



HAWKE'S BAY

REGIONAL COUNCIL

TE KAUNIHERA Ā-ROHE O TE MATAU-A-MĀUI

Minutes of a meeting of the Finance Audit and Risk Sub-committee

Date: 4 May 2022

Time: 9.00am

Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Present: Cr C Foss – Chair
Cr W Foley
Cr N Kirton
S Maloy – independent member
Cr J Taylor

In Attendance: J Palmer – Chief Executive
K Brunton – Group Manager Policy & Regulation
T Chaplin – Senior Group Accountant
O Giraud-Burrell – Quality & Assurance Advisor
H Marsden – Risk & Corporate Compliance Manager
K Nimon – Transport Manager
A Siddles – Chief Information Officer
M Solomon – Crowe
A Roets – Governance Advisor

1. Welcome/Karakia /Apologies/Notices

The Chair, Councillor Craig Foss welcomed everyone to the meeting.

James Palmer advised that the Chief Financial Officer is not able to attend the meeting.

2. Conflict of Interest Declarations

There were no conflicts of interest declared.

3. Confirmation of Minutes of the Finance Audit and Risk Sub-committee meeting held on 2 March 2022

FIN180/22 The resolutions for item 13 on page 7 of the minutes are incorrect. The FARS resolved only “to receive the report” so the Minutes will be corrected with the deletion of resolutions 2 and 3.

**Foss/Maloy
CARRIED**

FIN181/22 Resolution

Minutes of the Finance Audit & Risk Sub-committee meeting held on Wednesday, 2 March 2022, a copy having been circulated prior to the meeting, were taken as read and confirmed as a true and correct record as amended.

**Foss/Maloy
CARRIED**

Secretarial note: In accordance with Standing Order **27.3 No discussion on minutes** - The only topic that may be discussed at a subsequent meeting, with respect to the minutes, is their correctness. Therefore no discussion of ‘matters arising’ is recorded.

The Chair proposed that the Agenda items be considered out of order, commencing with item 5, which was agreed by the Sub-committee.

5. Fraud Internal Audit Report

Martyn Solomon introduced the item with a high level summary of the audit undertaken. Discussions highlighted:

- No high priority findings observed. Overall, Crowe identified 6 medium risk and 4 low risk findings.
- Key policies, in particular the Fraud, Protected Disclosures and Conflicts of Interest policies, require review and updates including clear ownership – either Group Manager Corporate Services or Chief Financial Officer as relevant.
- Lack of understanding and awareness of Council’s fraud and corruption policies amongst staff will be addressed through training as a matter of priority, and will include conflicts of interest management as well as fraud and corruption risks.
- The Gifts Policy (and register) was due to be reviewed in 2021 but delayed due to staffing issues.
- New Learning and Development coordinator will oversee induction of new staff including ongoing training about Policies across the organisation.
- Policies have previously been reviewed on an ad-hoc basis however will now be scheduled on a 3 year cycle. It was noted that all Policies have undergone review by Council’s employment lawyer to ensure legal compliance.
- CE’s EA keeps the ELT Register of Interests to enable management of their conflicts of interest should they arise.
- Delegations, oversight of transactions, dual sign-off and annual analytics audits have been effective to date to prevent fraud, however acknowledge that there remains some risk.
- It was suggested that the implementation of Ministry of Justice checks at the recruitment stage needs to be prioritised. Individuals are asked to declare whether they have any

criminal convictions but police checks are not routinely carried out unless relevant to the role. One suggestion was made that Council should implement formal social media and internet search checks of applicants.

- Work in the conflicts of interest area needs to be done to extend the Policy into specific areas of Council and documentation of how those conflicts will be managed if they arise, e.g. Consents Manager manages conflicts of interest when assigning applications to officers for processing. There is a need for formal documentation of how a conflict is or is going to be managed once declared as well.
- In relation to protected disclosures, this is covered as part of inductions and pathways for escalation including the staff support group and ELT open door culture, however the process needs to be formalised for staff to reference.

