

Meeting of the Risk & Audit Sub-committee

Date: 10 May 2023
Time: 9.00am
Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Agenda

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Subject: Confirmation of the Risk & Audit Sub-committee Terms of Reference

Reason for Report

1. This item provides the means for the Risk and Audit Sub-committee (RAS) to confirm its Terms of Reference.

Officers' Recommendations

2. Council officers recommend that the RAS confirms the Terms of Reference as proposed and adopted by the Regional Council on 16 November 2022, for the remainder of this term of Council.

Background /Discussion

3. For the 2019-22 term of Council, the Finance, Audit and Risk Sub-committee was established as a sub-committee of Corporate and Strategic Committee (C&S), with meetings held quarterly to enable recommendations through to the C&S and then on to the Regional Council.
4. This term it was proposed that the Audit and Risk Committee (ARC) be established to report directly to Council and with a reduced meeting cycle of six monthly to reflect the auditing and risk management reporting cycles. By making this a sub-committee of Council instead of C&S, it was intended to streamline decision-making and address the issues items being considered three times, with the final decision being twice removed from the meeting at which the detailed information was presented and considered.
5. The proposed Terms of Reference presented today were amended, from the 2019 version, to clarify the different functions of the RAS and C&S. The C&S will review ongoing financial performance and financial decisions and the role of RAS to manage financial risk, i.e. investment/treasury related risk measures within the Treasury and Investment policies. As well, the RAS will continue to oversee the scope and outcomes of the external audit review of the Annual Report and its findings.

Options Assessment

6. The sub-committee has the options to either confirm the Terms of Reference as adopted by the Regional Council on 16 November 2022 or to agree amendments for recommending an updated Terms of Reference to the Council for adoption.

Decision Making Process

7. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 7.1. Councils are required to (LGA sch.7 cl.19(1)) hold the meetings that are necessary for the good governance of their district or region.
 - 7.2. Councils may appoint (LGA sch.7 cl. 30(1)(a)) the committees, subcommittees, and other subordinate decision-making bodies that they consider appropriate, including joint committees.

- 7.3. Given the provisions above, the Risk and Audit Sub-committee can exercise its discretion and make these decisions without consulting with the community.

Recommendations

That the Risk and Audit Sub-committee:

1. Receives and considers the *Confirmation of the Risk & Audit Sub-committee Terms of Reference* staff report.
2. Agrees that the decisions to be made are not significant under the criteria contained in Council's adopted Significance and Engagement Policy, and that the Sub-committee can exercise its discretion and make the relevant decisions without conferring with the community.
3. Recommends that Hawke's Bay Regional Council adopts the Terms of Reference for the Risk and Audit Sub-committee as amended as agreed today, 10 May 2023.

Or

4. Reports to the Hawke's Bay Regional Council that the Terms of Reference for the Risk and Audit Sub-committee was confirmed today, 10 May 2023, as adopted on 16 November 2022.

Authored by:

Leeanne Hooper
Team Leader Governance

Approved by:

Desiree Cull
Strategy & Governance Manager

Susie Young
Group Manager Corporate Services

Attachment/s

- 1  2022-25 Risk and Audit Sub-committee Terms of Reference adopted 16 November 2022

Risk and Audit Sub-committee Terms of Reference

Adopted by Hawke's Bay Regional Council resolution 16 November 2022



1. Purpose

The purpose of the Risk and Audit Sub-committee is to recommend actions, responses and changes to the Corporate and Strategic Committee for:

- 1.1. appropriate controls to safeguard the Council's financial and non-financial assets, the integrity of internal and external reporting and accountability arrangements
- 1.2. the review the Council's revenue and expenditure policies, amongst others, and the effectiveness of those policies in ensuring limited risk is generated
- 1.3. assurance of the independence and adequacy of internal and external audit functions
- 1.4. the robustness of risk management systems, processes and practices
- 1.5. ensuring Council's compliance with applicable laws, regulations, standards and best practice guidelines.

2. Specific Responsibilities

The Risk and Audit Sub-committee shall have responsibility and authority to:

- 2.1. Consider the appropriateness of the Council's existing accounting policies and principles and any proposed changes
- 2.2. Satisfy itself that the financial statements and statements of service performance are supported by adequate management sign-off and adequate internal controls
- 2.3. Confirm that processes are in place to ensure that financial information included in Council's Annual Report is consistent with the signed financial statements
- 2.4. Monitor the performance of Council's investment portfolio, such that any risks identified in the performance against benchmarks and targets are remedied to remain within risk thresholds and performance targets
- 2.5. Confirm the terms of appointment and engagement of external auditors, including the nature and scope of the audit timetable and fees
- 2.6. Receive the internal and external audit report(s) and review actions to be taken by management on significant issues and recommendations raised within the report(s)
- 2.7. Enquire of internal and external auditors for any information that affects the quality and clarity of the Council's financial statements and statements of service performance, and assess whether appropriate action has been taken by management in response to this
- 2.8. Conduct a Sub-committee members-only session, if requested, with Audit NZ to discuss any matters that the auditors wish to bring to the Sub-committee's attention and/or any issues of independence
- 2.9. Review whether Council management has a current and comprehensive risk management framework and associated procedures for effective identification and management of the council's significant risks in place
- 2.10. Periodically monitor corporate risk assessment, and the internal controls instituted in response to such risks

- 2.11. Oversee systematic (LGA s17a) reviews of Council operational activities against Council stated performance criteria to determine efficiency/effectiveness of the delivery of Council services
- 2.12. Review the effectiveness of the system for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), Council's own standards, and best practice guidelines; including health and safety.

