# Deloitte.

Canterbury Regional Council
Project Allisson – Key Learnings

Report to Wynn Williams

16 January 2024
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# Contents

# 1. Background and Introduction

## Background and Introduction

1.1     Wynn Williams is the law firm acting for the Canterbury Regional Council ("ECan") in respect of Project Allisson. Wynn Williams instructed Deloitte to prepare two reports in relation to Project Allisson:

a.     A draft investigation report, "NZFOR01781 Project Allisson – Draft report to Wynn Williams", provided to Wynn Williams on 1 August 2023 summarised Deloitte's factual findings with respect to the scope of our engagement letter dated 27 March 2023 ("Draft Investigation Report"). That report is subject to its own limitations.

b.     This second report ("Report") outlines the improvement opportunities identified during our investigation and the associated recommendations. This Report is subject to its own limitations, and these have been included at Appendix A.

## Scope and Purpose of Report

1.2     The scope and purpose of this Report is to outline the improvement opportunities identified during our investigation and to provide associated recommendations. Specifically, this Report will:

a.     Provide ECan with recommendations that are specific, actionable, align with good practice and benefit from Deloitte's experience;

b.     Maintain a focus on the recommendations that are considered to be a priority by Deloitte, while keeping in mind the need for these to be practical for ECan to implement and/or progress. It is acknowledged that ECan is subject to certain operational and resourcing limitations and needs, and that these, and potentially other external, factors may impact the organisation's ability to implement the recommendations set out in this Report or require it to do so in a modified way;

c.     Highlight those recommendations that ECan can look to undertake efficiently in the short term and achieve the largest impact, while recognising that some recommendations will be more complex and/or time consuming to implement and/or progress. As such, a phased approach and/or road map for advancing/progressing these may be deemed appropriate. Accordingly, improvement opportunities and recommendations have been given a priority rating and an 'ease of fix' rating (i.e., simple, medium or complex). Refer to Appendix B for the Ease of Fix Rating Scale.

d.     Reflect both a 'top-down' perspective with a focus on the organisation as a whole and consideration of a 'bottom-up' approach, which will consider how detailed operational controls and processes function (noting that our investigation was limited in scope and did not extend to, or make findings in relation to, ECan's general practices, processes, systems or the like); and

e.     Appreciate and recognise that there are several initiatives and improvements already completed and/or are in progress at ECan, which are focused on the enhancement and streamlining of processes and procedures with a view to promoting efficiency, transparency, and accountability. Such initiatives include:

- Fraud awareness e-learning training;

- Procurement e-learning training;

- Procurement roadshows;

- Simplifying financial delegations;

- Implementing a 'Corporate Policy Framework' (as part of the review of existing polices that is currently taking place, and which is ongoing, as at the date of the Report); and

- Implementation of an independent reporting hotline, 'Report It Now'.

1.3     These initiatives are detailed at Appendix C and have been considered for the purposes of the improvement opportunities and associated recommendations we have outlined in Section 2.

## Limitations

1.4     The limitations in respect of this Report are set out in Appendix A. The limitations in Appendix A should be carefully reviewed and understood by the readers of this report.

## Summary of Improvement Opportunities and Recommendations

1.5    The improvement opportunities and recommendations for ECan to consider have been detailed at Section 2.

1.6    Below is a high-level summary of the improvement opportunities identified (categorised by the level of priority and the corresponding ease of fix).

| # | Potential Improvement Opportunity | Priority | Ease of Fix |
|---|---|---|---|
| 1 | Promoting a "Speak Up" culture | High | Medium |
| 2 | Understanding and enhancement of contract management | High | Medium |
| 3 | Education and communication of ECan's operational frameworks | High | Medium |
| 4 | Review of employee and supplier/contractor data | Moderate | Simple |
| 5 | Appropriate due diligence of suppliers/contractors | Moderate | Simple |
| 6 | Other assurance activities – procurement of suppliers/contractors | Moderate | Simple |
| 7 | Enhance programme cost management and approval process | Low | Simple |

1.7    Given the scope of the work we completed with respect to Project Allisson was limited to only one specific programme of work, ECan could consider whether the potential improvement opportunities and recommendations provided may be applicable in a broader organisational context.