FIN182/22

Resolutions

That the Finance, Audit and Risk Sub-committee:

1. Receives and considers the *Fraud Internal Audit Report*.
2. Agrees that the decisions to be made are not significant under the criteria contained in Council's adopted Significance and Engagement Policy, and that the Sub-committee can exercise its discretion and make decisions on this issue in accordance with its Terms of Reference.
3. Agrees that the following corrective actions and due dates for medium-risk findings from the Crowe *HBRC Fraud Risk Gap Analysis Report February 2022*, are considered adequate to address the report's findings and recommendations, with progress to be monitored and reported to the Sub-committee using the *Corrective Actions Dashboard*.
 - 3.1. The Fraud Policy is to be reviewed – implementation September 2022.
 - 3.2. The formal owner of the Fraud Policy is to be identified – implementation September 2022.
 - 3.3. Fraud and Corruption Awareness training will be delivered to all staff – implementation October 2022.
 - 3.4. Conflicts of Interest and Gifts policies are to be reviewed– implementation September 2022.
 - 3.5. The Appointment of Staff Policy is to be reviewed – implementation October/November 2022.
 - 3.6. The Protected Disclosures Policy is to be reviewed – implementation October/November 2022.

**Foley/Taylor
CARRIED**

6. Annual Internal Audit Plan 2021-2022 Status Update

Helen Marsden and Olivia Giraud-Burrell introduced the item, with discussions noting:

- Currently extracting data from TechOne to provide for the Data Analytics audit to commence this month and be completed by the end of this financial year.
- Currently Data Analytics audit is yearly and is proposed to reduce to once every two years depending on the outcomes of the current audit.

FIN183/22

Resolution

That the Finance, Audit and Risk Sub-committee receives and notes the *Annual Internal Audit Plan 2021-2022 status update* staff report.

**Foss/Maloy
CARRIED**

4. Annual Internal Audit Plan 2022-2023 for Adoption

James Palmer introduced the item and proposed an amendment to the Plan that was provided by Crowe. Discussions covered:

- Propose the 3 yearly Health and Safety (H&S) full audit of the whole system including practices, processes and capability audit be undertaken by an external expert H&S reviewer instead of the *Health and Safety Reporting* audit on the Crowe plan; and in its place bring forward the Cyber Security audit from 2023-24 to 2022-23.
- Purpose of H&S audit is to ensure the H&S work programme is effectively managing Council's H&S risks and achieving legislative compliance.
- The Cyber Security risk profile continues to grow, hence the proposal to bring forward that audit.
- Exploration of potential for independent review of Asset Management and infrastructure assets, given concerns about infrastructure pressure and increased expectations around forward investment, being re-prioritised to occur in this financial year instead of Cyber security
- Need to look at the real risks for Council and carry out audits where they relate to Council's enterprise risks where there is no work currently underway rather than repeat or cyclical internal audits.
- Some work to be done by staff on where deep functional reviews are required as opposed to the type of internal audit that Crowe carries out, including budget allocations and how audits and reviews correspond to Council's e risks.
- Council has fallen behind with systematic reviews and updating of systems for tracking and managing assets so there is a massive, multi-million dollar, multi-year work programme to review all of the schemes and put in place an integrated asset management IT solution to modernise the way Council manages asset infrastructure. Given the amount of work involved to prepare for the full review James Palmer recommends that it be retained in the 2023-24 financial year and not be brought forward. This type of in depth audit would likely need in the neighbourhood of 120-140 hours work.
- It was suggested that the GM Asset Management presents on work that has been done in Asset Management around performance, internal processes/policies and practices to the next FARS meeting to further inform a decision by the sub-committee on the nature and scope as well as timing of an asset management review.
- The work proposed by the *Annual Internal Audit Plan 2022-2023* is at a high level as opposed to something like an Asset Management review which would fall into the s17a or organisational review category.
- It was noted that there is a 'dashboard' that has previously been presented to the sub-committee that shows all of the audit and review processes currently underway and that have been completed, including s17 reviews and associated timeframes. The dashboard requires updating to include plans for the next 3-5 years in order to provide the full context across the organisation to the next FARS meeting.
- It was agreed that the Cyber Security internal audit will not be brought forward.
- There was a preference that the Asset Management audit be brought forward, looking at internal processes related to key infrastructure rather than the deep dive the CE suggested is required.
- → Understanding, defining and assessing HBRC processes for:
 - → Prioritising key infrastructure asset investment decisions
 - → funding key infrastructure investments
 - → management planning, leadership and service delivery for key infrastructure assets
 - → monitoring, reporting and auditing key infrastructure asset performance
 - → factoring climate change and biodiversity into key infrastructure, planning, decision making and delivery.

