

Mayor and Councillors
COUNCIL

29 JANUARY 2015

Meeting Status: **Public**

Purpose of Report: For Decision

**APPOINTMENT OF AN INDEPENDENT MEMBER TO THE
AUDIT AND RISK SUBCOMMITTEE**

PURPOSE OF REPORT

- 1 This report seeks Council approval to appoint an independent member to the Audit and Risk Subcommittee.

DELEGATION

- 2 Council has the authority to consider this matter.

BACKGROUND

- 3 Recently in the media it has been revealed that the Dunedin City Council was the subject of a major fraud involving its vehicle fleet and costing that Council an estimated \$1.58 million. A report by accountancy firm Deloitte found a range of fraudulent activities, spanning nearly 11 years, with a single employee appearing to be "at the centre" of them.
- 4 During the period in which the fraud took place, Audit New Zealand twice suggested to Dunedin City Council that an Audit and Risk Subcommittee should be established. In both instances this suggestion was rejected, with Dunedin City Council stating that current controls through its then Finance and Strategy Committee were sufficient.
- 5 There have been a range of other cases raised across the country ranging from minor allegations of fraud through to investigations by the Senior Fraud Office.
- 6 In light of these recent actual and alleged frauds in local government, it is timely for the Audit and Risk Subcommittee to review its form and function to determine whether any changes should be made to strengthen it.
- 7 The current composition of Kāpiti Coast District Council's Audit and Risk Subcommittee is four members, all of whom are councillors and includes the Mayor and Deputy Mayor.
- 8 At its meeting on 16 December 2014, the Audit and Risk Subcommittee considered a report titled Membership of the Audit and Risk Subcommittee (Corp-14-1373) and carried the following amended recommendations for Council approval:
 - a) *an independent external member with financial expertise be appointed to the Subcommittee as soon as conveniently possible in the current triennium for a term of three years; and*
 - b) *the independent external member be remunerated at a standard meeting fee of \$150; and*
 - c) *the Council's Governance Structure and Delegations Document and Governance Statement are amended accordingly.*

CONSIDERATIONS

Best practice for audit committees

- 9 In 2008 the Office of the Auditor General (OAG) published a report called Audit Committees in the Public Sector. The suggested best practice for the operation of an audit committee in that report includes:
- a) the governing body or departmental chief executive should appoint an audit committee in which most of the members are independent of the management team.
 - b) the audit committee should have between three and five members.
 - c) the chairperson of the audit committee should be someone other than the chairperson of the governing body or the chief executive.
 - d) people appointed as audit committee members should have skills and experience adequate for the role of the committee. Specifically, the OAG recommends the following expertise is required on the audit committee:
 - i. financial expertise, specifically:
 - financial reporting
 - a good understanding of internal control and assurance frameworks, and
 - a good understanding of the roles of internal and external audit
 - ii. knowledge of governance, assurance, and risk management best practice
 - iii. a good knowledge of the sector or industry in which the public entity operates, and
 - iv. other attributes as deemed appropriate (for example, legal or information technology experience).
- 9 The length of members' terms on the audit committee should generally be for two to three years, with the option for one further term. Members' appointments should be staggered to ensure continuity and to avoid too many members leaving/starting at the same time.
- 10 The audit committee should have a charter, which will formally set down the committee's functions and responsibilities.
- 11 Further to this, according to guidance published by Local Government New Zealand (LGNZ) an effective audit and risk committee will be based on the following attributes:
- a) it will have a degree of independence from Council and management which will enable the robust consideration of Council's financial and non-financial risks; and
 - b) the audit and risk committee will consist of both elected and non-elected (external appointee) members who have an enquiring mind and are not afraid to ask the tough questions. The committee will encourage open and effective relationships with external and internal auditors and with management.

- 12 Council's Audit and Risk Subcommittee already meets a number of these best practice guidelines so no major changes are proposed. However, there are some minor amendments that if made in this triennium, will add value to the current Audit and Risk Subcommittee.

