Auckland Council Controlled Organisations

Risk Summary Report July 2017

For the period ending 31 March 2017

Overview

Auckland Council-Controlled Organisations' (CCO) boards of directors are responsible for the oversight of risk management. As part of the Statement of Intent (SOI) quarterly reporting programme, the CCOs report risk issues to the Finance and Performance Committee.

At its 16 December 2014 meeting, the Audit and Risk Committee requested that CCOs include a summary of risk information in their quarterly reports, including:

- how key risks are identified, assessed and managed;
- an update on the approach to risk management, internal audit and external audit;
- progress on the current internal and external audit issues;
- any financial impacts that will affect the council group; and
- any key risks that are of a senior management or governance level that could impact on the wellbeing or reputation of the CCO or the council.

Risk Information Summary

The following section provides a summary of the risk information provided by each of the following CCOs in their quarterly reports for the period ending 31 March 2017:

- Auckland Council Investments Limited (ACIL);
- Auckland Tourism Events and Economic Development Limited (ATEED);
- Auckland Transport;
- Panuku Development Auckland (Panuku);
- Regional Facilities Auckland (RFA); and
- Watercare Services Limited (Watercare).

While the above requirements appear to be largely met, the format and content of the risk information varies for each CCO meaning that it can be unclear if they have reported on, and duly considered, all of the requirements.

1. ACIL

ACIL follows and applies the council's Enterprise Risk Management Framework. ACIL management is responsible for identifying, assessing, controlling and managing risks.

The risks are identified in a risk register showing each risk, its consequence and likelihood on a scale of 1 to 5, enabling a risk score and risk rating to be identified. The risk register is reviewed by ACIL's board. Risks are defined as events which if they occur will result in loss to the organisation. Losses may be financial, reputational or a reduction in efficiency or effectiveness.

There has been no change in ACIL's approach to risk management since the preceding quarterly report. No outstanding internal or external audit issues were identified in the report. All controls are held to be operating effectively and no events have occurred or are anticipated that will have a financial impact on the Council Group. Moreover, no events have occurred at a senior management or governance level that would impact on the wellbeing or reputation of ACIL or the council.

2. ATEED

ATEED continues to embed health and safety routines into its day-to-day activities by implementing a best practice health and safety management system. It will implement Risk Manager (new software being implemented across the council) in Q4, which will significantly improve reporting on health and safety incidents and practices. From 1 June 2017, ATEED has been included in app-based capability to quickly and efficiently report issues.

In the last quarter an internal review on ATEED's contractor management was undertaken, assessing the use of physical works contractors who are often engaged to undertake work at festivals, events and projects on ATEED's behalf. Further discussions are required with the council's Procurement team and other CCOs to ensure that ATEED is meeting legislative requirements, and to assist with the development of an approved list of preferred contractors.

Portfolio risks and issues managed during the quarter include:

- The development of ATEED's new website suffered several temporary setbacks, including the loss of data. The new website is due to be launched in Q4, with a robust contingency plan in place in respect of potential data loss and website security.
- The Kumeu Film Studios had minor issues during early induction. These issues were successfully managed and resolved, and a Project Facilitator was appointed.
- A new location for the Lower Queen i-SITE has been identified. This involved the resolution of a number of issues that existed due to the site's location next to a construction site.

The overall risk profile of ATEED is relatively stable. There are currently no critical or high risks after the application of mitigations.

Internal Audit:

ATEED continues to use a combination of internal and external audit capabilities to carry out business reviews, as directed by the council's Internal Audit Unit. This method is used in order to capitalise on the growing internal capability.

- The GridAKL review has been completed and all actions completed.
- ATEED uses the council's procurement process, which is currently undergoing major changes, resulting in the planned procurement audit being postponed by six months.
- An internal audit of ATEED's Project Management Office by the council's Head of Internal Audit has been completed, and the draft report is due to ATEED's management team in May.
- A review of the 2015 Security Audit will be carried out during Q4.
- A review of the 2016 Sensitive Expenditure Audit will be carried out during Q4.
- ATEED's business continuity plan will also be developed during Q4, which will include ethics and integrity training for all ATEED staff.

External Audit:

The Audit New Zealand letter of engagement for the financial year-end has been completed, and interim audit work has commenced.

3. Auckland Transport

Internal audit

- **Top 12 Risks:** In the quarter ending March 31 2017, AT's Risk & Assurance Team continued to work with senior management to implement the formal program to perform an in-depth analysis of each of the top 12 risks over a 12 month rolling period. These keys risk are across a number of areas including strategy, finance, procurement, major project delivery, technology and cybersecurity and health & safety. In this quarter, the next three of the top 12 risks were analysed in detail to provide the Executive Leadership Team and key Committees with further information relating to each risk, in order to enable a better understanding, assessment and monitoring of these risks. Risk and control attestation statements have been prepared for executive management with a plan to attest on a regular basis. Risk appetite statements are under development for the Top 12 risks of the organisation.
- **Fraud and Corruption Workshops:** Risk & Assurance has delivered four Fraud and Corruption Awareness workshops this quarter. This programme is ongoing.
- **Update of AT's Risk Management Framework:** Risk and Assurance will undertake an update of AT's Risk Management Framework, a review of AT Polices and Charters and development and will introduce the Bowtie methodology for the assessment of key risks.
- **Delivery of the 2016/2017 internal audit work plan** is on track with several audits in key areas such as cyber security and health & safety nearing

completion. A number of special investigations (i.e. unplanned work) are also in progress or have been completed.