- In response to the above, tabled by Councillor Kirton, the CE advised that all of the items on the list are covered by the Infrastructure Strategy that Council adopted as part of the 2021-2031 Long Term Plan.
- Preference is that an Asset Management audit is undertaken and this will be considered once further information has been provided by Chris Dolley.

FIN184/22

Resolutions

That the Finance, Audit and Risk Sub-committee:

1. Receives and considers the *Annual Internal Audit Plan 2022-2023 for adoption* staff report
2. Adopts the Crowe internal audit plan for the 2022-2023 financial year, which includes:
 - 2.1. data analytics
 - 2.2. organisational change consolidation and prioritisation.
3. Agrees to further consider an Asset Management audit or review including the nature and scope as well as timing.

**Foss/Taylor
CARRIED**

The meeting adjourned at 11.00am and reconvened at 11.12am.

7. Road Safety S17a Review Outcomes

Katrina Brunton introduced the item and discussions traversed:

- The s17a review was initiated by the Regional Transport Committee (RTC) at its December 2020 meeting. The RTC has now endorsed, 11 March 2022, the preferred service delivery model that the MorrisonLow review report proposed.
- Fully collaborative regional approach is preferred, with the Regional Council responsible for designing the road safety programme through a new Transport Planner role, ensuring it is connected to the Regional Land Transport Plan (RLTP) and that all projects within the RLTP are focussed on engineering, education and enforcement – the 3 Es of road safety.
- A focussed Road Safety sub-group of the TAG, bringing together representatives of various road safety groups in the region, will be established and report directly to the RTC, which will have governance oversight of the road safety programme and Strategy. The Road Safety Strategy is to be reviewed to provide strategic direction for the programme and link to the Road Safety Strategy.
- The Terms of Reference for the TAG will be amended to include Road Safety as a core function, including establishment of the Road Safety sub-group, role and responsibilities.
- Currently TAs provide \$44k per year funding for road safety and will retain that funding and continue to provide their community road safety initiatives. This will not impact on HBRC's funding for the road safety programme.
- For delivery, HBRC is proposing to add 2 more Transport Planners who will develop the road safety programme in collaboration with TAG, and the current Road Safety HB coordinator will focus on community road safety and regional collaboration.
- TAG has responsibility to provide independent road safety advice to RTC and Waka Kotahi has strict requirements for road safety considerations to be included in every engineering project contained within the Regional Land Transport Plan in order to be considered for funding.
- It was suggested that weaknesses of current delivery be corrected first, before embarking on wholesale changes to the delivery model.
- Current service level measures in the Long Term Plan tracks success as a reduction in road deaths and injuries (outcome), and it is suggested that these measures need to be changed to measure the success of the regional collaboration which is a driver of

improved outcomes rather than the outcome itself. Some suggestions include examples of successful collaborations including events.

- The HB road safety programme implements and promotes road safety messages and initiatives, as well as providing feedback on the effectiveness of those, and does not develop actual Road Safety Policy which is the purview of Central Government and Waka Kotahi.

