

Audit, Finance & Risk Committee

14 March 2023

Report for Agenda Item | Rīpoata moto e Rāraki take 1

Department: Property & Infrastructure

Title | Taitara : Risk and Compliance Update March 2023

Purpose of the Report | Te Take mō te Pūroko

1. The purpose of this report is to provide a governance update regarding the status of the Queenstown Lakes District Council (QLDC) risk context, and an update on key organisational risks. The report also outlines proposed minor amendments to the Risk Management Policy and the proposed programme of works for the Risk and Compliance Organisation Unit.

Executive Summary | Whakarāpopototaka Matua

2. This report provides a governance update regarding the status of the QLDC risk context. No new risks have been added to the QLDC Risk Register since the last update to Audit, Finance & Risk Committee, however, a number of risks are noted as being of significance to Council. These relate to the management of social nuisance issues, unexpected change in costs, the onboarding of elected members, and the risks associated with having sufficient workforce capacity and capability to meet the future needs of the organisation. An update on treatment progress for these risks is outlined in each case.
3. The report provides an update on the Risk Culture Development and provides an overview of the Risk and Compliance Organisation Unit work programme. This will initially include risk 'reintroduction workshops' with all Tier 3 Managers and team members during January to March 2023. The workshops will inform proposed revisions to the Risk Management Policy to introduce a 'three lines of defence' model and a review of QLDC's risk appetite and tolerance and its definition and representation within the Risk Management Policy. The Risk and Compliance Team will also be developing a proposed Compliance Framework and Assurance Framework during the 2023 calendar year.
4. Finally, this report proposes minor amendments to the Risk Management Policy to better address risks posed by cyber security incidents, to clarify the approach to evaluating the likelihood of 'single events' and 'recurring events' and to better reflect business terminology and practice.

Recommendation | Kā Tūtohuka

5. That Audit, Finance & Risk Committee:

- **Note** the contents of this report and;
- **Recommend to Council** the proposed amendments to the Risk Management Policy.

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15 February 2023

Reviewed and Authorised by:



Name: Stewart Burns
Title: General Manager Assurance, Finance & Risk
17 February 2023

Context | Horopaki

6. In early 2019 a new Risk Management Framework was developed and deployed for QLDC. This framework consisted of a new QLDC Risk Management Policy and a new QLDC Risk Register. The following objectives were associated with the deployment of the Risk Management framework:

- Establish a risk appetite model that allows the Risk Management framework to be tailored to the QLDC context;
- Develop a clear, streamlined governance reporting process;
- Simplify the process of risk management with clear objectives, roles and responsibilities, principles and process guidelines; and
- Build a healthy risk and resilience culture across all management and governance tiers.

7. A Strategic Workforce Review commenced in July 2021 with the purpose of 'ensuring we are a future-ready workforce that's flexible, adaptable and change-ready in order to prepare for and respond to changes as they occur'. The review concluded in July and confirmed the introduction of a specific Risk and Compliance function, within the Assurance, Finance and Risk Directorate. Having a function with specific responsibility for enabling and driving good risk management practices is consistent with recommendations made by the Office of the Auditor General in the paper 'observations on local government risk management practices' (October 2021). A Risk and Compliance Manager was appointed in November 2022.

8. The Risk Management Policy requires regular reporting to both the Executive Leadership Team and the Audit, Finance and Risk Committee to ensure that good risk governance practices are maintained and that progress towards the above objectives remains on track.
9. This report seeks to support the governance role of the Audit, Finance and Risk Committee by providing updates on the following topics:
 - A. Changes to Organisation Risk Register
 - B. Significant Changes to Council Risk Context
 - C. Risk Culture Development
 - D. Treatment progress for key organisation risks
 - E. Risk and Compliance Organisation Unit work programme
10. In section F, this report outlines recommended minor amendments to the Risk Management Policy, to reflect cyber security risks and to better articulate the distinction between the likelihood of one-off events and recurring events. Other minor changes are proposed to reflect current business terminology and practice.

Analysis and Advice | Tatāritaka me kā Tohutohu

Changes to Organisation Risk Register:

11. No new risks have been added to the QLDC Risk Register since the last update to Audit & Risk Committee on 29 September 2022. As outlined in Section D, workshops are currently underway across the business to review strategic and operational risks, associated control plans and identifying emergent risks.