1.8    We acknowledge that improving any aspect of the culture of an organisation is complex, requires significant effort and takes time. While we have not made any specific recommendations relating to organisational culture as a whole, we believe that consideration of the recommendations set out in Section 2 will assist ECan's efforts to shift the cultural norms in a material way.

## Overall Management Comment

Overall, the recommendations made in this learnings report are consistent with the work that Environment Canterbury already has underway/planned.

# 2. Improvement Opportunities and Recommendations

2.1   In this section we outline potential improvement opportunities and recommendations for ECan's consideration based on the work that was completed during our Investigation.

2.2   The potential improvement opportunities and recommendations are outlined in accordance with good practice and Deloitte's experience.

2.3   We suggest the recommendations are considered by ECan management based on their potential impact and practicality, to determine if and when they are to be implemented.

## Improvement Opportunities and Recommendations

1.   Promoting a "Speak Up" Culture

| Priority | High |
|---|---|
| Ease of Fix | Medium |
| Improvement Opportunity | We emphasise the importance of promoting and increasing the awareness and development of a "Speak Up" culture. This plays a critical factor in all integrity and ethical matters, with employees raising concerns being the most effective method of fraud detection. In our experience we see this ongoing promotion as being most effective when it becomes a natural and expected element of the organisation's culture.<br><br>Embracing and reinforcing (on a regular basis) a culture where speaking up when something 'doesn't feel quite right' should be communicated from the top down and will provide employees with a clear understanding of what behaviour is expected and tolerated, and that they work for an organisation where any issues and/or concerns can be raised in a safe way. This should extend to providing employees with encouragement to share concerns, even when they don't have the 'full story'.<br><br>The focus should be on promoting and embracing awareness, education, training, and guidance so all ECan staff know how to confidently identify and escalate concerns straight away. |
| Recommendation(s) | ECan could consider the following to support in the promotion of a Speak Up Culture:<br><br>a.   Providing employees with regular fraud and corruption awareness training: The<br><br>purpose of this training would be to educate employees on:<br><br>• The fraud and corruption risks specific to ECan;<br><br>• The escalation and reporting options available to speak up and confidentially escalate any integrity related issues;<br><br>• What to expect from the organisation regarding protecting those that come forward from negative impacts including retaliation; and<br><br>• What will happen after they share the information. |

|  | b. Development of an ongoing fraud and corruption communication campaign:<br><br>The purpose of this campaign would be to set out the steps employees can take to prevent and detect fraud and corruption incidents, as well as communicating ECan's zero-tolerance stance. This would stress the importance placed on anonymity and independence being available with reporting options. It is important that this messaging comes from senior leaders (consider having the CE lead this) to reinforce a culture of accountability and an ethical tone at the top.<br><br>To understand how effective such a fraud and corruption communication campaign is, we suggest measuring its impact via shifts in employees' awareness levels, comfort around reporting concerns and tracking the number of disclosures made over time. |
|---|---|
| Management Response | As part of the work on our overall policy framework an updated Fraud Policy has been developed, approved, and shared with staff. This included the requirement for online training to be completed. Opportunities to provide ongoing awareness of Fraud are identified, such as the Fraud Awareness week.<br><br>The CFO, as the policy monitor, is responsible for ensuring that there is regular training and communication in relation to our Fraud Policy. Other related activities, such as Cyber Security awareness, whilst not directly the responsibility of the CFO, are also used to promote fraud awareness.<br><br>We have also recently updated our Protected Disclosure policy (Policy Monitor is General Counsel) and introduced an integrity hotline 'ReportItNow', providing the opportunity to remind staff of the importance of raising any concerns and the various mechanisms by which this can be done.<br><br>No specific further action is proposed at this time. |
| Action Owner(s) | CFO |
| Timeframe | N/A |