FIN185/22

Resolutions

That the Finance, Audit and Risk Sub-committee:

1. Receives and considers the *Road Safety s17a Review outcomes* staff report.
2. Agrees that the decisions to be made are not significant under the criteria contained in Council's adopted Significance and Engagement Policy, and that the Sub-committee can exercise its discretion and make decisions on this issue in accordance with its Terms of Reference.
3. Agrees the preferred service delivery model, as approved by way of a resolution of the Regional Transport Committee on 11 March 2022, of a fully collaborative regional approach to road safety including:
 - 3.1. The revised structure will drive an enhanced collaborative model across the region through the Napier City, Hastings District, Central Hawke's Bay District, Wairoa District and Hawke's Bay Regional councils, Waka Kotahi, NZ Police and their partners working together to deliver better road safety outcomes through engineering, education and enforcement.
 - 3.2. The road safety programme will be developed and monitored at a strategic regional level and then implemented locally at an operational level.
 - 3.3. A strengthened Regional Transport Committee role will ensure effective governance and decision-making, giving clear direction and goals.
 - 3.4. A focused Road Safety Group will support a more effective programme across the region, coming together to identify priorities and set the annual programme and then to review the annual programme (midway through the year) against objectives and measures and adjust it to suit current / emerging needs.
 - 3.5. RoadSafe HB will provide a coordination and community engagement role in delivery of the programme with strategic support from the Regional Transport Committee and the Napier City, Hastings District, Central Hawke's Bay District, Wairoa District and Hawke's Bay Regional councils.

Taylor/Kirton
CARRIED

8. 2020-2021 Annual Report Adoption Update

James Palmer introduced the item noting that Council has received an unmodified audit opinion from Audit NZ.

- The draft Annual Report 2020-21 was presented to the sub-committee in December 2021 and changes from audit are not material so do not need to repeat FARS recommendation to Council for adoption.
- Staff will present the finalised Annual Report and summary directly to the 25 May 2022 Regional Council meeting for adoption.

FIN186/22

Resolution

That the Finance, Audit and Risk Sub-committee receives and notes the *Hawke's Bay Regional Council 2020-2021 Annual Report adoption update* staff report.

Foss/Foley
CARRIED

9. Quarterly Treasury Report For The Period 1 January - 31 March 2022

The item was taken as read.

- As of March 2022 the managed funds are \$1.5m below the expected capital protected amount due to recent downward trend in markets.
- The performance of the managed funds since placement demonstrates market recovery can occur within relatively short timeframes.
- Growth of \$1.5m is required to achieve 2% capital growth on managed funds.
- Currently no income from managed funds available to fund Council activities and it's anticipated there will be a shortfall in investment income in FY22-23.
- Any shortfall in investment income will be reflected as an operating deficit and or borrowed to fund Council activities.
- Debt tracking will be provided to the Corporate and Strategic Committee meeting as part of the quarterly financial report.

FIN187/22

Resolutions

That the Finance, Audit and Risk Sub-committee:

1. Receives and notes the *Quarterly Treasury Report for the period 1 January - 31 March 2022*.
2. Confirms that the performance of Council's investment portfolio has been reported to the Sub-committee's satisfaction.

**Foss/Taylor
CARRIED**

10. Risk Maturity update

Helen Marsden introduced the item noting the challenges faced by delivering the risk maturity work programme with business disruptions caused by Covid-19.

- Phase IV of the risk maturity roadmap is well behind and therefore the Executive Leadership Team (ELT) has formally agreed that phase IV is on hold until Covid disruptions ease.
- Review of the risk appetite statements with councillors and ELT will continue to progress as able.

Councillor Foss left the meeting at 12.01pm and Councillor Kirton assumed the Chair.

- There was a request for more detail in relation to the loss Risk Champions due to staff resignations and secondments.

FIN188/22

Resolution

That the Finance, Audit and Risk Sub-committee receives the *Risk maturity update* staff report, and notes that phase IV of the risk maturity roadmap is temporarily on hold while the business prioritises resourcing to respond to current levels of business disruption.