3. Accountability

- 3.1. The Risk and Audit Sub-committee is not delegated to make any decisions unless by specific delegation of Council.

The Risk and Audit Sub-committee is delegated by Council to:

- 3.2. Obtain external legal or independent professional advice within approved budgets in the satisfaction of its responsibilities and duties
- 3.3. Secure the attendance at meetings of third parties with relevant experience and expertise as appropriate
- 3.4. Receive all of the information and documentation needed or requested to fulfill its responsibilities and duties, subject to applicable legislation
- 3.5. Ensure that recommendations in audit management reports are considered and, if appropriate, actioned by management
- 3.6. Review the objectives and scope of the internal audit function, and ensure those objectives are aligned with Council's overall risk management framework
- 3.7. Assess the performance of the internal audit function, and ensure that the function is adequately resourced and has appropriate authority and standing within Council.

4. Membership

- 4.1. Up to four members of Council, being: councillors Xan Harding, Jock Mackintosh, Neil Kirton and Thompson Hokianga
- 4.2. An external appointee, Stephanie Maloy

5. Chairperson

A member of the Sub-committee as appointed by the Council, being councillor Neil Kirton.

6. Meeting Frequency

The Committee shall meet twice per year, or as required.

7. Quorum

The quorum at any meeting of the Sub-committee shall be three members.

8. Officers Responsible

- 8.1. Chief Executive
- 8.2. Group Manager Corporate Services.

Subject: 2022-2023 Enterprise Internal Audit Plan update and proposed 2023-2024 plan

Reason for Report

1. This item provides the Risk and Audit Sub-committee (RAS) with an update on the 2022-2023 Enterprise Internal Audit Plan and a proposed 2023-2024 Internal Audit Plan.

Background

2. The Internal Audit Framework requires that an Annual Enterprise Internal Audit Plan be adopted by RAS each year for the following financial year.
3. The adopted plan for the 2022-2023 financial year includes:
 - 3.1. Organisational Change Consolidation and Prioritisation internal audit
 - 3.2. Data Analytics internal audit.
4. The Organisational Change Consolidation and Prioritisation internal audit has been completed by the Council's Internal Auditor Crowe and the audit report is the subject of an item on today's RAS agenda.
5. The Data Analytics internal audit will commence in July 2023 to enable a full twelve-month analysis. These findings will be presented to the October 2023 RAS.
6. In light of Cyclone Gabrielle, the Executive Leadership Team (ELT) is recommending (ELT meeting of 21 April 2023) that RAS approves the adoption of the Data Analytics Internal Audit for the 2023-2024 Internal Audit Programme along with the additional reviews outlined below:
 - 6.1. Independent review of HBRC Flood Protection and Drainage Schemes performance during Cyclone Gabrielle
 - 6.2. Heretaunga Plains Flood Control Scheme
 - 6.3. Cyclone Gabrielle Flood Report
 - 6.4. HBRC Internal Review – Timeline of Events
 - 6.5. Telemetry Resilience Review
 - 6.6. Hydrometric Review.
7. Council's *Assurance Universe* is attached. The Assurance Universe links enterprise reviews or audits undertaken over the past four years to an enterprise risk. Reviews and audits in the Assurance Universe include external audits, enterprise internal audits, business reviews with an enterprise focus, and section 17a reviews.

Financial and Resource Implications

8. The internal audits will be undertaken, as per the approved plan, within the 2023-2024 budgets allocated.

Decision Making Process

9. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:

- 9.1. This agenda item is in accordance with the Sub-committee's Terms of Reference, specifically:
 - 9.1.1. The purpose of the Risk and Audit Sub-committee is to report to the Corporate and Strategic Committee to fulfil its responsibilities for:
 - (1.3) the independence and adequacy of internal and external audit functions
 - 9.1.2. The Risk and Audit Sub-committee shall have responsibility and authority to:
 - (2.5) Confirm the terms of appointment and engagement of external auditors, including the nature and scope of the audit timetable and fees; (2.6) Receive the internal and external audit report(s) and review actions to be taken by management on significant issues and recommendations raised within the report(s); and (2.11) Oversee systematic (LGA s17a) reviews of Council operational activities against Council stated performance criteria to determine efficiency/effectiveness of the delivery of Council services
 - 9.1.3. The Risk and Audit Sub-committee is delegated by Council to:
 - (3.6) Review the objectives and scope of the internal audit function, and ensure those objectives are aligned with Council's overall risk management framework; and (3.7) assess the performance of the internal audit function and ensure that the function is adequately resourced and has appropriate authority and standing within Council.

