HAWKE'S BAY REGIONAL COUNCIL

TE KAUNIHERA Ā-ROHE O TE MATAU-A-MĀUI

Meeting of the Risk & Audit Sub-committee

Date: 15 February 2024

Time: 10.00am

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

Attachments Excluded From Agenda

Managing uncertainty effectively

Risk management update for the Risk and Audit Committee

Hawke's Bay Regional Council
February 2024

Recap on the work to date

What we are doing

Work commenced in June 2023 to reset how Hawke's Bay Regional Council (HBRC) considers and manages risk. The purpose of this work has been to improve the relevance, quality and use of risk information, to better align with the needs of the Executive Leadership Team (ELT) and Council for decision-making.

The essence of this approach is:

1. To define 'risk' in terms of *uncertainty* (i.e. both the *good* – opportunities/things that could go right/upside – as well as the *bad* – threats/things that could go wrong).

2. To take a *top down* approach, identifying major areas of uncertainty/risk explicitly linked to HBRC's purpose for being, mandate, strategic priorities and commitments (i.e. what matters to you).

3. To enable a consistent shared understanding of HBRC's risk profile, expressed in terms of purpose, success and uncertainty, through a one page *HBRC Enterprise Dashboard.*

4. For each risk (i.e. area of success and uncertainty) to be risk rated to reflect the relative level of confidence or concern, as determined by the collective view of ELT and councillors.

5. For each risk (i.e. area of success and uncertainty) as reflected on the HBRC Enterprise Dashboard, to be supported by a *One Page Management Plan*, that provides an effective way to understand this risk, showing what could cause this risk to eventuate, why this matters, how it is managed, monitored and future plans and actions associated with this area.

6. For explicit *accountabilities* assigned across ELT for each of these areas of risk. This is to ensure that the understanding and description of this risk and how it is managed, is directly linked to ELT discussion and decision making.

(Note: for simplicity, the common usage of the word 'risk' should be read to mean 'uncertainty' – i.e. the risks that matter the most are the major areas of uncertainty that presents a threat or opportunity to HBRC that impacts HBRC's ability be successful and deliver on its purpose and commitments made).

Why we are doing this

Like many organisations, experience had been that traditional approaches to risk management do not work well in practice. Problems typically experienced are:

- a disconnect between day-to-day management and decision-making, and risk management

- risk registers that grow over time, often with stale outdated information and which don't well differentiate between a risk, grouping of similar risks, or sub-risk of a wider risk

- risk registers that often have similar risks expressed in different ways such that it difficult to see the wood for the trees

- risk scoring based on the subjective view of a single individual (the risk owner) and with often inadequate information to enable reliable determination of likelihood and impact

- risk reporting that tends to be compliance orientated, typically once a quarter

- An overall negative, jargon-heavy and compliance orientated feel to risk management that lacks staff engagement

Why this matters

Risk management only makes a difference if it results in relevant, quality and timely information that influences decision-making, resource allocation and action.

Quarterly reporting of a 'top 10' (or similar) risk report for 'noting' by the executive and governance bodies does not achieve this.

Rather, the intention is for an embedded approach that directly brings a good understanding of risk/uncertainty to management and Council decision-making.

2

Summary of current state

Status of the wide implementation process

- The foundation of the reset risk management approach is in place. This includes the work outlined in the summary on the right.

- There has been good engagement from across the business. Workshops have been held with a wide range of senior managers across HBRC to develop One Page Management Plans for each of the specific areas described within the HBRC Enterprise Dashboard. Initial management plans have been documented and are in place for every area described within the HBRC Enterprise Dashboard.

- Work to date has highlighted a general need to better describe the major management processes and controls in place that address these areas of success and uncertainty. Additionally, specific measures/metrics to enable the current state of performance to be determined are not always clearly defined. This is important to enable ongoing monitoring of effectiveness of how these areas are managed, and to align risk reporting with wider organisational performance reporting.

- The next steps and immediate focus from now includes: 1) confirming accountabilities for each area across the ELT; 2) increasing visibility of this work through communication and awareness raising with staff (particularly tier three managers); 3) formalising the monthly sentiment survey; 4) implementing a process for monthly update/confirmation of the one page management plans; 5) integration with ELT discussion and organisational performance reporting; and 6) aligning future business planning and risk approaches through clear linkage of HBRC purpose, commitments, definition of 'success', consideration of risk/uncertainty and transparency as to how this is managed and future initiatives that come from this.

- Additionally key internal controls identified as part of this process will be captured within an enterprise control library and used to establish a focused programme of controls assurance.

Risk profile

Areas of focus: success and uncertainty (i.e. key risks)	Related causes and contributory factors (i.e. sub risks)	High confidence (i.e. green: comfortable to live with this)	Some confidence (i.e. yellow: can live with this but would like to do more)	Some concern (i.e. amber: uncomfortable to live with this and we need to do something different)	High concern (i.e. red: cannot live with this, intervention required as a matter of priority)
26	209	39 (20%)	65 (30%)	85 (40%)	20 (10%)

Key work completed to date

Engagement with ELT
Initial discussion with the ELT in response to an identified need to take a different approach to risk and in response to the need to align expectations between management and the Council as to the nature of risk information provided

Prototype and proof of concept
Development of a one page risk profile, with example supporting one page management plans, and workshop with ELT

ELT risk sentiment surveys
Establishment of regular risk sentiment surveys of the ELT, with results provided to ELT to enable 1) engagement and buy-in to the risk approach and 2) discussion and common agreements as to how the risk profile might be expressed and their collective views as to where HBRC currently stands with respect to this.

Initial survey of Councillors
Survey to seek the view of councillors as to:
- What success looks like in the short term (1-3 years) and long term (10 years)
- Top threats for HBRC relating to this view of success
- Top opportunities associated with this

Workshop with the full Council
Face to face engagement with councillors to outline the core concepts and approach underpinning this approach to risk. This included:
- presenting back a combined view of success, opportunity and threat, as seen by councillors
- Introducing the concept of the dashboard as the risk profile

Implementation of approach
Rollout of this risk approach with workshops across the organisation and development of one page management plans.

Risk and Assurance Sub-Committee engagement
Presentation and discussion with the committee of core concepts, example deliverables, and with refinement of the risk profile (dashboard) and articulation of success and uncertainty statements.

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Risk profile and risk management plans

HBRC Enterprise Dashboard (i.e. risk profile)

A simple one page visual representation of HBRC's risk profile. Expressed in terms of
- *Purpose*: what do we care about the most?
- *Success*: what does success look like?
- *Uncertainty*: what are the major areas of uncertainty we need to manage effectively to be successful?

The statements on this dashboard (success and uncertainty related to success) represents the major things that matter for HBRC.

Regular Sentiment Surveys provides a way to represent the collective views of ELT and Council so as to enable focus on areas of collective concern, areas where there are differences of views across ELT/Council, and areas where the risk profile is changing.

One Page Management Plans (i.e. risk management plans)

Each statement is supported by a one page management plan that provides transparency as to:

- What this area of risk (success or uncertainty) is

- Why this matters (the consequences to HBRC expressed in terms of opportunity or threat)

- What contributes to this (things that might cause this risk to eventuate)

- How this is managed (through management practices and control)

- How this is monitored (and reflecting within regular management reporting)

- Based on the above, what might need to be done differently.

During workshops, areas of higher concern (amber or red) were identified and initial response plans developed.
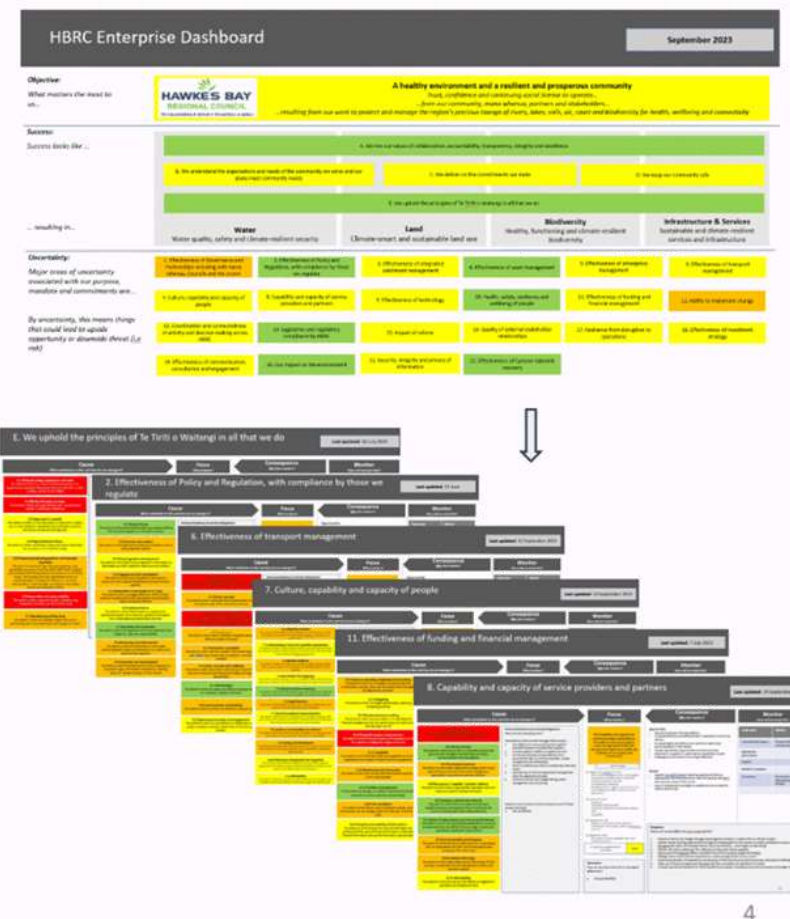
Risk profile and key themes emerging

Risk profile

The HBRC Enterprise Dashboard (page 9) has been developed with input from ELT and Council and sets out 26 specific statements that describe, in broad terms, the critical areas that must be managed effectively for HBRC to successfully deliver to its purpose and maintain the trust and confidence of the community it serves.

Risk ratings

A confidence/concern rating aggregates the view of ELT and Council and provides a simple visual heatmap risk rating (see page 17 for the rating scale and page 9 for the current risk rating by area).

Risk plans

Each of these 26 statements (essentially areas of risk, as defined in terms of success and uncertainty related to HBRC operations) are supported by management plans that describes these areas of risk in further detail (causes, consequences, controls and intended responses to strengthen management controls).

These plans have been developed through workshops with those accountable for each area. On average 9 specific causes (essentially sub-risks) has been identified for each area and these have been risk rated by these teams in terms of their relative level of confidence or concern in the potential for this area to impact HBRC and the extent to which these areas are effectively managed.

This provides a 'bottom up' mechanism to determine areas of emerging risk/concern, that can be compared with the 'top down' perspective of ELT and the Council.

Alignment between the view of douncillors and ELT

Comparing the perspective on risks as reflected in the confidence/concern ratings of ELT (page 9) and Council (page 10) shows that the general mood of Council is more pessimistic than ELT and amber overall (*uncomfortable to live with this and we need to do something different*).

The intention of the one page management plans is threefold:

1. Provide a clear definition of the most important things that matter to HBRC, and an agreed way for ELT and douncillors to define those things that must be managed effectively.

2. Provide transparency as to what these areas mean, why this is important, what contributes to this that must be effectively managed, and how this is managed

3. Provide a way to measure and monitor these areas and identify areas of emerging risk or concern

It would be useful to explore the factors contributing to this relative difference in view.

Alignment between the view of ELT and those accountable for each area

Comparing confidence/concern ratings between ELT and workshop participants shows:

*   A more optimistic view from ELT than line management and workshop participants. This may be due to ELT having a broader perspective and considering each area in the context of HBRC's overall operations. In some cases this may also be due to those accountable for managing the area having specific information or concerns not visible to ELT.

*   An alignment of view in 6 areas (nearly a quarter of all statements) where the view of ELT and workshop participants was the same overall, with respect to the four point risk scale (page 17).

*   A relatively close alignment of view for 15 areas (over half) where there was a one point difference in sentiment, typically between **yellow**, i.e. *can live with this but would like to do more* and **amber**, i.e. *uncomfortable to live with this and we need to do something different.*

*   In three areas there was a significant divergence of view where the sentiment of ELT was positive (green, *comfortable to live with this*) as opposed to staff close to these areas (amber, *uncomfortable to live with this and we need to do something different*).

*   These areas are:
    *   2. Effectiveness of Policy and Regulation, with compliance by those we regulate
    *   5. Effectiveness of Cyclone Gabrielle recovery
    *   14. Legislative and regulatory compliance by HBRC

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Key themes emerging
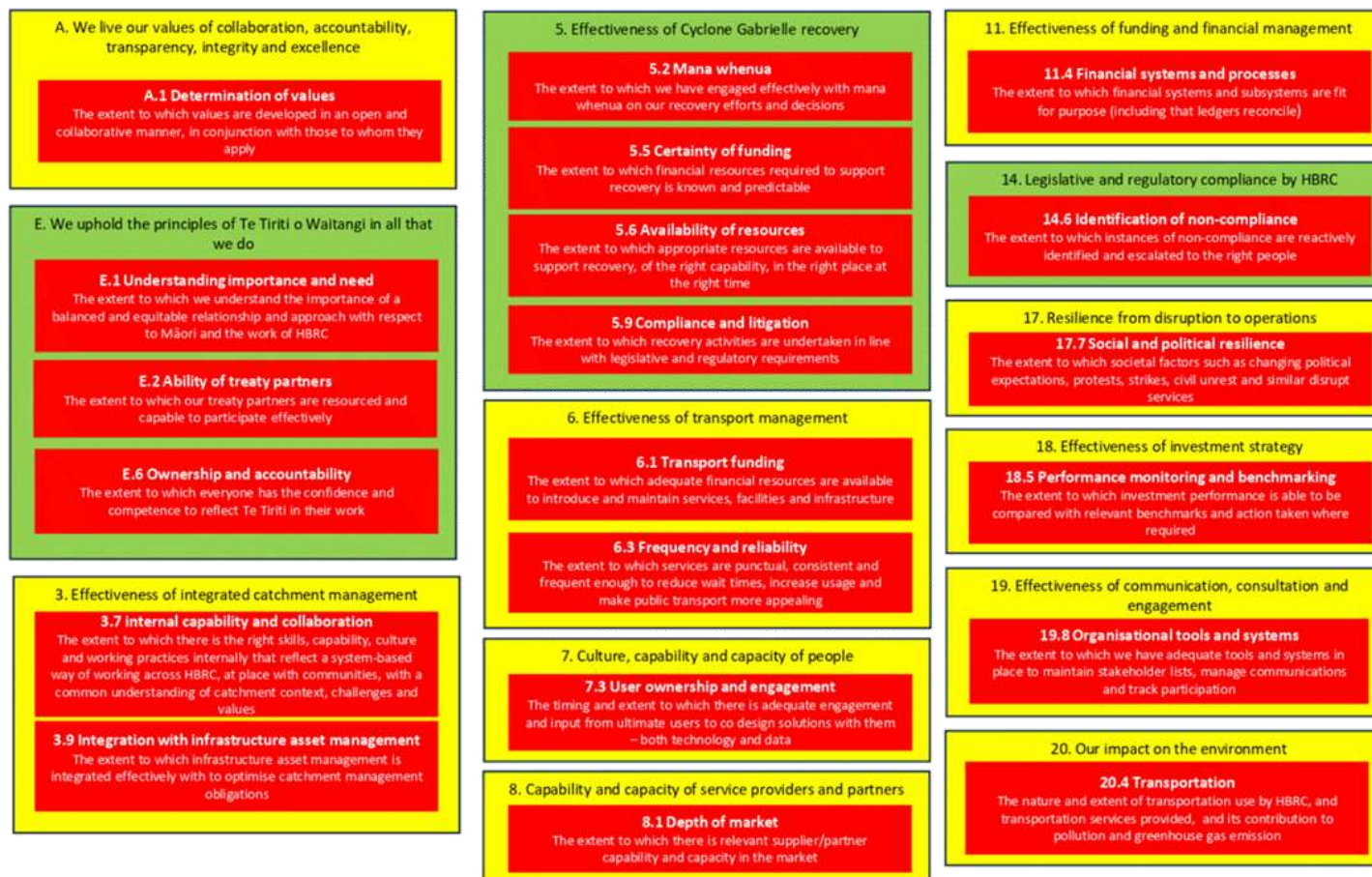
Specific areas of concern

During workshops to develop the one page management plans (risk plans), participants identified the following areas where there was a high levels of concern (i.e. red, *Cannot live with this, intervention required as a matter of priority*)

- outside box represents the overall area of risk (i.e. success/uncertainty as reflected in the HBRC Enterprise Dashboard) with the rating as determined by ELT

- inside boxes represent the specific areas of high concern related to these topics (i.e. causes within the associated one page management plan), as seen by staff participating in risk workshops
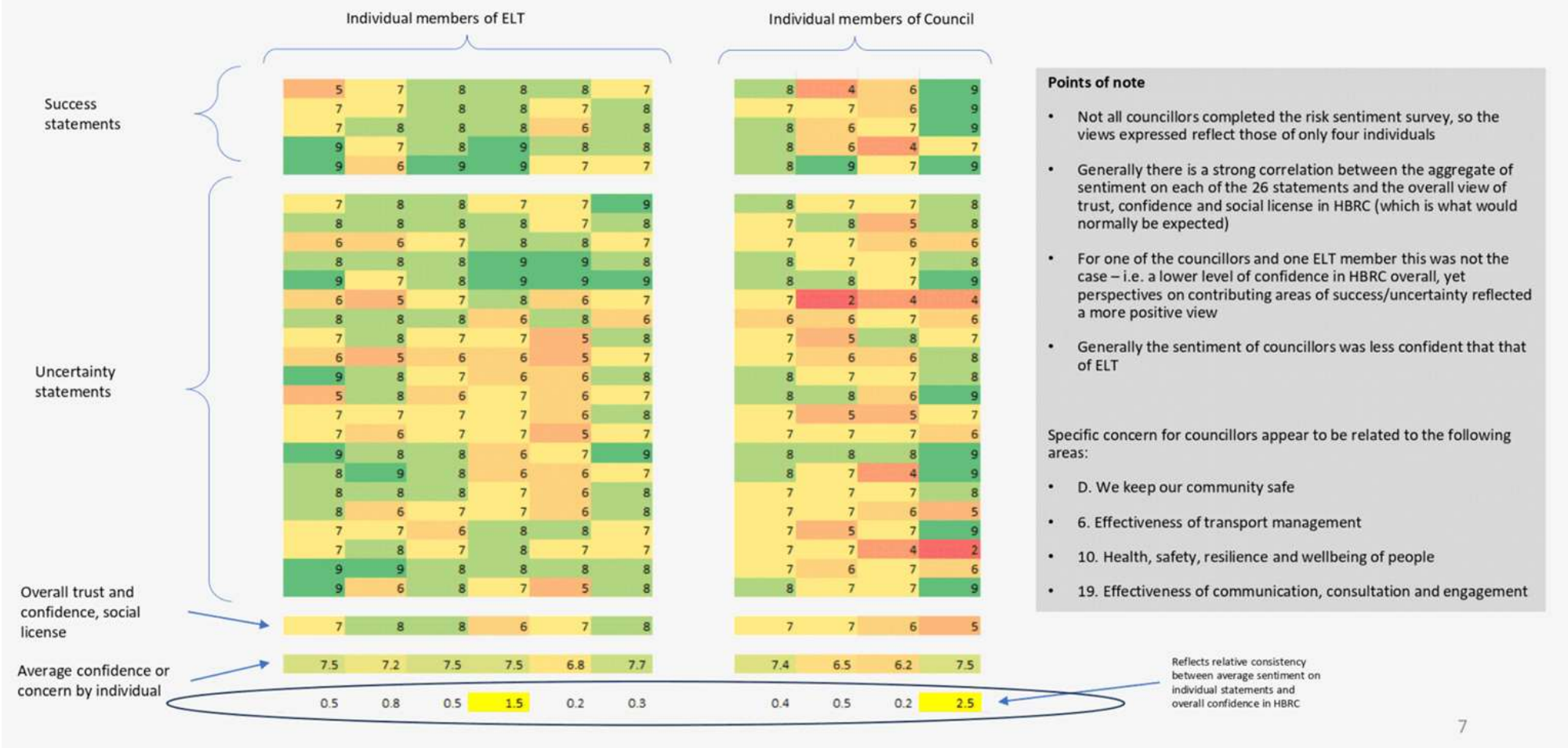
Response plans

As part of the series of workshops that identified these areas of higher concern, discussion focused on how HBRC might respond to these.

These plans are intended to provide the case for change (risk and consequence) and recommended mitigation strategy (response plan) to ELT and Council.

A. We live our values of collaboration, accountability, transparency, integrity and excellence

A.1 Determination of values
The extent to which values are developed in an open and collaborative manner, in conjunction with those to whom they apply

E. We uphold the principles of Te Tiriti o Waitangi in all that we do

E.1 Understanding importance and need
The extent to which we understand the importance of a balanced and equitable relationship and approach with respect to Māori and the work of HBRC

E.2 Ability of treaty partners
The extent to which our treaty partners are resourced and capable to participate effectively

E.6 Ownership and accountability
The extent to which everyone has the confidence and competence to reflect Te Tiriti in their work

3. Effectiveness of integrated catchment management

3.7 internal capability and collaboration
The extent to which there is the right skills, capability, culture and working practices internally that reflect a system-based way of working across HBRC, at place with communities, with a common understanding of catchment context, challenges and values

3.9 Integration with infrastructure asset management
The extent to which infrastructure asset management is integrated effectively with to optimise catchment management obligations

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5. Effectiveness of Cyclone Gabrielle recovery

5.2 Mana whenua
The extent to which we have engaged effectively with mana whenua on our recovery efforts and decisions

5.5 Certainty of funding
The extent to which financial resources required to support recovery is known and predictable

5.6 Availability of resources
The extent to which appropriate resources are available to support recovery, of the right capability, in the right place at the right time

5.9 Compliance and litigation
The extent to which recovery activities are undertaken in line with legislative and regulatory requirements

6. Effectiveness of transport management

6.1 Transport funding
The extent to which adequate financial resources are available to introduce and maintain services, facilities and infrastructure

6.3 Frequency and reliability
The extent to which services are punctual, consistent and frequent enough to reduce wait times, increase usage and make public transport more appealing

7. Culture, capability and capacity of people

7.3 User ownership and engagement
The timing and extent to which there is adequate engagement and input from ultimate users to co design solutions with them – both technology and data

8. Capability and capacity of service providers and partners

8.1 Depth of market
The extent to which there is relevant supplier/partner capability and capacity in the market

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11. Effectiveness of funding and financial management

11.4 Financial systems and processes
The extent to which financial systems and subsystems are fit for purpose (including that ledgers reconcile)

14. Legislative and regulatory compliance by HBRC

14.6 Identification of non-compliance
The extent to which instances of non-compliance are reactively identified and escalated to the right people

17. Resilience from disruption to operations

17.7 Social and political resilience
The extent to which societal factors such as changing political expectations, protests, strikes, civil unrest and similar disrupt services

18. Effectiveness of investment strategy

18.5 Performance monitoring and benchmarking
The extent to which investment performance is able to be compared with relevant benchmarks and action taken where required

19. Effectiveness of communication, consultation and engagement

19.8 Organisational tools and systems
The extent to which we have adequate tools and systems in place to maintain stakeholder lists, manage communications and track participation

20. Our impact on the environment

20.4 Transportation
The nature and extent of transportation use by HBRC, and transportation services provided, and its contribution to pollution and greenhouse gas emission

6

Risk sentiment survey – spread of perspectives

Points of note

- Not all councillors completed the risk sentiment survey, so the views expressed reflect those of only four individuals

- Generally there is a strong correlation between the aggregate of sentiment on each of the 26 statements and the overall view of trust, confidence and social license in HBRC (which is what would normally be expected)

- For one of the councillors and one ELT member this was not the case – i.e. a lower level of confidence in HBRC overall, yet perspectives on contributing areas of success/uncertainty reflected a more positive view

- Generally the sentiment of councillors was less confident that that of ELT

Specific concern for councillors appear to be related to the following areas:

- D. We keep our community safe

- 6. Effectiveness of transport management

- 10. Health, safety, resilience and wellbeing of people

- 19. Effectiveness of communication, consultation and engagement

Enterprise Dashboard
Risk profile expressed in terms of purpose, success and uncertainty,
heat-mapped to reflect relative confidence/concern

HBRC Enterprise Dashboard – ELT perspective

Purpose:

What matters the most to us…

Nic

HAWKE'S BAY REGIONAL COUNCIL
TE KAUNIHERA Ā-ROHE O TE MATAU-A-MĀUI

H

A healthy environment and a resilient and prosperous community
Trust, confidence and continuing social license to operate…
…from our community, mana whenua, partners and stakeholders…
…resulting from our work to protect and manage the region's precious taonga of rivers, lakes, soils, air, coast and biodiversity for health, wellbeing and connectivity

Success:

Success looks like …

M — A. We live our values of collaboration, accountability, transparency, integrity and excellence — tbd

H — B. We understand the expectations and needs of the community we serve and our plans meet community needs — Chris

H — C. We deliver on the commitments we make — Susie

H — D. We keep our community safe — tbd

M — E. We uphold the principles of Te Tiriti o Waitangi in all that we do — tbd

… resulting in…

Water	**Land**	**Biodiversity**	**Infrastructure & Services**
Water quality, safety and climate-resilient security	Climate-smart and sustainable land use	Healthy, functioning and climate-resilient biodiversity	Sustainable and climate-resilient services and infrastructure

Uncertainty:

Major areas of uncertainty associated with our purpose, mandate and commitments are…

By uncertainty, this means things that could lead to upside opportunity or downside threat (i.e. risk)

1. Effectiveness of Governance and Partnerships including with mana whenua, Councils and the crown — H — tbd
2. Effectiveness of Policy and Regulation, with compliance by those we regulate — H — Katrina
3. Effectiveness of integrated catchment management — H — Iain
4. Effectiveness of infrastructure asset management — H — Chris
5. Effectiveness of Cyclone Gabrielle recovery — H — Iain
6. Effectiveness of transport management — M — Katrina

7. Culture, capability and capacity of people — H — Susie
8. Capability and capacity of service providers and partners — M — Susie
9. Effectiveness of technology — M — Susie
10. Health, safety, resilience and wellbeing of people — M — tbd
11. Effectiveness of funding and financial management — M — Susie / Chris C
12. Effectiveness of programme and project delivery — H — tbd

13. Coordination and connectedness of activity and decision making across HBRC — H — tbd
14. Legislative and regulatory compliance by HBRC — M
15. Impact of external change and reform — M — Katrina
16. Effectiveness of external partner and stakeholder relationships — H — tbd
17. Resilience from disruption to operations — H — tbd
18. Effectiveness of investment strategy — M — tbd

19. Effectiveness of communication, consultation and engagement — H — tbd
20. Our impact on the environment — H — Iain
21. Security, integrity and privacy of information — M — tbd

Key:

High confidence G Y A R High concern
Confidence/concern rating

High alignment H M S L Low alignment

Accountability for risk at ELT (exec lead) / business level (business lead)

△ Change in sentiment from last survey colour reflects prior sentiment

★ New statement or change to definition of statement

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HBRC Enterprise Dashboard – Council perspective

Purpose:

What matters the most to us...

