

## **AUDIT & RISK MANAGEMENT SUBCOMMITTEE**

### **AGENDA**

**WEDNESDAY 28 AUGUST 2013**

**AT 1PM**

**COMMITTEE ROOM 1, SECOND FLOOR, CIVIC OFFICES, 53 HEREFORD STREET**

**Subcommittee:** Councillor Tim Carter (Chair)  
Councillors Helen Broughton, Sally Buck, Ngaire Button, Jimmy Chen and Jamie Gough  
and Messrs John Hooper and Michael Rondel.

**General Manager  
Corporate Services**  
Diane Brandish  
Telephone: 941-8540

**Committee Adviser**  
Warren Brixton  
Telephone: 941 8439

#### **INDEX**

<b>ITEM NO.</b>	<b>DESCRIPTION</b>	<b>PAGE NO.</b>
1.	<b>APOLOGIES</b>	<b>1</b>
2.	<b>DECLARATION OF INTEREST</b>	<b>1</b>
3.	<b>DEPUTATIONS BY APPOINTMENT</b>	<b>1</b>
4.	<b>OFFICE OF THE AUDITOR GENERAL - PUBLICATIONS</b>	<b>1</b>
5.	<b>CORPORATE RISK MANAGEMENT</b>	<b>3</b>
6.	<b>RESOLUTION TO EXCLUDE THE PUBLIC</b>	<b>17</b>



**AUDIT & RISK MANAGEMENT SUBCOMMITTEE 28. 8. 2013****1. APOLOGIES**

Nil.

**2. DECLARATION OF INTEREST**

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

**3. DEPUTATIONS BY APPOINTMENT**

John Wakely, CEO of the NZ Manufacturers and Exporters Association has been invited to address the committee.

**4. OFFICE OF THE AUDITOR GENERAL - PUBLICATIONS**

Reports for information of Committee Members - separately circulated.



## AUDIT AND RISK SUBCOMMITTEE 28. 8. 2013

### 5. CORPORATE RISK MANAGEMENT REPORT

<b>General Manager responsible:</b>	Bob Lineham, CEO, Christchurch City Holdings DDI 941-8475
<b>Officer responsible:</b>	Sue Chappell, Unit Manager, Corporate Services
<b>Author:</b>	Sue Chappell, Unit Manager, Corporate Services

#### PURPOSE OF REPORT

1. The purpose is to provide the Subcommittee with a report on the key corporate risks that the Council currently manages. This report is provided on a six-monthly basis.

#### EXECUTIVE SUMMARY

##### Overview

2. Prior to the earthquakes, the Council engaged PricewaterhouseCoopers to assist in the development of a Council Wide Risk Management Framework as part of an overall Internal Audit and Risk Management engagement. The resultant Risk Management Framework methodology [Appendix B] and the first report on risks were presented to the Audit and Risk Subcommittee on 01/06/2011.
3. As part of the ongoing process, new risks are identified across all Council groups. These have been analysed, ranked and had controls or treatments identified and implemented. Ongoing risk levels are being monitored as part of a quarterly internal review.
4. The current key corporate risks have been identified and reviewed, and are reported now to the Audit and Risk Subcommittee [Appendix A]. These will continue to be reported on a six monthly basis.
5. There was a request at the last Sub committee meeting for more detail to enable better understanding of these risks. It is proposed and trialed in this report, that we will do this through splitting some overarching risks into separate detail and add in further risks that are of a less significant nature (mainly through better controls).

##### Background

6. Risk Hierarchy Levels:  
Risks are identified and managed at different levels in the organisation in line with the responsibilities, abilities and skills of staff, and the specific nature of many risks.
  - i. Corporate Risk – Highest level covering risks for the entire organisation
  - ii. Activity Risk – Considers risks from all perspectives of each activity performed
  - iii. Specific Risks – Considers risks which relate to specific risks (eg infrastructure)
7. Corporate risks are identified and managed by senior management. The focus of these risks is likely to be on:
  - External influences affecting Council's service levels and effective operations
  - Risks that are common to more than one activity
  - Risks to Council's ability to meet service levels, react to emergencies, support the activities or projects of the Council
  - The most critical activities and specific risks.
8. Corporate risks will also summarise or combine a number of Activity or Specific risks (eg inadequate project management resource). These risks can be evaluated for each activity and the combined results used to form a corporate risk view.