Recommendations

That the Risk and Audit Sub-committee:

1. Receives and considers the *2022-2023 Enterprise Internal Audit Plan update and proposed 2023-2024 plan* staff report.
2. Confirms the internal audit plan for the 2022-2023 financial year includes:
 - 2.1. data analytics (*as resolved 4 May 2022*)
 - 2.2. Organisational Change Consolidation and Prioritisation (*as resolved 4 May 2022*).
3. Confirms the proposed internal audit plan for the 2023-2024 financial year includes:
 - 3.1. Data Analytics Internal Audit
 - 3.2. Independent review of HBRC Flood Protection and Drainage Schemes' performance during Cyclone Gabrielle
 - 3.3. Heretaunga Plains Flood Control Scheme
 - 3.4. Cyclone Gabrielle Flood Report
 - 3.5. HBRC Internal Review – Timeline of Events
 - 3.6. Telemetry Resilience Review
 - 3.7. Hydrometric Review.

Authored by:

Olivia Giraud-Burrell
Quality & Assurance Advisor

Helen Marsden
Risk & Corporate Compliance Manager

Approved by:

Susie Young
Group Manager Corporate Services

Attachment/s **1 Assurance Universe as at 1 May 2023**

Risk No	Risk Title	Residual Risk Assessment	2018/19	2019/20	2020/21	2021/22	2022/23 Current
1A	Strategic – Decision	High				Strategic Communications & Engagement Framework	
1B	Strategic – Implementation	High		Risk Management Maturity	Audit NZ – Consultation Document for the Long-Term Plan		Organisational Change Consolidation & Prioritisation
2	Financial	Medium	Audit NZ – External Financial Audit	Audit NZ – External Financial Audit	Audit NZ – External Financial Audit	Audit NZ – External Financial Audit	Audit NZ – External Financial Audit
3	Regulatory (RMA) HB Regional Policy & Compliance	High				S17a Road Safety	
4	ARCHIVED Strategic Partnerships						
5	Information Not Fit for Purpose	Medium	Cyber Security		Information Management		
6	Core ICT Services	Medium					
7	Legal compliance	High		Privacy Policy Act			
8	Business Interruption HBRC	High		Covid-19 Debrief			HBRC Internal Review – Timeline of Events
9	People Capability/Capacity	High			Talent Management		
10	Fraud	Medium		Data Analytics	Data Analytics	Data Analytics Fraud Management Framework	Data Analytics
11	H&S & Wellbeing and Public Safety	High	Health and Safety Management Maturity				Health and Safety Framework
12	Assets/Infrastructure	High		Asset Management Framework			Heretaunga Plains Flood Control Scheme Review Cyclone Gabrielle Flood Report Review HBRC Council Independent Review on HBRC Stop Banks and Flood Protection Schemes
13	Third parties/Contractors	Medium		S17a Works Group			
14	Regional Environmental Asset Protection and Resilience	High		S17a Biosecurity (move to lain no 14)			Telemetry Resilience Review Hydrometric Review
	Miscellaneous	N/A	TQM (Works Group) ISO 9001:2015 Revalidation	Civil Defence Covid 19 Response ISO 9001:2015 Review	NCC MOU ISO 9001:2015 Review	ISO 9001:2015 Revalidation & Works Group Certification	ISO 9001:2015 Review

Key	
Purple Text	Enterprise Internal Audits
Green Text	Group Business Reviews
Grey Text	External Audit
Orange Text	S17a Review

Subject: Treasury Compliance Report for the period 1 January - 31 March 2023

Reason for Report

1. This item provides compliance monitoring of Hawke's Bay Regional Council (HBRC) Treasury activity and reports the performance of Council's investment portfolio for the quarter ended 31 March 2023.

Overview of the Quarter – ending 31 March 2023

2. At the end of the quarter to 31 March 2023, HBRC was compliant with all measures in its Treasury policy except for the interest rate risk control limits.
3. As at 31 March 2023 the interest rate risk position was outside policy compliance. We had previously been reporting compliance against the 80% scenario of the current adopted LTP debt forecast for interest rate management purposes. This is due to debt levels being below LTP forecast.
4. Given the sharp increase in debt requirements post-Cyclone Gabrielle, we are now looking to confirm a new debt forecast so that we can update our debt funding strategy and therefore redesign our interest rate strategy accordingly.
5. Cash balances remain adequate and borrowing requirements to date have remained relatively low.

Background

6. Council's Treasury Policy requires a Treasury Compliance report to be presented quarterly to the Risk and Audit Sub-committee. The policy states that the Treasury Compliance report is to include:
 - 6.1. Treasury exceptions report
 - 6.2. Policy compliance
 - 6.3. Borrowing limit report
 - 6.4. Funding and liquidity report
 - 6.5. Debt maturity profile Interest rate report
 - 6.6. Investment management report
 - 6.7. Treasury investments
 - 6.8. Cost of funds report cash flow and debt forecast report
 - 6.9. Debt and interest rate strategy and commentary
 - 6.10. Counterparty credit report
 - 6.11. Loan advances.
7. The Investment Management report has specific requirements outlined in the Treasury Policy. This requires quarterly reporting on all treasury investments plus annual reporting on all equities and property investments.
8. In addition to the Treasury Policy, Council has a Statement of Investment Policy and Objectives (SIPO) document setting out the parameters required for funds under management for the

HBRC Long Term Investment Fund.

9. Since 2018, HBRC has procured treasury advice and services from PriceWaterhouseCoopers (PwC) and their quarterly Treasury Report is attached.