HAWKE'S BAY REGIONAL COUNCIL
TE KAUNIHERA Ā-ROHE O TE MATAU-A-MĀUI

A healthy environment and a resilient and prosperous community
Trust, confidence and continuing social license to operate...
...from our community, mana whenua, partners and stakeholders...
[H] *...resulting from our work to protect and manage the region's precious taonga of rivers, lakes, soils, air, coast and biodiversity for health, wellbeing and connectivity*

Success:

Success looks like ...

[S] A. We live our values of collaboration, accountability, transparency, integrity and excellence

[M] B. We understand the expectations and needs of the community we serve and our plans meet community needs

[M] C. We deliver on the commitments we make

[M] D. We keep our community safe

[H] E. We uphold the principles of Te Tiriti o Waitangi in all that we do

... resulting in...

Water	**Land**	**Biodiversity**	**Infrastructure & Services**
Water quality, safety and climate-resilient security	Climate-smart and sustainable land use	Healthy, functioning and climate-resilient biodiversity	Sustainable and climate-resilient services and infrastructure

Uncertainty:

Major areas of uncertainty associated with our purpose, mandate and commitments are...

By uncertainty, this means things that could lead to upside opportunity or downside threat (i.e. risk)

1. Effectiveness of Governance and Partnerships including with mana whenua, Councils and the crown [H]

2. Effectiveness of Policy and Regulation, with compliance by those we regulate [M]

3. Effectiveness of integrated catchment management [H]

4. Effectiveness of infrastructure asset management [H]

5. Effectiveness of Cyclone Gabrielle recovery [H]

6. Effectiveness of transport management [S]

7. Culture, capability and capacity of people [H]

8. Capability and capacity of service providers and partners [M]

9. Effectiveness of technology [H]

10. Health, safety, resilience and wellbeing of people [H]

11. Effectiveness of funding and financial management [M]

12. Effectiveness of programme and project delivery [H]

13. Coordination and connectedness of activity and decision making across HBRC [H]

14. Legislative and regulatory compliance by HBRC [H]

15. Impact of external change and reform [S]

16. Effectiveness of external partner and stakeholder relationships [H]

17. Resilience from disruption to operations [H]

18. Effectiveness of investment strategy [M]

19. Effectiveness of communication, consultation and engagement [S]

20. Our impact on the environment [H]

21. Security, integrity and privacy of information [H]

Key:

High confidence [G][Y][A][R] High concern

High alignment [H][M][S][L] Low alignment

Confidence/concern rating

10

Deep dive into specific areas

One page management plans for specific areas of success or uncertainty (risk):

- 8. Capability and capacity of service providers and partners
- 10. Health, safety and wellbeing of people (including 10.1 physical wellbeing)

Attachment 1   Item 4
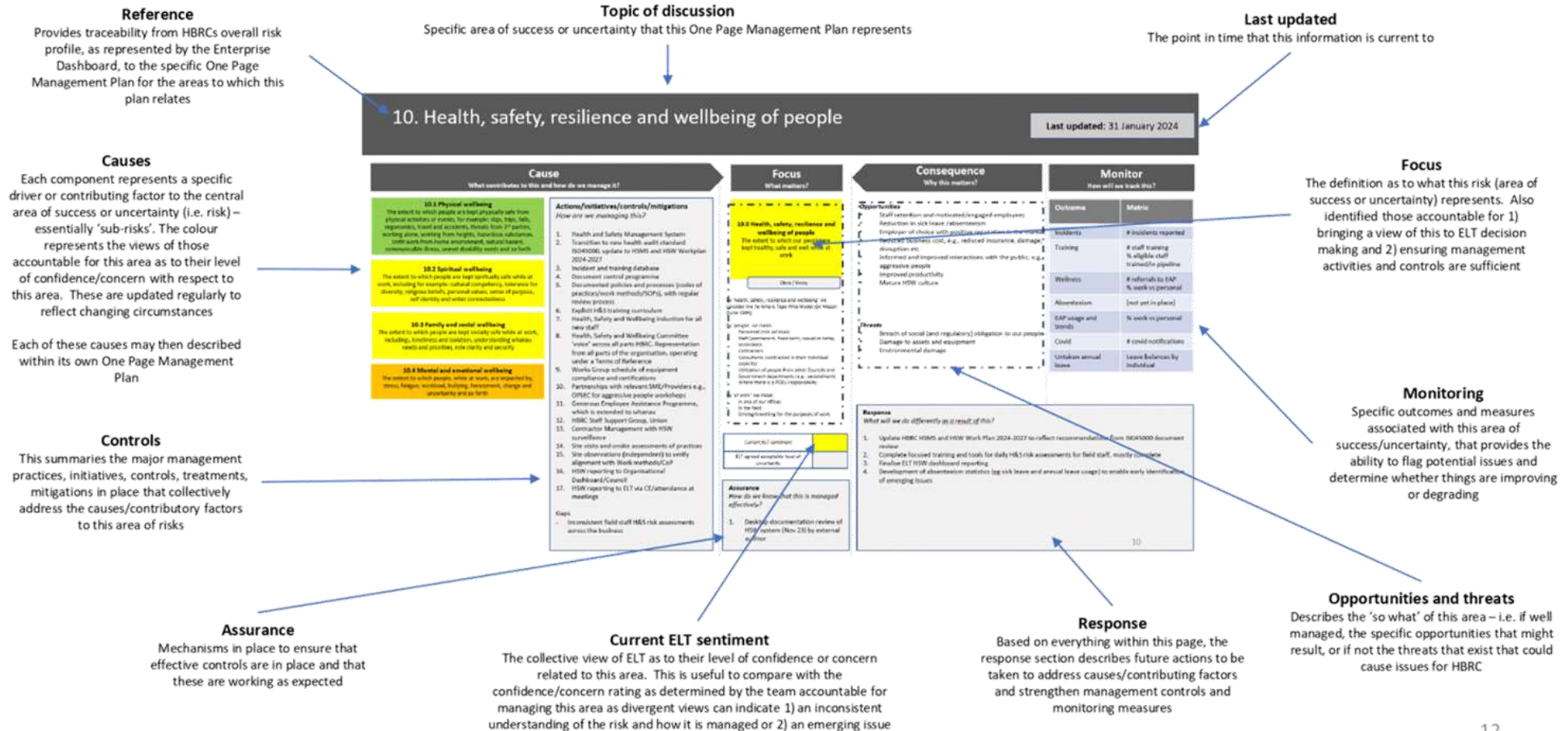
8. Capability and capacity of service providers and partners

Last updated: 30 January 2024

Cause
What contributes to this and how do we manage it?

8.1 Depth of market
The extent to which there is relevant supplier/partner capability and capacity in the market.

8.2 Clarity of need
The extent to which we are clear on required services to be procured and managed, and that these are clearly communicated to the marketplace

8.3 Procurement process
The extent to which staff understand and apply (don't avoid) appropriate procurement and vendor management approaches, across the procurement lifecycle

8.4 Key person / supplier / partner reliance
The extent to which there is appropriate redundancy and over reliance on specific entities/individuals

8.5 Conduct, cultural and value fit
The extent to which there is an alignment between suppliers/partners and expected ways of working at the council, including appropriate ethical behaviour

8.6 Clarity of expectations and service performance
The extent to which the requirements/expectations of service providers/partners are defined (financial, legal, reputational, operational, substitution and so forth)

8.7 Service provider performance
The extent to which service providers perform in accordance with our expectations and their commercial agreements (contracts, PO's, MoU's etc)

8.8 Enabling technology
The extent to which supporting tools and technology is fit for purpose, for example Contract Management Systems and payment systems

8.10 Affordability
The extent to which services are cost effective, budgeted for and able to be funded over time

Actions/initiatives/controls/mitigations
How are we managing this?

1. Due diligence to ensure appropriate suppliers selected and panel of prequalified suppliers
2. Provide suppliers visibility on pipeline of work
3. Formal procurement process defined, from procurement plan to contract execution, vendor management and offboarding
4. Panel of preferred providers to enable easy alternate access
5. Optional use of Outcome Agreement Management Plans for significant providers
6. Financial controls over budget setting, spend management and monitoring

Focus
What matters?

8.0 Capability and capacity of service providers and partners
The extent to which we are able to access the right external skills and services at the right time to enable use to delivery on our purpose and commitments

Chris / Mark

By suppliers and partners we mean
- Where there is an agreement to work together (irrespective of whether there is payment)
- Providers of goods or services
- Consultant and contractors
- Strategic partners – eg iwi, mana whenua, PwC
- Temp staff agencies (but not the temp staff themselves)

This does not include
- Employees
- Temporary individual staff
- Fixed term contractors/secondments acting as staff
- Councillors

By capability we mean
- Ability to do the task required (skill set)
- Combination of knowledge, skills and behaviours (culture)

By capacity we mean:
- The extent of service availability (size, time, location, lead time)

Current ELT sentiment	
ELT agreed acceptable level of uncertainty	

Assurance
How do we know that this is managed effectively?

1. Not yet identified

Consequence
Why this matters?

Opportunities
- Security/continuity of service delivery
- Increased efficiency and effectiveness in operations and service delivery
- Increased agility and ability to act quickly as need arises
- Good reputation in the market
- Greater partnership opportunities re social outcomes
- Potential for suppliers to uplift internal capabilities of staff
- Challenge and innovation to do things differently

Threats
- Supplier non performance impacting operational delivery
- Reputational risk from association with third parties that don't demonstrate values of the Council
- Loss of institutional knowledge to outside service provides for outsourced services

Monitor
How will we track this?

Outcome	Metric
Financial performance	% spend within contract budget
Operational performance	Tbd
Capacity	Tbd
Breadth of capability	Tbd
Compliance	% contracts that followed procurement process

Response
What will we do differently as a result of this?

1. Enhance controls over budget manager spend against contracts, or spend with no contract in place
2. Identify market building opportunities through providing pipeline to the market to enable confidence to scale up
3. Recognise the reality of increased cost for lower service levels – what might we stop doing?
4. Partner with other entities (e.g. TPK, MBIE etc) to help build market capability
5. Move away from bespoke CMS to one that is more fit for purpose (subject to funding)
6. 360deg review of procurement expectations, needs and approaches across council
7. Continuing education of expectations and purpose of following the procurement process, and extent of affordability
8. Make use of Outcome Agreement Management Plans mandatory for Significant Providers
9. Increase operational discipline for following defined processes, including procurement processes and budget management

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10. Health, safety, resilience and wellbeing of people

Last updated: 31 January 2024

Cause
What contributes to this and how do we manage it?

10.1 Physical wellbeing
The extent to which people are kept physically safe from physical activities or events, for example: slips, trips, falls, ergonomics, travel and accidents, threats from 3rd parties, working alone, working from heights, hazardous substances. Unfit work-from-home environment, natural hazard, communicable illness, unmet disability needs and so forth

10.2 Spiritual wellbeing
The extent to which people are kept spiritually safe while at work, including for example: cultural competency, tolerance for diversity, religious beliefs, personal values, sense of purpose, self identity and wider connectedness

10.3 Family and social wellbeing
The extent to which people are kept socially safe while at work, including:, loneliness and isolation, understanding whanau needs and priorities, role clarity and security

10.4 Mental and emotional wellbeing
The extent to which people, while at work, are impacted by, stress, fatigue, workload, bullying, harassment, change and uncertainty and so forth

Actions/initiatives/controls/mitigations
How are we managing this?

1. Health and Safety Management System
2. Transition to new health audit standard ISO45000, update to HSMS and HSW Workplan 2024-2027
3. Incident and training database
4. Document control programme
5. Documented policies and processes (codes of practices/work methods/SOPs), with regular review process
6. Explicit H&S training curriculum
7. Health, Safety and Wellbeing induction for all new staff
8. Health, Safety and Wellbeing Committee 'voice' across all parts HBRC. Representation from all parts of the organisation, operating under a Terms of Reference
9. Works Group schedule of equipment compliance and certifications
10. Partnerships with relevant SME/Providers e.g. OPSEC for aggressive people workshops
11. Generous Employee Assistance Programme, which is extended to whanau
12. HBRC Staff Support Group, Union
13. Contractor Management with HSW surveillance
14. Site visits and onsite assessments of practices
15. Site observations (independent) to verify alignment with Work methods/CoP
16. HSW reporting to Organisational Dashboard/Council
17. HSW reporting to ELT via CE/attendance at meetings

Gaps
- Inconsistent field staff H&S risk assessments across the business

Focus
What matters?

10.0 Health, safety, resilience and wellbeing of people
The extent to which our people are kept healthy, safe and well while at work

Chris / Kirsty

By 'health, safety, resilience and wellbeing' we consider the Te Whare Tapa Wha Model (Sir Mason Durie 1984)

By 'people' we mean:
- Personnel (not services)
- Staff (permanent, fixed term, casual or temp, secondees)
- Contractors
- Consultants (contracted in their individual capacity)
- Utilisation of people from other Councils and Government departments (e.g., secondment)
- Where there is a PCBU responsibility

By 'at work' we mean:
- In one of our offices
- In the field
- Driving/travelling for the purposes of work

Current ELT sentiment	
ELT agreed acceptable level of uncertainty	

Assurance
How do we know that this is managed effectively?

1. Desktop documentation review of HSW system (Nov 23) by external auditor

Consequence
Why this matters?

Opportunities
- Staff retention and motivated/engaged employees
- Reduction in sick leave /absenteeism
- Employer of choice with positive reputation in the market
- Reduced business cost, e.g. reduced insurance, damage, disruption etc
- Informed and improved interactions with the public, e.g. aggressive people
- Improved productivity
- Mature HSW culture

Threats
- Breach of social (and regulatory) obligation to our people
- Damage to assets and equipment
- Environmental damage

Response
What will we do differently as a result of this?

1. Update HBRC HSMS and HSW Work Plan 2024-2027 to reflect recommendations from ISO45000 document review
2. Complete focused training and tools for daily H&S risk assessments for field staff, mostly complete
3. Finalise ELT HSW dashboard reporting
4. Development of absenteeism statistics (e.g. sick leave and annual leave usage) to enable early identification of emerging issues

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Monitor
How will we track this?

Outcome	Metric
Incidents	# incidents reported
Training	# staff training % eligible staff trained/in pipeline
Wellness	# referrals to EAP % work vs personal
Absenteeism	[not yet in place]
EAP usage and trends	% work vs personal
Covid	# covid notifications
Untaken annual leave	Leave balances by individual

10.1 Physical wellbeing

Last updated: 31 January 2024

Cause
What contributes to this and how do we manage it?

10.1.1 Slips, trips and falls
The extent to which staff work from heights, on slippery surfaces and so forth

10.1.2 Communicable illness
The extent to which staff are exposed to sources of illness (e.g. flu, covid, measles, etc.)

10.1.3 Driving and Vehicle use
The extent to which staff drive and use vehicles in an appropriate and safe manner

10.1.4 Lone work
The extent to which staff work in an isolated manner

10.1.5 Impairment
The extent to which staff are impaired, e.g. through drug, alcohol or similar use

10.1.6 Fatigue
The extent to which staff are impaired through tiredness and fatigue

10.1.7 Competency
The extent to which staff have the necessary skills and capabilities to do the job asked of them

10.1.8 Hazardous environment
The extent to which staff work in an environment that exposes them to hazardous materials (e.g. water, chemicals, electricity etc)

10.1.8 Ergonomics and accessibility
The extent to which the work environment for staff is appropriate to need

Actions/initiatives/controls/mitigations
How are we managing this?
Preventative controls (what manages these causes)
1. Policies, procedures, Work Methods/CoPs to set expectations
2. GPS used in most vehicles
3. Buddy system in some areas
4. Focused training and workshops e.g., working from heights, 4WD, driver assessment, dealing with aggressive people, LUV/Quad, 2WD, STSMS,
5. Use of appropriate PPE and safety equipment inc things such as first aid kit, fire extinguishers etc
6. Vehicle purchase process
7. Satellite communication devices and monitoring (internal/external)
8. Allowance to set up WFH environment
9. Community meeting/daily risk assessment process for field staff
10. Work from home available (most roles) to limit communicable illness spread e.g. COVID 19
11. Life insurance (HBRC funded) with extra Care Package e.g. Ask a GP function, Nutrition assessment and programme

Detective and corrective controls (what do we do if these causes eventuate)
1. Site visits and onsite assessments of practices
2. Site observations (independent) to verify alignment with Work methods/CoP
3. Incident report and investigation with remedial actions (where required)
4. Monitoring and escalation process for lone/remote work, internal and external (inreach)
Gaps
- Competency framework and easily accessible competency information (Works group)
- Inconsistent field staff H&S risk assessments across the business

Focus
What matters?

10.1 Physical wellbeing
The extent to which people are kept physically safe from physical activities or events, for example: slips, trips, falls, ergonomics, travel and accidents, threats from 3rd parties, working alone, working from heights, hazardous substances. Unfit work-from-home environment, natural hazard, communicable illness, unmet disability needs and so

Chris / Kirsty

Assurance
How do we know that this is managed effectively?

1. [how do we know our management activities and controls are effective]

Consequence
Why this matters?

Opportunities
- Staff retention and motivated/engaged employees
- Reduction in sick leave /absenteeism
- Employer of choice with positive reputation in the market
- Reduced business cost, e.g. reduced insurance, damage, disruption etc
- Informed and improved interactions with the public, e.g. aggressive people
- Improved productivity
- Mature HSW culture

Threats
- Breach of social (and regulatory) obligation to our people
- Damage to assets and equipment
- Environmental damage

Response
What will we do differently as a result of this?

1. Update HBRC HSMS and HSW Work Plan 2024-2027 to reflect recommendations from ISO45000 document review
2. Ensure communications **available** to all field workers at all times
3. Complete competency framework for Works Group and implement accessible competency database
4. Finalise delivery of daily risk assessment training (field staff) (almost complete)
5. Finalise risk management app with ICT (requested, sitting with ICT)

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Monitor
How will we track this?

Outcome	Metric
Incidents	# incidents reported
Training	# staff training % eligible staff trained/in pipeline
Wellness	# referrals to EAP % work vs personal
Absenteeism	
EAP usage and trends	% work vs personal

Appendix

1. Risk scoring framework: confidence/concern ratings
2. Foundation and pre-requisites for risk management

Attachment 1　Item 4 *(vertical, right margin)*

Appendix 1: Defining risk in terms of relative confidence or concern

Risk scoring simplified:
- A survey to gauge the relative level of confidence/concern associated with each statement on the HBRC Enterprise Dashboard (risk profile)
- Collective view. Reduces the impact of individual cognitive bias and provides a perspective as to the degree of alignment or divergence of view across the executive and Council
- Enables an equal upside of where focus might be on capturing opportunity (as opposed to solely mitigating risk/threat)

Rating	What this means in terms of threat	...or in terms of uncertainty	... and in terms of opportunity
Red	**Extreme risk** — Very significant potential impact on your organisation's operations, people, rightsholders and wider stakeholder trust and confidence. Current management practices (controls/mitigations) insufficient to reduce potential exposure to an acceptable level	**Extreme volatility** — Very uncertain or changeable environment, that presents major downside (threats) or upside (opportunities). Insufficient or ineffective mechanisms to monitor or respond appropriately to the threats or opportunities that may present themselves	**Extreme opportunity** — Very significant areas of opportunity or potential for positive change. Current plans, initiative or projects do not fully capture these opportunities and significant gaps exist between what we want to achieve and what we are currently doing to achieve this
	Cannot live with this, intervention required as a matter of priority		
Amber	**High risk** — Relatively high level of exposure or impact to your organisation. Some controls or mitigations in place however these may not be sufficient to reduce exposure to an acceptable level	**High volatility** — Quite a changeable environment with respect to areas of major priority or commitment to your organisation. A lower level of ability to respond quickly than is desirable	**High opportunity** — A relatively high level of opportunity or potential to do things differently. Some initiatives in place but may not be sufficient to deliver on our commitments or achieve SOI/business plan objectives
	Uncomfortable to live with this and we need to do something different		
Yellow	**Moderate risk** — A reasonable level of risk faced by your organisation but with a level that you are able to respond to. Some controls in place, but could do more or uncertain as to the effectiveness of these controls in practice. May cause some pain or disruption, potentially could mitigate further, but broadly in line with risk appetite	**Moderate volatility** — Some level of uncertainty or variability faced. Reasonable mechanisms to identify and respond to threats or opportunities, should they present themselves	**Moderate opportunity** — A reasonable level of opportunity to do things better, more consistently and effectively. Some controls in place, but scope to strengthen, enhance and improve these. Reasonable opportunity to increase the level of assurance that what we expect to occur is in place and working effectively
	Can live with this but would like to do more		
Green	**Low risk** — Relatively low level of exposure, but not necessarily no risk. Confidence that effective management practices and controls in place	**Low volatility** — Highly stable or predictable, little impact on your mandate, commitments or priorities. Effective mechanisms identify and respond to change	**Low opportunity** — Major areas of opportunity have been captured. Little areas of major improvement or potential for positive change. Effective initiatives in place to deliver on commitments
	Comfortable to live with this		

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Appendix 2: Pre-requisites for risk management to be effective

Executive commitment
This approach is visibly endorsed and driven by the executive – i.e. lead from the top with the leadership walking the talk

Clear accountability
Specific (single point) accountabilities are allocated to do the work required – at ELT and Tier 3

Common language
Simple and common terms and language so that everyone is clear on how this works and what is required of them

Decision making
Uncertainty (risks and opportunities) is explicitly considered as part of decision making

Integration with planning
Success and uncertainty, risk, opportunities and controls, are explicitly addressed as part of the planning process

Integration with operations
Risk (success/uncertainty) and how this is managed (controls) are embedded into day-to-day operations so that risk management becomes just management

Operating cadence
The pace of activities is aligned and built into core planning, management, governance and reporting cycles

Performance and monitoring
Core management reporting, monitoring and oversight mechanisms show an integrated picture of commitment, activity, performance, risk and assurance – i.e. what is expected is delivered

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Applied common sense

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HAWKE'S BAY
REGIONAL COUNCIL

Framework			
Title:	Risk Management Framework		

Team framework owned by:	Risk and Assurance	**Version number:**	1
Document owner:	Helen Marsden	**Date framework last reviewed and published:**	October 2020
Document approver:	Susie Young	**Next review due:**	November 2023

Purpose

HBRC's vision is a healthy environment and a resilient and a prosperous community. This vision is supported by a strong set of values that include partnership and collaboration, accountability, transparency, and excellence.

The purpose of this framework is to bring to life HBRC's Risk Management Policy (CD0023) by outlining HBRC's risk structure and processes in a single document.

The intention of this framework is to provide clarity to all staff on their risk management obligations and to drive consistency with regards to the application of risk management processes across HBRC's. This framework supports the achievement of HBRC's risk purpose and vision as outlined in risk management policy, including:

1. supporting the achievement of HBRC's operational and strategic objectives
2. cultivating a culture that risk management is everyone's responsibility ensuring consistent and transparent risk intelligent decision-making
3. providing oversight and assurance to Council and Executive Leadership Team (ELT) that risks are well managed
4. effectively prioritising resource allocation for the management of risks that most significantly impact objectives, and
5. protecting Council owned assets, regional resources, and key stakeholder interests in an efficient and sustainable way.

This risk management framework should be read in conjunction with the risk management policy.