B. Significant Changes to Council Risk Context:

12. Although no new risks have been added to the QLDC Risk Register, within the last reporting cycle, the following risks are noted as being of significance to Council. These relate to the management of social nuisance issues, unexpected change in costs, the onboarding of elected members, and the risks associated with having sufficient workforce capacity and capability to meet the future needs of the organisation:

RISK00006 - Ineffective management of social nuisance issues results in loss of trust and confidence in the Council and negative media attention

RISK00020 – Unexpected Change in Costs

RISK00042- Ineffective induction training of Elected Members

RISK00047- Inadequate workforce capacity and/or capability to meet organisational needs

13. An overview of the treatment response for the mitigation of these risks is provided within section D of this report.

C. Risk Culture Development

14. The Risk and Compliance Manager, supported by the Organisational Performance Manager, has been holding 'reintroduction workshops' with all Tier 3 Managers and team members during January to March 2023. The workshops have been an opportunity to discuss organisation and community risks, review the relevance of recorded risks and associated control plans, and identify new and emerging risks. The workshops have also introduced the concepts of risk management oversight, insight and foresight and the 'three lines of defence' model and its appropriateness for QLDC.

D. Key Risk Treatment Progress:

15. **RISK00006** - Ineffective management of social nuisance issues results in loss of trust and confidence in the Council and negative media attention
16. There is an increased risk of social nuisance issues in the district during the peak summer holiday period. This has implications for our regulatory functions including, Parking, Dog Control, Freedom Camping, Waterways and Noise Control.
17. The number of people coming to our district over the Christmas and new-year period is high however it is for a relatively short period of time. Conflicts between differing user groups expecting different experiences of the district are expected however there are opportunities to encourage good behaviour.
18. With the large number of people in the district there is potential for non-compliance of rules and potential for an increase in social nuisances and potential for complaints escalating and gaining negative media attention.
19. Continuing from 2021/2022 there has been a continued focus on education as we head into the holiday period.
20. A wide range of engagement takes place using a range of tools including radio, Facebook, direct engagement with key parties and agencies including but not limited to the Department of Conservation, MBIE, Police, Vets and Coastguard and an increased level of staff out undertaking patrol functions.
21. When any matters come up over the Holiday period communication with the media has been prompt and managed carefully to ensure the community is informed, provided understanding of agency responsibility in some circumstances and the opportunity used to further educate around any associated rules and expectations.
22. Media surrounding regulatory matters was very limited over the holiday period.
23. **RISK00020** – Unexpected Change in Costs
24. To prudently manage our debt levels in light of high market inflation; increasing interest rates and the impact of leaky building legal claims (subject of a Publicly Excluded Paper which is confidential and legally privileged), the 3 Waters capital programme was reviewed with a resultant decrease in the capital budgets in 2022/23 and 2023/24. This has resulted in a series of proposed capital deferrals in both the current financial year and for the 2023/24 Annual Plan. The total 3 Waters capital changes total to \$40.7M with a further \$1.7M under the 'Other' programme for Queenstown Priority Growth Corridors. Changes to 2023/24 and beyond will be discussed within the 2023-2024 Annual Plan process.
25. **RISK00042**- Ineffective induction training of Elected Members

26. A comprehensive induction programme for Elected members was implemented by the Council Governance team as a treatment for this risk. This programme involved a broad range of workshops, hui's, meetings and training sessions to equip elected members with the requisite information, resources, equipment and relationship introductions to support them as they commence their governance roles.
27. The induction programme included external expertise including sessions on decision-making, LGA framework, responsibilities, conflicts, standing orders, meeting procedures and reporting requirements from Simpson Grierson.
28. The Governance team will continue to engage with elected members on further training opportunities and will offer 'refresher' training on specifically identified council processes later in the year.
29. **RISK00047**- Inadequate workforce capacity and/or capability to meet organisational needs
30. The workforce review was an important treatment response to RISK00047. The purpose of the workforce review has been to evaluate potential changes to the organisation structure, resourcing levels and ways of working to ensure that the organisation is resilient, flexible, adaptable and ready for future changes. The commencement date for the new design was 5 September and it included a number of key organisational changes that will provide a strong foundation for supporting the future needs of the organisation. These changes include:
 - A new Strategy & Policy Directorate and General Manager position (appointed)
 - A new Risk and Compliance Team (Manager appointed)
 - A new Organisation Performance Team (Manager appointed)
 - A new Resilience and Climate Action Manager role (appointed)
 - A new Organisation Development Team (appointed)
31. The workforce review identified that a procurement review was required to further identify requirements for a Procurement function, within the Assurance, Finance and Risk Directorate, relating to systems, processes and resources. A tender for the development of a QLDC wide Procurement Strategy was advertised via the Government Electronic Tender System (GETS) in August 2022 and was awarded to ArcBlue Consulting Limited. The strategy will inform the final structure of a Procurement function and how it will be organised.

E. Compliance Organisation Unit work programme

Current Activity

32. As outlined in Section C, the Risk and Compliance Manager, supported by the Organisational Performance Manager, has been holding 'reintroduction workshops' with all Tier 3 Managers and team members during January to March 2023.

