



Te Kaunihera-ā-Rohe o Ngāmotu

NEW PLYMOUTH DISTRICT COUNCIL

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## **MEETING AGENDA**

# **AUDIT & RISK SUBCOMMITTEE**

**Tuesday 30 September 2014**

**at 4pm**

**Council Chamber  
Liardet Street, New Plymouth**

<b>Chairperson</b>	Cr Richard Jordan
<b>Members:</b>	Cr Len Houwers
	Cr Gordon Brown
	Cr Heather Dodunski
	Mayor Andrew Judd

## AUDIT & RISK SUBCOMMITTEE TUESDAY 30 SEPTEMBER 2014

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### **Addressing the subcommittee**

Members of the public have an opportunity to address subcommittees during the public forum section or as a deputation.

A *public forum section* of up to 30 minutes precedes all subcommittee meetings. Each speaker during the public forum section of a meeting may speak for up to 10 minutes. In the case of a group a maximum of 20 minutes will be allowed.

A request to make a *deputation* should be made to the secretariat within two working days before the meeting. The chairperson will decide whether your deputation is accepted. The chairperson may approve a shorter notice period. No more than four members of a deputation may address a meeting. A limit of 10 minutes is placed on a speaker making a presentation. In the case of a group a maximum of 20 minutes will be allowed.

### **Purpose of Local Government**

The reports contained in this agenda address the requirements of the Local Government Act 2002 in relation to decision making. Unless otherwise stated, the recommended option outlined in each report meets the purpose of local government and:

- Will help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses;
- Would not alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of the Council, or transfer the ownership or control of a strategic asset to or from the Council.

**APOLOGIES**

None advised.

**PUBLIC FORUM**

None advised.

**DEPUTATIONS**

None advised.

**B ITEMS FOR RECOMMENDATION TO COUNCIL**

**B1 DRAFT ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2014  
(2013/14)**

The matter for consideration by the Audit and Risk Committee is to consider the draft Annual Report 2013/14. The committee should endorse the draft annual report which will go forward to the full Council on the 14<sup>th</sup> of October 2014 for adoption.

**B2 CORPORATE RISK MANAGEMENT FRAMEWORK – POLICY AND  
PROCESS**

The matter for consideration by the Council is the approval of the Corporate Risk Management Framework – Policy and Process.



**AUDIT & RISK SUBCOMMITTEE  
TUESDAY 30 SEPTEMBER 2014**

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## DRAFT ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2014 (2013/14)

PREPARED BY: Stephen Ryan (Manager Accounting Services)  
 TEAM: Financial Services  
 APPROVED BY: Philip Armstrong (Manager Financial Services)  
 WARD/COMMUNITY: District Wide  
 DATE: 18 September  
 FILE REFERENCE: DM 1596493

### MATTER

The matter for consideration by the Audit and Risk Committee is to consider the draft Annual Report 2013/14. The committee should endorse the draft annual report which will go forward to the full Council on the 14<sup>th</sup> of October 2014 for adoption.

### RECOMMENDATION FOR CONSIDERATION

**That having considered all matters raised in the report, the report be noted and the Annual report be adopted.**

COMPLIANCE	
Significance	This matter is of low significance.
Options	This report identifies and assesses the following reasonably practicable options for addressing the matter: <ol style="list-style-type: none"> <li>1. Receive and endorse the report for adoption by the full council on the 14<sup>th</sup> October.</li> <li>2. Propose amendments to the report before adoption by the council on the 14<sup>th</sup> October.</li> </ol>
Affected persons	The persons who are affected by or interested in this matter are, the general public
Recommendation	This report recommends option 1 for addressing the matter.
Long-Term Plan / Annual Plan Implications	This is a reporting matter there are no impacts on the Annual or Long Term Plan
Significant Policy and Plan Inconsistencies	There are no inconsistencies with current policies and plans

# ITEM B1

## ITEM FOR RECOMMENDATION

### EXECUTIVE SUMMARY

In terms of the Local Government Act 2002, the Council is required to prepare, have audited and adopt an Annual Report each year.

### BACKGROUND

The purpose of the Annual Report is to report against measures and outcomes agreed to with the adoption in June 2013 of the Annual Plan.

Auditing of the Annual Report by Audit New Zealand is substantially complete and the Audit Report on the Annual Report will be presented to the Council meeting to be held on 14<sup>th</sup> October. Audit New Zealand will be present at the meeting on the 30<sup>th</sup> of September and have indicated they will give verbal clearance at this meeting and are indicating they will be presenting an unmodified (clean) audit opinion.

The annual report demonstrates another busy year for the Council with some notable achievements including the successful completion of the aeration upgrade component of the Waste Water treatment plant upgrade, further improvements in the walking and cycling network through the Lets Go work programme and the start of Len Lye project.

Financially the Council kept good control of its costs with a stable borrowing position well within borrowing compliance limits.

While the audit is substantially complete the audit is still in progress. If there are any changes required by audit this will be noted at the meeting. The report will also be subject to a final proof reading before adoption on the 14<sup>th</sup> of October

### SIGNIFICANCE

The Annual Report is an audited record of the Council's performance over the previous year and is therefore a historical document, and has been assessed as having low significance in terms of the Council's Significance Policy.

### OPTIONS

**Option 1** Note and endorse the report for adoption by the full Council on the 14<sup>th</sup> October.

**Option 2** Propose amendments to the report before adoption by the Council on the 14<sup>th</sup> October.

#### Risk analysis

Amendments to the report will require further audit. Substantial amendments could result in the Council not being able to meet its statutory timeframe for adoption of the Annual Report due to extended audit requirements.