Treasury exceptions report & policy compliance

10. As at 31 March 2023 the interest rate policy parameters did not meet the Treasury policy requirements. Specifically this is due to a higher debt forecast from increased capital expenditure on repairs from cyclone Gabriel. When a new debt forecast is confirmed (incorporating expected debt levels post cyclone) with the debt funding strategy, an interest rate strategy will be designed.
11. Our action to rectify this is to confirm a new debt forecast and transact new interest rate swaps to bring this back in line with the policy.
12. All other metrics remain compliant.

Funding & Liquidity

13. To ensure HBRC has the ability to adequately fund its operations, current policy requires HBRC to maintain a liquid balance of *“greater than 10% of existing total external debt”*. Current liquidity ratio is 31.83% and therefore meets policy.
14. The following table reports the cash and cash equivalents on 31 March 2023.

31 March 2023	\$000
Cash on Call	8,790
Short-term bank deposits	0
Total Cash & and Deposits	8,790

15. To manage HBRC liquidity risk, HBRC retains a Standby Facility with BNZ. This facility provides HBRC with a same day draw-down option, to any amount between \$0.3m-\$10.0m, and with a seven day minimum draw period.

Debt Management & Interest Rate Report

16. On 31 March 2023 the external debt for the Council was \$60.025m (includes \$1m of pre-funded debt) and \$75.688m including the loan from HBRIC.
17. Since the December 2022 quarter, \$10m of short term borrowings were made to assist with the increased cash requirements following Cyclone Gabrielle.
18. The following summarises the year-to-date movements in Council’s debt position.

Summary of HBRC Debt

	HBRC only	HBRC Group
Opening Debt – 1 July 2022 – excl HBRIC Loan	46,725	46,725
New Loans raised	18,450	18,450
Less amounts repaid	(5,150)	(5,150)
Less pre-funded debt	(1,000)	(1,000)
Closing Debt 31 March 2023 (excluding HBRIC loan)	59,025	59,025
Plus opening balance - loan from HBRIC	16,663	-
Total Borrowing as at 31 March 2023	75,688	59,025

19. Council debt maturity profile remains compliant, however, any further short term drawdowns will push the policy limit in the 0-3 year bucket. We intend to look at borrowing a tranche over a 4 year term to alleviate this position while we confirm the updated debt forecast.

Funding summary

Bucket (years)	Maturing in period (\$)	Policy	Actual
0 - 3	\$35,624,988	15% - 60%	52%
3 - 7	\$33,399,993	25% - 85%	48%
7 - 15	\$0	0% - 60%	0%
Total	\$69,024,981		100%

20. Please note the total in the infographic above includes our \$10m BNZ overdraft in total debt.
21. We currently are forecasting that a further \$30m is likely to be required in borrowings through to 30 June 2023.
22. Council interest rate risk position has previously been reported on against the 80% scenario of the debt forecast of the current adopted LTP. Given the increased debt requirements post cyclone Gabrielle this is now assessed against the full LTP forecast until a new debt forecast is confirmed.
23. Due to the movement in how we were assessing the interest rate risk, this has temporarily pushed the lower term buckets out of policy parameters.
24. Our action to rectify this is to confirm our new debt forecast and the transact new interest rate swaps which are currently at favourable levels below 4%.

Managed Funds

25. The LTP budgets an annual return of 5.16% from managed funds. Of this, 3.16% is used to fund activities with 2.0% retained to grow the capital base to enable the future earnings to protect the capital base for future generations (*page 33 of LTP – Part 3 – Financial Strategy*).
26. Council budgets separately for revenue from directly-held managed funds and those held by HBRIC. HBRIC is required to deliver an overall portfolio return by way of an agreed annual dividend agreed through an annual Statement of Intent. The composition (between revenues from managed funds and other sources such as port dividends is up to the HBRIC board). Council has budgeted to receive \$10.5m in dividends from HBRIC within the FY 2022-2023.
27. The Fund performances have improved this quarter with the three portfolios combined gaining \$5.53m after fees.
28. The following table summarises the fund balances at the end of this quarter compared with FY22.

	31 March 2022 \$000	31 March 2023 \$000
Fund Balances HBRC		
Fund Balance HBRC	104,449	108,451
Capital Protected Amount HBRC (2% compounded)	114,239	115,961
Current HBRC value below protected amount	(9,790)	(7,510)
Funds Balances (Group + HBRIC)		
Long-Term Investment Fund (HBRC)	45,679	47,409
Future Investment Fund (HBRC)	58,770	61,041
Total HBRC	104,449	108,451
Plus HBRIC	43,226	44,815
Total Group Managed Funds	147,675	153,266

Fund Balances HBRC	31 March 2022 \$000	31 March 2023 \$000
Capital Protected Amount (2% compound inflation)	162,720	165,173
Current group value below protected amount	(15,045)	(11,907)

Cost of funds

29. The last 12 months to 31 March 2023, Gross Cost of Funds (COF) was 3% and Net COF was 2.79%.

HBRC Ltd

30. In accordance with Council Policy, HBRC Ltd provides separate quarterly updates to the Corporate and Strategic Committee.

Decision Making Process

31. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision-making provisions do not apply.

Recommendation

That the Risk and Audit Sub-committee receives and notes the *Treasury Compliance Report for the period 1 January – 31 March 2023*.

