

I hereby give notice that a confidential extraordinary meeting of the Audit and Risk Committee will be held on:

**Date:** Tuesday, 14 April 2020  
**Time:** 2.00pm  
**Meeting Room:** This meeting will be held remotely  
**Venue:**

---

## **Komiti Tātari me te Mātai Raru Tūpono / Audit and Risk Committee**

### **CONFIDENTIAL AGENDA**

---

<b>ITEM</b>	<b>TABLE OF CONTENTS</b>	<b>PAGE</b>
<b>C1</b>	<b>Risk and Assurance Update - approach to risk management and assurance activities during COVID-19 lockdown and recovery</b>	<b>3</b>
<b>C2</b>	<b>Financial risk update - approach to identification and management of risks arising from COVID-19 pandemic (Covering report)</b>	<b>15</b>



## Risk and Assurance Update - approach to risk management and assurance activities during COVID-19 lockdown and recovery

File No.: CP2020/04299

Item C1

### Matatapuanga Confidentiality

<b>Reason:</b>	The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.
<b>Interests:</b>	<p>s7(2)(c)(i) - The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information or information from the same source and it is in the public interest that such information should continue to be supplied.</p> <p>s7(2)(h) - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities.</p> <p>In particular, the report contains information provided in confidence from the Auckland Council-controlled Organisations and information concerning financial risks, cyber and information security risks.</p>
<b>Grounds:</b>	<p>s48(1)(a)</p> <p>The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.</p>

### Te take mō te pūrongo Purpose of the report

1. For the Audit and Risk Committee to receive an update and gain oversight and assurance concerning the approach to:
  - a) managing and mitigating the key COVID-19 event and relevant top risks; and
  - b) providing assurance that key aspects of the control environment have continued to operate effectively during the period of the COVID-19 lockdown and recovery.

### Whakarāpopototanga matua Executive summary

2. Rational, deliberate and consistent risk assessment and management is critical to ensuring good decision making and strong recovery.
3. Following the COVID-19 pandemic, the Auckland Council's top risks remain relevant and controls and mitigations are responding to the risk event. These include the business continuity plan process controls and planned mitigations established for major disruption and health and safety and wellbeing risks.
4. Following the immediate crisis management phase, the second phase of risk identification and assessment to plan and prepare for the situation in the next weeks and months has commenced. Key emerging risk themes related to COVID-19 have been identified (refer Attachment A and paragraph 29) and the assessment of the risks and issues has commenced by the departments and risk owners using a consistent scenario matrix.

5. A risk assessment programme, facilitated by the Risk and Insurance department, has been planned and commenced with the executive leadership team and divisions.
6. The COVID-19 pandemic risk event is significant to the Auckland Council Group. Accordingly, a group-wide approach is required to ensure consistency in management and group mitigations and controls. The council-controlled organisations continue to retain responsibility for risk management within their organisations, however management will be coordinated and reported through to the Audit and Risk Committee to ensure oversight of the group risks in accordance with its terms of reference.
7. During the COVID-19 lockdown, there is an increased risk of a breakdown in the control environment. It is critical during this time that internal control continues to operate effectively to both maintain trust and confidence in Council, and to have confidence in the integrity of information being used for decision making.
8. The assurance programme has been adjusted to provide assurance across a range of indicators that the control environment continues to operate effectively.
9. The Top Risks and any findings or outcomes from the risk assessment programme and the Assurance Services department work programme will be reported to the Audit and Risk Committee on 26 May 2020.
10. A verbal update on the emerging risks and assurance activities will be provided at the meeting.

