



Meeting of the Finance Audit & Risk Sub-committee

Date: Wednesday 5 May 2021
Time: 9.00am
Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Agenda

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3.	Confirmation of Minutes of the Finance Audit & Risk Sub-committee held on 17 February 2021	
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HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 05 May 2021

Item 4

Subject: INDEPENDENT MEMBER RESIGNATION

Reason for Report

1. This item formally advises the resignation of Rebekah Dinwoodie as the independent member of the Finance, Audit and Risk Sub-committee (FARS).

Background

2. Rebekah Dinwoodie formally resigned from her position as Independent member of the FARS on 24 February 2021 following her appointment to the position of Group Manager: Community Wellbeing and Services at Hastings District Council.

Discussion

3. The FARS membership comprises up to 4 members of Council and an external appointee in accordance with the Terms of Reference adopted by the Regional Council upon establishment of the Sub-committee on 6 November 2019 and confirmed by the Corporate and Strategic Committee by resolution on 11 March 2020.
4. Ensuring 'Independence' a key principle and is deemed good practice by the Office of the Auditor General.
5. The FARS helps the organisation manage its risk, test and challenge new ideas as well as monitoring business-as-usual operations to ensure that the entity is improving, as well as meeting Audit and Risk Management expectations.
6. By applying external, independent perspectives to the risks, issues, and challenges facing the Regional Council, the independent member can help the organisation to manage the variability of its delivery of outputs, impacts, and outcomes.
7. Officers recommend commencing a formal process to recruit and appoint an appropriately qualified independent member to the FARS.

Next Steps

8. A recommendation from this meeting will be made to the 19 May 2021 Corporate and Strategic Committee meeting, to consider and recommend the recruitment and appointment process to be undertaken to the 26 May Regional Council meeting.
9. The recommendation from the C&S will be considered by Council at its 26 May 2021 meeting and the appointment process agreed including any associated instructions to staff required to enable the process.
10. It is anticipated that the agreed appointment process will include the FARS shortlisting and interviewing candidates in the period leading up to the August FARS meeting to enable that meeting to make a recommendation for appointment of the preferred candidate to the 18 August C&S meeting for confirmation and subsequent appointment by the Regional Council on 25 August.

Financial and Resource Implications

11. The independent member is currently remunerated \$8,000 per annum plus reimbursement of expenses such as accommodation and mileage costs incurred for meeting attendance.

Decision Making Process

12. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that:
 - 12.1. The decision does not significantly alter the service provision or affect a strategic asset, nor is it inconsistent with an existing policy or plan.
 - 12.2. The use of the special consultative procedure is not prescribed by legislation.
 - 12.3. The decision is not significant under the criteria contained in Council's adopted Significance and Engagement Policy.

Recommendations

That the Finance, Audit and Risk Sub-committee:

1. Formally receives and accepts the resignation of Rebekah Dinwoodie as independent member, dated 24 February 2021.
2. Recommends that the Corporate and Strategic Committee determines and recommends to Hawke's Bay Regional Council an appropriate recruitment and appointment process to replace the Independent Member of the Finance, Audit and Risk Sub-committee.

Authored by:

Leeanne Hooper
TEAM LEADER GOVERNANCE

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 05 May 2021

Item 5

Subject: RISK MATURITY UPDATE

Reason for Report

1. This item provides the Sub-committee with oversight and details of progress to date with implementation of Council's enterprise risk maturity roadmap.

Background & Discussion

2. The risk maturity roadmap as adopted by the Regional Council in 2020 provides for the FARS to oversee, and report to the Corporate and Strategic Committee (C&S), progress on the implementation of the risk maturity roadmap to ensure that the evolving risk management system is on track and providing value to the organisation.
3. Since the last report to the FARS in February 2021 the following progress has been made.
 - 3.1. Risk Appetite Workshops with the Executive Leadership Team (ELT) and the Council have taken place and a draft risk appetite statement, populated with ELT and Councillors' views on the risk appetite of Council for each of the 13 key enterprise risks, has been developed.
 - 3.2. Eleven of the thirteen Risk Bowties have commenced and are at varying stages.
 - 3.2.1. Business Interruption - Completed
 - 3.2.2. Health and Safety - Completed
 - 3.2.3. Third parties and contractors - Draft
 - 3.2.4. People, Community, Environmental Health - Draft
 - 3.2.5. Strategic Partnerships - Completed
 - 3.2.6. Fraud - Completed
 - 3.2.7. People - Completed
 - 3.2.8. Technology - Draft
 - 3.2.9. Information Security - Draft
 - 3.2.10. Assets and Infrastructure - Completed
 - 3.2.11. Financial – Draft.

Next Steps

4. Over the coming quarter, Council officers will progress:
 - 4.1. Completion of the risk appetite statement for Finance, Audit and Risk Sub-committee adoption on 4 August 2021.
 - 4.2. Completion of the final two bowties, Legal Compliance Breach and Strategic, for inclusion into the enterprise risk report to ensure we capture the revised risk scope.

Strategic Fit

5. Maturity of HBRC's risk management system contributes towards achieving all strategic goals/vision by protecting the organisation. A mature risk system provides consistent risk intelligent decision making enabling the efficient prioritisation of finite organisational resources to deliver on strategy.

Decision Making Process

6. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 6.1. The decision does not significantly alter the service provision or affect a strategic asset, nor is it inconsistent with an existing policy or plan.
 - 6.2. The use of the special consultative procedure is not prescribed by legislation.
 - 6.3. The decision is not significant under the criteria contained in Council's adopted Significance and Engagement Policy.
 - 6.4. The decision of the sub-committee is in accordance with the Terms of Reference and decision-making delegations adopted by Hawke's Bay Regional Council 25 March 2020, specifically the Finance, Audit and Risk Sub-committee shall have responsibility and authority to:
 - 6.4.1. Review whether Council management has a current and comprehensive risk management framework and associated procedures for effective identification and management of the council's significant risks in place.
 - 6.4.2. Undertake periodic monitoring of corporate risk assessment, and the internal controls instituted in response to such risks.
 - 6.4.3. report on the robustness of risk management systems, processes and practices to the Corporate and Strategic Committee to fulfil its responsibilities.

Recommendations

That the Finance, Audit and Risk Sub-committee:

1. Receives and considers the "*Risk Maturity Update*" staff report.
2. Confirms that the management actions undertaken and planned adequately respond to the Risk Management Maturity Roadmap as endorsed by Hawke's Bay Regional Council on 24 June 2020.
3. Reports to the Corporate and Strategic Committee, the Sub-committee's satisfaction that adequate evidence has been provided of progress to implement the maturing risk management system.

Authored by:

Olivia Giraud-Burrell
BUSINESS ANALYST

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 05 May 2021

Item 6

Subject: INTERNAL AUDIT WORK PROGRAMME UPDATE

Reason for Report

1. This item updates the Finance, Audit and Risk Sub-committee (FARS) on the progress carrying out corrective actions that respond to internal audit findings as previously reported to the FARS, along with a status update on the current Annual Enterprise Internal Assurance plan approved by FARS in August 2020.

Officers' Recommendation

2. Council officers recommend that the FARS members consider and note the internal assurance dashboard and corrective action status update, and the internal assurance plan status update with a view to confirming the adequacy of corrective actions undertaken and reporting as such to the Corporate & Strategic Committee (C&S).

Discussion

3. The purpose of the corrective action status update is to provide oversight to the FARS of open internal assurance findings from previously reported internal assurance reviews. The dashboard tracks progress of the corrective actions against agreed milestones, until the action is closed. At a Glance, as at April 2021:

	Carried out	Total no of actions	Closed	On track	At Risk	Behind
HBRC Covid-19 Response Debrief Report	Nov 2020	7	2	0	0	5
Internal Audit – Risk Management Maturity	June 2020	11	4	5	1	1
Internal Audit – Procurement & Contract Management	May 2018	2	2	0	0	0
Internal Audit – Health and Safety	Sept 2018	8	4	2	0	2
Internal Audit – Cyber Security	August 2019	20	11	3	0	5

4. Members should note that, as a consequence of the departure of the Risk and Assurance Lead, progression of risk maturity actions were prioritised over the Business Continuity Plan (BCP) actions over Quarter 3. The BCP actions relating to the HBRC Covid-19 Response Debrief report will be prioritised for progression during Quarter 4.
5. While a number of actions are reported above as behind for Internal Audit – Cyber Security, management is comfortable with the progress that has been and continues to be made, and the subsequent level of risk being carried by the organisation. Prioritisation of effort continues, focusing limited resources on the highest risk areas raised in the audit, being the 11 closed items and the 3 on track items:
 - 5.1. Finance system replacement
 - 5.2. Disaster recovery planning
 - 5.3. IT architecture & planning to replace legacy systems

6. Phase one (Information stocktake) of the Information Management Programme is progressing. Workshops have been held to gather information required to develop a gap analysis and critical information asset register which will identify confidential/sensitive information. Several areas of risk have been identified for immediate intervention.
7. The purpose of the Annual Enterprise Internal Assurance plan status update is to provide the FARS with oversight of progress on individual internal assurance reviews that were approved by the Committee as part of the Annual Enterprise Internal Assurance plan.
8. Both internal assurance dashboards have been updated as at April 2021 and are attached.

Financial and Resource Implications

9. There are no financial implications or additional resource requirements resulting from this internal audit programme update.

Decision Making Process

10. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 10.1. The decision does not significantly alter the service provision or affect a strategic asset, nor is it inconsistent with an existing policy or plan.
 - 10.2. The use of the special consultative procedure is not prescribed by legislation.
 - 10.3. The decision is not significant under the criteria contained in Council's adopted Significance and Engagement Policy.
 - 10.4. The decision is in accordance with the Finance, Audit and Risk Sub-committee Terms of Reference, specifically to report to the Corporate and Strategic Committee to fulfil its responsibilities for:
 - 10.4.1. receiving the internal and external audit report(s) and review actions to be taken by management on significant issues and recommendations raised within the report(s).
 - 10.4.2. Ensuring that recommendations in audit management reports are considered and, if appropriate, actioned by management.
 - 10.4.3. Given the nature and significance of the issue to be considered and decided, and also the persons likely to be affected by, or have an interest in the decisions made, Council can exercise its discretion and make a decision without consulting directly with the community or others having an interest in the decision.

Recommendations

That the Finance, Audit and Risk Sub-committee:

1. Receives and notes the 'Internal Audit Work Programme Update' staff report and accompanying dashboards.
2. Confirms that management actions undertaken or planned for the future adequately respond to the findings and recommendations of the internal audits.
3. Confirms that the dashboard reports provide adequate information on the progress of corrective actions and the progress of the approved Annual Internal Audit programme.
4. Reports to the Corporate and Strategic Committee, the Sub-committee's satisfaction that the Internal Audit Work Programme Update provides adequate evidence of the adequacy of Council's internal assurance functions and management actions undertaken or planned to respond to internal assurance review findings and recommendations.

Authored by:

**Olivia Giraud-Burrell
BUSINESS ANALYST**

Approved by:

**Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES**

Attachment/s

- 1 [↓](#) Internal Assurance Dashboard – Corrective Action Status Update
- 2 [↓](#) Internal Assurance Annual Plan FY20-21 Status Update

Internal Assurance Dashboard - Corrective Action Status Update

HBRC Covid-19 Response Debrief Report – November 2020						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
<p>Business Continuity, Pandemic Plans and Technology</p> <p>To enable a holistic based response and maintenance of critical pandemic supplies (e.g. PPE) for future pandemic events HBRC's pandemic safety plan should be linked to business continuity plan (BCP)</p> <p>Consider feasibility of restructuring HBRC's BCP's to take a denial type approach rather than an external hazard approach i.e. denial of: people, systems, suppliers, facilities.</p> <p>Strengthen the Disaster Recovery (DR) and BCP linkage.</p>	Medium	<p>Review current suite of BCP documents to identify improvements. Develop an implementation plan. <i>Risk & Assurance Lead & Senior Health and Safety Advisor</i></p> <p>Refer - Cyber security audit - resilience finding and action</p>	March 2021	<p>IT DR test completed 27/3/21</p>	<p>Develop project plan to prioritise updating HBRC's BCP documents.</p> <p>Add reviewed Covid19 response plan to the BCP suite of docs in Herbi.</p> <p>Analyse the feasibility of restructuring the BCP approach. If required, develop a roadmap.</p> <p>IT DR Plan completed</p>	<p>Behind</p> <p>Behind</p>

Internal Assurance Dashboard - Corrective Action Status Update

HBRC Covid-19 Response Debrief Report – November 2020						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Communication (Internal & External) Internal communication in lockdown were positive. Therefore, the approach should be documented to ensure it is repeatable for future requirement to work remotely. There are a number of key stakeholder groups that may need to be specifically communicated with tailored messages depending on the event. Telephony processes need to be consistent regardless of whether the call is being responded to by Council or Contact Centre staff.	Low	Update BCP suite of documents. Marketing and Communications	March 2021		Capture internal comms practices that were initiated as part of the Covid19 lockdown response and link to the BCP Suite of docs on Herbi	Behind
		Identify HBRC's key stakeholder groups through developing a key stakeholder wheel and document in HBRC's BCP. Marketing and Communications			Finalise key stakeholder wheel and link to HBRC's BCP suite of documents in Herbi.	Behind
		Taking into account new capability of the recently upgraded telephony system. Review and improve processes for calls currently managed by the Palmerston North Contact Centre in a BCP situation. Corporate Support Manager		The Contact Centre/CX Project Plan has been updated to include the BCP practices.	Continue progress on development of a Conact Centre/CX project plan	Behind
The corrective actions to control the risk of cross contamination of work bubbles at Guppy Road should now be documented.	Low	Ensure the pandemic safety plan is up to date with the most recent pandemic response process. Senior Health and Safety Advisor	February 2021	Reviewed Guppy Road staff bubbles to ensure continuity in case of a second Covid wave.		Closed

Internal Assurance Dashboard - Corrective Action Status Update

HBRC Covid-19 Response Debrief Report – November 2020						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Improve the rostering system for prolonged and slow-moving events (e.g. pandemics) with the aim of ensuring equitable distribution of tasks.	Medium	Improved rostering system to better manage staff resourcing requirements. Team Leader Hazard Reduction	December 2020	Initial changes to CDEM MS Teams roster allows those on roster, managers and team leaders to see who is on roster and when (not on HBRC MS Teams but links can be shared). These initial changes have resolved immediate issues and HBRC ITC have agreed to work with CDEM on an ideal future state process.	Future developments in operational capabilities will be reported through the Coordinating Executive Group.	Closed

Internal Audit – Risk Management Maturity – June 2020						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Leadership and Direction - Improve linkage of risk informed decision making to strategy. Improving clarity of boundaries for decision making.	Not Stated	Develop a comprehensive risk appetite statement that defines tolerance levels for individual enterprise risks. ELT	March 2021	Five of remaining seven bowties completed Risk Bowtie and Appetite statement workshops held with ELT and Council	Complete remaining two bowties. Submit Draft Risk Appetite Statement for approval.	Behind
People and Development - Risk roles and responsibilities beyond the risk and assurance lead were not defined. With no risk related training.	Not Stated	Develop a competency framework to upskill staff on risk and embed the risk policy. Communicate and train BU on the risk policy and framework. Provide targeted training to specialist risk roles e.g. risk champions. ELT and Risk and Assurance Lead	October 2021	In conjunction with Group Managers identify a Risk Champion in each Group. Risk and Assurance Lead to develop Risk Champion Training.		On track

Internal Assurance Dashboard - Corrective Action Status Update

Internal Audit – Risk Management Maturity – June 2020						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Processes and Tools - For assurance.	Not Stated	Develop a formal assurance framework based on the 'three lines of defence model'. Framework should ensure assurance targets critical council functions and activities applying a risk based approach. Risk and Assurance Lead	July 2021	Developed a targeted approach to implement the framework, approved by ELT and submitted to May FARS for approval.		On-track
Process and Tools - For risk monitoring and reporting.	Not Stated	Reformatted risk reporting to enhance visibility can be developed when the risk policy and framework is approved by Council. However, risk reporting will be subject to continuous improvement as the risk system matures e.g. the incorporation of key risk/control indicator trend reporting. Risk and Assurance Lead	September 2021	Enterprise Risk Report updated to reflect completed bowties.	Update risk reporting to reflect insights from risk bowties as the final bowties are completed. Update risk report to reflect approved risk appetite.	On track
Business Performance – Strategic risk management.	Not Stated	Strategic planning cycle to include a review of enterprise risks to better link and integrate the risk register and LTP. Risk & Assurance Lead & Strategy and Governance Manager	September 2021	Completed bowties for three enterprise risks and updated the FARS risk report one pagers accordingly.	Finalise bowties for remaining enterprise risks and update risk report to enable a better linkage to the LTP.	On track
Business Performance – Managing Risk in Partnerships.	Not Stated	Develop risk and performance monitoring of key third parties. Ensure contingency planning is included. Risk & Assurance Lead	December 2020	Bowtie analysis undertaken for the enterprise risk for third parties. With the risk report updated accordingly.	Finalise bowtie and identify the top 20 highest risk third parties.	Behind
Business Performance – Business resilience ensure continuity planning is sufficient to cover HILP events.	Not Stated	Develop a process to assess disruptive and extreme events (low probability high impact 'HILP' events). Risk & Assurance Lead	December 2021	Develop a roadmap to enhance continuity plans include business impact risk assessments based on HILP events. Stress test on a 'denial' premise.		On track

