

Purpose	To provide assurance to the Arts Council over: - management of strategic and operational risks (Appendix 1), and - fraud awareness and processes that facilitate detection and prevention of fraud (Appendix 2). The Arts Council has responsibility for Governance oversight for risk management and compliance at Creative New Zealand. Risk management is an integral part of good management practice and an essential component of good governance. The aim of risk management is not to eliminate risks but to manage risks involved in all Creative New Zealand's activities in order to maximise opportunities and minimise adversity.
OVERALL ASSESSMENT: No Concerns	Economic risk remains as the most significant risk due to the COVID-19 pandemic having a significant impact on the economy. This is a strategic risk that can have a significant impact on achieving of our key strategic objectives. Significant uncertainty remains for the arts sector: over future alert levels and the possible alert level restrictions, from the public resulting in lower event attendance, and as the significant additional investment in the cultural sector in 2020/21 to maintain core infrastructure and arts delivery (\$25 million) runs out. The risk treatment plan is in place through the implementation of CNZ's COVID-19 Phase 3 Response Plan (as approved by the Arts Council). We continue to plan and budget in a dynamic way for 2021/22 in response to changes in the external operating environment, and in the year ahead, we are focusing on economic recovery, vibrant, innovative arts sector and better access and participation. Since the last review by the Committee in October 2020, there has been no significant change to the Operational Risk Assessment (Appendix 1). There are currently no operational risks identified as 'significant' for which risk treatment plan would need to be developed. We are actively monitoring risks resulting from Covid-19, such as: financial/budget risk, human resources risk and health and safety risk. The changes in the Fraud Risk Assessment (Appendix 2) reflect the results of the Risk Review completed by KPMG in December 2020 - there are currently no 'significant' fraud risks for which risk treatment plan would need to be developed. No change to the Risk Management Policy and Framework - guided by Joint AS/NZS ISO 31000:2009.
Recommendations	That the Audit and Risk Committee: (i) notes the overall strategic and operational risk assessment (incl fraud risks); (ii) reviews the Risk Registers provided in Appendix 1 and 2; (iii) notes that Management is not aware of any instances of reported or suspected fraud in Creative New Zealand since the last review in October 2020; (iv) recommends that the Art Council approves the strategic and operational risks (incl. fraud risks) identified and their assessment.

Strategic and Operational Risk Exposure		Appendix 1				
Ref	Assessed Risk	Impact	Likelihood	Risk Rating	Overall Risk Level	Risk Δ
SR1	Economic	3	3	9	Significant - Risk	↔
SR2	Political	3	2	6	Moderate - Acceptable	↔
OR1	Governance	3	2	6	Moderate - Acceptable	↔
OR2	Reputational	3	2	6	Moderate - Acceptable	↔
OR3	Financial (Budget)	2	2	4	Moderate - Acceptable	↔
OR4	ICT (Information & Communication Technology)	2	2	4	Moderate - Acceptable	↔
OR5	Disaster recovery and business continuity	2	2	4	Moderate - Acceptable	↔
OR6	Human resources	2	2	4	Moderate - Acceptable	↔
OR7	Health and safety	2	2	4	Moderate - Acceptable	↔
OR8	Knowledge Risk	2	2	4	Moderate - Acceptable	↔
OR9	Compliance and legal	2	2	4	Moderate - Acceptable	↔
OR10	Property and equipment	2	2	4	Moderate - Acceptable	↔
OR11	Privacy Risk	2	2	4	Moderate - Acceptable	↔
OR12	Fraud Risk (Human Threats)	2	2	4	Moderate - Acceptable	↑
OR13	Financial Instruments	2	1	2	Minor - Acceptable	↔
PR1	Project risks	3	2	6	Moderate - Acceptable	↔

Since the last review by the Committee in February 2020, there has been no significant change to the Operational Risk Assessment (Appendix 1). The risks to note:

Economic risk remains 'significant (9)' due to the COVID-19 pandemic having a significant impact on the economy. The current economic indicators are mixed: GDP rose 1.6 percent in the March 2021 quarter, while average annual GDP declined 2.3 percent through the year to March 2021, economists forecast a 'K-shaped' recovery in which wealth inequalities are widening, inflation pressures increase, OCR likely to increase, business confidence and consumer confidence increase despite rising prices and supply disruptions. Significant uncertainty remains for the arts sector: over future alert levels and the alert level 2 restrictions themselves, and from the public resulting in lower event attendance. The significant additional investment in the cultural sector in 2020/21 to maintain core infrastructure and arts delivery (\$25 million) runs out.

Reputational risk remains moderate despite the ongoing judicial review proceedings instigated by Dance Aotearoa New Zealand Limited (DANZ). The hearing having concluded on 28 June 2021 in the High Court in Wellington. A decision is expected within three to four months of the hearing (ie, around September/October 2021).

Financial risk - Budget risk remains 'moderate'. We continue to plan and budget in a dynamic way for 2021/22 in response to changes in the external operating environment, in particular in relation to the COVID-19 pandemic. In the year ahead, we are focusing on economic recovery, vibrant, innovative arts sector and better access and participation.

Fraud Risk assessment has been aligned to the KPMG's Fraud Review assessment. The likelihood of fraud occurring has been increased from 'unlikely (1)' to 'possible (2)' which increased the overall risk assessment from 'minor (2)' to 'moderate (4)' - see Fraud Risk section

Health and safety risk remains 'moderate'. Refer to agenda item 3.1.

Next steps:

- Should the Committee and/or the Council have any changes to the the risk assessments in Appendix 1 and 2, these will be updated to reflect the changes suggested;
- Senior Leadership Team members will continue assessing risks relative to their areas of accountability and report to the Business Service Manager when changes arise;
- The next review and report back to the ARC/Council is scheduled for no later than June 2022.

Appendix 2		Risk Δ
Fraud risk assessment	Result	Risk Δ
Policies	green	↔
Responsibility	green	↔
Risk assessment	green	↔
Employee awareness	green	↔
Prevention systems	green	↔
Detection systems	green	↔
Investigation systems	green	↔
Conduct and disciplinary systems	green	↔

Risk assessment change key

- ↔ No change
- ↓ Down
- ↑ Up

Overall fraud risk: Moderate (to be managed under normal control procedures)

The changes in the Fraud Risk Assessment (Appendix 2) reflect the results of the Risk Review completed by KPMG in December 2020. The review results endorsed the robustness of our processes, and also highlighted some areas for improvement.

Management rectified or accepted (deemed low risk) most control deficiencies identified. None of them were deemed 'significant'. There are currently no 'significant' fraud risks for which risk treatment plan would need to be developed. The following areas pose the highest (moderate) fraud risk:

- Fictitious invoices or invoices are paid for goods/services not received;
- Grants paid to non-existing applicants and/or grants paid to non-eligible applicants

Management will work on scoping improvements to funding processes: robust due diligence processes for prospective or return clients, verifiable supporting documentation for client reporting, and monitoring of administrative users. We will continue assessing and monitoring risks and reporting them when they arise, as an integral part of good management practice.