Authored by:

Jess Bennett
Senior Manager - Finance Recovery

Chris Comber
Chief Financial Officer

Approved by:

Susie Young
Group Manager Corporate Services

Attachment/s

- 1 PWC Treasury Compliance Report 31 March 2023

Confidential
Under Separate Cover

Subject: Organisational Change Consolidation and Prioritisation Internal Audit findings

Reason for Report

1. This item provides the Risk and Audit Sub-committee (RAS) with the draft internal audit report on the Organisational Change Consolidation and Prioritisation audit undertaken by Crowe.

Officers' Recommendations

2. Council officers recommend that the sub-committee considers the planned actions to address the recommendations of the draft Audit report and agrees the medium findings that will be monitored and tracked as corrective actions via the Corrective Actions Dashboard.

Executive Summary

3. The previous Finance, Audit and Risk Sub-committee (now RAS) agreed the Enterprise Internal Audit Plan for 2022-2023 on 10 August 2022, which included this audit.
4. The audit was carried out by Crowe, our Internal Auditor, during the period 31 January – 10 February, interviewing a range of staff, and the draft report was delivered in March 2023.
5. The audit scope covered:
 - 5.1. Opportunities to strengthen decision making to ensure organisational change effectively drives the creation of value while ensuring the organisation is protected from undue risk, e.g. impact on people, compliance, etc, which is sometimes referred to as 'risk in change'.
 - 5.2. The audit did not cover the strategic decision-making process on each individual organisational change initiative and project management process as that was out of scope.
6. The Executive Leadership Team (ELT) has not reviewed the draft report at this time and it is anticipated that the Strategy & Governance team will be consulted (due to the majority of actions being for the Project Management Office) in the first instance on the findings, recommendations and actions.

Audit findings

7. There were no high priority findings observed. The report noted staff members interviewed had differing interpretations of what a change initiative is. In addition, the organisation has the correct tools to enable good project management going forward. The main themes of the findings for corrective action and improvement, included:
 - 7.1. A Lack of clear definitions relating to change initiatives
 - 7.2. Lack of formal policies relating to change and project management
 - 7.3. Development of a change management methodology
 - 7.4. Project management requirements
 - 7.5. Prioritisation of activities.

Decision Making Process

8. Council and its Committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 8.1. The decisions associated with this agenda item are in accordance with the Sub-committee's Terms of Reference, specifically:
 - 8.1.1. The purpose of the Risk and Audit Sub-committee is to report to the Corporate and Strategic Committee to fulfil its responsibilities for (1.3) the independence and adequacy of internal and external audit functions
 - 8.1.2. The Risk and Audit Sub-committee shall have responsibility and authority to (2.6) receive the internal and external audit report(s) and review actions to be taken by management on significant issues and recommendations raised within the report(s)
 - 8.1.3. The Risk and Audit Sub-committee is delegated by Council to (3.5) ensure that recommendations in audit management reports are considered and, if appropriate, actioned by management.

Recommendation

That the Risk and Audit Sub-committee:

1. Receives and notes the *Organisational Change Consolidation and Prioritisation Internal Audit findings* staff report.
2. Reports to the Corporate and Strategic Committee that the medium priority findings from the *Organisational Change Consolidation and Prioritisation Internal Audit* report that will be monitored and tracked as corrective actions and reported to the RAS via the Corrective Actions Dashboard are:
 - 2.1. ...
 - 2.2. ...
 - 2.3. ...

Authored by:

Olivia Giraud-Burrell
Quality & Assurance Advisor

Helen Marsden
Risk & Corporate Compliance Manager

Approved by:

Susie Young
Group Manager Corporate Services

Attachment/s

- 1 [!\[\]\(b6d55d0b173caf9b2505126db01e6158_img.jpg\)](#) Organisational Change Consolidation and Prioritisation draft Internal Audit report



Hawkes Bay Regional Council

Internal Audit – Organisational Change Consolidation
and Prioritisation

March 2023

Audit / Tax / Advisory

Smart decisions. Lasting value.

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1. Executive Summary

1.1 Objectives and scope

Today organisations work in a rapidly changing environment. Therefore, to ensure Council maximise opportunities to deliver more effectively its long-term plan and strategic objectives Council needs to prioritise several strategic organisational change initiatives.

The objectives of the audit will be to seek assurance that decisions made on 'when' to programme and 'how' to execute strategic organisational change initiatives effectively consider organisational impacts, opportunities, risks, resource constraints.

The audit will consider opportunities to strengthen decision making to ensure organisational change effectively drives the creation of value while ensuring the organisation is protected from undue risk, e.g., impact on people, compliance etc. The strategic decision-making process on each individual organisational change initiative and project management process is out of scope.

1.2 Summary of findings

Our review identified 5 medium risk findings. More detail on the risk rating scale is provided in the table in Appendix 3.

Indicator	Risk ratings	Findings
	High risk	-
	Medium risk	5
	Low risk	-
	Process improvement	-

Detailed findings and recommendations are included in Section 2 where actions are required.

1.3 Basis and Use of this Report

This report has been prepared in accordance with the scoping document dated May 2022 and subject to the limitations set out in Appendix 4 - Basis and Use of the Report.

