Controller and Auditor-General
Tumuaki o te Mana Arotake

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Our observations on local government risk management practices

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Our observations on local government risk management practices

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Auditor General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

The Covid-19 pandemic is a stark reminder for all organisations about the need for appropriate risk management practices. However, even before Covid-19, councils were operating in a complex environment that was becoming more challenging and uncertain.

We have recently seen service disruptions from core council infrastructure failures, the impacts of climate change with more frequent droughts and flooding, increasing pressures from growth, and financial pressures associated with all of these.

Councils are also grappling with meeting increasing standards and the uncertainties of proposed regulatory changes, such as the resource management reforms and the Three Waters Reform programme.

As councils seek to achieve their objectives and meet the needs and expectations of their communities in an increasingly complex environment, it is essential that they clearly understand the risks they face and how to manage those risks.

My Office has previously reported that risk management was one of the least mature elements of governance in the public sector. Therefore, I wanted to know about councils' current risk management practices.

Councils provide a wide range of critical services to their communities. Given the consequences if these services fail, I expected that all councils would have a formal risk management framework in place that is fully integrated into their strategies, business activities, and decision-making.

I also expected risk management to be supported by appropriate resourcing and training. I expected this to cover:

- governance;
- processes to identify, analyse, and monitor risks;
- effective approaches in place to manage risk; and
- regular formal reviews of risk management practices to identify areas for improvement.

Some councils do not currently have a formal risk management framework. In my view, those councils should prioritise putting a formal risk management framework in place. Councils also need to consider whether risk management is part of their organisational culture and integrated into the decisions they make.

We saw several positive examples of a strong risk culture in the councils we looked at. These councils had an appropriate focus on, and a maturing approach to, risk management.

That every council now has an audit and risk committee (or similar), with most having some level of independent membership, is a step in the right direction. Although audit and risk committees have a role in setting up and monitoring risk frameworks, elected members are ultimately responsible for their council's risk management.

This report describes some positive examples that we saw during our work. These include:

- establishing the desired risk management maturity level, with a clear plan to achieve this;
- developing risk management guidelines to support greater consistency of practice throughout the council;
- using risk champions to help embed a risk management culture and support staff in their roles;
- embedding risk management into reporting to elected members to improve advice from staff, which provides elected members with greater confidence in their decision-making; and
- embedding climate risks into their overall risk context to make it a consideration for all strategic decision-making.

Despite this, the councils we looked at are still largely using basic risk management practices. However, they plan to improve their risk management practices over time.

To support good governance, elected members need to maintain an overall view of their council's strategic objectives, be aware of obstacles to achieving those objectives, and receive assurance that their council is managing risks well. In my view, more could be done to support elected members as they consider the risks faced by their council, particularly how they factor this into their decision-making.

Risk management should not be viewed as a separate process but integrated into all decision-making.

To improve their risk management practices, I expect councils to:

- have someone who is responsible for enabling and driving good risk management practices throughout the council;
- integrate risk management into all council activities, particularly strategy-setting and decision-making. As an example, some councils that have declared

climate emergencies do not identify climate-related risks as a separate key risk for the council;

- improve the training and support provided to elected members, particularly in their roles and responsibilities for effective risk management; and
- carry out regular reviews of risk management activity to inform progress and areas of improvement.

Specialist tools, such as quantitative risk assessment, could also be more widely applied. This would give managers and governors a better understanding of the risks to delivering complex programmes of work and how they could reduce their exposure to those risks.

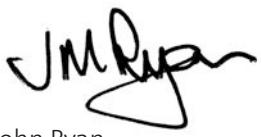
I encourage chief executives and elected members to consider the maturity of their existing risk management practices and prepare a clear plan for improving that maturity. We provide examples in this report to help with this.

I acknowledge that implementing risk management practices takes time and resourcing. However, the consequences of not adequately managing risk are significant. They can often result in large and unexpected expenditure, service failure, and a loss of public trust and confidence.

I acknowledge the work that organisations such as Taituarā – Local Government Professionals Aotearoa do in fostering networks to improve risk management practices in councils (for example, through its annual risk management forum). Grassroots sharing is important, and fostering networks is fundamental to learning and improving.

I thank the councils that responded to our risk management survey and the staff of Auckland Council, Environment Canterbury Regional Council, Queenstown-Lakes District Council, and Waipā District Council for their openness and co-operation during our consideration of their risk management practices. All these councils have shown strong improvements in their risk management processes and practices during the past few years, and I commend them for this.

Nāku noa, nā



John Ryan
Controller and Auditor General
18 October 2021

Our recommendations

We recommend that councils:

1. prioritise putting in place a formal risk management framework if they do not have one;
2. ensure that elected members get the training and support that they need to carry out their risk management roles and responsibilities;
3. consider using more sophisticated techniques for identifying and managing risks on key programmes of work, such as quantitative risk assessments, given that the assessments that many councils make, particularly on the delivery of their capital expenditure programmes, need a high level of judgement; and
4. assess their desired level of risk management maturity and prepare a clear plan to achieve this. Regular formal reviews of their risk management practices should be carried out to inform progress and identify areas for improvement.

1 Introduction

1.1 Our 2016 report *Reflections from our audits: Governance and accountability* noted that risk management is one of the least mature elements of governance in the public sector.

1.2 Effective risk management is a critical part of successfully delivering an organisation's strategy. Identifying, understanding, and managing risk is also a fundamental part of effective governance. When risk is not managed effectively, assets or projects can fail. This can erode the public's trust and confidence in an organisation.

1.3 Good governance that is informed by an understanding of risk tolerance not only avoids failures but can also mean that the organisation does not miss opportunities to improve its financial or operational performance.[1] Governing bodies that think strategically and consider their organisation's role in a wide context are more likely to identify and be in a position to take opportunities to improve their performance or to achieve benefits faster.

1.4 The local government sector has recognised the need for improvement in risk management. In June 2016, Local Government New Zealand submitted a business case to central government to establish a local government risk agency. The agency would work with councils to achieve a more consistent and higher standard of risk management practice.[2] To date, no such agency has been established.

