

**AUDIT & RISK
COMMITTEE MEETING**

ORDER PAPER

**THURSDAY, 27 FEBRUARY 2020,
9.30AM**

**COUNCIL CHAMBER, RANGITĪKEI DISTRICT COUNCIL
46 HIGH STREET, MARTON**

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Chair - Mr Craig O'Connell
Deputy Chair – Councillor Nigel Belsham

Membership

Councillors Angus Gordon and Dave Wilson.

His Worship the Mayor, Andy Watson.

Please Note: Items in this agenda may be subject to amendments or withdrawal at the meeting. It is recommended therefore that items not be reported upon until after adoption by the Council. Reporters who do not attend the meeting are requested to seek confirmation of the agenda material or proceedings of the meeting from the Chief Executive prior to any media reports being filed.

Making this place home.



Rangitikei District Council

Audit and Risk Committee Meeting

Agenda – Thursday 27 February 2020 – 9:30 a.m.

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The quorum for the Audit and Risk Committee is 3.

Council's Standing Orders (adopted 31 October 2019) 11.2 provide: The quorum for Council committees and sub-committees is as for Council, i.e. half the number of members if the number of members (including vacancies) is even or a majority if the number of members is odd.

1 Welcome

2 Council prayer

3 Public Forum

4 Apologies/Leave of Absence

5 Members' conflict of interest

Members are reminded of their obligation to declare any conflicts of interest they might have in respect of items on this agenda.

6 Confirmation of order of business

That, taking into account the explanation provided why the item is not on the meeting agenda and why the discussion of the item cannot be delayed until a subsequent meeting, be dealt with as a late item at this meeting.

7 Confirmation of minutes

The Minutes of the Audit/Risk Committee meeting held on 5 December 2019 are attached.

File ref: 3-CT-17-2

Recommendation:

That the Minutes of the Audit/Risk Committee meeting held on 5 December 2019 [as amended/without amendment] be taken as read and verified as an accurate and correct record of the meeting.

8 Chair's report

There will be no Chair's report for this meeting.

9 Strategic risks

Council considered the strategic risks adopted by the Committee at its workshop on 30 January 2020. As part of that, consideration was given to how they related to the two variables in the risk matrix – i.e. likelihood and consequences. This shows the highest risks are from the weakening of human capital and the questioning of regulatory effectiveness. That assessment, together with the adopted statement of risks, is attached for information.

There was no change suggested to the statement of strategic risks.

10 Work programme matrix – update

The Work programme matrix – update will be tabled at the meeting.

Recommendation:

That the tabled 'Work programme matrix – update' to the 27 February 2020 Audit/Risk Committee be received.

11 Risks in developing the 2021-31 Long Term Plan

The ten risks identified for the 2018-28 Long Term Plan remain relevant:

1. Disconnect between asset information data and activity management plans and budget information, in terms of completeness of data and accuracy of information.
2. Failure to give effect to the statutory purpose of a long-term plan with the likelihood of a qualified opinion from the auditors if that is not evident.
3. Failure of the budget model (or misunderstandings/mistakes in its application), leading to incomplete and/or inaccurate financial statements, with the likelihood of a qualified opinion from the auditors.
4. Failure to articulate a ten-year vision in the plan (and the thirty-year planning horizon required by the infrastructure strategy), to describe real choices for the community, and to explicitly explain the implications of affordability – any one of which could lead to a qualification from the auditors.
5. Insufficient/confusing evidence of supporting documentation (asset management plans, activity management plans, draft policies, organisation-wide performance metadata, etc.) potentially leading to a qualification from the auditor because of inadequate quality of information.¹
6. Flawed or confused consultation process so the community considers there has been an inadequate opportunity to influence the adopted plan.
7. Lack of buy-in by the Mayor and Councillors, potentially meaning that the adopted plan and the process in its development are regarded as largely irrelevant to Council's business.
8. Failure to adhere to the planned timelines for the project, potentially leading to late adoption of the plan, potentially leading to a qualification from the auditors.
9. Loss of document integrity, potentially meaning that substantial rework is necessary, with consequent extra costs and time to rectify
10. Loss of staff expertise during the project, which could result in any or all of the failures noted above.

