

**Audit and Risk Subcommittee**  
**Wednesday 29 June 2022 at 10.00am**

**AGENDA**

## Audit and Risk Subcommittee Agenda

Meeting to be held in the Council Chamber  
36 Water Street, Whangārei  
on Wednesday 29 June 2022, commencing at 10.00am

**Recommendations contained in the agenda are NOT decisions of the meeting. Please refer to minutes for resolutions.**

### MEMBERSHIP OF THE AUDIT AND RISK SUBCOMMITTEE

Chairperson, Colin Kitchen

Councillor Amy Macdonald

Councillor Joce Yeoman

Councillor Rick Stolwerk

Ex-Officio Penny Smart

Independent Advisor Stuart  
Henderson

### KARAKIA / WHAKATAU

#### RĪMITI (ITEM)

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#### 1.0 NGĀ MAHI WHAKAPAI/HOUSEKEEPING

#### 2.0 NGĀ WHAKAPAHĀ/APOLOGIES

#### 3.0 NGĀ WHAKAPUAKANGA/DECLARATIONS OF CONFLICTS OF INTEREST

#### 4.0 NGĀ WHAKAAE MINITI (CONFIRMATION OF MINUTES)

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7.1 Confirmation of Confidential Minutes - 30 March 2022

**TITLE:** Confirmation of Minutes - 30 March 2022

**From:** Judith Graham, Corporate Services P/A

**Authorised by  
Group Manager/s:** Bruce Howse, Pou Taumatua – Group Manager Corporate Services, on

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### **Ngā mahi tūtohutia / Recommendation**

That the minutes of the Audit and Risk Subcommittee meeting held on 30 March 2022, be confirmed as a true and correct record.

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### **Attachments/Ngā tapirihanga**

Attachment 1: Audit and Risk Subcommittee minutes 30 March 2022 [↓](#) 

Audit and Risk Subcommittee  
30 March 2022

## Audit and Risk Subcommittee Minutes

Meeting held in the Held remotely  
on Wednesday 30 March 2022, commencing at 10.00am

### Tuhinga/Present:

Chairperson, Colin Kitchen  
Councillor Amy Macdonald  
Councillor Joce Yeoman  
Councillor Rick Stolwerk  
Ex-Officio Penny Smart  
Independent Audit & Risk Advisor Danny Tuato'o  
Independent Finance Advisor Stuart Henderson

### I Tae Mai/In Attendance:

#### Full Meeting

Pou Taumatua - GM Corporate Services – Bruce Howse  
Tumuaki – Chief Executive Officer – Malcolm Nicolson  
Finance Manager – Simon Crabb  
Personal Assistant Corporate Services – Judy Graham

#### Part Meeting

Human Resources Manager – Beryl Steele  
Corporate Systems Champion – Kym Ace  
Corporate Strategy Manager – Kyla Carlier  
Deloitte Partner – Peter Gulliver  
Deloitte Forensic I Risk Advisory – Ian Tuke  
Deloitte Associated Director I Forensic I Risk Advisory – Dominic Salmon

The Chair declared the meeting open at 10.03am with a Karakia by Independent Audit & Risk Advisor

### Ngā Mahi Whakapai/Housekeeping (Item 1.0)

### Ngā whakapahā/Apologies (Item 2.0)

There were no apologies.

### Nga whakapuakanga/Declarations of Conflicts of Interest (Item 3.0)

It was advised that members should make declarations item-by-item as the meeting progressed.

Audit and Risk Subcommittee  
30 March 2022

### **Confirmation of Minutes - 24 November 2021 (Item 4.1)**

**Report from Judith Graham, Corporate Services P/A**

**Moved(Smart / Yeoman)**

That the minutes of the Audit and Risk subcommittee meeting held on 24 November 2021 be confirmed as a true and correct record.

**Carried**

### **Internal Audit Schedule (Item 5.1)**

**Report from Judith Graham, Corporate Services P/A**

**Moved (Kitchen / Macdonald)**

That the report 'Internal Audit Schedule' by Judith Graham, Corporate Services P/A and dated 11 January 2022, be received.

**Carried**

*Secretarial Note: Item 5.2 Audit Fee Proposal For Year Ending 30 June 2022 and 30 June 2023 was addressed following Item 5.3 Deloitte -Fraud and Corruption Risk Assessment*

### **Audit Fee Proposal For Year Ending 30 June 2022 and 30 June 2023 (Item 5.2)**

**Report from Bruce Howse, Pou Taumatua – Group Manager Corporate Services**

**Moved (Stolwerk / Smart)**

1. That the report 'Audit Fee Proposal For Year Ending 30 June 2022 and 30 June 2023' by Bruce Howse, Pou Taumatua – Group Manager Corporate Services and dated 11 February 2022, be received.
2. That the subcommittee recommend to council the approval of **base** audit fees of \$156,300 for FY22 and a further \$15k in audit fees for the Enterprise Project implementation workstream.
3. That the subcommittee recommend to council the approval of **base** audit fees of \$178,800 for FY23 and a further \$25k in audit fees for the Enterprise Project implementation workstream.
4. That the subcommittee recommend to council the agreement in principle to the approach outlined in the **attached** Deloitte proposal for the setting of audit fees for FY24 and FY25.

**Carried**

Northland Regional Council counteroffer 2023 audit fees was accepted by Deloitte and approved by the AOG.

Fee proposal for 2023 has now been included.

Setting principles and guidelines on fees going forward 2024 and 2025.

Deloitte Partner Peter Gulliver advised the Subcommittee that he would be stepping down at the end of this year due to the rotation rule.

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## **Deloitte - Fraud and Corruption Risk Assessment (Item 5.3)**

### **Report from Simon Crabb, Finance Manager**

#### **Moved (Stolwerk / Smart)**

1. That the report 'Deloitte - Fraud and Corruption Risk Assessment' by Simon Crabb, Finance Manager and dated 11 January 2022, be received.

#### **Carried**

*Secretarial Note: additional recommendation added to item 5.3*

#### **Moved (Kitchen / Smart)**

2. Subcommittee support the implementation of the recommendation outlined in the fraud and corruption report by Deloitte.

#### **Carried**

Deloitte Forensic I Risk Advisory Ian Tuke and Deloitte Associated Director I Forensic I Risk Advisory Dominic Salmon went through the fraud and corruption risk assessment presentation with the subcommittee which included the fraud gap analysis, survey and workshops outcomes.

#### **Actions:**

- Councillors to receive fraud awareness training 2-3 hour workshop
- Complete review of strengthen the Fraud limitation officer role – and who they report to in the organisation.
- Continue with implementation of the whistle blower independent phone line.
- GM Corporate Services to start implementing recommendations from the Deloitte fraud and corruption risk assessment report outlined on pages 34-36 of the report.

## **Internal Audit Update - Kaipara District Council Rating Review (Item 5.4)**

### **Report from Simon Crabb, Finance Manager**

*Secretarial Note: Subcommittee confirms receiving via email Tuesday 29 March updated Rates review – Kaipara District Council.*

#### **Moved (Stolwerk / Kitchen)**

- That the report 'Internal Audit Update - Kaipara District Council Rating Review' by Simon Crabb, Finance Manager and dated 4 March 2022, be received.

#### **Carried**

Deloitte Partner – Peter Gulliver spoke to the subcommittee on the finding of the recent Kaipara District Council review.

Finding were consistent to that of Far North District Council is that far to many people had access to the rating system. Deloitte has recommended and Kaipara District Council has agreed to reduce the number of staff having access to the rating system.

Deloitte Partner – Peter Gulliver highlighted to the Subcommittee the issue with the Kaipara District Council Rating system on the allocation of part payments, with part payments first allocated to Kaipara District Council.

#### **Action:**

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- GM Corporate Services to follow up on Far North District Council on the progression on modifying their rating system.
- Rating service agreements to be modified to include appropriate allocation methodology for 2022/2023 of all Territorial Authorities.

### **Internal Audit Maturity Assessment (Item 5.5)**

#### **Report from Bruce Howse, Pou Taumatua – Group Manager Corporate Services**

1. That the report 'Internal Audit Maturity Assessment' by Bruce Howse, Pou Taumatua – Group Manager Corporate Services and dated 12 January 2022, be received.

Subcommittee have agreed not to accept item 5.5 Internal Audit Maturity Assessment report as general consensus of the Subcommittee felt there was missing information that would have likely alter the outcome of the assessment.

#### **Moved (Stolwerk/Smart)**

Internal Audit Maturity Assessment (item 5.5) to remain laid on the table until a further review has been completed.

#### **Carried**

**Action:** GM Corporate Services, Chief Executive Officer, Independent Audit & Risk Advisor Independent Finance Advisor to meet with Deloitte Partner – Peter Gulliver for future discussion and tightening up the wording on the report.

### **Investment Policy Revision - Incorporate Protocols for Reporting Investment Fund Gains/Losses (Item 5.6)**

#### **Report from Simon Crabb, Finance Manager**

#### **Moved (Kitchen / Stolwerk )**

1. That the report 'Investment Policy Revision - Incorporate Protocols for Reporting Investment Fund Gains/Losses' by Simon Crabb, Finance Manager and dated 15 March 2022, be received.
2. That the subcommittee endorse that the proposed changes presented in this report are incorporated into councils Investment Policy

#### **Carried**

#### **Action:**

- Gains and losses to be explained to whole Council for a better understanding on the long term investment.
- More thinking to be done around the amount of reserve to be transferred – historical gains last 3 to 5 year and report back to the subcommittee.

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## **Local Government Funding Agency (LGFA) Presentation & Funding Strategy Considerations (Item 5.7)**

**Report from Simon Crabb, Finance Manager**

**Moved (Kitchen /Stolwerk)**

That the report 'Local Government Funding Agency (LGFA) Presentation & Funding Strategy Considerations' by Simon Crabb, Finance Manager and dated 17 March 2022, be received.

**Carried**

Finance Manger spoke to the Subcommittee and highlighted it would be more prudent for Council to consider using own council money to fund project instead of borrowing funds from the Local Government Funding Agency when interest rates hit a certain threshold.

**Action:** Workshop and work with the Investment and Property Subcommittee to look at a new long term strategy on how we fund projects in a changing environment.

## **Risk Management Activity Update (Item 5.8)**

**Report from Kym Ace, Corporate Systems Champion**

**Moved (Stolwerk / Macdonald)**

1. That the report 'Risk Management Activity Update' by Kym Ace, Corporate Systems Champion and dated 2 December 2021, be received.
2. That changes to the Risk Management Policy and Framework be approved

**Carried**

Corporate Systems Champion spoke to the subcommittee about the Risk management activity.

**Action:**

- Review item 5 Investment portfolio financial risk.
- Councillor Smart to meet with Independent Audit & Risk Advisor Danny Tuato'o and Chief Executive Office to do more work on overview of the inherit risk and residual risks and take back to Council.

## **Risk Deep Dive on workload and Capability and Operational capacity to manage events and directives (Item 5.9)**

**Report from Kym Ace, Corporate Systems Champion**

**Moved (Stolwerk / Smart )**

- 12.261. That the report 'Risk Deep Dive on workload and Capability and Operational capacity to manage events and directives' by Kym Ace, Corporate Systems Champion and dated 11 January 2022, be received.

**Carried**

Corporate Systems Champion advised that the two deep dive completed were amalgamated together due to overlap.

GM Corporate Service advised the Subcommittee on work the Executive leadership team is doing around staff workloads as this again has been identified as one of the top staff stress indicated in the all staff stress survey.

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Subcommittee support the work and treatment that has been noted in the report.

**Action:** Executive leadership team to bring back to council to workshop on what work has been identify that potentially staff can stop, pause, defer.

## **Health and Safety Update (Item 5.10)**

**Report from Beryl Steele, Human Resources Manager**

**Moved (Macdonald / Stolwerk )**

1. That the report 'Health and Safety Update' by Beryl Steele, Human Resources Manager and dated 2 December 2021, be received.

**Carried**

Human Resources Manager gave an update regarding the replacement of Health and Safety Advisor role currently unable to find person who is the right fit for the organisation.

**Action:** Human Resources Manager to relook at risk ranking Extended workload/stress as noted as a residual score 9.

## **Insurance Summary 2021/2022 (Item 5.11)**

**Report from Judith Graham, Corporate Services P/A**

**Moved ( Stolwerk / Macdonald)**

- That the report 'Insurance Summary 2021/2022' by Judith Graham, Corporate Services P/A and dated 11 January 2022, be received.

**Carried**

GM Corporate Service advise the subcommittee that there has been an 8.1% increase in the insurance premium.

## **Kaupapa ā Roto/Business with Public Excluded (Item 6.0)**

**Moved ( Stolwerk / Macdonald )**

1. That the public be excluded from the proceedings of this meeting to consider confidential matters.
2. That the general subject of the matters to be considered whilst the public is excluded, the reasons for passing this resolution in relation to this matter, and the specific grounds under the Local Government Official Information and Meetings Act 1987 for the passing of this resolution, are as follows:

Item No.	Item Issue	Reasons/Grounds
6.1	Confirmation of Confidential Minutes - 24 November 2021	The public conduct of the proceedings would be likely to result in disclosure of information, as stated in the open section of the meeting -

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6.2	Cyber Security update	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information s7(2)(b)(ii) and the withholding of which is necessary to prevent the disclosure or use of official information for improper gain or improper advantage s7(2)(j).
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3. That the Independent Advisors be permitted to stay during business with the public excluded.

**Carried**

### **Whakamutunga (Conclusion)**

**The meeting concluded at 12.29pm** led by a Karakia by Independent Audit & Risk Advisor Danny Tuato'o .

Unconfirmed Minutes

**TITLE:**                   **Receipt of Action Sheet**

**From:**                    Judith Graham, Corporate Services P/A

**Authorised by**           Bruce Howse, Pou Taumatua – Group Manager Corporate Services, on  
**Group Manager/s:**

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**Whakarāpopototanga / Executive summary**

The purpose of this report is to enable the meeting to receive the current action sheet.

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**Nga mahi tutohutia / Recommendation**

That the action sheet be received.