2. Understanding and enhancement of contract management

| Priority | High |
|---|---|
| Ease of Fix | Medium |

| | |
|---|---|
| Improvement Opportunity | We note the importance of increasing education and understanding the fundamentals of contract management while also enhancing the processes of the contract management function. This would support compliance, reduce risk and ultimately strengthen the operating effectiveness of ECan's contract management process. |
| Recommendation(s) | ECan could consider:<br><br>a. Providing training to those employees who are involved in the contract management process.<br><br>This training might include:<br><br>• An overview of the contract management lifecycle;<br><br>• What employees' roles and responsibilities specifically are with respect to the process;<br><br>• Understanding the cross-functionality aspects of the process; and<br><br>• Expectations of how to adequately monitor performance of suppliers/contractors with consideration being given to metrics/deliverables/communication of progress/documentation.<br><br>b. Enhancement of the contract management function through:<br><br>• Confirmation of current population of contracts to increase visibility;<br><br>• Identifying contract owners/accountabilities;<br><br>• Removal of open-ended contracts (where appropriate);<br><br>• Taking a risk-based approach to identify significant contracts in place (such as dollar value, level of public interest, use of external funding);<br><br>• Standardisation of templates and processes;<br><br>• Where appropriate, involve legal and/or procurement;<br><br>• Given the large volume of contracts (noting there are approximately 2,000) and the significant combined value, consideration should be given (notably in the longer term) implementing a centralised contract management system to support effective contract management; and<br><br>• Recognising there may be some uncertainty in the levels of funding for programmes of work, ECan could consider having a panel of pre-approved contractors in place. This could be completed on a regular basis or as deemed appropriate to ensure panels remain open, transparent and ultimately effective. |

| Management Response | |
|---|---|
| | A new procurement policy has been developed, approved, and shared with staff. A programme of procurement roadshows has been delivered. A number of improvements to our procure to pay processes have been identified and work continues to implement these. Improvements have also been made to our contracts register. The importance of improving the management of high value / risk contracts and vendors has been recognised and work has been started to develop and implement an appropriate framework and approach; this work includes consideration of the specific recommendations made above. Work is also underway to identify system needs to support this function; given the learnings from this report, and a previously identified programme of continuous improvement.<br><br>No specific further action is proposed at this time. |
| Action Owner(s) | CFO |
| Timeframe | N/A |

3. Education and communication of ECan's operational frameworks

| Priority | High |
|---|---|
| Ease of Fix | Medium |

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|---|---|
| Improvement Opportunity | Increasing the awareness, understanding and communication of ECan's corporate framework will reduce the risk of key policies/procedures and processes not being understood and/or followed. |
| Recommendation(s) | In line with good practice, we suggest ECan considers:<br><br>a. Ensuring corporate policies and operating procedures are in place and that these are understandable/user friendly, regularly reviewed, updated, and communicated to all staff to enhance levels of awareness, understanding and appreciation of these, and how these work in practical terms, specifically in application to roles and functions. Ongoing, practical scenario based education and communication of policies where these are embedded into 'business as usual' practices will enhance employees' appreciation and understanding around their obligations and responsibilities. |
| Management Response | A policy framework has been developed that clearly differentiates between policies and procedural documentation. It identifies the roles and responsibilities of both policy owner (Director), and policy monitor (Senior Manager) . It sets out a clear policy lifecycle that includes the importance of communication and assurance.<br><br>No specific further action is proposed at this time. |
| Action Owner(s) | Manager Risk, Assurance, and Security |
| Timeframe | N/A |

Canterbury Regional Council
Project Allisson – Key Learnings | Improvement Opportunities and Recommendation

