

Report 08.13
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Committee Finance, Evaluation & Risk Committee
Author Barry Turfrey Chief Financial Officer

Risk Management Framework

1. Purpose

To inform the Committee about Greater Wellington's risk management framework.

2. Significance of the decision

The matters for decision in this report do not trigger the significance policy of the Council or otherwise trigger section 76(3)(b) of the Local Government Act 2002.

3. Background

The purpose of local government, as set out in the Local Government Act 2002, is to:

- Enable democratic local decision-making and action by, and on behalf of, communities
- Promote the social, economic, environmental and cultural wellbeing of communities, in the present and for the future.

Greater Wellington, as a local government organisation, carries out services and activities for the community. Many of these services and activities are required by law; others are determined by elected members as necessary for the well-being of the community. Elected members decide on the extent and nature of Greater Wellington's activities and services – and on the expenditure.

These services and activities are funded by rates, user charges and fees, central government grants and dividends from commercial investments, e.g. CentrePort Ltd.

The greater part of our operating revenue comes from rates – a compulsory tax on the community. Hence the need to conduct our business in an open, transparent and democratically accountable manner. The use of public money – compulsorily obtained – puts an added onus on local government to be prudent and minimise risk.

4. Risk management

Risk management can be defined as the culture, processes, and structures that are directed towards the effective management of potential opportunities and adverse effects.

Greater Wellington manages risk through:

- Internal controls
- External audits - voluntary
- External audits – mandatory

4.1 Internal controls

4.1.1 Business plans

In addition to the annual plan, managers prepare detailed business plans for their operation. These allow councillors to be fully informed about activities, issues and the performance management framework for that activity area.

4.1.2 Management quarterly reviews

Divisional Managers present quarterly review reports to the Chief Executive. These cover progress with performance targets in the business plans, current issues and budget forecasts and variances. The Chief Financial Officer assists the Chief Executive with these reviews which include detailed discussions about financial positions, options and issues.

4.1.3 Reports to Council

Council receives monthly financial reports about the current financial position and budget variances. Additionally, detailed quarterly reports are produced. Each half year there is an opportunity to do some re-budgeting if necessary. The annual report is also reported to, and approved, by Council.

4.1.4 Financial and operating delegations

Greater Wellington has a Delegations Register that is a record of the current delegations made to Greater Wellington's committees, subcommittees and staff. The actual, full delegations on which this register is based are kept on file by the Council Secretariat.

The Register records both the financial and non-financial delegations of Greater Wellington Regional Council.

The SAP financial system mirrors these delegations. No funds can be approved without the necessary approvals through SAP.

Delegations are the powers, functions and duties that are passed on from the Council to its committees, subcommittees and staff. They also include sub-delegations i.e. the powers, functions and duties that are cascaded through the organisation from the Chief Executive to management to officers, or from committees to subcommittees etc.

Having formal delegations in place provides a formal process for sign-off for expenditure etc.

4.1.5 Treasury management policies

Greater Wellington undertakes a number of treasury transactions each year. These are governed by its Treasury Management Policy which is approved by Council every three years or when amended.

In addition, Greater Wellington employs a Treasury Management Advisor. Currently that advisor is Asia Pacific Risk Management.

4.1.6 Asset management plans

Asset management plans are in place for all Greater Wellington's key assets.

4.1.7 Staff policies

There are staff policies in place that outline processes and appropriate standards of conduct, e.g. fraud policy. These policies are listed in a separate report to this meeting.

4.1.8 Plans

There are business continuity plans in place.

4.2 External audits- voluntary

4.2.1 ISO Accreditation

Greater Wellington has chosen to put quality assurance systems in place in three areas of activity: consents management, water supply and biosecurity. All these areas are ISO accredited and, as such, are regularly audited.

In the Environment Management Division, the management of consents (including compliance) and pollution control (in the western part of the region) has ISO: 9001 accreditation. The certification body TELARC carries out audits at least annually. At present they are being conducted on a six monthly basis.

In the Parks, Forests and Utilities Division, the water supply operation is certified to ISO 9001 standard and its environmental management system to ISO 14001 standard. Each

year an external audit company, certified by JAS-ANZ (the government-appointed accreditation body for Australia and New Zealand), conducts a surveillance audit of the ISO 9001 and ISO 14001 systems for water supply and a recertification audit is conducted every three years. The most recent external audit occurred in early January 2008 and was carried out by BVQI, the certification body.

