Conflicts of Interest, Gifts and Hospitality

Panuku Development Auckland
Report
12 August 2020

pwc

Contents

Executive summary

1

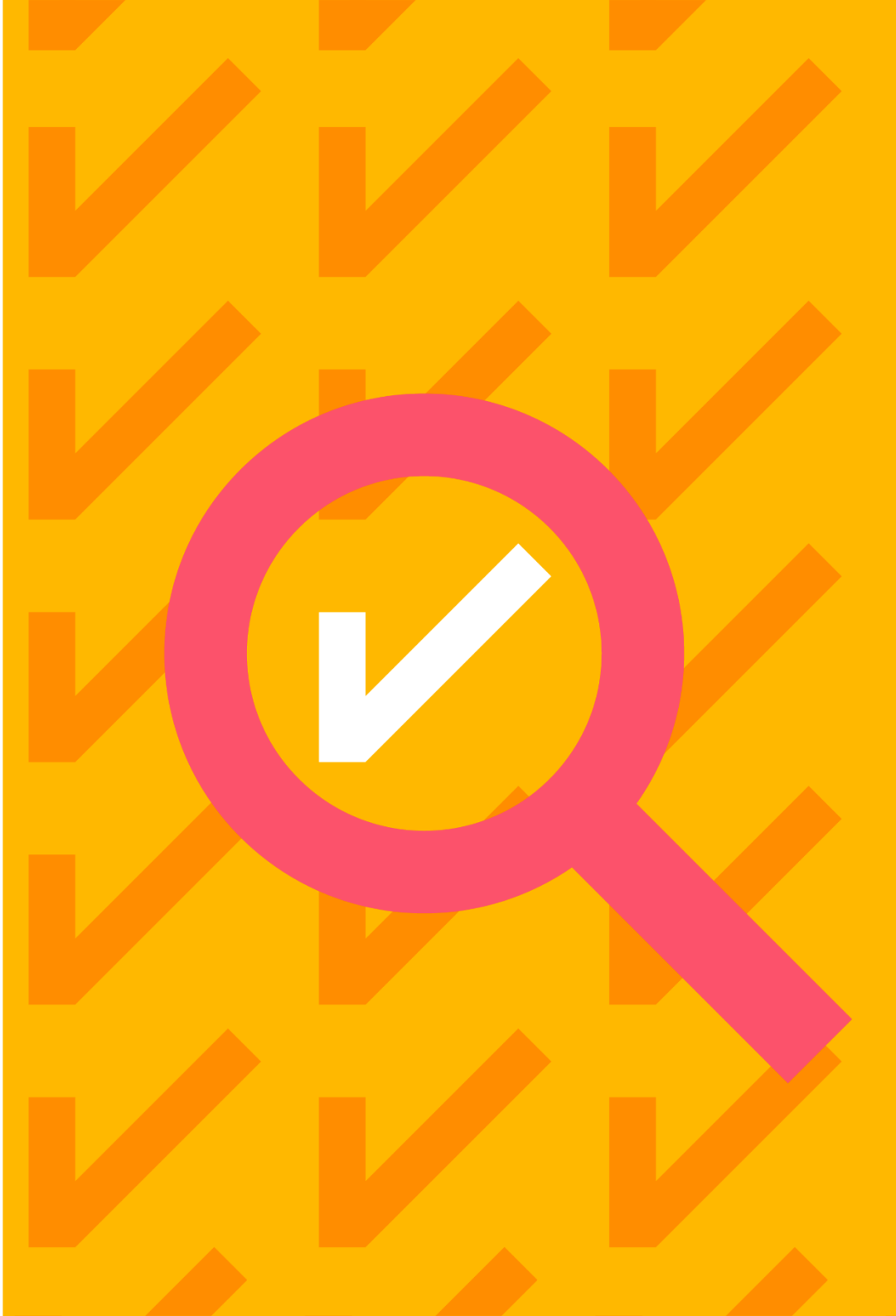
Appendices

I. Observation Snapshot
II. Detailed Observations
III. Scope and approach
IV. Risk management methodology

Distribution list

For action: Carl Gosbee (Chief Financial Officer)

For information: Adrienne Young-Cooper (Board Chair), Richard Leggat (Audit Committee Chair), Jenni Carden (Company Secretary).



Carl Gosbee | Chief Financial Officer

12 August 2020

Assessment of Processes to Manage Conflicts of Interest, Gifts and Hospitality

Dear Carl

In accordance with our Letter of Engagement signed on 7 August 2019 and Addendum dated 2 April 2020, we are pleased to provide our report with the observations and recommendations from the assessment of the processes to manage conflicts of interest, gifts and hospitality work performed. This is our final report after including the additional matters requested by the Panuku Board in their December meeting, and agreed in the Addendum.

