaluating an organisation's effectiveness, efficiency and economy of operations under management's control and reporting to appropriate persons the results of the evaluation along with recommendations for improvement. Operational internal audits focus on what has happened already.

HBRC currently has at least seven key management systems that meet the criteria for formal annual internal audit plans, these include:

- Quality Management System (QMS)
- Health and Safety Management System (HSMS)
- Information Security Management System (ISMS)
- Environmental Management System (EMS)
- Contract Management System (CMS)
- Asset Management System (AMS), and
- Farm Environmental Management Plan (FEMP)

Each Management System Owner is responsible for the development of the risk-based annual operational internal audit plan in conjunction with their relevant Manager. Once the annual internal operational audit plan is developed it is approved by the ELT or relevant Group Manager.

Appendix A provides an example annual internal audit plan

7.1.1.4 Pre-Audit Initiation Planning

Each review whether part is the annual internal assurance plan, annual enterprise internal audit plan, or annual operational internal audit plan should follow standardised audit processes. All individual assurance reviews and audits undertaken internally must start with 'planning the audit'.

Planning for individual audits includes:

1. Terms of reference (TOR) that cover:
 - A statement on the objective and scope of the audit
 - Proposed audit approach outlining the survey techniques
 - Report type e.g. written, process map etc
 - Who the Audit Sponsor is
 - Timeframe and key deliverables
 - Budget, if applicable, and
 - Limitations of the audit if any

It is expected that a TOR or letter of engagement (LOE) for all internal assurance reviews be documented and signed. However, for operational audits the TOR may be recorded directly into the suitable system e.g. PROMAPP, or noted in the minutes of the opening meeting.

2. An opening meeting which should have in attendance: Audit Sponsor, Designated Auditor, Management System or Process Owner, and, as required, other impacted staff. The opening meeting is to:
 - Clarify and agree the scope and objective of the independent review or internal audit
 - Commit to timelines for completing fieldwork and the final report
 - Identify key staff needed to participate in the review along with confirmation of their availability

- Identify documents, systems or records that will need to be accessed or provided as evidence
 - Document agreed actions and decisions from the opening meeting in the audit working file
3. Agreeing the audit techniques to be used to produce the desired results – the techniques chosen should consider the materiality of the audit and costs associated with the various techniques (cost v benefit)
 4. The Designated Auditor becoming familiar with background information for the audit, including for example:
 - Objectives and activities of the team
 - The audit benchmark e.g. Industry standards or documented process
 - Relevant legislation of regulation
 - Critical controls

7.1.2 Fieldwork

The fieldwork phase is generally the lengthiest part of the internal assurance review or internal audit process. There are several different approaches and techniques that can be undertaken to complete the fieldwork.

These techniques may include:

- Desktop review of documentation
- Interviewing and questioning
- Comparative or analytical review i.e. comparison of source data
- Flowcharting for visualisation complex audit, for consistency HBRC's risk management framework encourages the use of 'bowtie analysis'
- Observation – visually scanning the environment to review critical controls/processes e.g. safety walks, site inspections
- Sample testing – assuring accuracy of process execution, see [appendix B](#) for examples on control based sampling and statistical theory sampling

7.1.3 Reporting

This reporting section is broken into two parts:

1. Working papers that capture the fieldwork conclusions, and
2. The final report that summarises the audit conclusions

7.1.3.1 Working Papers

Work papers provide written evidence that the work done was in accordance with HBRC internal assurance framework. Working papers provide the Designated Auditor undertaking the audit with the complete picture so that, where required, they can write the final audit report.

Assurance working papers when completed inhouse must contain the following qualities:

- Have standalone points for each conclusion that are clear, logical and well thought-out
- Be readily available but securely stored, following HBRC's information security management guidelines, particularly where confidential information is used
- Findings cross-reference to the agreed benchmark e.g. internal COP/framework/policy, external standards, code, regulation etc

7.1.3.2 Final Report

The final report requires the results of either the internal assurance review or internal audit to be compiled and presented for discussion to the Audit Sponsor. The Audit Sponsor in conjunction with the process owner is then required to agree high level action plans and timeframes that correspond to the

findings and recommendations. For enterprise reports the high-level action and timeframe is captured as a 'management comment'.

The key objectives of a final report is to:

- Clearly communicate risks and improvements identified through the review
- Provide a priority rating based on the potential business impacts from the identified risks and concerns see [appendix C](#) for the HBRC's recommended priority assessment matrix
- Identify improvements and recommend possible corrective actions
- Acknowledge quality output
- Recommend follow-up reviews, if required, and
- Provide a permanent record for governance reporting

Unless otherwise agreed or prescribed by regulation, every internal audit or assurance review must be supported by a final report. The type and extent of the reporting depends on the purpose, as a rule of thumb, reviews that relate to the annual internal assurance plan require a more detailed written report. Whereas, for operational audits it is sufficient to provide an extract from HBRC audit system for the report e.g. PROMAPP.