1.5 In our audit work, we often see instances where councils do not have effective risk management.

1.6 Given this context, we carried out work to better understand the current state of councils' risk management, where the challenges and issues are, and what support councils need to improve how they manage risk.

What we expected to see

1.7 Effective risk management by public organisations involves identifying, analysing, mitigating, monitoring, and communicating risks as part of their business activities.

1.8 To determine what we should expect to see in council risk management, we looked at several risk management standards or frameworks. These included:

- the *Australia NZ International Standard ISO 31000:2009: Risk Management*; and
- the *All-of-Government Enterprise Risk Maturity Assessment Framework*.

1 Risk tolerance is an organisation's or stakeholder's readiness to bear the risk after risk treatment in order to achieve its objective, see *ISO Guide 73:2009(en) Risk management — Vocabulary* at iso.org.

2 For more information on the Local Government Risk Agency, see lgnz.co.nz.

1.9 Based on these and our own work, we identified four elements of risk management that we expect all councils to have. They are:

- a risk management framework in place to identify, analyse, and monitor risks;
- effective approaches in place to identify and manage risk, with effective oversight by elected members and appropriate involvement by their audit and risk committee;
- regular formal reviews of their risk management practices that inform areas for improvement; and
- mechanisms for communicating with their communities about the risks they face and how they are managing those risks.

How we carried out our work

1.10 The observations we make in this report are based on:

- our observations of how Auckland Council, Waipā District Council, Environment Canterbury Regional Council, and Queenstown-Lakes District Council manage risk;
- the results of a survey we sent to all councils (except the four councils listed above);
- discussions we had with select audit and risk committee chairpersons; and
- the knowledge we have developed through our work, which includes our audit work and discussions with council staff and elected members.

1.11 The survey questions are set out in Appendix 1.

Structure of our report

1.12 In Part 2, we set out what we mean by risk management.

1.13 In Part 3, we outline the importance of having a commitment to risk management.

1.14 In Part 4, we discuss the need for clear governance and management roles and responsibilities.

1.15 In Part 5, we summarise the top risks identified by councils.

1.16 In Part 6, we set out what councils should be doing to improve their risk management.

What we mean by risk management

2

2.1 Councils should have a clearly defined framework for managing risk.[3] A risk management framework supports a consistent approach to managing risks throughout a council. It also provides a way for a council to compare the different types of risk that it must deal with, whether they are project-based risks, day-to-day operational risks, or longer-term strategic risks.

2.2 We do not endorse a particular risk management framework – there are many available. However, based on well-recognised risk management frameworks[4] we have identified some core elements a risk management framework should have, including:

- a structure for the governance of risk management, with defined levels of accountability and reporting mechanisms. This includes appropriate involvement by audit and risk committees (see Part 4);
- process(es) that are applied across a council to:
  - identify, analyse, and evaluate risks and their significance;
  - monitor and review risks to ensure that a council understands what could get in the way of achieving its strategic objectives;
  - treat risks to ensure that these are being appropriately managed; and
- ongoing monitoring and review of the risk management process as a whole to ensure that it remains effective and councils continue to mature their risk management practices as planned (see Part 6).

2.3 The framework should be appropriate for the objectives the council is seeking to achieve and the main issues, drivers, and trends that could get in the way of it achieving them. It is important to have a risk management framework in place that is applied consistently and effectively. This will help council staff assure elected members that risk is being well managed. It will also better inform elected members' decision-making, which in turn enhances the community's trust and confidence in their council.

2.4 The Chief Executive of Environment Canterbury told us that "ultimately, risk is the language that helps staff and elected members make better decisions".

3 Our definitions of risk and risk management are from *ISO 31000:2009: Risk Management*. We define **risk** as the effect of uncertainty on objectives. We define **risk management** as the co-ordinated activities to direct and control an organisation with regard to risk.

4 For example, we looked at *ISO 31000:2009: Risk Management* (and its 2018 update) and the *All-of-Government Enterprise Risk Maturity Assessment Framework*.

Not all councils have a risk management framework

2.5 Our survey of risk management practices asked whether councils have a clearly defined risk management framework. Of the 63 councils that answered this question, 55 said they had a risk management framework. Most of these said that their framework was based on the *International Standard ISO 31000* (2009 or 2018). Of the eight councils that said they did not have a framework, seven said that they were preparing one (see Figure 1).

Figure 1
Whether councils we surveyed have a risk management framework

Does your council have a clearly defined framework for managing risk?

55
councils that responded to our survey have one.

Of these councils, most have frameworks based on International Standard ISO31000; 2009 or 2018.

Most councils that said they do not have a framework are in the process of preparing one.

Source: Office of the Auditor-General.

2.6 Councils provide critical services to their communities. Because there are serious consequences if these services fail, it is imperative for all councils to have a formal risk management framework in place.

Recommendation 1

We recommend that councils prioritise putting in place a formal risk management framework if they do not have one.

Tailoring risk management to the needs of the council

2.7 There are many risk management frameworks that councils can base their framework on. Councils need to tailor their risk management framework to their circumstances – including their operating context, culture, strategic objectives, risk appetite,[5] and risk tolerance. In Figure 2, we describe Environment Canterbury Regional Council's approach to managing its risks.

5 **Risk appetite** is the amount or type of risk that an organisation is willing to pursue or retain.

Figure 2
Environment Canterbury Regional Council's approach to risk management

Environment Canterbury Regional Council has a decentralised approach to risk management.

The Council adopted its formal Risk Management Policy and Framework in 2017. However, the Council's journey of risk management maturity and readiness started when it developed stronger project management processes in 2014. It then emphasised health and safety management in 2016.

The Council's Risk Management Policy and Framework does not mandate specific risk management processes. Instead, it encourages risk thinking.

Under the Council's model, elected members and senior management set the tone for what they expect for risk management. Each group in the Council is expected to take responsibility for its own risk management, and risks are managed throughout the organisation rather than centrally. In effect, elected members and senior management empower staff to identify, manage, and monitor risks.

The Council has organised its services into the following portfolios:

- air quality;
- biodiversity and biosecurity;
- freshwater management;
- climate change, hazards, risk, and resilience;
- regional leadership; and
- transport and urban development.