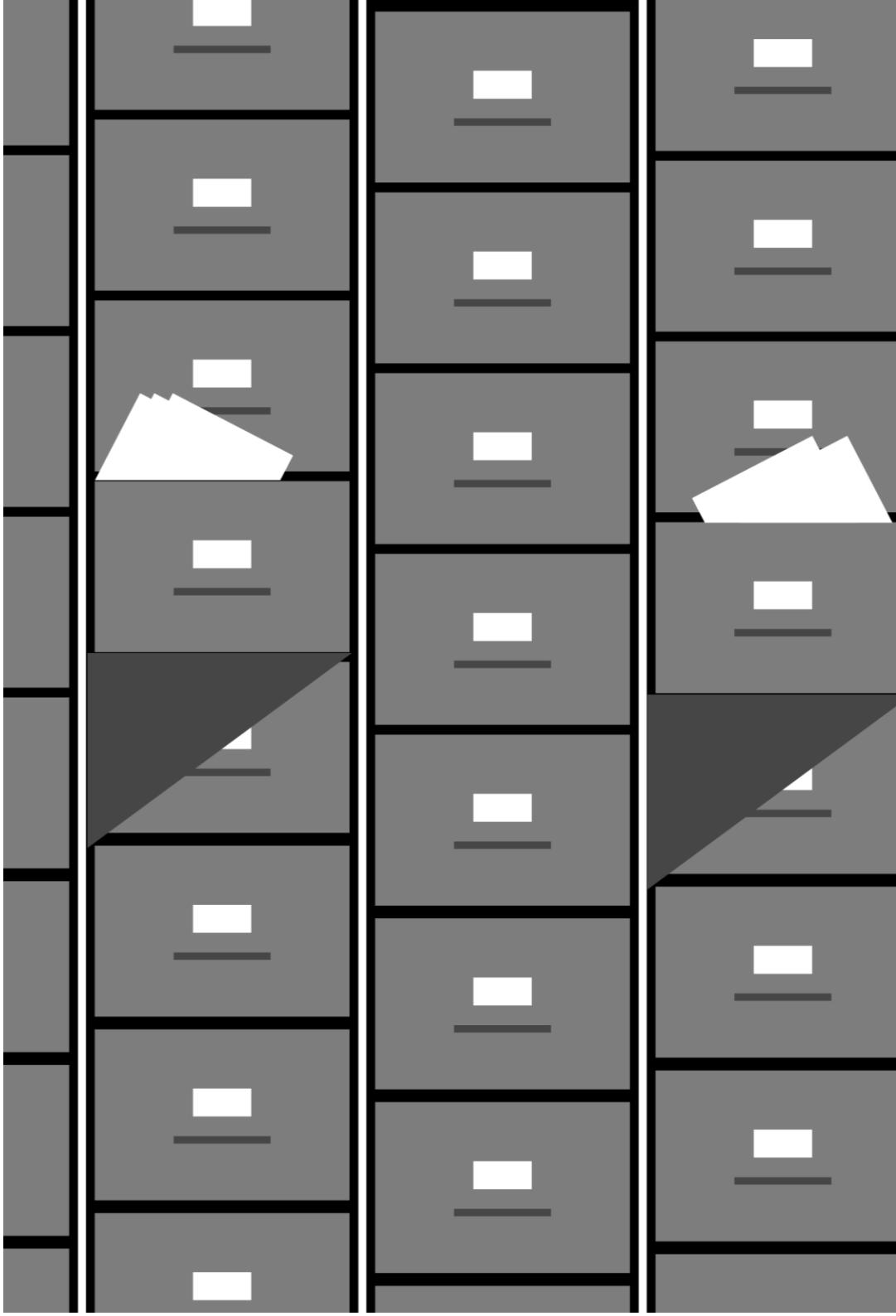
We would like to extend our appreciation to management for the assistance provided to us on this engagement.

Yours sincerely

Lara Hillier | PwC New Zealand | Partner

Inherent limitations: This assignment does not constitute a review, audit, or assurance engagement as defined in the standards issued by the External Reporting Board. Accordingly, this engagement is not an assurance engagement, nor is it intended to, and will not result in, the expression of an assurance, audit or review opinion, or the fulfilling of any statutory audit or other assurance requirement.

Confidential: This report is provided solely for Panuku Development Auckland Limited for the purpose for which the services are provided. Unless required by law you shall not provide this report to any third party, publish it on a website or refer to us or the services without our prior written consent. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to whom our report is disclosed or otherwise made available. No copy, extract or quote from our report may be made available to any other person without our prior written consent to the form and content of the disclosure contained within the report.



Executive summary

Objective and scope

The objective of this engagement was for Panuku Development Auckland Limited (Panuku) to assess current policies relevant to conflicts of interest (COI), gifts and hospitality, and to receive recommendations that when implemented will provide a best practice control environment.

We assessed:

I] The policy and procedure framework of COI, gifts and hospitality.
II] The processes and controls in practice for declaring, monitoring, managing, reporting and escalating COI, gifts and hospitality. We also looked at the extent of management and independent assurance.

For our detailed scope and approach refer to Annexure III.

As a part of our scope we contacted key suppliers that Panuku identified through the Director of Corporate Services to enquire about any conflicts with or gifts and hospitality given to Panuku.

During updates to the Panuku Board, two extensions to our scope were requested,

- a comparison of Panuku's policies to the policies of other Council Controlled Organisations (CCO).
- working with management to further investigate the results of our data analytics and testing procedures, rather than leaving it with management to investigate.

Background

As a CCO of the Auckland Council, Panuku adopted the Auckland Council policies on COI, gifts and hospitality in March 2018. The operationalisation of the policy is the responsibility of Panuku Management.

Being a public interest entity, conflicts arising out of interests held, gifts or hospitality, if not managed appropriately can have reputational and financial impacts. A mature approach to conflicts of interest recognises that conflicts can have different risk profiles depending on the nature and the timing of the conflict. For instance, a potential conflict identified with an organisation that Panuku has no transactions with would be considered low risk. However, as soon as Panuku transacts with the entity the risk profile would change depending on the arrangement. The successful operationalisation of COI, gifts and hospitality policies recognises this, and is highly reliant on awareness of the policy requirements and Panuku staff actively declaring any known conflicts of interest, gifts or hospitality.

Panuku have implemented Auckland Council's systems including:

- Awhina - staff intranet where the policies are held. The central declarations for COI, gifts and hospitality are also managed on this site
- SAP ECC – the GL system. Purchasing activity is conducted through SAP ECC
- SAP Ariba – Procurement system used to manage procurement activities such as direct appointments, closed and open tenders.

Panuku's procurement activities have been classified under three categories:

- Under 25K spend
- Low Value / Low risk direct appointments (under 300K)
- High value / high risk direct appointments (300K and over) and tenders (open and closed).