## **Ngā tūtohunga Recommendation/s**

That the Audit and Risk Committee:

- a) receive the briefing on risk themes and issues emerging during the COVID-19 pandemic risk event and the approach to risk management and control environment effectiveness assurance.
- b) note the key indicators of current control environment and their operation.
- c) endorse the approach to providing assurance that key COVID-19 risks are being appropriately managed and monitored.
- d) endorse the approach to providing assurance that key aspects of the control environment have continued to operate effectively during the period of the COVID-19 lockdown and recovery.
- e) agree that the Audit and Risk Committee maintain oversight of the risks and internal controls during the lockdown and until such time the committee decides it is not required; and
- f) refer all risk reporting related to the COVID-19 pandemic to the Emergency Committee and the Governing Body.

### Restatement:

- g) agree that the decisions be restated in the open minutes but that the report and attachments remain confidential.

## **Horopaki Context**

11. The first case of COVID -19 was reported in New Zealand on 28 February 2020. The situation has escalated rapidly. As at 5 April 2020 the Ministry of Health has reported 1039 confirmed or probable cases in New Zealand with 359 cases in the Auckland Region. The first death from COVID 19 was confirmed on 29 March 2020.

12. New Zealand was moved to Alert Level 4 on 25 March at 11.59 pm. This is in place for a minimum of four weeks. The Minister for Civil Defence also declared a State of National Emergency on 25 March 2020.
13. The effect of this is that New Zealand is effectively in lockdown through this period. At the date of this report there remains uncertainty as to both the success of the lockdown and the timing of reduction in the alert level.
14. A separate briefing will be provided to the Audit and Risk Committee on Council's response to the COVID-19 pandemic.

## **Tātaritanga me ngā tohutohu**

### **Analysis and advice**

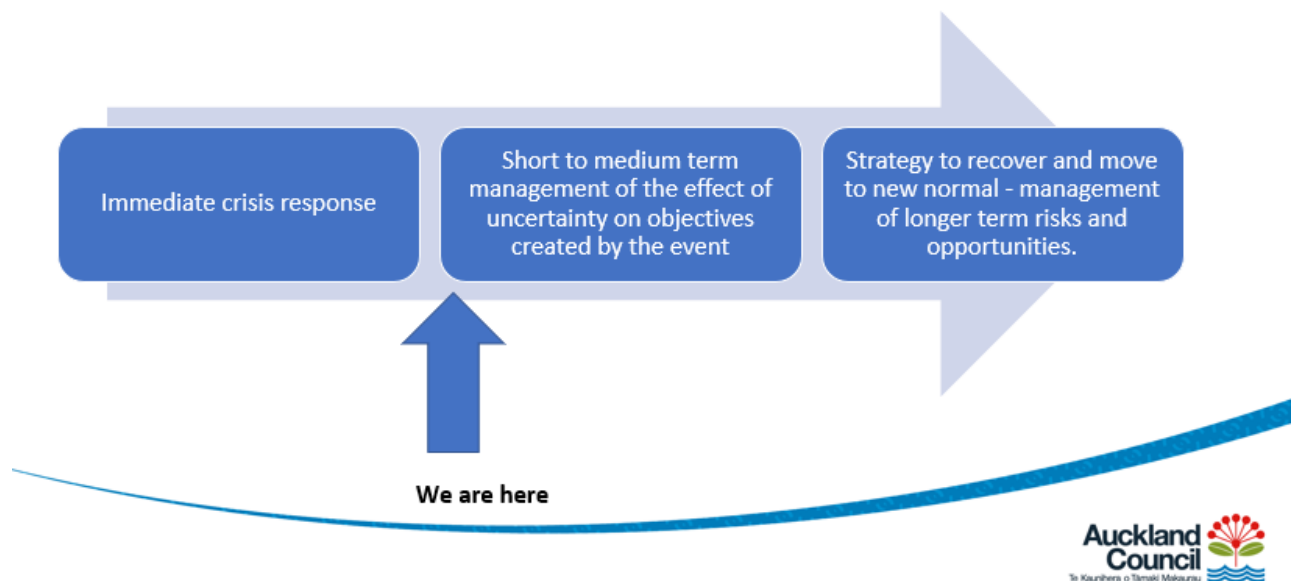
15. The approach to risk management, emerging risk themes, risk activity supporting the crisis and emergency response and the planned risk and assurance activities for the lockdown and recovery period is discussed below.
16. The Assurance Services department has reviewed its assurance work-programme and audit plan to respond to the emerging and inherent risks of the COVID-19 pandemic. The work outlined below is focused on providing assurance that the council is considering and responding to all relevant issues and risks and maintaining control environment during disruption and change.