**Recommended Option**

This report recommends option 1 (endorsing the draft Annual Report) for addressing the matter.

**APPENDICES**

Draft Annual Report



## CORPORATE RISK MANAGEMENT FRAMEWORK – POLICY AND PROCESS

PREPARED BY: Leon Wee (Manager Infrastructure Support)  
 TEAM: Strategy  
 APPROVED BY: Liam Hodgetts (Group Manager Strategy)  
 WARD/COMMUNITY: District wide  
 DATE: 15 September 2014  
 FILE REFERENCE: CM 13 03; DM 1597005

### MATTER

The matter for consideration by the Council is the approval of the Corporate Risk Management Framework – Policy and Process.

### RECOMMENDATION FOR CONSIDERATION

**That having considered all matters raised in the report the Corporate Risk Management Framework – Policy and Process, with a six month review frequency, be approved.**

COMPLIANCE	
Significance	This matter is of medium significance.
Options	<p>This report identifies and assesses the following reasonably practicable options for addressing the matter:</p> <ol style="list-style-type: none"> <li>1. Approve the Corporate Risk Management Framework – Policy and Process, with a six month review frequency.</li> <li>2. Further work be undertaken to more accurately translate the Council's appetite for Risk Management within the framework.</li> </ol>
Affected persons	The persons who are affected by or interested in this matter are Councillors and Council staff.
Recommendation	This report recommends option 1 for addressing the matter.
Long-Term Plan / Annual Plan Implications	No
Significant Policy and Plan Inconsistencies	No

**EXECUTIVE SUMMARY**

With the establishment of the Council's Audit and Risk Subcommittee, it is proposed that a NPDC risk management framework be developed and adopted for regular reporting and monitoring.

This report summaries the NPDC's corporate risk management framework. It will describe the Council's risk management process and propose a starting point for the Council's risk appetite and reporting.

**BACKGROUND****OBJECTIVE OF POLICY**

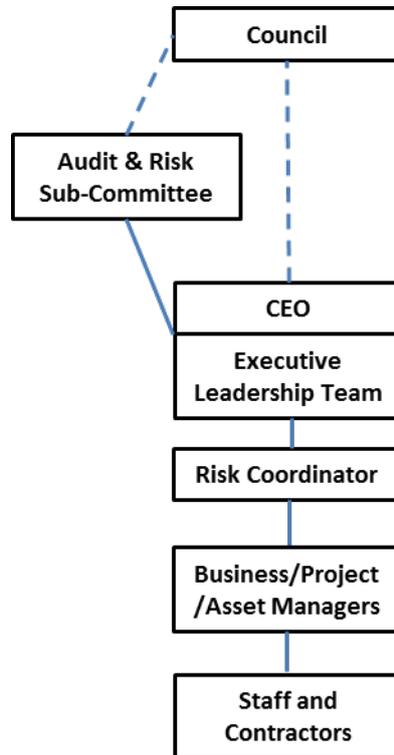
The Council's Risk Management Policy aims at enhancing opportunities and minimising threats, as risk is inherent in the Council's operations.

The main objective of the Council's Risk Management Policy is to:

- Increase the likelihood of achieving its strategic and business objectives.
- Safeguard assets, people, finances and reputation.
- Improve performance and service delivery to maximise resource utilisation.
- Integrate into the Council's operations and process.
- Ensure clear visibility of the Council's risk management process.
- Ensure a timely response to risks and issues as they occur.
- Establish a common language and promote a risk awareness culture across the organisation.
- Aid decision making and encourage innovation.
- Maintain a flexible risk management framework which is aligned with AS/NZS ISO 31000:2009.

**RISK MANAGEMENT GOVERNANCE AND RESPONSIBILITIES**

Risk management is not the sole responsibility of an individual but rather a process that is supported from all levels throughout the organisation. Following is the Council's proposed risk management governance structure:



The key responsibilities for the governance levels are as follows:

### **Council**

- Ensure an appropriate risk governance structure is in place.

### **Audit and Risk Subcommittee**

- Ensure the Council has appropriate risk management and internal controls systems in place.
- Approve and review risk management programmes and review risk treatment options for extreme risks.
- Responsible for setting risk appetite.