Employees are able to access Awhina to make any declarations. However, the Board of Directors and contractors do not have this access.

Key messages

The policy settings and supporting processes provide a good framework for declaration of COI, gifts and hospitality. Panuku's existing policies on COI, gifts and hospitality are easy to read and highlight Panuku's underlying principles in these situations. The use of the Auckland Council systems has enabled Panuku to have an electronic form within Awhina where an employee can submit a COI or gift/ hospitality declaration along with a plan to mitigate any conflict. For the Board of Directors, a separate Board interests register is maintained along with a register of projects they may have an interest in. Panuku has embedded processes to declare COI within procurement and hiring processes (including for contractors). Gifts received during Christmas are pooled and raffled, and declarations made.

However:

- There is no integration between the various COI, gifts and hospitality processes across Panuku, which can impede the ability to actively manage conflicts.
- The COI, gifts and hospitality policies have missing elements which are crucial to adequately manage the associated risk.

Executive summary

- There is limited training on the COI, gifts and hospitality policies.

To answer the question “Have these weaknesses resulted in an undeclared conflict of interest in current procurement activity?” we have performed data analytics and limited substantive testing:

Data analytics

Step 1: Identifying potential COI

- We compared a list of all staff with delegated financial authority and all members of the Board to a download of the master data of all Council-wide vendors and company office data. Our match criteria included shareholding, directorships, shared bank accounts or addresses. Our consideration of staff included the available next of kin records.
- We obtained a listing of Gifts and Hospitality declared within Panuku’s registers.

Step 2: We reconciled any matches identified in Step 1 to the COI register and Board interest register to check whether these were declared.

Step 3: For identified matches on any of these criteria and declarations made, we reconciled these to procurement activity (POs, Contracts) with the vendor to identify whether the identified Panuku staff/ Board members had been involved with that procurement activity.

No matches coincided with procurement activity. This would indicate no actual conflict of interest has occurred. We identified 55 matches of which,

- 53 could be traced to COI declarations in the COI, Board interest or Gifts and Hospitality registers. These included those previously declared in relation to special purpose entities set up for Panuku that have since been disestablished.
- 2 could not be traced to a COI declaration. In these 2 instances, there was a match between the staff member’s next of kin and a Panuku vendor. These should have been declared in line with Panuku’s policy. We note that both instances related to the same staff member who had made declarations for other potential conflicts relating to their next of kin.

While the identified matches have not resulted in an actual conflict of interest, they do indicate the potential for under reporting of COI in line with our observations.

Note: Our matching is based on multiple criteria and references council wide vendors which may not necessarily be Panuku vendors. Work has been done to remove these instances.

Substantive testing

- We obtained a list of overseas travel over the period July 2017 to July 2019 and r**econciled overseas travel** to gifts or hospitality declared. This revealed only 2 declarations made during the past 2 years that coincided with overseas trips that occurred within that timeframe. On further investigation, these declarations did not relate to the overseas travel. All trips were in relation to staff training and conferences. This would indicate no suppression of Gifts and Hospitality received in these instances.
- We requested, through the CFO, **supplier confirmations** of gifts and hospitality provided to Panuku staff from 22 suppliers. From the confirmations we received we observed,
    - Three instances where gifts received were not declared, which was investigated and closed by Panuku.
    - Hospitality received as a part of business networking events have not been declared. Clarity is required on whether gifts/ hospitality in these instances should be declared.

Caveat – limitations of the analysis

The results of our analytical procedures are subject to the overall quality of the data we were able to obtain from Awhina, SAP ECC and SAP Ariba. In this regard we note the following assumptions and data quality issues:

- the registers and the procurement data do not have common identifiers for vendors such as vendor IDs and a match was performed on the vendor names instead
- the vendor records in the registers are free text fields and can result in the vendor names not being accurately captured
- the extracts we received of the procurement data do not include everyone involved with a procurement.

Procurement activity was considered over the period 31 July 2017 to 31 August 2019.