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**Attachments/Ngā tapirihanga**

Attachment 1: Audit and Risk Subcommittee Action Sheet [↓](#) 

**Outstanding Actions as at 17/06/2022**

Id	Meeting	Target Date	Officer Responsible	Description	Request Details	Most Recent Comment
6480	Audit and Risk Subcommittee 30/03/2022	13/04/22	Crabb, Simon	Deloitte - Fraud and Corruption Risk Assessment	<ul style="list-style-type: none"> <li>• Councillors to receive fraud awareness training 2-3 hour workshop.</li> <li>• Complete review of strengthen the Fraud limitation officer role – and who they report to in the organisation.</li> <li>• Continue with implementation of the whistle blower independent phone line.</li> <li>• GM Corporate Services to start implementing recommendations from the Deloitte fraud and corruption risk assessment report outlined on pages 34-36 of the report.</li> </ul>	<p>In progress, will arrange for new council</p> <p>Completed</p> <p>Completed using crime stoppers</p> <p>Planned and in progress</p>
6481	Audit and Risk Subcommittee 30/03/2022	13/04/22	Crabb, Simon	Internal Audit Update - Kaipara District Council Rating Review	<p>GM Corporate Services to follow up on Kaipara District Council on the progression on modifying their rating system.</p> <p>Rating service agreements to be modified to include appropriate allocation methodology for 2022/2023 of all Territorial Authorities.</p>	Letter sent to KDC rating agreements have been modified
6483	Audit and Risk Subcommittee 30/03/2022	13/04/22	Crabb, Simon	Investment Policy Revision - Incorporate Protocols for Reporting Investment Fund Gains/Losses	Gains and losses to be explained to whole Council for a better	Adding an extra table on the agenda to explain impact of externally managed fund gains or losses.

**Outstanding Actions as at 17/06/2022**

					understanding on the long-term investment.	
6485	Audit and Risk Subcommittee 30/03/2022	13/04/22	Ace, Kym	Risk Management Activity Update	Review item 5 Investment portfolio financial risk., Councillor Smart to meet with Independent Audit & Risk Advisor Danny Tuato'o and Chief Executive Office to do more work on overview of the inherit risk and residual risks and take back to Council.	Yet to be actioned to addressed at next Audit and Risk Subcommittee meeting 29 June

**TITLE:** Internal Audit Schedule

**From:** Judith Graham, Corporate Services P/A

**Authorised by Group Manager/s:** Bruce Howse, Pou Taumatua – Group Manager Corporate Services, on

### Whakarāpopototanga / Executive summary

The internal audit schedule, as adopted by the Subcommittee, is provided in Table 1.

The schedule shows the timing for each internal audit item and a status update on progress.

All items scheduled for 2020/21 have been completed and work is in progress and on track for all items scheduled for 2021/22.

### Ngā mahi tūtohutia / Recommendation

That the report 'Internal Audit Schedule' by Judith Graham, Corporate Services P/A and dated 16 June 2022, be received.

### Background/Tuhinga

**Table 1. Internal Audit Schedule**

Key				
Complete		Underway	Deferred	Not Started
Year	Item	Status		
2020/21	FNDC rates collection, audit to confirm robustness of collection of NRC rate revenue and general title arrears recovery process.	Audit complete. Findings reported to Subcommittee in June 2021. FNDC have implanted audit recommendations in part, some still work in progress. Further follow up has been initiated.		
2020/21	Human resources procedures.	Audit complete. Findings reported to Subcommittee in September 2021. Findings will be implemented through Human Resources work programme.		
2020/21	Fraud control environment (counter-fraud gap analysis).	Audit complete. Findings reported to Subcommittee in June 2021. Additional work underway to strengthen control environment.		
2020/21	Insurance – AON insurable risk review.	Audit complete. Findings presented to Subcommittee in December 2020. Insurance renewals due November 2021.		
2021/22	KDC rates collection, audit to confirm robustness of collection of NRC rate revenue and general title arrears recovery process.	Complete. Letter sent to KDC requesting update on progress with actions, KDC to respond in the new financial year.		
2021/22	Property management.	Work in progress. Findings to be reported to Subcommittee in mid/late-2022.		
2021/22	Risk management.	Deferred. Replaced with 'Fraud and Corruption Risk Assessment' as reported to Subcommittee in June 2021. Potential to undertake in 22/23 or 23/24.		

2021/22	Procurement.	Deferred. Replaced with 'Strengthen the Management of Third parties' as reported to Subcommittee in June 2021. Potential to undertake in 22/23 or 23/24.
2021/22	Fraud and Corruption Risk Assessment.	Complete and actions implemented.
2021/22	Strengthen the Management of Third parties.	Complete and action implemented.
2022/23	WDC rates collection, audit to confirm robustness of collection of NRC rate revenue and general title arrears recovery process.	Work to commence in 2022/23.
2022/23	Externally managed funds – SIPO, governance, reporting, treasury management.	Work to commence in 2022/23.
2022/23	Legislative compliance.	Work to commence in 2022/23.

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### Attachments/Ngā tapirihanga

Nil

**TITLE:**                   **Audit Plan FY22**

**From:**                   Bruce Howse, Pou Taumatua – Group Manager Corporate Services

**Authorised by**           Bruce Howse, Pou Taumatua – Group Manager Corporate Services, on  
**Group Manager/s:**

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### **Whakarāpopototanga / Executive summary**

The audit plan for FY22 is attached.

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### **Ngā mahi tūtohutia / Recommendation**

That the report 'Audit Plan FY22' by Bruce Howse, Pou Taumatua – Group Manager Corporate Services and dated 11 April 2022, be received.

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### **Background/Tuhinga**

Nil.

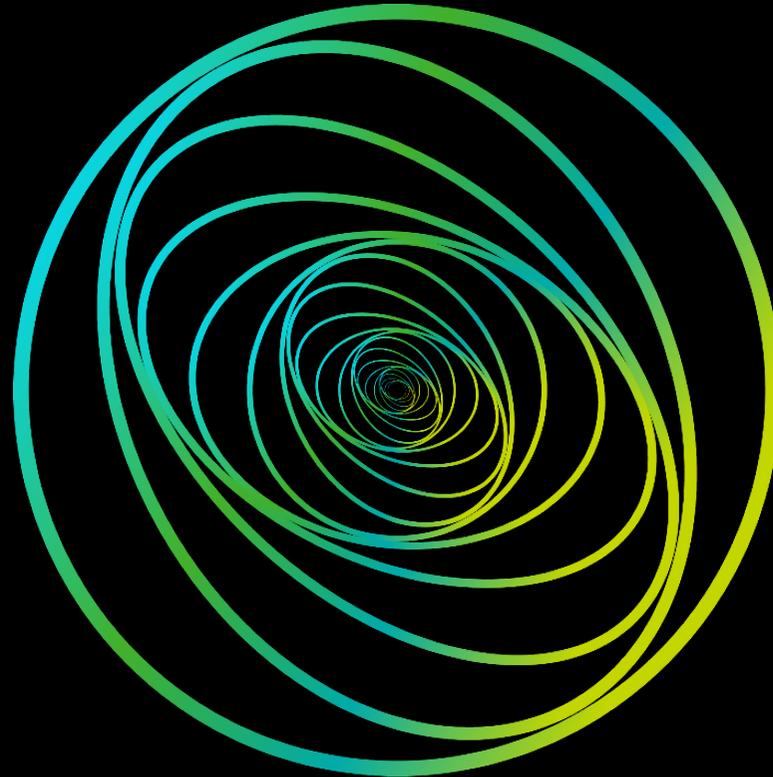
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### **Attachments/Ngā tapirihanga**

Attachment 1: Audit Plan FY22 [↓](#) 

**Deloitte.**



# Northland Regional Council

**Planning report to the Audit and Risk  
Subcommittee**

**2022 audit**

8 April 2022

### **Purpose of report**

*This report has been prepared for Northland Regional Council's Audit and Risk Subcommittee (ARC) and is part of our ongoing discussions as auditor in accordance with our engagement dated 17 June 2020 and as required by New Zealand auditing standards.*

*This plan is intended for the ARC (and other Council members) and should not be distributed further. We do not accept any responsibility for reliance that a third party might place on this report should they obtain a copy without our consent.*

*This report includes only those matters that have come to our attention as a result of performing our audit procedures to date and which we believe are appropriate to communicate to the ARC. The ultimate responsibility for the preparation of the financial statements rests with the Councillors.*

### **Responsibility statement**

*We are responsible for conducting an audit of Northland Regional Council for the year ended 30 June 2022 in accordance with the Office of the Auditor General's (OAG) auditing standards which incorporate New Zealand auditing standards issued by the NZ Auditing and Assurance Standards Board. Our audit is performed pursuant to the requirements of the Local Government Act 2002 with the objective of forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Council. The audit of the financial statements does not relieve management or the Councillors of their responsibilities.*

*Our audit is not designed to provide assurance as to the overall effectiveness of the Group's controls but we will provide you with any recommendations on controls that we may identify during the course of our audit work.*

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## 1. Executive summary

## 2. Our Audit

A. Our audit explained

B. Identifying the areas of audit focus

C. Areas of audit focus

D. Continuous communication and reporting

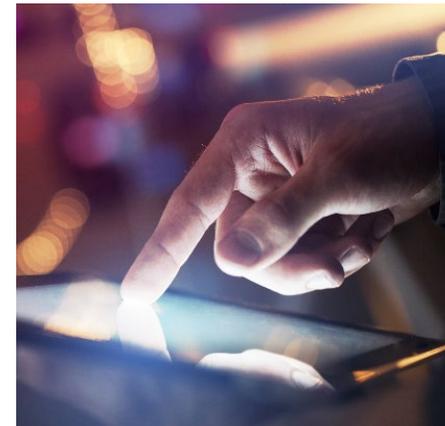
## 3. Other reporting matters

A. Fraud responsibilities and representations

B. OAG requirements

C. Group Audit Considerations

D. Purpose of Report and Responsibility Statement



To navigate within this report, you may click on the icons on the right-hand side of the page



# 1. Executive summary

Thank you for the opportunity to present our audit plan for the financial statement audit of Northland Regional Council (the 'Group') for the year ending 30 June 2022.

This report is designed to outline our respective responsibilities in relation to the audit, to present our audit plan and to facilitate a two-way discussion on the plan presented. Our report includes:

- Our audit plan, including key areas of audit focus and our planned procedures; and
- Key accounting, regulatory and corporate governance updates, relevant to you.

We have an evolving audit plan that is established with input from management. The audit plan is tailored to the Group's environment and revised throughout the year to adjust for business developments, additional relevant matters arising, changes in circumstances and findings from activities performed.

This plan is intended for the Audit and Risk Subcommittee (ARC), and other Councillors, and should not be distributed further.

As previously communicated this is my last year as your Appointed Auditor. We have been working with the OAG on the rollover of Deloitte's contract to continue as your auditor and are pleased to report that Bennie Greyling has been approved as your Appointed Auditor for the period FY23-25. I will introduce Bennie to management and the ARC during the FY22 audit.

We appreciate the opportunity to serve the Group. We hope the accompanying information will be useful to you, and we look forward to answering your questions about our plan.



Peter Gulliver  
**Partner**  
**for Deloitte Limited**  
**On behalf of the Auditor General**  
**Auckland | 8 April 2022**



## Key areas of audit focus

Our current assessment of the key areas of audit focus are as follows:

Asset valuations and assessment of carrying value	🔄
Governance and valuation of investment assets	🔄
Validity of fees and charges revenue	🔄
Management's ability to override controls	🔄
Rates Setting – legislative compliance	🔄
Investment in subsidiaries and associates	*

We comment further on these key areas of audit focus in Part 2C of this report.

- 🔄 Consistent with the prior year      \* New area of focus



## Items for consideration

We look forward to discussing our audit plan with you and are interested in your views on the following matters:

- Any concerns regarding internal controls, including completeness over related parties;
- Any risk matters, including fraud, affecting the financial statements;
- The assessment of materiality;
- Any other matters that should be brought to our attention.

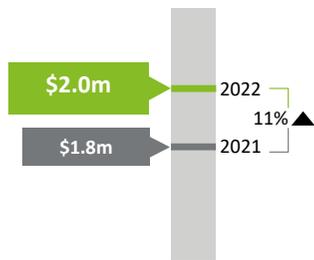


# 1. Executive summary (cont.)



## Planning materiality

Based on expected results of the Group, our quantitative planning materiality for the 2022 audit is as follows:



The planning materiality was determined based on a percentage of expected total expenses and consideration of other factors using our professional judgement.

Based on our planning materiality, we will report to you all misstatements found in excess of \$0.1 million. This is based on 5% of our materiality level. We will report to you misstatements below this threshold if we consider them to be qualitatively material in nature.

We comment further on our determination of materiality in Part 2B of this report.



## Group audit scoping

### Scope

Marsden Maritime Holdings Limited (audited by EY on behalf of the OAG)	●
Northland Inc Limited (audited by Deloitte on behalf of the OAG)	●

- Subject to full scope audit (as financial significant and/or statutory requirement)
- Significant due to risk, subject to audit of specified account balances
- Non-significant, subject to analytical procedures or review

Further details relating to our Group audit consideration are outlined in Section 3B.

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## Quality and Independence

We take our independence and the quality of the audit work we perform very seriously. We confirm that we have maintained our independence in accordance with Professional and Ethical Standards.

All non audit services are deemed to be of an assurance nature and have been pre-approved by the OAG. We will report back on all services and fees in our final report



## Other matters of interest - OAG

### Managing conflicts of interest and related party transactions

Councils are required to ensure that there are appropriate procedures in place to identify and manage conflicts of interest and that related party disclosures in the financial statements are complete.

### Fraud

The primary responsibility for the prevention and detection of fraud rests with management of the Council, including designing, implementing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As your auditor, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

### Performance, waste and probity

Ensuring that Parliament's expectations are met with respect to use of rate payer funds is a key feature of any audit in the public sector.