#### STAFF RECOMMENDATION

That the Key Corporate Risk Report be received.

**AUDIT AND RISK SUBCOMMITTEE 28. 8. 2013**

Appendix A

**Key Corporate Risks that impact the Council**

The following risks are the key organisation risks – they form a “top-down” approach and are interdependent with the business units’ risks:

Balanced Score card	Category	Risk (Event / Condition)	Controls
Customer	Resilience of Infrastructure	Maintaining resilience of damaged underground infrastructure until rebuild completed.	* Infrastructure rebuild works proceed as per published programme and complete by 2017. * Governance and management to programme
Customer	Levels of Service	Delivery of core Council levels of service to the community	* Monthly internal performance management report (KPI's) and resulting improvement plans * Quarterly report to Corporate & Financial Committee and Council.
Customer	Capacity Planning	Council is able to meet its quality and time frame requirements in processing consents for repairs and also the delivery of Council repair projects	* Implementation of Crown Manager directives * Programme of developing contracted resource * Workforce management planning, including recruitment & retention of staff
Customer	Delivery of Capital Programme to milestones	Delivery of Council's capital programme to meet its completion milestones within the specified budget and has resolved insurance recoveries	* Detailed analysis of costs, funding & involvement of right groups * Forward planning throughout planning process. * Early engagement for critical projects to ensure accurate, timely & relevant briefings and scope.
Customer	Delivery of Capital Programmes	Delivery delays of citywide rebuild projects due to unresolved strategic and operational delivery agreements between external agencies and CCC	* 4 Avenues group has limited powers. Offset & minimise delays with: - CCC & 4 Avenues group - CCC / CCDU Operational Delivery Group - Council Workshops conducted as necessary to gain councillor feedback prior to formal Council deliberation
Customer	Natural Event	Risk of serious flooding which could happen as a result of earthquake land settlement	* Land drainage recovery programme * Working with SCIRT on strawman drainage solutions * Influence District Plan Review & Stormwater management plans
Customer	Service Delivery	SCIRT rebuild based on level of service functionality poses potential long term asset renewal contingent liability	Levels of Service & financials are regularly reviewed & reported to give clear picture of progress against total infrastructure rebuild estimate.
Customer	Service Delivery	Impact of rebuild works on traffic flow	* CTOC established * Public Information, education * Transport for Christchurch * Review code of practice for traffic management

## AUDIT AND RISK SUBCOMMITTEE 28. 8. 2013

## Key Corporate Risks that impact the Council - continued

Balanced Score card	Category	Risk (Event / Condition)	Controls
Customer	Social Good	Maintain availability of Social Housing	<ul style="list-style-type: none"> <li>* Undertake repairs in a timely manner</li> <li>* Prioritised as part of Facilities Rebuild Plan Top 30</li> <li>* Insurance negotiations as a priority</li> </ul>
Customer	Legislative Changes	Addition or removal of administration requirements due to legislative change (eg Liquor Act, Building Act, Sale & Supply of Alcohol)	<ul style="list-style-type: none"> <li>* LTP Annual Plan processes</li> <li>* Submissions on legislative changes</li> <li>* By-law review process</li> <li>* Senior management participation in steering groups (eg. MBIE, MPI Food Bill, LGNZ, SOLGM)</li> </ul>
Finance	Recovery Funding & Delivery	Forecast/planned Crown & insurance funding of the Earthquake Recovery Programme is achieved without delays and within forecast amounts	<ul style="list-style-type: none"> <li>* Cost sharing agreement with Crown</li> <li>* Insurance programme established</li> <li>* Advisors appointed by Council</li> <li>* Quarterly reporting to Corporate &amp; Finance Committee Meeting</li> <li>* Project Managers &amp; Finance working together</li> </ul>
Finance	Delivery of Capital Programmes	Ongoing and unpredictable market forces, insufficient resources and interdependencies with other external programmes	<ul style="list-style-type: none"> <li>* In-depth understanding of financial strategy by Unit Managers involved</li> <li>* Robust forecasting of costs</li> <li>* Utilisation of tracking systems</li> <li>* Three Year delivery plan</li> <li>* Prioritisation of work with SCIRT &amp; CCDU</li> </ul>
Finance	Budget	The Council operating within its approved capital and operational budgets	<ul style="list-style-type: none"> <li>* Monthly performance management monitoring.</li> <li>* Quarterly performance reporting to Corporate &amp; Finance Committee.</li> </ul>
Finance	Integrity	The Council having robust processes in place to combat possibility of staff fraud	<ul style="list-style-type: none"> <li>* Fraud &amp; Protective Disclosures policy</li> <li>* External Audit</li> <li>* Regular management reviews</li> <li>* Sufficient division of duties</li> </ul>
Process	Legal Compliance	The Council meeting its legal compliance requirements (as regulator and corporate body)	<ul style="list-style-type: none"> <li>* Maintain Professional Indemnity Insurance</li> <li>* Technical/ legal auditing services</li> <li>* Technical training services</li> <li>* Implement &amp; maintain Quality Management Systems across regulatory functions (ISO, BCA etc)</li> <li>* Strategy &amp; Policy documents</li> <li>* Information systems &amp; management</li> <li>* Briefings provided to Audit &amp; Risk Subcommittee on legal risks</li> </ul>

## AUDIT AND RISK SUBCOMMITTEE 28. 8. 2013

Process	External Standards	Options required where no policy exists for Govt evacuation of residential red zones – impacting levels of service and high costs of service for any occupants remaining	Working group established to explore the options
---------	--------------------	--	--

**Key Corporate Risks that impact the Council - continued**

Balanced Score card	Category	Risk (Event / Condition)	Controls
Process	Public Safety	Risk of injury during CBD rebuild	<ul style="list-style-type: none"> <li>* Reinforce back to BAU for contractors</li> <li>* Prepared to still close roads</li> <li>* Manage &amp; restrict use of public space by contractors where possible</li> <li>* Keep road corridors open &amp; safe</li> </ul>
Process	Information Availability	Availability of data on hazards such as contaminated land, slip, flooding, rockfall & liquefaction	<ul style="list-style-type: none"> <li>* Contaminated Land project in progress including HAIL identification solutions</li> <li>* Flood management modelling (nearing completion)</li> <li>* Geotech reports due approx Jan 2014</li> <li>* Ecological &amp; Contaminated Land IT project awaiting prioritisation</li> </ul>
Process	IT Security & Availability	Information confidentiality, integrity & availability in systems	<ul style="list-style-type: none"> <li>* IT security policy and compliance</li> <li>* IT Governance</li> <li>* IT Disaster Recovery Process</li> </ul>
People	Staff Wellbeing & Resilience	Productivity and retention of staff caused by fatigue & burnout due to aggressive ramping up of recovery work, increased workload and intensity of work in third year of post disaster.	<ul style="list-style-type: none"> <li>* Leaders manage demand &amp; prioritise</li> <li>* Use different delivery structures</li> <li>* Workforce planning well in advance</li> <li>* Relevant recruitment is timely/ fast</li> <li>* Me@CCC promoted (support tools for managers &amp; staff)</li> <li>* Lunch time forums available on support options</li> </ul>



## Appendix B

## Methodology Followed

## 1. Definitions

*Definition of key terms*

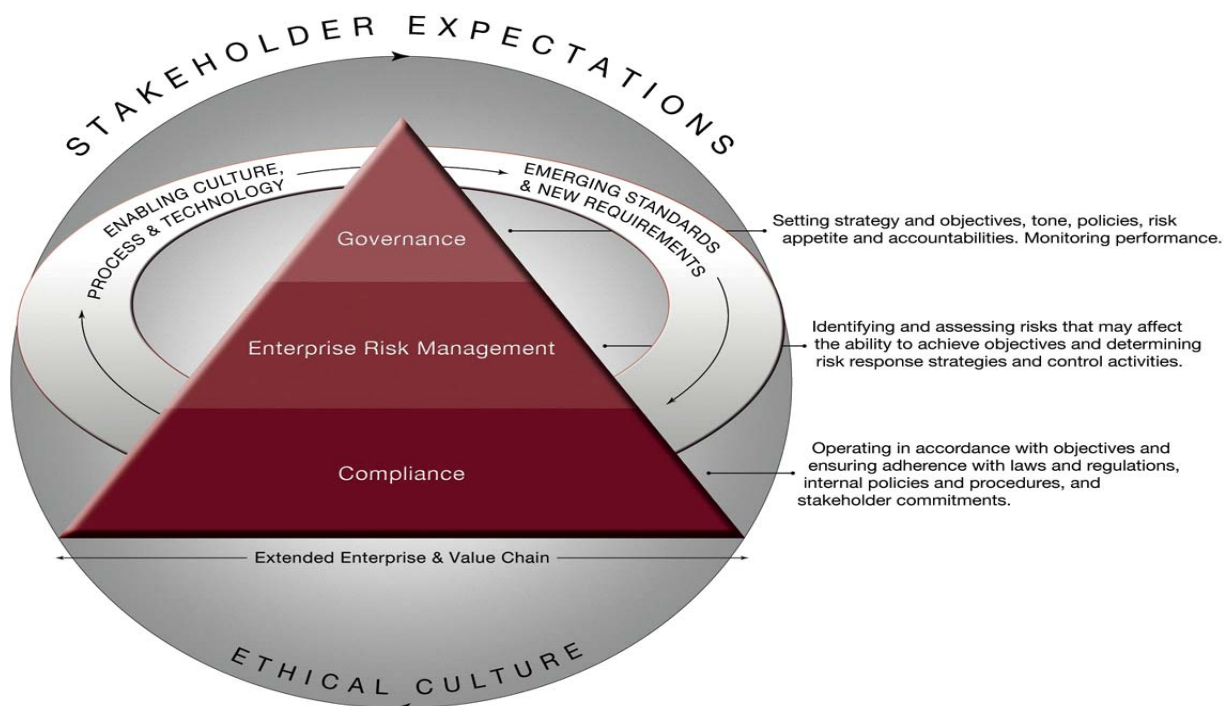
The following definitions are used:

- **Council Objective** – an organisational goal (for example those included in LTP or Plan on a Page or regulatory set objectives)
- **Risk** – threat or enabler to the achievement of a Council objective
- **Control** – any process or tool that assists in the achievement of an objective
- **Gap** – any gap between the desired and existing activity
- **Net Risk** – the impact and likelihood of a risk, taking into account existing controls

## 2. Tools used to facilitate Risk Identification

*A) The Governance, Risk and Compliance Model*

This model will be presented at the workshop as a tool for framing further discussions around Risks and the purpose of Risk Management. In moving towards an effective Risk Management process, the model illustrates three key activities and the surrounding cultural, technology and emerging requirements expected of stakeholders – applicable to an organisation such as the Council. We have tailored a model for CCC during the course of this review (see section 4).



**AUDIT AND RISK SUBCOMMITTEE 28. 8. 2013**

## AUDIT AND RISK SUBCOMMITTEE 28. 8. 2013

### B) The PwC Business Risk Model

The PwC Business Risk Model was used as a guide during the interview processes and will also be revisited at the workshop as a useful checklist to assist in the discussion of the identified risks. The tool provides a generic list of risk types by categories of risk. Reviewing the categories of risk outlined in this model enables participants to assess whether they have considered all categories of business risk. Again, this model can be applied in a Council setting.

## Business Risk Model

### Short Definitions of Business Risks

Environment risk		
Competitor	Customer wants	Technological innovation
Sovereign/political	Legal	Regulatory
Industry	Financial markets	Catastrophic loss
Sensitivity	Shareholder relations	Capital

Process risk		
<b>Operations</b> Customer satisfaction Human resources Knowledge capital Product development Efficiency Capacity Performance gap Cycle time Sourcing Channel effectiveness Partnering Compliance Business interruption Product/service failure Environmental Health and safety Trademark/brand erosion	<b>Empowerment</b> Leadership Authority/limit Outsourcing Performance incentives Change readiness Communications	<b>Financial</b> <b>Price</b> Interest rate Currency Equity Commodity Financial instrument
	<b>Information processing/technology</b> Relevance Integrity Access Availability Infrastructure	<b>Liquidity</b> Cash flow Opportunity cost Concentration
	<b>Integrity</b> Management fraud Employee/third party fraud Illegal acts Unauthorized use Reputation	<b>Credit</b> Default Concentration Settlement Collateral

Information for decision making risk		
<b>Process/operational</b> Product/service pricing Contract commitment Measurement (operations) Alignment	<b>Business reporting</b> Budget and planning Accounting information Financial reporting evaluation Taxation Pension fund Investment evaluation Regulatory reporting	<b>Environment/strategic</b> Environmental scan Business model Business portfolio Valuation Organization structure Measurement (strategy) Resource allocation Planning Life cycle

### 3. The Council's Objectives / Priorities

#### Identification of Mission and Vision and Strategic Objectives

By definition, the key risks to Council should be those that have the potential to impact on the achievement of the LTP, the Executive Team's "Plan on a Page" and other regulatory/ statutory responsibilities to the community. Therefore these objectives must be recognised in order to ensure that:

- a) All key risks associated with those objectives are identified; and
- b) Risks that do not affect the achievement of those objectives are excluded (as not being key).

The Council's organisational goals are stated below:

#### Christchurch City Council – Organisational Goals

1. being customer-driven and community-orientated
2. thinking strategically and acting as one organisation
3. building leadership capability throughout the organisation
4. being performance-driven and accountable for results
5. behaving according to shared values

#### Christchurch City Council – Vision

"Making Christchurch a world-class boutique city".

The organisational goals and vision of the Council are summarised in the following Council diagram



**AUDIT AND RISK SUBCOMMITTEE 28. 8. 2013**

The Council's organisational goals and visions have been translated into the Executive Team's "Plan on a Page". The objectives are aligned to the Council's balance scorecard approach and are as follows:

<b>Customer</b>	<b>Finance</b>	<b>Process</b>	<b>People</b>
Satisfy Customers	<b>Manage service delivery in budget</b>	<b>Prepare annual plan</b>	Build Customer focus
<b>Deliver LTP services and projects</b>	Maintain sustainable financial health	Implement opportunities for improvement	<b>Improve staff engagement</b>
Manage elected member relationships	<b>Manage capital project delivery in budget</b>	<b>Manage for performance</b>	Ensure ET workload is manageable (ET)

***Note: The above objectives were current to 6 July 2010. These objectives will be reset given current priorities before the start of the new financial year. The "bold" objectives are organisation objectives and appear in all staff performance agreements. These will remain in place.***

## 4. The Council's Risk Methodology

The risk assessment process starts by identifying the appropriate risks. These risks are then rated as "Net Risks" – i.e., the impact and likelihood of these risks are assessed **taking into account the controls that currently exist to mitigate the risk.**

### ***Step 1: Linking identified risks to objectives***

The first step is to ensure that the identified risk is a risk to the achievement of Council's vision and objectives. In order to make this relevant to the Council, each risk was, in the first instance categorised under the balanced scorecard headings (Finance, Customer, Process and People) and then categorised by "risk type". The "risk type" category is designed to align the risk to an area of service delivery.

### **Risk Type Categories (in no particular order)**

Projects	Other Agencies	Staff Safety	Events
Organisational	External Standards	Integrity	Central Government
Contracts	Service Delivery	Security	Decision Making
Policies	Assets	Legal Compliance	Political
Information	Public Safety	Skills	Resourcing
Change Management	Finance	Industrial Relations	Planning

NB: The approach to risk categorisation will be based on an appropriate derivation of the Risk Model.

### ***Step 2: Determine the impact of the risk***

The second step was to determine the impact the risk would have on each business unit and the wider Council. To achieve this, each Business Unit used the risk ratings and criteria as set out in Table 1 below.

We identified four key types of possible impact (Operational, Health and Safety, Reputational and Financial), and five levels of impact for each type – ranging from "Minor" to "Extreme".

It should be noted that each type of impact must be considered separately, and comparison is not made between them. For example, whilst we suggest that a risk with an economic impact greater than \$10m is extreme, this does not mean that the financial value of the other extreme impacts (such as "Serious or sustained public and media attention") is also valued at greater than \$10m.

**AUDIT AND RISK SUBCOMMITTEE 28. 8. 2013**

**Table 1: Risk Impact Criteria**

		Impact Criteria			
		F	H	R	C
Measure		Financial Impact	Impacts on Public health and safety	Image, Reputation and Public Support	Service Delivery Impact on Customers and Community
1	<b>Insignificant</b>	Impact +ve or -ve: <\$100,000	No health or safety impact. Injury managed with 1 <sup>st</sup> Aid	No media attention or reputational impact.	Very localised-little effect.< 20 Customer hours
2	<b>Moderate</b>	Impact +ve or -ve: \$100,000 - \$1,000,000	Minor health or safety impact on small number of people. Injury dealt with. No Hospitalisation	Minimal media attention. May be some local coverage-not front page	Impact on small group of residents. 20 to 500 Customer Hours
3	<b>Significant</b>	Impact +ve or -ve: \$1m to \$5m	Serious health or safety impact on small number (injuries require hospitalisation) or minor impact on large number of people.	Local media coverage, community interest in Council performance	Some impact on a wider group. 500 to 20,000 Customer Hours
4	<b>Major</b>	Impact +ve or -ve: \$5m to \$10m	Extensive injuries or significant health or safety impacts, permanent disablement or single fatality.	National media coverage, major impact on community support.	Significant impact on large group. Political involvement. 20,000 to 500,000 customer hours
5	<b>Extreme</b>	Impact +ve or -ve: > \$10m	Widespread health or safety impacts, multiple fatalities.	International media coverage and impact on community support. External Enquiry. Appointment of a Commissioner.	Significant impact on community at large. Over 500,000 customer hours.

**AUDIT AND RISK SUBCOMMITTEE 28. 8. 2013**

**Step 3: Determine the likelihood of the risk occurring**

The second axis on which the risk is assessed is the likelihood of the risk occurring. The following definitions of likelihood were agreed:

<b>Likelihood Criteria</b>		
<b>1</b>	<b>Rare</b>	Unlikely to occur within the next 10 years
<b>2</b>	<b>Unlikely</b>	May occur within the next 10 years
<b>3</b>	<b>Possible</b>	May occur within the next 5 years
<b>4</b>	<b>Likely</b>	May occur within a one year period
<b>5</b>	<b>Almost certain</b>	At least one event likely per month



## AUDIT AND RISK SUBCOMMITTEE 28. 8. 2013

### **Step 4: Multiply the Impact and Likelihood Ratings to produce the Risk Rating**

The final step is to multiply Impact by Likelihood to produce the overall risk rating.

$$\text{Impact} \times \text{Likelihood} = \text{Overall Risk Rating}$$

Given that we have used a five-scale rating for Impact and Likelihood, this will result in a number between 1 and 25.

The following definitions were agreed to categorise the overall risk ratings:

Impact	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		Likelihood				

Overall Risk Ratings	
1, 2, 3	Insignificant
4, 5, 6	Moderate
8, 9, 10, 12	Significant
15, 16	Major
20, 25	Extreme

### **Key points to note when applying risk ratings**

- Only risks that are rated "Significant" or above (Net Risk) will be taken forward into the action planning stage.
- For the Risk Ratings, when assessing a general risk (such as, "Critical ICT system failure resulting in loss of critical data"), the impact and likelihood of the event will vary widely, depending on the exact nature of the event.

It is not practical to attempt to define all ICT system failure events that may lead to loss of data since many will not be of sufficient significance to warrant this effort.

Therefore, the approach is to apply the lowest Impact and Likelihood Ratings that will still result in the risk being rated as Significant.

Either:

"Impact = 3, Likelihood = 3, Risk Rating = 9" OR

"Impact = 2, Likelihood = 4, Risk Rating = 8" OR

"Impact = 4, Likelihood = 2, Risk Rating = 8"



**AUDIT & RISK MANAGEMENT SUBCOMMITTEE 28. 8. 2013****6. RESOLUTION TO EXCLUDE THE PUBLIC**

Attached.



**AUDIT & RISK MANAGEMENT SUBCOMMITTEE 28. 8. 2013**

28. 8. 2013

**AUDIT AND RISK MANAGEMENT SUBCOMMITTEE**

**RESOLUTION TO EXCLUDE THE PUBLIC**

*Section 48, Local Government Official Information and Meetings Act 1987.*

I move that the public be excluded from the following parts of the proceedings of this meeting, namely items 7, 8 and 9.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987, for the passing of this resolution are as follows:

GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	REASON FOR PASSING THIS RESOLUTION IN RELATION TO EACH MATTER	GROUND(S) UNDER SECTION 48(1) FOR THE PASSING OF THIS RESOLUTION
7. QUARTERLY PROCUREMENT REPORT TO THE AUDIT & RISK MANAGEMENT SUBCOMMITTEE – QUARTER FOUR 2013.	)	
8. AUDIT NEW ZEALAND INTERIM MANAGEMENT REPORT FOR YEAR ENDED 30 JUNE 2013	) GOOD REASON TO WITHHOLD EXISTS UNDER SECTION 7	SECTION 48(1)(a)
9. INTERNAL AUDIT ACTIVITY	)	

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987, and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:

ITEM	REASON UNDER ACT	SECTION	PLAIN ENGLISH REASON	WHEN REPORT CAN BE RELEASED
7.	Official Information Act (1982)	7(2)(b)(ii)	Would be likely to unreasonably prejudice the commercial position of the supplier	Never
		7(2)(h)	Enable Council to carry out commercial activities without prejudice or disadvantage	Never
		7(2)(i)	Enable Council to carry on negotiations without prejudice or disadvantage	Never
		7(2)(j)	Prevent disclosure for improper gain or advantage	Never
8.	Commercial activities	7(2)(h)	Enable Council to carry out commercial activities without prejudice or disadvantage	Never
	Improper gain or advantage	7(2)(j)	Prevent disclosure for improper gain or advantage	Never

## AUDIT &amp; RISK MANAGEMENT SUBCOMMITTEE 28. 8. 2013

ITEM	REASON UNDER ACT	SECTION	PLAIN ENGLISH REASON	WHEN REPORT CAN BE RELEASED
9.	Prevent Improper advantage	7(2)(j)	Prevent disclosure or use of information for improper gain or advantage	Never

**Chairperson's**

**Recommendation:** That the foregoing motion be adopted.

**Note**

Section 48(4) of the Local Government Official Information and Meetings Act 1987 provides as follows:

- “(4) Every resolution to exclude the public shall be put at a time when the meeting is open to the public, and the text of that resolution (or copies thereof):
- (a) Shall be available to any member of the public who is present; and
  - (b) Shall form part of the minutes of the local authority.”