The Council also has functional areas, such as project management and health and safety. Risk management is carried out at each of these portfolio and functional areas. Relevant managers are responsible for managing the risks in their domains. The managers receive support to establish and strengthen their risk management practices when they need it.

This approach means staff can choose how to identify, assess, and respond to risks. This has been welcomed by staff, who can focus on their actual risks rather than the risk management tool given to them.

Elected members receive regular updates from management on how the Council is managing identified risks through portfolio committees and the performance, audit and risk committee.

The Covid-19 pandemic delayed a regular review of the Council's top risks by elected members. This had not been done when we completed our work.

Councils had appropriate policies and processes in place

2.8 The four councils we looked at had the policies and processes in place that we expected to see. These include:

- a risk management policy;
- appropriate processes and procedures to identify, analyse, and evaluate risks;
- allocated responsibility for the overall leadership of risk management in the organisation; and
- some way of distinguishing between strategic, operational, and projects risks to effectively oversee and monitor risks at the right level.

2.9 The four councils we looked at tailored their risk management policies to their needs. Council staff also actively considered these policies when carrying out their risk management roles and responsibilities, including when they managed projects and made decisions more generally.

2.10 In general, the four councils we looked at capture project risks on an ongoing basis. Strategic risks are usually reset on an annual basis through workshops with senior leadership teams and elected members.

2.11 For example, Auckland Council uses a variety of tools and approaches to identify risks. These include:

- risk appetite statements, which are directives from the executive leadership team and endorsed by elected members, to indicate their comfort levels for risk;
- brainstorming sessions with experienced and knowledgeable staff;
- structured techniques (such as strengths, weaknesses, opportunities, and threats (SWOT) analysis; process mapping; and bow-tie analysis[6]);
- annual strategic, council planning, budget, and risk identification workshops;
- regular compliance reviews (internally and externally);
- quarterly reassessment of top and emerging risks with the senior leadership team and the audit and risk committee;
- assignment of ownership and accountability for top risks;
- divisional and departmental risk registers in place; and
- independent reviews of the council's actual risk maturity compared with its desired level of maturity.

Councils need to focus on achieving consistent risk management practices

2.12 Some staff we interviewed said that their council finds it challenging to achieve consistent risk management practices throughout the organisation. This is because different teams apply different risk management processes or apply the same processes inconsistently. This can affect the quality of advice provided to senior management and elected members, and the robustness of decisions made.

2.13 Waipā District Council provides Risk Management Guidelines, and staff training and support, to help improve the consistency of risk management practices throughout the organisation. The guidelines provide different approaches to identifying risks, tools for risk analysis, guidance on writing risk statements, and an explanation of the "likelihood" and "consequence" ratings and how these translate into inherent risk assessments and the suggested treatment options.

6 **Bow-tie analysis** is a visual way of showing the effects of a hazard, the risk it presents, the consequences, and the controls that should be implemented.

3 Committing to risk management

3.1 Council staff and elected members need to understand the importance of managing risk and having a strong and sustained commitment to effective risk management.

3.2 Council staff and elected members should express this commitment by:

- setting the tone from the top and expressing a commitment to risk management through a risk policy;
- integrating risk management throughout the council – particularly in its setting of strategic priorities and decision-making processes;
- being appropriately resourced with staff who are adequately trained and experienced in risk management; and
- elected members having a shared understanding of their roles and responsibilities in risk management (see Part 4).

3.3 The four councils we looked at are strongly committed to risk management and recognise its importance to achieving their objectives.

Councils should have someone responsible for leading risk management

3.4 Our survey asked councils whether they had a dedicated risk manager. If they did not have a dedicated risk manager, we asked why. If they did have a dedicated risk manager, we asked who the risk manager reported to (see Figure 3).

Figure 3
Whether the councils we surveyed had a dedicated risk manager

Source: Office of the Auditor-General.

3.5 Of the councils that did have a dedicated risk manager, seven risk managers reported to their chief executive.

3.6 Although not all councils can afford to have a dedicated risk manager, they should have someone responsible for enabling and encouraging good risk management practices.[7] The risk manager is not responsible for managing risk but helps lead and monitor risk management processes throughout the council.

3.7 If a council has an internal audit function, then the internal auditor should not be responsible for risk management decisions. Internal audits provide assurance that risk management activities are appropriately designed and implemented, and that they are operating effectively.

3.8 Internal audits are risk based, which means internal auditors need access to risk information. Sometimes, the internal auditor is asked to co-ordinate or aggregate risk intelligence. However, if the internal auditor is seen to have responsibility for risk management, then their independence might be questioned.

Councils need to improve the integration of risk management into council activities

3.9 From the councils we looked at, we saw that it can be challenging for councils to integrate risk management into their activities, particularly when making decisions about operational risks.

3.10 Figure 4 describes how, to support effective decision-making, Auckland Council includes a risk section in all governance reports.

Figure 4
Auckland Council includes a risk section in all governance reports

Auckland Council includes a risk section in its report for governors (including local boards). The report template provides report writers with guidance on how to fill out the risk section. This section must be populated.

The Council also runs an ongoing quality advice programme. As part of the programme, training and guidance is provided to report writers who advise decision-makers about risks and mitigations.

Having a risk section means that staff are prompted for their consideration and management of risk. Staff we spoke to said that there has been an increased commitment and understanding of what risk management is and why it is important.

Auckland Council has enforced this discipline for some time. This and its other initiatives, which include increasing risk management conversations throughout the Council, have improved the quality of reports going to the governing body.