### **Approach to risk management**

17. Rational, deliberate and consistent risk assessment and management is critical to ensuring good decision making and strong recovery.
18. A key objective is to ensure risks are not considered and responded to in siloes. Risks are all interconnected and therefore the knock-on impacts and risks must be well understood and managed appropriately. By doing so, Council will manage and mitigate the effect of uncertainty on its objectives and achieve the best possible outcomes for Aucklanders, council and community.
19. The risk event and associated financial, operational and people risks offer significant opportunities as well as challenges to the Council – e.g. new and flexible ways of working.
20. As reported previously to the Audit and Risk Committee, the Council has adopted the ISO: Risk Management Guidelines (ISO 31000:2018) and this is reflected in the Auckland Council Enterprise Risk Management Framework. The Framework has been reviewed and the refreshed document was adopted by the Council's executive leadership team in February 2020. This will be reported to the 26 May 2020 Audit and Risk Committee meeting.
21. The Council's response and risk management approach follows the Enterprise Risk Management framework and Our Charter risk guidance. The council's crisis response implements the Crisis Management Plan and Pandemic Plan.
22. The level of uncertainty in the current environment is high and complex (global, national, regional, economic, supply chain, and operational uncertainty). The situation is unprecedented and evolving rapidly.
23. The challenge is to limit the impact of the virus event while continuing to meet our objectives and demands of elected members, community, customers, other stakeholders.
24. Auckland Council's response can be broken into three phases. The council has successfully negotiated the first emergency phase and commenced the short and medium term risk identification and assessment phase.
25. The enterprise risk team has been supporting and involved in the immediate crisis response phase including having active involvement in the Crisis Management Team, Business Continuity Taskforce, Corporate Resilience Group and Civil Defence and Emergency Management.