### Financial prudence

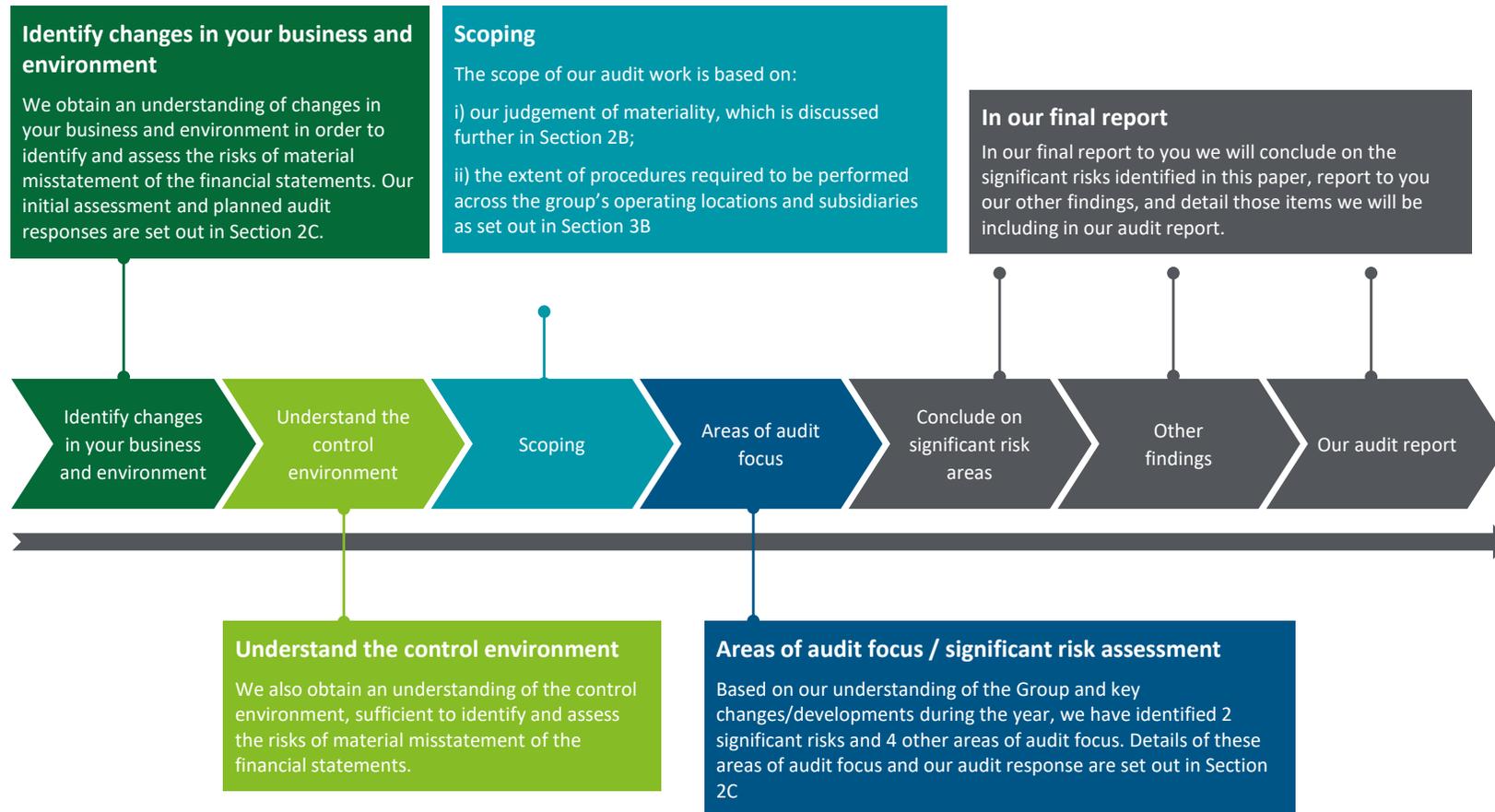
Councils are required to include appropriate benchmarking reporting in the Annual Report as required by the Local Government (Financial Reporting and Prudence) Regulations 2014.



## 2. Our audit



## 2A. Our audit explained – a tailored approach



## 2B. Identifying the areas of audit focus

### Identification of audit risks

Our audit approach is underpinned by the identification of relevant audit risks and tailoring appropriate audit responses to address those risks. We consider a number of factors when deciding on the significant areas of audit focus, such as:

- the risk assessment process undertaken during the planning phase of our engagement;
- our understanding of the business risks faced by the Group;
- discussions with management during the course of our audit;
- the significant risks and uncertainties previously reported in the financial statements, including any critical accounting estimates or judgements;
- our assessment of materiality; and
- any changes in the business and the environment it operates in since the last annual report and financial statements.

The next page summarises the significant risks and other areas that we will focus on during our audit.

We continually update our risk assessment as we perform our audit procedures, so our areas of audit focus may change. We will report to you on any significant changes to our assessment as part of our final report to the ARC.

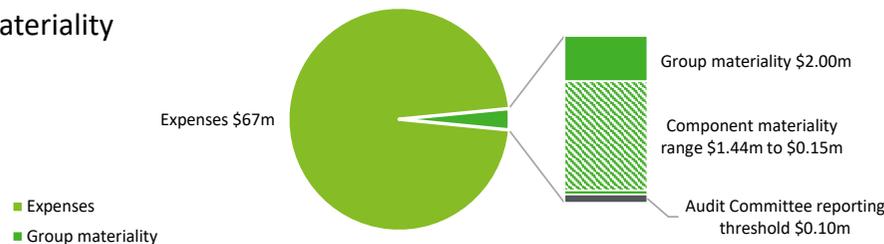
### Determining materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Materiality for the Group, including MMHL and other subsidiaries has been set at \$2.0m (2021: \$1.8m). The increase from 2021 reflects the expected growth in the group's expenses.

***The standalone materiality for NRC used to scope our audit procedures and assess any errors is \$1.44m (2021: \$1.3m), with a reporting threshold of \$72k meaning any error noted in excess of this amount is reported to the ARC as part of our final report.***

### Materiality



Although materiality is the judgement of the audit partner, the ARC must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.



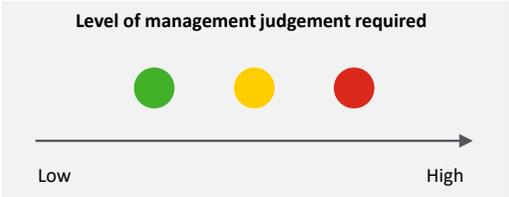
## 2C. Areas of audit focus - dashboard

Area of audit focus	Significant risk	Fraud risk	Planned controls testing approach	Level of management judgement required
Asset valuations and assessment of carrying value	No	No	D+I	
Governance and valuation of investment assets	No	No	D+I	
Validity of fees and charges revenue	Yes	Yes	D+I	
Rates setting – legislative compliance	No	No	D+I	
Management override of controls	Yes	Yes	D+I	N/A
Investment in subsidiaries and associates	No	No	N/A	

**Level of management judgement required**

D+I: Testing of the design and implementation of key controls

OE: Testing of the operating effectiveness of key controls



## 2C. Areas of audit focus

Area of audit focus	Our approach
<p><b>Asset valuations and assessment of carrying values</b></p> <p>NRC recognises the following classes of asset at fair value in the current year:</p> <ul style="list-style-type: none"><li>• Infrastructure assets;</li><li>• Land and buildings;</li><li>• Investment properties;</li><li>• Emissions trading units;</li><li>• Forestry assets</li></ul> <p>Determining the fair value of assets requires management and independent valuers to make a number of judgments around the appropriate valuation methodology and assumptions. Valuation outcomes are often sensitive to variations in the key assumptions.</p> <p>This gives rise to a risk around the valuation of these assets at year-end and the treatment of movements in fair value during the year.</p>	<p>Our work plan incorporates the following steps:</p> <ul style="list-style-type: none"><li>• Obtaining the independent valuations of the relevant asset classes;</li><li>• Obtaining representations directly from the independent valuers confirming their valuation methodology;</li><li>• Reviewing the key underlying assumptions used by the independent valuers to determine whether these assumptions were reasonable and in line with the relevant financial reporting and valuation standards.</li><li>• Holding various discussions with the valuers as appropriate;</li><li>• Determining whether the revaluation transactions are correctly accounted for and disclosed in the financial statements</li><li>• Considering any caveats included in the valuation.</li></ul> <p>We will also engage with the valuers on any other development properties in progress at year end such as the Kaipara Service Centre.</p>
<p><b>Governance and valuation of investment assets</b></p> <p>NRC has a significant portfolio of investment assets including property, funds under management and a controlling stake in Marsden Maritime Holdings which holds 50% of the region's port.</p> <p>The strategy around the use of this investment portfolio and the returns received are an important component of Council's funding of its activities..</p> <p>This gives rise to risks around the robustness of governance processes around these investments, the valuation of the investments at year-end, and whether the appropriate accounting treatment has been applied in respect of those valuations.</p>	<p>We plan to address these risks through:</p> <ul style="list-style-type: none"><li>• Evaluating the governance processes and controls around investment assets. This will involve determining whether investment mandates and parameters are monitored as part of governance arrangements, including the risk/return strategy employed and the adequacy of reporting in this area;</li><li>• Ascertaining the quality of controls in place at the investment manager and custodian by obtaining internal control audit reports;</li><li>• Reviewing the accounting treatment applied to investment assets against relevant financial reporting standards; and</li><li>• Reconciling and validating the cash movements in and out of the investment funds</li></ul>



## 2C. Areas of audit focus

Area of audit focus	Our approach
<p><b>Validity of fees and charges revenue</b></p> <p>There is a risk that fees and charges revenue may be misstated if they are calculated incorrectly or revenue is recognised incorrectly.</p> <p>We have identified this as our presumed risk of fraudulent revenue recognition as required by auditing standards.</p>	<p>We plan to test a sample of fees and charges revenue for accuracy and to review the recognition policy and practice against relevant financial reporting standards to ensure the revenue is recognised at the right time.</p>
<p><b>Rates setting – Legislative Compliance</b></p> <p>Compliance with the detail of the Local Government (Rating) Act 2002(LGRA) is critical: if the rate is not within the range of options and restrictions provided for in that Act, it may not be valid.</p> <p>Management and Council need to continue to ensure that the requirements of the LGRA are adhered to and that there is consistency between the rates resolution, the Funding Impact Statement for that year, and the Revenue and Financing Policy in the respective LTP or Annual Plan (AP).</p>	<p>We plan to undertake the following procedures:</p> <ul style="list-style-type: none"><li>• Testing the controls around the rates setting process at Council;</li><li>• Testing the controls around the rates administration process that operate at Kaipara District Council (FY21: Far North District Council), as one of three outsourced service arrangements Council has in place with the region’s District Councils;</li><li>• Where applicable reviewing relevant legal documentation and correspondence with legal advisors;</li><li>• Reviewing the legal advice received by Council as part of the rates setting process; and</li><li>• Completing a ‘rates questionnaire’ compiled by the OAG to assist us in assessing legislative compliance in a broader sense with respect to rates.</li></ul> <p>We note that we are not legal experts and it is important Council continue to have their legal advisor review the documentation supporting the setting of rates to confirm legislative compliance particularly where changes in rates are proposed.</p>



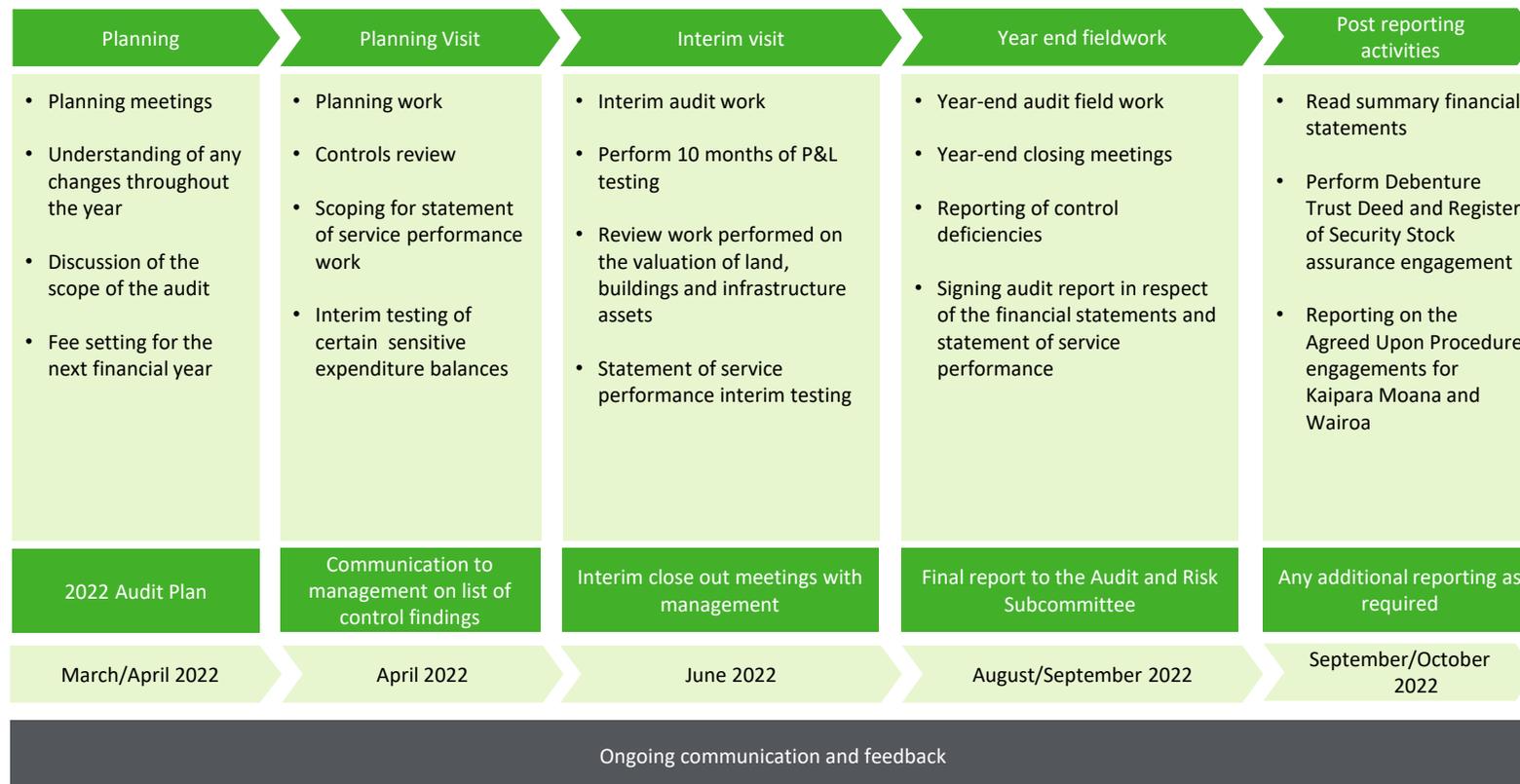
## 2C. Areas of audit focus

Area of audit focus	Our approach
<p><b>Management override of controls</b></p> <p>We are required to design and perform audit procedures to respond to the risk of management’s override of controls.</p>	<p>We plan to:</p> <ul style="list-style-type: none"><li>• Understand and evaluate the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements.</li><li>• Test the appropriateness of a sample of journal entries and adjustments and make enquiries about inappropriate or unusual activities relating to the processing of journal entries and other adjustments.</li><li>• Review accounting estimates for bias that could result in material misstatement due to fraud, including assessing whether the judgements and decisions made, even if individually reasonable, indicate a possible bias on the part of management.</li><li>• Perform a retrospective review of management’s judgements and assumptions relating to significant estimates reflected in last year’s financial statements.</li><li>• Obtain an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the entity and its environment.</li></ul>
<p><b>Investment in subsidiaries and associates</b></p> <p>Council has an investment in Northland Inc Limited (NIL) which up until 30 June 2021 was reflected as a subsidiary in the Group’s financial statements as it was 100% owned. In FY22 Council has arranged for NIL to issue shares to both Kaipara District Council and Far North District Council such that each Council now owns 33.33% of NIL. Accordingly NIL’s status changes from a subsidiary (whose assets, liabilities, income and expenses were fully consolidated into the Group financial statements) to an associate (which is accounted for by recording a 33.3% share of NIL’s net profit into both Council and the Group’s financial statements).</p>	<p>We will review management’s accounting for the NIL transaction, which is not quantitatively material but is complex and will need to be appropriately disclosed in the financial statements. In particular we will consider the loss on disposal of the 67% share of NIL, and the establishment of a new carrying value for the investment in NIL as an associate.</p>



## 2D. Continuous communication and reporting

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.