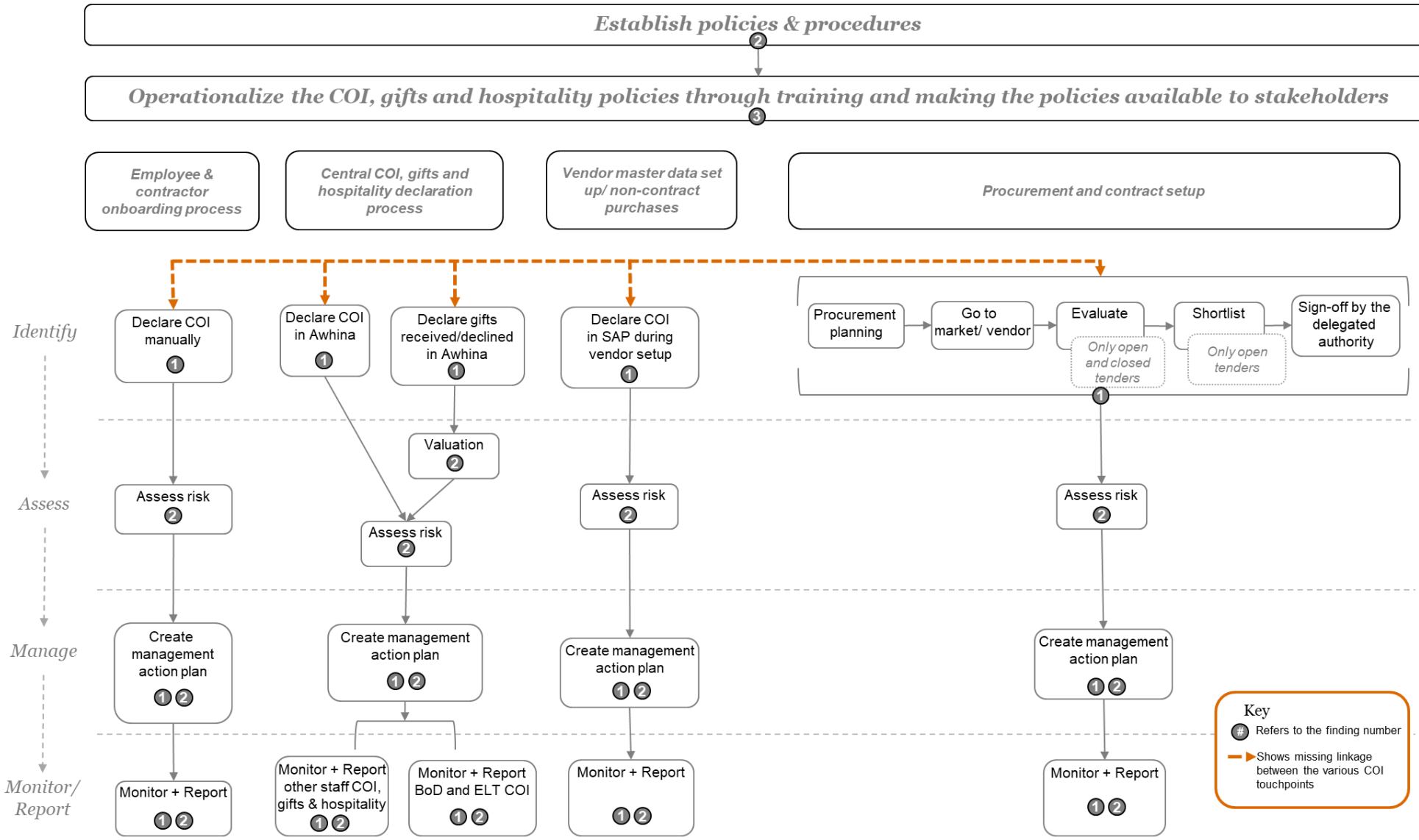
Executive summary

These findings support the recommendations in this report. Our observations and recommendations can be grouped on the basis of policy, training, and process in order to improve the overall management of COI, gifts and hospitality.

We have created a high-level overview of the COI, gifts and hospitality touchpoints across Panuku within Appendix I: Observation Snapshot. For the detailed observations, refer to Appendix II on page 10.

Appendix I: Observation snapshot

Summary of the COI, gifts and hospitality processes across Panuku



Appendix I: Observation snapshot

Summary of the COI, gifts and hospitality processes across Panuku

Policy: Panuku's existing policies on COI, gifts and hospitality are easy to read and highlight Panuku's underlying principles in these situations. **There are opportunities to further enhance the COI, gifts and hospitality policies** including:

- a risk-based framework to prescribe how an identified conflict should be managed
- reporting requirements to Panuku Executive Leadership and Board
- crisis management plans for incidents arising from conflicts
- guidance on valuing gifts and hospitality, dollar thresholds beyond which gifts should not be accepted and whistle-blower processes.

On comparing Panuku's policies with the polices of other CCOs we noted that these improvement opportunities also exist across other CCOs. We also note some of the CCOs did have dollar thresholds specified for declaring gifts/ hospitality received.

We also noticed t**here is a lack of periodic training on the COI, gifts and hospitality policies**. At present, staff and contractors receive training during the initial onboarding process. However, there is no subsequent refresher training conducted to ensure users are aware of the policy requirements.

Process: The use of the Auckland Council systems has enabled Panuku to have an electronic form within Awhina where an employee can submit a COI or gift/ hospitality declaration along with a plan to mitigate any conflict. For the Board of Directors, a separate Board interests register is maintained along with a register of projects they may have an interest in. Panuku has embedded processes to declare COI within procurement and hiring processes (including for contractors). Gifts received during Christmas are pooled and raffled, and with declarations made.

The management of COI, gifts and hospitality is decentralised and there is scope for better integration of the process across Panuku:

- there is no integration between the various registers and supporting processes which means there is no single source of truth on conflicts declared. As an example, within procurement, there is no requirement to check to the central registers for already declared conflicts.
- during procurement, COI declarations are not sought from all parties involved, including respondents.
- no one person has oversight over all the declarations and the associated mitigations. It follows that there is no comprehensive reporting to the Board or Executive Leadership.

These weaknesses present risk exposure for Panuku and increase the risk of conflicts not being identified and managed appropriately.

Appendix I: Observation snapshot

We set out below a mapping of our observations against Panuku's risk assessment methodology, which is attached in Appendix II.

No.	Observation	Risk rating
1	There is no integration between the various COI, gifts and hospitality processes across Panuku, which can impede the ability to actively manage conflicts.	**Moderate**
2	The COI, gifts and hospitality policies have missing elements which are crucial to adequately manage the associated risk.	**High**
3	There is limited training on the COI, gifts and hospitality policies.	**Moderate**

Consequences						
	5 Catastrophic	Low	High	High	Extreme	Extreme
	4 Major	Low	Moderate	High	High	Extreme
	3 Moderate	Low	Moderate	Moderate (1) (3)	High (2)	High
	2 Minor	Low	Low	Moderate	Moderate	High
	1 Insignificant	Low	Low	Low	Low	Low
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost Certain
		Likelihood				

Appendix II: Detailed observations and actions

There is no integration between the various COI, gifts and hospitality processes across Panuku, which can impede the ability to actively manage conflicts. **1**

Observation rating	
Consequence	Moderate
Likelihood	Possible
Overall	Moderate

Observation and recommendations

No integration and consistency of COI, gifts and hospitality processes across Panuku

There is no integration and consistency between the central COI, gifts and hospitality processes, Procurement COI processes and COI's recorded as part of the HR staff on-boarding process. We note:

- No check is performed to the central COI, Board Interest Register, gifts and hospitality registers to ensure that the known conflicts are considered during procurement activities
- Where COI are declared during procurement, there is no process to ensure that these conflicts are updated on the central registers
- Where COI are declared during staff and contractor onboarding, there is no check to ensure these are updated on the central registers
- Contractors hired by Panuku do not have access to Awhina and cannot declare conflicts on the centralised systems
- Different declaration formats are used across each of the COI touchpoints.