Internal Assurance Dashboard - Corrective Action Status Update

Internal Audit – Risk Management Maturity – June 2020						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Business Performance – Change and transformation.	Not Stated	Develop a change management framework to ensure a portfolio view of risks related to significant change is managed. Marketing & Communications Manager	September 2021	Change Manager recruited.	Report on three transformational projects (FUSE, Accommodation and CX Project)	On track
Risk, Governance, Policy and Accountabilities – to improve risk and assurance challenge. With clearer risk escalation.	Not Stated	Develop risk management policy and framework that includes roles and responsibilities. Risk & Assurance Lead	September 2020	Council approved single Regional Council risk management policy and framework.		Closed as at Nov 2020 FARS
Leadership and Direction - Risk system continuous improvement.	Not Stated	Incorporate into the risk policy and framework a risk vision. Tailor the Council's risk policy and framework to align to the strategy. Develop a risk maturity roadmap to execute the risk vision. Risk & Assurance Lead	September 2020	Council approved risk policy includes a risk vision that aligns to the C&S approved risk maturity roadmap. And, the risk policy and framework tailored based on HBRC's strategy.		Closed as at Nov 2020 FARS
Processes and Tools - For risk assessment and mitigation.	Not Stated	Through a single risk management policy and framework ensure that clear risk and control identification and assessment criterion exists. Risk and Assurance Lead	September 2020	Council approved risk framework includes a criteria of risk and control identification and assessment. With recommended tools.		Closed as at Nov 2020 FARS

Internal Assurance Dashboard - Corrective Action Status Update

Internal Audit – Health and Safety (H&S) – Sept 2018						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Update of H&S Manual.	Medium	Review Manual <i>Senior Health, Safety and Wellbeing Advisor</i>	October 2020	Safety Plan signed off.		Closed
Move towards Lead Indicators.	Medium	Health and Safety Manual to include Lead Indicators <i>Senior Health, Safety & Wellbeing Advisor</i>	June 2021	Further develop ELT lead and lag indicators.	ELT Lead and lag indicators in place	On track
Increased reporting to ELT.	High	Create dashboard report for H&S reporting. <i>Senior Health, Safety & Wellbeing Advisor</i>	March 2021	Key H&S measures to be included in HBRC performance reporting.	Work with Governance to finalise H&S reporting in Organisational Dashboard	Behind
Improvement in Contractor Inductions.	Medium	Review induction process of contractors and service providers <i>Senior Health, Safety and Wellbeing Advisor</i>	September 2020	Linked to below item – Collaborate with procurement to confirm induction process and develop an induction process that includes HBRC H&S expectations.	Draft set of H&S expectations to be included in procurement induction process in consultation with Procurement.	Behind
Improvement in Contractor Engagement process.	Medium	A full review of contractor inductions across all risks <i>Senior Health, Safety & Wellbeing Advisor</i>	August 2021	Continued to work with Procurement to finalise contractor processes so that these include H&S expectations related to risks.	Review process to be discussed and agreed in consultation with Procurement	On track
Improve indicator risk control reporting.	High	Bow tie analysis for identified critical risks to ensure hierarchy of controls To enhance lead indicators. <i>Senior Health, Safety & Wellbeing Advisor and Risk & Assurance Lead</i>	March 2021	H&S bowtie analysis complete.	Now bowtie analysis complete the Lead Indicator Action will capture next steps	Closed as at Feb 2021 FARS
Improve Incident reporting detail to include Root Cause Analysis (5 Why's).	High	Update incident reporting form to include root cause analysis (5 Why's) <i>Senior Health, Safety & Wellbeing Advisor</i>	June 2021	Updated incident form to include (5 Why's).		Closed as at Feb 2021 FARS

Internal Assurance Dashboard - Corrective Action Status Update

Internal Audit – Health and Safety (H&S) – Sept 2018						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Increased visibility of health and safety activity by ELT.	High	ELT representative attends quarterly Health and Safety Committee Meeting <i>Senior Health, Safety & Wellbeing Advisor</i>	March 2021	Process for regular attendance by ELT at quarterly meetings established.		Closed as at Feb 2021 FARS

Internal Audit – Cyber Security – August 2019						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Asset management – Software & application inventory – Legacy Systems.	High	Develop an architecture strategy that considers long term phased replacement of legacy systems, including documenting the legacy software components and systems. <i>Chief Information officer</i>	December 2021 – if funding request accepted	IT Project priorities have been set for the next 3 years. Some key project resources have been recruited. We've had difficulty recruiting experienced business analysts. Seconded an IT team leader to an enterprise architecture role for 9 months.	Develop resource plans for Y1 IT projects. Complete project team recruitment. Develop internal BA capabilities via mentoring and templating of core activities. Develop technology architecture artefacts to assist with technology selection and integration requirements.	On track <i>Note action is defining the strategy – implementation for legacy systems will take over 10 years with current resourcing</i>
As above.	High	Review software versions in use and compare to latest available. <i>Chief Information officer</i>	Mar 2020	20-30% of software review has been completed	Software Review completed	Behind

Internal Assurance Dashboard - Corrective Action Status Update

Internal Audit – Cyber Security – August 2019						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
As above.	High	Finance System Replacement <i>Chief Information officer</i>	June 2021	Project team is now fully resourced. There are still some challenges with resource availability from our suppliers. Tasks are being managed to balance resourcing, schedule, scope and quality.	Payroll to go live 28 th April. Finance, Supply Chain and Asset Management modules are planned to go live 1 st July.	On track
Access Control – Principle of least privilege – Periodic Review.	High	Perform an annual review of access to HR and Regulatory systems (adding this to the current AuditNZ reviews of core and finance systems). <i>Chief Information officer</i>	Sept 2019	Payroll access has been designed from the ground up as part of the new system implementation.	Human Resources system access will be redesigned during the implementation of the new HR system in 2022. Current access to Payroll, HR and Regulatory systems will be reviewed alongside the annual AuditNZ audit in July 2021.	Behind

Internal Assurance Dashboard - Corrective Action Status Update

Internal Audit – Cyber Security – August 2019						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Access Control – Principle of least privilege – Legal & Regulatory requirements.	High	Identified systems containing confidential data and tightened up processes for assigning access rights for new users <i>Chief Information officer in conjunction with Risk and Assurance Lead</i>	Oct 2019	<p>The process for creating new user accounts and assigning rights has been strengthened</p> <p>A long term task has been started to identify and document security groups</p> <p>An information audit has commenced which will help identify where confidential data is stored</p>	Gap analysis on current process will be reported. An information asset register for critical information will be developed.	Behind - Date needs rebaselining. Part of wider information management project – dedicated resource to strengthen data management now recruited
Access Controls – External Information Systems – Password Managers.	Medium	Investigate and evaluate solutions for single sign-on / password management. <i>Chief Information officer</i>	Sept 2020	<p>Technology One authentication is being integrated with active directory</p> <p>Investigations and testing of systems is on-going</p> <p>IT Admins using 2 factor authentication for MS 365</p>	Results of investigations and testing to be reported.	Behind
Business Environment – Resilience requirements — IT Disaster Recovery Plan – resilience requirements.	High	Implement DR Technology Changes and Test Disaster Recovery processes and environment. <i>Chief Information officer</i>	Dec 2021	Documentation write up still in progress	IT DR Plan Completed	On track

Internal Assurance Dashboard - Corrective Action Status Update

Internal Audit – Cyber Security – August 2019						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Governance – Information security policy framework – Policy Review Required.	Medium	ICT Governance - firstly, assess the quality of Councils ICT policy framework against good practice including the development of a RACI matrix for cybersecurity roles outlined in the matrix. <i>Chief Information officer in conjunction with Risk and Assurance Lead</i>	June 2020	ICT User Policy defined and submitted to HR and ELT for approval	All ICT Policies to be reviewed.	Behind – broader information security strategy – also links to PII, DR and third parties
Information Protection Processes & Procedures – Third parties – Contractors Responsibilities.	Medium	As part of policy review, ensure risk based decision is made around contractors including system access by contractors and third parties are covered by policy. <i>Chief Information officer in conjunction with Risk and Assurance Lead</i>	June 2020	On-going ament of gap to systemise, develop business case and project plan that incorporates managing information risks from third parties.	Deliver appropriate terms of reference for all contractors when using HBRC IT systems.	Behind – refer update under ICT governance due date needs rebaselining as the solution requires integration with other key management systems.
Maintenance – remote access is managed (third parties) – Maintenance.	Medium	Implement 'enable on demand' access for third party providers. <i>Chief Information officer</i>	Oct 2019	Accounts disabled by default, and enabled when requested for a fixed period.		Closed as at Nov 2020 FARS
Access control – Remote access is managed (mobile devices) – Mobile device management.	Low	Continue the planned deployment of asset management tools for mobile devices. <i>Chief Information officer</i>	Ongoing	Implemented Microsoft Intune to manage mobile devices. Completed June 2020.		Closed as at Nov 2020 FARS
Asset management – Software & application inventory – IT oversight and value as a service.	High	Automate as many software updates as possible. <i>Chief Information Officer</i>	Sept 2020	Software updates now automated.		Closed as at Nov 2020 FARS
As above	High	Update and review software list annually. <i>Chief Information Officer</i>	Sept 2020	2020 Annual Review completed		Closed as at Nov 2020 FARS

Internal Assurance Dashboard - Corrective Action Status Update

Internal Audit – Cyber Security – August 2019						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Asset management – Software & application inventory– Inventory	High	Reviewed and documented all software used at HBRC. <i>Chief Information officer</i>	Oct 2019	Documented software inventory reviewed.		Closed as at Nov 2020 FARS
Asset management – Software & application inventory – Legacy Systems.	High	High-level documentation of software components. <i>Chief Information officer</i>	Dec 2019	High level documentation complete.		Closed as at Nov 2020 FARS
Access Control – Principle of least privilege – Enforce the principle of least privilege.	High	Reviewed and reduced domain administrator access. <i>Chief Information officer</i>	Oct 2019	Domain administrator access reviewed and reduced.		Closed as at Nov 2020 FARS
Access Control – Principle of least privilege – Periodic Review.	High	Reviewed Active Directory Accounts – archiving accounts by last logon date > 60 days <i>Chief Information officer</i>	Oct 2019	Accounts directory reviewed with >60days archived.		Closed as at Nov 2020 FARS
Business Environment – Resilience requirements — IT Disaster Recovery Plan – resilience requirements.	High	Develop cybersecurity incident management processes based on CERT NZ guidelines. Including, developing templates for incident response and post incident review. <i>Chief Information officer</i>	Mar 2020	Response process drafted and response templates complete.		Closed as at Nov 2020 FARS
Anomalies & events, Security Continuous Monitoring & Detection Processes – Monitoring/Detection – Alerts.	Medium	Setup a central mailbox for system alerts. <i>Chief Information officer</i>	Oct 2019	Central mailbox activated for alerts.		Closed as at Nov 2020 FARS
As above.	Medium	Add critical alerts to our monitoring dashboard. <i>Chief Information officer</i>	Mar 2020	Central mailbox above is sufficient.		Closed as at Nov 2020 FARS

Internal Assurance Dashboard - Corrective Action Status Update

Tracking Status	Key
On track	Milestones on track to meet due date
At risk	Milestones falling behind putting at risk delivery on due date
Behind	Milestones outstanding due date will not be met
Closed	Corrective action fully implemented since last update
Closed as at	Corrective action fully implemented in previous period

Internal Audit – Procurement & Contract Management – May 2018						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Lack of evidence for procurement decisions.	High	Procurement plan template designed based on MBIE/NZTA best practice guidelines; implemented <i>Procurement Lead</i>	Sept 2020	Completed as part of amendments to procurement manual, approved by Council Sept 2020.		Closed as at Nov 2020 FARS
Lack of contract evaluation.	Medium	Policy and manual updated; evaluation criteria included in selection and post contract performance evaluation <i>Procurement Lead</i>	Sept 2020	Policy and manual amendments approved by Council Sept 2020 - Completed.		Closed as at Nov 2020 FARS

Internal Assurance Annual Plan FY20-21 Status Update

Approved Audit FY2020-21	Provider	Quarter Due	Date Commenced	Management Comments	Reported to FARS
Data Analytics	Crowe	Q3	December 2020		May 2021
Talent Management	Crowe	Q4	March 2021		Proposed submission to August FARS
Retained Audit Capacity – 40 hrs					

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 05 May 2021

Subject: INTERNAL ASSURANCE FRAMEWORK

Reason for Report

1. This item seeks the Finance Audit & Risk Sub-committee's (FARS) endorsement of the draft Internal Assurance Framework as endorsed by the Executive Leadership Team (ELT) on 23 February 2021.

Officers' Recommendation(s)

2. Council officers recommend that the FARS members endorse the draft Internal Assurance Plan and support the Internal Assurance Implementation Plan as proposed.

Background /Discussion

3. At the Corporate and Strategic (C&S) Committee meeting held on 10 June 2020 the Committee endorsed a risk maturity roadmap for the 'Regional Council' (Council). The Council's risk maturity roadmap targeted mid-2021 for the development of an internal assurance framework. The draft Internal Assurance Framework that the FARS is asked to endorse and recommend to the C&S is attached.
4. The FARS should note that this framework has been peer reviewed by Council's key management system owners including Quality Management, Health and Safety Management, Asset Management, Environmental Management, and Information Management. These teams were identified as suitable peer reviewers as usually when structured management systems are in place an internal operational audit programme is required.
5. Throughout Council several reviews and audits are undertaken each year. The reviews and audits may provide assurance or identify opportunities for improvement to Council's management or governance. For the reviews and audits currently being undertaken across Council there is no centralised assurance view or assurance register. Therefore, at times this has resulted in more than one review targeting a single area within Council, while other areas of Council may not have been subject to any independent review.
6. Therefore, the intent of this internal assurance framework is to take an organisational and proactive risk-based approach to assurance that covers the breadth and depth of Council. Which, in turn should provide greater confidence to governors and to management that the organisation is well run with the 'right' things being delivered in the 'right' way. It is noted that assurance itself does not deliver outcomes.
7. A summary of key points in the draft Internal Assurance Framework includes:
 - 7.1. Adoption of internal audit principles as defined by the International Institute of Internal Auditors.
 - 7.2. Adoption of the three lines of defence model which is an assurance model that has been endorsed by the Office of the Auditor General. The Office of the Auditor General notes that this model allows for scalability of an assurance programme based on the: criticality of the activity being reviewed, type of assurance being undertaken, and level within the organisation requiring assurance
 - 7.3. Assurance review classification based on the type of review being undertaken and the recipient of the assurance. The three types of review classifications, classification review examples, and the intended recipients are:

- 7.3.1. Internal assurance, e.g. S17a – Council Committee and management that is responsible for the activity being reviewed
- 7.3.2. Enterprise Internal audit, e.g. management system audits – the FARS
- 7.3.3. Operational internal audits, e.g. review of ‘Codes of Practice’ (COP) – Council’s Management and ELT.
- 7.4. Outline of critical elements that must be evident in any assurance review, including:
 - 7.4.1. Independence from the process or activity being reviewed
 - 7.4.2. Assurance sponsor endorsement
 - 7.4.3. Unrestricted access
 - 7.4.4. Adequate resourcing
 - 7.4.5. Competent auditors
 - 7.4.6. Standardised assurance review processes, including:
 - 7.4.6.1 The annual assurance plan
 - 7.4.6.2 The pre-assurance planning
 - 7.4.6.3 Fieldwork that uses recognised techniques
 - 7.4.6.4 Reports that have a common format and have a standardised assessment criterion for findings to enable comparison between individual reports and report findings for easier prioritisation of resources for corrective actions, and
 - 7.4.6.5 follow-up and tracking of agreed corrective actions.
- 8. Lastly, the framework outlines the key roles and role responsibilities applicable to internal assurance at Council from Governance to all of Council Staff.

Strategic Fit

- 9. The Internal Assurance Framework is a module of the Risk Management System which contributes towards achieving all strategic goals/vision by protecting the organisation.

Financial and Resource Implications

- 10. There are no financial implications or additional resource requirements resulting from this Internal Assurance Framework.

Decision Making Process

- 11. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 11.1. The agenda item is in accordance with the Sub-committee’s Terms of Reference, specifically:
 - 11.1.1. The purpose of the Finance, Audit and Risk Sub-committee is to report to the Corporate and Strategic Committee to fulfil its responsibilities for (1.3) the independence and adequacy of internal and external audit functions
 - 11.1.2. The Finance, Audit and Risk Sub-committee shall have responsibility and authority to (2.6) receive the internal and external audit report(s) and review actions to be taken by management on significant issues and recommendations raised within the report(s)
 - 11.1.3. The Finance, Audit and Risk Sub-committee is delegated by Council to (3.6) review the objectives and scope of the internal audit function, and ensure those objectives are aligned with Council’s overall risk management

framework; and (3.7) assess the performance of the internal audit function, and ensure that the function is adequately resourced and has appropriate authority and standing within Council.