¹ Local Government Act 2002: section 93G and section 94(!).

In addition, there is the risk attached to the significant forecasting assumptions² meaning the evidence for them needs to be scrutinised including the nature of the risk and level of uncertainty. This also applies to the assumptions which must be included in the infrastructure strategy about the life cycle of significant infrastructure assets, growth or decline in the demand for relevant services, and increases or decreases in relevant levels of service³.

12 Internal Audit programme – progress update

This is under development, in consultation with Cotton Kelly.

13 Report to Council on the Audit of Rangitikei District Council, 2018/19

The management report from Audit New Zealand with Council's responses will be tabled at the meeting (and circulated electronically beforehand, if available)

File: 5-EX-2-4

Recommendation:

That the report to Council on the Audit of Rangitikei District Council, 2018/19 to the 27 February 2020 Audit/Risk Committee be received.

14 Late items

As agreed in item 6.

15 Future items for the agenda

Insurance

Payroll review

16 Next meeting

Thursday 25 June 2020, 9.00am

17 Meeting closed

² Local Government Act 2002: Schedule 10, clause 7.

³ Local Government Act 2002: section 101B(4)(c) and (d)

Attachment 1



Rangitikei District Council

Audit and Risk Committee Meeting

Minutes – Thursday 5 December 2019 – 9:00 a.m.

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Present: Mr Craig O'Connell (Chair)
Cr Nigel Belsham
Cr Dave Wilson
Cr Angus Gordon
His Worship the Mayor, Andy Watson

Also in attendance: Cr Gill Duncan
Cr Brian Carter
Cr Fi Dalgety
Cr Tracey Hiroa
Cr Richard Lambert
Cr Waru Panapa

In attendance: Mr Peter Beggs, Chief Executive
Mr Michael Hodder, Community & Regulatory Services Group Manager
Ms Jo Devine, Group Manager, Finance & Business Support
Mr Arno Benadie, Principal Advisor – Infrastructure
Ms Nardia Gower, Acting Strategy and Community Planning Manager
Ms Bonnie Clayton, Governance Administrator

1 Welcome

The Chair welcomed everyone to the meeting at 9.07am.

2 Council prayer

Mr O'Connell read the Council prayer.

Mr O'Connell provided a brief highlight to those in attendance on how the Audit/Risk Committee works and what the purpose of the Committee is. The primary focus of Audit/Risk is to have good processes in place, and to recommend to Council; the Committee is not a decision making body.

3 Apologies/Leave of Absence

All elected members were welcome to attend the first Audit/Risk meeting for the 2019/22 triennium.

The apology for non-attendance were received from Cr Ash and Cr Dunn, although not on the membership.

4 Appointment of Deputy Chair

Mr O'Connell briefed members on how the voting system works.

His Worship the Mayor suggested System B be the chosen system.

Resolved minute number **19/ARK/017** **File Ref**

That, System B be used to elect the Deputy Chair of the Audit/Risk Committee.

His Worship the Mayor/Cr Belsham. Carried

His Worship the Mayor nominated Cr Belsham as Deputy Chair for the Audit/Risk Committee, the remaining membership agreed. Cr Belsham accepted the nomination of Deputy Chair.

Resolved minute number **19/ARK/018** **File Ref**

That Cr Belsham be appointed Deputy Chair of the Audit/Risk Committee.

His Worship the Mayor/Cr Wilson. Carried

5 Members' conflict of interest

Members were reminded of their obligation to declare any conflicts of interest they might have in respect of items on this agenda. There were no conflicts of interest declared in respect to the agenda.

6 Confirmation of order of business

The order of business was confirmed, there were no changes to the order of business.

7 Chair's report

There was no report for this meeting.

8 Strategic risks – review

The Committee discussed possible amendments to the Strategic risks review, including Health and Safety and Environment as separate items.

Cr Panapa arrived 9.45am.