COI disclosures are not obtained from everyone involved in the procurement processes

Within the procurement processes, we also note that COI declarations are not sought from all parties to an arrangement. For instance, for tenders, the Project Managers or procurement staff do not seek COI declarations from the Delegated Financial Authority (DFA) who approves the final contract. Similarly, for low value / low risk procurement (under $300K), the project manager is required to declare COI for all involved parties and there is no documentation of action taken by the project managers to ensure all conflicts were identified. Certain procurement activities tend to span a period of time, such as tenders. In such cases, positive written confirmations are not sought throughout the process but instead declarations are sought verbally on an exception basis.

There is a lack of consolidated oversight of the various processes to assess COI, gifts or hospitality within Panuku and any mitigations in place

The COI declarations and the corresponding Management Action Plans are held in different registers and there is no one person in Panuku who has a consolidated view of the COI and gifts and hospitality declared. While the Company Secretary has oversight on the annual declarations by staff, and tracks Board member COI, she does not have access to, and is not required to, oversee the COI declarations during procurement or hiring activities.

It follows that there is also no comprehensive process or requirement within Panuku to review the agreed Management Action Plans, established between a staff member or contractor who has declared a conflict of interest; and their line manager. For those that are identified as part of the central COI process, the Company Secretary checks that

Appendix II: Detailed observations and actions

Observation and recommendations

they exist, but is not required to review them for completeness or appropriateness. The Auckland Council Probity team provide input on the Management Action Plans that are developed in response to procurement activities.

We performed a data analytic to identify potential conflicts within Panuku and consider whether these have resulted in actual conflicts during procurement. To do this we:

- obtained an employee listing for all employees with DFA and members of the Board with their bank and address details. Our consideration of staff included the available next of kin records.
  a) obtained a list of the vendors with bank and address details
  b) performed a comparison to the companies register for the above persons to identify those who had shareholding, directorships or who shared the same bank or address details with vendors
  c) reconciled the identified matches to the COI registers, Board related COI papers and the Purchase Order and contracts data in the past 24 months. We extended these procedures to potential conflicts arising from gifts and hospitality, as declared in the gift register.

Given that our matching is based on multiple criteria and references council wide vendors which may not necessarily be Panuku vendors, it is not unusual that our results would include false positives. Work has been done to remove these false positives, resulting in smaller list of matches.

We note that there were 55 matches of which no matches related coincided with procurement activity. Bearing in mind the caveats outlined in the executive summary regarding data quality and completeness, this points to no actual conflicts of interest for the period that our testing procedures cover. Of these 55 matches, we noted:

- 53 instances which could be traced to COI declarations in the COI, Board interest or Gifts and Hospitality registers. These included those previously declared in relation to special purpose entities set up for Panuku that have since been disestablished. From these, 3 instances were declared in the old system prior to the use of Awhina which were not carried into Awhina.
- 2 instances which were not included in the COI or Board Interest Registers.

Risk

In the absence of an integrated and comprehensive approach to COI, gifts and hospitality across various processes at Panuku, there is risk of under recording of potential conflicts, that already declared conflicts are not appropriately considered, and that management actions plans that are in place are inadequate. The use of different formats to capture the conflicts raises the likelihood that the data captured across the processes are not consistent for this consideration.

Recommendations.

1.1 Panuku should integrate the various COI, gifts and hospitality declaration processes, including establishing one central repository for all Board members, staff, contractor and tender/proposal respondent conflict declarations.

1.2 The status of the Management Action Plans should be tracked with the progress of each Management Action Plan reported to the Senior Leadership Team (e.g. the number outstanding and the status of those being actively managed).

1.3 As part of tender or proposal documentation, all parties involved in the tender/proposal including evaluators, contractors, project managers, approvers, tender/proposal respondents and persons providing key inputs should be required to make a positive COI declaration at each stage of the tender/proposal process. All involved persons should complete their own COI declarations to ensure there is the appropriate accuracy and allocation of responsibility for that accuracy.

Appendix II: Detailed observations and actions

Observation and recommendations
1.4 The roles and responsibilities should be reviewed, and the policies updated, to identify which roles are required to oversee the process. For instance, Panuku should identify which Executive Leadership Team member is responsible for these tasks. The identified responsible person should have oversight of the Management Action Plans, ensuring that these are commensurate to the underlying conflict and that they are adhered to.

Agreed action plan	
As noted, Panuku use the Auckland Council systems and policies for Conflicts of Interest, Gifts and Hospitality. We have committed to sharing the recommendations of this report with the Council and to seek a joined up solution. Where the board are not satisfied with the control mechanisms set out in Auckland Council's "Our Charter", Panuku is able to install further or tighter controls, and the board will be the final decision maker on Panuku policies. 1.1 The recommendation is accepted, the implementation is considered to require some system changes which will need to be explored with Auckland Council. Timing of this is likely to be 3 months to explore with Auckland Council and decide on a system to enable one central repository for all conflict declarations. Implementation may take a further 3-6 months. 1.2 The recommendation to report management actions plans for identified conflicts of interest is accepted. These management action plans will be held by the Company Secretary and reported to and reviewed by the ELT monthly. 1.3 The recommendation is accepted. The implementation may be linked to system changes noted in 1.1 above, however manual records will be kept in the short term. The Company Secretary will take responsibility for holding all Conflict of Interest returns. Completion time estimated to be within 1 month for manual records. 1.4 The recommendation is accepted. The company secretary keeps the COI records and will keep oversight of the Management Action Plans ensuring are suitable and adhered to.	Responsible person/title: 1.1 Carl Gosbee 1.2 Jenni Carden 1.3 Jenni Carden 1.4 Jenni Carden Target date: 1.1 30 June 2021 1.2 Completed 1.3 Manual records implemented - completed 1.4 Completed