7 The International Standard *ISO 31000* (2018) discusses leadership and commitment in Part 5.2.

Culture is critical to integrating risk management

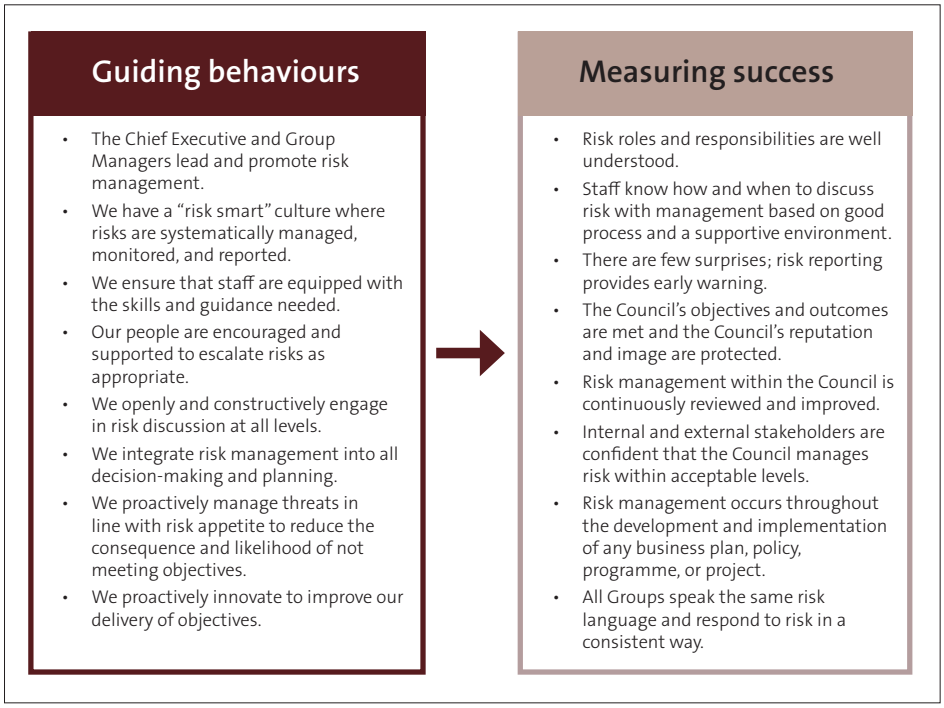
3.11 Effective risk management is not just about the systems and processes in place (the "architecture") – it is also about how staff implement it in their day-to-day work. Councils should consider how to implement an appropriate culture in their organisation that would best support integrating risk management into all their activities.

3.12 Hastings District Council's Chief Executive expressed a commitment to risk management in the Council's Enterprise Risk Management Policy and Framework. In that commitment, the Chief Executive notes:

> *Risk management enhances our service culture and should be engrained in our DNA. Risk management is a continuous journey of learning and its application underpins our ability to deliver positive outcomes for our community.*

3.13 As Figure 5 shows, Hastings District Council's framework describes guiding behaviours (such as "we openly and constructively engage in risk discussion at all levels") and how success will be measured (such as "staff know how and when to discuss risk with management based on good process and a supportive environment").

Figure 5
Hastings District Council's Risk Management Policy and Framework



3.14 The way that risk is considered by elected members, at a council's audit and risk committee, and by management (collectively and individually), creates a culture. That culture has a significant bearing on whether a council will successfully identify and manage risks.

3.15 In Figure 6, we describe Auckland Council's use of risk champions to support its risk management culture.

Figure 6
Auckland Council's use of risk champions

Auckland Council has designated between 50 and 60 staff as risk champions. The risk champions are important for embedding good risk management culture and good practice throughout the Council.

One risk champion we spoke to described their work as an advocacy role, promoting good practice in risk management. They saw the value of their role in increasing the conversation about risk management throughout the Council and, in particular, supporting their department to improve how it considers and manages risks.

Before Covid-19, the risk champions met every two months to look at risks throughout the Council. Risk kōrero were reinstated in January 2021. The January meeting discussed how to effectively integrate risk management into everything the Council does. The risk champions were briefed on the Council's latest reassessment of its top risks, and they provided feedback on the likelihood and impacts of each risk at a divisional and departmental level.

This information has been recorded and informs the assessment and management of the Council's top risks. The Council continues to develop a programme for the risk champions, including holding regular meetings.

Staff and elected members need more support and training

3.16 Staff and elected members need to understand why risk management is important to their council's business, how it relates to their roles, and the part it plays in good decision-making.

3.17 We found that councils in general recognise that they need to do more in respect of training and development, and have ongoing conversations, so that elected members and staff understand their role in managing risk. This would help them more consistently consider and discuss risks and their impact on the council's decision-making.

3.18 Elected members often receive information about a council's risk management activities and their role in risk management as part of their post-election induction. However, we found that subsequent workshops or training sessions often did not happen. One council scheduled a follow-up forum that only a small number of elected members attended.

3.19 Queenstown-Lakes District Council has a risk management intranet page with links to relevant resources. The Council also provides internal training on new aspects of its risk management processes to some staff. Staff with stronger risk management backgrounds run the training.

3.20 Auckland Council identified four high-risk areas needing consistent training (cyber security, integrity, health and safety, and privacy). The Council made online learning modules mandatory for all staff and included them in the onboarding programme for new staff. Overall, about 80% of all Auckland Council staff have completed the training to date.

3.21 Auckland Council also provides risk management training and "how to" guidance to staff and elected members in conjunction with its organisational development programmes. These include the Kura Kawa (elected member development programme) and the staff quality advice and risk champions programmes.

Risk aware versus risk averse

3.22 Risk management practices are not usually designed to eliminate all of an organisation's exposure to risk.

3.23 We heard through our work that councils can have a risk averse[8] culture across both elected members and staff, which reflects a conservative risk appetite. Because of councils' obligations to be financially prudent and accountable to their communities, this is not surprising.

3.24 Councils are also at times subject to significant scrutiny not just from their communities but also central government and interest groups, such as residents' or ratepayers' associations.

3.25 However, risk management is not just about avoiding or reducing the impact of bad outcomes. Risk management is also about supporting an organisation to succeed.

3.26 As well as posing a threat, risk can be an opportunity for developing innovative ways of working. Not looking for or not taking opportunities when they arise also has risks. There is a difference between being "risk aware" and "risk averse".

3.27 Councils need to understand and be transparent about the risks they take on and the benefits they seek. Not all initiatives will succeed, and sometimes the speed of implementation can deliver benefits quickly but put the cost or quality of those benefits at risk. Using reliable information to balance risk and return is part of good risk management.

3.28 Councils need to consider value creation and the potential for innovation when setting their risk appetite. The need for innovation has never been more important given the challenges councils are facing to deliver services to communities within budgetary pressures.