Recommendations

That the Finance, Audit and Risk Sub-committee:

1. Receives and considers the “*Internal Assurance Framework*” staff report.
2. Endorses the draft Internal Assurance Framework and supports the Internal Assurance Implementation Plan as proposed.
3. Recommends that the Corporate and Strategic Committee approves the draft Internal Assurance Framework and the Internal Assurance Implementation Plan as proposed and recommends the adoption of both to the Hawke’s Bay Regional Council.

Authored by:

Olivia Giraud-Burrell
BUSINESS ANALYST

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES

Attachment/s

- 1 [📄](#) Draft Internal Assurance Framework
- 2 [📄](#) Internal Assurance Framework Implementation Plan

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 and 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.

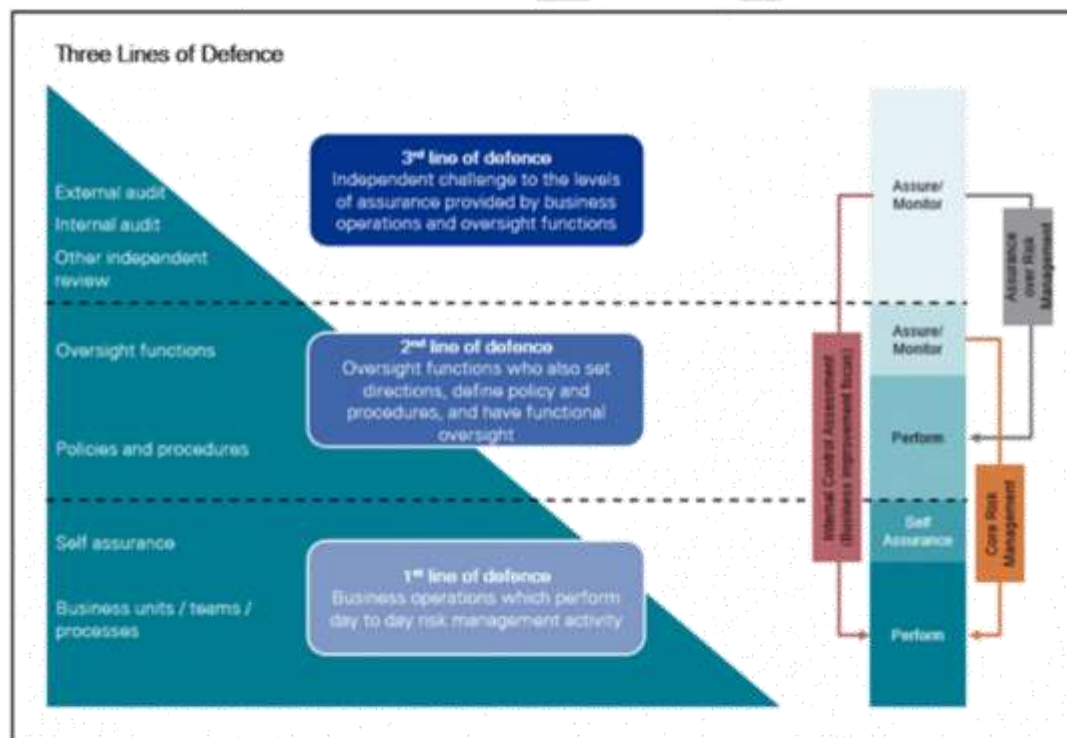


Figure 1: Three Lines of Defence Model source - <https://oag.parliament.nz/good-practice/audit-committees/what-works/three-lines-of-defence>

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

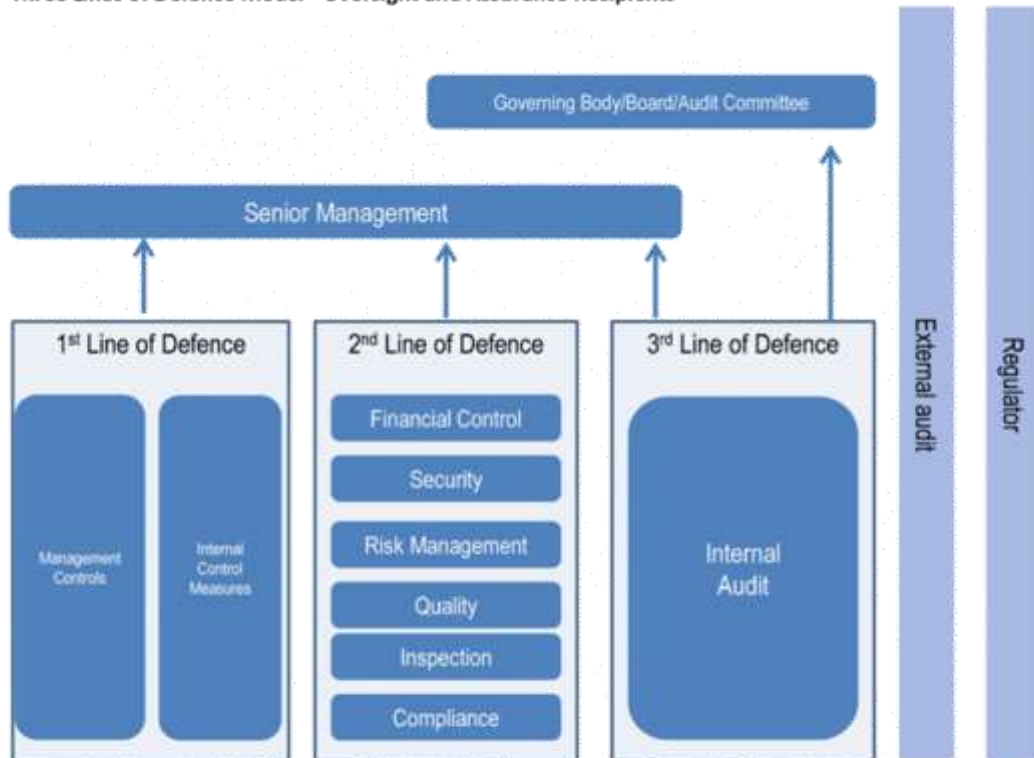


Figure 2: IIA Position Paper: Three Lines of Defence in Effective Risk Management and Control (2013)

- [IIA Position Paper: The Three Line of Defense 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 or 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.

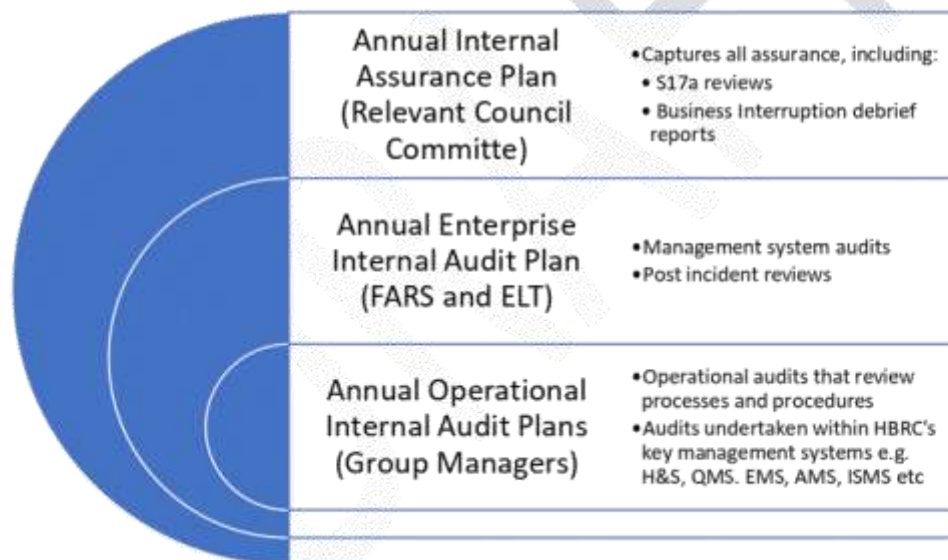


Figure 3: Hierarchy of HBRC assurance reviews and key review report recipients

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

Annual Operational Audit Plan Manual Template

Annual Operational Audit Plan																											
XXXXXX Management System																											
Final service or product (the objective)	Benchmark for audit eg CoP, Regulation,	Risk Rating of the procedure (Guides frequency)	Audit Lead	Process Owner	2020/2021										2021/2022												
					Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr

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](#).

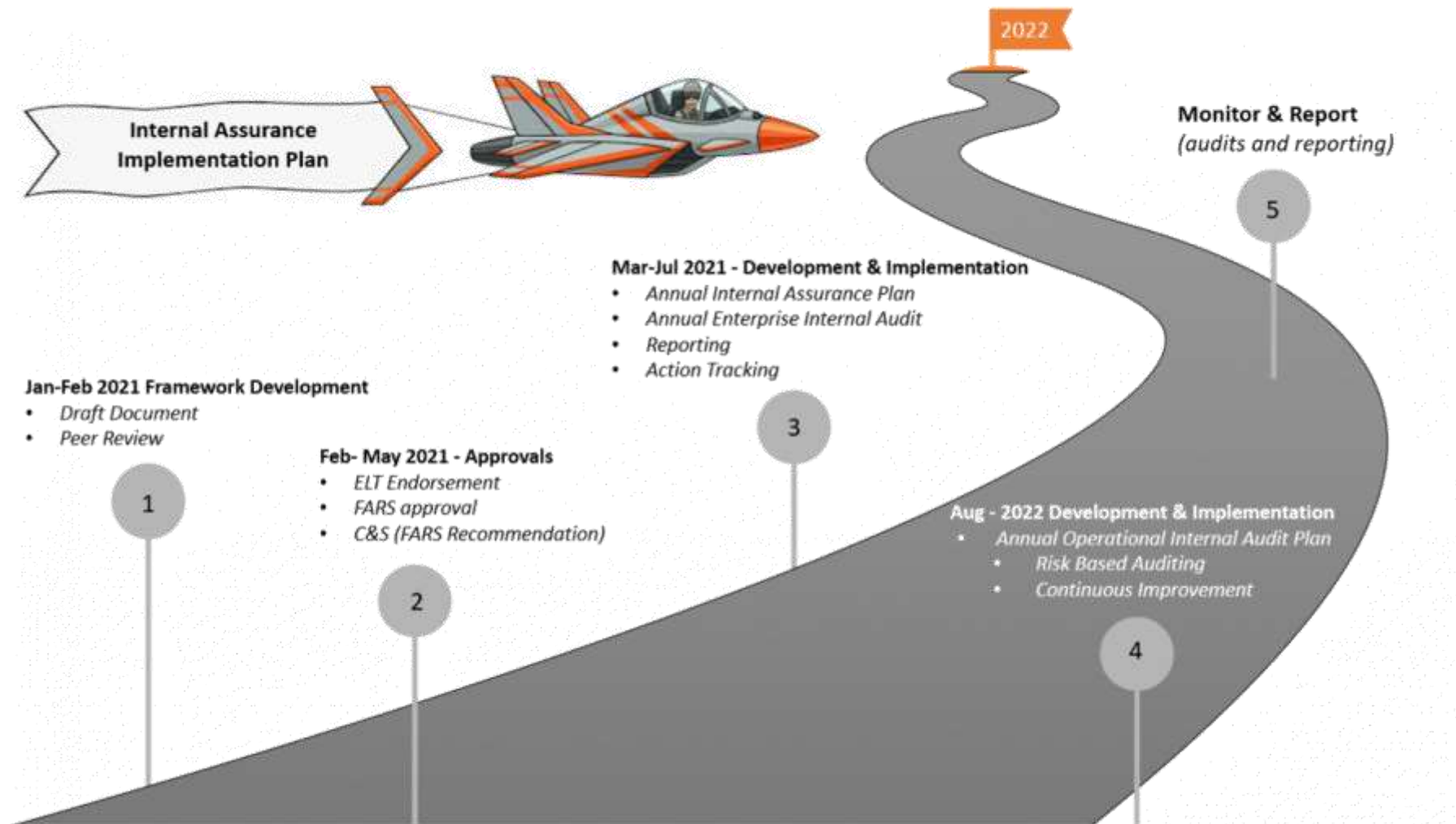
Statistical Theory Confidence Rates	
Sample Size	Conclusion
25 no exceptions	90% confidence the exception rate is less than 8.8%
25 no exceptions	95% confidence the exception rate is less than 11.30%
15 no exceptions	73% confidence the exception rate is less than 8.5%
15 no exceptions	80% confidence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



HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 05 May 2021

Subject: DATA ANALYTICS INTERNAL AUDIT REPORT

Reason for Report

1. This item presents the internal audit report (attached) for the Data Analytics audit undertaken by Crowe in February 2021.

Background

2. The Finance, Audit and Risk Sub-committee (FARS) agreed at its meeting on 12 August 2020, as part of the internal audit work programme, to engage Crowe to conduct an internal audit of Council's Data Analytics.
3. The agreed scope and purpose of the audit was to review payables and payroll, and master and transactional data for the financial year ended 30 June 2020. This data was then analysed independently by Crowe for any potential anomalies or suspicious transactions.
4. The report was then provided to staff, along with a separate spreadsheet listing the transactions that required review. These spreadsheets were initially analysed by the Payroll Officer and the Team Leader Finance and then reviewed by the Chief Financial Officer to identify any findings requiring further investigation.
5. This is the fourth consecutive annual Data Analytics audit conducted by Crowe. Previous reporting of the findings of the 2018-19 audit was presented to the sub-committee on 12 August 2020. A comparison to previous findings is also provided following.
6. It is important to note that when a transaction is identified; it does not necessarily indicate that there is anything suspicious. There are often legitimate business reasons for a transaction being identified, such as different types of payments to a Council (rates credits versus payment for services) by way of pure example. These types of transactions may display in areas such as "duplicate address", "GST/non-GST transactions", or "duplicate IRD number" for example.
7. In addition, some transactions are listed purely for review purposes due to their deemed higher risk nature, such as "review of top 50 vendors" as an example. This in itself allows staff to easily assess whether vendors are in line with expectations and would highlight any vendors that may appear erroneous.
8. Given the small size of Hawke's Bay, there are often times when an employee may share the same address as a vendor, usually a spouse. Transactional processing staff ensure that employee approvals are not allowed where any known conflicts exist between an employee and a vendor.

Discussion

9. There were 111 duplicate bank accounts with similar Vendor names where one of the vendors received a payment. These were reviewed and where required vendors were blocked. Of these 111, 77 were duplicates which were blocked following the review. The primary reason is for a change in master data such as GST number changes or changes to the trading name of the entity. An additional process will be added to ensure that the old accounts are blocked as part of the establishment of the new account. The remaining 34 duplicates are valid. These are instances when a vendor has more than one business function or GST/Non-GST accounts i.e. Hastings District Council. There were no incorrect payments within the above transactions.
10. There were 8 possible duplicate payments identified with 3 payments being genuine payments. Five invoices totalling \$11,210.88 were paid twice and have been refunded.

Four were identified prior to the audit . One was identified as a result of the audit totalling \$38.96 and has since been refunded. The invoice processing errors occurred during the invoice scanning and were incorrectly scanned with different invoice numbers for example: INV-0332 & INV-0332. Officers continue working with the scanning software provider to reduce the errors and also systemically review the scanning results for any errors as part of the scanning process.

11. In terms of the cross matching of data between payroll and accounts payable all records were reviewed with no issues to note.
12. For the payroll data, all data was reviewed with no issues noted.

2018-19 Comparison

13. The list of duplicates within the supplier master file, i.e. supplier account information has increased from 34 to 111. Previously the criteria was based on supplier accounts where at least one of the accounts had a payment over \$5000. This year's criteria is based on any payment from one of the duplicate accounts.
14. The number of possible duplicate payments increased from 4 to 8 with 5 being actual double payments in comparison with none last year.
15. Overall the number of errors arising from internal processes is comparable to prior year, with internal checks continuing to keep the number of flagged or highlighted transactions arising within the review to a low percentage of the overall transactions. Staff recognize that there is a need to maintain appropriate process to reduce errors and to ensure correct internal controls are used to reduce the risk of fraud or misappropriation.

New Finance System Process Changes

16. The implementation of the new finance system will reduce the opportunity for the following issues.
 - 16.1. Duplication of supplier accounts will be reduced as GST/Non-GST triggers can be controlled by the GL account they are posted as well as at supplier account level.
 - 16.2. The introduction of purchase orders will reduce duplicate payments as invoices will need to be matched to purchase orders with values.

Next Steps

17. Staff are seeking feedback as to whether this Sub-committee would like to see another data analytics assignment be conducted for 2020-21, as Auditors recommend completing a data analytics audit every year. With the low rate of issues, the Data Analytics audit could be delayed a year.
18. A Data Analytics audit is recommended for the 2021-22 year as this will be the first year of processing transactions in TechOne One Council.