**Kirton/Foley
CARRIED**

11. Corrective Actions Dashboard

The item was taken as read.

Councillor Foss re-joined the meeting and re-assumed the Chair at 12.04pm.

FIN189/22

Resolutions

That the Finance, Audit and Risk Sub-committee:

1. Receives and notes the *Corrective actions dashboard* staff report.
2. Confirms that the corrective actions undertaken and/or planned for the future adequately respond to the findings and recommendations of the internal audits.
3. Confirms that the dashboard reports include adequate information on the status of the corrective actions.
4. Reports to the Corporate and Strategic Committee, the Sub-committee's satisfaction that the *Corrective actions dashboard* report provides adequate evidence of the management actions undertaken or planned respond to findings and recommendations from completed internal audits.

Kirton/Maloy
CARRIED

Secretarial note: It was agreed that the P&C Strategy will be shared with Stephanie Maloy as finalised for the 1 June 2022 Corporate & Strategic Committee (C&S) meeting so that she can satisfy herself, as the independent member of FARS and not a member of C&S, of the adequacy of actions taken in response to the Talent Management internal audit.

12. Corrective Actions Dashboard - Cyber Security

FIN190/22 Resolution

That the Finance, Audit and Risk Sub-committee excludes the public from this section of the meeting, being Agenda Item 12 Corrective Actions dashboard - Cyber security with the general subject of the item to be considered while the public is excluded; the reasons for passing the resolution and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution being:

General subject of the item to be considered	Reason for passing this resolution	Grounds under section 48(1) for the passing of the resolution
Corrective Actions dashboard - Cyber security	<p>s7(2)(f)(iii) The withholding of the information is necessary to maintain the effective conduct of public affairs through the protection of such members, officers, employees, and persons from improper pressure or harassment.</p> <p>s7(2)(e) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of the information is necessary to avoid prejudice to measures that prevent or mitigate loss to members of the public.</p> <p>s7(2)(j) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage.</p>	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

Foss/Foley
CARRIED

13. Cyber Incident Reports

FIN191/22 Resolution

That the Finance, Audit and Risk Sub-committee excludes the public from this section of the meeting, being Agenda Item 13 Cyber incident reports with the general subject of the item to be considered while the public is excluded. The reasons for passing the resolution and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are:

General subject of the item to be considered	Reason for passing this resolution	Grounds under section 48(1) for the passing of the resolution
Cyber incident reports	s7(2)(f)(iii) The withholding of the information is necessary to maintain the effective conduct of public affairs through the	The Council is specified, in the First Schedule to this Act,

protection of such members, officers, employees, and persons from improper pressure or harassment.

as a body to which the Act applies.

s7(2)(e) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of the information is necessary to avoid prejudice to measures that prevent or mitigate loss to members of the public.

s7(2)(j) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage.

**Foss/Foley
CARRIED**

14. Confirmation of 2 March 2022 Public Excluded Minutes

FIN192/22 Resolution

That the Finance, Audit and Risk Sub-committee excludes the public from this section of the meeting being Confirmation of Public Excluded Minutes Agenda Item 14 with the general subject of the item to be considered while the public is excluded; the reasons for passing the resolution and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution being:

General subject of the item to be considered	Reason for passing this resolution	Grounds under section 48(1) for the passing of the resolution
Internal Assurance Dashboard - Cyber Security Corrective Actions Status Update	<p>7(2)(f)(ii) The withholding of the information is necessary to maintain the effective conduct of public affairs through the protection of such members, officers, employees, and persons from improper pressure or harassment</p> <p>s7(2)(j) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage</p>	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

**Foss/Taylor
CARRIED**

The meeting went into public excluded session at 12.06pm and out of public excluded session at 12.15pm.

Closure:

There being no further business the Chairman declared the meeting closed at 12.15pm on Wednesday, 4 May 2022.

Signed as a true and correct record.

Date: FARS resolution 10 August 2022

Chairman: Craig Foss