8 According to the *Cambridge Dictionary*, being **risk averse** means being unwilling to take risks or wanting to avoid risks as much as possible.

4 Clear governance and management roles and responsibilities

4.1 Councils should have a structure for how they govern and manage risk, with defined levels of accountability. Roles and responsibilities for the governance and management of risk are often split between different individuals and teams. Therefore, it is vital that these roles and responsibilities are documented and understood. This includes the roles and responsibilities of elected members and audit and risk committees.

4.2 Collectively, elected members are responsible for setting the risk management tone and objectives for their council. They are also responsible for overseeing the council's strategic, financial, operational, and reputational risks. This is because elected members are ultimately accountable to the public for their council's performance.

4.3 Audit and risk committees can support elected members in risk management. However, there should be clear lines of communication between the audit and risk committee and the elected members about risk management.

Audit and risk committees' important role in risk assurance

4.4 Audit and risk committees could be better thought of as risk and assurance committees. Their focus should be on risk, and their purpose should be to provide assurance to elected members that their council is managing risk well.

4.5 Risk is the effect of uncertainty on achieving an organisation's objectives. Therefore, it is important that audit and risk committees have a good understanding of what their council is trying to achieve now and in the long term. Audit and risk committees should also understand the council's key risk areas, including the likelihood of those risks occurring and the consequences if they do.

4.6 Audit and risk committees can help a council by:

- reviewing the effectiveness of a council's risk management framework, policies, processes, and controls, which provides assurance to elected members that there are effective internal controls to manage risks and that the risk management framework is fit for purpose and used effectively;
- providing assurance that a council's strategies are achieving their intended objectives;
- helping elected members test and challenge new ideas and business-as-usual operations so that the council improves and meets its objectives; and
- providing an opportunity for the chief executive or other senior managers to test ideas in a constructive forum.

4.7 In our view, each council should consider the appropriate functions and role of its audit and risk committee for risk management. Audit and risk committees should have the training and support they need to carry out their role.

4.8 We saw effective risk management in the four councils we looked at. The audit and risk committees of these councils had clear roles and the right experience and skillsets for the types of risks their councils face. The four councils' audit and risk committees all received updates from risk managers at each committee meeting.

4.9 The audit and risk committee chairpersons we spoke to noted that their council's processes have matured significantly. This was often demonstrated during the response to Covid-19, with audit and risk committees playing a critical role.

4.10 In Figure 7, we describe Waipā District Council's audit and risk committee's role in risk management.

Figure 7
Waipā District Council's audit and risk committee

We saw some good practice applied by Waipā District Council's audit and risk committee. The committee was established in September 2015, and an independent chairperson was appointed in December 2019. The committee is a sub-committee accountable to the elected members for the Council's risk management activities.

The committee's role in risk management is to:

- ensure that the Council's risk management framework is current, comprehensive, and appropriate;
- assist the Council in determining its risk appetite;
- review the effectiveness of the Council's risk management framework and internal control systems; and
- review risk management reporting quarterly.

The committee meets quarterly and is provided with a Quarterly Risk Management Report. The report provides an update on key insights; strategic, operational, and project risks; emerging risks; an update on the mitigation actions taken; internal audit activities; and how the implementation of the risk management strategy is progressing.

The main purpose of the quarterly reports is to provide a basis for discussion and start effective risk conversations.

The committee asks the following three questions to hold management to account:

1. Are management happy with where risk management is at?
2. If not, what do they need to do to respond to that risk?
3. Does management have the support they need to respond to risk?

Standing items on the committee's agenda cover:

- a "deep-dive" discussion on one of the Council's top risks (this is on a rotating basis, with the intent that each top risk is discussed once a year);
- an organisational risk discussion with the Chief Executive; and
- a group risk discussion with each of the group managers on a rotational basis that covers what is on the manager's work programme, what is on their upcoming work programme, and what "keeps them awake at night".

There are clear lines of communication between the committee and the full Council.

The Council reviews the performance and effectiveness of its audit and risk committee through an annual perceptions survey. All elected members and key staff members who work regularly with the committee complete this survey. The first survey was carried out soon after the committee was established and acts as a baseline. Subsequent survey results provide a long-term view of the committee's effectiveness.

Improving elected member confidence in risk management

4.11 Identifying, understanding, and managing risk is a core part of the role of elected members. Elected members should:

- establish a tone at the top that promotes a risk-aware culture;
- set the council's risk policy and approach;
- be informed about risks and the measures that management is taking to manage significant risks; and
- ensure that the council has appropriate processes for identifying, assessing, and responding to risks in keeping with its risk approach and that these processes are operating effectively.

4.12 We saw a need for councils to have a stronger focus on the role that elected members play in risk management. This includes ensuring that elected members are getting the training and support they need to carry out their risk management roles and responsibilities.

4.13 Elected members need to be able to make informed decisions about how to deliver their council's objectives that have been set in consultation with their community. They also need to understand the implications of these decisions.

4.14 This includes understanding the risks associated with progressing a proposed course of action and how their council is managing these risks. Elected members need to be able to test the information they receive from council staff and make well-informed decisions.

4.15 It is important that elected members understand the context in which they are making decisions on behalf of their community and the implications of the risk information staff provide to them.

4.16 Staff and elected members need to discuss risk and how it should be managed in a clear way. Good communication between elected members and management is essential to set risk management expectations, including roles and responsibilities and the council's risk appetite and risk tolerance levels.

Recommendation 2

We recommend that councils ensure that elected members get the training and support that they need to carry out their risk management roles and responsibilities.