### **Chief Executive**

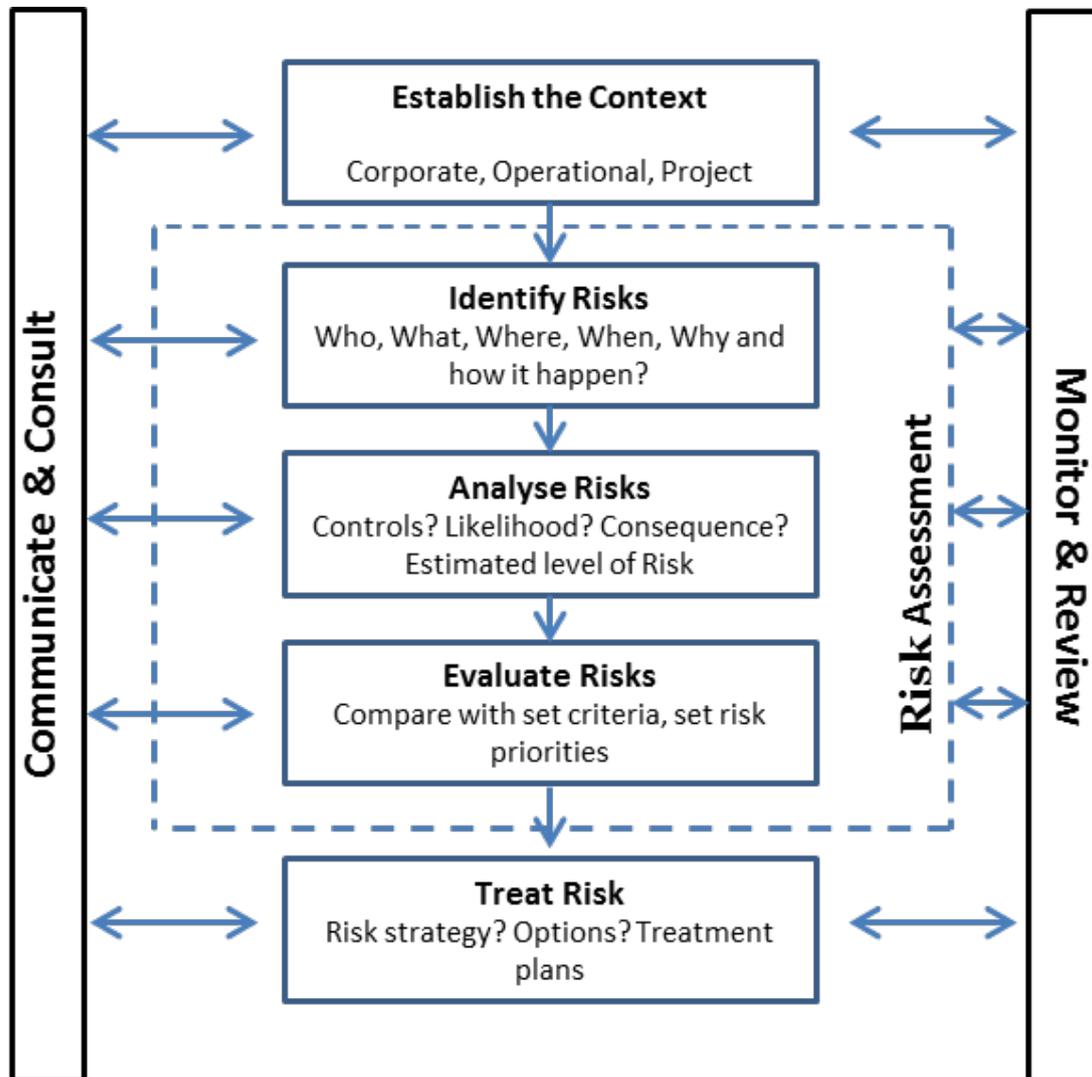
- Risk management sponsor.
- Reports extreme and high risks to the Council with treatment options.
- Oversight of risk management process.

## ITEM B2

## ITEM FOR RECOMMENDATION

### RISK MANAGEMENT PROCESS

The key process steps within the Council's risk management process are adopted using AS/NZ ISO 3100:2009 Risk Management Process. This is summarised using the following diagram:



### COUNCIL'S RISK MANAGEMENT APPETITE

Risks are typically evaluated using the function of likelihood of an event occurring and the consequence of such an event.

The proposed process will make use of the following table to assess the likelihood of a risk occurring:

<b>Likelihood of occurrence</b>		
<b>Likelihood Rating</b>	<b>Likelihood Score</b>	<b>Statistical probability of occurrence</b>
<b>Almost certain</b>	<b>5</b>	Is occurring (has occurred) more than once within the next (last) 12 months
<b>Likely</b>	<b>4</b>	Can occur (has occurred) at least once within the next (last) 2 years.
<b>Moderate</b>	<b>3</b>	Can occur (has occurred) within the next (last) 5 years.
<b>Possible</b>	<b>2</b>	Can occur (has occurred) within the next (last) 10 years.
<b>Unlikely</b>	<b>1</b>	Has not (will not) occur within the last (next) 10 years – planning horizon.

The following table illustrates the proposed consequence descriptors that indicate the level of possible consequences for a risk.

It should be noted that the selection of the financial range for measure of consequence is similar to the current procurement value delegations. It is proposed that any risk of financial impact greater than \$250,000 be reported and monitored by the Audit and Risk Subcommittee.

## ITEM B2

## ITEM FOR RECOMMENDATION

Impact factor/Criteria					
Measure		Financial Impact	Impacts on public and health	Image reputation & Public support	Service delivery impact on customers and community
1	<b>Low</b>	Loss of less than \$25,000	No health or safety impact, injury managed with first aid.	No media attention or reputational impact.	Very localised - little effect. < Customer hours.
2	<b>Minor</b>	Loss of between \$25,000 and \$100,000	Minor health or safety impact on small number of people. Injury dealt with. No hospitalisation.	Minimal media attention. May be some local coverage - not front page.	Impact on small group of residents. 20 to 500 customer hours.
3	<b>Moderate</b>	Loss of between \$100,000 and \$250,000	Serious health or safety impact on small number (injury require hospitalisation) or minor impact on large number of people.	Local media coverage, community, interest in the Council's performance.	Some impact on a wider group. 500 to 20,000 customer hours.
4	<b>Major</b>	Loss of between \$250,000 and \$1m	Extensive injuries or significant health or health and safety impacts, permanent disablement or single fatality.	National media coverage, major impact on community support.	Significant impact on large group. Political environment. 20,000 to 500,000 customer hours.
5	<b>Catastrophic</b>	Loss of \$1m or greater	Widespread health or safety impacts, multiple fatalities.	International media coverage and impact on community support. External Enquiry. Appointment of a Commissioner.	Significant impact on community at large. Over 500,000 customer hours.