HBRC Context: Purpose, Vision, Values & Risk Appetite *(HBRC's Internal and External Environment)*

Risk Policy and Risk Culture

Risk Framework and Risk Practices

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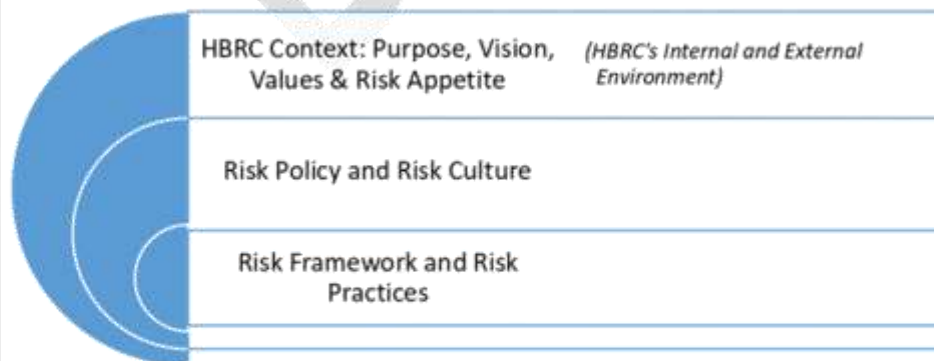
| **Target audience** |
| This policy applies to all HBRC staff, contractors, elected members and sub-committee appointees. |

| **Policy details** |

1. **Framework goal or objectives**

   1.1. Ensure a mature risk culture with strong engagement and ownership of risk by all staff.

   1.2. Ensure all staff are aware of their risk management obligations including identifying, escalating and managing risks.

   1.3. Ensure staff with risk specific tasks are aware of those specific requirements.

   1.4. Frame the high-level mandatory risk practices including sentiment surveys, minimum levels of risk reporting (frequency), mandatory risk data, and storage of risk information.

   1.5. Ensure risk management principles and practices are embedded into the everyday decisions and activities undertaken by staff.

   1.6. Through one framework have a consistent approach to risk management across HBRC to enable better oversight and improved process integration into all activities, management functions and key decisions.

2. **Related documents (e.g., Legislation, Policies, SOPs, etc)**

   2.1 Risk Management Policy

   2.2 ISO 31000:2018 Risk Management Standard

   2.3 All of Government (AoG) Risk Maturity Model

3. **Key definitions/abbreviations**

   3.1 **All of Government (AoG) risk maturity model** – benchmark risk maturity model that is promoted by Local Government New Zealand (LGNZ)

   3.2 **Cause** – underlying reason why the risk event occurs

   3.3 **Coordinated Incident Management System** - is a structure and framework that provides a consistent approach for responding to an incident that is scalable within an organisation up to a coordinated regional inter-agency response

   3.4 **Consequence** – impact of an event on objectives

   3.5 **Control** – an activity that either reduces; the likelihood or consequence of a risk event

   3.6 **Critical Risk** – sometimes refer to as 'uncertainties', 'key risks' or 'enterprise risks', these are the risk event most material to HBRC

   3.7 **Critical Control** – sometimes referred to as 'key controls', these are main activities 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

   3.8 **Enterprise Risk Management** – the process of planning, organising, leading, and controlling the activities of an HBRC to either minimise the effects, or seize opportunities, from uncertainty that impacts an on HBRC objectives

   3.9 **Event** – when there is a change to circumstances that triggers a risk response

   3.10 **Financial Risk** – the potential for financial loss and uncertainty from creditors, financial markets or liquidity

   3.11 **Incident** – an event that has had, or could have had, a negative impact on HBRC's operations or its interested parties; resulting from inadequate or failed, people (and contractors), processes, systems, or from an external event

   3.12 **Incident Manager** – is responsible for coordinating all incident response activities

3.13   **Inherent Risk** – an assessed level of an untreated risk prior to the application of controls

3.14   **Likelihood** – chance or probability of a risk event happening

3.15   **Management System Advisor** - coordinate activities that manage operational uncertainties/risks organised as common structures and processes that act systematically to ensure output and planned results are achieved

3.16   **Mitigation** – specific measures taken to minimise or eliminate unacceptable risks

3.17   **Non-conformance** - failure to meet specified requirements, including but not limited to documented processes, utilisation of management systems, and standard operating procedures

3.18   **Operational Risk** – the potential for losses from inadequate or failed internal processes, people and systems, or from external events

3.19   **Process** - a simply structured, measured set of activities designed to produce a specified output

3.20   **Procedure** - a document that instructs workers on executing one or more activities of a business process

3.21   **Process Improvement** - practices that aim to identify problems or opportunities in existing processes, create solutions then apply them to optimise performance

3.22   **Residual Risk** – an assessed level of risk after the application of controls and mitigations

3.23   **Risk** – the effect of uncertainty on objectives that maybe either positive or negative

3.24   **Risk Appetite** – the degree of risk the governing body is prepared to accept in pursuit of objectives articulate in qualitative terms

3.25   **Risk Capacity** – the total amount and type of risk able to be sustained in pursuit of objectives, articulated in quantitative terms

3.26   **Risk Management** – is a series of activities undertaken to systematically identify and address risk

3.27   **Risk Tolerance** – the total amount and type of risk the governing body (Council) is prepared to accept given the organisations mandate articulated in quantitative (a subset of risk capacity)

3.28   **Sentiment Survey** – a qualitative risk assessment undertaken by individuals of a collective group via a survey on how well they believe uncertainties (risks) or success factors are being managed

3.29   **Strategic Risk** – the chance that a strategy will result in losses from failed business decisions, or lack thereof (pursuit of an unsuccessful business plan)

3.30   **Success Factors** – organisation's key deliverables that align to the organisations vision and purpose

3.31   **Uncertainties** – sometimes referred to as 'key risks' or 'enterprise risks', these are the risk event most material to HBRC

4.   **Background**

4.1.   HBRC's vision is a healthy environment, a vibrant community, and a prosperous economy. This vision is supported by a strong set of values that includes partnership and collaboration, accountability, transparency, and excellence. With this context Council sets HBRC's risk appetite.

4.2.   To help ensure that HBRC effectively and efficiently delivers on its vision, values and objectives sound risk management is essential. Therefore, HBRC have a documented risk management policy and framework. HBRC's ELT commit to embedding the risk management practices outlined in HBRC's risk management framework throughout Council. ELT also support a culture of risk ownership by all staff and re-enforce the need for risk intelligent decisions.

4.3.   As outlined in HBRC's risk management policy, HBRC's Risk Management System (RMS) has been designed to align to best practice and is benchmarked on the leading international standard for risk management ISO 31000:2018 Risk Management – Guidelines (see figure 1). In addition, HBRC's RMS also considers the LGNZ endorsed All of Government (AoG) risk maturity model (see figure 2).

4.4. The risk management practices described in this framework therefore align to the risk management process described in ISO 31000:2018. Tailoring of the HBRC RMS relates to methods of assessments, frequency, and types of reporting frequency and HBRC's approach to monitoring and overview.

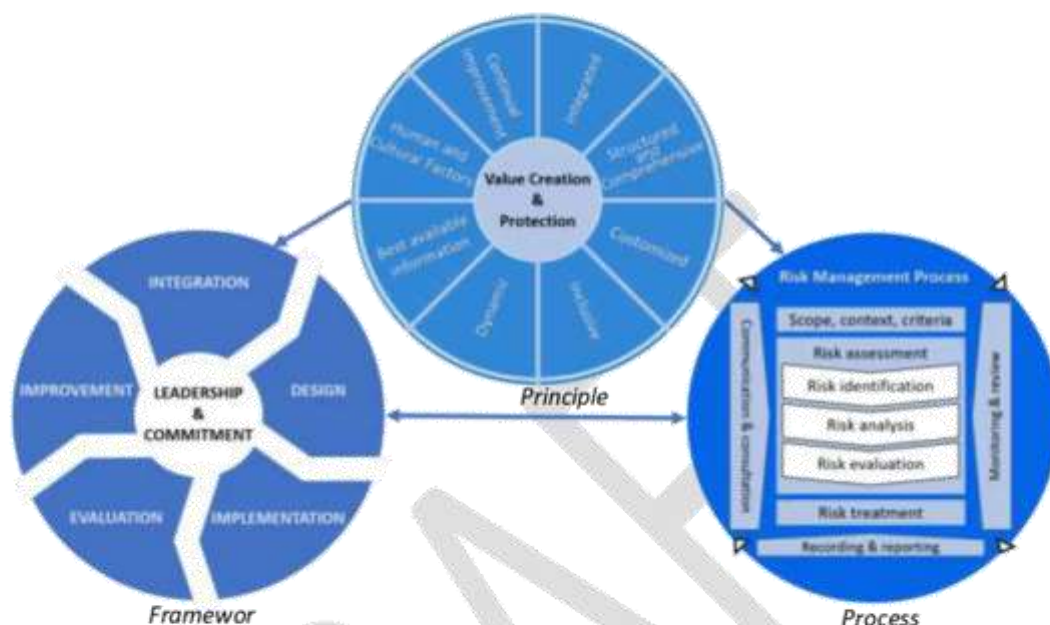4.5. Through this framework the term 'risk' and 'uncertainty' carry the same meaning.

Figure1 – ISO 31000:2018 Guidelines for Managing Risk

Figure 2 – AoG Enterprise Risk Maturity

5. **Principles**

5.1. ISO 31000:2018 contains several principles (see figure 3 below). Application of these principles at HBRC are fundamental to ensure an effective risk management system that **protects an organisation and creates value**. Essentially, if processes are not adding value, they are simply adding costs. A summary of each principle as they have been applied at HBRC is outlined

Figure 3 – ISO3100:2018 Principles

8.6   **Integrated**: for a risk management system to create value it cannot operate as a standalone function. Therefore, at HBRC the intention is for risk thinking to be embedded into the culture and to occur in all activities. Management one pagers occur for all HBRC's enterprise success statements and uncertainties. Traditional risk assessment processes occur within key risk based functional management systems e.g., asset (AMS), health and safety (HSMS), quality (QMS), information security (ISMS) etc.

8.7   **Structured and Comprehensive**: HBRC's risk management system is formalised through the risk management policy and risk management framework and is applied using a comprehensive top-down approach so that results are consistent and comparable.

8.8   **Customised**: To allow for customisation this risk management system has been purposely linked to HBRC's mandate and objectives instead of using a traditional functional approach.

8.9   **Inclusive**: Risk management is inclusive of all key HBRC stakeholders and partners needs by being founded on HBRC's purpose, strategy and objectives.

8.10   **Dynamic**: HBRC's risk one page management dashboards are living documents. Sentiment surveys are undertaken by ELT monthly and quarterly by the Council.

8.11   **Best Information Available**: Risk indicator metrics form part of the risk management one-page dashboards. Other risk oversight data includes HBRC incidents, wider industry incidents, internal audit findings, operational audits and controls assurance.

8.12   **Human and Cultural Factor**: Human behaviour and culture are key influencers on risk management. Therefore, HBRC's values are central in the risk system and framed to drive a risk aware culture.

8.13   **Continual Improvement**: HBRC's risk system to improve the value of risk management is always being considered. HBRC's risk management policy and framework are intended to be reviewed annually. Periodically RAC will request an internal audit of HBRC's risk system against recognised international best practice standards.

6.   **Framework Overview**

6.1   There is ongoing commitment from Council and the ELT at HBRC to continue the journey of risk maturity with an aim to executing on HBRC's risk vision as described in the risk management

policy; *'All HBRC staff take responsibility for owning HBRC's risks with consistent and transparent risk intelligent decision making'.*

Figure 4 – ISO3100:2018 Framework

6.2.   **Leadership and Commitment**: HBRC's ELT are committed to the maturity of risk management. ELT ensure HBRC's risk management system is customised and aligned to HBRC's purpose, vision, values, and objectives. ELT endorse HBRC's risk management policy, framework, and use of risk management processes. ELT engage in risk workshops and undertake regular sentiment surveys. ELT ensure adequate resourcing and priority to effectively manage HBRC's risks.

6.3.   **Integration**: HBRC's risk management policy and framework apply to all staff. The design of the risk management processes such as the risk one-pagers ensure integration and alignment to organisational objectives i.e., what needs to happen for HBRC to effectively achieve its purpose.

6.4.   **Design**: The redesign of HBRC's risk system in 2023 was considered in context to the changing external environment, and the size and complexity of HBRC's operation. The risk management system redesign was done in consultation with RAC.

6.5.   **Implementation**: HBRC's risk management policy and framework provide a two-pronged approach to implementation. Via a sentiment survey and the risk one pagers. The risk one pagers are developed using a top-down approach. While sentiment surveys can be undertaken by any group across HBRC with that group's sentiment able to be compared to other groups on how well risks/uncertainties are being managed. HBRC leaders also drive a risk aware cultural to embed risk responsibility and ownership by everyone in their day-to-day decision making. HBRC's risk management policy outlines risk system roles and responsibilities for implementation of the framework.

6.6.   **Evaluation**: RAC and ELT monitor the effectiveness of HBRC's risk system reviewing the quality of output evidenced in the risk dashboards, deep dives, discussions, and other reports. In addition, from time to time, HBRC's risk management system is audited as part of RAC's annual internal audit programme.

6.7.   **Improvement**: For each uncertainty or success factor the associated risk one-pager contains notes, risk responses or control improvements. It is intended that this process be integrated into the long-term plan process to help prioritise initiatives for mitigating risk/uncertainties.

7.   **Risk Management Process**

7.1. ISO 31000:2018 provides guidance for HBRC's risk management process (see figure 5 below). The risk management process as outlined below is an integral part of ensuring a consistent approach to HBRC's risk management system. HBRC's risk management process can be used to assess any risk within HBRC. The following section describes each stage of HBRC's risk management process.

Figure 5 – ISO3100:2018 Process

7.2. **Scope, Context and Criteria** - The first stage of HBRC risk management process is to establish the scope, context, and criteria.

     7.2.1 **Scope**: HBRC's risk process outlined in this framework applies to the whole of HBRC. Council through approving the Risk Management Policy have endorsed the concept of a one framework approach. By exception a variation of the risk management framework can be applied. However, it is expected that variations to the framework will be discussed with HBRC's Risk and Corporate Compliance Manager prior to application.

     7.2.2 **Context**: HBRC's Risk Management Policy and Framework are informed by the HBRC's vision, values, and strategic direction. To establish HBRC's vision, values and strategy context is sought from both the external and internal environment. This includes key stakeholder values, perceptions, relationships, laws, policies, and other requirements.

     7.2.3 **Criteria**: HBRC's risk criteria provides a term of reference to evaluate critical or important risks. Risk criteria is set by Council as the governing body through a risk appetite statement. The risk appetite statement contemplates Council's mandate, values, objective, and the internal and external settings, then defines the risk tolerances and risk escalation levels. In addition, risk appetite is used to validate the qualitative assessment of the risk one pagers through the sentiment surveys.

8. **Risk Assessment**

8.1. When HBRC's risk scope, context and criteria understood the risk assessment process can be undertaken (see appendix 1 – risk one page template). Risk assessment is broken into three distinct activities:

     8.1.1 Identification of risks and controls

     8.1.2 Analysis of identified risks, and

     8.1.3 Evaluation of identified risks and controls.

8.2. Risk assessment is an integral part of decision making. At an enterprise level and actions identified to manage the risks should form an integral part of the Long-Term Plan (LTP) decision

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making process.

8.3   Throughout the risk assessment process, it important there is risk understanding. This is done through: a) consultation with stakeholders to obtain feedback and important information about the risk that can be used to support decision making and prioritisation, and b) communication to ensure risk awareness and to promote linking of risk alignment of objectives.

8.4   Communication and consultation are key steps to provide management oversight, risk ownership, and risk alignment. Therefore, each enterprise risk one pagers is developed through risk workshops with one member of the ELT assigned as a accountable for representing that risk and ELT meetings.

8.5   Risk and Control Identification

     8.5.1   ISO 31000:2018 definition of risk is "the effect of uncertainty on objectives both positive and negative'. Therefore, risk identification is finding and describing the main uncertainties and success factors for achieving objectives. Risk identification includes looking for; causes (what contributes to the uncertainty) and the consequences (why the uncertainty matters).

     8.5.2   Once the risk causes and consequences are documented activities that manage the cause and consequences should be identified. The key activities that stop the causes or reduce the consequences are referred to as the critical controls or mitigations. Ongoing assurance should be applied to the most critical controls or mitigations. There are three types of controls: preventative – those that stop the cause or event from happening, detective – those that highlight a potential cause could materialise, and corrective – those that reduce the level of impact when a risk/uncertainty has materialised.

8.6   Risk Analysis

     8.6.1   Once the risks and controls are identified each risk can be analysed. Risk and causes are analysed using semi-qualitative information in workshops and through sentiment surveys.

     8.6.2   In workshops risks are analysed by assessing and rating each identified cause. Each cause is rated with context to the design and operating effectiveness of the identified controls/mitigation, external influences, internal influences, assurance data, linked incidents, risk metric (KRI) data, and other relevant information. The overall risk is then also analysed, assessed. Both the causes and the overall risk/uncertainty are rated as either red, amber, yellow, or green (see figure 6 Risk and Cause ratings scale).

Ratings for either Individual Causes or the Overall Risk	Rating Context
Green	Well managed – no concerns
Yellow	Improvement required – but not material (can live with it)
Amber	Improvement required – actions need prioritising
Red	Improvement required – urgent action required

Figure 6 - Risk and Cause Rating Scale

     8.6.3   Sentiment surveys are also used to assess the overall risk rating as a collective view of a team or group e.g., ELT, or Council or another Group with a common interest.

Sentiment surveys also use semi-qualitative data, but this is based on the confidence or concern of the individual survey responder as to how well they believe each risk is being managed. Responders are encouraged to consider what the know about the risk, the control environment and external influences when completing the survey. The survey questions use a scale of 1-10.

8.6.4 The team or groups scores from the sentiment survey are then combined and averaged to apply an overall risk rating of green, yellow, amber or red. The alignment of the team or group responses are also assessed as **H** – highly aligned, **M** – moderately aligned, **S** – some alignment, or **L** – low alignment.

8.6.5 Both the risk workshop analysis and the combined team/group sentiment survey results are reported using HBRC's one page dashboard (see appendix 1 – risk one page template)

8.7 **Risk Evaluation**

8.7.1 The aim of risk evaluation is to determine whether the analysed level of risk is acceptable / tolerable and whether the risk should be further mitigated or treated, referred to in the risk one pagers as 'response'.

8.7.2 Risk evaluation options include:

8.7.2.1 Doing nothing
8.7.2.2 Mitigating the risk further by implementing the response plan
8.7.2.3 Undertaking further risk analysis
8.7.2.4 Enhancing existing controls, and
8.7.2.5 Reconsidering HBRC's strategy and objectives

8.7.3 For risks determined as needing treatment a broad order of priority should be established and SMART action plans put in place. Success factors and uncertainties (risk) at an enterprise level evaluated as requiring action should be prioritised through the Long-Term Plan (LTP). Agreed treatment action progress should be reported to the ELT and to the RAC through the enterprise corrective action dashboard, or alternatively through the strategic project reporting if being managed as a key HBRC project.

8.7.4 If it is agreed to not treat a risk that is outside HBRC's risk appetite, perhaps the treatment options are unavailable or cost/resource prohibitive then the risk is deemed an accepted risk. An accepted risk must continually be reviewed by management to scan for new cost-effective risk mitigations. The risk must also be reported to the ELT each month through the enterprise dashboard and sentiment survey results, and to the RAC every meeting for the duration that it remains an 'accepted' risk. The decision to continue to accept the risk by RAC must be formally minuted.

8.7.5 If the underlying uncertainty presents a risk opportunity to do something different. Then rather than determining a risk corrective action plan, a plan outlining the how to purse the opportunity should be defined, agreed, and tracked/recorded.

8.8 **Risk Treatment**

8.8.1 If it is agreed in the risk evaluation process to treat the risk, then one of the following six treatment options will need to be decided:

8.8.1.1 Avoid the risk by either stopping the activity or not starting the activity
8.8.1.2 Take on more risk to take advantage of an opportunity or pursue a new opportunity
8.8.1.3 Remove or reduce the source of the risk
8.8.1.4 Reduce the likelihood of the risk occurring

8.8.1.5   Reduce the consequences of the risk occurring

8.8.1.6   Share the risk with another party or transfer the risk completely to another party e.g. insurance.

8.8.2   Risk treatments that deal with the downside of risk maybe referred to as risk mitigation, risk reduction, risk prevention or risk elimination. However, not all plans treat the downside of risk.

8.8.3   The decision on which treatment option to implement will depend on the criticality and strategic importance of the activity to HBRC. Justification for treatment is broader than solely economic considerations and should contemplate legal and regulatory obligations, values, strategy, commitments, public perception and stakeholder views.

8.8.4   All agreed treatment options must be monitored and reviewed. Where possible if controls or mitigations are added once implemented the monitoring would occur through our standard controls/mitigation assurance.

8.8.5   As treatment plans are decided and prioritised execution should be tracked as per 8.7.3.

8.9   Monitor and Review

8.9.1   The Risk and Corporate Compliance Manager will monitor the risk management system by continually checking documented output from risk analysis and more generally critically observing risk culture from across the business. The aim is to assess whether expected performance levels are being achieved.

8.9.2   Once HBRC's risk management system (policy and framework) is implemented it will be reviewed periodically through HBRC's internal audit programme to ensure is remains 'fit for purpose' and benchmark against the latest risk maturity best practice. The results of the review will be report to the RAC.

8.10   Recording and Reporting

8.10.1.   Risk reporting is an integral part of HBRC's governance and risk oversight and monitoring. Therefore, reporting should enhance quality dialogue with risk owners, management, Council and other stakeholders.

8.10.2.   Until a technical solution is available that supports HBRC's risk management framework and practices risk one-pager management plans will be maintained using PowerPoint and the sentiment survey will be managed using Microsoft documents.

8.10.3.   Information captured within each risk one-page management plan includes:

8.10.3.1   Risk/uncertainty title and risk/uncertainty description (scope and exclusions)

8.10.3.2   risk causes

8.10.3.3   risk controls or mitigations

8.10.3.4   risk/uncertainty residual cause rating

8.10.3.5   overarching risk/uncertainty residual rating

8.10.3.6   control assessment

8.10.3.7   control gaps and risk/uncertainty response actions

8.10.3.8   Consequence opportunities and/or threats

8.10.3.9   Monitoring metrics also known as key risk/control/performance metrics

8.10.3.10   Controls assurance actions

8.10.4.   The Risk and Corporate Compliance Manager is responsible for issuing the ELT and Council Sentiment survey and making available HBRC's enterprise dashboard and 2-3 uncertainty deep dives are reported to at least quarterly to ELT and RAC.

8.10.5.   Each ELT assigned risk/uncertainty owner is responsible for ensuring the associated one

pagers are reviewed and updated during the reporting cycles.

8.10.6.   At the ELT meeting prior to reporting to RAC the Risk and Corporate Compliance Manager must be provided sufficient time on the agenda to discuss the HBRC risk profile to be report to RAC to ensure highlighted risk are fair and reasonable.
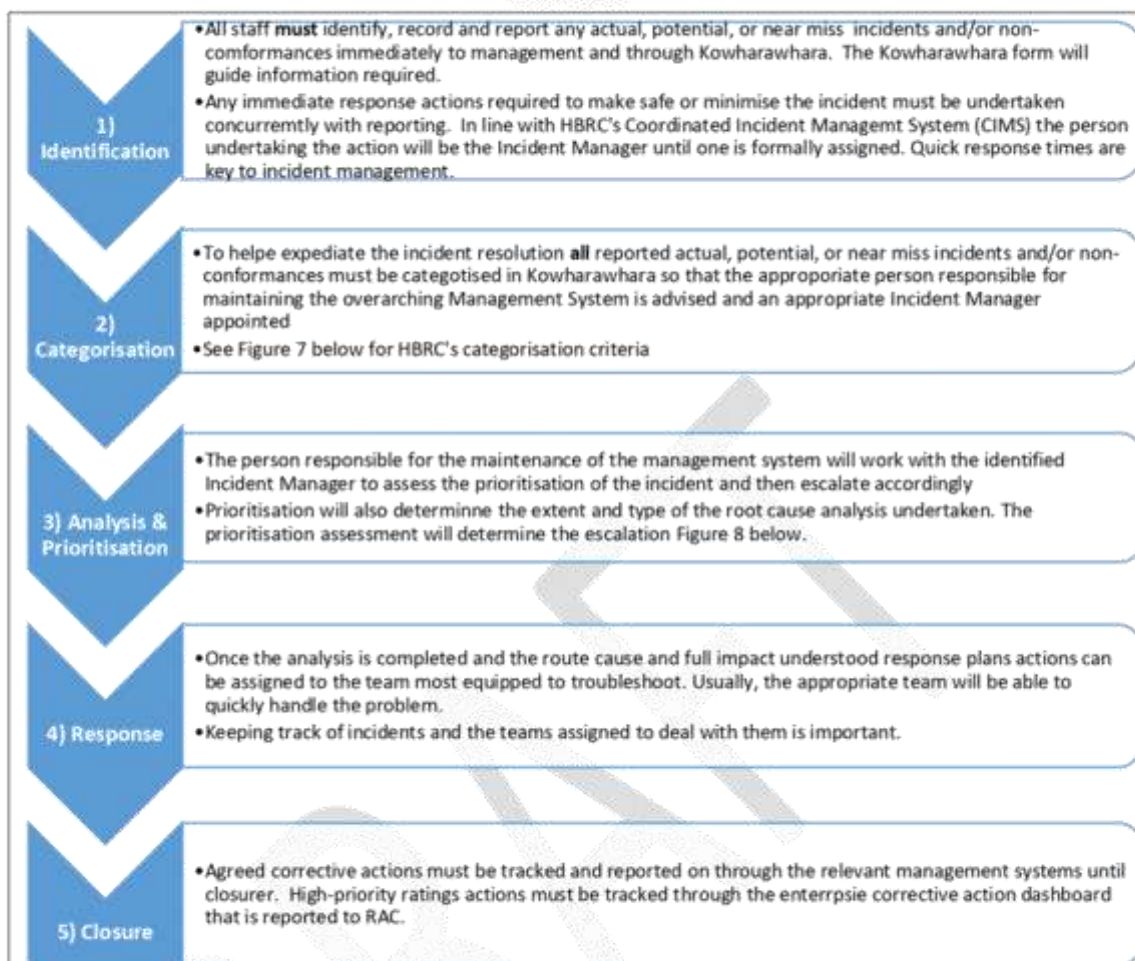
8.11   Incident and Non-Conformance Management

8.11.1.   As part of risk management to safeguard HBRC and its interested parties, or to create organisational value all incidents and non-conformances must be proactively identified, reported and responded to, to:

8.11.1.1.   Reduce any immediate business disruption or harm.
8.11.1.2.   Prevent any future business disruption or harm.
8.11.1.3.   Harness opportunities to improve the organisations performance.
8.11.1.4.   Strive for HBRC's value of excellence.