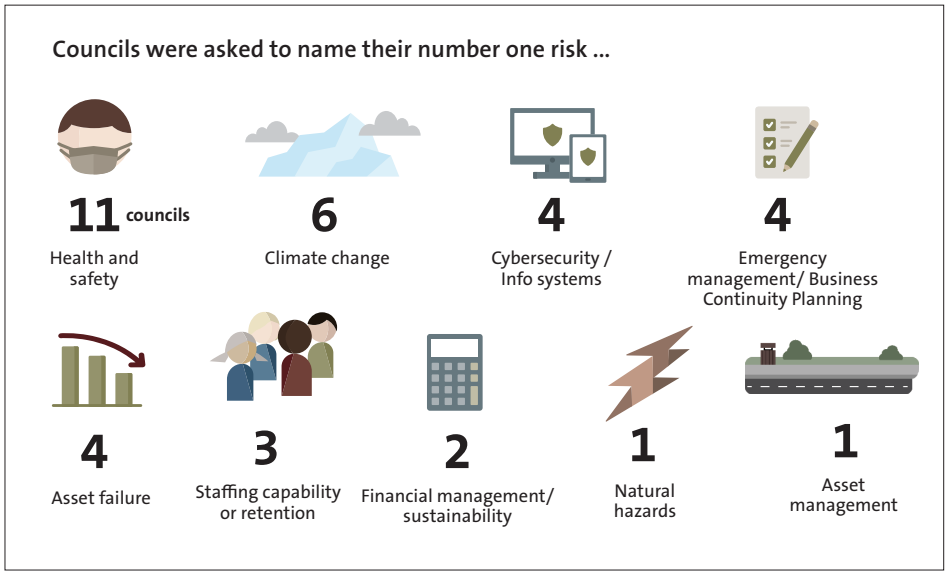
5

Councils' top risks

5.1 The risks councils face are wide ranging. They include risks related to health and safety, the impacts of climate change, fraud, cyber-security, asset failure, cost escalation, drinking water quality, and changes in regulatory standards.

5.2 We asked councils what they identified as their top five risks. Of the 56 councils that responded to this question, 11 said that health and safety was their number one risk and six said the impact of climate change was their number one risk (see Figure 8).

Figure 8
The top risks identified by councils were wide-ranging



Note: This is a sample from the responses received from the 56 councils, not a total list.

5.3 In our local government work, we often find instances where poorly managed conflicts of interest and procurement risks reduce the public's trust and confidence in a council. However, not many councils we surveyed listed conflicts of interest or procurement as a top risk.

5.4 We looked at two specific risks – climate change and asset management (including asset failure) – and considered how three councils were looking to mitigate the risks that they had identified.

Climate change

5.5 Six councils in our survey said that their number one risk was responding to climate change impacts. Several other councils included this in their top five risks.

5.6 Climate change poses risks to council activities, and council activities affect the climate. Councils need to:

- advise their elected members of these risks;
- communicate these risks to their communities; and
- make informed decisions about how to manage their assets and deliver services in response to these risks, including assessing options and their cost implications.

5.7 As at February 2020, 17 councils have declared climate emergencies (see Appendix 2). However, in their responses to our survey, some of those councils did not have climate-related risks in their top five risks.

5.8 This might be because those councils are not integrating their climate-related strategy and/or policy decisions into their risk management practices. Another reason might be that councils have incorporated climate change-related risks into other risk categories, such as asset failure.

5.9 If councils are to make well-informed decisions about their climate change work programmes, it is important that they integrate their decision-making and risk management. This also demonstrates to their communities that they are acting on their climate emergency declarations.

5.10 The Task Force on Climate-related Financial Disclosures framework has been developed to provide clear and comprehensive information on the impacts of climate change. The framework is structured around four core categories, one of which is risk management. Councils are encouraged to become familiar with the framework.[9]

5.11 In Figure 9, we describe Queenstown-Lakes District Council's approach to embedding a consideration of climate change risks into its current and future risk context.

9 Matt Raeburn and Rick Lomax (July 2021), "TCFD framework and climate change obligations", *Local Government Magazine New Zealand*, pages 40-42.

Figure 9
Queenstown-Lakes District Council's approach to embedding a consideration of climate change risks in its risk context

Queenstown-Lakes District Council has taken steps to embed climate change into its current and future risk context. The Council identified ineffective planning for climate change as one of its top five risks.

The Council adopted a climate action plan after consulting with its community, holding workshops, and commissioning scientific research on climate change impacts and implications for the district until the end of the century.

The climate action plan has the following five key outcomes:

1. The community looks to the Council for leadership and action.
2. Queenstown-Lakes District has a low-carbon transport system.
3. Built environment and infrastructure are climate responsive.
4. Communities are climate conscious and resilient.
5. The economy and natural environment thrive together.

The plan is supported by a range of actions that involve – and need implementation support from – all directorates of the Council. When consulting the community on its 2021-31 long-term plan, the Council sought views on whether to maintain its current level of investment into activities to achieve climate goals or to increase this investment. The plan is aligned with the Council's other strategies and outcomes.

Actions under the climate action plan to date include forming a Climate Reference Group and developing a draft Emissions Reduction Masterplan and Sequestration Plan for the district. The plan notes that the Council will develop a performance framework and identify key performance indicators.

The Council considers that there is good engagement with the climate action plan and strong community support, both in terms of adapting to climate change effects and reducing emissions. The Council aspires to have net zero carbon emissions in communities in the district as part of its Vision 2050 strategy.

Council officers report on progress in implementing the Council's climate action plan as a standing item in the Audit Finance and Risk Committee agenda and identify areas for further investment and action. The reports update the committee on progress in achieving the five outcomes, actions in the plan, priorities for the next quarter, actions that have been delayed or rescheduled, risk mitigations, and updates on changes in the operating environment (such as the Climate Change Commission's advice).

Asset management

5.12 Many councils' top risks relate to asset management. Councils are responsible for managing assets with a combined value of more than $160 billion. Councils deliver core services to their communities through these assets. Councils are accountable for the decisions they make about how these assets are managed.

5.13 Climate change, natural hazards, growth, increasing environmental and health standards, regulatory change, understanding the condition of existing infrastructure, and funding constraints all affect whether councils achieve their asset management and service delivery objectives.

5.14 Many assets are also coming to the end of their useful life, and performance issues might arise as a result. We have previously highlighted concerns that councils might not be sufficiently reinvesting in their critical infrastructure assets. This is based on planned renewals expenditure being less than the forecast depreciation charge.[10]

5.15 Recently, as part of their 2021-31 long-term plan consultation, several councils identified that they have been underinvesting in their assets.[11] Some communities are already experiencing asset failures because of this underinvestment.

5.16 To manage infrastructure assets, councils need to have reliable information about the condition and performance of their assets. Reliable asset information is important for mature asset risk management.