Proposed Activity During Financial Year 22/23 (to end June 2023)

33. Following workshops with Tier 3 Managers, the Risk and Compliance Manager will work with the business to update existing risks, review control plans and input emergent risks into the risk register (TechOne module). Improvements in the visibility of the Risk Register will also be considered alongside measures to ensure that risk management remains dynamic and responsive.

34. The Risk and Compliance Manager will seek guidance from the Executive Leadership Team (or Strategy Group as directed by the Chief Executive) on proposed amendments to the Risk Management Policy to consider the following, before seeking recommendations from the Audit, Finance and Risk Committee:

- The incorporation of a 'three lines of defence model' into the Risk Management Framework. The three lines of defence model is rapidly gaining universal recognition¹, providing enhanced clarity regarding roles and responsibilities for risk and control management systems and processes and to help improve the effectiveness of an organisations risk management framework. In summary, a three lines of defence model has the following lines¹.:
 - The first line of defence - functions that own and manage risks
 - The second line of defence- functions that oversee or who specialise in compliance or the management of risk, own policies and frameworks to support risk management processes
 - The third line of defence - functions that provide independent assurance, i.e. internal audit function
- An initial draft three lines of defence model is provided below (Figure 1) and will be further developed with the business.
- A review of QLDC's risk appetite and tolerance and its definition and representation within the Risk Management Policy
 - Risk appetite refers to the amount of risk QLDC is willing to accept in pursuit of its objectives. Depending on the nature of the activity there will be a range of outcomes that QLDC could accept, this range in outcomes is QLDC's risk tolerance.
 - In this regard, risk management is about finding an acceptable balance between the impact on objectives should a risk be realised and the implications of treating the risk (i.e. financial cost, potential service level impacts and other consequential risks associated with a different approach).

35. As outlined below, the Risk and Compliance Manager has also initiated the development of a compliance obligations register for mandatory external (legal) obligations.

¹ ECIIA/FERMA Guidance on the **8th** EU Company Law Directive

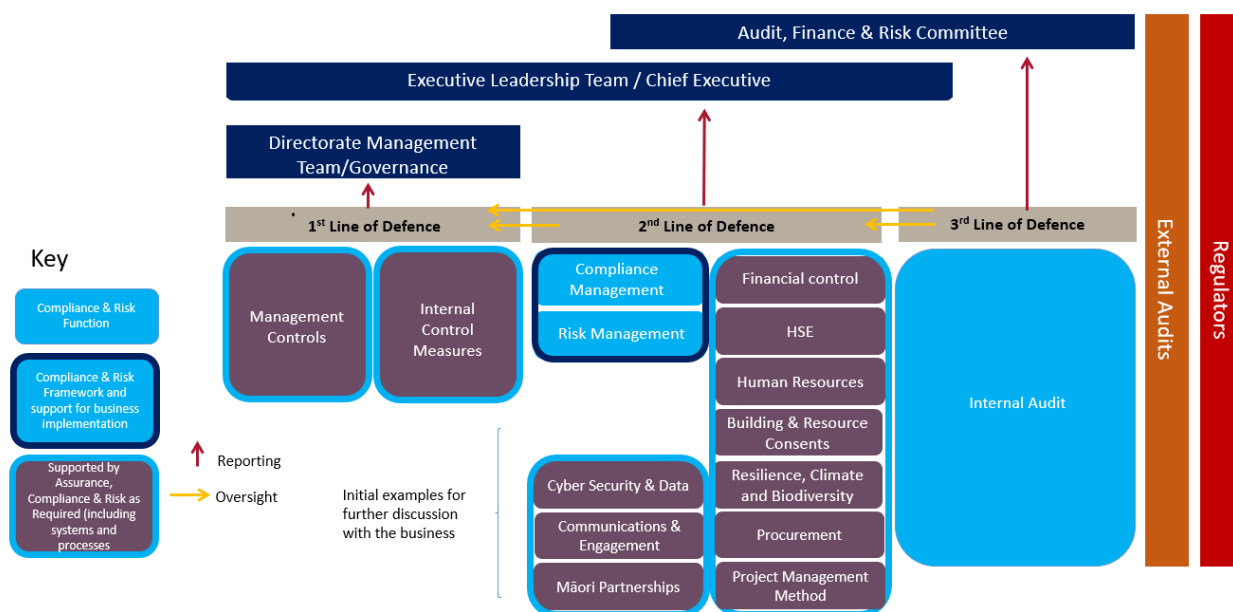


Figure 1. An initial draft Three Lines of Defence Model

Proposed Activity During Financial Year 23/24 (to end June 2023)

36. The Risk and Compliance Manager will seek guidance from the Risk Strategy Group and Executive Leadership Team on the following, before seeking recommendations from the Audit, Finance and Risk Committee:

- the development and implementation of an appropriate Compliance Framework and associated Compliance Policy
 - Within the broader risk management framework, a compliance framework would establish the elements of a compliance management programme defining responsibilities for external mandatory (legal) obligations, external voluntary obligations that QLDC has chosen to comply with, and internally imposed obligations including, but not limited to QLDC policies
 - to support a structured approach to compliance management, a compliance obligations register is being developed to document external mandatory (legal) obligations initially. This will be shared with relevant business units to support assurance activities and the development of increased compliance assurance maturity
- the development and implementation of an appropriate Assurance Framework and associated Internal Audit/Assurance Policy and Audit Plan.