4.    Review of employee and supplier/contractor data

| Priority | Moderate |
|---|---|
| Ease of Fix | Simple |

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|---|---|
| Improvement Opportunity | Reviewing employee and supplier/contractor data can assist in identifying exceptions, undeclared conflicts of interest, unusual trends and red flags which may be indicative of non-compliant and/or potential fraudulent behaviour. |
| Recommendation(s) | ECan could consider performing periodic reviews of its employee and supplier/contractor data, via: <br><br> a.  Review and compare Employee[1] and Supplier/Contractor data <br><br> Reviewing and comparing specific employee and supplier/contractor data can assist in detecting and identifying associations, connections and/or relationships that may exist between employees and suppliers/contractors which may not have been known about previously. <br><br> For example, where an ECan supplier/contractor may have the same home address registered for their business as an existing employee, or share a common mobile number, but these connections have not been declared (and therefore are unknown by ECan) by either the employee or the supplier/contractor. <br><br> It is noted that Ecan should be mindful of, and will need to balance, any obligations that the organisation may have, including under the Privacy Act 2020, in relation to the privacy of its employees and any other persons to whom it owes obligations. <br><br> b.  Review Supplier/Contractor Transactional data <br><br> Undertake periodic spot checks of supplier/contractor data. This may assist in the detection of non-compliant or fraudulent behaviour and allow for the possible identification of exceptions, unusual trends, and red flags. <br><br> ECan could consider completing reviews of supplier/contractor invoices which could include the application of risk criteria to help target this effort.  The following provide some attributes which could be considered, and this review could be incorporated into ECan's current Business Assurance Programme: <br><br> • Review for low and/or consecutive invoice numbering; <br> • Review for large, rounded, or unusual invoice values; and <br> • Review vendor validity (address/email/phone number/IRD number). |
| Management Response | Work is underway to assess the feasibility of developing and implementing a programme of 'continuous auditing', and employer/ supplier data will form a key component of this. |
| Action Owner(s) | Manager Risk, Assurance, and Security |
| Timeframe | Subject to the availability of suitable tools and resources and the results of the feasibility work the continuous auditing programme will be established at the start of the 2024/25 Financial year |

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[1] Consideration given to other employee data sources that ECan holds, beyond employee master file data

5.      Appropriate due diligence of suppliers/contractors

| Priority | Moderate |
|---|---|
| Ease of Fix | Simple |
| Improvement Opportunity | Robust and rigorous due diligence processes helps mitigate the risk of fictitious and/or inappropriate suppliers being onboarded. |
| Recommendation(s) | ECan should consider whether there are appropriate due diligence processes around the onboarding of suppliers/contractors.<br><br>Using a risk based approach, due diligence activities that may be completed could comprise the following (noting that some may already be completed by ECan):<br><br>• Completing companies office checks;<br><br>• Contacting referees;<br><br>• Media/internet searches;<br><br>• Performing credit checks;<br><br>• Identifying potential conflicts of interest<br><br>• Performing police checks; and<br><br>• Obtaining relevant insurance certificates. |
| Management Response | As part of the work underway to improve our overall approach to procurement and contract management we are reviewing the supplier onboarding procedures to ensure they are fit for purpose. |
| Action Owner(s) | CFO |
| Timeframe | End of June 2024 |