5.17 However, many councils struggle with getting reliable asset information, despite the benefits. In Figure 10, we describe Waimakariri District Council's approach to managing its assets.

5.18 To govern the management of assets effectively, elected members should ask questions and/or receive information (preferably trend information) about the following:

- What is the knowledge we have about our assets?
- What percent of our assets have been inspected and when?
- How are we monitoring the performance of our assets?
- What are the asset failure trends?
- What do we spend on reactive versus planned maintenance versus relevant benchmarks?
- Does our future investment programme adequately consider risk and allow the council to take a risk informed investment approach?

10 Office of the Auditor-General (2020), *Insights into local government: 2019*, paragraph 1.10.

11 For example, see Central Hawke's Bay District Council (2021), *Facing the Facts: Consultation Document Long Term Plan 2021-2031*, page 2.

Figure 10
Waimakariri District Council's asset planning and information

Waimakariri District Council recognises that good asset planning and information helps manage risks at a strategic level and when it responds to an immediate issue, such as the Canterbury earthquakes in 2010 and 2011. When the earthquakes happened, the state of its assets held few surprises for the Council. Within days of the earthquakes, the Council was able to make significant decisions about replacing pipes to restore assets and accommodate the required future growth in the district.

For many years, the Council has prioritised its understanding of what assets it owns, where those assets are located, hazards that might affect its assets, and where there is capacity for growth – including population, demographic, and industry changes. The Council has collected all of the important information for reticulation pipes, such as pipe diameter, ground conditions, and how deep the assets are.

The Council has assessed vulnerable and critical assets, and it has plans in place to renew these assets before they fail.

The Council has taken a long-term view in preparing its infrastructure strategy. As a result, it has ring-fenced the money it needs for its asset renewals. The Council has also costed the likely impact of another natural disaster and has sufficient "head room" in its financial strategy to respond to such an event.

There is a strong commitment to resourcing for both staff and technology. The Council actively recruits interns and graduate engineers and provides them with training. This supports a sustainable workforce.

The Council reviews its risk register quarterly and reports a reasonable level of detail. The Council has recognised that it needs to improve its reporting to elected members, noting that reporting often influences the desired change. The Council currently provides detailed asset management plans and reports compliance on performance measures and the capital works programme to its elected members. However, this does not report on service level outcomes, and the Council has noted that this is a matter it could report on.

5.19 We have reported that many councils plan to invest in their assets at significantly increased levels. However, they have struggled to achieve their capital expenditure programmes.[12]

5.20 Project delays or deferrals are typically the most common reasons councils give for spending significantly below their capital expenditure budgets. These delays can be caused by re-prioritising council projects, internal delays (such as consenting issues), and contractual delays (such as tender processes taking longer than expected). These risks are often not well described or understood when capital programmes are approved.

5.21 In Figure 11, we describe Waipā District Council's approach to managing the risk of not delivering its capital works programme.

12 Office of the Auditor-General (2020), *Insights into local government: 2019*, page 13, and Office of the Auditor-General (2019), *Matters arising from our audits of the 2018-28 long-term plans*, pages 19-20.

Figure 11
Waipā District Council's approach to managing the risk of not delivering its capital works programme

Waipā District Council staff told us that the Council's most pressing risk is how to deliver its capital works programme to provide the infrastructure to support expected high levels of growth.

The Council continually reviews project risks and assigns these to "owners" where appropriate. Project managers identify risks at a project level, but the owner of the work programme is expected to consolidate risks at a programme level. This enables cross-organisation responses to be prepared.

Risks filter down through the Council's business planning process and are reported to the audit and risk committee quarterly. The key purpose of the report is to provide a base for discussion and start effective risk conversations by the committee. The report provides the committee with the results of the quarterly review of risks, an update on the status of the mitigation measures, and an update on the implementation of the risk management strategy. The executive also carries out a quarterly review of the report in the lead-in to the audit and risk committee review.

5.22 Councils need to deliver large and complex capital programmes. This was reinforced in councils' 2021-31 long-term plans, where capital expenditure forecasts continue to significantly increase over long-term plans.

5.23 We consider that, given the complexity of decisions that councils need to make about large infrastructure projects, they could make more use of specialised risk management techniques. We have seen limited use of such techniques by councils.

5.24 Quantitative risk analysis or assessments can assist councils in decision-making by providing a probability associated with particular outcomes. This would enable councils to understand what controls or interventions are likely to have the greatest effect on reducing risk.

5.25 Councils cannot make strategic decisions if they do not know where their risks are and what effect they have.

Recommendation 3

We recommend that councils consider using more sophisticated techniques for identifying and managing risks on key programmes of work, such as quantitative risk assessments, given that the assessments that many councils make, particularly on the delivery of their capital expenditure programmes, need a high level of judgement.

The failure of important relationships is a strategic risk

5.26 Councils depend on successful relationships to achieve their strategic objectives – including relationships with neighbouring councils, central government, mana whenua, and their council-controlled organisations.

5.27 We saw councils recognising the failure of key relationships as a strategic risk. In Figure 12, we describe Auckland Council's identification of its inability to achieve Māori outcomes as a top risk.

Figure 12
Auckland Council – achieving Māori outcomes

In May 2020, Auckland Council identified its inability to achieve Māori outcomes because of Covid-19 as a top risk. The Council noted that Covid-19 was expected to have serious and prolonged effects on all vulnerable communities. There was a potential risk that the Council might be unable to meet its responsibilities to Māori, which would have a range of significant impacts and consequences.

Risks have been defined in three related parts as the risk of:

- not delivering on commitments to mana whenua, iwi, mataawaka, and Māori communities and customers;
- not honouring te Tiriti o Waitangi principles and not maintaining the Council's Treaty-based partnerships with Māori; and
- Māori reporting distrust and lack of confidence in the Council.

6 Improving risk management

6.1 An audit and risk committee chairperson we spoke to said that risk management is a journey, not a destination.

6.2 There are many risk management maturity assessment frameworks available, including the *All-of-Government Enterprise Risk Maturity Assessment Framework*.[13] This covers:

- **Leadership and direction**: governance, culture, and continuous improvement;
- **People and development**: roles and responsibilities, resourcing, skills, and training;
- **Processes and tools**: risk assessment and mitigation, assurance, and risk monitoring and reporting; and
- **Business performance**: strategic risk management, managing risk in partnerships, business resilience, and change and transformation.