Following the assessment of the likelihood of a risk occurring and the consequence of such an event, the risk is then categorised into the following risk levels:

Comparative Levels of Risk			Reporting to Audit and Risk Subcommittee
<b>E</b>	Extreme Risk	Immediate action required to manage risk.	Yes
<b>H</b>	High Risk	Senior management attention to manage risk.	Yes
<b>M</b>	Medium Risk	Management responsibility must be specified and risk controls reviewed.	No
<b>L</b>	Low Risk	Managed by routine process.	No
<b>I</b>	Insignificant Risk	Examine where un-needed action can be reduced.	No

### Reporting and Monitoring

It is proposed that High and Extreme Risk are reported, monitored and discussed at every Audit and Risk Subcommittee meeting. Initially, treatment for such risks can be recommended by officers for discussion at committee level. This process would allow officers to develop an understanding of the committee's appetite on risk treatment and react accordingly when developing risk treatment measures for individual risks.

### REVIEW OF FRAMEWORK

For risk management to be effective within the Council, it must foster and maintain ownership at all levels. Risk management is an integral part of day-to-day operations and not a separate function. It is for this reason that the proposed framework document should be sufficiently agile to reflect the day-to-day operational needs.

In order to maintain agility of this newly proposed framework and to meet the working requirements of the recently formed Audit and Risk Subcommittee, it is proposed that this framework be reviewed and updated to reflect expected practice and the Council's appetite every six months for the first year post implementation.

This review process would also help refine the Council's risk management framework to facilitate continuous improvement and overall risk maturity.

### SIGNIFICANCE

In accordance with the Council's Significance Policy, this matter has been assessed as Medium significance because it will allow the Council to provide a consistent direction and expectation to officers for risk management approach.

### OPTIONS

- Option 1** Approve Corporate Risk Management Framework – Policy and Process with a six month review frequency.
- Option 2** Further work required to more accurately translate the Council's appetite for risk management within the framework.

#### Recommended Option

This report recommends option 1 – Approve Corporate Risk Management Framework – Policy and Process with a six month review frequency for addressing the matter.

**APPENDIX**

Final Draft Corporate Risk Management Framework – Policy and Process.  
(Separate Document)



# Corporate Risk Management Policy and Manual

## Version 0.3

<b>Location of Controlled Copies:</b>	
<b>Document Reviewer:</b>	
<b>Approved By:</b>	<b>Executive Leadership Team (Pending)</b>

### REVISIONS

Rev	Date	Pages	Description	By
0.2	9 October 2013	9 and 10	Inclusion of Fig 1	JRS
0-3	15 October 2013	6 to end of document	Add "Purpose" Change format of manual	JRS

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## Foreword

The New Plymouth District Council risk management policy and manual provide the context and framework for how risks to the Council are to be managed.

The objective of the risk management process is to identify realistic possible risks faced by the Council and to analyse and evaluate these risks. The outcome of this evaluation is to be used to manage risks by avoiding, isolating or treating risks.

The policy defines the responsibilities of Council managers and staff to form and maintain the framework. The manual provides a step by step guide to identify and manage risk that is applicable for any business or activity or project within the Council.

## References

This risk management framework and assessment process has been prepared using AS/NZS ISO 31000:2009, the joint Australian New Zealand International Standard for Risk Management published by Standards New Zealand, which is based on and replaces AS/NZ 4360:2004.

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# RISK MANAGEMENT POLICY

## Introduction

New Plymouth District Council operates across a wide range of activities delivering services typical of local government. It is required to operate within a legal environment specific to local government. The Council is committed to managing risks that may impact on the delivery of its activities and services and/or have implications on the Council's legal obligations.

The Council is exposed to many risks on a daily and ongoing basis. Risks potentially occur across the organisation in all areas of activity including but not limited to procurement, contract management, employment, health and safety, regulatory and enforcement, management, financial, procedural, service delivery, emergency management and business continuance.

For risk management to be effective an organisation must foster and maintain ownership at all levels. Risk management is an integral part of day-to-day corporate operations and not a separate function.

## Definition

**Risk** is defined as *“the effect of uncertainty on objectives”*

## Objective

To proactively identify, assess, treat, monitor and report risk across all areas of the Council's activities in order to:

1. Avoid, reduce, share or retain the risks that may impact on the delivery of activities and services and/or have implications on the Council's legal or other obligations. This includes the following risk categories:
  - People risks
  - Local government risks
  - Organisational management risks
  - Environmental risks
2. Improve decision making, encourage innovations, and develop a “risk smart” (managing, monitoring and reporting) culture throughout the Council.

## Policies

1. To adopt a framework for the identification, assessment, treatment, monitoring and reporting of risk across all areas of Council activities.

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2. To actively manage risk through avoidance, reduction, sharing or retention of the risk.

### **Methods of Implementation**

1. Constitution of the Executive Leadership Team as the Risk Management Committee with responsibility for the management of risk relating to Council activities.
2. Appointment of a risk management co-ordinator (either in-house and/or as a subcontractor) whose role will be to:
  - a. Monitor the review and management of risk and the implementation of any relevant recommendations across the organisation.
  - b. Ensure there is at all times an adequately trained pool of employees in-house (say four - six) who are competent in the facilitation of risk management reviews.
  - c. Develop and maintain a risk management review project plan so as to ensure all areas of the Council's activities are subject to annual risk management review.
  - d. Report regularly to the Executive Leadership Team (at no less than three times per calendar year) on matters relevant to risk management across the organisation including the progress being made to action risk treatments.
3. Each group, sub-group, business unit or work area is to undertake a risk assessment review of its activities at no more than annual intervals, and keep an up-to-date risk register, with the timely reporting and managing of significant risks.

Note: The (annual) risk assessment reviews will be conducted in a workshop format facilitated by a staff member whose ordinary work duties are not within the business unit or work area under review.

4. An annual report to the Council by the Chief Executive on the state of risk management as it relates to Council activities.

### **Application**

All current employees of New Plymouth District Council

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## RISK MANAGEMENT MANUAL

### Purpose

The purpose of this manual is to document the risk management framework of New Plymouth District Council and to provide a mechanism for the identification, assessment and management of risk across all the organisation's business activities and projects.

### Scope

This manual provides the framework for risk management, commencing with risk identification then analysis to determine the raw risk priority. Controls in place are then identified followed by treatment(s) to develop, which are then re-assessed to determine the mitigated risk assessment.

The extreme and high risks are to be reported to ELT. ELT will act as the risk management committee to ensure corporate risks and any other extreme or high risks are managed. Managers are, however, expected to manage all risks within their area of responsibility. The manual has been designed as a simple, ready to use tool for managers to identify and manage risk that is applicable for any business or activity/ project within the Council and for reporting any extreme or high risks to ELT.

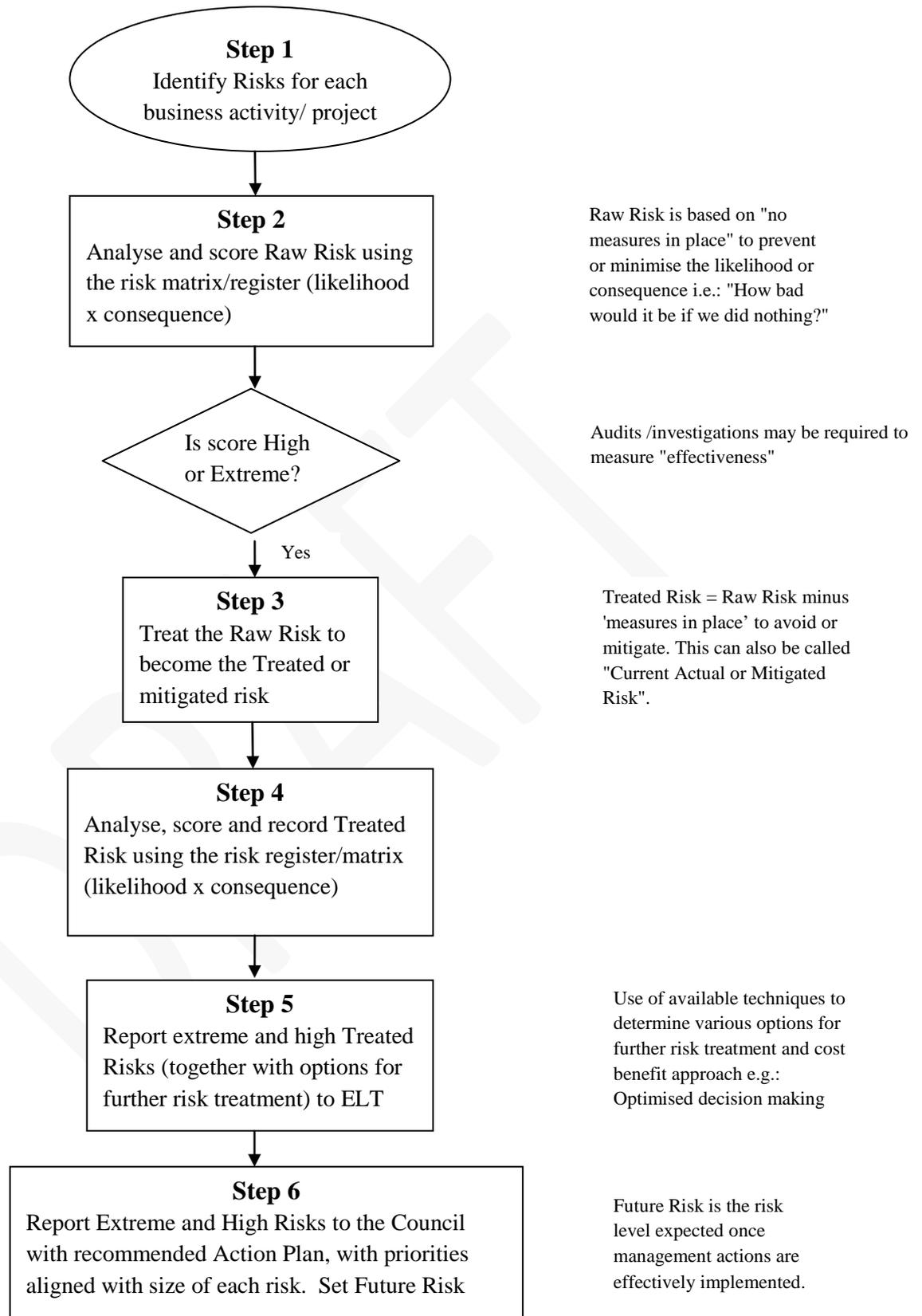
### Responsibilities for Managing Risk

Position	Roles and Responsibilities
Chief Executive	Risk management sponsor Reporting of extreme and high risks to Council Responsible for setting risk appetite Oversight of risk management process
Executive Leadership Team (ELT)	Risk Management Committee with responsibility for the management of risk relating to Council activities. Assistance in setting the Council's risk attitude and ensuring that Council risks are identified and managed to acceptable levels. Risk management framework is in place and continuous Legislative and governance obligations are met Integration of risk management with Council policies, processes and practices
Manager Risk Assurance	Risk management coordination of risk management process Maintenance of corporate risk register Planning and executing reviews and audits of the corporate risk register Ensure effectiveness of risk controls Report on risk management to the Executive Leadership Team, and

	<p>Measures and reports on the effectiveness and adequacy of risk management and internal control processes and systems</p> <p>Processing new risks (i.e. first receiver of new risks and consideration of these)</p> <p>Facilitate management of cross-organisational risks          Convene a Risk Management Committee consisting of the ELT and Manager Risk Assurance to assist with oversight and advocacy for the above tasks</p>
Group Managers	<p>Promote risk management culture</p> <p>Communicate and raise awareness of risk management to Council staff and managers, including attendance at risk management training</p> <p>Identify, manage and monitor risks in their groups through risk framework and appropriate forums</p> <p>Assign responsibilities</p>
Business /Project / Asset Managers	<p>Manage activity / project / asset risks, including registers, risk review, monitoring risk action plan</p> <p>Ongoing identification and assessment of risks, and responding appropriately relative to objectives</p> <p>Management of the relevant risk, within acceptable risk tolerance levels</p>
All Staff	<p>Awareness of risk management and process</p> <p>Everyday identification and management of risks and improvement actions to minimise risk events and impacts</p>

### **Risk Management Process**

The risk management process describes how to use the Manual. The following flowchart and text details the key elements of the Risk Management Process undertaken. The risk criteria and matrices are the basis for risk evaluation in this section developed in line with the AS/NZS ISO 31000:2009 international risk standard.



**Figure 1: Risk Management Process**

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The following sections expand upon the risk management process as identified in the flowchart (previous page). The risk assessment process has been generally based upon the AS/NZS ISO 31000:2009 international risk standard to establish a Risk Matrix.

This matrix provides a tool to quantify a risk by identifying the likelihood of the risk occurring and the outcomes, or consequences should the risk occur.

The following steps shall be taken to identify, assess, manage and report risk:

Step	Description	Responsibility
1	Identify risks	Businesses
2	Analyse and score raw risk	Businesses
3	Treat raw risk	Businesses
4	Analyse, score and record treated risk	Businesses
5	Report extreme and high treated risks to ELT	Manager Risk Assurance
6	Report residual extreme and high risks to Council	Chief Executive

Note: The above process is one cycle. The process should be conducted annually for all businesses and more regularly for businesses with high/ extreme risks.

The first step in the process is to identify the risks.

### Step 1 Identify Risks

All practically possible risks affecting the Council need to be identified for each business activity and project. Risks can include the types quoted previously i.e. financial, operational, health and safety etc. Once identified, risks are entered into the risk register. The register is used to record and summarise each risk and to outline current mitigation measures and potential future management options.

The risk register can exist as an electronic document (e.g. in Word or Excel) and possibly in hard copy. This is to be maintained by each Council business.

### Sources of Risk

The sources of risks the Council is exposed to are many and varied. To provide a framework for risk identification and analysis, four types of risk event have been identified as follows:

- **External risk events** - events largely beyond the control of the organisation. Examples of external risk events include extreme weather events, earthquake, vandalism, electricity supply failure, changes in legislation, supplier price changes, etc.

- **Physical risk events** – events mainly associated with the failure of the assets due to loading characteristics or failure of building systems and materials. Examples of physical risks include asset material failure, building systems failure, road surface failure, etc.
- **Corporate risk events** – events largely caused by a breakdown of corporate and operational processes such as inadequate inspections, accidents, loss of key information and poor policies & strategies. Corporate risk includes poor planning, policies, strategies and budgeting. Operational examples include inadequate training, inadequate service level agreements, poor construction and maintenance, etc.
- **Asset management risk events** – events associated with incomplete planning information and processes, such as data capture and demand analysis. Examples can include change of strategies, change of design criteria, capacity and demand planning deficiencies, cultural and political restraints, emergency response planning, consultation deficiencies, inadequate risk planning, etc.

These sources of risk have the potential to create:

- People risks e.g. health and safety.
- Local government risks e.g. reputation/ image, legislative.
- Organisational management risks e.g. loss of service, financial
- Environmental risks.

Further ideas of sources and types of risks are listed in Appendix A.

**Action:** Identify all risks for each activity/ project

**Responsibility:** All businesses

## Step 2 Analyse and Score Raw Risk

For each of the risks identified in Step 1 for each activity or project determine the Likelihood (Table 1) and Consequence (Table 2) and use these to determine the Raw Risk Factor (Table 3).

The likelihood of occurrence and severity of consequences should be based on as much real data as possible, for example local knowledge or recorded events such as maintenance records, weather events etc. Some analysis may be required for verification.

The likelihood ratings identify how likely, or often, a particular event is expected to occur, these are shown in Table 1 below. The descriptors are there not as mandatory category requirements, but as a guide to assist ranking the probability in line with the nature of each risk. For example, a risk like a sewer overflow is 'rare' if it occurs once every ten years, whereas a tsunami occurring every ten years would be considered 'frequent'.