## Three phases of risk management response

Item C1



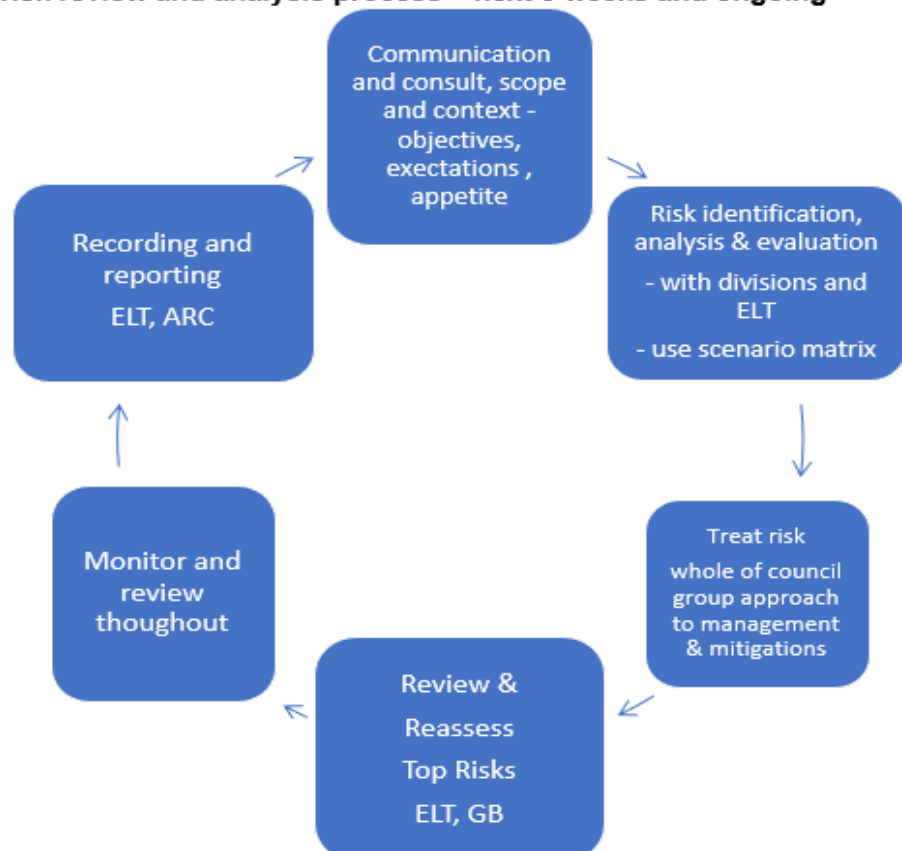
### Emerging risk themes

26. The Council's top risks and key controls and mitigations are captured in the Auckland Council Top Risk Register. The top risk register remains central to the management of council's response and recovery.
27. The potential risk event of a pandemic or disease outbreak was identified in both the health, safety and wellbeing top risk and the significant disruption top risk.
28. Key risk themes related to the top risks have been identified. These emerging risk themes and issues are summarised in **Attachment A**.
29. In addition to the previously identified and assessed top risks, the following risk themes and issues from the evolving impacts of COVID-19 have been identified to date:
  - a) **Governance and decision making** - Changes in arrangements to respond to COVID-19 pandemic - virtual arrangements. Decision making processes, roles and responsibilities.
  - b) **Alignment with all of government response** and council's roles and responsibilities - Changing, fast pace, complex, contractor and supplier obligations and consistency across council-controlled organisations.
  - c) **Compliance – contracts and legislative compliance** with new regulations and existing responsibilities and obligations.
  - d) **Financial** – complexity, uncertainty, global economic shock, loss of revenue, substantial increase in costs.
  - e) **Auckland Civil Defence Emergency Services response** – multiple central government and local entities with different responses, complex, challenging coordination, community trust and confidence/reputation.
  - f) **Recovery risks** – uncertain timing and processes, complex governance and decision making - roles and responsibilities within council, central government, contractors, community.

## Risk Assessment programme

30. The enterprise risk team are supporting the executive leadership team and the council divisions and departmental risk champions to assess the risks associated with the COVID-19 event and evaluate and treat council's top risks and departmental risks.
31. The COVID-19 pandemic risks reflect the complexity and uncertainty of multiple possible scenarios that may emerge e.g. the uncertain and extended lockdown period, adaptation to changing alert levels or other disruptions.
32. For the purpose of conducting risk assessments and financial modelling, a set of assumptions has been developed based on best available current information. The assessment assumes that the pandemic impacts will continue for some months.
33. This assessment programme will facilitate the identification of risks in the medium and longer term, controls and mitigations and ratings (risk registers) that will be monitored, reviewed and reported against in the months following the pandemic to guide decision making and actions taken to recover.

### Breakdown of risk review and analysis process – next 8 weeks and ongoing



## Council-controlled Organisations – COVID-19 pandemic updates

34. The COVID-19 pandemic risk event is significant to the Council group. Accordingly, a group approach is required to ensure consistency in management and group mitigations and controls.
35. The council-controlled organisations retain responsibility for risk management within each organisation however management will be coordinated. Quarterly reporting to the Audit and Risk Committee will ensure oversight of the group risks in accordance with its terms of reference.



36. Updates on COVID-19 risk and issue management are being provided by the council-controlled organisations to the Enterprise Risk and Insurance department.
37. A verbal update will be provided to the Audit and Risk Committee at the meeting.