In the Catchment Management Division, the Biosecurity Department collects, analyses, and reports on vertebrate pest densities to a number of clients (e.g. Strategy Animals, Plants, BvTb, Parks, TLAs). To ensure quality and reliability in reported results the International Standard AS/NZS ISO 9001/2000 is adopted as the framework. This framework includes a quality system of policy, procedures, processes and forms. The audit from Bureau Veritas verifies ongoing compliance to the ISO standards and identifies areas of possible improvement. Audits take place annually and an audit report is generated, with ISO certification continued or opportunities for improvement identified.

4.2.2 Regional Land Transport Strategy (RLTS)

The Land Transport Act 1998 requires the RLTS to be independently audited. Our auditor (Mein Consulting Ltd) reviews processes and document content for compliance against the numerous requirements of the Act. This was an ongoing process throughout the three years it took to complete the development of the strategy.

4.2.3 Major contracts (rail and trolley bus)

The rail contract between Greater Wellington and Toll is audited yearly by KPMG as part of the contract. Greater Wellington can also appoint its own independent auditor if it so wishes.

The trolley bus contract with New Zealand Bus Ltd is subject to value for money audits by auditors appointed by Greater Wellington.

4.2.4 Consents management

Greater Wellington takes part in a voluntary regional council sector audit process for the management of consents. The audit involves consents being evaluated against a series of agreed best practice protocols.

We also take part in a national audit of consent timeframes that is carried out by the Ministry for the Environment. This involves the collection of very detailed data in a prescribed form.

In the past, we have commissioned some independent audit of our consents management. A few years ago KPMG undertook an audit of the risk associated with our consents.

4.3 External audits – mandatory

4.3.1 LTCCP

Audit New Zealand is required to audit the LTCCP and any amendments to the LTCCP. This audit covers all the material contained in the LTCCP, not just the financial forecasts, and occurs at least every three years.

4.3.2 Annual Report

Greater Wellington's Annual Report, containing financial statements and performance measures, is subject to audit by Audit New Zealand.

4.3.3 Land Transport New Zealand (LTNZ)

Greater Wellington receives public money by way of grants from LTNZ for its public transport operations and transport policy. As a result LTNZ undertakes regular audits to ensure that Greater Wellington is complying with the procedural and technical requirements under which the grants were made. The last audit was completed in 2007.

4.3.4 Animal Health Board

The Animal Health Board provides significant funding for our Biosecurity programmes. Deloitte, under contract to the Animal Health Board, undertakes audits on a regular basis (4 in the last 24 months).

4.3.5 Drinking Water Standards

Greater Wellington supplies bulk water to four territorial authorities in the region. This water must comply with the Drinking-Water Standards for New Zealand 2005. Compliance with these standards is periodically reported to Regional Public Health drinking-water assessors. The Ministry of Health publishes an annual report on all registered drinking-water sources in New Zealand and their degree of compliance with the standards.

5. Risk management and mitigation

While Greater Wellington faces a number of risk factors, both financial and operational, it also undertakes a number of actions to mitigate this risk. A key aspect of our risk framework is our comprehensive insurance programme. This is reviewed on a yearly basis.

Our insurance programme and the actions taken to mitigate financial and operational risk (some of which have been discussed above) are summarised below:

5.1 Insurance

Currently, the insurance programme covers:

- Material damages
- Business interruption
- Forestry
- Contract work
- Motor vehicle
- Personal accident
- Travel
- Public/professional liability
- Harbour master liability
- Marine liability
- Civil defence emergency costs
- Fidelity guarantee
- Statutory liability
- Marine hull
- Employer's liability
- Directors and officers' liability

However, Greater Wellington has chosen to self insure a number of assets, in particular:

- Te Marua lakes
- Roads
- Infrastructure assets (pipelines etc)
- Stop banks
- Tunnels and bridges

For these assets Greater Wellington has put monies aside to cover any significant damage to the above assets. Currently these funds (on deposit) stand at over \$12 million.