# 3. Other reporting matters



### 3A. Fraud responsibilities and representations

#### Your responsibilities:



The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including designing, implementing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

#### Our responsibilities:



- We are required to obtain representations from those charged with governance regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the areas of audit focus section of this document, we have identified the risk of fraud in relation to the validity of fees and charges revenue and management override of controls as a significant audit risk for your organisation.
- As required, we will consider any significant related party transactions outside the entity's normal course of business

#### Fraud characteristics:



- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will make inquiries of management, and others within the entity as appropriate, regarding their knowledge of any actual, suspected or alleged fraud affecting the Group. In addition, we are required to discuss the following with the ARC:

- Whether the ARC has knowledge of any fraud, suspected fraud or allegations of fraud;
- The role that the ARC exercises in oversight of North Regional Council's assessment of the risks of fraud and the design and implementation of internal control to prevent and detect fraud;
- The ARC's assessment of the risk that the financial statement may be materially misstated as a result of fraud.

We will be seeking representations in this area from the Council in due course.

We also acknowledge the two pieces of work that have been performed by the Deloitte Forensics team over the last 18 months in relation to a fraud risk gap assessment and a fraud and corruption risk assessment (with supporting fraud focused analytics).



## 3B. OAG Audit Brief Requirements

Other matters including OAG audit brief requirements and proposed response

Area of audit focus	Our approach
<b>Performance, waste and probity</b> Ensuring that Parliament’s expectations are met with respect to use of rate payer funds is a key feature of any audit in the public sector.	Our audit approach will include a specific programme of work, as in previous years, covering the following aspects: <ul style="list-style-type: none"><li>• Confirming Council has the appropriate policy framework for areas such as delegated authorities, fraud, conflicts of interest, code of conduct etc.</li><li>• Ensuring we understand any changes made to such policies.</li><li>• Testing certain areas of sensitive expenditure to ensure spending is appropriate and authorised in accordance with policy and best practice.</li><li>• Reviewing areas such as credit card expenditure (including for the CEO and Chair), fuel card expenditure, and mobile phone expenditure.</li></ul>
<b>Managing conflicts of interest and related party transactions</b> Councils are required to ensure that there are appropriate procedures in place to identify and manage conflicts of interest and that related party disclosures in the financial statements are complete.	Our audit procedures on related party disclosures include searching public records for potential related party relationships (such as the Companies Office website). We also ensure any entries in the interest register were individually assessed, and those which meet the definition of a related party transaction during the year are disclosed in the Annual Report. This includes remuneration disclosures relating to the Councillors and key management personnel.
<b>Financial prudence</b> Councils are required to include appropriate benchmarking reporting in the Annual Report as required by the Local Government (Financial Reporting and Prudence) Regulations 2014.	Our audit procedures will include review of the disclosures and re-computation of key ratios to determine whether Council is in compliance with these regulations.



### 3C. Group audit considerations

Given the number of subsidiaries and associates within the Group, we have assessed the extent of procedures required to be performed for each in order to gather sufficient audit evidence to reduce the risk of a material misstatement.

Our assessment of the scope of work to be performed on the Group's components is based on financial significance of the Group's components, our initial risk assessment, materiality, and our understanding of the business in which the component operates. A summary of the nature of work to be performed for each component entity, the component auditor involved, and our planned involvement in the work of the component auditors is provided on the next page.

For significant subsidiaries, associates and joint ventures where we are not the statutory auditor, we will provide referral instructions to the component auditors setting out how we will obtain assurance as to the adequacy of their procedures so as to enable us to reach an opinion on the financial statements. This will include consideration of their independence, competence and resources. For insignificant components, with no local statutory audit requirement, we will carry out analytical procedures as part of the group audit.

The audit approach applied by all Deloitte firms covers the requirements of International Standards in Auditing (ISA) issued by the IASB and we expect other

firms of auditors to also be aware of these requirements.

We will perform audit work at all components that are legal entities requiring a separate audit report on their financial statements.



### 3C. Group audit considerations (cont.)

A summary of the nature of work to be performed on group entities and details of component auditors is as follows:

Component	Component auditor	Scope	Comments
Marsden Maritime Holdings Ltd (subsidiary)	EY		Main focus of EY's audit is investment property valuations as set out in the Key Audit Matter within their audit report.
Regional Software Holdings Ltd (associate)	Audit NZ		RSHL's net result is equity accounted into both Council and the Group's financial statements. The result is generally immaterial and is based off draft / unaudited financial statements. We will engage directly with RSHL management if further clarification on their result is required.
Northland Inc Limited (associate)	Deloitte		Main focus of the audit is recognition of revenue given the multi-year nature of some projects.

<b>Scope legend</b>	 Subject to full scope audit	 Significant due to risk, subject to audit of specified account balances	 Non-significant, subject to analytical procedures or review
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#### Extent of involvement with the component auditors

Our involvement in the work of the component auditors usually includes discussions with the component auditors and obtaining clearance reports and summary memoranda from them. We may also choose to request details of any matters identified which will be relevant to our report to you including control weaknesses.

Where necessary we may request other auditors to carry out additional procedures in order to enable us to issue the Group audit opinion.



### 3D. Purpose of report and responsibility statement

#### Purpose of report

This report has been prepared for Northland Regional Council's Audit and Risk Subcommittee and is part of our ongoing discussions as auditor in accordance with our engagement letter and master terms of business as required by the Auditor General's auditing standards which incorporate the requirements of the New Zealand auditing standards.

This plan is intended for the ARC (and other Council members) and should not be distributed further. We do not accept any responsibility for reliance that a third party might place on this report should they obtain a copy without our consent.

This report includes only those matters that have come to our attention as a result of performing our audit procedures to date and which we believe are appropriate to communicate to the ARC. The ultimate responsibility for the preparation of the financial statements rests with the Council.

#### Responsibilities

We are responsible for conducting an audit of Northland Regional Council for the year ended 30 June 2022 in accordance with the Auditor General's auditing standards (incorporating the requirements of the New Zealand auditing standards issued by the NZ Auditing and Assurance Standards Board). Our audit is performed pursuant to the requirements of the Local Government Act 2002 with the objective of forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Council. The audit of the financial statements does not relieve management or the Council of their responsibilities.

Our audit is not designed to provide assurance as to the overall effectiveness of Northland Regional Council's controls but we will provide you with any recommendations on controls that we may identify during the course of our audit work.



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**TITLE:** Internal Audit Maturity Assessment - Update

**From:** Bruce Howse, Pou Taumatua – Group Manager Corporate Services

**Authorised by Group Manager/s:** Bruce Howse, Pou Taumatua – Group Manager Corporate Services, on

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### Whakarāpopototanga / Executive summary

Deloitte have undertaken an internal audit (IA) maturity review of NRC. The initial report from the review was presented to the March 2022 Audit and Risk Subcommittee, where it was decided that further discussion was required before the report could be accepted. Further discussion has taken place and Deloitte has provided a revised report (**attached**).

The maturity of NRC's IA function was assessed at an overall level of 2 out of 5 (5 being the highest maturity level). The report provides several recommendations for NRC to improve its IA maturity to a level of between 3-4 which is considered an appropriate level for NRC.

The Corporate Strategy Team has developed a plan (**attached**) to increase our maturity rating in line with the recommendations in the report and ensuring that this is progressively implemented over time. This work aligns with the quality systems refresh work that the Continuous Improvement group have been undertaking, which should further enhance NRC's IA maturity.

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### Ngā mahi tūtohutia / Recommendation

That the report 'Internal Audit Maturity Assessment - Update' by Bruce Howse, Pou Taumatua – Group Manager Corporate Services and dated 12 May 2022, be received.

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### Background/Tuhinga

Not applicable.

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### Attachments/Ngā tapirihanga

Attachment 1: Northland Regional Council IA Maturity Review - Final [↓](#) 

Attachment 2: Internal Audit Improvement Plan [↓](#) 



# Internal Audit Maturity Review Northland Regional Council

May 2022

# Executive Summary

## Background and context

Northland Regional Council (NRC) manages the air, land, freshwater and coastal reserves of the Northland region. It also has a significant role in co-ordinating civil defence, transport and economic development across the region. NRC employs approximately 260 full time equivalent staff, it is facing many of the same challenges as larger councils across New Zealand, but with relatively fewer resources. These challenges include the ongoing risks and impacts of the COVID-19 pandemic, changes from the proposed Local Government and Three Water reforms, staff recruitment and retention pressures, and cyber security threats. A well functioning Internal Audit (IA) function can play a critical role in helping NRC navigate these risks, ensuring it is appropriately prepared for and managing them while still accomplishing its objectives and delivering value to the Northland community.

NRC requested Deloitte, in our capacity as auditor for and on behalf of the Office of the Auditor General, to perform a review of the maturity of its current IA function and capabilities. NRC's objective from this review was to gain an understanding of the maturity of its current IA function and capabilities against our knowledge of industry good practice and identify any improvement opportunities to enhance the IA function.

**An Internal Audit function is only one aspect of the overall risk management framework employed by NRC (3<sup>rd</sup> line of defence). The scope of this review does not incorporate an assessment of the wider risk management framework and supporting processes. It is limited to just the Internal Audit function.**

## Assessment of NRC's IA maturity

NRC has taken some positive steps to improve its IA maturity over the last 12 months. Interviewees commented on the notable advances to strengthen assurance capability and processes within the organisation and formalising methodology, processes and performance. Some of these advances include:

- Improved structure in NRC's approach to IA and assurance activities, including the development of a formalised IA programme;
- Implementation and performance of a suite of assurance activities internally, such as internal audits of non-corporate functions, and business unit benchmarking against other local government entities;
- Development of an internal quality assurance system; and
- Efforts to improve understanding and visibility of organisational risks through the implementation of the Promapp system and completion of a risk maturity assessment using the *All of Government Enterprise Risk Management Framework*.

While the changes have been positive, NRC's IA function is a developing one with room for improvement in many aspects of its IA methodology and tools. Its practices are less mature than our experience of good practice observed from other clients of similar size and risk profile across New Zealand (local government and broader public sector entities).

Using Deloitte's 5P assessment model, we consider that the maturity of NRC's IA function to be at an **overall level 2 of 5**, where 5 is innovating in relation to NRC's organisational objectives and risk profile. It is appropriate for a relatively small IA function to operate between a target maturity of 3 and 4 for aspects of its function and activities, recognising that a higher maturity implies higher levels of automation and continuous enhancement which are typically found in much larger and complex IA functions. They also require greater levels of investment to sustain. Our recommendations for helping to NRC to improve and uplift the maturity of the IA function are aligned with this target state of between 3 and 4. Refer to page 4 for detailed insights and recommendations, and page 5 for further details on NRC's current IA maturity levels.



Northland Regional Council Internal Audit Maturity Review | Executive Summary

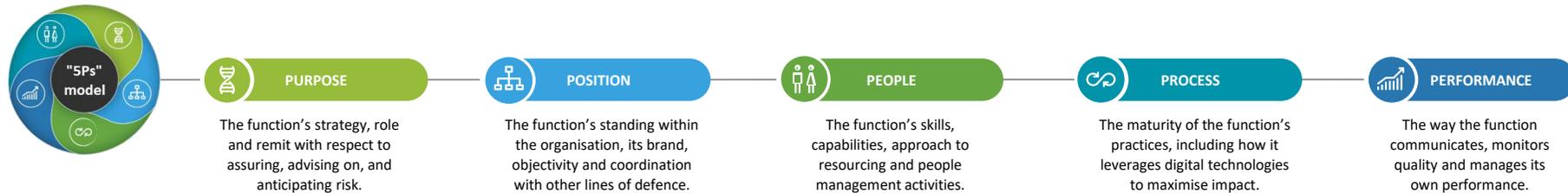
# Objective, Scope and Approach

Northland Regional Council (“NRC” or “you”) requested Deloitte perform a review of the maturity of your current Internal Audit function (IA function) and capabilities. The objective was to review NRC’s current IA function to:

- Gain an understanding of the maturity of NRC’s IA function and capabilities against industry peers and our knowledge of industry good practice; and
- Identify any improvement opportunities to enhance the IA function.

The scope of our work was to identify the current state of NRC’s IA function and supporting processes. This included informal benchmarking based on relevant aspects of Deloitte’s External Quality Assessment (EQA) tool and our own experience of performing similar work with organisations across New Zealand.

Our methodology for this review was based on our proven “5Ps” model within the EQA tool. The 5P model provides a framework with which we provided a view on the effectiveness of NRC’s IA function against relevant attributes underlying each of the five areas – Purpose & Remit, Position & Organisation, Process & Technology, People & Knowledge and Performance & Communication. Our 5Ps framework is designed to consider all aspects of the International Professional Practice Framework (IPPF) including the CIAA’s Standards and Code of Ethics.



Our 5Ps model, in addition to our practical experience of working with other IA functions across New Zealand, provides an objective benchmark for NRC to assess its current IA function and activities.

In delivering our work we performed the following:

- Met with key NRC stakeholders including the General Manager for Corporate Services and the Corporate Systems Champion.
- Reviewed relevant documentation including the current Internal Audit Plan, Audit and Risk Subcommittee reporting and other internal audit related artefacts.
- Reviewed the maturity of NRC’s IA function against relevant elements of Deloitte’s “5Ps” model.
- Considered and reviewed NRC’s IA function and ways of working against expected and leading practice.
- Prepared a management letter (this document) summarising the results of our review and recommendations on priority areas for improvement.
- Sought management feedback on our draft deliverable and issued a final letter to management and the Audit and Risk Subcommittee.

Northland Regional Council Internal Audit Maturity Review | Insights and Recommendations

# Insights and Recommendations

We identified the following opportunities for improving NRC’s IA function. The insights are based on our independent review of the function’s practices, review of selected artefacts, and feedback gained through our stakeholder interviews. Our prioritised recommendations are predominately in the areas of *People and Organisation*, *Purpose and Remit* and *Process and Technology* (5 Ps). Each improvement opportunity is intended to support NRC to uplift its IA function and capabilities with a focus on both quick wins and longer term enhancements. In our view the \$50k budget currently allocated to IA may be insufficient to implement some of our recommendations and management may need to consider additional investment or reprioritisation of initiatives.

	Opportunity	Recommendation
Position and organisation	<p><b>1. Increased senior leadership engagement in IA and assurance activities</b></p> <p>Significant effort has been applied over the past 12 months to increase the ELT’s awareness and understanding of the IA function and how it can deliver value to NRC and its operations. However, this has not eventuated into tangible actions to help develop the IA function.</p> <p>The IA function could potentially play a more significant role in helping NRC improve the effectiveness and efficiency of its operations, and provide important feedback on key risks.</p>	<p>a) Define the roles of ELT and the Audit and Risk Subcommittee with respect to governance, oversight and accountability of the IA function while maintaining an appropriate degree of independence;</p> <p>b) Actively engage the ELT in discussions around the business/control areas, risks and processes where they see the most value in applying an independent and objective lens; and</p> <p>c) Consider engaging external expertise to facilitate the development of a clear and agreed understanding of the IA function’s position in the organisation.</p>
Purpose and remit	<p><b>2. Review and update the IA plan based on NRC’s key risks</b></p> <p>A formalised risk management framework and risk register exists, however, we observed limited consideration of how IA could best be targeted at the council’s most critical risks. The council has identified the need for a more formal <i>Lines of Defence</i> assurance framework to guide the IA programme (based on the AoG Risk Maturity self assessment reported in December 2020</p> <p>IA can play a key role in providing ELT and the Audit and Risk Subcommittee with confidence that NRC has appropriate controls in place to minimise its exposure to key risks. Review and refinement of IA focus areas (informed by Council’s top risks) can help NRC to ensure that IA activities appropriately address key risks and are properly aligned to NRC’s objectives and organisational strategy.</p>	<p>d) Review the current IA plan, ensuring that it considers the council’s most critical risks including for example Cyber and H&amp;S; and</p> <p>e) Prioritise IA reviews considering both the councils risk ratings and appetite for key risks.</p>
Process and technology	<p><b>3. Adopt a risk-based approach to IA planning and activities</b></p> <p>NRC’s current IA function and plan have been delivered and developed mostly by NRC’s Finance team with limited consultation or input from ELT, the Audit and Risk Subcommittee or its external IA outsourced partners. As such, the focus of IA activities is squarely on finance processes and compliance, and isn’t fully aligned with NRC’s organisational objectives, strategy or business areas and risks.</p> <p>There is an opportunity to align the IA strategy and with NRC’s organisational strategy, priorities and key risk areas. This can help IA deliver greater value and focus impact from fewer, but deeper, reviews.</p>	<p>f) Re-orientate NRC’s IA function and focus to be less compliance orientated and more focused on improving business performance, capability and value;</p> <p>g) Develop an IA plan that targets and prioritises reviews of the areas with the highest risk as identified in the risk assessment; and</p> <p>h) Throughout the delivery of the IA plan, periodically revisit the scheduling and scope of reviews to ensure that it remains appropriate and risk levels remain accurate. If required, re-prioritise reviews where there have been changes in risks.</p>
Purpose and remit	<p><b>4. Formalise the IA function and its role within the organisation</b></p> <p>NRC has not adequately defined mandate, purpose, role and responsibilities of the IA function. We understand that the current IA function has evolved in a largely organic manner, rather than out of a deliberate and planned approach. As a result, it lacks the formalisation and structure we would expect to see in an IA function.</p> <p>By casting a critical eye over key aspects of NRC’s existing IA governance, methodology, processes and capabilities, NRC can better position itself to be able to enhance its IA maturity and drive value to the organisation.</p>	<p>i) Examine and define the mandate of the IA function. This should include consideration of the services it should provide and what its priorities should be.</p> <p>j) Develop a clear vision and strategy for the IA function that aligns with its mandate and is clearly linked to NRC’s organisational goals; and</p> <p>k) Develop an implementation plan to achieve the vision and strategy and measure and monitor progress and effectiveness.</p>

Northland Regional Council Internal Audit Maturity Review | Current Maturity and Target Maturity

# Current Maturity and Target Maturity

We have set out below an overview of our assessment of NRC’s IA maturity relative to our assessment framework and industry practices. Our overall conclusion is that NRC’s IA function is a **developing** function (Level 2). Its practices are less mature than most local government bodies and organisations that are typically seen as a good practice reference point. Albeit, the organisations that are seen as good practice are generally larger than NRC. There are opportunities to uplift the maturity of NRC’s IA function to enable NRC to elevate the function’s impact and influence across the Council. The table below shows the function’s current maturity and target maturity for each dimension, with summary observations. Further detail can be found the insights and recommendations section of this report.

	1 - Basic	2 - Developing	3 - Defined	4 – Mature	5 – Innovating
 <b>Purpose and remit</b>	No Audit Charter. Internal Audit purpose, role and response not adequately defined.	Audit Charter agreed by Council but is outdated.	IA objectivity, independence and role in governance framework defined and evidenced.	IA has defined strategy and vision. Stakeholders recognise value contributed by Internal Audit.	IA provides high quality assurance/value to the Council and Audit and Risk Subcommittee (AARSC). IA is forward-looking and has impact.
 <b>Position and organisation</b>	IA team influenced by management. Limited independence.	IA operates without major influence of management.	IA operates as a fully independent function. IA is aligned with other control functions. Management perceives IA as assurance function.	IA seen as equal partner to Council and AARSC. IA operates as a fully integrated and independent third line of defense.	The Council and management fully understand the assurance and business value of IA. IA provides insights on efficiencies by coordination with other assurance functions.
 <b>People and knowledge</b>	Few individuals with appropriate IA skills and experience.	Differing IA skill base. Some basic knowledge sharing processes.	IA can demonstrate consistent depth of experience and skills aligned to key risks.	Consistent depth of experience and skills to address key risks and emerging risks. Structured approach to performance management & training.	IA is viewed as a feeder of talent and fully integrated rotational programs. IA considered to be effective training ground for future leaders.
 <b>Process and technology</b>	No documented IA methodology and technology. Poor quality reporting.	IA processes follow individual audit manager’s approach and lack consistency.	Formal framework, methodology and technology. Some Quality Assurance (QA) processes.	IA opinions and outputs are of consistent quality and relevant to the business. Technology aids audit efficiency and coverage.	Fully embedded audit methodology, technology and QA – high quality work focused on business objectives.
 <b>Performance</b>	Ineffective IA delivery. No effectiveness performance measures.	Reporting to key stakeholders but no overarching reporting framework and approaches in place.	IA has defined and implemented consistent reliable reporting and measurements.	Effective stakeholder reporting. Reporting includes appropriate analytics and insight.	Unanimous positive feedback on effectiveness of IA and its communication with stakeholders.

● Current overall position      —● Target maturity

# Statement of Responsibility

The procedures that we performed did not constitute an assurance engagement in accordance with New Zealand Standards for Assurance engagements, nor did it represent any form of audit under New Zealand Standards on Auditing, and consequently, no assurance conclusion or audit opinion is provided. The work was performed subject to the following limitations:

- Our assessments are based on observations from our review and sample testing undertaken in the time allocated. Assessments made by our team are matched against our expectations and best practice guidelines. This includes comparison with other similar processes we have assessed. This report offers recommendations for improvements and has taken into account the views of management, with whom these matters have been discussed.
- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. The procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout the period and the tests performed are 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 the deliverable 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 deliverable to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.

We have prepared this report solely for the use of Northland Regional Council. The report contains constructive suggestions to improve some practices which we identified in the course of our review procedures. These procedures are designed to identify control weaknesses and improvement opportunities, but cannot be relied upon to identify all weaknesses. We would be pleased to discuss any items mentioned in this report and to review the corrective action implemented by management.



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# Draft – NRC action plan in response to internal audit maturity assessment by Deloitte

Kyla Carlier | May/June 2022

View full report: [NRC - IA Maturity Review - Final - 11 May 2022.pdf](#)

'MM' refers to mapping in MindManager [Mindmanager quality map 'The big picture' 3 May 2022.mmmap](#)

Opportunity identified in Deloitte report	Deloitte Recommendation	Current action	Identified need for change or improvement	Planned actions	Urgency and Timeline
<b>Position and organisation (rated 2)</b>					
<p><b>1. Increased senior leadership engagement in IA and assurance activities</b></p> <p>Significant effort has been applied over the past 12 months to increase the ELT's awareness and understanding of the IA function and how it can deliver value to NRC and its operations. However, this has not eventuated into tangible actions to help develop the IA function.</p> <p>The IA function could potentially play a significant role in helping NRC improve the effectiveness and efficiency of its operations, and provide important feedback on key risks.</p>	<p>a) Define the roles of ELT and the Audit and Risk Subcommittee with respect to governance, oversight and accountability of the IA function while maintaining an appropriate degree of independence;</p>	<p>Internal audits by trained ISO auditors. Umbrella ISO certification for 15 of council's areas of activities.</p> <p>Major review of quality management system (March 2022) with recommendations.</p> <p>Finance and corporate audits reported to Audit and Risk committee (eg, rating reviews)</p> <p>Internal audit reports are currently reported</p>	<p>Senior leadership engagement in and ownership of the internal audit function.</p> <p>Internal audit function better defined as a whole. Internal audit charter developed/expanded to include finance/corporate audits.</p> <p>Include role of ELT/senior leadership as a collective in Internal Audit charter, rather than individual responsibilities (oversight etc).</p> <p>Establish whether internal audit reporting needs to go directly to ELT (MM diagram proposal).</p>	<p>1.0 Review, expand and finalise draft IA charter, and expand into framework for internal audit function.</p> <p>Include:</p> <ul style="list-style-type: none"> <li>• Finance/corporate audits</li> <li>• S17a</li> <li>• H&amp;S audits</li> <li>• Defined responsibilities of ELT and A+R</li> <li>• Solid ownership and reporting lines.</li> <li>• Mandate</li> <li>• Priorities</li> <li>• Vision and strategy</li> </ul> <p>For S17a elements of charter, ensure implementation plan process, ELT reporting lines, and criteria for determining</p>	<p>Med term By Dec 2022 <b>Kyla/Kym</b></p>

		to CE, relevant GMs, deputies, and relevant managers only, and to A+R via summary report.		whether independent review is necessary, are included.	
				1.1 Finalised IA charter approved and <b>owned by ELT</b> , approved by A+R.	Med term By Dec 2022 <b>Kyla/Kym</b>
				1.2 Establish process by which internal audits are reported to ELT, map this process. (MM diagram proposal) This can be done with 1.1.	Priority May/June 2022 <b>Kyla/Kym</b>
				1.3 Cease use of ISO 9001 accredited quality management system, contingent on staged implementation of Te Huarahi Tika.	Priority May/June 2022 <b>Kym/CISG</b>
				1.4 Gain ELT buy-in and support for implementation of Te Huarahi Tika – quality Improvement System.  Implement Te Huarahi Tika – Quality Improvement System.	Priority May/June 2022  Priority Staged – beginning with trial groups in June/July 2022
				Adequately resource Te Huarahi Tika – Quality Improvement System.	Longer term From July 2023

	b) Actively engage the ELT in discussions around the business/control areas, risks and processes where they see the most value in applying an independent and objective lens; and	S 17a + reviews reported to ELT  Risk reported to Deputy leadership team.	Establish cohesive process to oversee business processes, reviews, quality and reporting lines.  Implementation plans from S17a + reviews need to be developed with ELT engagement/approval.  S17a/IA implementation and improvement plans to include trigger for independent review.  Establish reporting link that crosses both IA and risk, so oversight is gained. Synchronise reporting to allow tiggers to be seen.  ELT track progress of risk, IA, and progress resulting from both (?)	Refer 1.4	
				1.5 Map processes (MM), identify synergies and interactions, including potential improvements identified in this document. Link risk, S17a and internal audit.	Priority – April <b>Kyla</b>
				1.6 DLT given responsibility for assessing each risk report, any triggers for internal audit and additional triggers to escalate audit to independent review.  DLT to report monthly to ELT at strategy days. (Establish process with DLT chair.)  Update risk framework and reporting process accordingly. Include reference to mapped risks.	Med – long term By June 2023 <b>Kyla/Kym</b>
				1.7 Develop/reinstate quarterly quality reporting to ELT that encapsulates risk, internal audit (incl S17a reviews) and progress on improvement implementation. Have this championed and driven by Bruce. Highlight trigger loops. Include annual (?) ‘close the loop’ summary to ELT – where risks have resulted in change, what business improvement/action plans have been developed and the outcome of these.	Med – long term By June 2023 <b>Kyla/Kym/Bruce</b>

	c) Consider engaging external expertise to facilitate the development of a clear and agreed understanding of the IA function's position in the organisation.	Deloitte review of IA maturity carried out.		Refer 1.0	
<b>Purpose and remit (rated 1)</b>					
<p><b>2. Review and update the IA plan based on NRC's key risks</b></p> <p>A formalised risk management framework and risk register exists, however, we observed limited consideration of how IA could best be targeted at the council's most critical risks. The council has identified the need for a more formal Lines of Defence assurance framework to guide the IA programme (based on the AoG Risk Maturity self assessment reported in December 2020</p> <p>IA can play a key role in providing ELT and the Audit and Risk Subcommittee with confidence that NRC has appropriate controls in place to minimise its exposure to key risks. Conducting a risk identification and assessment exercise can help NRC to</p>	a) Review the current IA plan, ensuring that it considers the council's most critical risks including for example Cyber and H&S; and	<p>Risks assessed, reported via Promapp, reported to/discussed with DLT. Deep dives, H&amp;S and financial risks reported directly to audit and risk committee.</p> <p>Risks mapped against org structure to some degree in Promapp.</p>	<p>Go a step further in mapping risks across the organisation.</p> <p>Prioritisation of risks and loop back in to IA process: link between risk and the order/prioritisation of internal audits, and the outcome of these.</p> <p>ELT/council oversight of link between highest risks and assurance activity/IA.</p> <p><b>Te huarahi tika – includes risk module.</b> Risks identified need to be progressed through Promapp risk module.</p>	<p>2.1 map risks visually across organisation, and update as tool to assess areas of key risk. (MM)</p> <p>Refer 1.6 and 1.7 - reporting links for risk and triggers for further reviews.</p> <p>2.2 Process improvement – upgraded business improvement /action plan/prioritisation plan established, that is fed in to by the risk register, IA report and S17a.</p>	<p>Priority – April 2022 <b>Kyla</b></p> <p>Med term by Dec 2022</p> <p>Med term by Dec 2022 <b>Corp strat team</b></p>

ensure that IA activities appropriately address key risks and are properly aligned to NRC's objectives and organisational strategy.				2.3 Ensure process clearly requires that risks identified via Te Huarahi Tika/IA process are reported in risk module, and that assurance is provided around this.	Med-long term By June 2023 <b>Kym</b>	
	b) Prioritise IA reviews considering both the councils risk ratings and appetite for key risks.	Risks identified, assessed and managed via ProMapp.	As above – risks ID'd managed through Promapp risk module (or other, as appropriate).	Refer 1.6 DLT have responsibility for linking risk and the order of IA reports, reporting to ELT monthly. Refer 1.7 ELT retain responsibility for ensuring that the processes are followed via 'close the loop' reporting.	Med – long term By June 2023 <b>Kyla/Kym</b>	
Process and technology (rated 2)						
<p><b>3. Adopt a risk-based approach to IA planning and activities</b></p> <p>NRC's current IA function and plan have been delivered and developed by NRC's Finance team with limited consultation or input from ELT, the Audit and Risk Subcommittee or its external IA outsourced partners. As such, the focus of IA activities is squarely on finance processes and compliance, and isn't fully aligned with NRC's organisational objectives, strategy or business areas and risks.</p> <p>By implementing our recommendations in (2) above, this will result in a more relevant and risk-informed IA strategy and plan that better aligns with NRC's</p>	a) Re-orientate NRC's IA function and focus to be less compliance orientated and more focused on improving business performance, capability and value;	S17a PLUS service delivery and business improvement reviews	The proposed Te Huarahi Tika quality system aligns activity objectives with NRCs strategy – LOS, KPIs and objectives. This is the first point of consideration for any IA.  Continue to roll out S17a PLUS service delivery reviews as an integral part of the Internal Audit function.	3.1 - Include finance's IA process in the QMS and IA charter. Refer 1.0.	Med term by Dec 2022 <b>Kyla/Kym</b>	
					3.2 Map and streamline business improvements as an outcome of Te Huarahi Tika, risk, IA, and S17a reviews (MM)	Med term by Dec 2022 <b>Corp strat team</b>
	b) Develop an IA plan that targets and prioritises reviews of the areas with the highest risk as identified in the risk assessment in finding 2 above; and	Finance internal audit process – for example, rating reviews.	Prioritisation of risks and loop back in to IA process: link between risk and the order/prioritisation of internal audits, and the outcome of these.	Refer 1.5 Refer 1.6  Specific focus in mapped process (MM) on the link between risk and IA.		

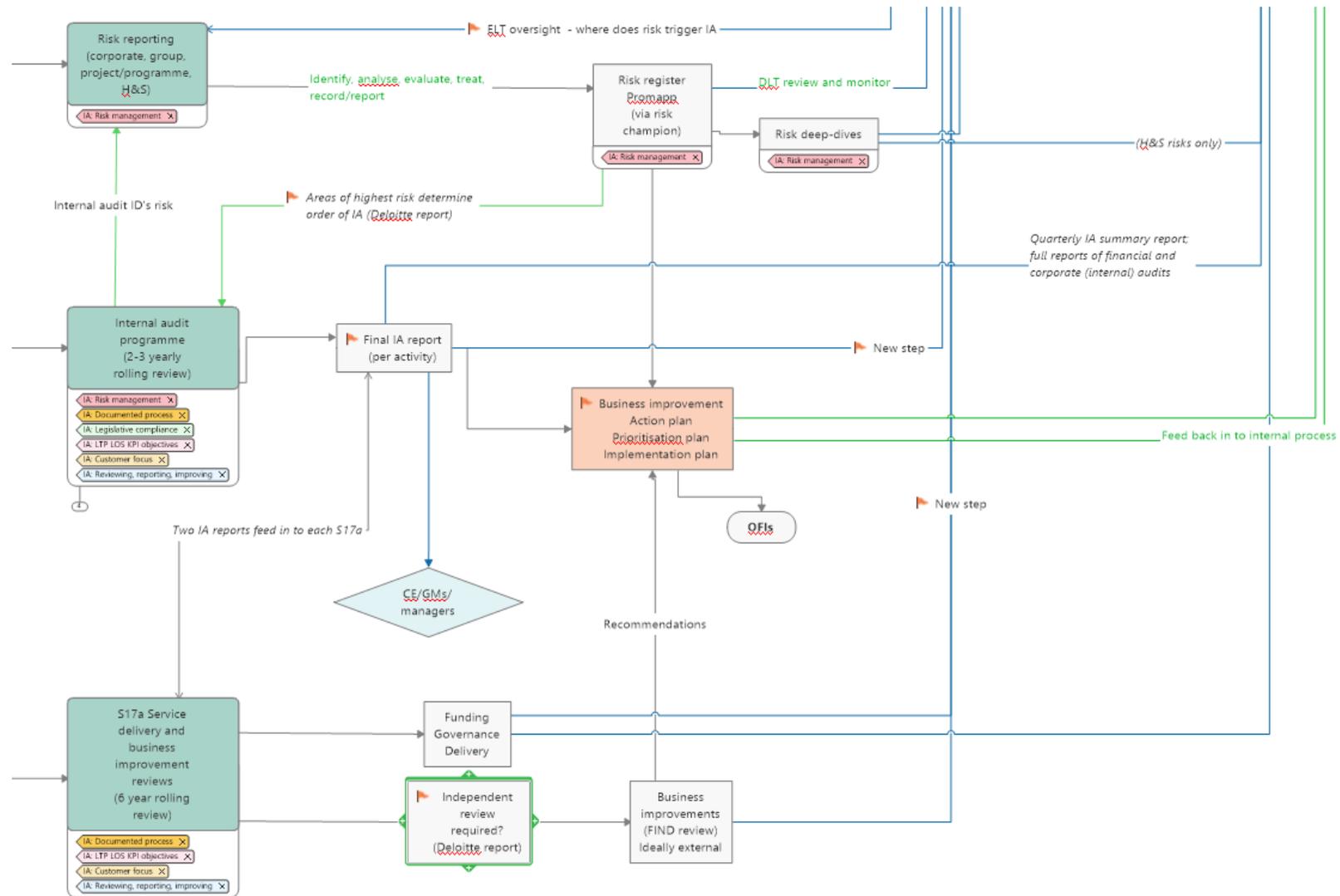
<p>organisational strategy, priorities and key risk areas. This can help NRC to deliver greater value and focus impact from fewer, but deeper, reviews.</p>	<p>c) Throughout the delivery of the IA plan, periodically revisit the scheduling and scope of reviews to ensure that it remains appropriate and risk levels remain accurate. If required, re-prioritise reviews where there have been changes in risks.</p>		<p>Include a step for DLT/ELT to have oversight of the schedule of IAs including the overall 3-yearly programme progress, resulting action plans, and links to risk (as outlined above).</p> <p>This might require a higher level framework document for IA.</p>	<p>Refer 1.0 Refer 1.6 Refer 1.7</p>	
<p>Purpose and remit (rated 1)</p>					
<p><b>4. Formalise the IA function and its role within the organisation</b></p> <p>NRC has not adequately defined mandate, purpose, role and responsibilities of the IA function. We understand that the current IA function has evolved in a largely organic manner, rather than out of a deliberate and planned approach. As a result, it lacks the formalisation and structure we would expect to see in an IA function.</p> <p>By casting a critical eye over key aspects of NRC's existing IA governance, methodology, processes and capabilities, NRC can better position itself to be able to enhance its IA maturity and drive value to the organisation.</p>	<p>a) Examine and define the mandate of the IA function. This should include consideration of the services it should provide and what its priorities should be.</p>		<p>Approval of draft internal audit charter, which sets out responsibilities.</p> <p>Develop formal framework document for IA – like a simpler version of the risk framework, and have it clearly set out the mandate, and be approved by ELT and/or A+R</p>	<p>Refer 1.0</p> <p>Consider the development of a framework for Internal Audit. Revisit in 6 – 12 months after process has settled in. Note - International audit terminology is charter – need to be careful of framework.</p>	<p>Med-long term June 2022</p>
	<p>b) Develop a clear vision and strategy for the IA function that aligns with its mandate and is clearly linked to NRC's organisational goals; and</p>		<p>Develop formal framework for IA. Include clear vision and strategy and link to mandate and NRC goals.</p>	<p>Refer 1.0</p>	
	<p>c) Develop an implementation plan to achieve the vision and strategy and measure and monitor</p>		<p>As above.</p>	<p>Refer 1.0</p>	

	progress and effectiveness.				
People and knowledge (rated 1)					
No opportunities identified or recommendations made.		Internal audits by trained ISO auditors			
Performance (rated 2)					
No opportunities identified or recommendations made.					

**Additional planned action:**

- Revisit and review the internal risk maturity assessment (based on AOG), and identify opportunities to synergise actions that need to be taken as result of both maturity assessments and their recommendations.
- Develop process within risk processes to ensure that project/programme risks are picked up and added to risk register. Suggest this could be done quarterly via DLT, who have responsibility to canvass their groups for risks and bring to the table for triage.
- Develop process within risk to ensure that service delivery is prioritised around identified risks. For example, workload, covid.

Snip from Mind manger diagram – showing recommended new steps (orange flags)





**TITLE:** Risk Management Activity Update

**From:** Kym Ace, Corporate Systems Champion and Kyla Carlier, Corporate Strategy Manager

**Authorised by** Bruce Howse, Pou Taumatua – Group Manager Corporate Services, on 16  
**Group Manager/s:** June 2022

### Whakarāpopototanga / Executive summary

The Risk Management Activity Update Report outlines the summary of Council’s progress in risk management related activities including updates on Corporate, Fraud, Dishonesty and Corruption Risks.

### Ngā mahi tūtohutia / Recommendation

That the report ‘Risk Management Activity Update’ by Kym Ace, Corporate Systems Champion and Kyla Carlier, Corporate Strategy Manager and dated 7 June 2022, be received.

### Background/Tuhinga

### Risks Register

1. The corporate, fraud, dishonesty and corruption risk registers have been refreshed following leadership review.
2. The risks and their treatment/s (mitigation action/s) are being managed by staff through the Promapp risk module. Risk reporting is being provided quarterly to the Audit and Risk Subcommittee. The monitoring of the corporate and fraud dishonesty and corruption risk registers is performed by the Corporate Systems Champion monthly.
3. The top ten corporate risks, their pre-control (inherent) and post control (residual) rating and trending (traffic light) are summarised in **Table 1**.
4. The corporate risks, their risk types, pre-control (inherent) and post control (residual rating) are summarised in **Attachment 1**.
5. Key changes and additions from this quarter’s review are identified in **Table 2**. Some top risks which were retained through the review have been expanded or narrowed, and this is reflected in the relevant risk descriptors within the full document.

**Table 1. Top ten corporate risks listed as their residual scores rank**

Key – Risk rating				
Extreme		High	Moderate	Low
Key – Trend		Increasing	Decreasing	Static
#	Risk Statement	Inherent Rating	Residual Rating	Trend

012	Non-compliance with Health and Safety at Work Act 2015	20	20	
080	Changes in legislation and central government policy impacting council's resources, budgets and activities.	25	20	
014	Cyber security attack	20	16	
136	Capability and operational capacity to manage events and directives	20	16	
221	Workload	20	16	
230	Climate change response	20	16	
245	Failure to prepare for future of local government review/reforms and its impacts	20	16	
246	Recruitment and retention of specialist staff	20	16	
244	Failure to respond to the impacts COVID-19	25	15	
015	Core IT applications/system are not designed and/or implemented to support all organisational processes, or applications will stop working	20	15	

**Table 2. Key Top Risks - changes and additions through the review**

Key				
New specific risk		Decreased rating	Increased rating	Treatment added risk /activity update and rating remains static
Status	Description	Commentary		
	Local body elections may change the composition of Councillors	Identification of the risk of council changing at the local body elections 2022		
	Failure to respond to Covid-19 impact	Residual risk consequence decreased from major to moderate as we have: <ul style="list-style-type: none"> <li>Advanced Covid Business Continuity planning and actions</li> <li>Developed a covid recovery plan which is now being implemented</li> </ul>		
	Recruitment and retention of specialist roles	Residual risk likelihood decreased from frequent too often as we have: <ul style="list-style-type: none"> <li>Increased the salary pool from 3% to 5%</li> <li>Investigated and implemented a range of initiatives to improve these issues.</li> </ul> We acknowledge that we still have high turnover and a high number of vacancies.		
	Contingent Liabilities – Sustainable solvents site, dam failure and Marine Farm abandoned structures	<b>Marine farm abandoned structures -</b> Enforcement proceedings against a major consent holder are being progressed with Council's Lawyer. More outstanding bonds have been lodged therefore reducing the risks. Good		