Decision Making Process

19. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that:
 - 19.1. as this report is for information only, the decision-making provisions do not apply.
 - 19.2. any decision of the sub-committee is in accordance with the Terms of Reference and decision-making delegations adopted by Hawke's Bay Regional Council 25 March 2020, specifically the Finance, Audit and Risk Sub-committee shall have responsibility and authority to:
 - 19.2.1. Receive the internal and external audit report(s) and review actions to be taken by management on significant issues and recommendations raised within the report(s)
 - 19.2.2. Ensure that recommendations in audit management reports are considered and, if appropriate, actioned by management.

Recommendation

That the Finance, Audit and Risk Sub-committee receives and notes the *“Data Analytics Internal Audit Report”*.

Authored by:

Bronda Smith
CHIEF FINANCIAL OFFICER

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES

Attachment/s

1 [↓](#) Internal Audit Data Analytics report



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1. Executive Summary

1.1. Objectives and scope

The objective of this assignment was to perform the specified tests per the Scoping Document dated November 2020 to detect suspicious transactions and master data. The testing areas were payroll and accounts payable payments and master data.

The transactional data testing included transactions during the period 1 July 2019 to 30 June 2020 with the master data testing as at the date of extraction which was 11 December 2020.

The data analysis work did not include assessment of the respective internal controls within the business processing areas and was limited to factual reporting of identified data anomalies as per the specified tests undertaken.

Completion of the specified tests was subject to the availability of data from the Council's systems. Tests where the data was unavailable are indicated in the results where applicable.

1.2. Results

This report includes a summary of the results of the payroll and finance application data testing. The results are presented in three sections:

- Accounts payable master data and transactions
- Cross matching of data between accounts payable and the payroll system
- Payroll master data and transactions

We have provided management with an Excel workbook containing the results for each area. Each Excel workbook includes a summary results table with risk indicators and recommended actions and the detailed transactions and master data records identified through completion of the specified tests. Individual records are highlighted in the Excel workbook that we consider require further investigation.

1.3. Basis and use of report

This report has been prepared in accordance with our Scoping Document dated November 2020 and subject to the limitations set out in the Appendix - Basis and Use of the Report.

1.4. Risk indicators

Each test result has been given a risk indicator. The risk indicators were determined based on a subjective determination of the likelihood of the results containing fraud or error and the potential materiality of any fraud or error identified. The indicators are as follows:

- L = Low
- M = Medium
- H = High
- N/A = No results or no actions required

2. Results and recommendations

2.1. Accounts payable

No	Test	Result	Indicator	Recommended action(s)
1	No bank details in Vendor master data and paid	No records identified.	N/A	N/A
2	Duplicate bank account and similar name	111 duplicate bank accounts were identified with a similar name (80% similarity) and where at least one duplicate bank account was paid.	M	Review and block duplicate Vendors as required.
3	Similar name and different bank account number	33 records identified with similar Supplier name (90% similarity) and different bank account numbers. Note that where no bank account is shown for the duplicate Supplier, the Payment Method is "CHEQUE". 10 Suppliers were paid a total over \$1,000. Having duplicate vendors with different bank accounts increases the risk of paying a fictitious vendor or the wrong bank account.	M	Review the records to identify any unknown Vendors and payments not as expected. Block Vendors as required.
4	Duplicate PO Box and similar name	14 duplicate PO Box numbers were identified with a similar Vendor name. 7 duplicates were paid a total over \$1,000.	M	Review the records to identify any unknown Vendors and payments not as expected. Block Vendors as required.
5	Duplicate physical address and similar name	26 duplicate street records were identified with a similar name. 10 duplicates had total amounts over \$1,000.	M	Review the records to identify any unknown Vendors and payments not as expected. Block Vendors as required.
6	Multiple bank account changes	2 vendors identified with multiple bank account changes and where a payment was made to the vendor during the period of account changes. All payments were over \$1,000.	M	Review the records highlighted to confirm that payments made were as expected.
7	Payment transactions with no master data	No records identified.	N/A	N/A
8	Payment transactions to blocked Suppliers	4 vendors identified that was blocked in the master data and paid. 2 of these vendors were paid a total over \$1,000.	L	Review the records to identify any unknown vendors or payments not as expected.

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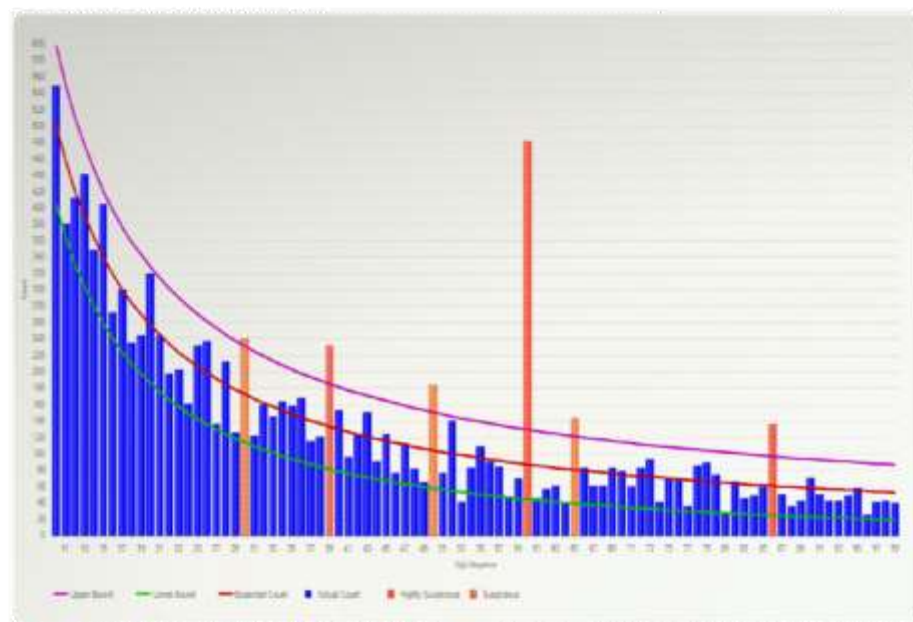
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No	Test	Result	Indicator	Recommended action(s)
9	Invoices prepared at the weekend	A) 423 transactions were approved on a weekend day of which 27 were over \$10,000. B) The transactions are summarised into 227 Vendors. Showing total transactions per Vendor, approved on a weekend day.	M	Scan the records paid over \$10,000 to identify any payments to vendors not as expected.
10	Round numbered payments	255 round numbered payments identified (summarised into 214 vendors). All payments were over a \$1,000 of which 93 had a total round numbered payments over \$10,000.	M	Scan the list of suppliers for any unusual suppliers or amounts.
11	Benford's Law - Graph of expected frequencies for the first 2 digits	As shown in figure 1 below, the significant spike patterns outside the expected upper range are payments amounts starting with the two-digit numbers 30, 39, 50, 60, 65 and 86. Summary results of the payments starting with those digits are below.	L	Based on our review of the transactions at face value (no substantive testing) the spikes appear to have been caused by various vendors and amounts for regular services. No unknown vendors with material amounts (over \$10,000) were identified. No action required.
12	Multiple payment methods used (Duplicate Vendor Number and Gross Amount AND different payment type)	No records identified.	N/A	N/A
13	Top 50 Vendors by amount	As shown.	M	Scan the list for any Vendors that are not known for the services provided.
14	Duplicate invoice date and amount (80% similarity on invoice reference)	8 possible duplicate transactions identified of which 4 were over \$1,000.	L	Review to ensure duplicate payments were not made.
15	Duplicate payments (similar invoice number at 80% similarity AND duplicate Supplier Number, Gross Amount and Invoice Date)	No records identified.	N/A	N/A
16	Invoices with more than one purchase order authorisation (split payments)	No records identified.	N/A	N/A
17	Invoices approved by persons over or on their delegated authorities	No data provided to perform the test.	N/A	N/A
18	Vendors where all invoices were prepared and approved by the same person	No records identified.	N/A	N/A

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No	Test	Result	Indicator	Recommended action(s)
19	Credit notes by Vendor, volume and amount (Top 50)	A) 26 vendors by total credit amount. 11 of these vendors received total credits over \$1,000. The highest volume was 9 and made to OFFICEMAX NEW ZEALAND LIMITED. B) Showing detail of the vendors with total credits over \$1,000.	L	Scan the list of vendors where total credits were greater than \$1,000 for any unknown vendors or vendors where credits would not be expected.
20	Vendors with transactions with and without GST	No data provided to perform the test.	N/A	N/A

Figure 1 – Benford's analysis



Benford's Law states that if you randomly select a number from a natural data set of numbers, the value of the first digit(s) in that number will occur at a predictable frequency. For example, the probability that the first digit will be a '1' is approximately 30%, rather than 11.1% as we might expect if all digits were equally likely (1 out of 9). We use Benford's Law to highlight variances from the normal expected occurrences of the first two digits in a transaction.

Anomalies that would appear as spikes and gaps against Benford's expected results could be an indication of payments being split at a certain level to avoid financial delegation limits. For example, a spike before the 5's and a gap after the 5's could indicate payments being split to overcome a financial delegation limit of \$5,000.

By applying the expected results of the Benford's Law theory to the vendor payments tables, the results generally match with the expected probabilities.

As shown in the graph above, the significant spike patterns outside the expected upper range are payments amounts starting with the two-digit numbers 30, 39, 50, 60, 65 and 86. Summary results of the payments starting with those digits are below.

2.2. Matching master data between the accounts payable and payroll systems

No	Test	Result	Indicator	Recommended action(s)
1	Vendors with a bank account match to the employee master data (excluding employees)	11 matching bank accounts identified that included 4 vendors with total payments over \$1,000.	L	Scan the records to identify any unknown Vendors. (See test 6 for detail of payments).
2	Employees paid through accounts payable (bank account match and similar name in the vendor master data)	53 bank matches were identified where the employee name was similar to the vendor name. 6 of these matches had total payments over \$1,000.	L	Review the 6 records highlighted with payments through accounts payable over \$1,000. Confirm the payments are consistent with contractual arrangements.
3	Vendors with an address match (PO Box) to employee master data (excluding employees)	4 Vendors identified that matched with the PO Box of an employee. 1 vendor was paid a total over \$1,000 for the review period.	L	Review and block Vendors as required.
4	Vendors with an address match (physical address) to employee master data (excluding employees) Fuzzy logic is employed to identify address matches where characters differ within a set tolerance (allows Street and St to be matched for example).	30 Vendors were identified of which 9 had total payments over \$1,000. We note in some cases the Vendors may be the spouse or otherwise related to an employee.	M	Review the 5 Vendors highlighted with payments over \$1,000 (vendors highlighted on the bank match tab are not again highlighted). (See test 6 for detail of payments).
5	Employees paid through accounts payable (physical address match to the Vendor master data)	15 records were identified with a street address match between the employee master data and Vendor master data. 14 records were included in R2 above, the total payments to the one record not included in R2 was less than \$1,000.	L	No action required.
6	Payments to Vendors with a master data Bank or Address match to an employee	The results shows 59 transactions relating to tests R1, R3 and R4.	M	Review transactions as required to establish whether Vendors are genuine.
7	Payments to Vendors with an employee master data match approved by the employee	3 records identified with master data match to an employee and payments approved by the employee. All payments were below \$1,000. A) 1 payment approved by an employee with bank account match to vendor; B) 2 payments approved by an employee with a street address match to vendor.	L	Review the results to identify any payments to vendors not as expected.

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2.3. Payroll

No	Test	Result	Indicator	Recommended action(s)
1	Master data records with no address recorded	25 employees identified with no address in the master (15 with a start date during the period of review). All employees were paid total amounts over \$1,000.	L	Confirm the employees exist and update master data as required.
2	Referral address	10 records identified with only a referral address (1 with a start date during the period of review).	L	Confirm the employees exist, payments were for genuine services provided and update master data as required.
3	Invalid IRD number An IRD number was determined invalid if the last digit (the check digit) was not consistent with the expected value. The expected value was determined based on the IRD methodology for setting the check digit.	No records identified.	N/A	N/A
4	Duplicate IRD number in master data	No records identified.	N/A	N/A
5	Employee with no bank account in the master data	6 records identified with no bank account in the master. No payments were made during the period of review and they are all terminated.	L	No action required.
6	Duplicate bank account	3 duplicate bank accounts identified of which 1 is a possible family connection and 2 have no clear connections (1 of these duplicates share the same Cost name).	M	Scan the listing for any unknown relationships that could potentially present a segregation of duties or conflict of interest issue.
7	Duplicate name and different IRD numbers	No records identified.	N/A	N/A
8	Employees with no date of birth in the master data	5 records identified with no birth date in the master.	L	Review the 2 records highlighted where payments were made over \$10,000 and the employee is not terminated. Confirm the employees exist and update the master data as required (noting a DOB is often not a mandatory field).

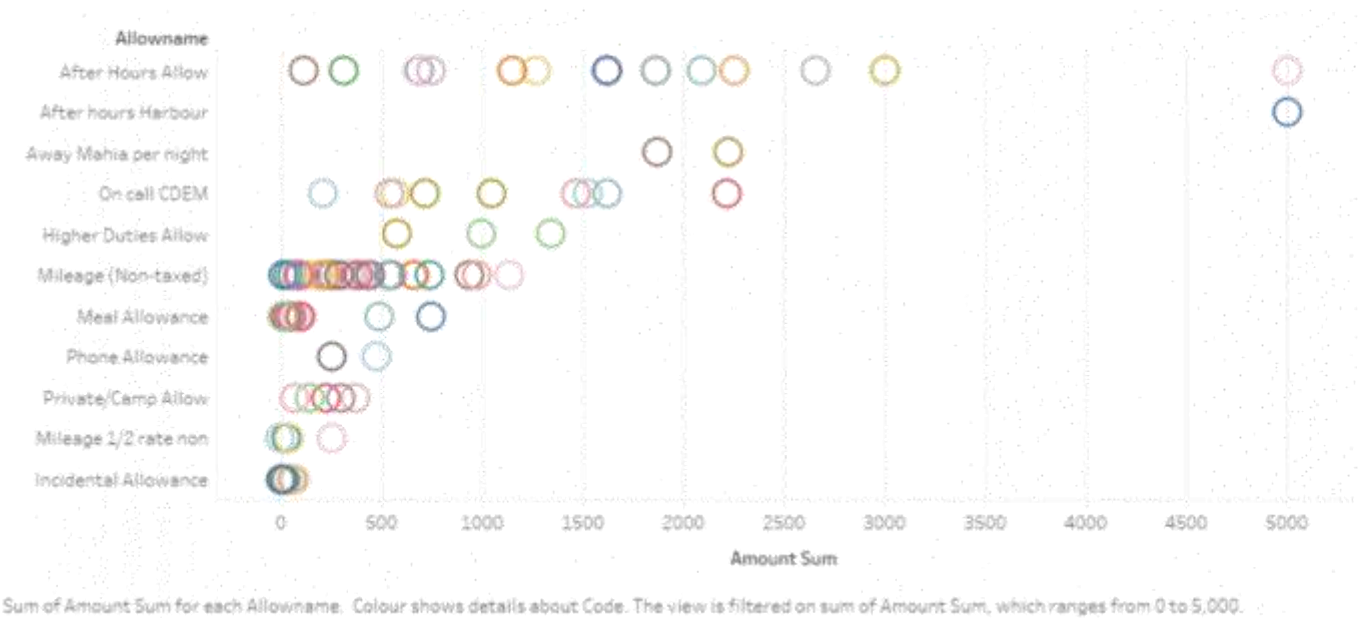
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No	Test	Result	Indicator	Recommended action(s)
9	Employees paid prior to start date	2 Employees in the Payrun data were paid before their Start dates. Total payments per employee were \$49,619 and \$7,436 respectively.	H	Review the records highlighted and confirm that payments were as expected.
10	Employees paid after termination date	Unable to perform this test as the Payrun data did not include terminated employees.	N/A	N/A
11	Short duration of employment (less than 30 days)	No records identified.	N/A	N/A
12	Analysis of allowances per person (total per employee per allowance description)	A) The visualisation shows that the "After Hours Allow" and "After hours Harbour" were the highest paid allowances. No other allowances were over \$5,000. B) Showing detail of employees paid a total allowance over \$2,000.	L	Confirm the 2 highest paid allowances are consistent with contractual arrangements.
13	Hourly rate paid that is less than minimum wage	No records identified.	N/A	N/A
14	Round numbered payments	27 round numbered payments identified (summarised into 4 employees). All payments were over \$1,000.	M	Ensure the records highlighted are consistent with contractual arrangements.
15	Transactions with no match to the master data	1 employee identified with no record in the master data (and Cost name "Contractors"). The total gross pay is less than \$1,000.	L	Review the record highlighted to confirm the employee exist and the payment is as expected.
16	Duplicate address - PO Box	No records identified.	N/A	N/A
17	Duplicate address -Street	17 duplicate records identified of which 8 had the same last names which indicates possible family relations. 9 records had no obvious relationship between the employees. 2 of the 17 results have start dates during the period of review.	L	Review the 1 record highlighted from the current period of analysis (employees that started after 1/07/2019) to confirm employees exist and that there are no segregation of duties concerns.
18	Overtime Statistics	No data provided to perform this test.	N/A	N/A

Figure 2 – Summary of allowances



Appendix

Basis and use of opinion

This report is prepared on the basis of the limitations set out below:

- Our procedures were performed according to the standards and guidelines of The Institute of Internal Auditors' International Professional Practices Framework. The procedures were not undertaken in accordance with any auditing, review or assurance standards issued by the External Reporting Board (XRB).
- This report has been prepared pursuant to our terms of engagement. In preparing our report, our primary source of information has been the internal data supplied to us by management and representations made to us by management. We have not, however, sought to establish the reliability of the information sources by reference to other evidence. This report presents the results of our analysis of the information we have relied upon.
- Our report makes reference to 'Data Analysis'. This indicates only that we have (where specified) undertaken certain analytical activities on the underlying data to arrive at the information presented. We do not accept responsibility for the underlying data.
- The statements and findings included in this report are given in good faith, and in the belief that such statements and findings are not false or misleading, but no warranty of accuracy or reliability is given. In accordance with our firm policy, we advise that neither the firm nor any employee of the firm undertakes responsibility arising in any way whatsoever to any persons. Our findings are based solely on the information set out in this report. We reserve the right to amend any findings, if necessary, should any further information become available.
- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout a specified period and any tests performed were on a sample basis.
- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.
- The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.
- Recommendations for improvement should be assessed by management for their full commercial impact, before they are implemented.
- This Report is not to be used by any other party for any purpose nor should any other party seek to rely on the opinions, advice or any information contained within this Report. In this regard, we recommend that parties seek their own independent advice. Crowe disclaims all liability to any party other than the client for which it was prepared in respect of or in consequence of anything done, or omitted to be done, by any party in reliance, whether whole or partial, upon any information contained in this Report. Any party, other than the client for which it was prepared, who chooses to rely in any way on the contents of this Report, does it so at their own risk.