8.11.2.   A few key benefits to incident and non-conformance management include:

8.11.2.1.   Increased efficiency and team productivity.
8.11.2.2.   Prevention of future incidents.
8.11.2.3.   Reduction in downtime.
8.11.2.4.   Improved customer experience.
8.11.2.5.   Visibility and transparency within HBRC.
8.11.2.6.   Smooth business operations.
8.11.2.7.   Quick return to normal service.

8.11.3.   There five steps all incident and non-conformance management plans must follow:

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REGIONAL COUNCIL

1) Identification	• All staff **must** identify, record and report any actual, potential, or near miss incidents and/or non-comformances immediately to management and through Kowharawhara. The Kowharawhara form will guide information required. • Any immediate response actions required to make safe or minimise the incident must be undertaken concurremtly with reporting. In line with HBRC's Coordinated Incident Managemt System (CIMS) the person undertaking the action will be the Incident Manager until one is formally assigned. Quick response times are key to incident management.
2) Categorisation	• To help expediate the incident resolution **all** reported actual, potential, or near miss incidents and/or non-conformances must be categotised in Kowharawhara so that the appropriate person responsible for maintaining the overarching Management System is advised and an appropriate Incident Manager appointed • See Figure 7 below for HBRC's categorisation criteria
3) Analysis & Prioritisation	• The person responsible for the maintenance of the management system will work with the identified Incident Manager to assess the prioritisation of the incident and then escalate accordingly • Prioritisation will also determinne the extent and type of the root cause analysis undertaken. The prioritisation assessment will determine the escalation Figure 8 below.
4) Response	• Once the analysis is completed and the route cause and full impact understood response plans actions can be assigned to the team most equipped to troubleshoot. Usually, the appropriate team will be able to quickly handle the problem. • Keeping track of incidents and the teams assigned to deal with them is important.
5) Closure	• Agreed corrective actions must be tracked and reported on through the relevant management systems until closurer. High-priority ratings actions must be tracked through the enterrpsie corrective action dashboard that is reported to RAC.

8.11.4. At an Enterprise level incident should be categorised as follows:

Incident Types	Loss Categories
• Workplace Health & Safety • Process Management (Design, Execution, Delivery) • Damage to the Environment • Damage to Physical Assets • Workplace Practices • Fraud (internal or External) • System Failure and Business Interruption • Business Practices • Project Failure • Legal non-compliance	• Legal Liability • Staff Injury Health or Welfare • Financial • Community Harm • Environmental or Cultural Harm • Regulatory Action

Figure 7 – Enterprise Incident Categories

8.11.5.   As a minimum standard any type of operational incidents, non-conformance and near misses must be reported up and monitored using the following criteria:

	Incident Escalation Priority Rating
Green (Insignificant)	Minimal impact or potential impact that can be easily managed – no concerns. Team Leader and Management System Advisor informed.
Yellow (Low)	Some impact or potential impact and improvement required – but not material (can live with it). Group Manager as well as Team Leader and Management System Advisor informed.
Amber (Medium)	Moderate Impact, potential impact, or operational disruption. Improvement is required and actions need prioritising up. CE, ELT as well as Group Manager, Team Leader and Management System Advisor informed. Ongoing reporting management through Enterprise Risk Reporting.
Red (High)	Wide impact, potential impact or operational disruption and incident needs managing through large scale CIMS structure. Improvement needed and urgent action required. Council Chair, RAC Chair, CE, ELT as well as Group Manager, Team Leader and Management System Advisor informed. Ongoing reporting through separate report to the Risk and Audit Committee.

Figure 8 – Incident Escalation Scale

9.   **Breach of policy – consequences of non-compliance**

Serious or repeated breaches of non-compliance by staff may result in disciplinary action as guided by the code of conduct. Or, in the case of a contractor action taken as determined by the underlying contract terms and conditions.

Summary of key document changes and version control

Version	Date	Key changes to be communicated to staff	Document owner	Approver
1.0	22/09/23	Policy reviewed and upload into the Controlled Document System.	Risk & Corporate Compliance Manager	Group Manager Corporate Services
2.0	27/09/23	Full framework review to align to practices undertaken to comply with the new risk methodology rolled out as part of risk maturity.	Risk & Corporate Compliance Manager	Group Manager Corporate Services

Appendix 1 – HBRC One-page Risk Management Plan Template – **Example Only**

HBRC Enterprise Dashboard– Council perspective

Objective:
What matters the most to us...

A healthy environment and a resilient and prosperous community
Trust, confidence and continuing social license to operate...
... from our community, mana whenua, partners and stakeholders...
... resulting from our work to protect and manage the region's precious taonga of rivers, lakes, soils, air, coast and biodiversity health, wellbeing and connectivity

Success:
Success looks like ...

A. We live our values of collaboration, accountability, transparency, integrity and excellence

B. We understand the expectations and needs of the community we serve and our plans meet community needs

C. We deliver on the commitments we make

D. We keep our community safe

E. We uphold the principles of Te Tiriti o Waitangi in all that we do

... resulting in...

| **Water** | **Land** | **Biodiversity** | **Infrastructure & Services** |
| Water quality, safety and climate-resilient security | Climate-smart and sustainable land use | Healthy, functioning and climate-resilient biodiversity | Sustainable and climate-resilient services and infrastructure |

Uncertainty:
Major areas of uncertainty associated with our purpose, mandate and commitments are...

By uncertainty, this means things that could lead to upside opportunity or downside threat (i.e risk)

1. Effectiveness of Governance and Partnerships including with mana whenua, Council and the crown

2. Effectiveness of Policy and Regulation, with compliance by those we regulate

3. Effectiveness of integrated catchment management

4. Effectiveness of asset management

12. Effectiveness of Cyclone Gabrielle recovery

8. Effectiveness of transport management

7. Culture, capability and capacity of people

8. Capability and capacity of service providers and partners

9. Effectiveness of technology

10. Health, safety, resilience and wellbeing of people

11. Effectiveness of funding and financial management

22. Ability to implement change

13. Coordination and connectedness of activity and decision making across HBRC

14. Legislative and regulatory compliance by HBRC

15. Impact of external events and reform

16. Quality of external stakeholder relationships

17. Resilience from disruption to operations

18. Effectiveness of investment strategy

19. Effectiveness of communication, consultation and engagement

20. Our impact on the environment

21. Security, integrity and privacy of information

Key:
High confidence G Y A R High concern
Confidence/concern rating

High alignment H M S L Low alignment

Accountability for risk at SLT (exec lead) / business lead / business lead)

△ Change in sentiment from last survey
Colour reflects prior sentiment

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Uncontrolled When Printed
Risk Management Policy

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Version Number: 1

Hawke's Bay Regional Council

Report on Control Findings for the year ended
30 June 2023

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WELCOME

Dear Management Team

We have completed our audit of the financial statements and performance information of Hawke's Bay Regional Council ("Council" or "HBRC") for the year ended 30 June 2023.

This Report on Control Findings includes all control matters and issues arising from our audit findings that we consider appropriate for review by management.

In accordance with Auditor-General's Auditing Standards we have gained an understanding of internal controls, as relevant to the audit, in order to assist in the design of our audit procedures. Our audit does not address all internal control and accounting procedures and is based on selective tests of accounting records and supporting data and is not designed to make detailed recommendations. As a result our procedures would not necessarily disclose all weaknesses in the Council's internal control environment, and you should not assume that there are no additional matters that you should be aware of in meeting your responsibilities. We have provided our comments along with individual risk ratings as assessed by us. We have not considered the impact of risks ratings being combined with either other findings we have raised or other risks identified internally by HBRC.

We wish to express our appreciation for the courtesies and co-operation extended to our team during the course of their work. If you have any questions or comments, please do not hesitate to call me on 021 923 431 or Ahmed Sofe on 021 679 586.

Yours faithfully

David Borrie
Partner

Ahmed Sofe
Associate Director

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EXECUTIVE SUMMARY

Hawke's Bay Regional Council

For the year ended 30 June 2023

The following table provides an overview of the number of observations and our assessment of the associated risk.

	H	**M**	**L**	
Open	-	-	8	8
New	-	1	6	7
Closed		-	(7)	(7)
Total Open Observations at 30 June 2023	-	1	7	8

Overview of Risk Rankings

To ensure that you can prioritise the rectification of the control insights, we have categorised the rankings as follows. Though we have rated each insight individually on a stand-alone basis, you should also assess the collective impact of these matters, together with other findings from within your organisation:

H Need substantial improvement
Immediate corrective action is recommended

M Need significant improvement
Corrective action is recommended, generally within 6 months.

L Need some improvement
Corrective action is recommended generally within 6 to 12 months,

Disclaimer: Issues identified are those found within the course of the 30 June 2023 year-end audit. Recommendations are intended solely for the use of the Council's management. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Council for any purpose other than that for which it was prepared.

EXECUTIVE SUMMARY   MANAGEMENT LETTER   APPENDICES

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EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Medium Risk Observations

Risk Rating	Area	Observations	Risk	EY Recommendation	Management's Response
M	Reconciliation of community loans	Hawke's Bay Regional Council has a book of community loans. These loans are primarily granted to rate payers so they can transition to energy efficient homes. The loans are normally repayable via a targeted rate over a 10 year period. The Council utilise the following three systems to manage and maintain the community loans. ▸ Shimes database records the original loan balance, underlying loan documentation, interest rate, and details of services and supplier records such as quotes and payments made to suppliers on behalf of rate payers. ▸ MagiQ rates system records repayments collected through rates, but not the loan balance at the end of each period. ▸ TechOne general ledger records the loan balance at the end of each period but in aggregate and not on a loan by loan basis. Each system reflects different components of the relevant information and loan balances are not periodically reconciled to the underlying data. As the data is extracted from various systems to determine the outstanding community loan balances, Council manually calculates the period end balances in an excel document. This process includes using some approximations such as interest rates, expected payment intervals, and at times the loan start and end dates to calculate the present values of loans at balance date. This method is inherently susceptible to human error. The reconciliation was not completed for FY23 until we requested the reconciliation as part of the financial statement audit process and the final reconciliation included an unexplained variance of $465k between the calculation and the general ledger.	Without a reconciliation for community loans being prepared on a periodic basis there is a risk either financial reporting is incorrect or underlying loan records are incorrect and these inaccuracies aren't identified on a timely basis.	To mitigate the risk identified, management should: ▸ Manually reconcile individual loan balances to the aggregate loan balance per the general ledger on a periodic basis ensuring all variances are resolved. Individual loan balances used in the reconciliation process should be able to be proved by rolling forward the balance based on the transactions in the period. ▸ Review options for how to better integrate the relevant systems to remove the need to complete the reconciliation work manually.	For each individual loan we are comfortable that our systems and records allow us to show a transaction history and calculate a loan balance at any point in time. However, due to system limitations we are unable to generate a report of the collective total loan balance at a point in time to reconcile to the general ledger balance. In the absence of this we manually prepare a spreadsheet estimating what the total balance should reasonably be, this was not prepared ahead of audits visit this year but we will ensure this is completed and provided to audit earlier going forward. We are currently reviewing the community loans programme as part of the LTP process, following that, a plan and timelines will be put in place. **Responsibility:** Senior Group Accountant and CFO **Timeline:** TBD

EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Low Risk Observations

Risk Rating	Area	Observations	Risk	EY Recommendation	Management's Response
L	Performance measures should be reported against annually	The current performance framework was set during the last Long Term Plan ("LTP") process. Council has an opportunity to revise the performance framework as part of the planning process currently underway. There were several performance measures that were not reported against for the year ended 2023 either because the measures were reliant on externally sourced data that is not available annually or because Council did not plan to undertake the relevant studies for the 2023 year (i.e. stakeholders surveys). The effectiveness of measures is reduced if results cannot be reported annually at a minimum. Given the current pace of change a year is a long time between measurements plus it would take three years for enough data to be available for a reasonable trend analysis. We acknowledge Council has decided not to complete certain surveys due to the impact of Cyclone Gabrielle, but the surveys referred to above aren't not measured due to Cyclone disruptions. For a full list of measures that were not measured in FY23 refer to table 1 in the Appendices.	▶ There is a risk that Council isn't meeting its obligations to report to the community on an annual basis. ▶ Measurement periods longer than a year make meaningful trend analysis on a timely basis difficult.	We recommend Council consider adopting measures where results are able to be measured annually.	Staff agree that internal surveys should and can be carried out and reported annually. However, there is an affordability issue to engage resident surveys more than 2-yearly. These surveys are used to help ascertain our resident's attitudes, awareness of the work of HBRC and identify preferred methods of communication. We believe that 2-yearly is adequate for our purposes. **Responsibility:** Team Leader Strategy and Performance **Timeline:** Completed

EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Low Risk Observations

Risk Rating	**Area**	**Observations**	**Risk**	**EY Recommendation**	**Management's Response**
L	Certain performance measures can be enhanced to focus on outputs and outcomes rather than processes or legislative compliance requirements	A performance measure should relate to outputs or outcomes and be useful, meaningful, and reliable. The Auditor-General's Auditing Standard 4 *The Audit of Performance Reports* defines outcomes as changes in the state, condition, effects on, or consequences for the community, society, economy, or environment resulting from the existence and operations of the public entity. Some of the HBRC performance measures could be improved through focusing on outputs and outcomes rather than processes and legislative compliance requirements. This allows readers to assess how effectively the Council has delivered services over the course of the year and the impact of those services on the community. For example, the measure "Following a flood event, affected areas are surveyed and repairs are programmed" could be enhanced by focusing on the timeliness or quality of the fix rather than the process. Another example is measures that relate to business as usual activities such as compliance with legislation or conducting meetings in accordance with guidelines. A list of measures that should be considered for improvement are included in table 2 of the appendices.	There is a risk the chosen measures are not comprehensive enough to provide a system wide performance assessment.	We encourage the Council to review performance measures as part of the current planning process and make changes to improve the performance framework.	HBRC has a mix of process, output and outcome measures. Whilst we agree that output and outcomes measures are preferable, given the nature of some services we provide as a regional council we rely on process measures to cover the full range of our services and provide us with a broad platform to tell the story for the relevant year and explain the outcomes for the community. We can always look to improve the commentary with specificity where required. The example of the completion of the planned capital flood protection programme was a good illustration of where additional information (e.g. how much of the programme was completed) improved the commentary. There are some of the measures under Emergency Management that we will look at dropping next LTP - particularly where there is already a legislation requirement. The wording of some of these measures could certainly be improved to provide more clarity and we will undergo a process to review and make changes where we see fit. **Responsibility:** Team Leader Strategy and Performance **Timeline:** For the year ended 30 June 2024.

EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Low Risk Observations

Risk Rating	Area	Observations	Risk	EY Recommendation	Management's Response
L	Enhance internal controls relating to the rates setting process	Our review of the rates set by the Council identified a transposition error in the preparation of the rates resolution for the 2022/23 rating year. The error related to rates factors for the Central Hawke's Bay and Wairoa constituencies being inadvertently transposed in the rates resolution, resulting in the incorrect rates resolution being approved by Council. The amounts invoiced to rating units in these constituencies was the amount intended to be set as the rate factor and would have been, but for the error. The funding impact statement (FIS) in the annual plan 2022/23 also states the correct amount. Council sought legal advice in respect of this matter and the error was corrected by passing a Council resolution to reset the rates prior to 30 June 2023.	Potential risks include: ► Incorrect rates being billed and recorded. ► Legal disputes relating to the validity of rates strikes.	We recommend management enhance internal controls for the rates setting process. In particular; checking for consistency between the rates factors determined by Council's internal modelling and the factors included in the Council resolution setting the rates is important.	Management will ensure the rates resolution is reviewed and cross referenced to internal modelling and external reporting to ensure consistency. Management are also looking at some new software for the annual report that will allow for transfer of tables from Excel rather than manual entry to reduce the risk of human error. **Responsibility:** Finance Manager and Senior Group Accountant **Timeline:** For the year ended 30 June 2024.

EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Low Risk Observations

Risk Rating	Area	Observations	Risk	EY Recommendation	Management's Response
L	Improve employee entitlement calculations to be more system based	HBRC is unable to generate employee entitlement position reports directly from TechOne. Instead; a manual calculation is completed in a spreadsheet to determine employee entitlement positions (i.e., annual leave, TOIL, LSL, etc.) at year end.	The manual calculation increases the risk of incorrectly calculating employee entitlements.	The Council should consider opportunities to utilise a system based calculation of employee entitlements or to reduce the level of manual calculations currently required. We understand further configuration of the TechOne system may be beneficial.	Management acknowledge this and are actively reviewing and improving the configuration of the TechOne system to enable the reports to be run out of the system. **Responsibility:** Senior Group Accountant **Timeline:** For the year ended 30 June 2024.

EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Low Risk Observations

Risk Rating	**Area**	**Observations**	**Risk**	**EY Recommendation**	**Management's Response**
L	Review of earnings multiples used for capitalisation of HBRIC management and governance costs	The valuation of HBRIC Limited was based on the value of its shareholding in NPHL, net assets of FoodEast, value of managed funds and loans, less the value of debt and future management costs. The earnings multiplier used for management costs was based on a CCO valuation completed by a third party in 2019. Costs were capitalised using an earnings multiplier of six.	There is a risk that the multiplier used no longer reflects the best estimate based on current conditions at the valuation date.	We recommend that management continues to assess whether the earnings multiplier used for capitalisation of management and governance costs remains appropriate for each year. Consideration should be given to obtaining an updated third party valuation of the HBRIC group given the time that's passed since the last valuation.	Management will continue to assess whether the earnings multiplier used for capitalisation of management and governance costs remains appropriate for each year. **Responsibility:** Senior Group Accountant **Timeline:** Annually

EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Low Risk Observations

Risk Rating	Area	Observations	Risk	EY Recommendation	Management's Response
L	Approval of Chair and Chief Executive expense reimbursement	In our testing of sensitive expenditure, we observed that the Chair and Chief Executive (CE) expense reimbursements were approved by the CFO. The OAG defines sensitive expenditure as any spending by an organisation that could be seen to be giving private benefit to a staff member, their family, or friends. In addition, several SLT expense claims were approved by an Executive Assistant on behalf of the CE. Per the HBRC sensitive expenditure policy, and guidance provided by the OAG re expense claim approvals, an expense claim should be: ▶ Made only when budgetary provisions and delegated authority exist. ▶ Approved by a person senior to the individual who will benefit or might be perceived to benefit from the sensitive expenditure (the "the one-up" principle). This principle means that sensitive expenditure incurred by the SLT should be approved by the CE. Sensitive expenditure incurred by the Chief Executive should be approved by a Councillor. A suitable arrangement should be put in place for the Chair's expenditure (i.e. could be approved by the Chair of the Risk and Audit Committee).	There is a risk that either HBRC funds are spent inappropriately or that there is a perception HBRC controls relating to spend where there is the potential for personal benefit are not rigorous enough.	We recommend that expenses incurred are approved in line with the Council's policies as follows: ▶ Sensitive expenditure incurred by SLT is approved by the CE. ▶ Sensitive expenditure incurred by the CE is approved by a Councillor (potentially a specific Councillor if agreed, ie Chair or RAC Chair). ▶ Sensitive expenditure incurred by the Chair is approved by a Councillor where there is a non-reciprocal approval process in place. Consideration should also be given to Council or Committee monitoring of this expenditure.	Management have taken on board the observation communicated in March 23 in relation to this from the 21/22 audit and implemented a process whereby the Chief executive's expenditure is physically reviewed and signed by the Council chair before being attached in the system and approved in the system by the CFO. The same process was put in place for the Council Chairs transactions but is review and signed by another council member. Currently, SLT transactions are approved within the system inline with delegated authority limits rather than a specific one up process. However, we will review this and see if we can establish an efficient process whereby there is clear evidence of CE approval of SLT expenditure on a regular basis. **Responsibility:** Finance Manager **Timeline:** For the year ended 30 June 2024.

EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Low Risk Observations

Risk Rating	Area	Observations	Risk	EY Recommendation	Management's Response
L	Maintain, and regularly reconcile, a fixed asset register for infrastructure assets	HBRC does not regularly reconcile the fixed asset register for infrastructure assets to the general ledger. The Council records the details of infrastructure assets in an excel document, where access is not limited to particular users, and is not updated regularly. The Infrastructure Team updates the live document manually (i.e., input build rates, size, etc.) but these changes don't flow through to the general ledger and there isn't a periodic process to reconcile the value of infrastructure assets per the general ledger to the Council's underlying detailed records.	Due to the significance of the infrastructure assets, an error in the inputs or unauthorised changes made to the unsecured file may result to incorrect recording in general ledger.	We recommend that the Council actively maintains a fixed asset register covering infrastructure assets and the register is reconciled to the general ledger periodically. A reconciliation detailing and explaining variances between the general ledger and the excel file should be prepared and retained each time a reconciliation exercise is completed. A level of review should also be implemented for these processes.	HBRC's accounting policy is to revalue infrastructure assets every three years. This valuation process involves reconciling the excel infrastructure assets register to the general ledger. In the alternative years, movements in infrastructure assets (additions and disposals) are captured in both the general ledger and the excel asset register. However, asset management also update the register to reflect estimated replacement value for insurance purposes which is not reflected in the general ledger and therefore no reconciliation is completed in these alternative years. We are currently in the process of implementing an infrastructure register in the TechOne system which will ensure there is a detailed infrastructure register than reconciles to the general ledger every year. **Responsibility:** SEAM Project team/Senior Group Accountant **Timeline:** Financial year 24/25

EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Appendices

1. Performance measures should be reported on annually

Table 1a - No survey planned for FY2023
a. Percentage of tāngata whenua representatives "satisfied or very satisfied" with the Treaty-based partnership approach to engagement and decision making (source: biennial survey of RPC and Māori Committee members)
b. Percentage of surveyed residents that can identify 3 of our top 5 hazards; earthquake, tsunami, volcanic, pandemic or flooding (source: 2-yearly SIL Perception Survey)
c. Percentage of surveyed residents prepared to cope for at least three days or more on their own (source: 2-yearly SIL perception survey)

Table 1b - Reliant on external studies that are not conducted annually
a. Percentage of the Hawke's Bay population that use public or active transport for work or education (source: Statistics NZ, bus patronage, cycleway meters)

2. Performance measures can be enhanced to focus on output and outcomes rather than process.

Measures	Comment
a. Actions from the Regional Water Assessment are identified and implementation is progressing according to the approved plan	Focused on the process
b. HBRC Forests and the Tangoio Soil Conservation Reserve are managed to the standards defined in their respective management plans	Too broad to be easily understandable
c. Following a flood event, affected areas are surveyed and repairs are programmed: 1. Following a major flood event, a flood report will be compiled within 6 months of the event (major event is defined as material impact to property or productivity). 2. Major event report outcomes incorporated into AMP.	Focused on the process
d. Adopted Regional Land Transport Plan (RLTP), Regional Public Transport Plan (RPTP) and Regional Cycling Plan in place	Focused on adoption and not on output
g. Percentage of urban households within 400m of a regular bus route	Output is not clear
h. An operative Group Plan under the CDEM Act 2002 is in place, reported on annually and reviewed within statutory timeframes by the Joint Committee	Legislation requirement (part of the CDEM Act of 2002)
i. A Group Work Programme implementing the Group Plan objectives is approved and reviewed 6 monthly by the Coordinating Executives Group	Legislation requirement (part of the CDEM Act of 2002)
j. HBRC provides support to the Hawke's Bay CDEM Group in accordance with a service level agreement	Compliance with service agreement
k. Long Term Plans and Annual Reports receive "unmodified" audit opinions	Regulatory compliance
l. Council meetings are conducted in compliance with statutory requirements and Standing Orders	Statutory requirements
m. Triennial election processes are undertaken in accordance with the Local Electoral Act 2001	Regulatory compliance
n. Annual reporting on Mātauranga Māori monitoring and reporting activities	Focused on reporting
o. Annual reporting to Council on progress made on coordinated programme of actions	Focused on reporting
p. Compliance with statutory timeframes as set by legislation	Regulatory compliance

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Hawke's Bay Regional Council

Audit Plan for the year ending
30 June 2024

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WELCOME

Dear Risk and Audit Committee Members

We are pleased to present our Audit Plan ("Plan") for the audit of the financial statements and service performance information of Hawke's Bay Regional Council ("HBRC") and its controlled entities ("the Group") for the year ending 30 June 2024. This Plan outlines the scope of our services, identifies Ernst & Young ("EY") professionals that will serve you and presents our understanding of some key considerations that will affect the 30 June 2024 audit.

We conduct our audit in accordance with the Auditor General's auditing standards which incorporate International Standards on Auditing (New Zealand). Our audit will be conducted to provide reasonable assurance that the financial statements and service performance information for the year ending 30 June 2024 are free of material misstatement.

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

Should you have any questions or comments, please do not hesitate to contact me on 021 923 431 or Ahmed on 021 679 586

Yours faithfully

David Borrie
Appointed Auditor

Ahmed Sofe
Associate Director

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EXECUTIVE SUMMARY

Hawke's Bay Regional Council
For the year ending 30 June 2024

AREAS OF AUDIT FOCUS

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

Our areas of audit focus have been summarised below and explained in detail in the Areas of Audit Focus section. The level of complexity or management judgement applied has been rated as high, medium or low.