Resolved minute number **19/ARK/019** **File Ref** **3-CT-17-5**

That the updated statement 'Strategic risks for Rangitikei District Council' be received.

Cr Gordon/Cr Wilson. Carried

Resolved minute number **19/ARK/020** **File Ref** **3-CT-17-5**

That the statement 'Strategic risks for Rangitikei District Council' as amended be adopted as the starting point for the 2019-22 triennium.

Cr Gordon/Cr Wilson. Carried

9 Audit/Risk Committee Work programme matrix for the 2019-22 triennium

The Committee noted the commentary in the agenda.

Resolved minute number **19/ARK/021** **File Ref** **3-CT-17-5**

That the 'Audit/Risk Committee Work programme matrix for the 2019-22 triennium' be received.

Cr Belsham/Cr Gordon. Carried

Resolved minute number **19/ARK/022** **File Ref** **3-CT-17-5**

That the Audit/Risk Committee work programme matrix for the 2019-22 triennium be adopted without amendment with updates to be provided to each Committee meeting.

Cr Belsham/Cr Gordon. Carried

10 Internal audit programme – progress update

The Committee noted the commentary in the agenda.

11 Results of final audit for 2018/19

Ms Devine advised the Committee that there has been a significant increase in depreciation in the Three Waters and Rooding.

12 Receipt of minutes from the last meeting in the 2016-19 triennium

Resolved minute number	19/ARK/023	File Ref	3-CT-17-2
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The minutes of the Audit/Risk Committee meeting from 26 September 2019 are attached for information only.

His Worship the Mayor/Cr Wilson. Carried

13 Late items

There were no late items.

14 Future items for the agenda

Insurance

Payroll review

Conflicts of Interest

15 Next meeting

Thursday 27 February 2020, 9.00am

16 Meeting closed

10.33am

Confirmed/Chair: _____

Date:

Attachment 2

Strategic risks for Rangitikei District Council

Introduction

One of the areas of improvement for the Council identified in the 2017 report from the Independent Assessment Board was for all elected members to be actively engaged in, and have a detailed understanding of, strategic risk issues. These are ‘risk that affect or are created by an organisation’s business strategy and strategic objectives’¹: they arise from adverse business decisions, improper implementation of decisions or lack of responsiveness in the business environment.

The Committee has discussed this question at its meetings in November 2018 and February 2019 and considered a draft at its meeting on 27 June 2019. Council reviewed this draft at a workshop on 18 July 2019. Focus is on the long-term, organisation-wide and something which Council can do something about. There needs to be clarity on the likelihood of the risk and its impact. This revised statement was further considered on 5 December 2019.

The following explores the ten risks discussed and offers suggestions on how each risk might be addressed:

1. Trust and confidence is tarnished
2. Human capital is weakened
3. Legal and political environment requires excessive resources
4. Capital programme falters
5. Financial stability is lost
6. Regulatory effectiveness is questioned
7. Climate change responsiveness is ineffective
8. Business continuity is compromised
9. Obligations with health and safety and environmental protection are not met.
10. Changes to Government legislation are transformational

The final set of strategic risks will be the starting point to review the current risk framework, for consideration by the Committee at its December meeting. It would be helpful for Council to include this as a workshop topic before then so all elected members have an early understanding.

What is the risk (and its consequences)?	How to address the risk?
<p>1. Trust and confidence is tarnished</p> <p>The risk is that Council misunderstands community expectations or fails to work with advocacy group either of which may lead to continuous public criticism, particularly in social media and division among elected members and staff.</p>	<p>Council regularly samples community views and individual elected members have a wide range of contacts in the community. These could be reinforced by more informal polls, sample questioning of those submitting service requests and inviting</p>

¹ Deloitte, ‘Exploring strategic risk’, 2013, page 4.