6.    Other assurance activities – procurement of suppliers/contractors

| Priority | | Moderate |
|---|---|---|
| Ease of Fix | | Simple |
| Improvement Opportunity | Completion of assurance activities relating to the engagement and procurement of new suppliers/contractors may assist in providing insights to the extent that ECan employees are adhering to procurement policies and processes. | |
| Recommendation(s) | Assurance activities could incorporate a sample of new suppliers/contractors onboarded for review to gain assurance around the appropriateness of the procurement process.<br><br>A risk-based approach in terms of the sample and/or frequency could be considered and having regard to:<br><br>• Have the required procurement processes been followed in the context of the Procurement Policy and Guide?<br><br>• Has best value of money been achieved by awarding contracts on a whole of life basis?<br><br>• Does the procurement conform to ECan policies as well as its statutory obligations?<br><br>• Was the procurement decision justified, transparent, free from bias and accountable?<br><br>• Has the appropriate approval to commit to expenditure been obtained?<br><br>• Have contracts been subject to the appropriate approval process in accordance with ECan's Financial Delegations?<br><br>• If ECan decides it will not go to market for goods or services then is this decision to deviate from the standard process justified, documented, and approved?<br><br>For efficiency purposes, this could be completed/included by way of any Business Assurance Programme currently already in place at ECan. | |
| Management Response | The review of new suppliers will be considered and incorporated into the proposed continuous auditing programme. | |
| Action Owner(s) | Manager Risk, Assurance, and Security | |
| Timeframe | Time Frame Subject to the availability of suitable tools and resources and the results of the feasibility work the continuous auditing programme will be established during the 2024/25 Financial year. | |

7. Enhance programme cost management & approval process

| Priority | Low |
|---|---|
| Ease of Fix | Simple |

| | |
|---|---|
| Improvement Opportunity | In alignment with good practice, enhancement of programme cost management and the financial approval process will support and strengthen programme visibility. |
| Recommendation(s) | To support greater programme cost management and visibility, we suggest that ECan consider: <br><br> a. Educate/communicate to suppliers/contractors a requirement to invoice for actual work: <br><br> ECan could reiterate to its contractors/suppliers that they only invoice for actual work completed in accordance with the terms of contracts. If invoiced amounts do vary to purchase orders, then ECan and the contractors/suppliers can work together to confirm/finalise any discrepancies. <br><br> b. Review existing financial approval process <br><br> As 'Approval Plus' only provides for up to 50 characters in the description of the work to be included, an ECan approver signing off on the purchase order needs to be provided with more context and background over what they are approving given they may have a lack of visibility over projects. <br><br> We would also suggest that the 50 characters available in the description are entered based a consistent guideline/standard. For example: PO Number / Contract Number / Programme / Activity / Date <br><br> Consideration could also be given to ensuring approvers have the required understanding of their role in the approval process which can be achieved through appropriate education and training. |
| Management Response | Consideration will be given to reminding contractors and suppliers to only invoice for work actually completed in accordance with the terms of the contract and provide regular reminders of this to internal approvers at each stage of the approval process. <br> Work has been undertaken to improve the financial approval process, including the use of templates to support high value approvals. <br> We are continuing to identify ways to improve the overall approval process, noting the limitations of the current technology solution. <br> No Specific further action is proposed at this time. |
| Action Owner(s) | CFO |
| Timeframe | N/A |

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# Appendix A – Limitations

We note the following limitations in respect of this report:

a. This report was prepared to assist ECan, via its legal advisers, Wynn Williams, with recommendations and improvement opportunities arising from during Deloitte's investigation;

b. Deloitte accepts no liability whatsoever to any party who relies on our report and/or our work except to the extent set out in our engagement letter and Master Terms of Business;

c. We are not qualified to provide legal advice. Legal advice should be sought on legal matters;

d. This report has been prepared based on the work completed as at the date of our Draft Report, being, 1 August 2023. We assume no responsibility for updating this report for events and circumstances occurring after that date;

e. We reserve the right, but are under no obligation, to alter the findings reached in this report should information that is relevant to our findings subsequently be identified;

f. Our recommendations and improvement opportunities are based only on the work completed during the course of the investigation for the purpose of preparing the Draft Report;

g. For the purposes of preparing this report, reliance has been placed upon the material, representations, information and instructions provided to us. Original documentation has not been seen (unless otherwise stated) and no audit or examination of the validity of the documentation, representations, information and instructions provided has been undertaken, except where it is expressly stated to have been;

h. Our work does not constitute an assurance engagement in accordance with New Zealand standards for assurance engagements, nor does it represent any form of audit under New Zealand standards on auditing (International Standards on Auditing (New Zealand)). Consequently, no assurance conclusion nor audit opinion is provided. We do not warrant that our enquiries will identify or reveal any matter which an assurance engagement or audit might disclose; and

i. Deloitte is not responsible for ensuring any party's compliance with the requirements of the Privacy Act 2020 or similar requirements in other jurisdictions.