- Infrastructure assets & PPE — HIGH
- Cyclone Recovery and Other Grants — HIGH
- Investment Property Valuation — MEDIUM
- Integrity of rates set, rates invoicing and collection — MEDIUM
- Performance Information Reporting — MEDIUM
- Financial Assets — LOW
- Borrowing & Derivatives — LOW
- Expenditure, procurement and tendering — LOW

AUDIT APPROACH

Details of our audit approach are outlined on page 11. As in prior years where possible and deemed efficient, we will seek to test controls over the key financial statement processes.

ENGAGEMENT AND FEE

Because of the uncertainty relating to the impact of Cyclone Gabrielle on Council assets, operations, and finances, in 2023 we agreed to issue a one-year fee letter for the year ended 30 June 2023.
We are in the process of setting our audit fees for the 2024 and 2025 financial years. This will be explained in a separate audit fee proposal letter which we expect to provide this to HBRC in March.

PLANNING MATERIALITY

$3.8M

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

Our materiality threshold has been set at $3.8m, being 3% of forecasted operating expenditures at 30 June 2023. Our materiality is initially set for the Group and then allocated to controlled entities within the group. The basis for calculating planning materiality is consistent with the prior year.
We will report to the Risk and Audit Committee errors of more than $340k.

Materiality will be set individually for each significant performance measure selected for testing.

INDEPENDENCE

We will confirm our independence throughout the audit. We remain in compliance with the NZICA Code of Ethics and independence requirements of the Auditor General's auditing standards, which incorporate the independent requirements of PES 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand).

EY | Hawke's Bay Regional Council | For the Year ending 30 June 2024

Audit Approach

Infrastructure assets & PPE

Background

▶ Infrastructure assets and PP&E represent a significant component of the Council's balance sheet with carrying values of $199m and $38m at 30 June 2023.

▶ Infrastructure assets primarily comprise of land, stopbanks, and drainage networks and are valued at Optimised Depreciated Replacement Cost (ODRC).

▶ Infrastructure assets are revalued triennially using externally sourced unit costs and reviewed by AON. A full valuation of Infrastructure assets is scheduled for the year ending 30 June 2024. Infrastructure assets were due for full valuation in 2023, however due to the impact of the Cyclone Gabrielle, a decision was made by management and Council to defer the valuation until 2024.

▶ The following assets were revalued in 2022. Management intend to consider whether there are any material revaluation movements with reference to prevailing market values at 30 June 2024 and obtain valuations if necessary.

  ▶ Land under infrastructure and buildings

  ▶ Land and building used for administration

  ▶ Hydrology equipment

▶ The valuation of infrastructure assets is judgmental and there are key assumptions that the valuer is required to make based on their experience. Each of these judgements have the potential to materially impact the resulting valuation and future depreciation.

▶ Valuation adjustments arising from significant movements in market values or replacement costs may be material.

▶ There is a risk that the useful life assumptions used in the valuations are not reflective of up-to-date information maintained in the Council's Asset Management Plans.

▶ Misclassification of maintenance and/or capital expenditure given nature and useful life of work completed is also a risk.

▶ Given the significant damage to Infrastructure assets caused by Cyclone Gabrielle, a comprehensive impairment assessment was required in 2023. However, HBRC concluded that it was unable to determine a comprehensive impairment charge reflecting the damage to assets. As part of the valuation process for 2024 financial year, we expect Council to undertake a full impairment assessment across assets impacted by the Cyclone.

Planned Audit Approach

▶ For infrastructure assets planned to be revalued this year, we will review the respective valuations for appropriateness. In particular, we will review key inputs to the valuations and consider valuation techniques for appropriateness as well as appropriateness of data used in valuation.

▶ For any asset classes that are not being revalued in the current year, we will examine the assumptions underlying the historical valuation against current asset management plans to assess whether the value remains materially correct.

▶ We will examine management's assessment for significant asset impairments and the resultant write-down of Council assets.

▶ We will review the fixed asset reconciliation of underlying data to the general ledger with a focus on significant additions and disposals during the year.

▶ We will examine the appropriateness of depreciation against the estimated useful lives in the Council's accounting policies. We will also consider the useful lives included in the most recent valuations.

▶ We will test on a sample basis the classification procedures relating to capital, renewal and maintenance work as well as cut off at year end for capital works to check it is consistent with work completed at that point.

▶ We will test, on a sample basis, the accounting for significant additions and disposals of assets during the year.

▶ We will check the appropriateness of disclosures in the financial statements.

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

Level of complexity or management judgement: HIGH

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Central — Substantive
Audit Approach

Cyclone Recovery and Other Grants

Background

▶ Cyclone Gabrielle caused significant damage to the region's infrastructure, economy and community. Council plays an important role in the coordination of central government initiatives and funding to support local government and businesses in the region. Council is also responsible for repairing damaged flood protection assets and improving future resilience and flood mitigations.

▶ In 2023 HBRC received the following Crown funding for various Recovery initiatives across Hawke's Bay, being:

  ▶ $102.6m to Local Authorities for the clearing of Silt and Debris

  ▶ $50.6m for Commercial Entities, to be issued as Grants for the clearing of Silt and Debris. Initially $62.6m was allocated to Commercial Entities funding, however $12m was reallocated to the Local Authority Fund in September 2023

  ▶ $7.35m for the ongoing administration of the Regional Recovery Agency

  ▶ At the time of writing approximately $33m of funds of this funding have not been spent or paid out, including approximately $8m that remains unallocated in the Commercial Entity fund.

▶ The Crown has also allocated $203.5m funding for HBRC towards flood mitigations including $70m ring-fenced for Wairoa. The arrangement requires HBRC to contribute approximately $44m towards flood mitigation.

▶ These grants typically require funding to be spent on a particular project or area of Council's operations with any unspent funds to be returned. Therefore, HBRC recognises liabilities for funds received until costs are incurred or funds are distributed to third parties. HBRC recognised grant income for their allocated portion based on the amount spent on relevant activities.

▶ HBRC is responsible for allocating and ensuring funds provided to other entities are spent on approved purpose and in line with the contractual agreements with government agencies. Therefore, it is important that focus is placed on the contractual clauses included within contracts with fund recipients for funds that require return to Central Government agencies if not spent on approved purpose.

▶ HBRC also needs to be vigilant that funds recognised as revenue meet the funding conditions and where there is no return obligation for funds revenue should be recognised upon receipt.

▶ In 2023 Council received payments from NEMA for Welfare and other minor claims. However; the Infrastructure assets insurance claims from private insurers is currently ongoing. HBRC is currently collating the required documentation for lodging claims with private insurers.

▶ Council also continues to receive ongoing Waka Kotahi funding for bus services and road safety projects. For the year ended 30 June 2023, grant and subsidies from Waka Kotahi amounted to $4.5m. Financial reporting standards require NZTA subsidies to be recognised as revenue, while a portion of the associated expenditure is capitalised.

Planned Audit Approach

We will perform the following audit procedures to validate the revenue and emergency works costs recognised during the year:

▶ Inquire updates with the Council on any progress related to these grants

▶ Obtain any new agreements, amendments or correspondence between HBRC and central government (and other providers) in respect of funding approved.

▶ Review HBRC's procedures for revenue recognition and monitoring the conditions of the various grants.

▶ Review HBRC's approach to filing insurance claims for physical damage or lost earnings.

▶ Check on a sample basis, that revenue is being recognised in line with obligations/undertakings being satisfied.

▶ For a sample of revenue recognised in the year across all grants, we will vouch receipt of funds to cash received.

▶ Examine costs claims from Waka Kotahi , on a sample basis, to check the expenditure is allowed to be claimed and the funding assistance rate applied was appropriate.

▶ Carry out an assessment of the reasonability of Waka Kotahi income and its completeness in consideration of the level of costs incurred for the period.

▶ Assess the disclosures in the annual report in relation to each funding agreement is in line with relevant accounting standards.

Relevant accounting standards: *PBE IPSAS 23 Revenue from Non-Exchange Transactions*

Level of complexity or management judgement: HIGH

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Audit Approach

Investment Property Valuation

Background

▶ HBRC properties in Napier and Wellington are recorded as investment property (IP) at fair value. As at 30 June 2023 the portfolio of Investment property was valued at $67.2m and categorised as follows.

Components	Fair value ($m)
Napier Endowment properties	41.7
Wellington properties	24.9
Other	0.60
Total value	**67.2**

▶ The Napier leasehold endowment portfolio comprises of 139 individual properties, all being residential and 1 commercial lease. These are all perpetual renewal ground leases with all but 1 being subject to a 21-year review. Many leases have the rents at prescribed 5% of land value on review. Under the Hawke's Bay Endowment Land Empowering Act 2002, freeholding is only allowed to the current lessee under a specified valuation methodology.

▶ The Wellington portfolio comprises of 12 properties located in inner residential and commercial areas of Wellington.

▶ IP is revalued annually in line with accounting policies by registered independent valuer, Telfer Young. The valuation requires significant judgement as fluctuation in assumptions including yield can materially impact the valuation outcome.

Planned Audit Approach

Our audit procedures will include:

▶ Reviewing key assumptions used in the valuations and assessing whether they are reasonable, in accordance with accounting standards.

▶ Discussing the valuation reports with Telfer Young to understand the changes to significant judgements and assumptions they have applied in the valuation.

▶ Testing, on a sample basis, property specific information supplied to the valuer by management to the underlying records held by the Council.

▶ Understanding the changes to the market and the portfolio which would result in movements in assumed discount rates and tenure periods.

▶ Obtaining assurance as to the valuers' independence and objectivity.

▶ Considering the appropriateness of management's disclosures of the key estimates and judgements for investment property within the financial statements.

Key Judgements: *Forecasted cashflows, average occupancy period, capitalisation rated, market rental yields*

Relevant accounting standards: PBE IPSAS 16 Investment Property

Level of complexity or management judgement: MEDIUM

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Integrity of Rates set, Rates Invoicing and Collection

Background

► Rates income levied represents the Council's primary revenue source. There is specific legislation in place which must be adhered to for the rates set to be lawful. In the local authority context, failure to comply with rating law and the associated consultation requirements can create significant risks to the integrity of rates revenue.

► The requirement for there to be consistency between the rates resolution, Funding Impact Statement and the Finance Policy in the LTP is fundamental because this is the thread that links community consultation to the rates levied by HBRC forming the core of the Council's revenue.

► The accuracy of a rates set is dependent on the integrity of the rates database. The reliability of the rates billing system should ensure rates are billed appropriately.

► Legal challenges against certain local authorities have identified a range of issues relating to the legislative compliance, and therefore legality of rates sought.

► Management have a history of consulting with external legal counsel to check compliance with rating legislation is maintained.

Planned Audit Approach

Our work in relation to rates revenue and debtors will include:

► Testing Council's controls over the rate setting processes including testing the accuracy of the underlying valuation information.

► Reviewing Council's procedures for ensuring the rates set is compliant with the Local Government Rating Act.

► Examining the application of the rates set to the rating database.

► Reviewing the billing to specific ratepayers and subsequent collection on a sample basis.

► Reviewing the provision for doubtful rates debtors to consider whether it is appropriate in the circumstances. We will remain aware of any considerations for impacts on rates collectability because of Cyclone Gabrielle implications.

Key Judgements: *Compliance with the Local Government (Rating) Act and provisioning for outstanding rates debtors.*

Relevant accounting standards: *PBE IPSAS 23 Revenue from Non-Exchange Transactions*

Level of complexity or management judgement: `MEDIUM`

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Audit Approach

Performance Reporting

Background

► Council is required to report its performance against performance measures included in the Long-Term Plan (LTP). These measures are key to the Council providing a 'performance story' to the community.

► Our audit opinion on the service performance reporting covers compliance with generally accepted accounting practice, and whether the service performance report fairly reflects the Council's actual service performance for the period.

► The performance framework set as part of the 2021/31 LTP is applicable to the current financial year.

► We will select measures we deem significant across the group of activities for detailed testing in the context of our audit of the 2023/24 annual report. However, we will consider the entire performance report as part of our feedback to management. Council is required to report on mandatory measures in relation to flood protection, as governed by DIA. Our selected measures include these mandatory measures.

► HBRC performance framework includes a measure to assesses HBRC's greenhouse gas (GHG) emissions with a target of reducing emissions over time. HBRC will continue to engage the services of EKOS to prepare a GHG inventory report for the year ending 30 June 2024 which will be verified by McHugh & Shaw (independent auditors). The quantification of GHG emissions is subject to inherent uncertainty because scientific knowledge and methodologies to determine the emission factors and processes to calculate and estimate quantities of GHG sources are still evolving.

► There is a risk of inadequacy of reporting systems to monitor performance and hence the potential failure to adequately report the provisions of core utility services to the public.

Planned Audit Approach

Our audit procedures will include:

► Obtaining an understanding of key performance reporting processes and reviewing the collation methodologies applied by Council.

► Examining, on a sample basis, the Statement of Service Performance to determine that the measures have been reported on and outputs have been achieved where stipulated. For the selected measures this will include obtaining the underlying supporting documentation and re-performing the calculations.

► Assessing the completeness and effectiveness of the performance framework utilised.

► Checking whether all mandatory performance measures stipulated by the Non-Financial Performance Measures rules 2013 have been included in Council's reporting.

► Providing feedback on the overall annual report and the summary annual report.

► Our audit procedures on the Greenhouse gas (GHG) emissions measure will include:

    ► Obtaining and reviewing the EKOS Inventory reports for the year ending 30 June 2024.

    ► Assessing whether the report covers adequately factors that are normally included in GHG inventory report.

    ► On a sample basis testing the accuracy of the GHG activities and related emission factors applied to externally sourced documentation.

    ► Assessing the adequacy of the disclosures in the annual report that describe the judgements involved in determining the reported results.

Key judgements: *Selection of measures relevant to reporting non-financial performance*

Level of complexity or management judgement: MEDIUM

⌂   **EXECUTIVE SUMMARY**   **AREAS OF AUDIT FOCUS**   **AUDIT APPROACH**   **YOUR EY TEAM**   **ENGAGEMENT EXECUTION**   **APPENDICES**   page 7

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Low Risk Focus Areas

Audit Approach   **Areas of Audit Focus**   **Background**   **Planned Audit Approach**

Financial Assets
LOW

- Council has a managed investments portfolio which amounted to $111m at 30 June 2023. The administration of investments is outsourced to Jarden and Mercer.
- Council's investments in Hawkes Bay Regional Investment Company (HBRIC) amounted to $344m as at 30 June 2023. This investment is eliminated at group level as Council consolidate its subsidiaries in line with accounting standards.
- HBRC has community loans receivable which amounted to $19.7m at 30 June 2023. This is designed to support ratepayers transition to energy efficient homes. The loans are repayable by a targeted rates over 10-year period.

Control   Substantive

- Examining key investment reconciliations.
- Confirming the existence and valuation of all investments with investment managers at balance date through external confirmations.
- Obtaining and evaluating the ISAE 3402 reports of the investment managers and custodians to place reliance over the external confirmations regarding existence and valuation.
- On a sample basis assessed the valuation of direct investments to externally sourced prices.
- On a sample basis verifying the community loans movement during the year to agreements with ratepayers and the levy of rates to repay the loans.
- Investments in the Port through HBRIC, our procedure will include reperforming the fair value calculation based on an externally sourced share price and verification of shares held.
- Assessing the appropriateness of disclosures in accordance with financial reporting standards.

Borrowing & Derivatives
LOW

- Borrowing represents one of the main sources of funding for HBRC's capital projects and debt levels change with the timing of planned capital projects and the repayment profile. The total value of debt at 30 June 2023 was $101m. The majority of outstanding borrowing at 30 June 2023 was through LGFA ($79.8m), and Westpac ($3.1m). HBRC also had borrowing amounting to $16.7m from HBRIC at 30 June 2023.
- HBRC continues to maintain interest rate swaps to manage the Council's exposure to interest rate fluctuations arising from borrowing activities. The mark to market value of swaps as at 30 June 2023 amounted to an asset of $2.1m.
- Apart from the LGFA borrowing, there are no financial covenants relating to the either borrowing from the banks or HBRIC.
- HBRC is also a guarantor of LGFA total debt, and financial reporting standards require the Council to recognise the fair value of the guarantee liability if it is material.
- The Council is also responsible for preparing Reporting Certificates to the Trustee in accordance with the requirements of the Trust Deed and we are required to report to the Trustee with respect to the accuracy of the reporting certificates.

Control   Substantive

We will carry out the following audit procedures regarding the Council's public debt and interest rates swaps:

- Obtain an understanding of debt facility agreements maintained in the year and reviewing the relevant debt facility agreements including the process for managing drawdowns.
- Consider the term and classification of debt.
- Obtain an LGFA confirmation of the outstanding debt position at year end.
- Confirm derivative positions in place at year end and independently value a sample of derivative contracts.
- Review disclosures associated with the debt and derivative positions.
- Review the prudence benchmark measures relating to debt, interest levels and sustainability as required by legislation.
- We will also complete procedures required of us by the debenture trust deed.

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Low Risk Focus Areas

| Audit Approach | Areas of Audit Focus | Background | | Planned Audit Approach |

Control — Substantive (gauge)

Expenditure, procurement and tendering

LOW

▶ Appropriateness of Councillor and management expenditure is an area of interest to ratepayers.

▶ Council's capital works procurement programme involves significant cash flows and complex long term contract management.

▶ Areas of expenditure such as travel, accommodation, training and catering can present opportunities for personal benefit (or perceived personal benefit).

In considering expenditure and procurement, we will perform the following:

▶ reviewing Council's policies and procedures are adequate regarding the procedures for handling sensitive expenditure and conflicts of interest within the organisation and policies are consistent with best practice guidelines issued by the OAG in 2020.

▶ Updating our understanding of Council's procurement and contract tendering processes and testing on a sample basis contracts procured during the year follow policies appropriately.

▶ Reviewing, on a sample basis, expenditure and credit card statements of councillors and management and checking expenditure is appropriate and in line with Council Policies.

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Digital Audit Approach

Your purpose built digital audit for now, next and beyond

Digitalisation is one of the most important drivers of transformation, especially in these changing times. This is also an important transformation in the auditing profession where it continues to be critical for entities to share trustworthy and readily available financial information for stakeholders.

Data-driven Audit

In June 2022, EY announced an investment of more than US$1bn in new technology, with a sustained focus on maintaining the highest-level of audit quality, promoting confidence in business and the capital markets, and providing for a scalable and right-sized audit that aligns with entities' transformation agendas.

As the first 12 months of this four-year assurance technology investment program was completed, EY released more than 20 new major Assurance technology capabilities to integrate advanced technologies into one seamless platform and drive transformation through the next generation of data access capabilities and advanced analytics; Artificial Intelligence (AI); and an elevated user experience. This transformation is supporting 500,000 EY professionals and external users, powered by Microsoft Azure.

With the EY Digital Audit analysing large or full sets of data from our clients' data population, we are responsive to the changing risk profiles of our clients. This helps establish trust, not just in our clients' financial reporting but also in the capital markets as a whole.

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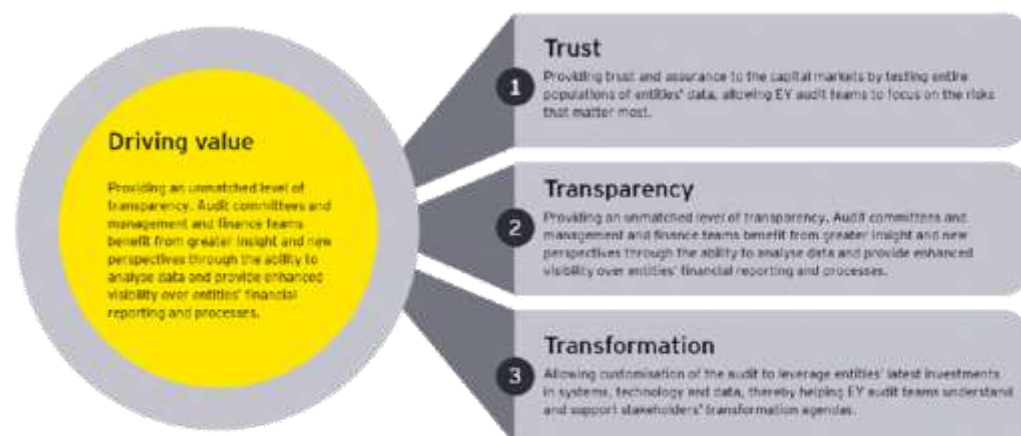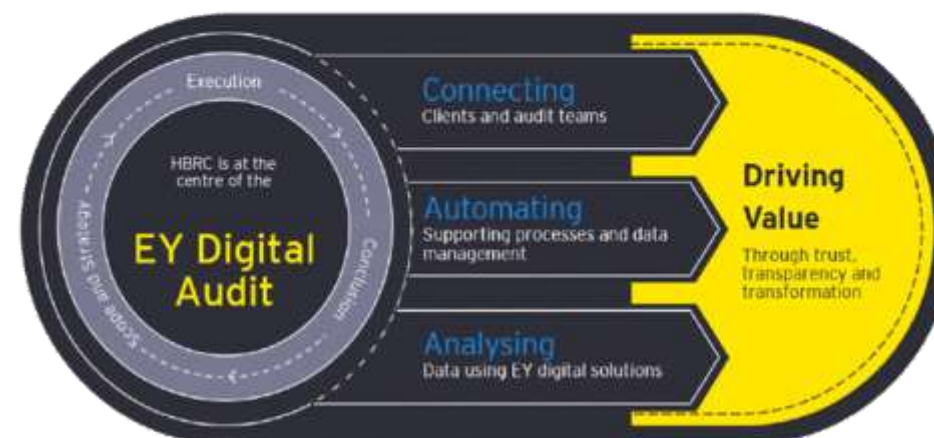
Internal Control Environment
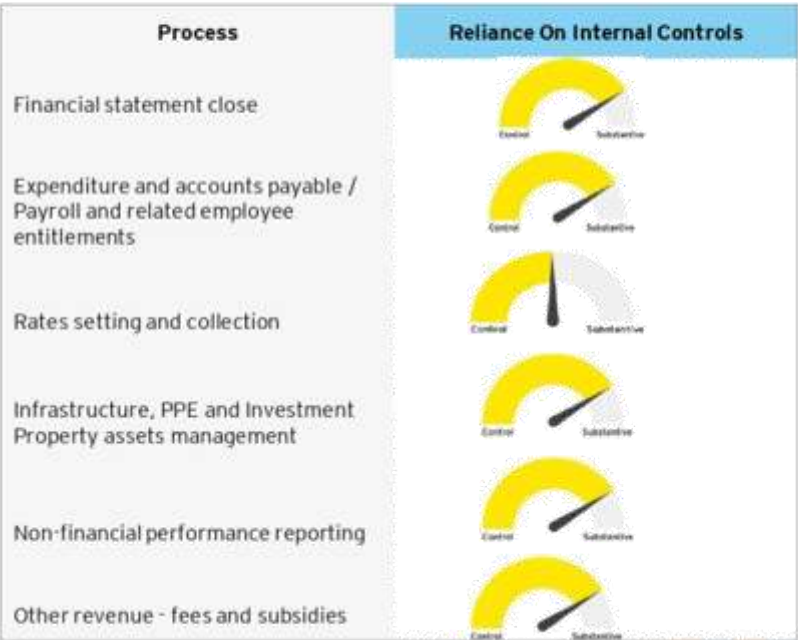
The primary responsibility for the design and operating effectiveness of the internal control environment, including the prevention and detection of fraud and error, rests with those charged with governance and management.

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

Our assessment of internal controls covers:
► The control environment including entity level controls
► Council's risk assessment procedures
► The design and operating effectiveness of internal controls
► Monitoring of controls

Set out below is the level of control reliance we expect to achieve over the key financial statement processes. There are areas where a substantive audit approach is more efficient or effective. Where significant deficiencies in controls come to our attention, we will communicate these to the Committee.

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

Assessing the Risk of Fraud

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

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

Our approach to fraud risks are outlined below:

Understanding the organisation and the control environment - We will enhance this understanding to provide a foundation for our risk assessment. Our understanding includes the business model as well as external factors and internal factors, including the governance and monitoring structures in place.

Identification of risks of material misstatement due to fraud – we will challenge risk assessments in line with the current environment, applying the fraud triangle when making these risk assessments, focusing on sources of fraud risk factors.

Responding to risks of material misstatements due to fraud – we will take into account our understanding of the entity's business and its control environment, designing tailored responses to identified risks of fraud and evaluating the reliability of audit evidence obtained.

Identifying and responding to fraud risks in an audit – We will apply data analytics to enhance identification of and response to identified fraud risks.

Communicating our audit approach to fraud risks – We will discuss fraud risks with the audit committee including our approach to addressing those risks.

Communicating identified or suspected fraud – We will report any instances of suspected fraud to management and the audit committee in accordance with obligations under both auditing and ethics standards.

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Your EY Team

We understand that our team is the most important element of your relationship with us.

Our team has been involved in the audit of Hawke's Bay Regional Council for a number of years. This stability provides HBRC with continuity, historical knowledge of your organisation and industry expertise. These combined factors enable us to focus on the significant issues relevant to your organisation. Further we have incorporated experts from our specialists to assist us in addressing the financial risks relevant to HBRC.

Throughout the audit process, David and Ahmed will attend the Audit and Risk Committee meetings and are available to meet the Committee or the Council at any time during the year. David is available to meet with the Audit and Risk Committee Chair prior to each meeting.