Recommended changes to Council's Audit and Risk Subcommittee

Appointment of an independent external member

- 13 The appointment of an independent external member is in accordance with clause 31 of Schedule 7 of the Local Government Act 2002, which states that:

The members of a committee or subcommittee may, but need not be, elected members of the local authority, and a local authority or committee may appoint to a committee or subcommittee a person who is not a member of the local authority or committee if, in the opinion of the local authority, that person has the skills, attributes, or knowledge that will assist the work of the committee or subcommittee

- 14 As the current Audit and Risk Subcommittee constitutes four members, appointing one external member in this term means that it will still fall within the recommended range of between three and five members for such a committee.
- 15 Therefore the Audit and Risk Subcommittee recommends that an independent external member with relevant experience, including financial expertise be appointed to the Audit and Risk Subcommittee as soon as conveniently possible.

Voting rights of external members

- 16 Council's Standing Orders (Standing Orders) clause 2.5 further provides that 'the acts of a local authority must be done, and questions ... must be decided at a meeting by vote and the majority of members that are present and voting.'
- 17 Standing Orders section 1.3 defines a 'member' as 'any person elected or appointed to the local authority or to any committee or subcommittee of the local authority...'
- 18 Council Officers recommend that an independent external member is given full voting rights, in accordance with the Standing Orders' entitlement.

Recruitment of an external member

- 19 The Audit and Risk Subcommittee proposes that Council delegates authority to an internal selection panel to manage the recruitment process. The panel will comprise the Chief Executive, the Chair of the Audit and Risk Subcommittee and the Organisational Development Manager.
- 20 The process will involve seeking expressions of interest (EOIs) through appropriate media advertising, and the short-listing of these candidates following an assessment of the EOI responses by the selection panel. Short-listed candidates will be invited to attend an interview with the selection panel and, on the basis that at least one of the candidates, in the opinion of the panel, is capable of undertaking the role, a recommendation will be made by the panel to Council for its consideration.

Remuneration of external members

- 21 The OAG suggests that members of audit committees that are not on the governing body should be remunerated. The Audit and Risk Subcommittee has discussed this suggestion and considers that a fee of \$150 per meeting would be an appropriate level of remuneration.

Updating the existing Governance Structure and Delegations Document in relation to the Audit and Risk Subcommittee

- 22 An amended Governance Structure and Delegations Document in relation to the Audit and Risk Subcommittee is attached to this report as Appendix 1. This will address the following OAG best practice guidelines which recommend that audit committees have a charter:
- a) objective - the role or purpose, the governance framework/context within which it operates, and how it relates to other governance mechanisms/committees;
 - b) authority - the power or authority it has to fulfil its objectives;
 - c) composition and tenure of members - the size of the audit committee, the sort of members it has, how new members are appointed and reappointed, how long members remain on the audit committee, and how members (including the chairperson) are removed in the event of non-performance;
- 23 The length of members' terms on the Audit and Risk Subcommittee should also be set out in the amended Governance Structure and Delegations Document. It is logical for this to be three years so that councillors appointed to the Audit and Risk Subcommittee could serve their three year terms during a single election cycle. To assist with continuity, independent external members should be appointed midway through the triennium for a term of three years from the date of appointment.

Financial Considerations

- 24 As proposed above, external members would be paid \$150 for every meeting that they attend. It is anticipated that the Audit and Risk Subcommittee would meet between four and six times a year so the financial impact is likely to be less than \$1,000.

Legal Considerations

- 25 There are no additional legal considerations. The report has been reviewed by Senior Legal Counsel.

Consultation

- 26 There is no need to consult on the issues discussed in this report.

Policy Implications

- 27 There are no policy implications however, as noted above, the paper recommends a number of amendments to Council's Governance Structure in relation to the Audit and Risk Subcommittee.

Tāngata Whenua Considerations

28 There are no Tāngata Whenua issues.

SIGNIFICANCE AND ENGAGEMENT

29 This matter has a low level of significance under the Council Policy.

Publicity Considerations

30 Subject to Council approval to appoint an independent external member, the process will involve seeking expressions of interest (EOIs) through appropriate media advertising.