# Appendix B – Priority and Ease of Fix Rating Scale

## Priority Rating Scale

Each finding included in the report has been ranked on the basis of the risk we perceive the organisation to be exposed to.

| Rating | Description |
|---|---|
| Very High | Issue represents a severe control weakness. This could cause or is causing severe disruption to process/service, or severe adverse effect on the ability to achieve objectives. |
| High | Issue represents a significant control weakness. This could cause or is causing significant disruption to process/service, or significant adverse effect on the ability to achieve objectives. |
| Moderate | Issue represents a moderate control weakness. This could cause or is causing some disruption to process/service. There may be a level of short-term tolerance due to compensating controls or remedial plans underway. |
| Low | Issue represents a minor control weakness. This could cause or is causing inefficiencies in process or is a lack of formality in documentation or process. |
| Process Improvement | Observation represents an identified opportunity to improve process/service efficiency. |

## Ease of Fix Rating Scale

Deloitte's estimation of the effort required to fix the finding raised is based on our previous experiences with resolving similar findings at similar organisations. This is intended as a guide only. You should undertake your own assessment to determine the actual level of effort required.

| Rating | Description |
|---|---|
| Simple | There is a simple fix for this finding, which may involve minor system changes that require limited effort to implement or test, minor costs to resolve, or minor changes to system design or business processes. Estimated timeframe for fix to be implemented is within one to three months. |
| Medium | There is a moderately complex fix for this finding, which may involve some time to develop, implement and test, some cost to resolve, or some changes to system design or business processes. Estimated timeframe for fix to be implemented is within three to 12 months. |
| Complex | The solution is complex and may involve substantial time to develop, implement and test, substantial monetary cost to resolve, or substantial changes to system design or business processes. Estimated timeframe for fix to be implemented is more than 12 months. |

# Appendix C – ECan Initatives

The following ECan initiatives have been identified as being either completed and/or in flight at the time pf preparing this Report. These are focused on the enhancement and streamlining of processes and procedures with a view to promoting efficiency, transparency and ultimately accountability.

1. **Fraud Awareness Training Overview**: The is a compulsory Fraud awareness e-training programme which all staff must complete. The training must be completed every 12 months.

2. **Procurement 101 Training Overview**: This is an optional e-training programme to provide an introduction to procurement and how its managed at Environment Canterbury.

3. **Procurement Road Show**: The Procurement Team are engaging with many groups across the organisation to uplift the awareness and importance of proper procurement processes. The team have met and presented with approximately 15 different areas of the organisation. Sessions are continuing.

4. **Procurement Policy**: The Procurement Policy was recently re-written and approved by the Chief Executive.

5. **Delegated Authorities ELT Update**: Financial Delegations were recently revised and simplified. The rationale and new delegation information is included in the paper to the Executive Leadership Team.

6. **Chief Executive Approval Template**: This was recently established to ensure the correct checks, awareness and approvals had been sought prior to a document being presented to the Chief Executive for signature.

7. **Policy Schedule**: ECan currently have 28 Corporate Policies and a number of Council Policies. Most are out of date.. The Corporate Policy Framework has recently been implemented and following that, a review of ECan's policies is taking place. Some of ECan's current policies have been identified as guidelines or procedures rather than policies and as such, consolidation of some policies is also being considered.

8. **DRAFT Corporate Policy Consolidation**: This document is a raw draft (initial thinking) which is yet to have much internal discussion. It highlights the areas where consolidation of policies could be possible, and the connections across a number of them.

9. **The "Report It Now" independent reporting hotline** has recently been implemented, to encourage employees to make disclosures in a confidential way.