6.3 Councils can use the *All-of-Government Enterprise Risk Maturity Assessment Framework* to assess their current maturity and help determine what they need to do to improve maturity.

Approaches to improving risk management maturity are unique to each council

6.4 The four councils we looked at acknowledged they needed to improve their risk management maturity and are doing so.

6.5 Environment Canterbury Regional Council plans to continue further integrating its risk management thinking and processes into its organisational culture and practices. To date, the integration of risk management has been deliberately gradual. Environment Canterbury Regional Council has prioritised working with staff who are more receptive to improving their risk management practices in the first instance.

6.6 In Figure 13, we discuss Waipā District Council's approach to applying a change management lens to improving its risk management maturity.

13 For more information about the framework, see digital.govt.nz.

Figure 13
Waipā District Council's approach to applying a change management lens

In 2018, Waipā District Council had external consultants complete a maturity assessment of its risk management framework and supporting processes. This work was part of the Council's internal audit plan. The aim was to identify areas for improvement.

The consultants rated the Council as having "sustainable" risk management. The ratings the consultants used were "weak", "sustainable", "mature", "integrated", and "advanced". The Council intends to move its rating from "sustainable" to "mature" over three years. The rating "mature" is considered best practice for the local government sector.

The consultants recommended that the Council:

- develop a formal risk management strategy and processes for monitoring and reporting key risks;
- consolidate key risks in the strategic risks register and avoid duplication of enterprise-wide risk registers;
- clarify roles and responsibilities of the audit and risk committee and the finance and corporate committee for risk monitoring and oversight; and
- develop more awareness, guidance, and uplift in ownership and capability of frontline staff to enable them to use risk management strategically.

The Council developed a three-year risk strategy that set out initiatives designed to achieve a "mature" rating:

- In Year 1 (2019/20), the Council developed documents that provided the foundation for risk management in the Council.
- In Year 2 (2020/21), the Council focused on organisation-wide awareness building and capability development to carry out risk management, making managing risk more systematic by building the risk management framework into the organisation.
- In Year 3 (2021/22), the Council will re-evaluate the risk strategy.

The Council is implementing this strategy through a risk management improvement programme. It also has a change management plan to support implementing this programme.

Applying a change management lens has been core to the Council's risk management strategy.

The Council carried out a risk and compliance survey in January 2020 to gauge the level of awareness, knowledge, and understanding of business risk and compliance throughout the organisation. The results established a baseline and informed the content of the change management plan.

A key part of the Council's risk management strategy has been setting up a Risk and Compliance Oversight Group, which includes staff from the organisation. This Group supports the implementation of the risk management strategy, champions risk management, provides advice and support to staff, and provides a channel for communications.

To date, the Council has appointed a dedicated business resilience and risk advisor role and an independent chairperson of the audit and risk committee, and it has laid the foundations of its risk management framework.

6.7 Every council should assess the level of risk management maturity it needs and establish a formal plan to achieving that maturity. Councils should carry out progress reviews to inform progress.

Recommendation 4

We recommend that councils assess their desired level of risk management maturity and prepare a clear plan to achieve this. Regular formal reviews of their risk management practices should be carried out to inform progress and identify areas for improvement.

Aspects of risk management that councils need to improve

6.8 Based on the risk management practices of the four councils we looked at, the results of our survey, and our audit work more generally, we consider that most councils have a basic level of risk management maturity.

6.9 Throughout this report, we have identified key areas that councils should focus on to improve their risk management practices. They are:

- someone in the council being responsible for enabling and driving good risk management practices throughout the organisation;
- assessing the level of risk management maturity they currently have and the level they desire;
- formally documenting the risk management practices they expect staff and elected members to apply;
- integrating risk management into all council activities, particularly strategy-setting and decision-making, with a particular focus on embedding the coverage of risk in reports to elected members;
- improving the training and support provided to staff and elected members on their risk management roles and responsibilities;
- ensuring that their audit and risk committee is clear about its role in gaining assurance over the management of risk;
- regularly reviewing risk management activity to inform progress and areas of improvement; and
- making greater use of quantitative risk analysis or assessments to support relevant decision-making.

Appendix 1
Survey questions

Question
Does your council have a clearly defined framework for managing risk?
Please explain why your council does not have a defined framework for managing risk.
What is the framework for managing risk based upon?
Does your council have a dedicated risk manager role?
Please briefly explain why your council does not have a dedicated risk manager role.
What role within your council does the dedicated risk manager report to?
How many full time equivalents (FTEs) are there in your council that have risk management as a dedicated component of their role (as specified in their job/role description)?
What is the primary role that your council's Risk and Assurance Committee (or equivalent) plays in relation to risk management?
Please list what your council has identified as its top 5 risks.
If the following: climate change; financial management, and/or; provision of infrastructure; do not feature in your top 5 risks, where do they sit in your council's risk management priorities (please answer as numbers). If you have mentioned any of these 3 issues as your answers to the previous question, please simply re-enter the position(s) they belong to in the top 5 list of risks.
What support, guidance and tools would help your council to improve the maturity of its risk management?

Appendix 2
Councils that have declared climate emergencies

Council	Date climate emergency declared
Auckland Council	11 June 2019
Bay of Plenty Regional Council	27 June 2019
Central Otago District Council	25 September 2019
Christchurch City Council	23 May 2019
Dunedin City Council	25 June 2019
Environment Canterbury Regional Council	16 May 2019
Greater Wellington Regional Council	21 August 2019
Hawke's Bay Regional Council	26 June 2019
Hutt City Council	27 June 2019
Kāpiti Coast District Council	23 May 2019
Nelson City Council	16 May 2019
Ōpōtiki District Council	5 September 2019
Porirua City Council	26 June 2019
Queenstown-Lakes District Council	27 June 2019
Wellington City Council	20 June 2019
Whangarei District Council	25 July 2019
Whanganui District Council	11 February 2020

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