RECOMMENDATIONS

31 That Council agrees:

- a) to an independent external member with financial expertise being appointed to the Audit and Risk Subcommittee as soon as conveniently possible in the current triennium for a term of three years from the date of appointment; and
- b) the independent external member be remunerated at a standard meeting fee of \$150; and
- c) the Council's Governance Structure and Delegations Document in relation to the Audit and Risk Subcommittee is amended accordingly.
- d) that the external independent member be given full voting rights at Audit and Risk Subcommittee meetings.
- e) that a selection panel comprising the Chief Executive, the Chair of the Audit and Risk Subcommittee and the Mayor be delegated the authority to manage the appointment of the external member for Council approval.

32 That Council approves the amended Governance Structure in relation to the Audit and Risk Subcommittee which is attached as Appendix 1.

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Approved for submission by:

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Appendix 1 to Corp-15-1436

Extract from current Governance Structure and Delegations document (27 November 2014)

Section C.4

AUDIT AND RISK SUBCOMMITTEE

of the Corporate Business Committee

Chair	Cr Welsh
Deputy Chair	Cr Bell
Membership	Mayor, Deputy Mayor <u>Independent external member</u>

PARTNERSHIP FRAMEWORK

- 1 This Subcommittee:
 - 1.1 reports to the Corporate Business Committee; and
 - 1.2 will undertake its delegations in accordance with Part A of this document.

CONSTITUTION:

- 2 The membership of this Subcommittee in the 2013-2016 Triennium shall comprise:
 - The Chairperson of the Corporate Business Committee
 - The Mayor
 - The Deputy Mayor
 - The Deputy Chair of the Corporate Business Committee
- 3 The membership shall also include a suitably qualified independent external member with speaking and voting rights, for a term of three years from the date of appointment.

MEETING FREQUENCY:

- 4 The Subcommittee will meet on a ~~six-monthly~~ quarterly basis or more frequently as required.

OBJECTIVE:

- 5 The Audit and Risk Subcommittee monitors the Council's financial management and reporting mechanisms and framework and reviews the audit and risk function, ensuring the existence of sound internal systems.

DELEGATED AUTHORITY

- 6 Generally this delegation provides authority to exercise all functions, duties and powers relating to all matters assigned to this Subcommittee, as adopted by the Council from time to time, where financial provision has been made in the Annual Plan or LTP, and where the action proposed is not contrary to established Council strategy and/or policy.
- 7 Without limiting the generality of this delegation the Subcommittee has the following functions, duties and powers:

Internal Control Framework

- 7.1 Review whether management's approach to maintaining an effective internal control framework is sound and effective.
- 7.2 Review whether management has taken steps to embed a culture that is committed to probity and ethical behaviour.
- 7.3 Review whether there are appropriate processes and systems in place to capture and effectively investigate fraud.

Internal Reporting

- 7.4 To review the processes for ensuring the completeness and quality of financial and operational information, including performance measures, being provided to Council.

External Reporting

- 7.5 Consider the appropriateness of the Council's existing accounting policies and principles and any proposed changes.
- 7.6 Obtain from external auditors any information relevant to the Council's financial statements, and assess whether appropriate action has been taken by management in response to the above.
- 7.7 Ensure that the Council's financial statements are supported by appropriate management signoff and adequate systems of internal control (i.e. letters of representation).
- 7.8 Receive and consider regular reports on the status of any investigations by the Office of the Ombudsman into decisions by the Council.

Risk Management

- 7.9 Ensure that Council has in place a current and comprehensive risk management framework and associated procedures for effective identification and management of Council's significant risks.
- 7.10 Review and evaluate Council's risk management framework and make recommendations to the Corporate Business Committee on risk mitigation.
- 7.11 Assist elected members in the discharge of their responsibilities by ensuring compliance procedures are in place for all statutory requirements relating to their role.

External Audit

- 7.12 At the start of each audit, confirm the terms of the engagement, including the nature and scope of the audit, timetable and fees with the external auditor and a recommendation made to the Corporate Business Committee.
- 7.13 Receive the external audit reports and review action to be taken by management on significant issues and audit recommendations raised within
- 7.14 Ensure any recommendation by management that the Office of the Auditor-General replace the external auditor is referred to and examined by the Audit and Risk Subcommittee and a recommendation is made to the Corporate Business Committee.