<p>Inept handling of sensitive issues involving (for example) drinking water, wastewater discharges, lwi, privacy, or information disclosures can lead to a loss of confidence in Council’s effectiveness.</p> <p>Likelihood – Medium Impact – High</p>	<p>identified advocacy groups to speak to Council.</p> <p>Developing and applying protocols for sensitive issues would be a useful initial step. Longer-term, priority could be given to procedures and policies which would reduce the likelihood of such issues arising.</p> <p>Analysing social media comments more closely in conjunction with similar (rural) councils could help alert Council to sensitive issues, to understand their degree of uniqueness and to develop targeted responses (not necessarily in social media but in Council policies and practices).</p> <p>The Auditor General has begun a programme of work about the future of public accountability – the first phase being a discussion paper ‘Public accountability: A matter of trust and confidence’². Keeping informed about this work is certain to be helpful for Council, not just in how it manages public engagement but also in its behaviours.</p>
<p>2. Human capital weakens</p> <p>The risk is that Council loses a number of specialist staff which exposes a knowledge gap. This may compromise an ability to deliver and lead to a reduction in service standards and additional costs to buy in external expertise. In addition, there may not be enough staff to cope with increased work expectations, especially capital projects.</p> <p>An associated risk comes from a change in Elected Members and the potential loss of knowledge and experience</p> <p>Likelihood – High Impact – Medium</p>	<p>A small council inevitably has single points of knowledge. There are three complementary approaches –</p> <ul style="list-style-type: none"> (a) promoting documentation of processes (b) Establishing career pathways, and (c) rotation of staff (both within the council and with neighbouring councils) – <p>Together, they would be likely to reduce that dependency on individual expertise and increase staff understanding of how roles can develop and become more effective.</p> <p>A comprehensive induction for Council after the triennial elections is critical.</p>

² <https://www.oag.govt.nz/2019/public-accountability/docs/public-accountability.pdf>

<p>3. Legal and political environment requires excessive resources³</p> <p>The risk is that Council is unable to respond in a timely and efficient way to changes in central government policies and legal requirements, which may mean unexpected costs, a focus on achieving compliance, and a consequential reduced service standards</p> <p>An associated risk is that Horizons Regional Council changes its stance with local authorities, increasing cost and perception that Council has insufficient regard for its environmental impacts.</p> <p>Likelihood – Medium Impact - High</p>	<p>Council could maximize its dialogue with other local councils, and stress the potential benefits in a partnership approach to influence central government policy and legislation. This would require discussion with LGNZ and SOLGM to clarify issues which those organisations would lead and how councils participate in those initiatives.</p>
<p>4. Capital programme falters</p> <p>The risk is that Council is unable to secure contractors for major capital works (and thus doesn't achieve its targeted works programme) because of</p> <ul style="list-style-type: none"> (i) other councils' programmes and central government initiatives such as the road replacement for the Manawatū Gorge and new social housing complexes in the larger centres of the region and (ii) the increasing dominance of larger contractors, a result of increasing compliance costs. <p>This situation may lead Council to be a price leader in contracts, may frustrate the community (because of delays/and or increased costs and rates) and may discourage new external investment.</p> <p>Likelihood – Medium Impact - Medium</p>	<p>By establishing a project management office Council will be better placed to deal with the market and to have effective project management (an outcome valued by both contractors and Council).</p> <p>Council could promote a more consistent, open sharing of intended capital programmes, testing of the market, and agreeing where priorities lie.</p> <p>Council could also help increase the supply of contractors by</p> <ul style="list-style-type: none"> (a) running apprenticeships, (b) insisting on engagement of local contractors as part of awarding a contract and (c) sponsoring workshops to clarify compliance requirement for local contractors.

³ See also risk 10.