David Borrie
Lead Audit Partner

Ahmed Sofe
Associate Director

Kim Arvin Alili
Assistant Manager

Core Audit Team

SPECIALISTS

Lara Truman
Technical Accounting Partner

Sinan Dalgic
IT Director

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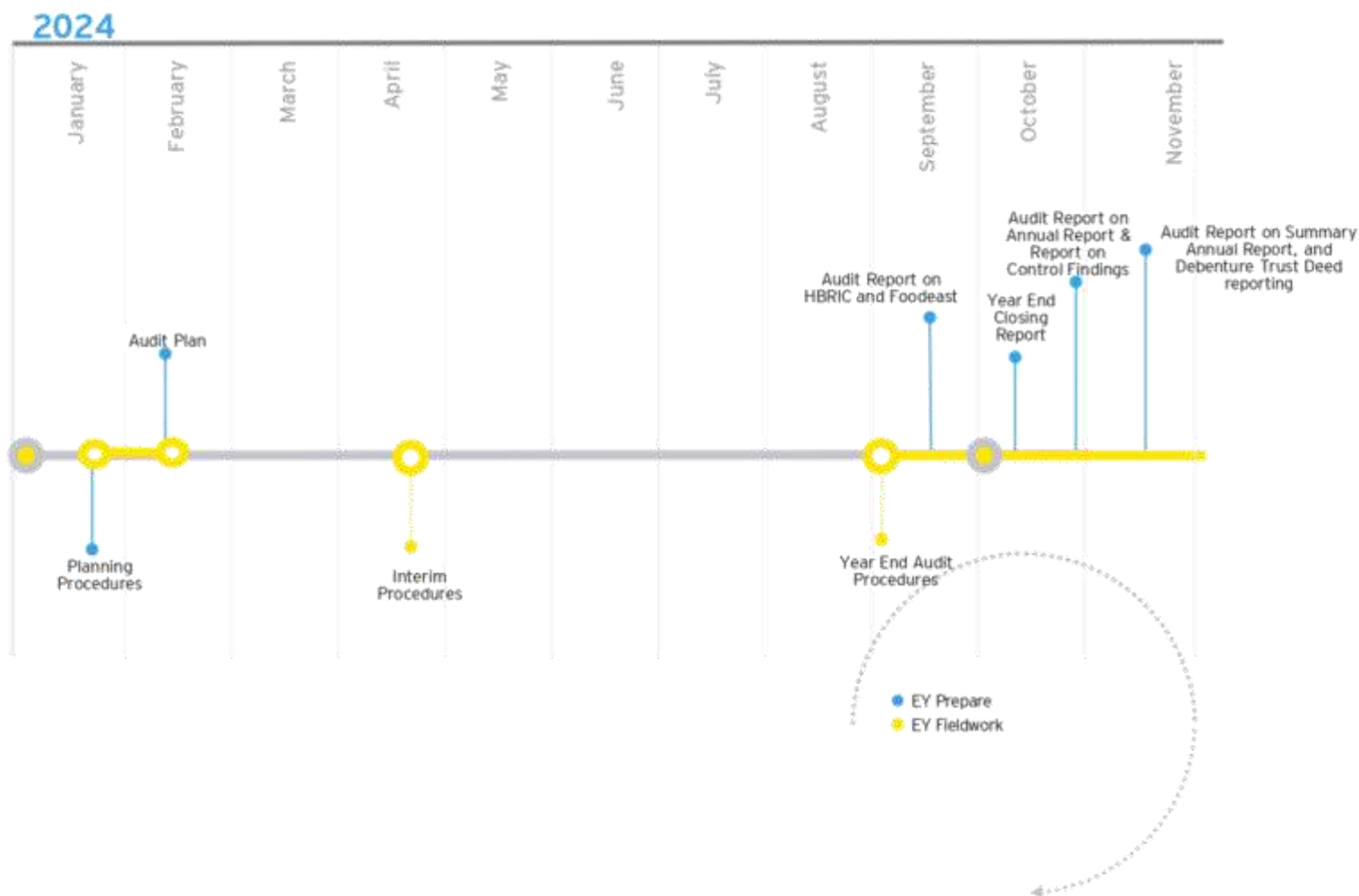
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Engagement Execution

APPENDICES

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C. Focus on Your Future

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A. Independence

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

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

▶ PES 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)

▶ Auditor General's (OAG) independence standards.

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

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

We identify in the table the threats to our independence from the services we provide or relationships with the entity and the safeguards adopted to reduce or eliminate those threats. We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Council consider the facts of which you are aware and come to a view. Should you have any specific matters that you wish to discuss, please contact us.

	Fees ($'000)	Independence threats	Actions taken to eliminate or address the threat and safeguards adopted
FEES PAID TO EY FOR NON AUDIT WORK:			
Debenture Trust Deed Reporting	3	Self interest threat	Permitted service. Independent assurance services. Work required to be completed by the entity's auditor.

Because HBRC is a Public Interest Entity those charged with governance are required to approve the provision of non-assurance services by HBRC's auditor. We have agreed with those charged with governance that such services will be approved on a case by case basis.

We will adhere to the independence requirements of the OAG.

We will not provide any prohibited services.

We will comply with all independence legislation and guidelines..

We will bring differences in opinion to management and the Committee.

This scope of non audit services provided to you will be based upon both the letter and spirit of the current rules governing auditor independence.

We have no conflict of interest:
▶ All team members will have personally confirmed their independence.
▶ We will adhere to strict confidentiality requirements.

We will ensure that EY, its Partners and current service team members do not hold any financial interests in the Council.

Independent in "appearance" — Meeting your independence requirements — Independent in "mind"

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B. System of Quality Management

International Standard on Quality Management 1 (ISQM 1) overview

EY's approach to quality management

Professional and Ethical Standard 3 ("PES 3", which is the NZ version of ISQM 1) is applicable to all firms that perform audits and other similar engagements. As a result, we are required to design, implement and operate a system of quality management ("SQM") to provide reasonable assurance that:

► The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements

► Engagement reports issued by the firm or engagement partners are appropriate in the circumstances

We are also required to monitor, remediate and annually evaluate the SQM as well as communicate to those charged with governance how the SQM supports the consistent performance of quality engagements. The following slides explain our approach and the results of our most recent assessment.

Individuals with SQM roles have the appropriate experience, knowledge, influence and authority, and sufficient time to fulfil their System of Quality Management roles and are accountable for fulfilling their responsibilities.

Key roles within the SQM include:

► The Country Managing Partner: assigned ultimate responsibility and accountability for the SQM by concluding on its effectiveness.

► The Country Assurance Managing Partner: assigned operational responsibility for the System of Quality Management. This includes recommending the System of Quality Management annual evaluation conclusion to the Country Managing Partner.

► The Country Independence leader: assigned operational responsibility for compliance with independence requirements.

► The Country Professional Practice Director: assigned operational responsibility for monitoring the SQM including concurring with or proposing changes to the recommended SQM annual evaluation conclusion.

EY is dedicated to delivering high-quality audits and assurance engagements and serving the public interest.
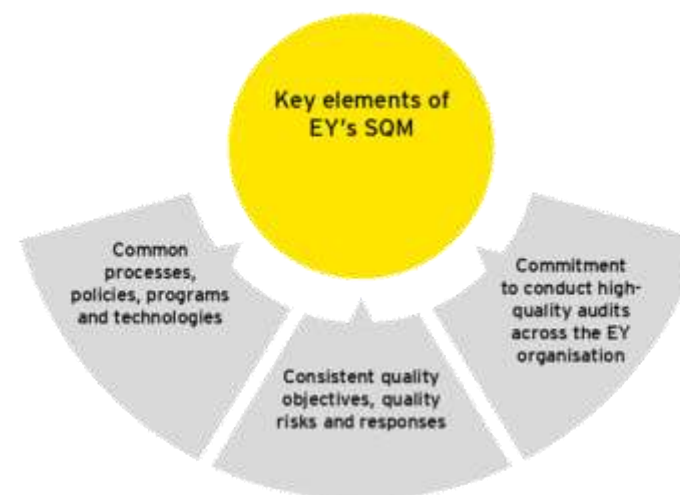
EY New Zealand is ultimately responsible for the design, implementation, and operation of their SQM, and have the responsibility to:

► Evaluate policies, technologies, strategies, programs and baseline elements provided to them, and

► Determine if they need to be supplemented by the firm to be appropriate for use

B. System of Quality Management (cont.)

SQM processes to support quality audits

Monitoring and remediation process

► Provide relevant, reliable and timely information about the design, implementation and operation of the SQM and a basis for the identification of deficiencies in the SQM.

► Monitoring activities include monitoring the entire SQM (e.g., testing SQM controls, internal inspections of completed engagements, assessing firm and personnel's compliance with ethical requirements related to independence).

► If deficiencies are identified, they are corrected on a timely basis and an action plan is designed, implemented and evaluated for effectiveness.

Risk assessment process

► Establishing quality objectives (based on PES 3 requirements).

► Identifying and assessing quality risks.

► Designing and implementing responses (including policies, technologies and key controls).

Annual evaluation conclusion

► The annual evaluation conclusion:

  ► Is as of 30 June for all EY Member Firms performing engagements in the scope of PES 3

  ► Considers the results of monitoring activities

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B. System of Quality Management (cont.)

SQM annual evaluation conclusion   **Effective**

The annual evaluation conclusion for EY New Zealand is that that the objectives of the System of Quality Management are being achieved as of 30 June 2023 and that they support the consistent performance of quality audits and related engagements.

Note: In the context of the annual evaluation of the SQM, EY New Zealand refers to the following member firms performing audits or reviews of financial statements or other assurance or related services engagements: Ernst & Young (partnership), Ernst & Young Limited and Ernst & Young Strategy and Transactions Limited.

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C. Focused on Your Future

Regulatory

Sector matters

Three year plan	▸ Many councils are recovering from severe weather events that caused significant damage to local infrastructure and affected community well-being. ▸ An Order in Council allows councils, HBRC included, that were most affected by the 2023 weather events to prepare an unaudited three-year plan instead of a full LTP.

EXECUTIVE SUMMARY   AREAS OF AUDIT FOCUS   AUDIT APPROACH   YOUR EY TEAM   ENGAGEMENT EXECUTION   APPENDICES   page 19

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Management System Assessment Report

Hawkes Bay Regional Council

4 – 6 December 2023

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MANAGEMENT SYSTEM ASSESSMENT REPORT

Company:	Hawkes Bay Regional Council
Address:	159 Dalton Street Napier South Napier 4110 New Zealand
Type of Assessment:	Review Visit 2
Management Representative:	Olivia Giraud-Burrell
Management System Standard:	ISO 9001:2015
Assessment Due Date & Frequency:	3 November 2023	12 – monthly
Actual Date(s) of Assessment:	4 – 6 December 2023
Assessment Team:	Billy Little
Client No:	9378	WPF No: 112512
Registration No:	2578	Expiry: 21/12/2024
Report prepared by:	Billy Little
Report Technical Review by:	
Non-conformances to be cleared by:	5/1/2024	Cleared on: 13/12/2023
Report issued/version:	13/12/2023 rev 2

Scope Statement:

The provision of local government services to the Hawkes Bay Regional Council from the following teams: Environmental Science, Environmental Information, Consents, Compliance and Harbourmaster and the activities of the Works Group including Civil Construction, Asset, and Infrastructure Maintenance.

Hawkes Bay Regional Council

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ASSESSMENT OBJECTIVES

The purpose of this assessment was to determine the capability and effectiveness of your organisation's management system and commitment to ensure continual compliance with customer, statutory and regulatory requirements; meeting its specified objectives; and conformity of the management system to stated criteria. Where applicable the assessment identified areas for potential improvement of the management system.

EXECUTIVE OVERVIEW

Assessment Outcome

This report reflects the findings of a review audit of the Quality Management System for Hawkes Bay Regional Council. There have been no changes to the scope of certification since the last assessment and the assigned ANZSIC codes remain relevant at this time.

The region was greatly affected by Cyclone Gabrielle in February 2023 and the Council has of course, been at the centre of the recovery efforts. There were some concerns earlier in the year that this audit would be affected by reallocation of resources; however, on balance the management system and its processes remain intact and were observed to be operating quite effectively.

Aside from two minor non-conformances, and a small number of opportunities for improvement detailed in this report; the evidence observed and the discussions with management and staff, supported the ongoing maintenance of the management system in line with the requirements of the standard.

Process Manager (Promapp) continues to gain wider acceptance within the Council as the management system structure develops and work has been undertaken to develop the Risk Management Program.

All activities assessed during this audit were observed to be appropriately controlled, with sufficient evidence examined to demonstrate the effectiveness processes sampled.

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AREAS THAT REQUIRE ATTENTION

Non-conformances

NC 1.	TELARC Non-Conformance

Type: Minor

Observation: Inconsistencies were noted in the completion of Job Checklists at The Works Group. It is accepted that the unit will be moving to the new SEAMS platform, however, there are still a number of live Jobs that will require completion using the manual forms.

Non-conformance:

Inconsistencies were identified in the retention of documented information required by the organization, with respect to Job Sheet Checklists, to the extent necessary to have confidence that the processes have been carried out as planned

Clause of the standard
ISO 9001:2015 c8.1(e) – Operational Planning & Control

Approved action plan:

We have reviewed the system and reminded all involved of the process. So the tray of which is marked 'Completed Projects (Walkover required)' are waiting to be signed off by the scheme manager. Once signed off they are passed on to the WG admin, attached to the corresponding Daily Job Report (DJR), and filed. The step in the process of signing off has fallen behind and the Contracts Manager will drive this to ensure this is completed in a more timely manner. We will also ensure that field staff are reminded of their obligations to review and complete the checklist found on the back of the job start sheet, this should firstly be filled in where possible by the manager issuing the job start sheet.

Actions taken:

Response Status: Minor NC - Actions to be taken as per approved action plan. Results to be reviewed at the next audit. Certification can be continued.

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NC 2.	TELARC Non-Conformance

Type: Minor

Observation: It was noted that whilst non-conformances for the Works Group are captured in the Hazmate System, there is no evidence of evaluation of Corrective Actions or its inclusion in the data reviewed at the MRTM Quarterly Reports.

Non-conformance:

Non-Conformance and Corrective Action Information captured in the Hazmate System is currently not included in the data analyses for the Quarterly Management Review Meetings.

Clause of the standard
ISO 9001:2015 c9.3.2 – Management Review Inputs

Approved action plan:

Monthly HAZMATE Reports to be captured by the Quality & Assurance Advisor, who will analyse data and record non-conformances in the MRTM Report.

Actions taken:

Response Status: Minor NC - Actions to be taken as per approved action plan. Results to be reviewed at the next audit. Certification can be continued.

Opportunities for improvement

OI 1   It was noted that the documented process governing the issuance of Dive Permits includes options for the Harbourmaster to Audit the activity. Some consideration may be given to maintaining records of any audits of compliance with Dive Permit Conditions.

OI 2   Recent updates in processes around the approval of events in the regional waterways have yet to be fully tested. The overarching plan appears sound and this will be reviewed in more depth at the next audit.

OI 3   It was noted that whilst there is a process in place to report and record all Process Improvements and Non-Conformance, there is little evidence of its application, with only 2 identified by the organization from the last two years. It is accepted that internal audit findings are captured as Actions in Process Manager and The Works Group have their own reporting systems in Hazmate, both of which are well used, however, there may be some reluctance to document non-conformance. Consideration may be given to exploring this further, with a view to removing any real or perceived barriers to reporting.

OI 4   At present the version of the PINC forms and HAZMATE Template Forms used by the Works Group do not prompt the recording of the results of Actions taken following a non-conformance. The central PINC system is structured to ensure this information is collected, however the two systems are operated in isolation of each other.

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RECOMMENDATION

The recommendation from this assessment, for the standard and scope detailed on page 2 of this report, is that your certification continues once an action plan has been provided and accepted in regard to the Minor Non-Conformances.

Assessment recommendations are always subject to the Telarc Certification Authority for review and final decision.

AUDIT HISTORY

Actions taken to address issues from the previous assessment

NC 1:　Objectives for the Works Group have now been aligned with those of the other teams covered by this certification in support of the Councils LTP and strategic direction.

NC 2:　Calibration Records at the Works Group were observed to be complete and current.

Conformance Data

This table summarises the performance of your system using the terminology of the Annex SL system:

Major NC	Minor NC	Compliant

Aspect\Audit Date	10/2020 RV	09/2021 RA	04/2022 RV & Scope	12/2023 RV
Context of the organisation (interested parties & scope)	Compliant	Minor NC	Compliant	Compliant
Leadership (commitment, policy, roles & responsibilities);	Compliant	Compliant	Compliant	Compliant
Planning (risks & opportunities, objectives, and plans);	Compliant	Compliant	Minor NC	Compliant
Support (resources, HR – competency, awareness, comms, docs)	Major NC / Minor NC	Compliant	Minor NC	Compliant
Operations – Product & Services (planning, control & records)	Compliant	Compliant	Compliant	Minor NC
Performance Evaluation (monitor/measure, audit, review)	Compliant	Minor NC	Compliant	Minor NC
Improvement (including non-conformance & corrective actions)	Compliant	Minor NC	Compliant	Compliant
Compliance with certification conditions (cert mark, ST&C, etc.)	Compliant	Compliant	Compliant	Compliant

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Attachment 1   Item 8

SPECIFIC AUDIT INFORMATION

Context of Organisation & Leadership

Whilst there has been significant upheaval in the last ten months due to the effective of Cyclone Gabrielle, the actual context of the organization has not changed appreciably.

The context remains understood in terms of the internal and external forces acting upon it and is outlined in the Quality Manual Overview provided by the organization. Discussions with the management team indicated an awareness of the needs and expectations of interested parties and of the strategies developed to meet them. Ongoing feedback from interested parties continues through various meetings and policy discussion groups.

The management system is well-structured and communicated via Process Manager (Promapp) and the organizations Sharepoint System, Kōwharawhara. Issues have been ongoing with the migration to the cloud-based system when a number of document links were severed. The organization is currently working to reinstate these.

The scope of the management system is document clearly and outlines the services provided and the boundaries of the system. Clause 8.3 of the standard (Design & Development) is deemed not applicable and acceptable justification for this is documented.

The organization continues to experience a high level of staff churn; however, this appears to be settling. The scope of this certification is narrow with respect to the Regional Councils overarching activities; however it is noted that many of the systems and processes adopted by the certified entity are gaining wider acceptance throughout the organization.

The organization utilizes a number of software platforms, (IRIS, Hazmate etc.), however, Process Manager is the central repository of system information. Process Manager is designed to clearly demonstrate the interrelationships between the various processes of the organization.

The commitment of the Leadership Team was demonstrated throughout the assessment through attendance at the open and closing meetings and through their participation in the audit.

There is a quality policy in place and a signed Policy Statement iterating the organizations commitments. The policy is readily available and is posted throughout the organization.

Sources of evidence/audit trails

Discussions with Management

Observations throughout this Assessment

Process Manager Platform – Observed

Context of the Organization v4 – Current

Quality Management Policy (CD0025) – 21/9/2023

Quality Statement – 28/9/2023

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Planning

The risk and opportunities management program has continued to evolve and has been developed in line with ISO 31000. The organization has identified 26 Enterprise Risks, referring to them now as "Uncertainties". The application of bowtie methodology has provided significantly greater depth to the analysis of these uncertainties and considers the perception of risk from a number of interested parties, allowing a more structured approach to the development of mitigation plans.

Quality objectives have been documented for each area covered by the scope of this certification and these have been developed to support the HBRC Long Term Plan (LTP). This LTP is publicly available and provides the high-level strategic direction of the organisation. The Quality Objectives are maintained in Process Manager, along with action plans, responsibilities, and timelines for completion. Programmed quarterly reporting actions have been assigned in Process Manager to track progress. It was noted that Consents had yet to enter their final objectives into the tracking system.

Sources of evidence/audit trails

Risk Management Policy (CD0023) - Draft

Risk Management Planning – 21/11/2023

Risk Dashboard – September 2023

Example Analysis of Uncertainty (Effectiveness of Communications & Engagement) – 21/11/2023

HBRC Long Term Plan – 2021 to 2031 (HBRC website)

Quality Objective 2023/2024:

IO 1406 (Catchment Operations) – October 2023

IO 1407 (Quality) – October 2023

IO 1408 (Environmental Science) – October 2023

IO 1409 (Environmental Information) – October 2023

IO 1410 (Consents) – Draft

IO 1411 (Compliance) – October 2023

IO 1412 (Harbourmaster) – December 2023

Support

The use of Process Manager (Promapp) has significantly widened since the last assessment, with comparatively more engagement observed than that of last year. Discussions with staff indicated greater knowledge of the system and its processes and the need for structure.

Internal and external communications were examined throughout this assessment, including meeting minutes at various levels, email, and briefing documents, made available via the organization's website and various information management platforms. The council at large, have a communications department, used by all other areas of the organization to disseminate information to the general public and media as required.

All areas visited during this assessment were observed to be well-maintained and in acceptable order. Equipment was appropriately located and in good order and evidence of the use of E-Roads for the tracking of vehicle servicing and registration was verified at the Guppy Road location for the Works Group. It was indicated that maintenance plans were based on equipment manufacturers recommendations.

Calibration Records for the Works Group were maintained in the Hazmate System and were observed to be current.

On balance, documentation was observed to be appropriately controlled, predominantly via Kōwharawhara and Process Manager. Information presented was date or version controlled and accessible to all staff at point of use. Process ownership is assigned and automated reminder facilities in Process Manager ensures reviews are carried out at appropriate frequencies.

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Sources of evidence/audit trails

Discussions with Managers

Discussions with Staff

Observations at Each Location

Software Platforms – Demonstrated

E-Roads – Demonstrated

Asset Alerts (Calibration & Maintenance) Hazmate – Current as of 5/12/2023

Operations – Compliance (Monitoring, Pollution & Enforcement)

Time was spent with members of the Compliance Team discussing both Rural and Urban compliance monitoring activities. The processes employed with respect to consent monitoring were explained and the allocation of work was verified. Consents are assigned to an officer and relevant conditions are communicated. A Regime is set up in IRIS to consolidate consent condition requirements, identifying those requiring officer involvement. This information is used in the development of compliance monitoring plans for the coming year. The processes were demonstrated and the central plan was confirmed.

The identified consent conditions were loaded for each consent and site visits had been planned accordingly. Records of visits and subsequent reports were verified in IRIS. All reports generated are peer reviewed prior to release. A selection of entries was sampled and records verified.

Any issues arising can result in enforcement action, abatement notices etc. and this decision is made by the Enforcement Decision Group.

Power BI is used to monitor work allocation and team meetings are held to discuss workload and performance.

A 24/7 complaints hotline is provided to allow members of the public to report any environmental issues (e.g., unconsented discharges, fires etc.). The Pollution Hotline triggers immediate activity, with on-call responders available at all times.

A request is triggered in IRIS and issued to a Warranted Officer. A number of examples were discussed showing the initial Request for intervention, incident logging, initial scene attendance and investigations, subsequent reporting, and escalation to the Enforcement Decision Group where appropriate. All information was centrally retained within the IRIS System.

Sources of evidence/audit trails

Discussions with Team Members

Consent Allocation Document – Observed

Compliance:

Task Dashboards - Observed

IRIS System & GIS facility – Demonstrated

Seasonal Scheduling – Discussed

AUTH124078-01 (Expiry 1/11/2024) – Conformed

AUTH124075-01:

- Monitoring Action (Site Visit) – 8/2/2023
- REGACT 113275 (OBS 25772020) – Observed

AUTH116980-03:

- OBS 257748 – 29/8/2023
- REGIME 3084, AUTH123601-03:
- OBS25775346 (Reime Activity 113355) – 24/10/2023
- Report – 24/10/2023
- OBS25775346 – 24/10/2023

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Identified Non-Compliance (AUTH12541001):

- OBS25775378 – 26/10/2023
- ENF20915 – 27/10/2023

Weekly Team Meetings – 16/10/2023 & 30/10/2023

Pollution & Enforcement:

- REQ-25681 – 20/11/2023
- Previous REQ 25398 – 8/8/2023
- Previous REQ 241843 – 9/7/2022

REQ23533:

- Responded – 25/11/2023.
- Escalated to Enforcement Decision Group – 7/12/2021.
- ENF 20509 – 18/12/2023
- EAC-20751 – 18/12/2023

REQ25706:

- ADG Meeting Minutes – 28/11/2023
- ENF-20929 – Verified

REQ25680:

- ENF-20931 – 28/11/2023
- AUTH128983-01:
- ENF-20961 – 24/11/2023
- EAC-21250 – Verified
- Infringement Notice Issued – 29/11/2023.

Operations – Works Group Activities

Typically, the Business Unit, operates as an internal contractor, carrying out construction and maintenance activities on behalf of the Council with regards to the various Catchment areas in the region. These activities are wide and varied and include (but are not limited to) the following:

Maintenance Work in the various river catchment areas, Mowing Stop banks, Spraying for Plant Pests, clearing waterways of weeds etc. Scrub Barring, Tree Clearing, some chainsaw and tree Felling work, clearing Flood Control Channels, maintaining the 20+ Storm Water Pump Stations in the region, maintaining fences and public access areas of rivers and maintaining Regional Parks.

The Works Group also has a Qualified Drainlayer and Drainage Crew amongst its ranks, operating excavators and replacing culverts and drains and constructing pathways and boardwalks.

As can be expected the Works Group have been greatly utilized in the recovery work following Cyclone Gabrielle. The focus since February's unprecedented event has been one of repair and response. Discussions indicated that there has been some shift in the last 6-weeks to a more "Business As Usual" state.