2. Results and recommendations

2.1. Lack of clear definitions relating to change initiatives		Medium risk
Findings:	Recommendations	Agreed Management action(s)
<p>During our discussions with members of staff across the Council, we noted there were different interpretations of what a change initiative is.</p> <p>The Project Management Office has documented a definition of project terminology (see Appendix 1) including:</p> <ul style="list-style-type: none"> • Change Project • Repeatable Project • BAU Workstream/Activities <p>We noted that these definitions were not well-known or applied when initiating or undertaking projects to determine whether they are a change initiative/change project or not.</p> <p>For initiating projects we note that project initiation templates exist. However, these are defined as follows:</p> <ul style="list-style-type: none"> • Business Case Template (LTP or Major Projects) • Project Brief Template (Complex Projects) • Project Brief Template (Simple Projects) <p>We note that these project types do not align to the project definitions in Appendix 1 and as such it is unclear whether or how changes projects are identified and scoped in comparison to other non-change projects.</p> <p>In addition to this, the Strategy Team has developed work plans to identify all project work that is being undertaken at the Council. These projects are defined as Strategic Projects and Key Projects, although encompass change projects, repeatable projects and BAU activities.</p> <p>With unclear definitions applied, it is difficult for change initiatives to be identified and treated as such.</p>	<p>Clear definitions with regard to projects and change initiatives should be formalised and used consistently in the Council's various project management and work plan documents.</p> <p>Staff should be made aware of the definitions, including what constitutes a change project, and the requirements to be followed under each definition.</p>	<p>Actions</p> <p>Responsible person</p> <p>Date of implementation</p>

Organisational Change and Prioritisation

Hawkes Bay Regional Council

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2.2. Lack of formal policies relating to change and project management		Medium risk
Findings:	Recommendations	Agreed Management action(s)
<p>Whilst change management and project management frameworks and tools have been developed, there are no formal policies in place to determine the circumstances in which those frameworks must be applied (or where other frameworks such as ISO 55001, NZS 3910 etc) may be applied.</p> <p>A Project Management manual is currently in draft and under peer review although this is on hold as current events divert resources elsewhere.</p> <p>As such there is inconsistent use of the change and project management frameworks and tools.</p>	<p>The project management methodology that has been developed is fit for purpose and we recommend should be supported in its further development and implementation.</p> <p>The formalisation of policies and procedures as further noted in this report will be required to achieve this and sufficient time and resource for the Project Manager to further implement and integrate the methodology alongside other frameworks will be required</p>	<p>Actions</p> <p>Responsible person</p> <p>Date of implementation</p>

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2.3. Development of the change management methodology		Medium risk
Findings:	Recommendations	Agreed Management action(s)
<p>The Council first set up a change function and employed a change manager in 2021. For the first 12 months, the Change Manager was engaged directly on a limited number of large projects.</p> <p>As a result, the change manager has only in the past 12 months begun working on a more strategic change management framework and developing change competency and capability across the Council.</p> <p>The change management framework applied follows the PROSCI framework, a globally recognised change management methodology but aside from its application in a limited number of large projects, is currently in its infancy at the Council with awareness sessions currently being offered and provided to managers across the Council.</p> <p>Plans are in place to further develop the change management process and to integrate it with the project management methodology (where a project includes change).</p> <p>The Council's Change Manager estimates a 3 year timeframe to have the change management framework fully integrated, provided executive support remains and the Change Manager is able to focus on being a change 'enabler' rather than undertaking change management activity on projects himself.</p>	<p>The change management methodology that has been developed is fit for purpose and we recommend should be supported in its further development and implementation.</p> <p>The formalisation of policies and procedures as further noted in this report will be required to achieve this and sufficient time and resource for the Change Manager to implement and integrate the methodology will be required.</p>	<p>Actions</p> <p>Responsible person</p> <p>Date of implementation</p>

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2.4. Project Management Requirements		Medium Risk
Findings:	Recommendations	Agreed Management action(s)
<p>We note that the Business Case Template (LTP or Major Projects) and the Project Brief Template (Complex Projects) as referenced in Observation 2.1 above, both include requirements for the impact of change to be considered. However, we note the following:</p> <ul style="list-style-type: none"> The Project Management Office currently follows a decentralised model with only one FTE resource. The role of the PMO is to provide tools and guidance. However, managers are responsible for the methods and disciplines their teams apply to work and projects. The templates both note: "For projects with a high level of change we recommend that you consult with an experienced Change Manager or include a change management resource into budget of your project." <p>There is however no requirement to use the PMO templates and where, these are used, there is only a recommendation to consult with the change managers rather than a requirement to do so.</p> <ul style="list-style-type: none"> Additionally there is no requirement to apply the Council's risk management criteria in order to quantify the risk of completing/not completing the project on a consistent basis. In this respect there is a lack of consistency in being able to assess project risk across the council's portfolio of projects. 	<p>We recommend that the core project planning documents are completed for projects that (at the very least) reach the thresholds for LTP or Major Projects or Complex Projects regardless of the subsequent project management methodology that will subsequently be applied (e.g. the Council's PMO approach, ISO 55001, NZS 3910 etc).</p> <p>In this respect, consistent assessments of the levels of strategic alignment, change, organisational risk should be obtained.</p>	<p>Actions</p> <p>Responsible person</p> <p>Date of implementation</p>