<p>5. Financial stability is lost</p> <p>The risk is that Council’s financial projections, in terms of operating expenditure and revenue, prove substantially incorrect. This could require a substantial increase in rates and increase the cost of borrowing. This could arise from unanticipated but unavoidable expenditure which is not covered by insurance, including legal costs. Council is fortunate in almost entirely avoiding the impact of weather-tightness failure but the recent exposure of the historic Putorino landfill (and an appreciation there are others) is an example of an unexpected issue.</p> <p>An associated risk is that insurance cover is insufficiently targeted</p> <p>Likelihood – Low Impact – High</p>	<p>Council’s current prudent approach means that all operating expenditure is funded through rates and not by loan. By ensuring that projected capital expenditure on planned new works or upgrades is kept below the borrowing threshold provides headroom should Council need additional funds to address a previously unknown issue.</p> <p>While Council cannot influence the state of international markets and commodity prices, it needs to be sensitive to the impact on these on local businesses and developers.</p> <p>Council benefits from joint procurement of insurance with other councils. However, this increasingly requires accurate documentation of asset condition (i.e. risk of failure) alongside known natural hazards. Council could run a few scenarios so it understands the extent of cover that would be available for Rangitikei in a range of circumstances.</p>
<p>6. Regulatory effectiveness is questioned</p> <p>The risk is that Council loses community confidence that it is being consistent and fair in exercising its regulatory responsibilities, including building and resource consents. That may arise if different responses are provided depending on where a matter is raised – i.e. an elected member, the chief executive, regulatory staff or customer service staff or where there is consistent failure to meet the prescribed timelines.</p> <p>Likelihood – High Impact - Medium</p>	<p>Council may be about the extent of this risk since it is a matter of holding a balance between (i) development and facilitating initiatives and (ii) compliance with central government requirements and Council bylaws and policies.</p> <p>One way to test the community’s appreciation of this risk could be to offer an amnesty period to those who knew or thought it possible that they (or someone else) was in breach of regulations. During that period Council could facilitate compliance by providing advice and/or reducing or waiving its fees.</p> <p>Longer-term, it would be beneficial to establish (and publicise) the decision-making and discretion and appeal processes – with the latter being public</p>

	reported, either in a Council (Committee) meeting or through the Council website.
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<p>7. Climate change responsiveness is ineffective</p> <p>The risk is that Council does not take sufficient steps to protect the community against the impacts of increasingly severe weather events and erosion</p> <p>Likelihood – Low/Medium Impact – Low/Medium</p>	<p>Council is already taking a more proactive stance in its roading programme by increasing expenditure on larger culverts and more stringent oversight of their maintenance and of roadside drains. The strategic look being taken over stormwater will also mean Council is more informed about the points of greatest risk and failure.</p> <p>The request from Kauangaroa Marae for dialogue and support from Council for relocation might be a prompt to reopen dialogue about Whangaehu and also to reconsider the likely scenario at Scotts Ferry and Koitiata, both of which are at risk from sea level rise,</p> <p>Council could develop and implement a plan to reduce its own carbon footprint, looking to engage local businesses in similar efforts.</p>
<p>8. Business continuity is compromised</p> <p>The risk is that Council suffers a cyber-attack which leads to compromised integrity and/or loss of information. However, there are lesser (but more likely) risks from staff anywhere in the organisation who lack training and understanding how to use Council’s IT systems and manage their record-keeping in a consistent and adequate fashion. That increases cost to the Council in trying to find relevant information and may mean that records critical to establishing what Council did and why cannot be found and disclosed.</p> <p>While Archives Central houses most of the Council’s pre-1989 records, some of the more recent hard-copy records (including</p>	<p>Council has a range of protective barriers and procedures to minimize the likelihood of a cyber-attack. This includes an increasing robust back-up procedure so that if data is lost or compromised, it can be recovered.</p> <p>Increasing staff knowledge of safe IT protocols and sound records management practices would reduce the risk of information unable to be found.</p> <p>An information audit could be a useful early step in understanding the extent of this risk.</p> <p>The information systems strategic plan now being developed is a key mechanism.</p>