- Risk and Assurance also continue to provide a **probity audit and advisory services on high value procurements** or those deemed to be high risk in line with AT's Procurement Strategy.

External Audit

The 31 December 2016 half year engagement review and reporting pack submitted to Auckland Council was signed off by Audit New Zealand with no significant issues. The interim audit in preparation for the June 2017 year end final audit is currently being completed. The focus of the interim audit is to update the understanding of AT's internal control, and includes a review of the control environment, risk assessment processes and relevant aspects of system controls. The results of this work will have an impact on the level of testing involved in the final audit. No major concerns have been identified at this stage.

Group Financial Impacts

AT is unaware of any financial impacts that would affect the Auckland Council Group. No changes have been made in this quarter to the approaches taken towards risk management, internal audit or external audit.

4. Panuku

Panuku has a comprehensive risk management framework based on the AS/NZS ISO 31000: 2009 Risk Management Standard. This provides a structured approach to identifying and managing uncertainties relating to achievement of its objectives. Panuku will continue to take and manage risks in a calculated and responsible way, in line with achieving shareholder outcomes.

Key Risk Activities and Processes:

- Panuku's board and Senior Leadership Team review key organisational risks on a monthly basis.
- The board's subcommittees and groups provide direction on risk management or key risk areas such as the Audit & Risk Committee and Health & Safety Advisory Group.
- Policies are implemented in order to provide guidance on the management of organisational risks such as the Health & Safety Policy and the Conflict of Interest Policy.
- The internal decision-making process involves risk assessments. For example, business case proposals are supported by a cost benefit analysis.
- Special reviews are undertaken, such as due diligence on financial viability of development partners.
- Real time reviews, internal audit programme and other activities providing assurance on the effectiveness of controls for managing risks are undertaken.
- An annual independent audit is completed by Audit New Zealand.

Current significant risks to Panuku are:

- The pipeline of sites for future development.
- Funding for significant 'Transform' and 'Unlock' projects.
- The health and safety of the public and workers across Panuku's areas of control.
- The integration of planning across the Council group.
- The impact on property maintenance service as a result of Council's change to new maintenance service providers and supporting systems.

5. RFA

RFA's Enterprise Risk Management Framework sets out the principles and process for risk management across RFA's business units. The following functions form part of this Framework's processes:

- Quarterly risk workshops are undertaken with each of RFA's business units.
- Risks are recorded in RFA's risk database and reported through to the RFA Board and the Health, Safety & Risk Committee on a quarterly basis.
- Any risks assessed as 'high' are required to have mitigations identified and these are also reported to the Board. RFA's Capital Projects Sub-Committee also provides the Board with appropriate oversight of projects considered high public interest or risk.

No major changes have been made in the last quarter to RFA's risk management, internal audit and external audit approaches. No risks assessed as 'high' have been newly identified since the last quarter. RFA is currently undertaking a strategic risk review across the organisation.

RFA management is currently addressing improvements identified in internal and external audit findings, and progress is reported to RFA's Audit Committee. The current audit issues do not impose any significant financial implications on the council group. In accordance with the continuous disclosure requirement, there are no material items in this period that would require disclosure to the council.

6. Watercare

Quarterly Risk Management Update

- The "Tasman Tempest" storm event of 7 and 8 March 2017 saw unprecedented levels of silt in the raw water entering the Ardmore Water Treatment Plant, which impacted the production of potable water. In addition other plants (principally Waikato) were also impacted, and this combined impact on the water supply and treatment increased the risk that Watercare would not be able to supply sufficient quantities of treated water to meet demand. In the worst case a 'boil water notice' would have been required if Watercare had been forced to supply partially treated water to meet demand.

- Risks regarding the deterioration of raw water quality affecting treatment processes and potentially compromising compliance with Drinking Water Standards for New Zealand are captured in Watercare's Water Safety Plans (WSPs). These WSPs have been approved by the Auckland Regional Public Health Service – Drinking Water Assessment Unit, based on compliance with legislation and guidance provided by the Ministry of Health.
- At an Enterprise Risk level, water production sufficient to meet a three day peak demand is now recognised as a more acute risk, while the raw water in the Hunua dams remains heavily silted. The risk recognises the increased likelihood of production impacts should further silt enter the dams in the Hunua Ranges, or if other sources should also degrade.
- It should be noted that at no time during or post the weather event was there a compromise of quality in water or risk to public health, and Watercare continued to meet the commitment to provide 'Aa' grade water.
- Actions designed to mitigate the impact of the degraded water over the short to medium term are underway and will ensure that Watercare can meet the higher seasonal demand which will occur from November 2017 onwards. Hydro seeding has been undertaken on the slopes which were subject to significant erosion during the "Tasman Tempest".

Risk Management Governance

Watercare has an established Risk Management Policy and Framework which follows the guidance of the AS/NZS ISO 31000: 2009 Risk Management Standard. Risks are therefore identified and evaluated using likelihood and consequence scores, and ranked accordingly. The highest ranked risks and significant emerging risks are reviewed by senior management and Watercare's board through management and board level reporting.

There have been no significant changes to Watercare's risk processes in the reporting period, with the exception of event noted above. The Internal Audit function produces an Annual Plan which is approved by Watercare's Audit & Risk Committee. Quarterly reporting is also completed by senior management against the Audit & Risk Committee's plan.

The Audit & Risk Committee maintains oversight of progress by management in implementing the recommendations arising from the work of the Internal Audit. The Committee is satisfied that all matters raised are being addressed by management.

Disclosure

The Watercare Executive Management Team regularly gives consideration to events that would trigger a requirement for disclosure. There were no such events during the reporting period.