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<b>Code</b>	<b>Likelihood of Occurrence</b>	<b>Current Probability of Condition Based Occurrence</b>	<b>Equivalent Statistical Probability</b>
<b>A</b>	Almost Certain	Within 1 year	90%
<b>B</b>	Likely	Within 2 years	70%
<b>C</b>	Moderate	Within 3-5 years	30%
<b>D</b>	Possible	Within 6-10 years	10%
<b>E</b>	Unlikely	Within 10-20 years	5%
<b>F</b>	Rare	> 20 years	2%

**Table 1: Likelihood of Occurrence**

The consequence descriptors in Table 2 indicate the level of possible consequences for a risk.

DRAFT

CONSEQUENCE	IMPACT (Risk)				
	1	2	3	4	5
<b>Description</b>	<b>Insignificant</b> <\$2,000	<b>Minor</b> \$2,000-\$20,000	<b>Significant</b> \$20,000-\$200,000	<b>Major</b> \$0.2M-\$2M	<b>Catastrophic</b> >\$2M
<b>Corporate Image</b>	Event only of interest to individuals Nil effect or community concern	Minor community interest Local media report	Public community discussion Broad adverse media coverage	Loss of confidence in Council National publicity Public agitation for action	Public investigation International coverage Management changes demanded
<b>Environment</b>	Negligible impact Reversible within 1 week	Material damage of local importance Prosecution possible Impact fully reversible within 3 months	Serious damage of local importance Prosecution probable Impact fully reversible within 1 year	Serious damage of national importance Prosecution expected Impact fully reversible within 5 year	Serious damage of national importance Prosecution Long term study Impact not fully reversible
<b>Safety &amp; Health</b>	Negligible injury Non-significant hazard	Minor injury Medical attention required Minor hazard	Serious injury Hospitalisation required or seven days off work Significant hazard	Loss of life	Multiple loss of life or city-wide epidemic
<b>3rd Party Losses</b>	Minimal liability for consequential loss	Liability for consequential loss \$2,000-\$20,000	Liability for consequential loss \$20,000-\$200,000	Liability for consequential loss \$0.2M-\$2M	Liability for consequential loss >\$2M
<b>Loss of Service / Community Effect</b>	Small number of customers experiencing minor service disruption	Significant service disruption affecting small number of customers \$2,000-\$20,000	Significant localised disruption over extended period \$20,000-\$200,000	Major localised disruption over extended period \$0.2M-\$2M	Major long term city wide service disruption >\$2M
<b>Loss of Revenue / Business Costs (Total Recovery)</b>	Total direct revenue loss & cost to restore service (<\$2,000)	Total direct revenue loss & cost to restore service \$2,000-\$20,000	Total direct revenue loss & cost to restore service \$20,000-\$200,000	Total direct revenue loss & cost to restore service \$0.2M-\$2M	Total direct revenue loss & cost to restore service >\$2M

**Table 2: Consequence Rating**

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Note that individual activities and projects may add requirements to this table as needed to reflect their consequences.

After the likelihood and consequence factors have been determined, the level of risk is calculated by multiplying the Likelihood of Occurrence (Table 1) and Consequence Rating (Table 2) together.

***Risk = the likelihood of an event occurring X the consequence of such an event***

The final outcome is a risk rating. The risk rating enables definition between those risks that are significant and those that are of a lesser significance. Having established the comparative risk level applicable to individual risks, it is possible to rank those risks. Five risk categories have been used: Extreme, High, Serious, Moderate and Low (see Tables 3 & 4).

Once the impact has been ranked according to the relative risk level it poses, it is then possible to target the treatment of the risk exposure, by beginning with the highest level risks and identifying the potential mitigation measures.

			Consequences				
			Insignificant 1	Minor 2	Significant 3	Major 4	Catastrophic 5
Likelihood	Almost Certain	A	Serious	High	High	Extreme	Extreme
	Likely	B	Moderate	Serious	High	High	Extreme
	Moderate	C	Moderate	Moderate	Serious	High	High
	Possible	D	Low	Moderate	Serious	Serious	High
	Unlikely	E	Low	Low	Moderate	Serious	Serious
	Rare	F	Low	Low	Low	Moderate	Serious

**Table 3: Risk Rating Matrix**

Comparative Levels of Risk		
<b>L</b>	Low Risk	Examine where un-needed action can be reduced
<b>M</b>	Moderate Risk	Managed by routine procedures
<b>S</b>	Serious Risk	Management responsibility must be specified and risk controls reviewed
<b>H</b>	High Risk	Senior management attention to manage risk
<b>E</b>	Extreme Risk	Immediate action required to manage risk

**Table 4: Comparative Level of Risk**

Initially, the Raw Risk needs to be calculated, so likelihood and consequences need to be considered as if there were no measures in place to prevent or mitigate the risk occurrence. Essentially gross risk is an exercise to determine "What is the worst that could happen?"

**Action:** Analyse and score Raw Risk for each activity or project

**Responsibility:** All businesses

### Step 3 Treat Raw Risk

Once the Raw Risk is determined it is possible to investigate the current systems and processes starting with the highest ranked risk. Then formulate an action plan to further reduce the likelihood or consequences of identified risks occurring.

Current systems and processes are identified, and as far as resources allow, their effectiveness measured. It is often practical to identify these processes and systems initially, and rank their effectiveness conservatively until the audits and actual practices prove otherwise. Audits can be identified as part of the improvement process.