The activities of the Works Group have now migrated to the Process Manager System and at the time of this assessment there had been little change in the manner in which works was allocated and coordinated. However, discussions indicated that there was an imminent move to be made to the new SEAMS asset management system).

The program of work is contractually agreed each year and an array of spreadsheets developed to aid in the coordination of resources. The Asset Maintenance Contract was verified for 2023/2024 and the schedules of work were verified.

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The operational planning and service delivery aspects of the Works Group were verified. Activities are broken down into Committed and Non-Committed work. The former is a contractually agreed work plan between the Hawkes Bay Regional Council Asset Management team and the Works Group. The latter is made up of requests for work from not only the Regional Council but for a number of other external clients in the region (including various District Councils). As indicated earlier, the impact of the Cyclone has had a marked effect on the volume of such reactive work undertaken.

The development of work schedules was verified and the Annual Program observed for the various aspects of work to be undertaken. Daily Job Reports were sampled and verified against their respective work plans. Job Numbers, issued via the Tech 1 system are used to track activities and to ensure these are correctly billed. Inconsistencies were noted in the completion of Job Checklists at The Works Group. It is accepted that the unit will be moving to the new SEAMS platform, however, there are still a number of live Jobs that will require completion using the manual forms. **(NC – 1)**

The Works Group continue to use the Hasmate system to report all incidents, near misses etc. It is also used to capture Complaints, quality issues, improvement ideas and non-conformances (PINCs). Whilst the process is applied consistently, flaws were noted in the links between its application and the central reporting system of the organization. It was also noted that the Hazmate System does not allow for the recording of the results of any correctives action taken. These issues have been discussed elsewhere in this report.

The Hazmate System is also used to capture maintenance and calibration data. Records were sampled and cross checked against certificates held on file.

Due to the weather and timing of this assessment a site visit was not possible. This will be carried out at the next assessment. However a full tour of the facilities was provided, with no obvious issues noted. Communication boards were observed. Access to IT equipment (Computers) was verified. Screens were also observed displaying schedules of work.

Sources of evidence/audit trails
Discussions with Management Team
Observational Tour of the facilities
Asset Maintenance Contract 2023/2024 – 3/7/2023
Annual Programs 2023/2024:
- Weeding
- Drain Spraying
- Reach Mowing
- Beach Raking
- Program for Hawkes Bay Cycle Trails – 2023 to 2024

Daily Operations Board – Observed
Work Schedules – Observed
Channel Maintenance Haumoana Area 5 – 7/11/2023, 10/11/2023 & 15/11/2023
Drains Flat Mowing 2023/2024 - 24/6/2023, 26/10/2023 & 31/10/2023
Tutaekuri-Waimate Area 8 (Daily Job Report) – 5/10/2023 to 12/10/023
Works Authority Database - Observed
WP001004 (Large Scour Raupare)
Job No. 1004206
WA No 6206
Sampled Jobs:
- 1004778 – 27/11/2023
- 1001727 – 20/11/2023
- 1004794 – 14/11/2023
- 1004789 – November 2023
- 1004792 – November 2023

E-roads System Observed
Hazmate Platform – Demonstrated

Calibration Records – See Support Section of this report.
PINC Completion – See Improvement section of this report.

Operations – Harbourmaster

The Harbourmaster is responsible for the safe operation of all coastal waters (and most navigable inland waterways) within the Council's area of jurisdiction (from Mahia in the north to Porongahau in the south and all coastal waters between).

The Harbourmaster is charged with working closely with Napier Port and other users of the waterways to ensure all safety standards are maintained and legal obligations are met. Access to software platforms and reporting mechanisms was verified.

All incidents are captured in IRIS and results of investigations are uploaded to support the reports. Noted examples discussed included the issuance of a Harbourmaster's Directive for a vessel for a failed inspection of Steering Gear, following a report from the Marine Manager. Concerns were communicated to the vessel owners and actions for rectification were presented.

A second example was for an incident involving dangerous marine activity, when a small recreational vessel crossed the path of a container ship in the shipping lane. The event was captured on video and logged into IRIS. The Enforcement Decision Group decided that prosecution was in order after obtaining legal counsel.

In addition to the above, the Harbourmaster is responsible for issuing permits for work undertaken within the port. The processes for the issuance of Dive Permits were verified. It was noted that the documented process governing the issuance of Dive Permits includes options for the Harbourmaster to Audit the activity. Some consideration may be given to maintaining records of any audits of compliance with Dive Permit Conditions. (OI – 1)

The Harbourmaster's Office is also responsible for the monitoring of activities on the waterways and is to be informed of any planned activities within their jurisdiction. Responsibilities include the reviewing of impact, assessing risks and verifying that appropriate plans for mitigation are in place. Recent updates in processes around the approval of events in the regional waterways have yet to be fully tested. The overarching plan appears sound and this will be reviewed in more depth at the next audit.
(OI – 2)

Continuous improvement in the accessibility of documentation and records was observed and there is greater application of Process Manager (Promapp).

Sources of evidence/audit trails
Discussions with Deputy Harbourmaster
IRIS System – Observed
REQ25368:
- Incident Occurred 30/7/2023.
- REQ Logged in IRIS – 4/8/2023.

Process for Issuing Permits v5.0 – Observed
SAI 360 System (Napier Port) – Demonstrated
GIS Map Showing Dive Permits Issued – Observed
Dive Permit DP2023-17:
- Permit Request Email – 5/10/2023
- License of Dive Supervisor Confirmed (06432 exp October 2026) – Observed
- Shipping Plan Checked – Confirmed
- Permit Issued for 20/11/2023.

Maritime Events Approval Process v.30.0 – 4/12/2023
Event Online Application – 4/11/2023
Event Management Plan – Observed
Event Safety Plan – Observed

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Operations – Environmental Information & Data Management

The EI Team operates under the direction of the ICM Group and comprises of the Field Technical Operations and Data Management and Innovation. This assessment focussed on the collation, quality grading and management of data only. It was noted that this team had developed a Departmental Vision and Mission Statement and were in the process of developing further goals.

The reports and recommendations from Environmental Scientists are used to inform the development of the sampling programs. Field Service technicians are responsible for the practical application of the sampling and testing programs based on National Environmental Standards and scientific recommendations; sampling plans are then developed and initiated. It is the data collected from this sampling and the array of telemetered information which is then uploaded into the various local and national databases at the disposal of the HBRC.

Time was spent in the department reviewing the various activities carried out and verifying the handling of data from a selection of sources. The accuracy of the data is core to any subsequent analyses carried out and all data received is screened and quality assessed based on National Environmental Standard Coding Practices. Each data entry is quality assessed and coded, effectively ranking its "usefulness" in subsequent studies.

Once coded, the data is made available for application by the Environmental Science Teams. It is from this data that the State of the Environment can be determined, future modelling can be developed and policy decisions can be made.

Sources of evidence/audit trails
Discussions with Staff
Project 41501-Site ID9 Esk River:
- Puddle Database – Observed
- Lab XML File Received from Filed Metadata
- Sample Event – 20/4/2023
- Data Verification – 10/5/2023
- Lab-Reports (XML Version) – Filed
- Request for Surface Water & Ground Water Quality Data – 13/9/2023

Telemetered Data Collection:
- Hydrotel Platform – Observed
- Raw Telemetered Data – Presented
- Hilltop System – Demonstrated
- Quality Coding – Demonstrated
- Evidence of Technicians Comments on Data – 25/5/2023 & 30/6/2023
- Outlier Reports to Science Teams – As required.

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Operations – Environmental Science (Hydrology & Group Water, Freshwater Quality & Ecology)

Operating within the Integrated Catchment Management (ICM) Group, the role of the Environmental Science Section is central to the organization. Sessions were held with the Section Manager and with representatives from Hydrogeology and Freshwater Ecology to discuss their roles and responsibilities with regards to investigations into the state of environmental resources, and providing information used influence and develop policy in the Hawkes Bay Region. The ES Teams are also actively involved in assessing resource consent applications where required, and in the development of responses following compliance incidents. As might be expected, the ES teams have been heavily involved in Post Cyclone efforts to determine impacts which may take years to manifest.

In each session, examples were present to support the allocation of project specific tasks, the review, analysis and interpretation of data and development of reports, upon which future policy is determined.

Discussions with Hydro/Ground Water Representative centred around a project focussed on developing an updated flow and quality model for the Ruataniwha. The new model will provide live data and is being developed in collaboration with a number of agencies worldwide.

Freshwater Ecology and Marine/Coastal were merged as a department 6-months previous to this audit. An overview of the changes was provided along with the projects currently underway. Focus is on the SOE Reporting on the identification of target species, the development of sampling plans to support the projects developed to meet the Long-Term Plans of the region.

Sources of evidence/audit trails
Discussions with Manager
Discussions with Representatives of each Team
Operational Plans (ES) – July 2023
Role of Section & Structure – Observed
Section Program Aligned with Strategic Plan.
Legislative Drivers - Identified
SOE Published – 2022
Section Meetings – 8/6/2022, 29/8/2022, 13/12/2022 & 4/3/2023
Post Cyclone Project Planning Sampled:
- Estuary – 17/4/2023
- Marine Sediment Quality – 13/4/2023
- Coastal Sediment Quality – 11/4/2023
- Sediment Hydrodynamic Quality – 12/4/2023

Hydro/Groundwater Project 20220210:
- Project Brief (Current) – 10/2/2022
- References (Hyperlinked) – February 2022
- Roles & Responsibilities – Confirmed
- Project Organization Chart – Current
- Status Report (202305) – 29/5/2023
- Status Report (2022306) – 13/6/2023

Meeting Minutes – 23/6/2023

Meeting Minutes FWQE – 30/10/2023, 6/11/2023 & 4/12/2023

Sampling Protocols v21.0 (Process Manager) – Current

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Performance Evaluation (Measuring & monitoring/Internal Audit/Management Review)

Quarterly performance reports are captured in Power BI from a range of platforms around the organization. This allows the extraction of information for discussion at the Quarterly Management Review Team Meetings. Outputs from this sessions are captured as Actions in Process Manager, allowing their tracking to completion.

It was noted that whilst non-conformances for the Works Group are captured in the Hazmate System, there is no recorded evidence of the results of Corrective Action or the inclusion in the data reviewed at the MRTM Quarterly meeting or in supporting reports. (NC – 2)

Quality Objectives are captured and tracked in Process Manager with scheduled quarterly review activities calendarized. Again, these are tabled for discussions at the Quarterly MRTM. Management review meeting minutes were sampled and all inputs were appropriately considered.

Internal Audits are carried out to a pre-determined schedule by auditors independent of the processes under examination. The audits are programmed and tracked in Process Manager and all findings are captured as Actions on the platform. The organization has identified 28 processes as high-risk and these are audited at least annually. As of 1/12/2023 only five audits were flagged as overdue. This is exceptional given the time lost over the last ten months. A selection of completed Internal Audits were observed, no concerns were noted.

Sources of evidence/audit trails

Discussions with Management

Power BI Quarterly Report – Q4 2022/2023 & Q1 2023/2024

Management Review Outputs – 28/7/2023 & 31/10/2023

Internal Audit Schedule – Observed

Internal Audit Records – 24/8/2023, 9/10/2023, 16/11/2023 & 24/11/2023

Improvement (Complaints/NC/OI)

Process Improvements and Non-Conformances are captured in the Process Management System and their use is described in the Process Improvement Non-Conformance (PINC) Procedure.

The process is well structured and allows for the recording of issues, actions, and the results of actions in order to ascertain their effectiveness.

It was noted that whilst there is a process in place to report and record all Process Improvements and Non-Conformance, there is little evidence of its application, with only 2 identified by the organization from the last two years. It is accepted that internal audit findings are captured as Actions in Process Manager and The Works Group have their own reporting systems in Hazmate, both of which are well used, however, there may be some reluctance to document non-conformance. Consideration may be given to exploring this further, with a view to removing any real or perceived barriers to reporting. (OI – 3)

Complaints are received direct to a central Council function as "Feedback". Trends are tabled for discussion and MRTM and where necessary, there is the opportunity to escalate these to the PINC system and track actions to completion. However, there are no recent examples available to verify this.

At present the version of the PINC forms and HAZMATE Template Forms used by the Works Group do not prompt the recording of the results of Actions taken following a non-conformance. The central PINC system is structured to ensure this information is collected, however the two systems continue to be operated in isolation of each other. (OI – 4)

Sources of evidence/audit trails

Discussions with Management

Process Manager System – Demonstrated

Hazmate System Report – Observed

PINC:

- QMS003 – 1/11/2023

Works Group PINC (Hazmate):

- 740 – 14/9/2023
- 888 – 14/10/2023
- 892 – 2/11/20023
- 898 – 16/11/2023

ASSESSMENT OPENING & CLOSING MEETING

The assessment commenced with an opening meeting and concluded with a closing meeting. The objectives of the assessment and the subsequent findings were discussed and questions answered.

Attendees

Attendee Name	Role	Opening	Closing
Iain Maxwell	ICM Group Manager	✓	✗
Katrina Brunton	Policy & Regulation Group Manager	✓	✓
Olivia Giraud-Burrell	Quality & Assurance Advisor	✓	✓
Helen Marsden	Risk & Corporate Compliance Manager	✓	✓
Chris Dolly	Group Manager AMG	✓	✓
Billy Little	Assessment Coordinator	✓	✓

REPORT CONSIDERATIONS

Have there been any deviation from the original assessment plan or any significant issues impacting the client and its operation?	No	
Have there been any significant changes that affect the management system of the client since the last audit took place?	Yes	Cyclone Gabrielle had some impact on the systems application; however, this is recoverable.
If the audit was more than one programme, was it conducted as a combined or integrated audit?	N/A Single Program	
Was the organization effectively controlling the use of marks and/or any other reference to certification?	Yes	
Does the management system of the organization continue to meet the applicable requirements and meet the expected outcomes?	Yes	
Does the scope of certification continue to be appropriate to the activities/products/services of organization?	Yes	
Were the objectives of the visit as defined in the Audit Programme/Plan fulfilled during the visit?	Yes	
If ISO 45001 Safety standard being audited, management legally responsible for occupational health and safety, are to attend the closing meeting. Justification in case of absence shall be recorded. Ref IAF MD22 G9.4.7.1 Justification for key personnel non-attendance at Audit Closing Meeting	N/A	

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NEXT ASSESSMENT

It will be a Revalidation Assessment (RA) during which all elements of your system will be reviewed. Before the date of the assessment you will be sent an audit plan but a level of flexibility can always be accommodated and we can include any specific area, which you would like us to cover in greater detail. This can either be arranged prior or agreed on the day.

ASSESSMENT PLANNING

Primary Processes	Locations	Remote audit Y or N (MD4)	Staff at site (FTE)	Initial Audit Stage 1.	Revalidation Assessment Remote	1st Review Audit Scope extension	2nd Review Audit	Revalidation Assessment
					2021	2022	2023	2024
Head Office Functions	Napier HO		74	N/A	Completed	2.5	2.5	4.5
Regulatory Group					•	•	•	•
Consent					•	•		•
Compliance					•		•	•
Harbourmaster					•	•		•
ICM Group					•	•	•	•
Science (Sample Sections as Rqd)					•	•		•
Field Services (Site Visit)					•		•	•
Data management					•		•	•
Regional Maintenance Contracts & site visits	Taradale facility		30			•	•	•

Location: Hawkes Bay Regional Council			
Day 1	**Assessment meetings + functions/process/areas/shifts**	**Persons**	**Times**
	Entry meeting, changes and confirm assessment plan		
	Actions for previous Non-conformances		
	Changes in organisational context, interested parties, their needs, and expectations		
	Leadership, policies, risks and opportunities, Responsibilities and Authorities		
	Planning and objectives Managing Change		
	Lunch		
	Complaints and Feedback		
	System controls – internal audit, NC & Corrective Action		
	Document Control		
	Summary of day one meeting (~15 minutes)		

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  Hawkes Bay Regional Council

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	Location: Hawkes Bay Regional Council		
Day 2	**Assessment meetings + functions/process/areas/shifts**	**Persons**	**Times**
	Brief Meeting – Discuss Program		
	Regulatory Group Management Meeting - Discuss any changes, improvements etc.		
	Harbourmaster – Site Visit and Review of Documentation		
	Lunch		
	Consent Processing		
	Compliance Monitoring		
	Pollution response		
	Summary of day two meeting (~15 minutes)		

	Location: Works Group, Guppy Road & Site Visit		
Day 3	**Assessment meetings + functions/process/areas/shifts**	**Persons**	**Times**
	Brief Meeting – Discuss Program		
	Discuss any changes, improvements etc.		
	Overview of Contract and Planning of Committed Work		
	Operational Site Visit		
	Management of Reactive (Uncommitted) work		
	Observational Tour		
	Training, Awareness & Competence		
	Maintenance and Calibration Activities		
	Management of Non-Conformity & Control of non-conforming Outputs		
	Outsourcing and Contractors Selection & Monitoring		
	Summary of day three meeting (~15 minutes)		

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Location: Hawkes Bay Regional Council			
Day 4	**Assessment meetings + functions/process/areas/shifts**	**Persons**	**Times**
	Brief Meeting – Discuss Program		
	Procurement and Supplier Monitoring		
	ICM Group Management Meeting - Discuss any changes, improvements etc.		
	Hydrology/Hydrogeology		
	Lunch		
	Land Science		
	Marine & Coastal		
	Freshwater & Ecology		
	Air Climate		
	Summary of day four meeting (~15 minutes)		

Location: Hawkes Bay Regional Council (0.5 Days)			
Day 5	**Assessment meetings + functions/process/areas/shifts**	**Persons**	**Times**
	Competency training records and appraisals		
	Water Quality and Ecology (WQE) Including Sampling operations and equipment Maintenance		
	Data management and innovation		
	Auditor gathers notes		
	Pre-exit Meeting discussion		
	Exit Meeting (~30 minutes)		
	Auditor departs and completes report off-site		

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BACKGROUND INFORMATION

This report relates to the assessment undertaken by Telarc to determine the status and level of compliance of the management system against its internal requirements and those of the nominated Standard/s and scope indicated at the beginning of this Report. Unless stated otherwise this assessment covers a sample only of the management system.

The assessment was carried out in accordance with internationally recognised management system auditing practices defined in ISO 17021 and is subject to Telarc Limited (Telarc) Standard Terms and Conditions available from www.telarc.co.nz. In particular compliance with all legal requirements, including those relating to the Health and Safety at Work Act, is the responsibility of your organisation. Any comment relating to legal requirements, such as Health and Safety, does not represent an exhaustive report on your compliance with such legal requirements.

Please note that this report is subject to independent review and approval. Should changes to the outcomes of this report be necessary as a result of the review, a revised report will be issued and will supersede this report. The report is in two sections:

Executive Overview
This section gives a brief summary of the assessment including comments regarding system compliance (strengths), weaknesses, opportunities for improvement and instances of non-conformance that require correction.

Specific Audit Information (including the detail of any findings that require action)
This section identifies the key aspects of your system; and the operational processes, sites and activities which have been assessed; comments positively on aspects; and summarises any instances of major and minor non-conformance, and any opportunities for improvement that have been identified.

Please read this following section as it includes instructions for responding to this report:

Please note: Follow-up activities may incur additional charges.

Definitions and action required with respect to assessment findings

Major Non-Conformance:

Based on objective evidence, the absence of, or a significant failure to implement and/or maintain conformance to requirements of the applicable standard. Such issues may raise significant doubt as to the capability of the management system to achieve its intended outputs.

NOTE: The "applicable Standard" is the Standard which Telarc are issuing certification against, and may be a Product Standard, a management system Standard, a food safety Standard, or another set of documented criteria.

Action required: This category of findings requires Telarc to issue a formal NC; to receive and approve client's proposed correction and corrective action plans; and formally verify the effective implementation of planned activities. Correction and corrective action plan should be submitted to Telarc as required. Follow-up action by Telarc must 'close out' the NC or reduce it to a lesser category within 30 days or as otherwise agreed with the Assessment Coordinator for recertification assessments.

If significant risk issues (e.g. safety, environmental, food safety, product legality/quality, etc.) are detected during an assessment these shall be reported immediately to the Client and more immediate or instant correction shall be requested. If this is not agreed and cannot be resolved to the satisfaction of Telarc, immediate suspension shall be recommended.

In the case of an already certified client, failure to close out NC within the time limits means that suspension proceedings may be instituted by Telarc.

Follow-up activities may incur additional charges.

Minor Non-Conformance:

This is a non-conformity that does not affect the capability of the management system to achieve the intended results.

Action required: Telarc requires the client to formulate a corrective action plan for approval at the time of the assessment and will follow up the client's corrective action at the next planned assessment. Lack of client attention to such issues implies that a corrective action system is not working effectively and could result in a Major NC being raised later.

Opportunity for Improvement (OI):

A documented statement, which may identify areas for improvement however shall not make specific recommendation(s).

Action required: Client may develop and implement solutions in order to add value to operations and management systems. Telarc is not required to follow-up on this category of assessment finding.

TELARC TRAINING & SUPPORT SERVICES

Training courses: https://telarc.org/training-and-courses

General information: info@telarc.co.nz

Customer services call free on 0800 004 004

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TELARC USE ONLY

CLIENT CHANGES & CERTIFICATION RECOMMENDATION FORM

COMPANY NAME DIVISION (if Applicable)	Hawkes Bay Regional Council
ACTION AREA:	**CHANGES REQUIRED:**
SCOPE OF CERTIFICATION Goods or services supplied under the control of the management system constituting the applicant's scope of certification.	No Change
CLIENT DETAILS Contacts, client addresses, site details, etc. updated NB: Accounts need to be advised of changes in client details, contact and address details for updating accounts records.	No Change
COMPETENCY CODES Competency classification code assigned to client. 4121M Road and Bridge Construction 3702M Sewerage and Drainage Services 4113M Non-Residential Building Construction 4251L Landscaping Services 8113M Local Government Administration	No Change
NUMBER OF PERSONNEL Record the number of personnel at each site visited. Update number of personnel in ELK if required:	117
AUDIT FREQUENCY NB: Changes in audit frequency need to be approved by the appropriate Programme Specialist or Management Team.	No Change
AUDIT TIME AND/OR SAMPLING Changes in audit time or site sampling need to be updated in the audit planning calculator and reflected in the Elk fee profile.	No Change
COMPLIANCE STANDARD Advise changes to the standard or opportunities for extending scope or programs.	No Change
OTHER CERTIFICATIONS HELD OR PLANNED	No Change
RECOMMENDATION & DECLARATION To be completed by Assessment Coordinator **I confirm** that the organisation has been assessed in accordance with Telarc policies and procedures for compliance with the nominated standard(s); that all instances of **Non-Conformance** reported have been either resolved (**Major**) or that appropriate action plans (**Minor**) have been approved and any other registration conditions resolved. **I declare** that I, and so far, as I am aware, the audit team, have no conflict of interest nor have I or they acted as a consultant for this client in the last two years. **I also confirm** that I, and so far, as I am aware all members of the audit team, have not been subject to an approach to accept a bribe or other attempt to influence the results of this audit or the contents of this audit report, nor has anyone asked for or solicited any bribe, gift, or other material benefit in order to alter the findings of this audit report. **I therefore recommend that registration be continued, granted, or transitioned.**	
Assessment Coordinator: Billy Little	**Date: 13 December 2023**

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For IA, RA, scope extensions, and scope reductions, email Manager - Certification to request an Independent Review for the certification or recertification decision. When any major nonconformity has not been resolved and the recommendation is to suspend or the withdrawal of certification, do not sign the above but e mail the Manager-Certification to request an independent review to determine whether certification can be maintained.

Hawkes Bay Regional Council

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Attachment 1   Item 8

Crowe

Hawke's Bay Regional Council Internal Audit Data Analytics

October 2023

2023 HBRC Data Analytics Report _v_FINAL_AZ

Audit / Tax / Advisory   Smart decisions. Lasting value.