### **Insurance Renewal 2020**

38. Following the February update provided to the Audit and Risk Committee, staff continue to work closely with the group's broker Aon to minimise the impact of COVID-19 on the group's insurance programme. This includes provision of detailed submissions, demonstrating group's financial strength and assurance of fiscal prudence during COVID-19, through web-presentations to local and global insurers.
39. Worldwide, most underwriters have been able to continue their operations through remote working methods.
40. For the June 2020 renewal, the group staff and Aon have carefully considered alternative options in case COVID-19 was to cause further disruption at a global scale. These include short-term temporary extensions and renewing the programme based on existing terms, conditions and rates. A detailed summary of options considered and adopted will be provided to the Audit and Risk Committee on 26 May 2020.

### **Claims Coverage – COVID 19 pandemic**

41. Following the SARS pandemic event in 2004, most insurers have excluded coverage for losses arising from infectious diseases. As COVID-19 is an infectious disease, the group's insurance programme provides no coverage for Business Interruption, Event Cancellation and partial coverage for International Travel. Most other council liability policies may respond to claims subject to 'valid claims' criteria being met.

### **Assurance Services Approach – control environment effectiveness**

42. Council has defined which of its services are essential. Those services will continue to be delivered through the period of the lockdown. Approximately 6000 staff are working from home. The transition to this environment has been rapid. This working environment is new to most staff.
43. The risk of a breakdown in the internal control environment will increase during this period, as staff are focussed on learning to work in the new environment. The working arrangements increase the risk of controls with respect to security and access of Council's information systems being compromised.
44. New procurement business rules have been implemented. During the lockdown only procurement related to essential services is permitted. In addition, the Governing Body has established a COVID-19 Contingency Fund of \$22.5 million to enable the Chief Executive to commit the council to any urgent expenditure required to respond to COVID-19 or its impacts, with any expenditure to be subsequently reported back at an appropriate opportunity. (GB/2020/31)
45. It is critical during this time that the control environment continues to operate effectively – to both ensure that information being used for decision making has integrity, and that trust and confidence in Council is maintained.

### **Assurance over key indicators that the control environment is working effectively**

46. The planned approach is to focus our assurance work in the following areas, and in doing so provide assurance to Elected Members, the Audit and Risk Committee and the Executive Leadership Team that key aspects of the control environment are continuing to operate through the lockdown period.



47. In particular, the assurance work will be focussed on the following key indicators:
- a) Risks with respect to security, access and change management of Council's Information Management systems are being appropriately managed.
  - b) Council's procurement policies and business rules are being complied with. The only procurement that occurs during this period is procuring of essential services. The use of direct sourcing is appropriate and justified. Probity rules are being complied with. Procurement processes are not being circumvented. There are robust processes and controls in place and operating and being applied with respect to the COVID-19 Contingency Fund.
  - c) Council's internal control mechanisms with respect to financial internal controls continue to operate. This work is focussed on:
    - revenue (transactions are completely and accurately recorded)
    - expenditure (expenditure is authorised in accordance with delegations, recorded accurately, recorded in the correct period, and coded correctly)
    - month end accrual processes (revenue and expenditure accruals at month end are complete and accurate)
    - balance sheet controls (reconciliation and suspense account review processes, reconciliation and authorisation controls)
    - journals (review processes and authorisation controls).
  - d) The use of procurement cards and staff reimbursement is appropriate and in line with "Our Charter" guidance. Month end review processes and authorisation controls continue to operate.
  - e) The fraud control environment continues to operate.
  - f) Conflicts of Interests processes continue to operate. Conflicts of Interest continue to be appropriately managed.
  - g) Controls around the use of Council's fleet vehicles continue to operate.
  - h) Our Charter guidance to our people, and "Speak Up" channels continue to be supported.
  - i) Implementation of treaty audit recommendations as contained in the Te Tiriti o Waitangi Audit Report 2018 continues to progress as planned to enable reporting to the August meeting of this Committee.
  - j) The recalculation of resource consent processing times, data cleansing of building consents processing time data continues to progress as planned.
48. In order to provide assurance relevant to these indicators the following Assurance Services functions will continue to be delivered:
- a) Maintaining the operation of the 0800 INTEGRITY "speak up" channel.
  - b) Continuing to provide advice on managing conflict of interests – for both Elected Members and staff.
  - c) Supporting the conflict of interest and gift declaration processes for all staff.