<p>building consent files) are unprotected from fire.</p> <p>Likelihood – Medium/High Impact – High</p>	
<p>9. Obligations with health and safety and environmental protection are not met.</p> <p>The risk is that staff or the public are injured or killed or there is damage to the environment in the course of Council carrying out its work, and that there substantial fines imposed on Council as a result.</p> <p>Likelihood – Low Impact – High</p>	<p>This is a sector-wide risk, with no relationship to the size of councils or whether they are primarily urban or rural.</p> <p>The Chief Executive is committed to establishing and maintaining a strong health and safety culture within the organisation ('what you walk past you accept') is essential. A new health and safety engagement process has been undertaken so all staff members are involved. All members of the Senior Leadership Team will receive intensive training on this topic during the next six months.</p> <p>Environmental protection has a high dependency on regular maintenance of Council assets, especially wastewater, and management of contractor and staff working in sensitive areas.</p>
<p>10. Changes to government legislation are transformational</p> <p>The risk is that new or amended legislation, regulations or policy statements cause systemic changes in affordability to the local government sector.</p> <p>For example, the proposed freshwater reforms could have the following impacts:</p> <ul style="list-style-type: none"> a) the annual GDP contribution from dairying could shrink from \$350 million to \$50 million; b) reduced pasture land and increasing forestry (on the way it is presently rated) could mean that rates might need to rise 30% to provide the current level of services and facilities (including roads); 	<p>This is a sector-wide risk, but greatest for non-metro councils.</p> <p>Longer timeframes enable alternative productive uses of land to be implemented.</p> <p>To what extent is Council willing to facilitate such changes, including investment?</p> <p>If forestry becomes the dominant rural enterprise, how feasible is it for Council to rate public roads servicing such blocks on a differentia basis (so that the costs are not District wide) or to remove such roads from the public network (so that Council would no longer bear the costs of maintenance)?</p>

<p>c) reduction in farm incomes could be 30% which will result in diminished investment, loss of productivity and closure of farms.</p> <p>Likelihood – High Impact – High</p>	
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26 September 2019, updated and adopted 5 December 2019.

Risk matrix

		Likelihood				
		Rare	Unlikely	Possible	Likely	Almost certain
Consequences or Impact	Catastrophic	High	High	Extreme	Extreme	Extreme
	Major	Medium	High	High	Extreme	Extreme
	Moderate	Low	Medium	High	Extreme	Extreme
	Minor	Low	Low	Medium	High	Extreme
	Insignificant	Low	Low	Medium	High	High

		Likelihood				
		Rare	Unlikely	Possible	Likely	Almost certain
Consequences or Impact	Catastrophic	D6 (5)	D8 (6)	E5 (7)	E7 (8)	E8 (9)
	Major	C4 (4)	D5 (5)	D7 (6)	E4 (7)	E6 (8)
	Moderate	B4 (3)	C3 (4)	D4 (5)	E2 (6)	E3 (7)
	Minor	B2 (2)	B3 (3)	C2 (4)	D3 (5)	E1 (6)
	Insignificant	A (1)	B1 (2)	C1 (3)	D1 (4)	D2 (5)

Strategic risks

1. Trust and confidence is tarnished
2. Human capital is weakened
3. Legal and political environment...
4. Capital programme falters
5. Financial stability is lost
6. Regulatory effectiveness is questioned
7. Climate change responsiveness is ineffective
8. Business continuity is questioned
9. Obligations with health and safety and environmental protection....
10. Changes to Government legislation are transformational

D7 (6)	High
E2 (6)	Extreme
D7 (6)	High
D4 (5)	High
D5 (5)	High
E2 (6)	Extreme
C3 (4)	Medium
D7 (6)	High
D5 (5)	High
D7 (6)	High

See table 2 of the Risk management policy for meaning of impacts in terms of human life, service levels. The environment, compliance and corporate governance, financial performance and community/political

Control effectiveness ratings

Rating	Effectiveness	Description	Quantification
0	Not effective	This control does not address risk	0%
1	Slightly effective	The control is not reliable as it is not well-designed, documented and/or communicated	1-20% effective
2	Somewhat effective	Control may be reliable but not very effective as control design can be improved	21-40% effective
3	Reasonably effective	Control is reliable but not effective as documentation and/or communication could be improved.	41-60% effective
4	Mostly effective	Control is mostly reliable and effective. Documentation exists but can be better communicated.	61-80% effective
5	Very effective	Control is reliable and effective. Fully documented process and well communicated.	81-100% effective

Source: Lismore City Council