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2.5. Prioritisation of activities		Medium Risk
Findings:	Recommendations	Agreed Management action(s)
<p>There is a lack of formal methodologies for determining how projects should be prioritised.</p> <p>We note that the Business Case Template (LTP or Major Projects) and the Project Brief Template (Complex Projects) as referenced in 2.1 above require consideration of strategic alignment, resources and dependencies, change and risk when planning the project.</p> <p>However, without the formal requirement for these documents to be used, key elements in determining the priority with which projects should be treated are missed.</p> <p>As a consequence, different departments apply their own methodologies for prioritising projects (for example ICT have undertaken RICE (reach, impact, confidence, effort) analyses to determine priorities, Integrated Catchment Management have undertaken a strategic alignment of their project portfolio to determine priorities.</p> <p>However, without consistent prioritisation methodologies used across the Council., the ability to assess project priorities on a Council-wide basis is limited.</p>	<p>As noted in Recommendation 2.4 above, we recommend that the core project planning documents are completed for projects that reach the thresholds for LTP or Major Projects or Complex Projects regardless of the subsequent project management methodology that will subsequently be applied (e.g. the Council's PMO approach, ISO 55001, NZS 3910 etc).</p> <p>Key areas to be considered are those that cover</p> <ul style="list-style-type: none"> • Strategic alignment • Resources and Dependencies • Change Management • Organisational Risks <p>On completion we recommend that the document is reviewed by the project sponsor alongside the Council's Project Manager, Change Manager, Risk Manager and other Managers where the Resources and Dependencies section considers resource will be required to determine a priority level on a consistently assessed basis to escalate to the ELT for approval.</p>	<p>Actions</p> <p>Responsible person</p> <p>Date of implementation</p>

Appendices

Appendix 1 – Project Management Terminologies for Projects

What's a project? Terminologies

Strategic		Operational	
Change Project	Repeatable Project	BAU Workstream/ Activities	
A discrete piece of work that introduces change by delivering a new product, service, or process (eg. FUSE, Customer Experience, Right Time Right Place, On-demand Public Transport)	Is an operational piece of work that is managed similarly to a change project by applying project management disciplines. However, it follows a trusted method/ repeatable model (eg. Long Term Plan writing, possum control, asset renewals, elections)	Standard function operations (eg. SoE: River Levels & Flows Monitoring, Consents, Pollution Response, Rivers and Estuaries Water Quality Monitoring)	
Is temporary with defined start and end dates	Is temporary with defined start and end dates	Is continuous in response to demand	
Has an allocated budget (usually CapEx)	Is usually subject to the operating budget (usually OpEx)	Is subject to the operating budget (OpEx)	
Requires a dedicated project team and typically has interdependencies with other functions (eg. IT, Comms & Engagement, Risk)	Led by Section, but can be cross-functional, as typically has interdependencies with other teams across the organisation (eg. Finance, Strategy & Performance, Comms & Engagement)	Is the responsibility of a range of people as time and workloads allow	
Has a specific structure for managing unknown risks, issues and dependencies, quality, and controlling changes	Has predictable elements to minimize or eliminate risks, and assure quality	Risk, quality, issues, dependencies and changes are managed through everyday standard operating processes	

Appendix 2 – Staff Interviewed

Name	Role
Chris Dolley	Group Manager Asset Management
Andrew Siddles	Chief Information Officer
Chris Comber	Chief Financial Officer
Julie-Anne Macphee	Project Manager
Tom Price-Walker	Change Manager
Desiree Cull	Strategy & Governance Manager
Sarah Bell	Team Leader Strategy and Performance
Helen Marsden	Risk & Corporate Compliance Manager
Jolene Townshend	Manager Catchment Operations
Gavin Ide	Principal Advisor Strategic Planning
Malcolm Miller	Manager Consents
Ken Mitchell	Asset Management Engineer

Appendix 3 – Classification of internal audit findings

Risk ratings are based on the use of professional judgement to assess the extent to which deficiencies could have an effect on the performance of systems and controls of a process to achieve an objective.

Rating	Definition	Guidance	Action required
High	Issue represents a control weakness, which could cause or is causing major disruption of the process or major adverse effect on the ability of the process to achieve its objectives.	Material errors and departures from the organisation's policies and procedures Financial management / accountability / probity concerns Non-compliance with governing legislation and regulations may result in fines or other penalties Collective impact of many moderate or low issues	Requires significant senior management intervention and may require significant mobilisation of resources, including external assistance. Ongoing resource diversionary potential. Requires high priority to immediate action
Medium	Issue represents a control weakness, which could cause or is causing moderate adverse effect on the ability of the process to meet its objectives.	Events, operational, business and financial risks that could expose the organisation to losses that could be marginally material to the organisation Departures from best practice management procedures, processes	Requires substantial management intervention and may require possible external assistance. Requires prompt action.
Low	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.	Events, operational and business risks that could expose the organisation to losses which are not material due to the low probability of occurrence of the event and insignificant impact on the operating capacity, reputation and regulatory compliance Departures from management procedures, processes, however, appropriate monitoring and governance generally mitigates these risks.	Requires management attention and possible use of external resources. Requires action commensurate with the process objective.
Process Improvement	Audit recommendation is for improving already existing processes and controls.	Potential improvements in efficiency and effectiveness of existing process and controls which already demonstrate compliance with procedures and legislation	Recommendations made for management consideration and implementation as determined by management.