Effectiveness of existing systems and processes is expressed in the following categories:

Effectiveness Levels	
Excellent	Fulfils requirements thoroughly, very robust and positive measurable effects
Good (strong)	Fulfils requirements, robust and measurable, room for improvement
Fair (some strength)	Barely fulfils requirements, effects hard to measure (or haven't been audited or measured), improvement required
Poor (Weak)	Not fulfilling requirements, little measurement or effect on overall risk
Very Poor (Very Weak)	Totally ineffective in avoiding or mitigating associated risk events

**Table 5: Effectiveness Levels**

**Action:** Treat Raw Risks

**Responsibility:** All businesses

#### **Step 4 Analyse, score and record Treated Risk**

The Treated Risk is the actual risk that exists considering the effectiveness of any measures taken in Step 3 to reduce either, or both, the consequence and the likelihood of a risk occurrence.

The Treated Risk factors are determined by repeating the procedures described in Step 2.

The Treated Risks should be recorded in the business's risk register with all extreme and high risks reported to the Manager Risk Assurance for recording in the Corporate Risk register and reporting to the Executive Leadership Team.

**Action:** Analyse, score and record treated Risks for each activity/project  
Report extreme and high risks

**Responsibility:** All businesses

#### **Step 5 Report extreme and high treated risks to ELT**

The Manager Risk Assurance compiles a corporate risk register from the extreme and high Treated Risks reported by the businesses for all their activities.

A Risk Action Plan is compiled from the risk register for the most significant risks faced.

The main risks are listed in order of severity.

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The Manager Risk Assurance shall report the Risk Action Plan to the Executive Leadership Team for decisions on further risk treatment and reporting of “residual” (unacceptable) extreme and high risks to the Council.

Options for risk treatment that are required to achieve the desired improvements and reduce the risk factor to acceptable levels (risk appetite) are indicated along with how progress on these actions will be monitored and reported. Where applicable, action tasks will detail estimated costs, timeframes for achievement, and responsibility for these actions.

The options for mitigating risks considered to reduce likelihood and consequence of the risk (risk rating) are typically:

- Avoid
- Isolate
- Minimise

Alternatively a risk could be accepted and provision made to fund and resource any risk impacts e.g. with insurance.

Note: The Council should set its “risk appetite” i.e. determine what are considered to be acceptable risk levels and what are considered to be unacceptable risk levels so that consistent decisions on risk management can be taken.

### **Link to Improvement Plans**

Actions identified in this Risk Management analysis should be directly linked to actions identified in appropriate improvement plans where they exist, e.g. Asset Management improvement Plans, where resources should be identified, approval of resources noted, and a defined method is provided for revisiting and reviewing progress against each action item. Where an equivalent action item is not listed in the improvement Plan, it should be added.

In all cases, the appropriate risk reference number should be noted in the improvement Plan, and the improvement number should be noted in the Risk Action Plan.

**Action:** Report extreme and high risks to ELT

**Responsibility:** Manager Risk Assurance

### **Step 6 Report residual extreme and high risks to Council**

The Chief Executive shall report Extreme and High Risks to the Council with a recommended Action Plan, with priorities aligned with size of each risk. This will help determine the level of future risk to which the Council is still exposed.

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**Action:** Report extreme and high risks to Council  
**Responsibility:** Chief Executive

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### **Risk Appetite**

In defining the Council's appetite and determining the acceptable level of risk, the Council will consider the following:

- What is the community's attitude to a loss of or change to level of service?
- What time and resources are the Council willing to commit to reduce exposure to risk?
- What level of risk requires immediate treatment or management?
- What level of risk requires a response to avoid the risk event or reduce (or treat) its impact?
- What events have actually occurred in the past, at what level were they managed, and what were the impacts?
- Is the Council comfortable with current risk levels, or do they feel they are taking too many or not enough risks?
- What are the consequences of not mitigating the risk?

### **Timetable**

#### **Businesses**

Business risk analysis and reporting to Manager Risk Assurance: All risks annually, Treated extreme and high risks reassessed and reported to Manager Risk Assurance three monthly.

#### **Manager Risk Assurance**

Reporting extreme and high risks and Risk Action Plan to ELT three monthly.

#### **ELT**

Reporting residual extreme and high risks and Risk Action Plan to Council three monthly.

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## APPENDIX A

### SOURCES AND TYPES OF RISK

When identifying risks, all sources of potential risk should be considered. Some sources of risk are generic to all organisations; others are specific to local government. The sources and types of risk that are typically found in the local government context are summarised below.

#### People Risks

- Human resource management practices
- Recruitment
- Induction
- Training & development
- Occupational health and safety
- Hazard management
- Industrial action
- Manual handling
- Health
- Rehabilitation
- Equal employment opportunities
- Fraud, corruption and crime
- Negligence
- Misappropriation
- Contractor management
- Cultural issues
- Change management

#### Local Government Risks

- Asset management
- E-business
- Environmental hazards
- Reputation/ image i.e. political risk
- Legislative compliance / associated legal risks
- Planning, strategy,
- Long-term Plan, Annual Plan, Annual Report
- Community safety responsibilities
- Use of / reliance on volunteers

#### Organisational Management Risks

- Loss of service
  - Finance
- Insurance
- Public liability
- Legal relationships
- Project / programme management
- International economics
- Commercial / business / contractual / consultancy activities and interruptions
- Property and physical assets
- Fleet
- Information technology /computer systems /cyber attack
- Business continuity
- Communication
- Fraud
- Internal processes
- Competition
- Contracting performance
- Customer services
- Governance

#### Environmental Risks

- Natural hazards
- Technological hazards
- Security
- Hazardous and toxic materials
- Public health outbreak
- Emergency/disaster management
- Environment
- Waste and refuse

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