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HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 05 May 2021

Item 9

Subject: QUARTERLY TREASURY REPORT FOR 1 JANUARY - 31 MARCH 2021

Reason for Report

1. This item provides compliance monitoring of Hawkes Bay Regional Council (HBRC) treasury activity and reports the performance of Council's investment portfolio for the quarter ended 31 March 2021.

Overview of the Quarter - ending 31 March 2021

2. Borrowing totalling \$10m was raised with the LGFA. Two forecast \$5m loans were raised. Both raised at fixed rates of 1.6% (4 years) and 1.97% (5 years) respectively.
3. Managed Funds have provided a year-to-date gross income net of fees of 6.6%. The funds continue to perform better than the Covid-19 Adjusted 2020-21 Annual Plan.
4. The C&S Committee declined an offer by the building owner to purchase one of HBRCs Wellington leasehold properties.
5. As at 31 March 2021 closing, HBRC was non-compliant with its Treasury policy in the following 4 parameters:
 - 5.1. Funding Risk Control
 - 5.2. Interest Rate Risk
 - 5.3. Counterparty Credit Limits (now within policy limits)
 - 5.4. Asset Allocations (now within policy limits).
6. All breaches, and proposed actions to rectify, are discussed in detail in this report.

Background

7. The Investment management reporting requirements, outlined within Council's Treasury Policy, requires quarterly reporting to the Financial Audit & Risk Sub-Committee (FARS) of current investment allocation and investment performance.
8. All Treasury investments are to be reported on quarterly. As at 31 March 2021, Treasury Investments to be reported on consist of:
 - 8.1. Liquidity
 - 8.1.1. Cash and Cash Equivalents
 - 8.1.2. Debt Management
 - 8.2. Externally Managed Investment Funds
 - 8.2.1. Long-Term Investment Fund (LTIF)
 - 8.2.2. Future Investment Fund (FIF)
 - 8.3. Investment properties
 - 8.4. HBRIC Ltd
 - 8.5. 2020-21 Year to Date Performance Summary.
9. Since 2018, HBRC has procured treasury advice and services from PwC and their quarterly compliance report is attached.

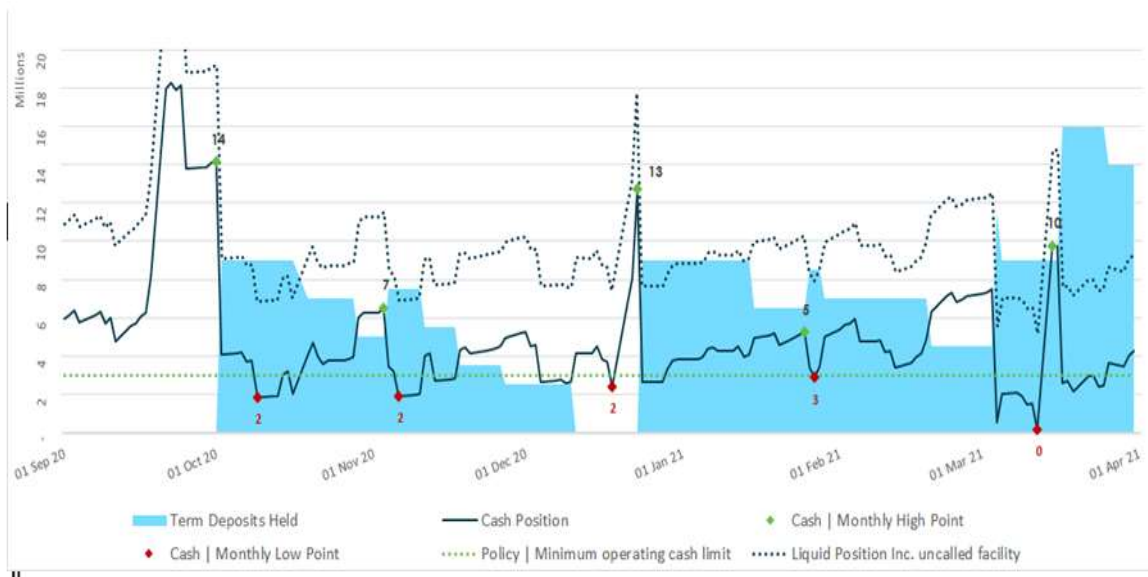
Discussion

Liquidity – Cash & Cash Equivalents

10. To ensure HBRC has the ability to adequately fund its operations, current policy requires HBRC to maintain a liquid balance of \$3.0m.
11. The following table reports the cash and cash equivalents as at 31 March 2020.

31 March 2021	\$000
Cash	4,943
HBRC Held Cash	4,279
Works Group	325
Other – managed trusts	339
Short-term bank deposits	14,000
Cash & and cash equivalents	18,943

12. HBRC liquidity throughout Q3 benefited from the strong YTD cash position at the end of Q2 and the loans raised with the LGFA on 15 March 2021 (\$10m). - The \$10m in loans raised with the LGFA reflects HBRC cash requirement through to approximately June/July 2021.
13. Any cash surplus to operating requirements is placed on term deposit. All of the possible 90 days in the quarter had an average of \$8.6m held in term deposits; returning an average of 0.25% or \$6.1k for the period.
14. At 31 March 2021 closing, HBRC had placed all its short- term bank deposits (\$14m) with Westpac Bank with the intention to maximize the interest being earned. This resulted in HBRC not being compliant to current counterparty policy limits. Counterparty policy risk is the risk of any loss arising from a counterparty defaulting. Current policy limits officers to place a maximum of 50% of Rates Revenue placed in 1 RBNZ Registered Bank. HBRC was over this limit by ~\$500k for a total 23 days. The timing of already held term deposit maturing and the materiality of separating \$500k, would have negated any gains having the full \$14m placed with Westpac. The proposed Treasury Policy within the 2021-31 LTP, sees the Counterparty limit increase to \$15m.
15. To manage HBRC liquidity risk, HBRC retains a Standby Facility with BNZ. This facility provides HBRC with a same day draw down option, to any amount between \$0.3-\$5.0m, and with a 7-day minimum draw period. The cost of the renewed current facility is an establishment fee (\$10,000), an annual line fee 0.37% (\$18,500) + a margin above BKBM of 1.45% on any borrowings.
16. With advice from PwC, this facility has recently been renewed with BNZ, in favor of the LGFA due to its minimum draw period and the 4-year facility term. The current LGFA facility would frustrate HBRC liquidity policy requirements with its rolling 15 month term, i.e. not having a secured liquidity beyond 15 months.
17. As new debt is drawn in line with the proposed 2021-31 LTP, consideration will be given to a mix of LGFA and BNZ facilities.
18. The renewal of this facility briefly placed HBRC outside current policy compliance to its funding & liquidity risk positions. Funding & liquidity risk positions are set to avoid the occurrence of Council needing to refinance a substantial proportion of debt at the same time and being exposed to unfavorable pricing. By renewing the Standby Facility, at 31 March, 10% of HBRC debt profile matured within 3 years. The current policy's minimum requirement is 15%. This breach was only temporary and is now compliant.
19. The following graph shows the daily closing cash position and Term Deposits held throughout Q3.



Debt Management

20. As at 31 March 2021, current external debt was \$31.3m, \$48.0m when taking into consideration the internal \$16.7m HBRIC loan. All financial covenant ratios are currently at least 4 times under any internal or external limit. The financial covenant ratios can be seen in the attached PwC report.
21. The year-end debt position is forecast to be \$36.9m, excluding the HBRIC loan and any further distributions from Managed Funds. Accounting for the existing \$31.3m plus the forecasted \$5.9m requirement detailed below. This is slightly above that forecast in the 2018-28 LTP, which forecast borrowing to be \$35.5m at the end of the 2020-21 year, and below the 2020-21 Covid-19 Adjusted Annual Plan of \$41.3m.
22. With HBRC current debt profile continuing to mature, along with the proposed “ramp up” in borrowings forecasted within the 2021-31 LTP, HBRC remains outside its interest rate risk management policy. The policy is written to minimize any adverse movements in interest rates which could affect future cash flows.
23. Officers continue to work with PwC to adhere to best practice on this noncompliance. An option available to correct HBRC interest rate position is utilising financial instruments such as swaps to effectively fix existing floating rated loans. This option can have undesired effects however, where future expected borrowings are delayed and HBRC is then required to rebalance its interest rate position again.
24. It should be noted that the forecast remaining debt requirement for 2020-21 would still not allow HBRC to be operating within the current policy.
25. Upon writing this report, Q3 reforecasts are still being completed. Full year forecasts will be presented at the next Corporate & Strategic Committee meeting. The table below details the current understood debt requirements compared to the 2020-21 Annual Plan.

Loan Requirements	2020-21 Annual Plan \$000	Approved Additional Funds \$000	Total Approved Requirement \$000	2020-21 Debt Forecast* ¹ \$000	Variance to Approved Requirement \$000
Sustainable Homes	3,527	-	3,527	3,527	-
Systems Integration	1,913	-	1,913	1,275	(638)
Building Accommodation	2,000	-	2,000	500	(1,500)
HBRC Recovery Fund	1,000	-	700	-	(700)
Porangahau Catchment			300	50	250

Loan Requirements	2020-21 Annual Plan \$000	Approved Additional Funds \$000	Total Approved Requirement \$000	2020-21 Debt Forecast* ¹ \$000	Variance to Approved Requirement \$000
Integrated Catchment	2,250	2,450	4,700	3,900	(800)
Covid-19 Budget Impacts	7,584	-	7,584	5,000	(2,584)
Other	755	-	755	755	-
Total	19,029	2,450	21,479	15,857	(3,172)
* ¹ As at the end of Q3, only \$10m of 2020-21 requirement has been raised.					

26. As at 31 March 2021, the borrowing forecast of \$15.9m is based on the expected full year expenditure for 2020-21. The adjusted forecast requirements for “Systems Integration” and “Building Accommodation” is due to the timing of expenditure and request to carry forward this borrowing into 2021-22 is expected.
27. Borrowing required for the Covid-19 related reduction in investment income is subject to change. Any upside in investment income, from either an additional HBRIC dividend or managed fund returns, will reduce the current requirement.
28. The Recovery Fund has committed spend of \$300k on the Porangahau Catchment, with \$50k expected to be spent within 20-21, \$100k in 2021-22, \$100k in 2022-23 and \$150k in 2023-24.

Managed Funds

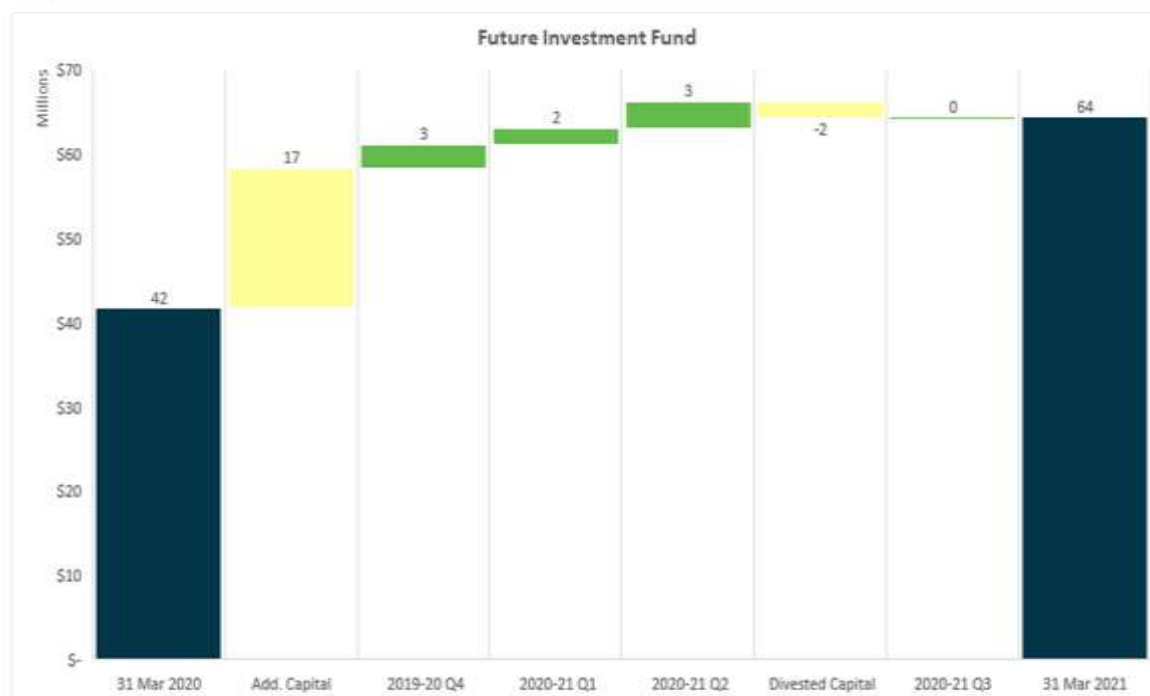
29. For the purposes of this report, the below terms have been referred to and have the following meaning.

Term	Meaning
Gross Income Net of Fees	The full amount the fund has returned for the period, net of any fees paid to the fund managers. This amount remains in the funds unless divested.
Capital Protection	The amount the fund must earn in relation to the rate of inflation to retain its real purchasing power.
Funding Council Operating Costs	The amount the fund must earn to fund Council operating costs (offsetting rating requirements).
Divested Capital	Gross Income Net of Fees less Capital Protection and have now been withdrawn from the funds.
Undivested Funds Available	Gross Income Net of Fees less Capital Protection that are still invested within the funds.

30. The Fund performances have slowed over the last quarter, however are still performing ahead of forecast with a weighted average gross income net of fees of 9.3% (annualised 12.6%) compared to the Post Covid-19 2020-21 Annual Plan of 4% (6% annualised).
31. Officers cautious approach of de-risking against short market fluctuations and divesting \$6.4m at the end of Q2 was seemingly a prudent decision.
32. Should the current performance of the funds continue, Officers intend to divest from the funds, further reducing the borrowing requirement arising from the Covid-19 adjusted 2020-21 Annual Plan.
33. The table and graphs following summarise the quarter end fund balances over the last 12 months.

Fund	31 Mar 2020 \$000	30 Jun 2020 \$000	30 Sep 2020 \$000	31 Dec 2020 \$000	31 Mar 2021 \$000
Long-Term Investment Fund	46,305	49,950	51,810	49,925 *	50,206
Future Investment Fund	41,712	61,128	63,094	64,300 *	64,418
Total	95,398	88,017	111,078	114,904	114,625

* December 2020 saw \$6.5m (LTIF \$4.5m & FIF \$2.0m) Funds being divested for the first time, which explains the reduced fund balance.



Long-term Investment Fund

34. Invested since November 2018, the fund provides a return which, protects capital value first and then funds Council's operating costs.
35. The table below shows the LTIF income earned YTD against the 2020-21 Annual Plan.