5.2 Financial Risks

Financial risks are identified, along with actions of mitigation, are summarised in the table below:

Risk	Mitigation
Cost control	<ul style="list-style-type: none"> – Monthly, quarterly and yearly reporting against budget to management, Committees and Council. – Yearly audit. – Professional and experienced management.
Treasury operations	<ul style="list-style-type: none"> – Daily, monthly, quarterly and yearly reporting.

	<ul style="list-style-type: none"> – Treasury management policy (approved by Council) – External Treasury advisors – Professional and experienced management.
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5.3 Operational Risks

Operational risks are identified, along with actions of mitigation, are summarised in the table below:

Risk	Mitigation
Water - continuity of supply	<ul style="list-style-type: none"> – Asset management plans – Professional engineering standards – Full flexibility and some duplication of systems to allow for failure of treatment plants/pumping – Self Insurance fund. – Enhancements to systems to reduce risk of damage from seismic activity.
Water supply - quality	<ul style="list-style-type: none"> – Drinking water standards, reviewed by external organisations.
Water supply - quantity	<ul style="list-style-type: none"> – Sustainable yield model (long term) – Karaka model (short term) <p>Both models provide early warning to allow mitigation measures to be brought in</p>
Flood Protection	<ul style="list-style-type: none"> – Professional and experienced staff – Asset management plans – Professional standards of design.
Public Transport – EMU Project	<ul style="list-style-type: none"> – Professional advisors – Project team

	<ul style="list-style-type: none"> - Experienced and competent supplier - Insurance cover and bonds
Loss of Forestry	<ul style="list-style-type: none"> - Forestry insurance - Use of experienced contractors - Professional standards.
Damage to Regional Council Centre (RCC) and/or Masterton Office	<ul style="list-style-type: none"> - Business continuity plans - Business interruption insurance - Standby generator at RCC - Ability to operate from Masterton or Wellington sites - Material damages insurance.

6. Formal internal audit programme

6.1 Budget provision

Greater Wellington does not have a formal centralised internal audit function. In the past Audit New Zealand provided internal audit services. However, these ceased several years ago due to the conflict between its external and internal audit functions. Provision for an internal audit programme was included in the preliminary 2007/08 budget but was removed after councillor discussions. At this stage a total of \$40,000 has been included in the draft 2008/09 budget for an internal audit programme.

6.2 Benchmarking

While a number of organisations have a significant internal audit programme, others have little or no programme. The size of organisation is not a prime benchmark. Societe Generale, the French bank that lost US\$4.9billion through an internal fraud, has over 2,000 employees in its compliance (internal audit) department.

PriceWaterhouse Coopers (PWC) has indicated that organisations of a similar size to Greater Wellington spend 0.02-0.43% of their revenue on internal audit. The average is around 0.16% of revenue which, for Greater Wellington, would equate to \$300,000.

PWC also commented that local authorities in New Zealand tend to spend less than this. Their estimate of spend would be in the order of \$150,000 - \$250,000.

Cost estimates for some of the current audit measures described above are detailed below:

	\$
Environment (ISO)	
- Audit and staff costs	30,000
Water (ISO)	
- Lab testing	300,000
- Other	50,000
Biosecurity (ISO)	30,000
Transport	
- Rail contract	15,000
- LTNZ Audits	30,000
Treasury	
- Treasury advisor	24,000
Corporate	
- Annual report audit	120,000
- LTCCP audit (\$75,000/3)	25,000
Total	620,000

6.3 Quantate

Greater Wellington is considering buying a risk management software package called Quantate.

The Chief Executive and Chief Financial Officer have already seen a demonstration of the package.

Quantate, which was developed in Wellington, provides a framework for organisations to categorise their risks. It allows for continual updating, ranking and monitoring of risk.

The programme is used by a number of large organisations in New Zealand already, including a number of Councils and District Health Boards.

7. Conclusion

Although Greater Wellington does not have a centralised formal internal audit programme, there are numerous risk management measures in place.

It is possible that Quantate will provide a useful framework for our risk management activities and enhance the way in which we manage risk at Greater Wellington. We will be able to report orally about Quantate at the meeting.

8. Communication

No communication is necessary.

9. Recommendations

That the Committee:

1. **Receives** the report.
2. **Notes** the content of the report.
3. **Agrees** that a further report will be produced for the Committee once a risk management programme is implemented outlining work programmes.

Report prepared by:

Report approved by:



Barry Turfrey
Chief Financial Officer

David Benham
Chief Executive