		<p>but slow progress on the management of this risk.</p> <p><b>Sustainable solvents site</b> - Stage one - clean-up above ground completed successfully and under budget. Environment Court proceedings - WDC claimed costs recovery of \$2.6m for the clean-up works. This was awarded. A next step meeting regarding the land has been scheduled. There is a much lesser risk now the clean-up has been completed. The site is deemed a contaminated site but is not currently impacting anyone.</p> <p><b>Dam failure</b> – meetings have been held to discuss these. No further action required.</p>
	Climate Change response	<p>Given the potential impacts of climate change on council's operations and the difficulties in recruiting staff, the inherent and residual likelihood have remained static (extreme). This risk is expected to decrease over time as council's climate change response strategies and activities are implemented and the new team embeds. The climate change risks will be fully reviewed as part of these activities.</p>
	Capability and operational capacity to manage events and directives	<p>Inherent and residual likelihood have remained static (extreme), and we recognize the consequential impacts of covid, recruitment, and the retention of staff on this risk remaining extreme.</p>
	Workload	<p>Inherent and residual likelihood have remained static even though:</p> <ul style="list-style-type: none"> <li>• We have reduced workshops to one day per week</li> <li>• We have reduced the frequency of some reporting, and</li> <li>• Managers are endeavouring to support workloads</li> </ul> <p>Despite these efforts workloads have not decreased, turnover is increasing, and the risk rating remains extreme.</p>
	Investment Portfolio	<p>Residual risk consequences increased from moderate to major in recognition of:</p> <ul style="list-style-type: none"> <li>• High inflation</li> <li>• Potential devaluation of the housing market</li> <li>• The potential for a decrease in rates revenue</li> <li>• MMH signaling a decrease in revenue</li> <li>• Equity markets flat trending negative</li> </ul>

	Organisation Culture	Residual risk likelihood increased from likely to often in recognition of: <ul style="list-style-type: none"> <li>Increased staff turnover and record levels of new roles</li> <li>Staff skills and capability</li> <li>Flexible working arrangements and the hybrid culture</li> <li>Workload</li> </ul>
	Non-compliance with Health and Safety at Work Act 2015	Increase residual likelihood from likely to often and decrease residual consequences from severe to major. This reflects the results of the recent Contractor Health and Safety internal audit and the difficulties in recruiting a new Health and Safety specialist. New treatments have been added: <ol style="list-style-type: none"> <li>To perform contractor health and safety audit on an annual basis; and</li> <li>The provision of a Health and Safety resource to familiarize and support managers with significant hazards and other health and safety questions on a quarterly basis (resource dependent).</li> </ol>

### Risk Appetite

Risk appetite is the decision about the amount and type of risk Council is willing to take to achieve its objectives. This is an area that was identified in the risk maturity matrix as requiring further development. We are investigating options to advance this work and will report back once we have a roadmap established.

### Deep Dives

The Corporate Systems Champion facilitates risk owners to provide deep dives into each corporate risk in accordance with the following schedule (**Table 3**), initially focussing on the corporate risk with the highest pre-controls risk rating or where specifically requested due to increasing risk ratings. The deep dive on cyber security and changes in legislation and central government policy impacting council's resources, budgets, and activities are included as a separate agenda item (Item Risk Deep Dives).

**Table 3. Risk deep dive schedule**

#	Corporate Risk	June 2022	September 2022	November 2022
6	Changes in legislation & central government policy impacting council's resources, budgets, and activities.	√		
7	Cyber security	√		
8	Core IT applications/systems are not designed and/or implemented to support all organisational processes		√	

9	Enterprise Project		√	
10	Noncompliance with H&S at Work Act 2015			√

#### **Response to COVID-19 Resurgence – Omicron Variant**

Council's Crisis Management Team (CMT) was activated in response to the announcement by the Government that New Zealand would move to Alert Level 4 in March 2020. The role of Council's CMT is to lead Council's internal response, ensure Council's essential services remain operational, manage the changes to Council's operations and service as required, and support staff well-being and safety during the crisis.

At the time of writing this report the CMT remains active, proactively monitoring the response as the country moves through the Protection Framework (Traffic Light System) and all the ever-changing requirements. Covid business continuity plans continue to be refined and the Covid Recovery Plan has been developed. This plan is being implemented with significant focus on supporting the mental and physical well-being of staff throughout this time.

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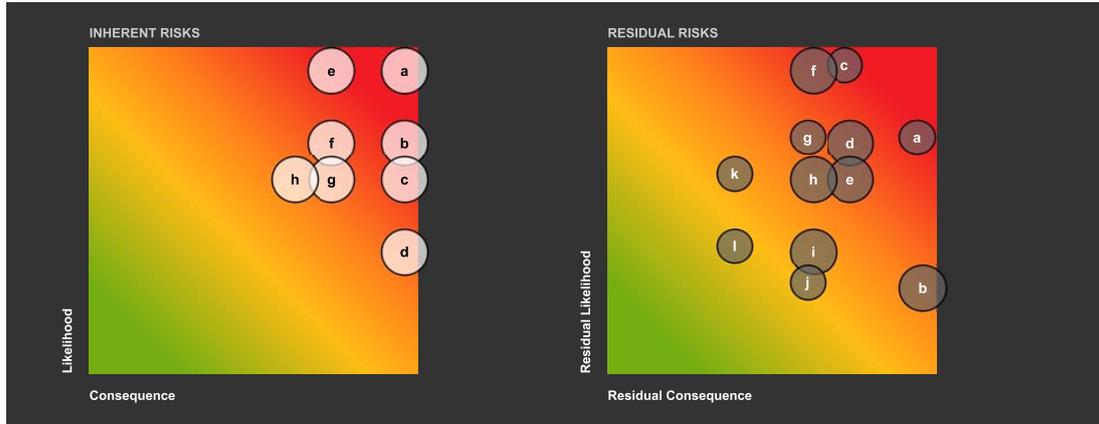
#### **Attachments/Ngā tapirihanga**

Attachment 1: Top 10 Corporate Risks [↓](#) 

## Top 10 Risk Scores

Portfolio(s): Corporate Risk Register

NOTE: More than 10 risks are listed as their residual scores rank within the top 10 scores.



**1. Non compliance with Health and Safety at Work Act 2015**

- (b) There is a risk that council does not provide a safe and health work environment for staff, contractors or visitor events that may result in loss of life or permanent disability therefore not complying with Health and Safety at Work Act 2015
  - (a) Corporate Risk Register, Corporate Risk, Health and Safety, NRC - Whole Organisation
- Owner: Bruce Howse

RESIDUAL  
**20.0**  
EXTREME

INHERENT  
**20.0**  
EXTREME

**2. Changes in legislation & central Government policy impacting council's resources, budgets and activities.**

- (a) There is a risk to NRC that legislation & central government policy could change, which can potentially impact Council's resources, budgets and operational activities. These changes can cause significant costs to council and ratepayers.
  - (c) Corporate Risk Register, Corporate Risk, Environmental Services, Financial, NRC - Whole Organisation, Reputation, Service Delivery
- Owner: Bruce Howse

RESIDUAL  
**20.0**  
EXTREME

INHERENT  
**25.0**  
EXTREME

**3. Cyber security attack**

- (e) There is a risk of cyber security attack causing disruption to Council systems and possible loss of data
  - (d) Corporate Risk Register, Corporate Risk, Corporate Services, Financial, NRC - Whole Organisation, Reputation, Service Delivery
- Owner: Bruce Howse

RESIDUAL  
**16.0**  
EXTREME

INHERENT  
**20.0**  
EXTREME

**4. Capability and operational capacity to manage events and directives**

- (e) There is a risk that Northland Regional Council does not possess the capability and operational capacity necessary to provide the required response to events (including natural hazard, pollution, biosecurity, emergency events, pandemics and other business interruptions or Government direction) that may result in us being unable to deliver our LTP activities and services.
  - (d) Corporate Risk Register, Corporate Risk, Finance, NRC - Whole Organisation, Reputation, Service Delivery
- Owner: Bruce Howse

RESIDUAL  
**16.0**  
EXTREME

INHERENT  
**20.0**  
EXTREME

**5. Workload**

- (e) There is a risk that external and internal events are impacting on the workload/s of our people, which is resulting in our people feeling the pressure.
  - (d) Corporate Risk Register, Corporate Services, Health and Safety, NRC - Whole Organisation
- Owner: Bruce Howse

RESIDUAL  
**16.0**  
EXTREME

INHERENT  
**20.0**  
EXTREME

**6. Climate change response**

- (b)** There is a risk that Council does not manage the risks associated with climate change adequately resulting in the community being compromised and impacting on council's infrastructure
  - (d)** Corporate Risk Register, Climate Change, Community Resilience, NRC - Whole Organisation
- Owner:**Victoria Harwood

RESIDUAL  
**16.0**  
EXTREME

INHERENT  
**20.0**  
EXTREME

**7. Failure to prepare for future of local government review/reforms and its impacts**

- (e)** There is a risk that if Council fails to adequately understand and/or prepare for the impacts of the future of local government review and reforms then there will be adverse impacts on the organisation, reputation and potential negative impacts on community wellbeing.
  - (d)** Corporate Risk Register, Corporate Risk, Environmental Services, NRC - Whole Organisation
- Owner:**Jonathan Gibbard

RESIDUAL  
**16.0**  
EXTREME

INHERENT  
**20.0**  
EXTREME

**8. Recruitment and retention of specialist roles**

- (e)** There is a risk of not being able to retain and recruit for specialist roles in the current competitive markets within the available budgets
  - (d)** Corporate Risk Register, Corporate Risk, Corporate Services, NRC - Whole Organisation
- Owner:**Bruce Howse

RESIDUAL  
**16.0**  
EXTREME

INHERENT  
**20.0**  
EXTREME

**9. Failure to respond to COVID-19 Impact**

- (a)** There is a risk to Council that if we fail to adequately respond and recover from the ongoing impacts of COVID-19 then there will be a negative impact on the organisation and our ability to deliver our levels of service
  - (f)** Corporate Risk Register, Corporate Risk, NRC - Whole Organisation
- Owner:**Bruce Howse

RESIDUAL  
**15.0**  
EXTREME

INHERENT  
**25.0**  
EXTREME

**10. Core IT applications/systems are not designed and/or implemented to support all organisational processes, or applications will stop working**

- (e)** There is a risk that our core IT applications/systems are not designed and/or implemented to support all organisational processes as an integrated single solution. There are gaps in our core systems such as People & Capability, Enterprise Assets, Customer Relationship Management, and Contract & Project Management. Current systems are unable to support organisational needs and we cannot deliver the tools that are required by staff to support them in delivering the LTP activities. Some systems/applications could stop working and vendors will cease support as they are end of life resulting in productivity and security issues. Systems will break if nothing is done. For all documents: <https://thehub:8443/documents/FA108896>
  - (f)** Corporate Risk Register, Corporate Risk, Financial, NRC - Whole Organisation, Reputation, Service Delivery
- Owner:**Bruce Howse

RESIDUAL  
**15.0**  
EXTREME

INHERENT  
**20.0**  
EXTREME

**11. Management of data and information assets**

- (f)** There is a risk that our data and information assets are not adequately managed and therefore not easily discoverable or protected
  - (e)** Corporate Risk Register, Legislative, NRC - Whole Organisation, Service Delivery
- Owner:**Bruce Howse

RESIDUAL  
**12.0**  
HIGH

INHERENT  
**16.0**  
EXTREME

**12. Enterprise Project**

- (c)** There is a risk that the Enterprise Project does not deliver on time and quality which will impact councils' resources
  - (e)** Corporate Risk Register, Corporate Risk, Financial, NRC - Whole Organisation, Service Delivery
- Owner:**Bruce Howse

RESIDUAL  
**12.0**  
HIGH

INHERENT  
**15.0**  
EXTREME

**13. Treaty Settlements**

- (f)** There is a risk that Northland Treaty settlements will result in take-on costs for NRC
  - (g)** Corporate Risk Register, Corporate Risk, Financial, Governance and Engagement, Service Delivery
- Owner:**Auriole Ruka

RESIDUAL  
**12.0**  
HIGH

INHERENT  
**16.0**  
EXTREME

**14. Procurement**

- (g) There is a risk that council fails to comply with best practice procurement activity as a result of:
- (h) • Not following AOG guidance
  - Not following policy and procedures

This may result in:

- Sub-optimal procurement decisions
- Legal challenge
- Risk of fraud

Corporate Risk Register, Corporate Risk, Financial, Legislative, NRC - Whole Organisation, Reputation, Service Delivery

Owner: Bruce Howse

RESIDUAL  
**9.0**  
HIGH

INHERENT  
**12.0**  
HIGH

**15. Investment portfolio financial risk**

(c) There is a risk councils investment performance will be impacted by:

- (h) • financial Investment market volatility
- Marsden Maritime Holdings dividend diversion
- Falling rates, fees and charges in economic recession
- Dependency on commercial returns in volatile time, resulting in revenue and service delivery being impacted.

Corporate Risk Register, Corporate Risk, Corporate Services, Financial, NRC - Whole Organisation

Owner: Bruce Howse

RESIDUAL  
**9.0**  
HIGH

INHERENT  
**15.0**  
EXTREME

**16. Policies and protocols not clearly documented and followed**

(f) There is a risk that all policies and protocols are not clearly documented and consistently followed

(h) Corporate Risk Register, NRC - Whole Organisation, Service Delivery

Owner: Bruce Howse

RESIDUAL  
**9.0**  
HIGH

INHERENT  
**16.0**  
EXTREME

**17. Contingent Liabilities**

(h) There is a potential risk to Council regarding contingent liabilities that are outside of our direct control and potential may result in costs, with no chance of recovery.

(i) Corporate Risk Register, Financial, Group Risk, Regulatory Services, Reputation, Service Delivery

Owner: Colin Dall

RESIDUAL  
**6.0**  
MODERATE

INHERENT  
**9.0**  
HIGH

**18. Council decision and directions**

(g) There is a risk that council make a decision that changes Council's direction. This may result in activity resources (\$s, people, etc.) having to be redirected or in a challenge to that decision.