Income	Full Year Annual Plan 2020-21		YTD Ann. Plan		YTD Q3 Actuals		Variance to YTD Ann. Plan
	\$000	%	\$000	%	\$000	%	
Capital Protection	838	2%	629	1%	718	1%	91
Fund Operating Costs	1,876	4%	1,407	3%	4,015	8%	2,608
Gross Income Net of Fees	2,715	6%	2,036	5%	4,735	9%	2,699

36. The table below shows the key balances of the LTIF as at the end of Q3.

	1 July 2020 – Opening Balances			31 March 2021 – Closing Balances		
	Capital Protected Balance	Undivested Funds Available	Total Fund Balance	Capital Protected Balance	Undivested Funds Available	Total Fund Balance
	\$000	\$000	\$000	\$000	\$000	\$000
LTIF	47,996	1,954	49,950	48,719	1,487	50,206

37. The table above has been prepared as at 31 March 2021 (Q3). It should be noted, that the LTIF needs to earn a further \$240k to meet the required annual capital protection of \$980k. This amount is slightly different to the 2020-21 Annual Plan, due to the budgeted numbers being set off the Fund Balances in March 2020.
38. At closing on 31 March 2021, Jarden's asset allocation was below SIPO policy minimum limits for International Fixed Income in the Long-Term Investment fund (LTIF). This was caused by the asset classes negative return reducing the value relative to the portfolio. The allocation returned to policy compliance during April.

Future Investment Fund (FIF)

39. Invested since September 2019, the fund provides a return which, protects capital value first and then funds Council's operating costs.
40. The table below shows the FIF income earned YTD against the 2020-21 Annual Plan.

Income	Full year Annual Plan 2020-21		YTD Ann. Plan		Q3 YTD Actuals		Variance to YTD Ann. Plan
	\$000	%	\$000	%	\$000	%	
Capital Protection	974	2%	731	1%	927	1%	196
Fund Operating Costs	1,690	4%	1,268	2%	4,306	7%	3,038
Gross Income Net of Fees	2,665	6%	1,999	3%	5,232	8%	3,234

41. The table below shows the key balances of the FIF as at the end of Q3.

	1 July 2020 – Opening Balances			31 March 2021 – Closing Balances		
	Capital Protected Balance	Undivested Funds Available	Total Fund Balance	Capital Protected Balance	Undivested Funds Available	Total Fund Balance
	\$000	\$000	\$000	\$000	\$000	\$000
FIF	61,775	(647)	61,128	62,706	1,662	64,418

42. As mentioned previously, the previous table has been prepared as at 31 March 2021 (Q3). Similar to the LTIF, the FIF will need to earn a further \$305k to meet the required annual capital protection of \$1,236k.

Investment Property

43. In the current financial period, 2020-21, 16 Napier Endowment Leasehold Properties have been freeholded totaling \$2.4m. \$2.1m of this has been subsequently paid to ACC as settlement for the remaining 42 years rent for these properties.
44. The income from leasehold sales is recognised in the current financial year. Most of which goes into offsetting the movement in the ACC liability – the additional proceeds are now being placed in the Sale of Land Reserve.

HBRIC

45. Per Council Policy, HBRIC will separately provide a quarterly update to the Corporate and Strategic Committee in May 2021. Main matters of relevance are:
- 45.1. Consultation on establishing a new Council Controlled Trading Organisation has completed and an update will be made by HBRIC.
- 45.2. Potential that the PONL will pay a final dividend in June 2021
- 45.3. The table below shows the key balances of the FIF (HBRIC) as at the end of Q3.

	1 July 2020 – Opening Balances			31 March 2021 – Closing Balances		
	Capital Protected Balance	Undivested Funds Available	Total Fund Balance	Capital Protected Balance	Undivested Funds Available	Total Fund Balance
	\$000	\$000	\$000	\$000	\$000	\$000
FIF	46,584	(964)	45,620	47,286	1,475	48,726

2020-21 Year to Date Performance Summary

46. The following table shows investment income to date against the 2020-21 Annual Plan.

Income	Annual Plan 2020-21 \$000	YTD Ann. Plan \$000	YTD Q3 Actuals \$000	Variance to YTD Ann. Plan \$000
Other financial assets	4,195	3,146	8,345	5,199
Managed Funds	3,567	2,675	8,321	5,646
Other Interest*	628	471	24	(447)
Investment property	2,343	1,757	1,487	(270)
Endowment leasehold land	1,502	1,127	851	(276)
Wellington Leasehold land	841	631	636	5
Dividends	5,369	4,777	9,158	4,381
PONL Dividend	3,000	3,000	5,500	2,500
Managed Fund	2,369	1,777	3,658	1,881
Total	11,907	9,680	16,729	9,310

* Includes Interest budgeted to be earned on scheme reserves.

47. The \$9.3m favourable YTD performance should be considered cautiously. There is still a significant 'point in time' factor that could potentially reduce this variance significantly over the last quarter, particularly when considering the performance of the managed funds. It would be prudent to expect that the future returns will continue to equalise over the next remaining quarter. If performance does equalise, it could be expected that the full year performance will be ~\$8.0m ahead of budget.

48. The other material significant change which may arise is Napier Port paying HBRIC an interim dividend in June 2021. For this to have a fiscal impact for Council, HBRIC's Board would need to consider its requirements and then to agree to any funds being passed to Council. Unlike the managed funds, this would continue to improve the actual performance when compared to the 2020-21 Annual Plan

Decision Making Process

49. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
- 49.1. The agenda item is in accordance with the Finance, Audit and Risk Sub-committee Terms of Reference, specifically "The Finance, Audit and Risk Sub-committee shall have responsibility and authority to (2.4) monitor the performance of Council's investment portfolio".
- 49.2. As this report is for information only, the decision making provisions do not apply.

Recommendation

That the Finance, Audit and Risk Sub-committee receives and notes the "*Quarterly Treasury Report for 1 January - 31 March 2021*" and confirms that the performance of Council's investment portfolio has been reported to the Sub-committee's satisfaction.

Authored by:

Geoff Howes
TREASURY & FUNDING ACCOUNTANT

Bronda Smith
CHIEF FINANCIAL OFFICER

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES

Attachment/s

- 1 [↓](#) HBRC Treasury Reporting - March 2021

Hawke's Bay Regional Council

Quarterly Treasury Reporting

As at 31 March 2021

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1.0 Executive summary

Total assets under management (AUM) across the three respective portfolios was \$163.4 million as at 31 March 2021, comprising \$50.2 million in the Long Term Investment Fund (LTIF), \$64.4 million in the HBRC Port Future Investment Fund (HBRC PFIF) and \$48.7 million in the HBRC Port Future Investment Fund (HBRC PFIF). Total AUM is slightly up from \$162.5 million as at 31 December 2020. There was no withdrawal of funds this quarter but net returns were quite low due to some asset classes underperforming.

Total capital contributed to the three portfolios since inception is \$152.2 million; adjusted for inflation, this equates to \$158.7 million, meaning the portfolio value at 31 March 2021 remained \$4.6 million above the inflation adjusted contribution figure. The portfolio did not grow any faster than the inflation reserve benchmark as average quarterly returns approximately equalled the inflation adjustment.

The Mercer sleeve of the LTIF returned 0.1% net of fees over the March quarter, bringing the total cumulative return since inception to 19.6% (8.5% annualised). The Jarden sleeve of the LTIF returned 1.0% net of fees over the March quarter, bringing the total cumulative return since inception to 19.0% (8.2% annualised).

The Mercer sleeve of the PFIF returned 0.1% net of fees over the March quarter, bringing the total cumulative return since inception to 9.7% (6.2% annualised). The Jarden sleeve of the PFIF returned 0.8% net of fees over the March quarter, bringing the total cumulative return since inception to 10.9% (6.9% annualised). Overall, Jarden's returns were slightly higher than Mercer due to their lower relative weighting to classes with a lower/negative benchmark return.

The interest rate environment in New Zealand (and across the developed world) demonstrated significant volatility during the first quarter of 2021 as the global financial markets turned its attention from Covid concerns to recovery optimism. That optimism saw market attention switch focus to the likely timing of a commencement of monetary policy tightening in the near-term. For the long-end of interest rate curves (ten-years) the focal point was the inflation implications of major central banks maintaining a preference for allowing their respective economies to run a little hot, waiting for inflation to become more broad-based before tightening monetary conditions. This perspective led to the New Zealand interest rate curve moving higher and steeper.

Treasury activity remains compliant with its Treasury policy limits except;

- For the interest rate risk position and the debt funding maturity limits. Council is seeking an extension of the BNZ committed stand-by facility into April 2025 (originally maturing in April 2021). Although there is temporary non-compliance in the 0-3 year time band, compliance is resolved by 30 April 2021. The interest rate risk position is policy non-compliant in years 4 and 5. An interest rate strategy will be implemented to resolve this after the new LTP debt forecast is adopted following public consultation.

- Counterparty credit limits with Westpac term deposit investments being slightly above the limit amount.

Council remains compliant to the LGFA borrowing limits.

At closing on 31 March 2021, Jarden's asset allocation was below SIPO policy minimum limits for International Fixed Income in the Long-Term Investment fund (LTIF). This was caused by the asset classes negative returns reducing the value relative to the portfolio. The allocation returned to policy compliance during April.

2.0 Treasury Activity Compliance Monitor

Policy document	Policy parameters	Compliance
Treasury Policy	Borrowing limits	Yes
	Funding risk control limits	No
	Liquidity buffer	Yes
	Interest rate risk control limits	No
	Treasury investment parameters	Yes
SIPO	Counterparty credit limits	No
	Asset allocations	No

3.0 Investment Management Reporting

Long Term Investment Fund (LTIF)

Summary of Assets Under Management (AUM)

A summary of quarterly AUM can be found below. The inflation adjusted column adjusts the initial capital contribution by an annual inflation rate of 2% (or 0.5% per quarter).

	LTIF - AUM				
	Mercer	Jarden	Total	Inflation Adj.	Monies Change
31/12/2018					40,000,000
31/03/2019	20,467,057	20,403,260	40,870,317	40,200,000	
30/06/2019	21,035,196	20,874,345	41,909,541	40,486,575	6,577,569
30/09/2019	24,960,088	24,579,337	49,539,425	47,266,577	
31/12/2019	25,259,718	25,391,673	50,651,390	47,502,910	
31/03/2020	23,247,769	23,057,262	46,305,031	47,740,425	
30/06/2020	25,039,125	24,910,760	49,949,885	47,995,695	
30/09/2020	26,041,054	25,771,612	51,812,666	48,235,674	
31/12/2020	24,930,295	24,994,371	49,924,666	48,476,852	-4,478,429
31/03/2021	24,965,785	25,240,491	50,206,276	48,719,236	

Performance Summary

The Mercer LTIF portfolio returned 0.1% net of fees over the quarter, underperforming the benchmark by 0.8%. Strong performance was particularly from the Socially Responsible Overseas Shares and the International Listed Property Portfolio. However, this was offset by negative returns in NZ Fixed Income and Socially Responsible Trans-Tasman Shares. The Jarden LTIF portfolio returned 1.0% net of fees over the quarter, outperforming the benchmark by 0.7%. Returns were driven by another solid quarter for Global Equities and International Property but also offset by negative returns in NZ Property and International Fixed Income.

Quarter ending	Mercer Net Returns		Mercer Benchmark Returns		Jarden Net Returns		Jarden Benchmark Returns	
	LTIF HBRC		LTIF HBRC		LTIF HBRC		LTIF HBRC	
31/12/2018					0.3%			
31/03/2019	3.7%	4.5%			2.7%	4.3%		
30/06/2019	2.7%	3.1%			2.3%	3.9%		
30/09/2019	3.0%	3.2%			1.9%	3.7%		
31/12/2019	1.2%	1.4%			3.3%	1.9%		
31/03/2020	(7.9%)	(8.7%)			(9.2%)	(0.9%)		
30/06/2020	7.6%	7.0%			8.0%	8.8%		
30/09/2020	4.0%	2.6%			3.5%	3.5%		
31/12/2020	4.4%	3.8%			5.7%	4.8%		
31/03/2021	0.1%	0.9%			1.0%	0.3%		
Financial YTD	8.8%	7.5%			10.4%	8.6%		
Days Invested in Financial Year	274	274			274	274		
Financial YTD (annualised)	11.8%	10.1%			14.1%	11.7%		
Cumulative Return Since Inception	19.8%	18.4%			19.0%	28.0%		
Annualised Return Since Inception	8.5%	8.0%			8.2%	11.1%		
Inception Date	18-Jan-19	18-Jan-19			18-Jan-19	18-Jan-19		
Days Invested	803	803			803	803		
Reported balance as at 31-Mar-21 (\$)	24,965,785				25,240,491			
Total Capital Contributions (\$)	23,288,784				23,288,784			
Net Returns (\$)	3,917,384				4,184,213			

Breakdown of individual funds by Investment Manager

Mercer (3 months ending 31 March 2021)

LTIF HBRC

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges	Portfolio Compliant?
Operational Cash	64,175.8	124,458.3				0.0%	-	20.0%
Index Cash Portfolio	1,004,227.5	1,432,583.8	0.1%	0.1%	0.1%	5.7%	-	20.0%
NZ Sovereign Bonds	3,721,953.5	3,684,001.4	(3.3%)	(3.4%)	0.1%	14.8%	5.0%	25.0%
Overseas Sovereign Bonds	2,872,284.4	2,950,732.7	(3.2%)	(3.4%)	0.1%	11.8%	5.0%	25.0%
Global Credit	2,742,628.3	2,718,824.6	(3.1%)	(2.8%)	(0.1%)	10.8%	5.0%	25.0%
Other Fixed Interest	1,729,995.0	1,491,388.1	(0.1%)	0.1%	(0.2%)	6.0%	-	10.0%
Socially Responsible Trans-Tasman Shares	1,624,925.7	1,703,293.1	(6.0%)	(3.9%)	(2.2%)	6.8%	-	18.0%
Socially Responsible Overseas Shares	7,018,706.2	7,037,624.3	5.7%	7.0%	(1.8%)	26.2%	17.0%	37.0%
International Listed Property	715,952.6	753,678.8	5.7%	6.9%	(1.2%)	3.0%	-	10.0%
Unlisted Property	1,188,223.7	1,068,641.2	2.8%	3.1%	(0.4%)	4.2%	-	10.0%
International Listed Infrastructure	729,440.1	750,143.4	4.5%	5.1%	(0.6%)	3.0%	-	10.0%
Unlisted Infrastructure	1,216,881.6	1,240,115.3	2.3%	3.2%	(0.9%)	5.0%	-	10.0%
Total	24,800,295.40	24,965,784.86	0.4%	1.2%	(0.8%)	100.0%		

Jarden (3 months ending 31 March 2021)

LTIF HBRC

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges	Portfolio Compliant?
Cash	1,179,305.0	1,198,140.1	0.1%	0.1%	0.0%	4.6%	2.0%	8.0%
NZ Fixed Income	4,549,785.0	4,488,075.1	(0.4%)	(2.1%)	1.7%	17.8%	15.0%	24.0%
International Fixed Income	5,859,372.0	5,718,893.4	(2.0%)	(2.5%)	(0.1%)	22.7%	23.0%	28.0%
NZ Property	713,686.0	674,568.0	(4.8%)	(4.2%)	(0.7%)	2.7%	1.0%	4.0%
NZ Equities	3,014,165.0	3,950,570.7	(1.6%)	7.4%	(0.0%)	15.7%	13.0%	18.0%
Global Equities	8,035,427.0	8,433,775.6	8.0%	(4.1%)	10.7%	33.4%	25.0%	34.0%
International Property	741,629.0	767,357.6	5.2%	6.5%	(0.3%)	3.1%	1.0%	4.0%
Total	24,994,371.00	25,240,491.4	0.1%	0.3%	(0.2%)	100.0%		

- The Long Term Investment Fund (LTIF) was \$50.206 million in size as at 31 March 2021, up from \$49.925 million as at 31 December 2020. The portfolio experienced positive net returns of \$0.281 million.
- Total capital invested into the LTIF was \$46.578 million in January 2019. Adjusted for inflation (assuming a 2% annual rate), this was \$48.719 million as at 31 March 2021, leaving \$1.487 million in reserves.
- The Mercer sleeve of the LTIF returned 0.1% net of fees over the March quarter, bringing the total cumulative return since inception to 19.6% (8.5% annualised).
- The Jarden sleeve of the LTIF returned 1.0% net of fees over the March quarter, bringing the total cumulative return since inception to 19.0% (8.0% annualised).
- Portfolio Compliance with Statement of Investment Policies and Objectives - Mercer's portfolio is compliant but Jarden's is non-compliant with the allocation in International Fixed Income below the lower bound of the target range. This policy non-compliance was driven by the negative returns from International Fixed Income investments reducing the balance at closing. Additionally, Jarden tilted the weighting of the International Fixed Income portfolio towards minimums to reduce the exposure to negative returns. The portfolio has since regained compliance with all asset classes.

Port Future Investment Fund - HBRC (PFIF)

Summary of Assets Under Management

A summary of quarterly AUM can be found below. The inflation adjusted column adjusts the initial capital contribution by an annual inflation rate of 2% (or 0.5% per quarter).

	PFIF HBRC				
	Mercer	Jarden	Total	Inflation Adj.	Monies Change
Initial capital					
31/12/2018					
31/03/2019					
30/06/2019					43,957,500
30/09/2019	22,102,336	21,988,515	44,090,851	44,177,288	
31/12/2019	22,367,660	22,335,538	44,703,198	44,398,174	
31/03/2020	20,586,066	21,125,782	41,711,847	44,620,165	16,606,302
30/06/2020	22,172,324	38,955,296	61,127,620	61,775,078	
30/09/2020	23,059,540	40,055,333	63,115,873	62,083,953	
31/12/2020	23,347,259	40,952,383	64,299,642	62,394,373	-1,991,673
31/03/2021	23,380,495	41,037,892	64,418,387	62,708,345	

Performance Summary

The Mercer HBRC PFIF portfolio also returned 0.1% net of fees over the quarter, underperforming the benchmark by 0.8%. The Jarden HBRIC PFIF portfolio returned 0.8% net of fees over the quarter, outperforming the benchmark by 0.5%.