Appendix II: Detailed observations and actions

The COI, gifts and hospitality policies have missing elements which are crucial to adequately manage the associated risk. **2**

Observation rating	
Consequence	Moderate
Likelihood	Likely
Overall	High

Observation and recommendations

The COI policy focuses on COI declaration requirements and does not include guidance on:

- how to assess the risks associated with COI declarations
- what an appropriate response / management plan would be
- what the COI, gifts and hospitality reporting requirements are across the Panuku staff, contractors or procurements. For instance, there is no requirement to report COI return rates and Management Plan agreement progress to Senior Management. It follows that Senior Management are not enabled to monitor and ensure appropriate probity is being undertaken
- what would generate an incident, or crisis response, associated with a high-risk conflict of interest, and what options for a crisis management approach should be adopted following a conflict of interest (relevant to the associated risk).

The previous Panuku COI policy did have a decision tree that prescribed how to manage a conflict at a high level, but this has been lost with the adoption of Auckland Council policies. This is consistent to the policies in place at other CCOs.

The gifts and hospitality policy do not include:

- guidance on how to value gifts/ hospitality received
- a dollar threshold beyond which gifts should be declared. Instead, the term “low value" is used which can be open to interpretation. It is common for government organisations to set a value. This was a part of the previous Panuku policies.
- there is no escalation process within the existing policy setting out what to do where staff (or a manager) identify a breach of the gifts and hospitality policy.

Some of the other Auckland Council CCOs have clearly defined limits beyond which a gift declaration must be made. Consistent with Panuku’s policies, the other CCOs have limited guidance on valuing gifts and an escalation process for reporting breaches to the gifts and hospitality policies.

Risk

Where COI are not comprehensively assessed (including the associated risk), and Management Action Plans are not consistently developed and approved, it could result in Panuku taking inadequate action and the risk exposure of the COI not being mitigated. The absence of reporting and monitoring requirements, and guidance for crisis / incident management, means there is a lack of transparency as to how the conflicts of interest process is operating, and a lack of clarity on the appropriate actions to take when a COI materialises.

Appendix II: Detailed observations and actions

Observation and recommendations
The lack of clarity on how to value gifts and hospitality, the dollar thresholds for declaration, and escalation process increases the risk of inappropriate gifts/hospitality being received.
Recommendations 2.1 Management should update the COI policies to include: a. Guidance to support the risk assessment of COIs, including examples of typical COI risks and their management. In doing so, Panuku should consider introducing a template covering key elements such as scope of work, risk analysis and mitigating actions mapped to those risks, and evidence of approval. b. Reporting requirements including a standardised report for the Panuku Executive Leadership Team and Board that shows the: • COI return rates during the annual declaration process • number of identified COI and the ratio of the active conflicts • number of Management Action Plans actively being monitored • number of Management Action Plans under negotiation and length of time outstanding • programme of regular COI requests to Panuku staff and contractors. c. Clear instructions as to how the active Management Action Plans should be monitored. d. What would generate an incident/crisis and how it should be managed. 2.2 Panuku should revisit the existing Auckland Council gift policy and issue additional guidance on the valuation of gifts, dollar thresholds for declaration and the escalation process.

Agreed action plan	
2.1 The recommendation to update the COI policy is accepted a. Guidance will be discussed with Auckland Council and introduced with relevant templates etc b. Reporting requirements will be discussed with Auckland Council, and reports developed c. Instructions for monitoring the Management Action Plans will be developed with Auckland Council examples of incidents or crisis will be analysed and examples of how these can be managed included in the policy. d. Criteria will be discussed with Auckland Council on the incident/crisis trigger and how it should be managed The implementation of these recommendations is expected to take up to 3 months. 2.2 The recommendation is accepted. The additional guidance will be discussed with Auckland Council and included within the new policy. The implementation of this recommendation will take up to 3 months.	Responsible person/title: 2.1 Carl Gosbee 2.2 Carl Gosbee Target date: 2.1 Discussion with AC completed 2.2 31 Discussion with AC completed – AC declined to issue dollar thresholds, but did improve the guidance on valuation of gifts

Appendix II: Detailed observations and actions

There is limited training on the COI, gifts and hospitality policies. 3

Observation rating	
Consequence	Moderate
Likelihood	Possible
Overall	Moderate

Observation and recommendations

We note that initial training is provided as a part of staff induction. However, Panuku does not conduct regular refresher training on COI, gifts and hospitality. For example, from our interviews with Panuku staff, we noted a lack of awareness that gifts declined are required to be disclosed.

We performed a reconciliation of overseas travel to gifts and hospitality declared from July 2017 to July 2019. This revealed only 2 declarations during the time of the travel. On further investigation, we understand these 2 gifts did not relate to the overseas travel. All trips were in relation to staff training and conferences and we have not found any cause to suspect suppression of Gifts and Hospitality received.

In addition, contractors can be hired either through HR or through the Procurement processes. At present, there is limited training provided to these contractors. They also do not have access to the Awhina systems and, as a result, do not have access to the policy documents or declare COIs.