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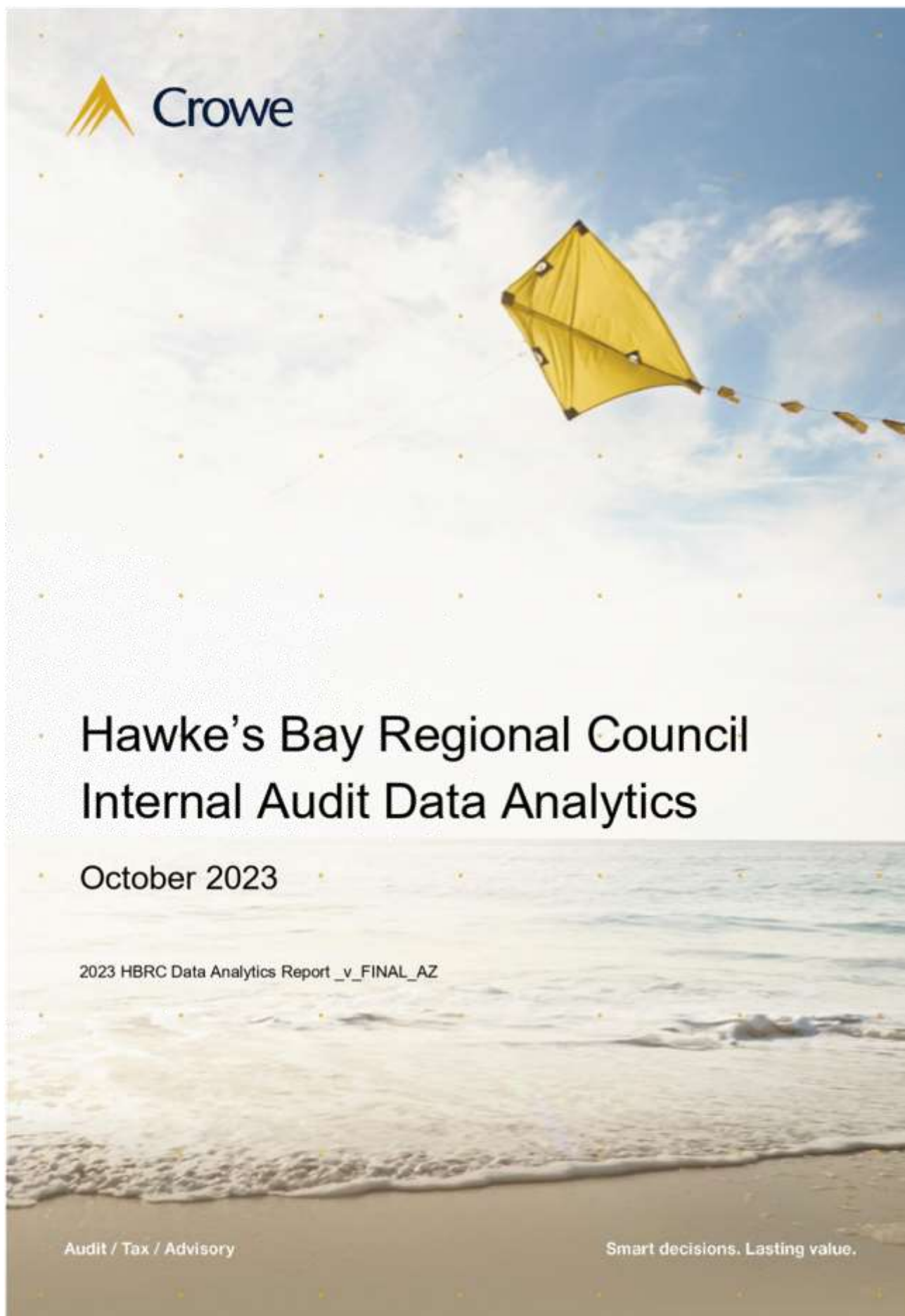
1. Executive Summary

1.1. Objectives and scope

The objective of this assignment was to perform the specified tests per the 2023 Scoping Document 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 2022 to 30 June 2023 with the master data testing as at the date of extraction which was 18 September 2023.

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.

1.3. Basis and use of report

This report has been prepared in accordance with our 2023 Scoping Document, 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

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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	1 vendor with no bank details was identified as being paid. The vendor was paid twice, totaling $16,000.	L	Review vendor Masterfile for this supplier to determine their file is correctly updated to include bank account details.
2.1	Duplicate vendor bank account	50 duplicate bank accounts were identified among 102 active vendor accounts. 8 of the duplicate bank accounts were identified in the 2022 data analytics report.	M	Review and block duplicate vendors as required to ensure invoices cannot be posted twice.
2.2a	Duplicate vendor name	6 duplicate names identified across 12 active vendor accounts.	M	Review the records to identify any unknown Vendors and payments not as expected. Block Vendors as required.
2.2b	Duplicate vendor name with different bank account	2 duplicate names with different bank accounts among 4 active vendor accounts identified. Having duplicate vendors with different bank accounts increases the risk of paying a fictitious vendor or the wrong bank account. 1 of the records was identified in the 2022 data analytics report.	M	Review the records to identify any unknown Vendors and payments not as expected. Block Vendors as required.
2.3	Duplicate vendor address	58 duplicate addresses were identified among 124 active vendor accounts. 7 duplicate vendors were identified in the 2022 data analytics report.	M	Review the records to identify any unknown vendors and deactivate any duplicate vendors as required.
3	Vendors with multiple bank account changes (during review period)	10 Vendor account's bank accounts were altered more than once during the review period.	M	Review the records to ensure all bank account changes were legitimate.
4	Word searches for unusual vendor names (searched - Do not use, temp, XX and Duplicate)	No records identified.	N/A	N/A
5	Invoices without purchase orders	742 Invoices without PO	M	Review records to see if any vendors who should have had a PO.

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| No	Test	Result	Indicator	Recommended action(s)
6	Payments to vendors that are not in the vendor Masterfile or have been deactivated	All payments made to vendors in the transaction file matched with a record in the Masterfile. However, 73 transactions across 25 inactive supplier accounts were identified. An assumption that payments were made prior to deactivation has been made.	L	Review the records to identify any payments not as expected.
7	Invoices posted on a weekend	No records identified.	N/A	N/A
8	Round numbered payments	267 round numbered payments ($'000) were identified. 32 of these payments relating to 24 supplier numbers were not associated with a purchase order.	M	Review the 32 payments with no purchase order and verify validity.
9	Benfords Law - Graph of expected frequencies for the first 2 digits	As shown in the graph below, Figure 1, the significant spike patterns outside the expected upper range are invoice amounts starting with the two-digit numbers 46, 50, 57, 69, 70 and 80. Summary results of the invoices starting with those digits are below.	L	We recommend management scans the listings for any unexpected amounts.
10	Multiple payment methods used (Duplicate Vendor Number and Gross Amount AND different payment type)	No records identified.	N/A	N/A
11	Top 50 Vendors by amount	As shown in workbook.	L	Scan the list for any vendors that are not known for the services provided.
12	Duplicate payments	24 potential duplicate payments identified over 46 records. No subsequent credits/refunds were identified.	M	Review the listed payments and confirm that no outstanding duplicate payments remain.
13	Vendors with multiple purchase orders on same day that would exceed approver's delegation.	149 cases identified where a Purchase Order for the same supplier was approved on the same day by the same individual and the total value exceeds delegated authority. We note that of these cases, 74 Purchase Orders did not have a requisition approver listed.	H	Review the cases identified to ensure the purchase order approvals were appropriate and did not represent splitting of purchase orders to evade delegation limits.
14	Invoices approved by persons over or on their delegated authorities	622 Cases were identified where Purchase Order approval appeared to exceed delegated authority. Of these, 236 records did not have an approver listed.	H	1. Review the cases and understand the reason for authority being able to be exceeded and if there is a systems issue permitting approvals outside delegated authority.

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No	Test	Result	Indicator	Recommended action(s)
		We noted 4 approvers whose codes were not listed in the user profile Delegation Limits report as follows: • BBAYFIELD01 • KNIMON01 • STULLY01 • TDIACK01 These approvers were listed for 221 of the returned records. For records that had a listed approver that was also identified in the user profile delegations limit report, 165 records returned of PO approval over the individuals financial delegation.		2. Review the Purchase Orders without approval and determine if they are appropriate. 3. Review the validity of Purchase Orders that were approved by users not found in the delegations Masterfile.
15	Analysis of purchase orders where the request and authorisation were by the same staff member (profiling by supplier and staff against peers)	245 Purchase Orders were approved created and approved by the same person.	L	Review the List and ensure the approvals were appropriate.
16	Vendors where all purchase orders were created and approved by the same person	28 cases identified where all POs were requisitioned and approved by 1 person. In 23 cases there was only 1 purchase order for the vendor.	M	Review the List and ensure the approvals were appropriate.
17	Credit notes by Vendor, volume, and amount (where amount >$1,000)	34 Vendors issuing credit notes of more than $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.
18	Vendors with transactions with and without GST	53 Vendors identified with both GST and non-GST Payments.	L	Scan the list for vendors where non-GST transactions would not be expected. Individual transaction details for those vendors can be provided by us.

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Figure 1 – Benford's analysis
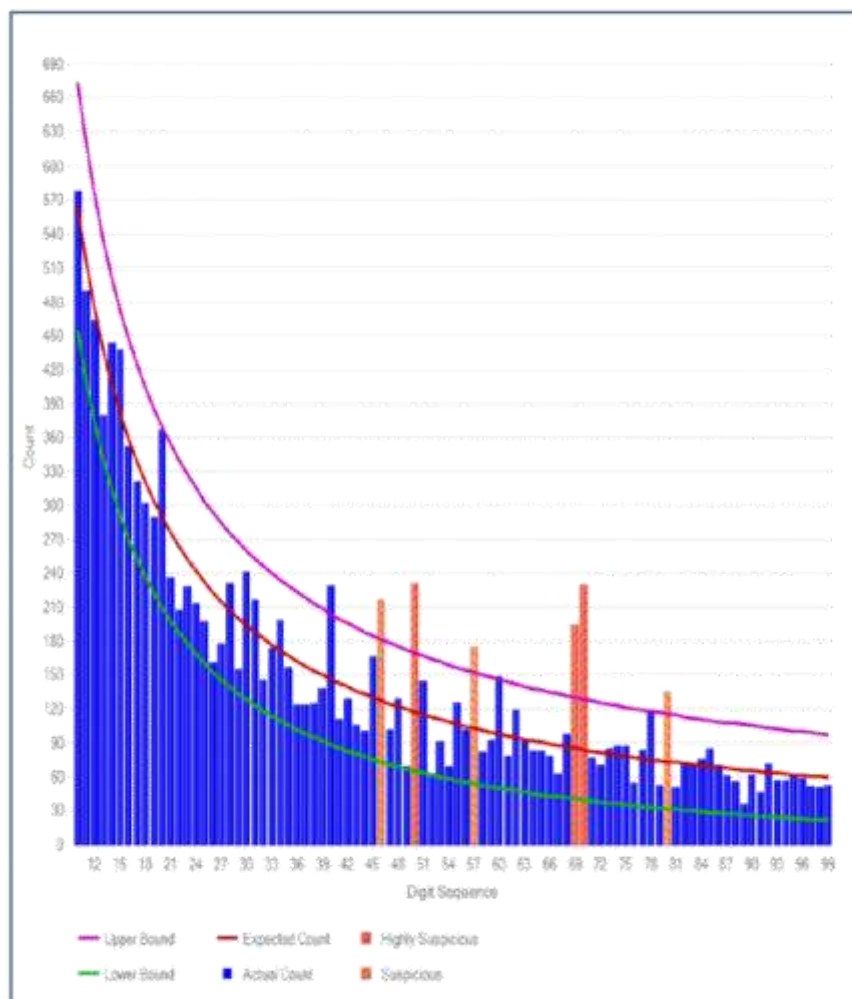
Benford's Law states that if you randomly select a number from a natural data set of numbers, the value of the first digit(s) in that number will occur at a predictable frequency. For example, the probability that the first digit will be a '1' is approximately 30%, rather than 11.1% as we might expect 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 46, 50, 57, 69, 70 and 80.

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)	6 matching bank accounts identified.	M	Scan the records to identify any unknown relationships or vendors to ensure vendor is valid.
2	Vendors with an address match to employee master data (excluding employees).	12 vendors were identified with an address match to the employee Masterfile. Fuzzy logic is employed to identify address matches where characters differ within a set tolerance (allows Street and St to be matched for example).	L	Scan the records to identify any unknown relationships or vendors to ensure vendor is valid.
3	Payments to Vendors with an employee master data match created by the employee.	7 records identified relating to 1 employee where the purchase requisition creator is linked to the vendor. A Companies Office search confirmed the employee who approved the purchase requisition is a director and shareholder of the vendor. The transaction value is $1,710 excl. GST.	H	Ensure the transaction was valid and consider the conflict-of-interest implications of the purchase requisition approval.
4	Employees paid more than $1,000 through accounts payable (where Vendor is classed as EMPLOYEE in the vendor Masterfile)	28 employees paid more than $1,000 through AP with 8 employees paid more than $5,000.	M	Review the 8 employees paid more than $5,000 through AP for appropriateness.

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2.3. Payroll

No	Test	Result	Indicator	Recommended action(s)
1	Master data records with no address recorded	11 employees were identified with no address in the Masterfile.	L	Confirm the employees exist and update master data as required. A physical address should be recorded for each employee (and vendor)
2	Referral address	4 records identified with a referral postal address although 3 of these records have a street address listed.	L	Confirm the employee noted exists.
3	Missing IRD number	All employees with no IRD were Terminated	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	No records identified.	N/A	N/A
6	Duplicate bank account	10 duplicate bank accounts identified.	L	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	No records identified.	N/A	N/A
9a	Employees paid prior to start date	9 Employees in the Payrun data were paid before their Start dates. They could be fixed term and casual employees and potentially previously hired on different contracts.	L	Review the records highlighted and confirm that payments were as expected.
9b	Employees paid after termination date	No employees were paid more than 11 days after their termination date. 69 Employees in the Payrun data were paid after their termination date, however all were paid within 11 days of their end date. Possible timing difference.	L	N/A
10	Short duration of employment (less than 30 days)	5 employees were employed for less than 30 days. An additional employee termination date was listed before the last hired date.	L	Ensure the employees were bona fide.

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No	Test	Result	Indicator	Recommended action(s)
11	Duplicate address	10 duplicate addresses among 21 employee records.	L	Scan the listing for any unknown relationships that could potentially present a segregation of duties or conflict of interest issue.
12a	Analysis of allowances by division and / or position description – highest, average, and total transaction values	A list of allowances by Organisation Unit has been provided. The unit with the highest total allowance was 'Regional Projects' with a cumulative allowance of $64,218.39 over the 22/23 financial year.	L	Review the allowances by unit to ensure they align with Council's budget and strategic goals.
12b	Allowances with organisation unit not listed in the Masterfile	We note that the allowances paid for employees that were not found in the Masterfile total to $342,763.35 over the financial year. It is worth noting that the Masterfile provided did not include councilors or contractors who may account for some of these allowances.	M	Review the list of employees not assigned to an organisation unit and given allowances to ensure they are valid.
13a	High Allowances by Employee	45 staff received total allowances of over $5,000 throughout the year.	L	Confirm the 5 highest paid allowances are consistent with contractual arrangements
13b	Negative Allowances	4 Employees have negative total allowances for the financial year.	L	Review the list and validate payment data.
14	Hourly rate paid that is less than minimum wage	No records identified.	N/A	N/A
15	Round numbered payments	No records identified.	N/A	N/A
16	Transactions with no match to the master data	42 Employees identified. May be Councilors or Contractors.	L	Review the list of Names provided and add to the Masterfile as required.
17a	Benchmark total hours and overtime hours between departments (Refer figure 2 and figure 3)	Top 3 overtime by Organisation Units are as follows: • Works Group - $524,132.04 • Asset Management - $$32,494.81 • People and Capability - $29,503.41 Significant overtime is identified across the Works Group.	L	Review the overtime values for reasonableness. Consider any potential health and safety risks of catchment staff, mechanics and mower operators undertaking significant overtime.

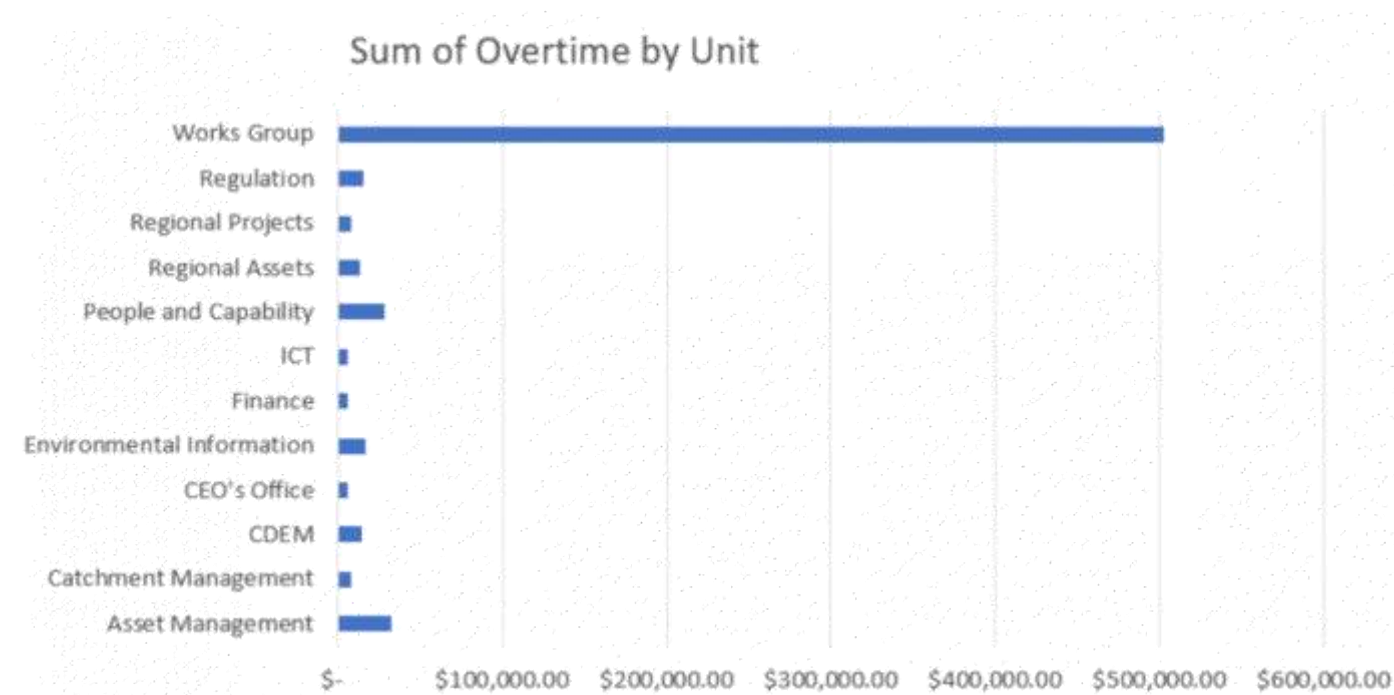Data Analytics   Hawke's Bay Regional Council   11

No	Test	Result	Indicator	Recommended action(s)
17b	Identify excessive overtime hours and amounts that could indicate timesheet manipulation, resourcing or health and safety issues. (Refer figure 4)	42 employees with overtime exceeding $4,000 identified. The highest employee recording $35,890.67 of overtime.	L	Review the overtime values for reasonableness.

Figure 2 – Total overtime by Unit

Sum of Overtime by Unit

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Figure 3 – Overtime statistics - % of overtime per organisation unit)

17a - Overtime by Org Unit: Sum of OVERTIME_SUM_SUM by ORGANISATION_UNIT

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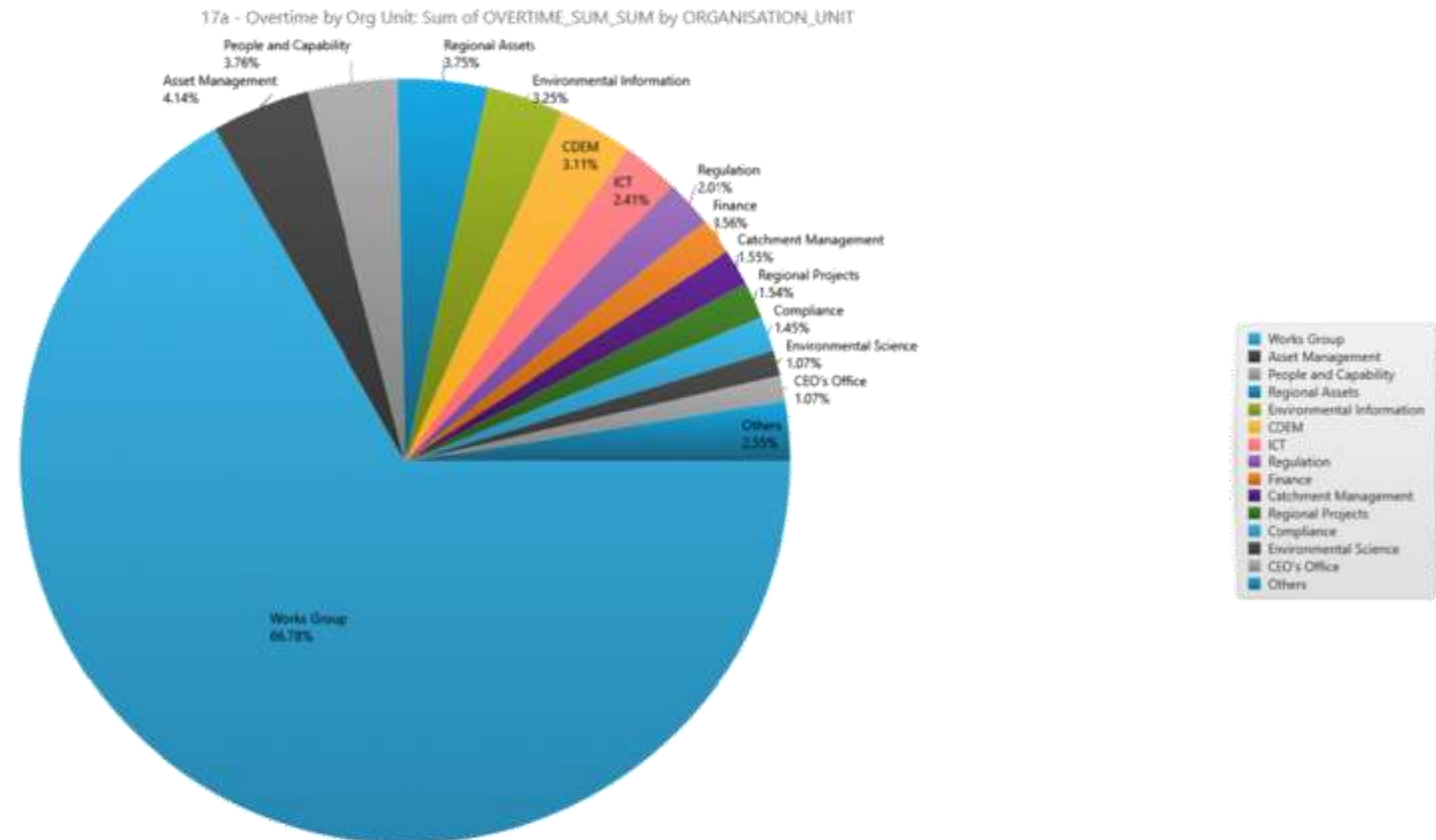
Data Analytics   Hawke's Bay Regional Council

Figure 4 – Overtime statistics –Total overtime per employee claimed (in $) per organisation unit

Employee Overtime in $ by Organisational Unit
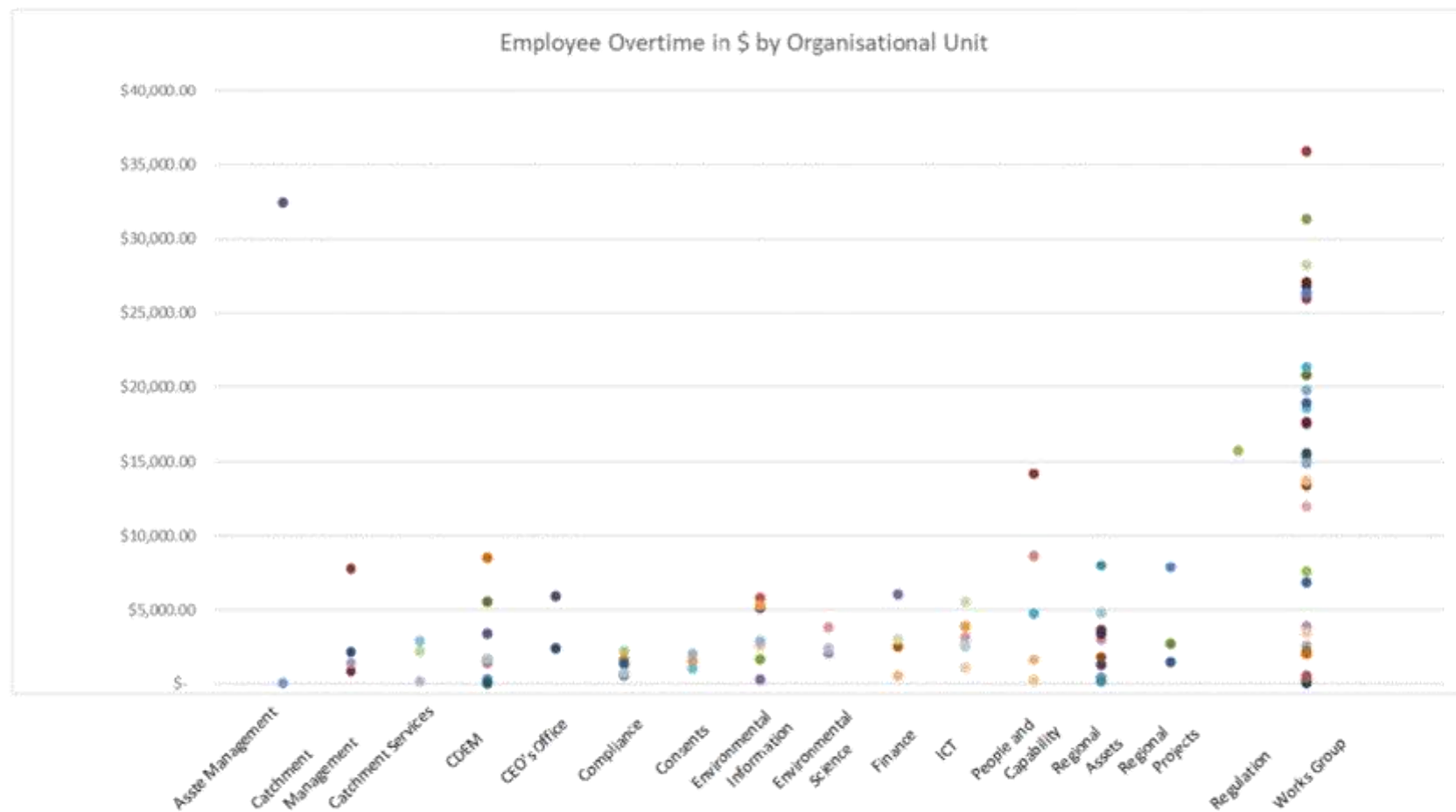
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Appendix

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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