Quarter ending	Mercer Net Returns	Mercer Benchmark Returns	Jarden Net Returns	Jarden Benchmark Returns
	HBRC (port proceeds)	HBRC & HBRC (port proceeds)	HBRC - Port Consolidated	HBRC & HBRC (port proceeds)
31/12/2018				
31/03/2019				
30/06/2019				
30/09/2019	0.7%	0.7%	0.0%	0.2%
31/12/2019	1.2%	1.4%	1.6%	1.9%
31/03/2020	(7.9%)	(8.7%)	(5.4%)	(6.9%)
30/06/2020	7.6%	7.0%	5.5%	8.8%
30/09/2020	4.0%	2.0%	2.9%	3.5%
31/12/2020	4.4%	3.8%	5.4%	4.6%
31/03/2021	0.1%	0.9%	0.8%	0.3%
Financial YTD	8.8%	7.5%	9.3%	8.6%
Days Invested in Financial Year	274	274	274	274
Financial YTD (annualised)	11.8%	10.1%	12.5%	11.7%
Cumulative Return Since Inception	9.7%	7.2%	10.9%	12.7%
Annualised Return Since Inception	8.2%	4.8%	6.9%	8.0%
Inception Date	16-Sep-19	16-Sep-19	15-Sep-19	15-Sep-19
Days Invested	562	562	563	563
Reported balance as at 31-Mar-21 (\$)	23,380,495		56,835,825	
Total Capital Contributions (\$)	21,978,750		52,791,848	
Net Returns (\$)	2,098,389		5,693,002	

Breakdown of individual funds by Investment Manager

Mercer (3 months ending 31 March 2021)

HBRC (port proceeds)

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Port. vs Benchmark	Asset Allocation	SAA Ranges	Portfolio Compliant?	
Operational Cash	60,100.7	115,555.4				0.5%	-	20.0%	Y
Index Cash Portfolio	940,480.5	1,341,710.5	0.1%	0.1%	0.1%	5.7%	-	20.0%	Y
NZ Sovereign Bonds	3,485,515.0	3,459,000.0	(3.3%)	(3.4%)	0.1%	14.8%	5.0%	25.0%	Y
Overseas Sovereign Bonds	2,783,548.8	2,772,730.6	(3.2%)	(3.4%)	0.1%	11.9%	5.0%	25.0%	Y
Global Credit	2,568,476.4	2,546,183.3	(2.1%)	(2.9%)	(0.1%)	10.9%	5.0%	25.0%	Y
Other Fixed Interest ¹	1,520,142.9	1,388,596.5	(8.1%)	0.1%	(0.2%)	6.0%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	1,709,045.7	1,559,136.5	(8.8%)	(3.9%)	(2.2%)	6.8%	-	18.0%	Y
Socially Responsible Overseas Shares	6,573,028.9	6,550,933.0	5.1%	7.0%	(1.9%)	28.2%	17.0%	37.0%	Y
International Listed Property	670,367.0	705,821.3	5.7%	6.0%	(1.2%)	3.0%	-	10.0%	Y
Unlisted Property	1,113,709.8	901,419.0	2.8%	3.1%	(0.4%)	4.2%	-	10.0%	Y
International Listed Infrastructure	680,121.7	710,690.9	4.5%	5.1%	(0.6%)	3.0%	-	10.0%	Y
Unlisted Infrastructure	1,130,511.5	1,151,360.8	2.3%	3.2%	(0.9%)	5.0%	-	10.0%	Y
Total	23,347,258.02	23,380,494.7	0.4%	1.2%	(0.8%)	100.0%			

Jarden (3 months ending 31 March 2021)

HBRC Consolidated

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Port. vs Benchmark	Asset Allocation	SAA Ranges	Portfolio Compliant?	
Cash	2,970,860.0	1,210,723.9	0.8%	0.1%	0.8%	2.1%	2.0%	8.0%	Y
NZ Fixed Income	10,304,714.0	12,088,634.1	(0.2%)	(2.1%)	1.9%	21.2%	15.0%	24.0%	Y
International Fixed Income	13,497,100.0	13,115,851.0	(2.6%)	(2.9%)	(0.1%)	23.1%	23.0%	28.0%	Y
NZ Property	1,503,730.0	1,430,234.1	(4.3%)	(4.2%)	(0.1%)	2.5%	1.0%	4.0%	Y
NZ Equities	8,192,756.0	8,118,115.6	(2.4%)	7.4%	(9.8%)	16.0%	13.0%	18.0%	Y
Global Equities	17,257,136.0	18,104,000.2	5.6%	(4.1%)	10.7%	31.9%	25.0%	34.0%	Y
International Property	1,684,385.0	1,798,265.0	6.2%	6.5%	(0.3%)	3.1%	1.0%	4.0%	Y
Total	56,384,664.00	56,835,825.2	0.7%	0.3%	0.4%	100.0%			

- The HBRC PFIF was \$64.418 million in size as at 31 March 2021, up from \$64,300 million as at 31 December 2020. The portfolio returned positive net returns of \$0.119 million.
- Total capital invested into the HBRC PFIF was \$43.958 million as at September 2019 and an additional \$16.606 million was transferred across in June 2020. Adjusted for inflation (assuming a 2% annual rate), this was \$62.706 million as at 31 March 2021, leaving \$1.712 million in reserves.
- The Mercer sleeve of the HBRC PFIF returned 0.1% net of fees over the March quarter, bringing the total cumulative return since inception to 9.7% (6.2% annualised).
- The Jarden sleeve of the HBRC PFIF returned 0.8% net of fees over the March quarter, bringing the total cumulative return since inception to 10.9% (6.9% annualised).
- Portfolio compliance with Statement of Investment Policies and Objectives - both the Mercer and Jarden portfolios are compliant. *Note: Mercer reports the HBRC and HBRIC PFIF on a consolidated basis for measuring SIPO asset allocation.*

Port Future Investment Fund - HBRIC (PFIF)

A summary of quarterly AUM can be found below. The inflation adjusted column adjusts the initial capital contribution by an annual inflation rate of 2% (or 0.5% per quarter).

	PFIF HBRIC				
	Mercer	Jarden	Total	Inflation Adj.	Monies Change
Initial capital					
31/12/2018					
31/03/2019					
30/06/2019					61,625,795
30/09/2019	29,665,878	29,509,415	59,175,293	61,933,924	
31/12/2019	30,021,998	29,991,361	60,013,359	62,243,594	
31/03/2020	28,811,474	29,640,790	58,452,264	62,554,812	-16,606,302
30/06/2020	31,031,541	14,588,491	45,620,032	46,584,135	
30/09/2020	32,273,255	15,038,719	47,311,974	46,817,055	
31/12/2020	32,881,279	15,432,281	48,313,560	47,051,141	-1,200,653
31/03/2021	32,928,087	15,797,933	48,726,020	47,286,397	

Performance Summary

The Mercer HBRIC PFIF portfolio also returned 0.1% net of fees over the quarter, underperforming the benchmark by 0.8%. The Jarden HBRIC PFIF portfolio returned 0.8% net of fees over the quarter, outperforming the benchmark by 0.3%.

Quarter ending	Mercer Net Returns		Jarden Net Returns	
	HBRIC (port proceeds)	Mercer Benchmark Returns HBRIC & HBRC (port proceeds)	HBRC - Port Consolidated	Jarden Benchmark Returns HBRIC & HBRC (port proceeds)
31/12/2018				
31/03/2019				
30/06/2019				
30/09/2019	0.7%	0.7%	0.0%	0.2%
31/12/2019	1.2%	1.4%	1.6%	1.9%
31/03/2020	(7.9%)	(8.7%)	(5.4%)	(8.9%)
30/06/2020	7.6%	7.0%	5.6%	8.8%
30/09/2020	4.0%	2.6%	2.9%	3.5%
31/12/2020	4.4%	3.8%	5.4%	4.6%
31/03/2021	0.1%	0.9%	0.8%	0.3%
Financial YTD	8.8%	7.5%	9.3%	8.0%
Days Invested in Financial Year	274	274	274	274
Financial YTD (annualised)	11.8%	10.1%	12.6%	11.7%
Cumulative Return Since Inception	9.7%	7.2%	10.9%	12.7%
Annualised Return Since Inception	6.2%	4.6%	6.9%	8.0%
Inception Date	16-Sep-19	16-Sep-19	15-Sep-19	15-Sep-19
Days Invested	562	562	563	563
Reported balance as at 31-Mar-21 (\$)	32,928,087		50,835,825	
Total Capital Contributions (\$)	30,612,698		52,791,848	
Net Returns (\$)	2,690,825		5,693,002	

Breakdown of individual funds by Investment Manager

Mercer (3 months ending 31 March 2021)

HBRC (port proceeds)

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges	Portfolio Compliant?
Operational Cash	84,843.3	184,151.6				0.5%	-	20.0%
Index Cash Portfolio	1,324,504.3	1,889,607.5	0.1%	0.1%	0.1%	5.7%	-	20.0%
NZ Sovereign Bonds	4,900,990.9	4,890,240.5	(3.3%)	(3.4%)	0.1%	14.8%	6.0%	25.0%
Overseas Sovereign Bonds	3,920,230.8	3,904,994.9	(3.2%)	(3.4%)	0.1%	11.9%	6.0%	25.0%
Global Credit	3,617,332.1	3,585,935.4	(3.1%)	(2.9%)	(0.1%)	10.0%	5.0%	25.0%
Other Fixed Interest ¹	2,281,739.8	1,987,047.6	(0.1%)	0.1%	(0.2%)	6.0%	-	10.0%
Socially Responsible Trans-Tasman Shares	2,406,946.7	2,246,522.0	(6.0%)	(3.0%)	(2.2%)	6.8%	-	18.0%
Socially Responsible Overseas Shares	9,257,172.2	9,282,387.6	5.1%	7.0%	(1.9%)	28.2%	17.0%	37.0%
International Listed Property	944,158.4	994,048.5	5.7%	6.9%	(1.2%)	3.0%	-	10.0%
Unlisted Property	1,568,501.1	1,308,272.1	2.8%	3.1%	(0.4%)	4.2%	-	10.0%
International Listed Infrastructure	982,079.3	1,001,256.9	4.5%	5.1%	(0.6%)	3.0%	-	10.0%
Unlisted Infrastructure	1,604,980.0	1,635,023.5	2.3%	3.2%	(0.9%)	5.0%	-	10.0%
Total	32,881,279.05	32,928,087.1	0.4%	1.2%	(0.8%)	100.0%		

Jarden (3 months ending 31 March 2021)

HBRC Consolidated

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges	Portfolio Compliant?
Cash	2,970,890.0	1,210,722.9	0.8%	0.1%	0.8%	2.1%	2.0%	8.0%
NZ Fixed Income	10,304,714.0	12,088,834.1	(0.2%)	(2.1%)	1.9%	21.2%	15.0%	24.0%
International Fixed Income	13,471,000.0	13,115,851.0	(2.6%)	(2.5%)	(0.1%)	23.1%	23.0%	28.0%
NZ Property	1,503,730.0	1,430,234.1	(4.3%)	(4.2%)	(0.1%)	2.5%	1.0%	4.0%
NZ Equities	9,182,798.0	9,118,116.8	(2.4%)	7.4%	(9.8%)	16.0%	13.0%	18.0%
Global Equities	17,257,138.0	18,104,000.2	6.6%	(4.1%)	10.7%	31.8%	25.0%	34.0%
International Property	1,684,385.0	1,788,265.0	6.2%	6.5%	(0.3%)	3.1%	1.0%	4.0%
Total	56,384,664.00	56,835,825.2	0.7%	0.3%	0.4%	100.0%		

Total Future Investment Fund (PFIF)	56,384,664.0	56,835,825.2	0.4%	0.2%	0.2%			
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- The HBRC PFIF was \$48.726 million in size as at 31 March 2021, up from \$48.318 million as at 31 December 2020. The portfolio returned positive net returns of \$0.412 million.
- Total capital invested into the HBRC PFIF was \$61,626 million as at September 2019 with a transfer of \$16.606 million out of the portfolio in June 2020. Adjusted for inflation (assuming a 2% annual rate), this was \$47.286 million as at 31 March 2021, leaving \$1.440 million in reserves.
- Note: Mercer reports the HBRC and HBRC PFIF on a consolidated basis for measuring SIPO asset allocation.*

Combined Funds (LTIF & PFIF)

	Total AUM				
	Mercer	Jarden	Total	Inflation Adj.	Monies Change
Initial capital					
31/12/2018					40,000,000
31/03/2019	20,467,057	20,403,260	40,870,317	40,200,000	
30/06/2019	21,035,198	20,874,345	41,909,541	40,486,575	112,160,864
30/09/2019	76,728,303	76,077,268	152,805,569	153,377,789	
31/12/2019	77,649,378	77,718,572	155,367,947	154,144,678	
31/03/2020	72,645,309	73,823,833	146,469,142	154,915,401	
30/06/2020	78,242,991	78,454,546	156,697,537	156,354,908	
30/09/2020	81,373,849	80,800,664	162,174,513	157,130,083	
31/12/2020	81,158,833	81,379,035	162,537,868	157,922,368	-7,670,755
31/03/2021	81,274,367	82,076,316	163,350,683	158,711,978	

4.0 Treasury Investments

Deal Date	Bank	Deposit	Amount (NZD \$m)	Maturity	Interest Rate
31-Mar-2021	BNZ	Cheque/call	4.26	Overnight	0.05%
04-Mar-2021	Westpac	Term Deposit	7.00	20-May-2021	0.44%
17-Mar-2021	Westpac	Term Deposit	2.00	09-Apr-2021	0.21%
17-Mar-2021	Westpac	Term Deposit	1.00	16-Apr-2021	0.21%
17-Mar-2021	Westpac	Term Deposit	2.00	23-Apr-2021	0.21%
17-Mar-2021	Westpac	Term Deposit	1.00	05-May-2021	0.26%
17-Mar-2021	Westpac	Term Deposit	1.00	14-May-2021	0.35%
Total*			18.26		

*Section 20 of the Treasury Policy requires cash in excess of \$3 million. The current cash position is in compliance.

5.0 Treasury Policy Compliance Checklist

The table below illustrates Council's compliance with funding and liquidity risk parameters set out within the Treasury Policy. A snapshot of current funding in place (maturity term and pricing) as well as interest rate fixing is also provided.

Hawke's Bay Regional Council Interest Rate Position			
31-Mar-21			
Liquidity Buffer:	10%		
Actual	74%		
Policy Compliance	Y		
Funding Maturity Profile:			
Years	0 - 3 years	3 - 5 years	5 years plus
Policy Limits	15% - 60%	15% - 60%	0% - 60%
Actual Hedging	10%	58%	32%
Policy Compliance	N	Y	Y
Weighted Average Duration:			
Funding		4.43 Years	
Fixed Rate Portfolio (swaps and fixed rate loans)		4.7 Years	

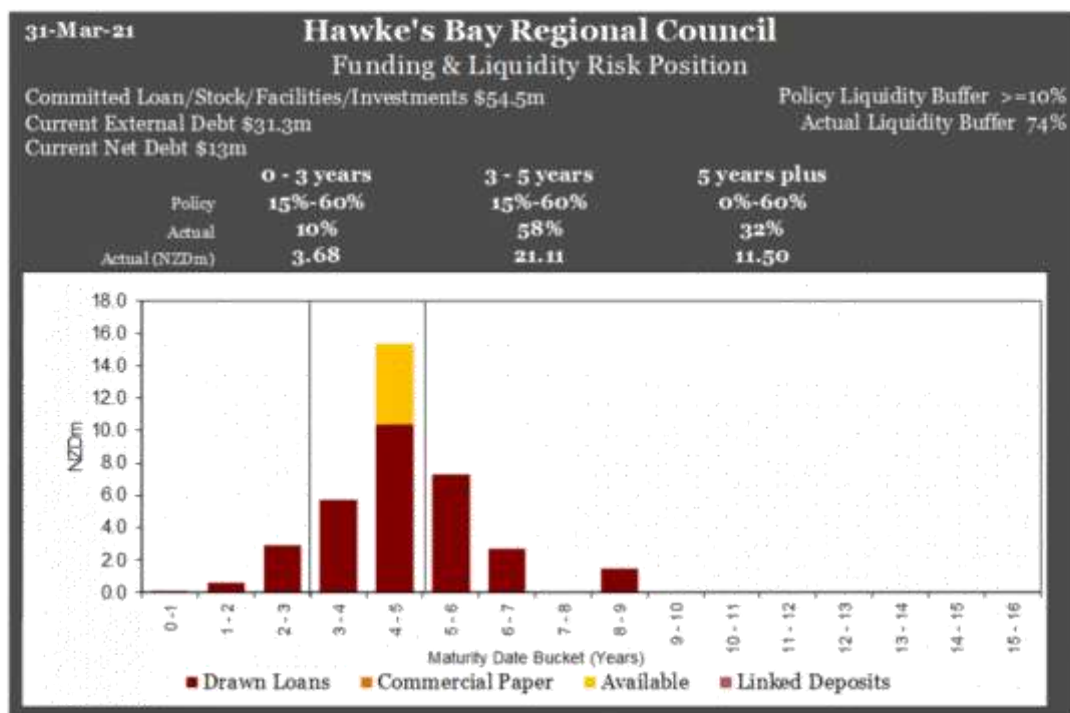
New treasury transactions in the period are outlined in Appendix 1.