(i) Corporate Risk Register, Corporate Risk, Governance and Engagement, Legislative, NRC - Whole Organisation, Reputation

Owner: Auriole Ruka

RESIDUAL  
**6.0**  
MODERATE

INHERENT  
**12.0**  
HIGH

**19. Council Changes at local body elections**

(g) There is a risk that the local body elections may change the composition of councillors

(i) Corporate Risk Register, NRC - Whole Organisation

Owner: Auriole Ruka

RESIDUAL  
**6.0**  
MODERATE

INHERENT  
**12.0**  
HIGH

**20. Organisational culture**

(h) There is a risk of service inefficiencies caused by not embedding the organisational culture which may result in:

- (k) • double up activities
- not the best solution implemented
- adverse effects on other departments

Corporate Risk Register, Corporate Risk, Financial, NRC - Whole Organisation, Reputation, Service Delivery

Owner: Auriole Ruka

RESIDUAL  
**6.0**  
MODERATE

INHERENT  
**9.0**  
HIGH

**21. Fraud Corruption and Dishonesty**

(d) There is a risk that NRC does not mitigate exposure to fraudulent, corrupt or dishonest activities that may result in negative multi-media coverage requiring significant additional work to repair stakeholder confidence.

(b) Corporate Risk Register, Corporate Risk, Financial, Legislative, NRC - Whole Organisation, Reputation, Service Delivery

Owner: Bruce Howse

RESIDUAL  
**5.0**  
MODERATE

INHERENT  
**10.0**  
HIGH

**22. Maritime operational risks: ship grounding/ collision, major shipping incident and failure of system**

**d** There is a risk of a maritime incident (including a ship grounding / collision or a major shipping incident) caused by an accident or system failure that may result in unlimited liability or action being brought against NRC .

**b** Corporate Risk Register, Community Resilience, Corporate Risk, Financial, Group Risk, Health and Safety, Service Delivery  
**Owner:**Victoria Harwood



**23. Access issues to field sites**

**c** There is a risk that landowners might not allow access across private land to field sites.

**i** Corporate Risk Register, Group Risk, Regulatory Services, Service Delivery  
**Owner:**Colin Dall



**24. Legal risk**

**d** There is a risk that NRC does not comply with legislation that may result in a breach of legislation that cannot be resolved internally and may rise to a judicial review or action and potentially penalties.

**i** Corporate Risk Register, Corporate Risk, Financial, Legislative, NRC - Whole Organisation, Service Delivery  
**Owner:**Bruce Howse



**TITLE:** Risk Deep Dives

**From:** Kym Ace, Corporate Systems Champion and Kyla Carlier, Corporate Strategy Manager

**Authorised by Group Manager/s:** Bruce Howse, Pou Taumatua – Group Manager Corporate Services, on 16 June 2022

### Whakarāpopototanga / Executive summary

This report presents deep dives into the risks:

- Changes in legislation and central Government policy impacting on council’s resources, budgets, and activities; and
- Cyber security attack.

The inherent and residual rating of these risks are considered extreme.

Potential causes of these risks include:

1. Changing political environment.
2. Changing social and economic environment.
3. Changing legislative environment including 3 Waters, RMA reform, Local Government reform, Human Resources Legislation, Climate Change, and Emergency Management.
4. Threats to information generated externally to NRC or from within the organisation.
5. The increasing global trend of cyber-crime.

### Ngā mahi tūtohutia / Recommendation

That the report ‘Risk Deep Dives’ by Kym Ace, Corporate Systems Champion and Kyla Carlier, Corporate Strategy Manager and dated 14 June 2022, be received.

### Background/Tuhinga

<b>Risk</b>	<i>Changes in legislation and central Government policy impacting council's resources, budgets, and activities.</i> R00080 There is a risk to NRC that legislation and/or central government policy could change which can potentially impact Council's resources, budgets and operational activities. These changes can cause significant costs to council and our ratepayers.		
<b>Inherent Risk Score:</b> <i>Unmitigated</i>	<b>Likelihood:</b> 5 (Frequent)	<b>Consequence:</b> 5 (Severe)	<b>Inherent Risk: 25</b> Extreme
<b>Underlying Causes (threats):</b>	<ol style="list-style-type: none"> <li>1. Changing political environment.</li> <li>2. Changing social and economic environment.</li> </ol>		

<p><i>How do you see these causes now – have they changed are there new causes?</i></p>	<p>3. Changing legislative environment including 3 Waters, RMA reform, Local Government reform, Human Resources Legislation, Climate Change, and Emergency Management.</p>																																	
<p><b>Current treatments:</b></p> <p><i>Are you assured that these treatments are effective, sustainable and evidenced?</i></p> <p><i>Would you do more, or is the risk reduced?</i></p>	<p>1. Ensure that we track central government proposals, policy and legislation. Consider the potential impact on council resourcing and submit where we consider proposed changes have a more than a minor impact (e.g. seek that the government use ‘lead-in’ times for any legal/process changes).</p> <p>2. Current proposals, their implications/impacts and treatments:</p> <table border="1" data-bbox="507 616 1412 1960"> <thead> <tr> <th>Changes/Proposals</th> <th>Implications/Impacts</th> <th>Treatment actions</th> </tr> </thead> <tbody> <tr> <td>3 Waters reform</td> <td>Moderate</td> <td>Ensure good collaboration and connection with relevant entities</td> </tr> <tr> <td>RMA reform</td> <td>Significant</td> <td>Participate directly and in conjunction with the regional sector</td> </tr> <tr> <td>Local Government Reform</td> <td>Significant</td> <td>Participate directly and in conjunction with the local government sector</td> </tr> <tr> <td>Climate Change</td> <td>Significant</td> <td>Participate directly and in conjunction with the local government sector and the community</td> </tr> <tr> <td>Emergency Management</td> <td>Moderate</td> <td>Increased engagement with tangata whenua and clearer definitions of roles and responsibilities for Civil defence</td> </tr> <tr> <td>Human Resources Legislation</td> <td>Workload impacts on HR team.</td> <td>Need to keep up with the legislation changes and refresh our policies and procedures</td> </tr> <tr> <td>Protected Disclosures</td> <td>Extension of whistleblower requirements which could lead to more personal grievances.</td> <td>Policy review and training</td> </tr> <tr> <td>Fair Pay</td> <td>Pay negotiations</td> <td>Maintain relationship with unions and keep staff informed</td> </tr> <tr> <td>Slavery</td> <td>Could affect procurement requirements</td> <td>Policy and process review</td> </tr> <tr> <td>Income Insurance Scheme</td> <td>Levies on employer (Levy estimated 1.39%), employee contributions (estimated 1.39%), impacts on payroll</td> <td>Policy review and training, budgetary considerations</td> </tr> </tbody> </table> <p>3. Council prepares and budgets for implementation of new government policy.</p>	Changes/Proposals	Implications/Impacts	Treatment actions	3 Waters reform	Moderate	Ensure good collaboration and connection with relevant entities	RMA reform	Significant	Participate directly and in conjunction with the regional sector	Local Government Reform	Significant	Participate directly and in conjunction with the local government sector	Climate Change	Significant	Participate directly and in conjunction with the local government sector and the community	Emergency Management	Moderate	Increased engagement with tangata whenua and clearer definitions of roles and responsibilities for Civil defence	Human Resources Legislation	Workload impacts on HR team.	Need to keep up with the legislation changes and refresh our policies and procedures	Protected Disclosures	Extension of whistleblower requirements which could lead to more personal grievances.	Policy review and training	Fair Pay	Pay negotiations	Maintain relationship with unions and keep staff informed	Slavery	Could affect procurement requirements	Policy and process review	Income Insurance Scheme	Levies on employer (Levy estimated 1.39%), employee contributions (estimated 1.39%), impacts on payroll	Policy review and training, budgetary considerations
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	<p>4. Assess and communicate any government guidance on the changes to relevant staff / teams.</p> <p>5. There is a process to engage following changes which includes: Identifying any changes through strategic management reviews, budget variations are prepared as indications are available and activity/ies review to assess feasibility of operations – significant resourcing changes set out in Annual / Long Term Plans as needed.</p> <p>6. Communicate/workshop central government policy/law changes and implications for resourcing needs with councillors.</p> <p>7. Ensure council processes, policies and plans are structured to be adaptable and responsive as possible.</p>		
<p><b>Recommendations of Management/Planned Treatments</b></p> <p><i>If more needs to be done, what do you suggest – and what are the limitations or constraints?</i></p>	<p><b>Recommendations include:</b></p> <ol style="list-style-type: none"> <li>1. Continue to monitor and review as necessary.</li> <li>2. Investigate Complywith solution for identification and management of legal compliance risk including information about changes in legislation and policy, getting clarity that obligations are complied with, and controls identified and managed.</li> <li>3. Include government policy / law changes as item / topic in strategic management reviews.</li> </ol>		
<p><b>Improvements to span of control:</b></p> <p><i>How will the implementation of planned treatments be effective in improving our ability to mitigate the risk?</i></p>	<p>The treatments will enable us to better manage legislation and/or central government policy changes. The proposed treatments are considered the most effective available to council to address this risk.</p>		
<p><b>Date actions to be delivered:</b></p>	<p>Ongoing and as resources are available.</p>		
<p><b>Target Residual Risk Score:</b></p> <p><i>Assumes all mitigations in place and where we would like to get to</i></p>	<p><b>Likelihood: 5 (Frequent)</b></p>	<p><b>Consequence: 4 (Major)</b></p>	<p><b>Residual Risk: 20</b> Extreme</p>

<p><b>Risk</b></p>	<p><b>Cyber security attack.</b></p> <p>R00014</p> <p>There is a risk of cyber security attack causing disruption to Council systems and possible loss of data</p>
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<p><b>Inherent Risk Score:</b> <i>Unmitigated</i></p>	<p><b>Likelihood:</b> 5 (Frequent)</p>	<p><b>Consequence:</b> 4 (Major)</p>	<p><b>Inherent Risk: 20</b> Extreme</p>
<p><b>Underlying Causes (threats):</b> <i>How do you see these causes now – have they changed are there new causes?</i></p>	<p>Information security relates to both electronic and manual storage of data, and corporate/personal information. In addition, it considers real time information/instructions that are electronically transmitted through the operational network. Threats to information can be generated externally to NRC or from within the organisation. There is an increasing global trend of cyber-crime therefore the inherent risk assessment assumes that with current controls (such as firewalls, VPN's, threat protection monitoring) there is an almost certain risk that NRC could fall victim to an intentional or opportunistic cyber event. This type of event would have a major consequence for NRC impacting core services. In addition to the several technical preventative controls in place that are operating effectively, NRC has compensating soft controls around staff and contractor competency, to be alert to activities such as phishing attacks and to ensure the protection of physical information.</p>		
<p><b>Current treatments:</b> <i>Are you assured that these treatments are effective, sustainable and evidenced?</i> <i>Would you do more, or is the risk reduced</i></p>	<ol style="list-style-type: none"> <li>1. Multiple layers of defences (Perimeter and endpoint). InPhySec managed Security Operations Centre (SOC) monitors alerts and detections. Strengthened security policies were implemented in October 2020 to increase the security posture removing access to some non-business and high-risk website sites.</li> <li>2. Modern detection applications in place and constantly monitoring, and use artificial intelligence for threat detection. (CrowdStrike, Mimecast, Netscope).</li> <li>3. Education programme (Mimecast, fraud, and seminars).</li> <li>4. Passwords for network accounts with elevated permissions are changed regularly and stored in an encrypted password safe.</li> <li>5. Action on recommendations conducted from resultant monthly reporting.</li> <li>6. Cyber Security Audit performed to assess the risk and develop a roadmap for strengthening our security posture. The InPhySec recommendations have been scheduled into the roadmap for implementation 2021/22.</li> <li>7. Ensure our current systems are updated to current releases/versions.</li> <li>8. Implementation of the Security Roadmap actions - Cyber roadmap is underway however current resourcing capacity limits the focus on its implementation. Policies are currently being reviewed and updated as the basis for improving our cyber culture and posture.</li> <li>9. Review quarterly threat report and review treatments for top 10 trends.</li> </ol>		
<p><b>Recommendations of Management/Planned Treatments</b> <i>If more needs to be done, what do you suggest – and what are the limitations or constraints</i></p>	<p><b>Recommendations include:</b></p> <ol style="list-style-type: none"> <li>1. Continue to operate robust IT management processes that support a secure, efficient, and enabling technology environment.</li> <li>2. Remain aware of the significant and increasing cyber security threats ensuring a balance of flexibility with risk and maintaining response and recovery plans.</li> <li>3. Plan with continuous review and investment in technology (software, systems and hardware) to enable us to remain current, secure and agile.</li> <li>4. Undertake an independent cyber maturity assessment review bi-annually.</li> </ol>		
<p><b>Improvements to span of control:</b> <i>How will the implementation of planned treatments be effective in</i></p>	<p>The treatments will enable us to better manage cyber security risk. The proposed treatments are considered the most effective available to council to address this risk.</p>		

<i>improving our ability to mitigate the risk?</i>			
<b>Date actions to be delivered:</b>	Ongoing and as resources are available.		
<b>Target Residual Risk Score:</b> <i>Assumes all mitigations in place and where we would like to get to</i>	<b>Likelihood: 4 (Often)</b>	<b>Consequence: 4 (Major)</b>	<b>Residual Risk: 16</b> Extreme

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**Attachments/Ngā tapirihanga**

Nil

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**TITLE: Business with the Public Excluded**

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**Whakarāpopototanga / Executive Summary**

The purpose of this report is to recommend that the public be excluded from the proceedings of this meeting to consider the confidential matters detailed below for the reasons given.

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**Ngā mahi tūtohutia / Recommendations**

1. That the public be excluded from the proceedings of this meeting to consider confidential matters.
2. That the general subject of the matters to be considered whilst the public is excluded, the reasons for passing this resolution in relation to this matter, and the specific grounds under the Local Government Official Information and Meetings Act 1987 for the passing of this resolution, are as follows:

Item No.	Item Issue	Reasons/Grounds
7.1	Confirmation of Confidential Minutes - 30 March 2022	The public conduct of the proceedings would be likely to result in disclosure of information, as stated in the open section of the meeting -.

3. That the Independent Financial Advisors be permitted to stay during business with the public excluded.
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**Considerations**

**1. Options**

Not applicable. This is an administrative procedure.

**2. Significance and Engagement**

This is a procedural matter required by law. Hence when assessed against council policy is deemed to be of low significance.

**3. Policy and Legislative Compliance**

The report complies with the provisions to exclude the public from the whole or any part of the proceedings of any meeting as detailed in sections 47 and 48 of the Local Government Official Information Act 1987.

**4. Other Considerations**

Being a purely administrative matter; Community Views, Māori Impact Statement, Financial Implications, and Implementation Issues are not applicable.