To drive consistency in reporting and enable a quick comparison between reports, it is recommended that all written reports are structured as follows:

- Executive summary – that outlines key conclusion and recommendations
- Scope and approach used
- Limitations of the review/audit
- Detailed findings that also outlines recommendations for corrective actions and corresponding management comment
- If applicable, appendices – that support the full report e.g. working documents, standards, policies, COP's etc that have been used in the review as the benchmark

All reports whether written or constructed using an audit system extract must:

- Be factually correct
- For audit comparison purposes, have findings qualified or quantified, and unless otherwise stated by legislation, regulations, or industry code assessments must use HBRC priority assessment see [appendix C](#)
- Objective and unbiased
- Clear and concise free from technical language, jargon and risk or assurance terminology
- Constructive and void of criticism
- Full and complete and can standalone
- Timely
- Stored in a manner than is consistent with the Information Management Policy

Before a report is finalised a closeout, meeting must be completed. The closeout meeting should include all interested parties and those involved in the opening meeting. The purpose of the closeout meeting is to ensure a shared understanding of the report findings and clarify any confusion or concerns relating to specific findings. It also ensures that management comments and corrective action deliverables are agreed before including in the report. The distribution of the report can also be agreed. All reviews that form part of HBRC's annual internal audit plan must be reported to the FARS at the next scheduled meeting after the report is finalised.

7.1.4 Follow-up

All management comments are formalised into agreed corrective action plans that respond to the individual findings in the report. Oversight on progress to complete the agreed actions is done by the Risk and Assurance Lead for internal assurance reviews, and by the Management System Owners for the operational audits.

For operational corrective actions it is recommended that action tracking be automated through the agreed audit system until the corrective actions have satisfactorily addressed the findings and can be closed. Corrective actions from internal assurance reviews are manually tracked through dashboard reporting that is prepared for the FARS each sub-Committee meeting until those findings are closed.

For all operational and enterprise findings that are assessed as 'high' a follow-up review is undertaken to ensure the corrective actions implemented are embedded and effectively mitigate the original finding.

8 Application of Framework

This internal assurance framework applies to HBRC and all of its employees, consultants and advisors undertaking decisions or executing activities on behalf of HBRC.

9 Review

While HBRC's structured approach to internal assurance is being implemented this Internal Assurance Framework should be regularly reviewed to ensure that the structure outlined in the framework 'remains fit for purpose'. When the Internal Assurance framework is embedded and fully operational the framework review frequency should revert to once every three years.

Appendix A

[illegible]

Appendix B – Guidelines for Sample Testing

This framework provides two options as guidelines for sample testing:

1. Controls based, and
2. Statistical theory

When the sample universe is smaller, controls-based sampling is recommended. And, when the sample universe is large i.e. for those processes that performed more than daily or multiple times per week statistical theory sampling is recommended.

Controls Based Sampling

Controls that are performed less frequently i.e. on average less than once per day controls-based sampling is used. The table below outlines the number of controls to test given the number of times the control is performed.

Control Universe		
Frequency	Control Population Size	Number of Control Tests
Annually	1	1
Quarterly	4	2
Monthly	12	3
Weekly	52	13

Note

With controls-based sampling for controls that are occurring more frequently than quarterly it is important that the population sampled is spread across the period being reviewed. This is to ensure there are no biases e.g. If the review/audit period is 12 months but the control is performed weekly (52 times) the auditor is only required to review 13 transactions. But these transactions should not be clustered into the same reporting period but should review transactional data over the review period e.g. 12 months.

Statistical Theory Sampling

Controls that are performed multiple times a day have a population size that is sufficient to use statistical theory sampling. The following table provides guidance on how big the sample size needs to be. For critical controls and audits looking at high risk activities the sample size must be at least 25 with no exceptions detected in the testing. For low priority controls the sample size maybe smaller see [appendix C](#).

Statistical Theory Confidence Rates	
Sample Size	Conclusion
25 no exceptions	90% confidence the exception rate is less than 8.8%
25 no exceptions	95% confidence the exception rate is less than 11.30%
15 no exceptions	73% confidence the exception rate is less than 8.5%
15 no exceptions	80% confidence the exception rate is less than 10.2%

Note the sample selection *must be* randomly selected from the period under review e.g. 12 months

Appendix C

HBRC's Internal Assurance Review/Audit Priority Assessment Matrix

Priority Rating	Definition
High (Major non-conformance)	<p>Critical control not designed correctly or absent and presents a material risk to the business</p> <p>Major non-conformance – systematic or serious non-compliance with key internal policies, legislation and regulations that could have a material impact</p> <p>Financial implications to HBRC considered material jeopardising the delivery of the long term plan</p>
Medium (Moderate non-conformance)	<p>Critical controls not designed or operating effectively, which has the potential to result in a moderate impact on the execution of business objectives</p> <p>Moderate non-conformance - reasonable non-compliance with key internal policies, legislation and regulations that could have a medium impact</p> <p>Financial implications that may result in the need to borrow or prolong the delivery of the long-term plan</p>
Low (Minor non-conformance)	<p>Critical controls are suitable in design but not fully operating as designed. Some improvement is required. There maybe a small impact on the execution of business objectives</p> <p>Minor non-conformance – no non-compliance with legislation or regulations however some non-compliance with internal policies is evident which potentially increase the operational risk</p>
Opportunity for Improvement (OI)	<p>Critical controls are strong in design but may not be operating effectively – it is unlikely business processes will be impacted by this finding.</p> <p>Process opportunity – process is designed and operating effectively but could be done more efficiently.</p>