6.0 Borrowing Limits

Ratio	Hawke's Bay Regional Council	LGFA Lending Policy Covenants	Actual (as at 31 March 2021)
Net external debt as a percentage of total revenue	<150%	<175%	26.9%
Net interest on external debt as a percentage of total revenue	<15%	<20%	1.6%
Net interest on external debt as a percentage of annual rates income	<20%	<25%	3.8%
Liquidity buffer amount comprising liquid assets and available committed debt facility amounts relative to existing total external debt	>10%	>10%	74.3%

7.0 Funding and Liquidity Risk Position

The chart below shows the spread of Council's current funding maturity terms and positioning within funding maturity limits set out within the Treasury Policy. Council's liquidity buffer amount is also shown.

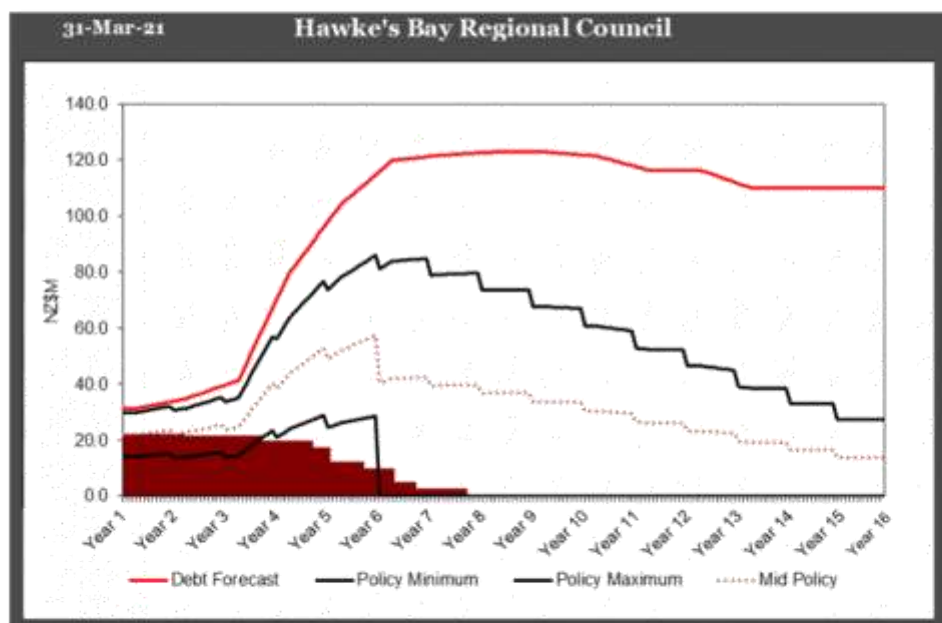


Debt Funding Strategy

The 0-3 time band is outside policy compliance, below the minimum percentage. This is a temporary breach based on the current BNZ committed stand-by facility strategy, which extends the facility from the 0-3 time band to the 3-5 time period. The above profile includes the bank facility at the 2025 maturity date. Policy compliance is regained as at 30 April 2021.

8.0 Interest Rate Risk Position

This section is based on the long-term debt forecast and is based on the current draft LTP up for consultation. The interest rate profile below shows the level of Council's interest rate fixing within the Treasury Policy parameters. The shaded area represents fixed interest rate commitments (i.e. term loans and/or derivatives) and their maturity terms over the 15-year Policy period. The red line represents the current draft LTP debt forecast for the forward period with the maximum and minimum bands a function of that debt forecast.



Debt Interest Rate Policy Parameters

(calculated on rolling monthly basis)

Debt Period Ending	Debt Forecast	Minimum %	Maximum %	Actual	Compliant (Y/N)
Year 1	31	45%	95%	71%	Yes
Year 2	34	40%	90%	66%	Yes
Year 3	40	35%	85%	55%	Yes
Year 4	70	30%	80%	28%	No
Year 5	98	25%	75%	18%	No
Year 6	116	0%	70%	9%	Yes
Year 7	121	0%	65%	2%	Yes
Year 8	123	0%	60%	0%	Yes
Year 9	123	0%	55%	0%	Yes
Year 10	122	0%	50%	0%	Yes
Year 11	118	0%	45%	0%	Yes
Year 12	116	0%	40%	0%	Yes
Year 13	112	0%	35%	0%	Yes
Year 14	110	0%	30%	0%	Yes
Year 15	110	0%	25%	0%	Yes

Interest rate strategy

As can be seen from the chart and table above, the interest rate risk position is outside policy compliance in years 4 and 5. This is continuing to be monitored and is caused by the large increase in the draft LTP debt forecast. A strategy to regain policy compliance will be implemented upon the approval and adoption of the LTP debt forecast.

With short-term interest rates expected to be lower for longer, as the RBNZ stimulates with loose monetary policy settings, PwC recommend the fixed rate position is maintained at minimum policy limits in the 0-3 year time period. The strategy is therefore to maintain maximum exposure to floating interest rates (as Policy allows) over the next three years.

Long-term interest rates have increased over the past quarter primarily driven out of US inflation expectations. Ultra-loose monetary policy from the Federal Reserve and the enormous fiscal stimulus from the US government have increased inflation expectations driving the 10-year Treasury Bond yield higher. Global central banks have also announced their willingness to let inflation run 'hotter for longer' and will concentrate on returning to maximum sustainable employment before tightening monetary policy settings, further increasing inflation expectations.

The longer-term interest rate management strategy is to move towards policy mid-points from 4 years onwards but at interest rates that are lower than current prevailing market rates. Minimum percentages will be maintained but any increase in the fixed rate position above minimums will be transacted at interest rates that are consistent with the RBNZ's lower interest rate outlook. Rates will continue to be monitored.

9.0 Funding Facility

Bank (Facility maturity date)	Maturity Date	Drawdown Amount (\$m)	Facility Limit (\$m)
BNZ	10-Apr-25	0.00	5.00
TOTAL		0.00	5.00

Available bank facility capacity (liquidity buffer)	Last quarter (\$m)	31/03/21 (\$m)
Gross amount	5.00	5.00
Drawn	0.00	0.00
Excess amount	5.00	5.00

10.0 Cost of Funds vs Budget

Month		YTD	
Actual (\$m)	Budget (\$m)	Actual (\$m)	Budget (\$m)
0.2	0.1	1.0	0.9

11.0 Counterparty Credit

All counterparty credit exposures are fully compliant with policy except Westpac.

Counterparty Credit Risk (Interest Rate Risk Management Instruments and Investments)			
Rates Revenue		\$	27,068,275
Policy Credit Limit (NZ\$) per NZ Registered Bank (Interest rate risk management)		15%	
Policy Credit Limit (NZ\$) per NZ Registered Bank (Investments)		20-50%	
	Credit Exposure (Swaps) (\$m)	Credit Exposure (Investments) (\$m)	Compliance
WPC	0.00	14.00	No
ANZ	0.00	0.00	Yes
ASB	0.00	0.00	Yes
BNZ	0.00	4.26	Yes
Kiwibank	0.00	0.00	Yes
LGFA	0.00	0.00	Yes

12.0 Market Commentary

Equity markets

The story of economic recovery has continued to develop over the beginning of 2021, and while this has caused some volatility in a tug-of-war with bond markets, ultimately it has seen equity markets reach record highs. Stock markets bounced back quickly after the initial onset of the pandemic but in just the last five months, with Covid-19 vaccines becoming a reality, international equity markets have continued to reach record highs. Bank of America said more capital (US\$576 billion) has poured into their managed equity funds in the past five months than the last 12-years combined. Many countries' vaccine rollouts are now underway and with the US and UK's tracking successfully, this has investors looking ahead to a (hopefully) sustainable reopening of their economies and an ensuing rebound of growth.

It has not been a completely smooth conversion of a brightening outlook and rising equities. Bond yields have increased as higher inflation expectations form part of the recovery story. It is the counterintuitive, with good news equalling bad news as markets worry that aggressive fiscal stimulus (increasing government bond issuance) and central banks willingness to let economies run hot (with large quantitative easing programmes) will lead to large spikes in medium-term inflation. Despite this, short-term interest rates have remained anchored. As a consequence, corporates' costs of debt funding will at least remain low in the near term as they benefit from existing debt issued at low levels, but funding costs will eventually increase given higher yields, so on balance, equities have performed well over the quarter.

The MSCI World Index - global stocks, reached record highs over the beginning of 2021 and overall, the index was up 7.4% in NZD terms over the quarter. While performance was very strong overall, it has been most pronounced in US stocks, representing 63% of the MSCI World Index, and especially over the last weeks as stimulus payments from President Biden's \$1.9 trillion relief package have begun to be distributed. This stimulus has found its way into mutual funds, ETFs and other assets; with bank term deposits yielding extremely low returns, retail investors have expanded their equity investments. The S&P 500 also lifted to record highs over the period and finished the quarter up 9.9% in NZD terms.

While Europe has had rockier roads over 2021, facing Covid resurgences and vaccine rollout troubles, the MSCI European Index continued its strong performance of the last quarter and was up by 6.5% in NZD terms. Instead, it has been emerging markets which haven't fared as well. Covid news has also not been very positive

in emerging markets and this weighed on sentiment, especially in Asia. The MSCI Emerging Markets Index was up 4.7% and the Nikkei was up 2.3% in NZD terms.

However, it has been the New Zealand market which has fared the worst; the NZX50 index fell 6.04% despite the very strong February reporting season. As a much smaller market, it was the underperformance of two key stocks which dragged on performance over the quarter. The first was Fisher & Paykel Healthcare, which with Covid situations improving was heavily sold down over the period, based on expectations that medical device sales may now slow. The second was a2 Milk who also saw its share price plummet after revising down their earnings for the second time in two months. Finally, there was also a small relocation of capital away from some of the clean-green energy stocks, which is a concentrated sector in the New Zealand market. This was more of a redirecting on investor funds rather than a changing of the trend towards green investment.

The Australian market also reported a very strong reporting season in February, some describing it as the best in 20-years, although this was largely due to the markets' very conservative expectations made at a time when Covid uncertainty was still high. However, like the New Zealand market, the S&P/ASX 200 index had very subdued growth in the three months to April and was only up 3.4% in NZD terms.

Funding markets

A total of 15 local government borrowers raised \$438 million in the March quarter. 21 separate funding transactions occurred, of which all but two were conducted via the LGFA. Borrowing volumes in the March quarter were almost half the volume borrowed in the corresponding quarter last year. A total of 91% of all borrowing in the March quarter was undertaken on a floating interest rate basis. Over the quarter, councils borrowed for a weighted average term of 5.3 years.

LGFA credit margins have generally trended higher in the March quarter, particularly in the longer end of the curve. The spread between shorter dated and longer dated credit margins increased, resulting in a steeper LGFA credit margin curve.

In the March quarter, the RBNZ purchased approximately \$6.2 billion of NZ government bonds and \$80 million of LGFA bonds in the secondary market across various bond maturities using the Large Scale Asset Purchasing Programme (source: RBNZ). Of the LGFA bonds purchased, 75% had a term less than 10 years and a weighted average term of 7.5 years. As a result we have seen a further steepening in the long end of the LGFA credit curve.

There was approximately \$450 million of Kauri issuance over the quarter, providing an alternative to the LGFA, which created some competition for investor funds. The LGFA will continue to compete with other highly credit-rated issuers such as Kāinga Ora and Kauri issues and therefore reducing the size of the tender amounts (as was evident in the April LGFA tender which was lower at \$160 million) and considering the timing of its issues, will become of increasing importance to ensure pricing remains within its expectations.

We expect to see LGFA credit margins move across the page from current levels in the short end, with a slight bias higher for longer dated credit margins.

Interest rate markets

The interest rate environment in New Zealand (and across the developed world) demonstrated significant volatility during the first quarter of 2021 as the global financial markets turned attention from Covid concerns to recovery optimism. That optimism saw market attention switch focus to the likely timing of a commencement of monetary policy tightening in the near-term. For the long-end of interest rate curves (ten-years) the focal point was the inflation implications of major central banks maintaining a preference for allowing their respective

economies to run a little hot. This perspective led (initially) to the New Zealand interest rate curve moving higher and steeper.

That move was tentative at the start of the year, but had gained considerable momentum by the end of January. As vaccine rollouts commenced in the northern hemisphere and data began to imply that the economic damage wrecked by Covid may not have been as severe as feared, the market lifted long-end yields with fresh vigour. By late February, the surge was so aggressive and widespread that interest rate and bond markets bordered on dysfunctional. Although this was a global phenomenon, the moves were arguably exacerbated in the long-end of the New Zealand interest rate swap curve. Employment and inflation data had exceeded expectations, and the addition of "housing policy considerations" to the RBNZ's remit caused markets to infer a need for a higher cash rate in the future. This all led to an unprecedented advance in the long-end of the local curve. The New Zealand ten-year interest rate swap had never before moved so far upward, so fast. At peak-panic (late February), it climbed by 56 basis-points in a four day period to achieve a high of ~2.20%. Interestingly, this level was higher than the pre-Covid (December 2019) ten-year rate.

The short-end of New Zealand's interest rate curve spent much of the quarter caught in a tug-of-war between a market with a high-unshakable belief that the RBNZ will be forced to acknowledge the sharper than anticipated economic recovery (via OCR increases) and a central bank chanting a consistent lower-for-longer mantra. The RBNZ had been relentless in their reiteration of the need to maintain ultra-accommodative monetary policy settings. At their Monetary Policy Statement (MPS) on the 24th February, while acknowledging that recent data pointed to domestic economic activity being stronger than they had previously forecast, the RBNZ reaffirmed its commitment to *'...maintain its current stimulatory monetary settings until it is confident that consumer price inflation will be sustained at the 2 percent per annum target midpoint, and that employment is at or above its maximum sustainable level.'*

The subsequent announcement of proposed changes to government housing policy the following week marked the high-point of the tug-of-war, with the market quick to assume that the required monetary response to the changed policy settings would be a more aggressive pace of tightening (higher OCR). At this high-point, market-implied OCR pricing suggested mid-2022 as the launch point for the RBNZ to lift rates, with a strong likelihood of an even earlier start.

The RBNZ was quick to diffuse the housing policy angle, with Governor Adrian Orr categorically declaring (at the end of February) that the OCR *would not* be used as a tool in the fight for sustainable house prices. That took some of the wind out of the long-end of the IRS curve sails, as did a seemingly co-ordinated rebuttal from major central banks - reiterating the need for caution, and that future economic performance hinges on low and stable interest rates for the near term. The financial markets were initially unconvinced, but over the course of March gradually embraced the RBNZ's message that achieving the employment and inflation prerequisites for monetary policy tightening *'...will necessitate considerable time and patience.'*

That embrace assisted in a significant lowering of OCR timing expectations. The market currently views late 2022 as the point at which the RBNZ will begin to lift the cash rate from its historic low of 0.25%. At the end of March the interest rate market found itself with a relatively low and flat short end of the interest rate curve (likely aligning with the current expectations and intentions of the RBNZ), but with a steepness factor leading to a still comparatively elevated long-end. The ten-year IRS ended the quarter near 1.80%.

13.0 Policy exceptions

Date	Detail	Approval	Action to rectify*
31/03/2021	Interest rate policy limit non-compliance	Y	Review risk positions with to be adopted LTP debt forecast
31/03/2021	Debt funding limit policy non-compliance	Y	Will come back to policy compliance April 2021.
	Jarden SIPO cash allocation non-compliant (below target range)	Y	Asset value fell below the SIPO range on 31 March due to market factors and is back within policy compliance as at the beginning of April 2021.

14.0 Appendix

New Treasury Transactions up to 31/03/2021

Borrowing activity

LGFA	Amount (NZDm)	Start Date	Maturity Date	Interest Rate
Fixed rate bond	5.0	15-Mar-21	15-Apr-2025	1.60%
Fixed rate bond	5.0	15-Mar-21	15-Jul-2026	1.97%

Interest Rate Borrower Swaps

Bank	Notional Amount (NZDm)	Deal Date	Start Date	Maturity Date	Swap Rate
	NIL				

Monies withdrawn from the Funds

Mercer

Date	HBRC LTIF	HBRC FIF	HBRIC	Cumulative total
31/12/2020	2,245,923	727,058	816,444	3,589,425

Jarden

Date	HBRC LTIF	HBRC FIF	HBRIC	Cumulative total
31/12/2020	2,232,506	1,164,615	384,209	3,881,330