



Greater Wellington Regional Council

Business Assurance
Discussion paper

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Internal Audit within Greater Wellington

Purpose of this document

This paper provides an overview of the role and operation of Internal Audit within the Greater Wellington Regional Council ('Greater Wellington' or 'GWRC').

This provides the basis by which the Business Assurance function will be established and the key design decisions that will drive activities going forward.

The immediate priorities for Business Assurance for the six months to June 2017 are outlined.

What is Internal Audit

Internal Audit provides independent objective assurance and advice designed to add value and improve GWRC's operations. It is designed to help GWRC accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

For the purposes of this document and going forward within GWRC, Internal Audit will be referred to as '**Business Assurance**' to reflect the forward focused and collaborative way in which it is intended that the Internal Audit function works within the business.

Key design decisions for Business Assurance

In establishing Business Assurance within GWRC the following design decisions have been considered. A recommended approach is provided for each of these design elements for approval by ELT and the Council. This will form the basis of the *Internal Audit Charter*, a document providing the authority and mandate for Business Assurance going forward, and the *Business Assurance Strategy and Plan*, a document setting out the specific work programme for the period ahead.

Key parameters are:

- **Purpose:** why do we need Business Assurance?
- **Coverage:** what assurance do we need?
- **Accountability:** where should this assurance come from?
- **Drivers:** what determines the programme of Business Assurance activity? What is the right balance between breadth of coverage and depth of review? ... and between business-as-usual vs change?
- **Extent:** how much assurance do need?
- **Positioning:** how do we want IA to engage with the business?
- **Timing:** when should assurance be provided – during the process or after the fact?
- **Horizon:** how far forward do we plan?

Purpose

Considerations

GWRC is a complex organisation with a range of accountabilities, services and functions. These are delivered through operational units, related entities, contracted service providers and key change projects.

Implicit in your operations and wider business environment are a range of risks. These risks pose a threat to your achievement of objectives as set out in your Long Term Plan and supporting Annual Plan. You have established a formal approach to the identification and management of risk and rely on a range of internal controls embedded within your core business operating model.

You require assurance that the key controls that you rely on to mitigate risk are in place and working effectively. You require advice as to additional risks that you may face and recommendations as to how these may be effectively addressed.

Recommendation

That the objectives of Business Assurance be set as follows:

- To provide independent and objective assurance and advice on Greater Wellington's organisational governance, risk management and internal control processes
- To help GWRC better understand and manage risk and to provide confidence that key elements of the business relied on to manage risk are in place and working effectively.

The focus of Business Assurance activity will include:

- Core elements of GWRC's business operating model including business structures, processes, roles/accountabilities and supporting technology as they relate to GWRC's internal control environment
- Key change initiatives, programmes of work and projects
- Group operations including those of GWRC and related subsidiaries and controlled entities.

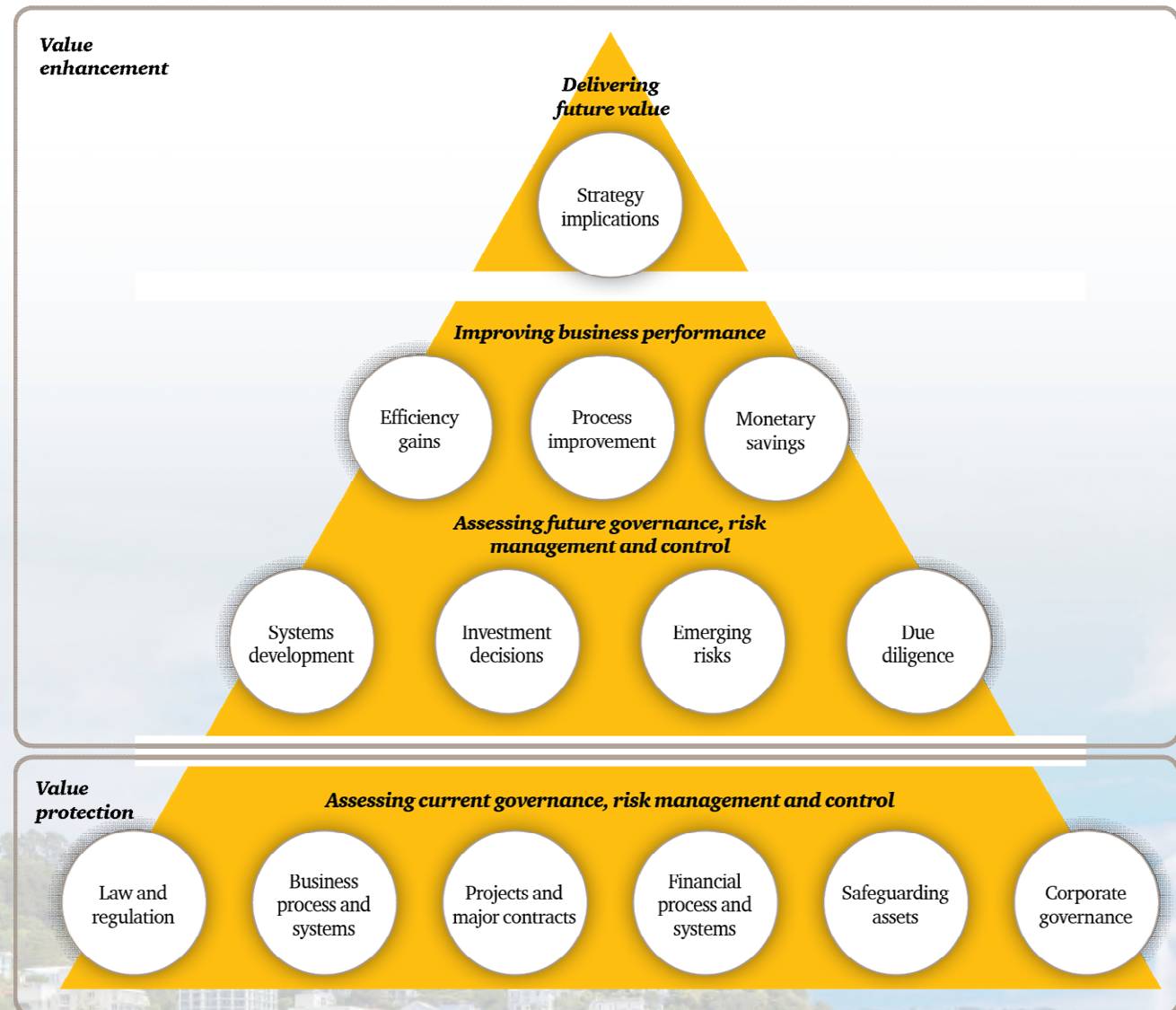
Coverage

Considerations

The following diagram shows the range of perspectives that Business Assurance would typically provide. These range from a foundation of 'value protection' – i.e providing point in time confidence that core elements of your control environment are in place and working effectively, to 'value enhancement' – i.e providing forward looking assurance and advice on areas of business improvement and change that directly contribute to GWRC's achievement of LTP and AP objectives.

Recommendation

That the initial balance between value protection and value enhancement be approximately 75% value protection and 25% value enhancement with a view that the bias be towards a more value enhancement focus once confidence in the core control environment of GWRC is established.



Accountability

Considerations

The prime accountability for identifying risks and implementing controls rest with management. The role of the Risk Manager is to ensure that there is an effective and consistent basis by which GWRC identified, assesses, reports and manages risk. The role of Business Assurance is to confirm that key controls relied on to manage risk are effective in design and operation.

A *'lines of defence'* model provides a good basis for delineating the respective roles and accountabilities for providing assurance within GWRC.

Recommendation

That the following accountabilities be confirmed based on a lines of defence model:

1st line of defence: The accountability of Management implement appropriate internal controls that manage risk inherent to GWRC's operations

2nd line of defence: The accountability of the Risk Manager to help management understand and manage risk through an effective enterprise risk framework. The accountability of Management to implement appropriate self-checking/self-assurance to confirm that the controls they rely on are in place and working effectively.

3rd line of defence: The accountability of Internal Audit to ensure that the internal control environment is effective in design and operation

4th line of defence: The accountability of External Audit to ensure that the financial statements present a true and fair view. This will often include confirming controls around core financial processes supporting the preparation of the financial statements.

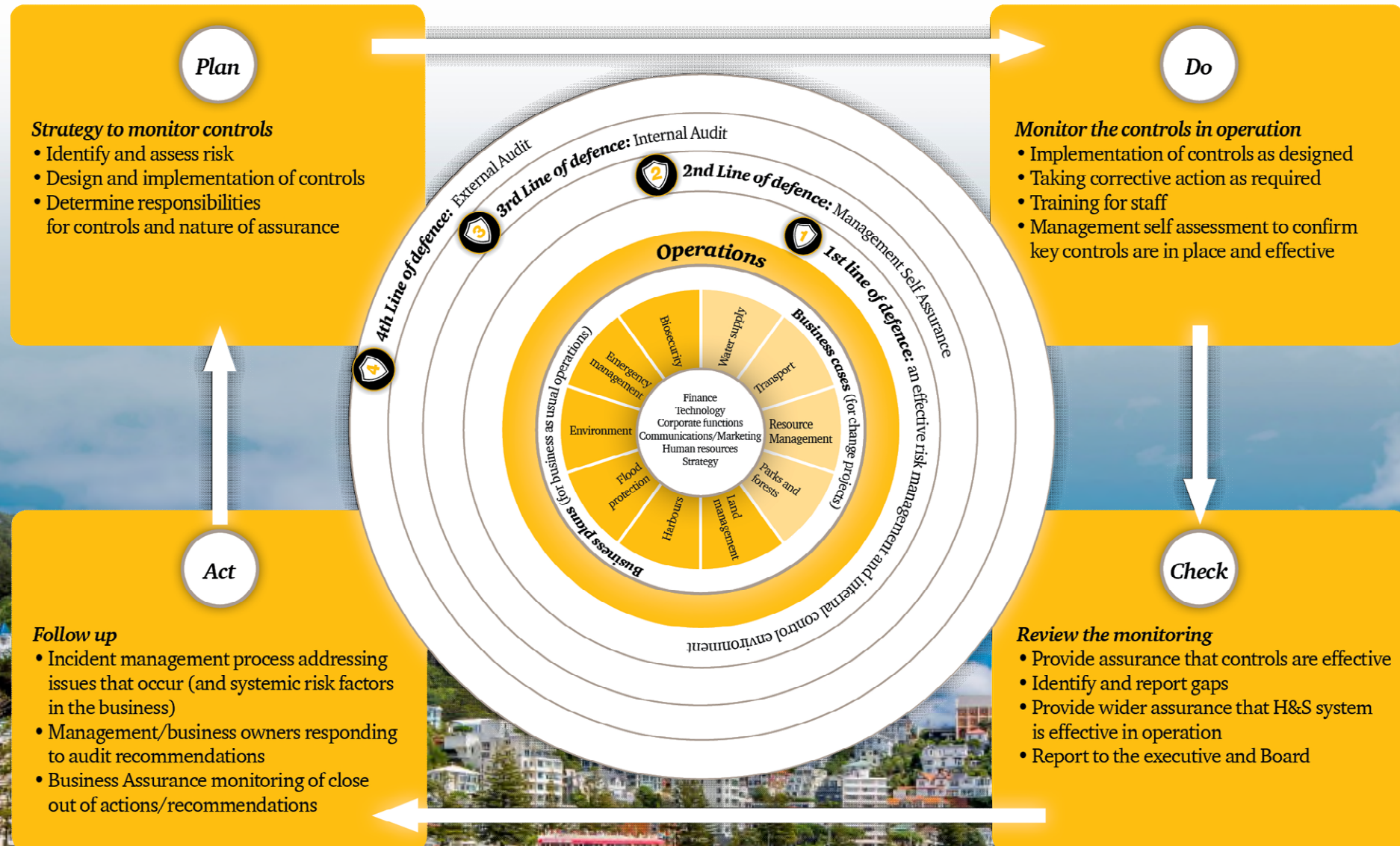
Business Assurance will work with Audit NZ to coordinate assurance activities under the 3rd and 4th lines of defence – i.e the extent of reliance on Internal Audit from External Audit.

Conceptual view of risk, control and assurance

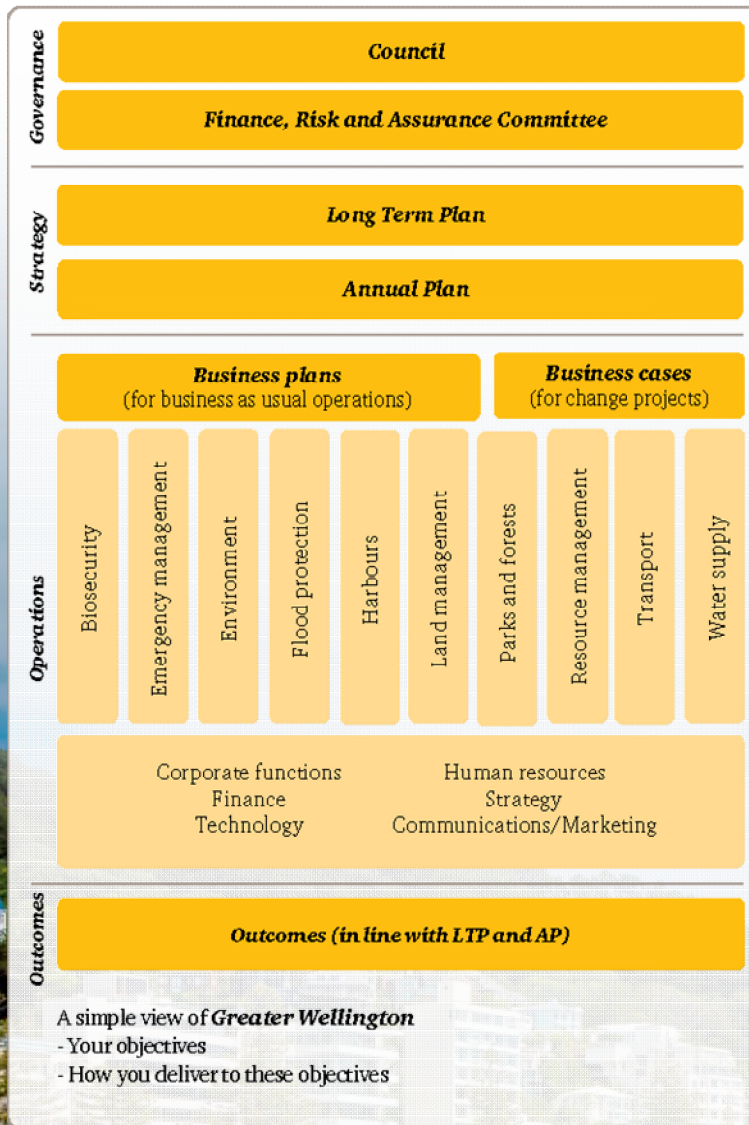
The diagram below provides a simple view of the components in place by which GWRC manages risk.



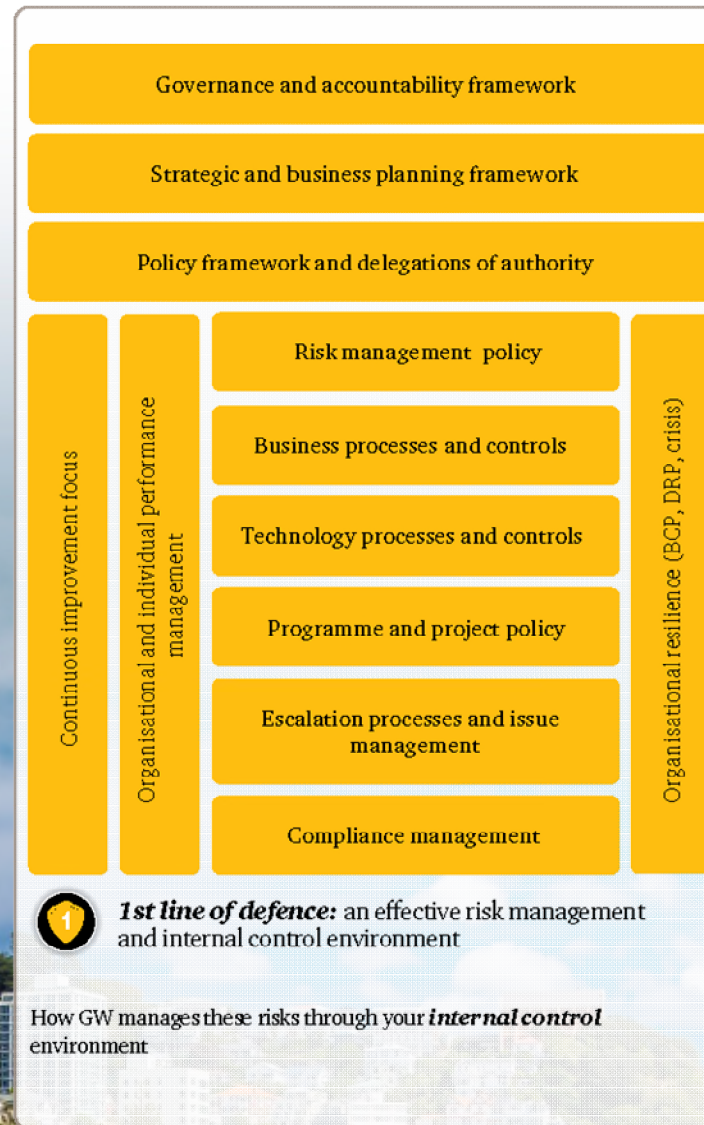
Conceptual view of the lines of defence



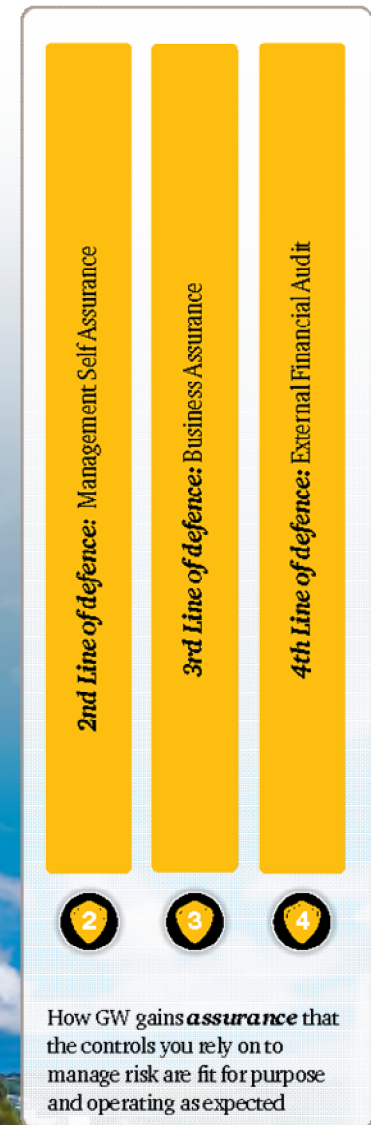
What we do....



Risks managed through...



Assurance provided by...



GWRC's control environment

<i>Control environment component</i>	<i>What is in place within Greater Wellington</i>
Governance and Accountability Framework	<ul style="list-style-type: none"> • Terms of Reference for Council Committees, three yearly review
Strategic and Business Planning Framework	<ul style="list-style-type: none"> • Strategy group leads business planning process • Significance & Engagement Policy , Infrastructure Strategy, three yearly review
Policy Framework and Delegations of Authority	<ul style="list-style-type: none"> • Delegation Policy, Extensive repertoire of policies & procedures, regular review process
Risk Management Framework	<ul style="list-style-type: none"> • Risk Management Policy & procedures, Quantate risk register, quarterly reporting to CEO/Executive and FRAC
Business Processes and Controls	<ul style="list-style-type: none"> • Internal controls embedded into core business activities (and as documented in the risk register), quarterly reporting to CEO and FRAC
Technology Processes and Controls	<ul style="list-style-type: none"> • Internal controls embedded into IT systems and management practices, for example: security configuration, change control, problem management, disaster recovery planning

GWRC's control environment

<i>Control environment component</i>	<i>What is in place within Greater Wellington</i>
Programme and Project Framework	<ul style="list-style-type: none"> • Project Management Office, monthly reporting/monitoring of project by ELT, Project Management Policy
Escalation Processes and Issue Management	<ul style="list-style-type: none"> • Escalation process with risk management and Health & Safety, regular reporting to FRAC and ELT.
Compliance Management	<ul style="list-style-type: none"> • Annual legal compliance review
Organisational Resilience	<ul style="list-style-type: none"> • Business Continuity plans, alternative sites to operate from, regular plan update
Continuous Improvement	<ul style="list-style-type: none"> • Quarterly Reporting process to CEO, post audit review after crisis events
Organisational and Individual Performance Management	<ul style="list-style-type: none"> • CEO Council Review, All staff on Partnership for Performance annual assessments

Drivers and Extent

Consideration

In developing the specific areas of Business Assurance focus, there are a number of drivers that will influence the shape of the programme:

- **Risk:** key areas of risk identified and controls relied on to mitigate these risks
- **Issue:** known areas of issue or problem, with a focus on identifying root cause factors and areas of improvement to controls
- **Change:** projects or initiatives that will impact on GWRC's operating environment (especially people, process and technology) and underpinning control environment
- **Control Universe:** periodic assessment of the core business processes and control, while not explicitly tied to a key strategic or operational risk, are still important to day to day operations
- **Management and Council request:** specific areas of focus for Business Assurance based on identified need, for example to provide a point in time maturity assessment to feed into future business improvement initiatives

The extent of assurance to be undertaken will be driven by the budget set by GWRC for Internal Audit/Business Assurance. The number of specific review that will be undertaken in any year will depend on the balance sought between **breadth** of coverage and **depth** of review – i.e:

- **Health-checks:** short focused reviews to confirm the operation of key controls
- **Deep dives:** more comprehensive reviews designed to assess the maturity and effectiveness of components of the internal control environment

Recommendation

In developing the Business Assurance work-programme, each of the above five drivers will be considered.

The annual budget for Business Assurance has been set at **[\$[to be agreed]]**. This will equate to approximately **xxx** person-days of review per annum initially biases towards health-checks moving towards a greater level of deep dives as fundamental controls are confirmed.

Positioning, timing and horizon

Consideration

The relationship between Internal Audit and the business should be a constructive one with a mutual goal of helping GWRC better understand and manage risk within the business through an effective internal control environment. Often Internal Audit can be regarded as the 'police' which can drive an unhealthy adversarial style of relationship.

Business Assurance need to balance the need to:

- Work **collaboratively** with management
- Provide an **independent** and objective assessment of management's performance in maintaining an appropriate control environment

This will require a balance between activity that is:

- **Compliance** focused: i.e a past looking focus on ensuring that controls are operating as expected
- **Effectiveness** focused: i.e a forward looking focus on the effectiveness of the design and maturity of business activities that mitigate risk

Recommendation

We recommend that:

- Internal Audit be called 'Business Assurance' to reinforce the positive, value adding and collaborative approach to working together sought
- Both a compliance and an effectiveness element be taken to reviews performed
- That advice on expected controls be provided up as part of key change projects
- That a rolling 18 month Business Assurance be developed, split into 3 six-month tranches and with each tranche updated on a semi-annual basis

Business Assurance – Next steps

Develop the Business Assurance Strategy and FY17 plan based on the agreed charter, mandate and focus

Undertake the first 6 month programme of reviews. Work collaboratively with the Risk Manager and the business to

Agree the focus for the subsequent 6 month programme of reviews

Establish the Business Assurance function

Develop the Business Assurance 18 month plan

FRAC to approve plan

Deliver the first tranche of reviews

Report to the FRAC

Confirm and deliver next tranche of reviews

Draft and agree the Internal Audit Charter and supporting engagement letter

Submit the draft Business Assurance plan to the FRAC for review and approval

Provide clear and succinct reporting to the FRAC on the maturity and effectiveness of GWRC's control environment