F - minor amendments to the Risk Management Policy

37. The QLDC Risk Management Policy was released in 2019. Since that time there has become a greater understanding of a number of risk management matters that impact QLDC. Minor amendments to the Risk Management Policy are proposed to address these matters as incorporated into the draft Risk Management Policy (revision 3) attached as Appendix A.

Cyber Security Risks

38. Amendments are proposed to incorporate an additional objective into the Policy: 'Ensure integrity, availability, and confidentiality of data assets'. Minor amendments are also proposed to define and outline the role of 'compensating controls' and to specifically reference 'cyber security incidents' in the Business Continuity risk consequence category.

Likelihood Table

39. Amendments are proposed to the likelihood table to better articulate the distinction between the likelihood of one-off events and recurring events. The proposed amendments do not change the associated likelihood scores, but create two distinct columns, reflecting 'single event' and 'recurring event'.

40. In addition, the existing likelihood table conflated the probability and proximity of an event. Single event probability was linked to events occurring within the next 12 months. As a result, technically, any event that was unlikely to occur within the next 12 month, even though it could be highly probable beyond 12 months, was unable to be given a very high risk score, irrespective of its consequences on QLDC's strategic or operational objectives. As a result, proximity (12 months) is proposed to be deleted from the 'single event' likelihood assessment. The approach would better enable QLDC to appropriately assess the risk of future events that require immediate action, such as climate change response, and would better reflect the impact of such events on QLDC's strategic and operational objectives, acknowledging that objectives often extend beyond a 12 month horizon.

Other changes

41. Other minor changes relate to business terminology and practice predominantly regarding the management and recording of programme and project related risks.

Consultation Process | Hātepe Matapaki

Significance and Engagement | Te Whakamahi I kā Whakaaro Hiraka

42. This matter is of **low** significance, as determined by reference to the **Council's Significance and Engagement Policy** because it will not:

- significantly impact on the environment, culture and people of the District
- significantly effect individuals, organisations, groups and sectors in the community
- be inconsistent with existing policy and strategy
- significantly impact the objectives set out in the Financial Strategy, Ten Year Plan and Annual Plan

Māori Consultation | Iwi Rūnaka

43. As the significance of this matter is of low significance, no consultation with the community or local iwi is required.

Risk and Mitigations | Kā Raru Tūpono me kā Whakamaurutaka

44. This matters relates to the management of all Strategic and Operational risks that are documented within the QLDC Risk Register. The QLDC Risk Management Framework and risk management maturity work programme helps to support the development of a more engaged and capable resilience culture across the Council, leading to more effective risk identification, evaluation and mitigation outcomes.

Financial Implications | Kā Riteka ā-Pūtea

45. There are no financial implications associated with this matter.

Council Effects and Views | Kā Whakaaweawe me kā Tirohaka a te Kaunihera

46. The following Council policies, strategies and bylaws were considered:

- QLDC Risk Management Policy
- Climate Action Plan
- Vision 2050
- QLDC Ten Year Plan
- QLDC Spatial Plan
- 30 Year Infrastructure Strategy

47. The recommended option is consistent with the principles set out in the above policy.

48. This matter supports the Ten Year Plan/Annual Plan through ensuring that effective mitigations are in place that support risks that could impact plan objectives.

Legal Considerations and Statutory Responsibilities | Ka Ture Whaiwhakaaro me kā Takohaka Waeture

49. There are no legal considerations or statutory responsibilities beyond the Local Government Act 2002 provisions outlined in the following section of this report.

Local Government Act 2002 Purpose Provisions | Te Whakatureture 2002 o te Kāwanataka ā-Kīaka

50. The recommended option:

- Section 10 of the Local Government Act 2002 states the purpose of local government is (a) to enable democratic local decision-making and action by, and on behalf of, communities; and (b) to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future. As such, the recommendation in this report is appropriate and within the ambit of Section 10 of the Act;
- Can be implemented through current funding under the Ten Year Plan and Annual Plan;
- Is consistent with the Council's plans and policies; and
- Would not significantly alter the intended level of service provision for any significant activity undertaken by or on behalf of the Council or transfer the ownership or control of a strategic asset to or from the Council.

Attachments | Kā Tāpirihaka

A	Proposed Revision 3 of the Risk Management Policy
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