As a part of our procedures we sent sought confirmations from 22 key suppliers on any conflicts with or gifts or hospitality extended to Panuku staff. We received 18 responses from which we noted:

- In three instances gifts received were not declared in the gifts register. These have been provided to management for further investigation.
- Hospitality received as a part of business networking events have not been declared. The policy requires such justifiable business expenses to be declared. We however note from our interviews with management that there is a general consensus that these gifts/hospitalities need not be declared.

Risk

Without regular training, that comprehensively targets all staff including contractors, there is a risk that staff and contractors are unaware of the responsibilities specific to their roles, which could result in conflict of interest not being identified or managed appropriately.

The absence of clarity on whether gifts/hospitality received as a part of business networking events should be declared can result in inadequate disclosures being made.

Recommendations

3.1 Panuku should develop a training programme for refreshing staff and contractor knowledge on COI, gifts and hospitality policies, concepts and the associated processes. This could be incorporated into other internal training where there is a large Panuku staff and contractor attendance, or where presentations to tender respondents are planned.

Appendix II: Detailed observations and actions

Agreed action plan	
3.1 The recommendation is accepted. The training programme will be discussed with Auckland Council and a unified programme sought. Panuku staff training is envisaged to start within 2 months and take up to 3 months to complete first refresher course. Annual refresher courses will be scheduled subsequently.	Responsible person/title: 3.1 Jenni Carden
	Target date: 3.1 Completed

Appendix III – Scope and approach

Scope and objective

We assessed:

I] The policy and procedure framework in relation to:

- the conflicts of interest, gifts and hospitality "policy" ("policy" being the collective manuals, terms of reference and policy documents)
- the procedures (as documented) that support the policies, including roles and responsibilities
- the communication of the policy and procedures to employees, contractors, and those charged with governance.

II] The processes and controls in practice:

- for declaring conflicts of interest, gifts and hospitality (i.e. in procurement, appointment of staff/directors and contractors, secondary employment, and personnel relationships)
- for monitoring, managing, reporting and escalating conflicts of interest, gifts and hospitality

and the extent of management and independent assurance.

Approach

Our approach to this engagement was to:

I] Policy and procedure framework:

- meet with the business owner and key people involved in overseeing and administering the policy and procedure framework to gain an understanding of the current state.
- examine the policy and procedure framework, including other relevant artefacts such as registers and recent reporting.
- compare Panuku's policy and procedure framework to our understanding of:
  - good practice, as laid out in the OAG Guidelines
  - weaknesses that have created compliance issues
  - other guidelines, such as the AS (Australian Standard) 8001-2008 Fraud and Corruption Control.

II] Process and controls in practice:

- walk through processes and controls in place.
- assess the design of key controls that ensure that all potential conflicts, gifts and hospitality are declared, managed, monitored and reported appropriately and in line with good practice and policy.
- assess if well designed controls are operating as intended by:
  - testing the control operation for a sample of declared conflicts, gifts and hospitality transactions
  - considering the completeness of the declarations (as far as is feasible)
    - obtain declarations from key suppliers and contractors of the gifts/hospitality given to Panuku and reconcile these against reported declarations
    - reconcile the gifts/hospitality declared to the list of staff associated with overseas travel looking for unusual omissions
    - perform data analytics to identify shareholding and directorships held by board members or officers with developers, and reconcile these to disclosures.

We carried out this testing for the transactions that occurred in the last 24 months.

Agreed extensions to our scope:

During updates to the Audit and Risk Committee they requested two extensions to our scope,

- a comparison of Panuku's policies to the policies of other Council Controlled Organisations (CCO).
- working with management to further investigate and report on the initial results of the analytics for:
  - potential conflicts of interest that were not declared.
  - overseas travel.

  We will not reperform data analytical procedures to identify undisclosed conflicts of interest in the intervening period.

Appendix IV – Panuku's Risk management methodology

Consequence and Likelihood Criteria

	Insignificant	Minor	Moderate	Major	Catastrophic
Assets	Damage to or loss of a minor asset, or minor damage to an asset Business as usual	Damage to or loss of an asset <$5K Assets not useable / available for short undefined period, with minor disruption	Damage to, or loss of an asset <10K Assets not useable / available for the <2 weeks	Damage to, or loss of an asset >$100K<$500kM Assets not useable / available for the <2 months	Major damage to, or loss of a significant or high value asset >$1M Total loss of asset that cannot be replaced. Period of disruption > 2 months
Cultural / Community	No significant community issues Localised short term reversible disruption to the community, resulting in no noticeable damage	Local concerns dealt with. Localised minor reversible damage and disruption to the community, with no public safety issues	Moderate community concerns causing delays/changes to plans. Localised medium term (1 to 3 weeks) reversible damage and disruption to the community.	Widespread community causing significant delays and changes. Local or widespread long term (> 3 weeks) damage; disruption to community	Community concerns causing significant failure of project/programme. Local or widespread damage and disruption with potential for loss of life.
Project and Service Delivery	Negligible impact on project, service, delivery standards (addressed via BAU), outputs and outcomes.	Operational - minor impact on service, delivery and outcomes. Project – failure to achieve a project outcome.	Operational - Some reduction in service, delivery standards, outputs or outcomes. Some slippage in project programme or change to anticipated outcomes	Operational - Failure to achieve service, delivery standards, outputs or outcomes Project – failure to achieve a significant project delivery milestone	Operational - Failure to achieve core service, delivery standards, outputs or outcomes. Project – complete project failure
Environment	An event with no damage/loss of area of natural environment	Loss of limited area of natural environment leading to public criticism. Short term environmental damage caused	Loss of area of natural environment leading to public criticism. Medium term environmental damage	Loss of major area of natural environment; threats of court action and public criticism or medium term environmental damage	Loss of significant area of natural environment; court action and widespread criticism; long term environmental damage
Financial	No impact on targets, business continues as normal. Localised failure Financial loss <5% operating budget.	Operational or Capital- Revenue or expenditure negative variance 5 - 10%	Operational or Capital- Revenue or expenditure negative variance 10 - 20%	Operational or Capital - Revenue or Expenditure negative variance 20 to 30%	Operational or Capital - Revenue or Expenditure negative variance >30%