- d) Continuing to provide advice to and supporting elected members with respect to guidance and advice on Integrity matters – including conflict of interest management.
  - e) Continuing to provide real time probity assurance on essential procurement.
  - f) Continued oversight and monitoring of the implementation of recommendations contained in the Te Tiriti o Waitangi Audit Report 2018.
  - g) Continuing to deliver the fraud assurance strategy including:
    - Delivery of scheduled training.
    - Support for the “Speak Up” initiative.
    - Use of data analytics focussing on procurement risk and fraud risk.
9. The delivery of audits under the assurance programme has been reviewed and the following adjustments have been made. The following audits have been scoped and are commencing. These are included in the approved audit programme which was approved by this Committee in August 2019:
- Information Systems (Security and Access).
  - General Ledger Reconciliations and Suspense Accounts.
  - Direct Procurement – with a focus on compliance with procurement rules during COVID-19 and probity requirements.
  - Monitoring of the work being performed by the Regulatory division to recalculate resource consent processing times, and cleanse data on building consent processing times – for the purpose of the 2020 annual report.
50. The following audits have been added to the audit programme and are commencing.
- a) Review of SAP profile set up and termination processes and controls (increased risk from redeployment of staff).
  - b) Review of first and second line of defence controls for:
    - Revenue and expenditure end to end processes.
    - Month end revenue and expenditure accruals (completeness).
    - Balance sheet reconciliations.
    - Vendor Masterfile amendments (expenditure and payroll).
    - Procurement Card use and reimbursements.
    - Use of Journals.
    - Use of fleet vehicles.
    - Procurement funded out of the COVID-19 emergency fund.
51. The following audits which were included in the approved audit programme for 2020 have been deferred and will be performed when the lockdown has ended:
- a) Project 17 Post Implementation Review.
  - b) Review of the Key Performance Indicator systems and controls.
  - c) Regulatory operational systems.

## **Tauākī whakaaweawe āhuarangi** **Climate impact statement**

52. There are no direct impacts on climate change from this report. Climate change is one of Council's top risks. The Climate Change risk will be reviewed and updated as part of the review and assessment process and the Top Risk register updated to reflect this review.

## **Ngā whakaaweawe me ngā tirohanga a te rōpū Kaunihera** **Council group impacts and views**

53. A council group approach is being adopted to the COVID-19 pandemic response to ensure coordinated and effective risk management and recovery.
54. Each council-controlled organisation has responsibility for the risk management within their organisation. However, information about the identified risks and issues (including financial risks) are being shared and opportunities for group or joint treatment or mitigations will be investigated.
55. Updates from each council-controlled organisation on the risks associated with the COVID-19 pandemic and their management will be provided to the Audit and Risk Committee meeting on 26 May 2020 as part of their scheduled updates.

## **Ngā whakaaweawe ā-rohe me ngā tirohanga a te poari ā-rohe** **Local impacts and local board views**

56. As discussed above, an emerging theme of governance decision making risks has been identified and will be assessed further as part of the risk assessment programme to ensure appropriate decision-making processes including local board decision making. A copy of this report will be provided to the Local Board Chairs for information and awareness.

## **Tauākī whakaaweawe Māori** **Māori impact statement**

57. The COVID-19 pandemic results in unique risks for vulnerable communities and brings specific communications, health and other risks to Iwi, hapu and Maatawka.
58. To manage and mitigate these risks and in response to COVID-19, Council has established a new Māori specific function, Pouwhakarae. Pouwhakarae sits within Auckland Emergency Management's Coordinated Incident Management System, which is now in place.
59. This function will support the distribution of health-related information to Māori and coordinate non-health related activity for Māori communities.
60. The Assurance Services department will continue its oversight and monitoring of the implementation of recommendations contained in the Te Tiriti o Waitangi Audit Report 2018.

## **Ngā ritenga ā-pūtea** **Financial implications**

61. A separate report will be provided to the Audit and Risk Committee 14 April 2020 meeting on the approach to advising on the financial implications and the management of emerging financial risks of COVID-19 on council's financial position.

## **Ngā raru tūpono me ngā whakamaurutanga** **Risks and mitigations**

62. The risks emerging from the COVID-19 pandemic and the process to assess and manage the risks and issues are discussed above in this report.

## Ngā koringa ā-muri Next steps

63. The risk assessment processes, and assurance work programme outlined in this report have commenced.
64. Reporting on risk and assurance activities concerning COVID-19 pandemic and the top risk register will be included as part of the Risk and Assurance updates to the Audit and Risk Committee on 26 May 2020.

## Ngā tāpirihanga Attachments

No.	Title	Page
A <sup>1</sup>	COVID-19 Pandemic Emerging Top Risk Themes March 2020	13

## Ngā kaihaina Signatories

Authors	Emma Mosely – Acting Chief Risk Officer Mark Maloney - Head of Assurance Services
Authorisers	Dani Gardiner - General Counsel Phil Wilson - Governance Director

COVID-19 Pandemic Emerging Top Risk Themes March 2020

Top Risk	Emerging key risk themes
Health, Safety and Wellbeing	Wellbeing – mental health and resilience, isolation Safety of employees and customers/ community Welfare and support for vulnerable communities including - iwi, hapū, whānau and marae
Cyber security	Information technology –capacity, disruption, security, systems functionality e.g. Increasing network and data vulnerability due to remote working. Increased scams and phishing attempts.
Service delivery & three waters, waste	Maintenance of essential services in evolving situation, new ways of working, resourcing Delivery of regulatory, governance functions
Significant internal and external disruptions	Business continuity, resilience and recovery Continuing uncertainty and repeated change in alert status – multiple possible scenarios Weather related hazards People/resourcing - Likelihood of losing partial or full teams (Essential Services) - People Redeployment and cross skilling
Fit for purpose community assets	Maintenance disruption, Security, Reprioritisation - Emergency requisitions of assets
Programme and project management	Emergency procurement processes, Reprioritisation, Supply chain disruptions
Consent processes	Delay, remote processes, KPI impacts, customer experience
Theft, fraud & corruption, waste, error	Increased opportunity and risk factors - online and remote working, stressed staff, internal control breakdown



## Financial risk update - approach to identification and management of risks arising from COVID-19 pandemic (Covering report)

File No.: CP2020/04378

### Matatapuanga Confidentiality

<b>Reason:</b>	The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.
<b>Interests:</b>	s7(2)(g) - The withholding of the information is necessary to maintain legal professional privilege. s7(2)(h) - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities. In particular, the report contains information around potential financial implications and emerging financial risks of COVID-19 in a highly uncertain environment. The release of this information could prejudice the position of the council and its council-controlled organisations in sensitive commercial arrangements and negotiations.
<b>Grounds:</b>	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.

### Te take mō te pūrongo Purpose of the report

1. To provide oversight of the approach to providing advice on the potential financial implications and the management of emerging financial risks of COVID-19 on the council's financial position.

### Whakarāpopototanga matua Executive summary

2. This is a late covering report for the above item. The comprehensive agenda report was not available when the agenda went to print and will be provided prior to the 14 April 2020 Confidential Extraordinary Meeting of the Audit and Risk Committee meeting.

### Ngā tūtohunga Recommendation/s

The recommendations will be provided in the comprehensive agenda report.