Appendix 4 - 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.
- 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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10 May 2023

Subject: Audit Plan for the 2022-2023 Annual Report

Reason for Report

1. This item provides an update on the timing for the audit of HBRC's 2022-2023 Annual Report.

Executive Summary

2. The statutory deadline for the adoption of the HBRC Annual Report is 31 October 2023.
3. Our auditors, Ernst & Young (EY), will undertake an interim visit during the week beginning 8 May and will begin the audit in the week beginning 18 September 2023.
4. The Audit Planning Report from EY will follow as a late attachment to the agenda, and representatives from EY will attend the RAS meeting to present their Audit Plan and take questions.

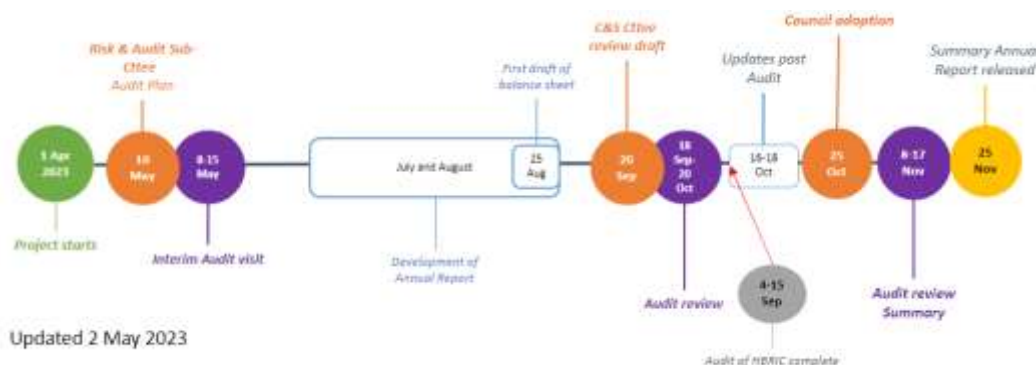
Background /Discussion

5. The audit and adoption of the Annual Report follows timelines set out in the Local Government Act 2002.
 - 5.1. Section 98 (3) states that the annual report of a Council "*must be completed and adopted, by resolution, within 4 months after the end of the financial year to which it relates*".
6. Officers have had discussions with our auditors, EY, about audit timing (see table below). This may change as our auditors refine their work plans and resourcing.

Dates	Description
w/b 8 May to w/b 15 May 2023	Audit interim visit will be conducted (4 people onsite for 2 weeks to complete the interim work for HBRC, HBRIC and FoodEast)
w/b 4 Sep to w/b 11 Sep 2023	Audit of HBRIC and FoodEast (2 weeks)
w/b 18 Sep to w/b 16 Oct 2023	Audit of the annual report (2 weeks onsite, remainder from Wellington)

7. Staff have a level of uncertainty that the timing of the audit and the proposed date for adoption can be achieved.
8. A draft Annual Report 2022-2023 will be presented to the Corporate and Strategic Committee on 20 September for review.

Timeline of Annual Report and Summary project management



Financial and Resource Implications

9. Staff do not expect the cost of the audit for 2022-2023 to exceed the budget allocated for the audit programme.

Decision Making Process

10. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision-making provisions do not apply.

Recommendation

That the Risk and Audit Sub-Committee receives and notes the *Audit Plan for the 2022-2023 Annual Report*.

Authored by:

Sarah Bell
Team Leader Strategy & Performance

Chelsea Spencer
Senior Group Accountant

Approved by:

Chris Comber
Chief Financial Officer

Susie Young
Group Manager Corporate Services

Attachment/s

There are no attachments for this report.

10 May 2023

Subject: Enterprise Risk Report

That the Risk and Audit Sub-committee excludes the public from this section of the meeting, being Agenda Item 8 Enterprise Risk Report with the general subject of the item to be considered while the public is excluded. The reasons for passing the resolution and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are:

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

Authored by:

Helen Marsden
Risk & Corporate Compliance Manager

Approved by:

Susie Young
Group Manager Corporate Services

Hawke's Bay Regional Council

Risk & Audit Sub-committee

10 May 2023

Item 9

Subject: Internal Assurance corrective actions update

That the Risk and Audit Sub-committee excludes the public from this section of the meeting, being Agenda Item 9 Internal Assurance corrective actions update with the general subject of the item to be considered while the public is excluded; the reasons for passing the resolution and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution being:

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

Authored by:

Olivia Giraud-Burrell
Quality & Assurance Advisor

Helen Marsden
Risk & Corporate Compliance Manager

Approved by:

Susie Young
Group Manager Corporate Services

HAWKE'S BAY REGIONAL COUNCIL

Risk & Audit Sub-committee

10 May 2023

Item 10

Subject: Privacy event

That the Risk and Audit Sub-committee excludes the public from this section of the meeting, being Agenda Item 10 Privacy event with the general subject of the item to be considered while the public is excluded. The reasons for passing the resolution and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are:

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

Authored by:

Helen Marsden
Risk & Corporate Compliance Manager

Approved by:

Susie Young
Group Manager Corporate Services