Appendix IV – Panuku's Risk management methodology

Governance	Unintentional breach of Ethics and Integrity Policy or Council Governance policies; handled internally.	Intentional minor breach of Ethics and Integrity Policy or Council Governance policies Minor consequences and handled internally	Intentional disregard of Panuku Ethics and Integrity policy/governance policies and requiring formal hearing and disciplinary action.	Serious disregard of Panuku Ethics and integrity Policy/Governance policies and requiring formal hearing and serious disciplinary action.	Intentional disregard of Ethics Policy / Governance policies resulting in dismissal and possible legal action for recovery. Resultant media coverage.
Health, Safety and Wellbeing (Internal and External)	No medical treatment required H&S issue noted –No involvement by Worksafe No injuries or no.	First aid treatment with no lost time or little skills deficit.	First aid treatment with lost time < 2 days or little skills deficit.	Serious harm (injuries requiring 48hrs hospitalisation) or Severe sickness affecting productivity.	Permanent severe disability or loss of life Fatality attributed to Panuku. Pandemic affecting community
Information Management	Loss of systems / data in some operational areas Quality of information remains high >90% accurate and timely Hacking or evidence of hacking of certain systems with no consequence	Loss of key systems/ data disrupts local operations for <1 days Security of information remains high >80% accurate and timely Confidential / private information is acquired by hackers	Loss of key systems / data disrupts local systems for < 3 days Security of information remains high >70% accurate and timely Some confidential / private information is disclosed to hackers	Loss of key systems / data disrupts local systems for > 7 days security of information not acceptable <70% accurate and timely Confidential / private information is released to the media	Total loss of key data or disruption to local service provision > 14 days Security of information is unreliable and not timely Widespread release of confidential / private information to the media
Legal	Panuku sued for a sum < $10,000	Panuku sued for > $10,000 < $100,000	Panuku sued for > $100,000 < $250,000 Complaint to the Ombudsman or other statutory offices Breach of legislation requiring investigation/official enquiry	Panuku sued for > $250,000 < $1,000,000 Legislative noncompliance; prosecution or potential fine or significant criticism by Judiciary or Ombudsman	Panuku sued for > $1,000,000 Legislative noncompliance; potential for imprisonment. Judicial review
Operational capability	No loss of operational capability and/or minimal disruption Access affected Minimal loss of internal capacity.	Loss of operational capability in some areas and/or some disruption to service levels Loss of internal capacity up to 1 week	Moderate loss of operational capability for <2 weeks and /or disruption to service levels for <4 weeks Some business units working from alternative buildings	Serious loss of operational capability for > 6 weeks and major disruption to service levels Over 50% business units working from alternative office accommodation.	Major loss of operational capability for 3 - 4 months and serious disruption to service levels No access to normal office accommodation.

Appendix IV – Panuku's Risk management methodology

Political	No or minor change	Occasional changes to direction, objectives, strategies or policies	Limited changes in direction, objectives, strategies or policies	Significant changes to Panuku direction, objectives, strategies and policies	Complete change of direction. objectives, strategies and policies. Wide scale deferment or abandonment of significant projects in progress
Reputation	Complaints to Panuku and/or to Call Centre Minimal public interest.	Occasional changes to direction, objectives, strategies or policies	Limited changes in direction, objectives, strategies or policies	Significant changes to Panuku direction, objectives, strategies and policies	Complete change of direction, objectives, strategies and policies. Wide scale deferment or abandonment of significant projects in progress
Skills and knowledge	Staff turnover equal to or below industry average of core unplanned turnover of approx. 11%pa of workforce.	Permanent staff turnover < 13.75% pa Minor specialist skill gaps that could be filled easily	Permanent staff turnover 16.5% per annum Some specialist skill gaps	Permanent staff turnover 18.7% pa. Major specialist gaps covering with short term contractors	Permanent staff turnover is >22% pa Major difficulty in replacing skilled staff and having to contract in specialists.
Stakeholders/ Suppliers	Ad hoc investigation required. Minimal to no effect on public reputation.	Local issue, isolated concerns raised by interest groups, with little media interest.	Isolated public interest. Some media interest and/or industry complaints, small internal inquiry.	Short-term public and political interest. Constant media attention, major internal inquiry.	Public and political interest. National and local media coverage. Significant loss of public and political support. Significant reputational damage

Appendix IV – Panuku's Risk management methodology

Likelihood ratings

Likelihood

	General description	Frequency expression
Almost certain	Risk event is expected to occur in most circumstances.	90% chance within next 12 months; or 18 out of every 20 years
Likely	Risk event will probably occur in most circumstances.	55% chance within next 12 months; or 11 out of every 20 years
Possible	Risk event should occur at some time.	25% chance within next 12 months; or 5 out of every 20 years
Unlikely	Risk event could occur at some time.	10% chance within next 12 months; or 1 out of every 10 years
Rare	Risk event may occur only in exceptional circumstances.	Up to 4% chance within next 12 months; or < once in 25 years

Risk Matrix

Consequences

5 Catastrophic	Low	High	High	Extreme	Extreme
4 Major	Low	Moderate	High	High	Extreme
3 Moderate	Low	Moderate	Moderate	High	High
2 Minor	Low	Low	Moderate	Moderate	High
1 Insignificant	Low	Low	Low	Low	Low
	1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost Certain

Likelihood

pwc.co.nz

© 2020 PwC New Zealand. All rights reserved. “PwC” refers to PricewaterhouseCoopers New Zealand or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity