

Mayor and Councillors
COUNCIL

1 MARCH 2018

Meeting Status: **Public**

Purpose of Report: For Decision

APPOINTMENT OF INDEPENDENT MEMBERS TO THE AUDIT AND RISK COMMITTEE

PURPOSE OF REPORT

- 1 This report seeks Council approval to appoint two independent members to the Audit and Risk Committee.

DELEGATION

- 2 Council has the authority to consider this matter.

BACKGROUND

- 3 The importance of audit and risk governance has been highlighted many times in recent years, including high profile instances of fraud at Dunedin, Westland, Auckland and the Ministry of Transport.
- 4 There have been a range of other cases raised across the country ranging from minor allegations of fraud to investigations by the Serious Fraud Office.
- 5 The OAG identifies appointing one or more independent members to audit and risk committees is best practice, for reasons of providing a balance of skills and capability, as well as an external perspective.
- 6 On 29 January 2015 the Council approved a proposal from the then Audit and Risk Subcommittee to appoint an independent member¹ with financial expertise to the Audit and Risk Subcommittee for a term of three years from the date of appointment. Following the recruitment process the Council approved the appointment of Warwick Tuck with effect from 1 July 2015 to 30 June 2018.
- 7 On 26 October 2016 the Council discharged Mr Tuck from the Audit and Risk Subcommittee and appointed him to the Audit and Risk Committee until 30 June 2018.
- 8 The current composition of the Kāpiti Coast District Council's Audit and Risk Committee is one independent member and five members who are councillors including the Mayor.

ISSUES AND OPTIONS

Issues

- 9 In 2008 the Office of the Auditor General (OAG) published a report called Audit Committees in the Public Sector. The OAG has recently updated its guidance on

¹ An independent audit and risk committee member is a person who is not employed by, or providing any services to, the organisation beyond his or her duties as a committee member.

audit committees, and recommends four key principles that help an audit committee add value – independence, clarity of purpose, competence and open and effective relationships. These principles are discussed briefly below:

Clarity of purpose

- 10 To get the best, governors need to be clear about what they want from their audit committee, and entity management needs to help provide support that allows governance needs of the committee to be met. It is useful to set out the purpose, roles, and responsibilities of the audit committee and its scope in the context of the entity's governance framework.

Competence

- 11 Competence is about having the right mix of skills and experience on the audit committee to give oversight of the matters sought of the committee. Audit committee members need to have relevant experience and expertise to bring valuable insights and perspectives to the areas of the committee's responsibility.
- 12 The better the skills and experience of audit committee members, the better the committee can add value. Collectively, people appointed to serve on audit committees need to have expertise, such as:
 - finance and accounting, including financial reporting;
 - broad governance, assurance, and risk management disciplines;
 - understanding of internal controls and assurance frameworks, including understanding of the roles of internal and external audit;
 - knowledge of the sector or industry in which the public entity operates; and
 - other attributes as specifically relevant to the entity (for example, legal or information technology experience).

Open and effective relationships

- 13 To be effective, an audit committee needs to operate in an environment of co-operation and trust. Audit committee members also need to communicate effectively among themselves and with many others interested and involved in the governance and management of the entity.

Independence

- 14 Audit committees need the independence of perspective, experience, and knowledge to bring the test and challenge that adds value to the governance of a public entity.
- 15 An essential feature of an effective audit committee is independence from management. By providing an independent source of advice to the board, audit committees play a key role in an organisation's governance structure.
- 16 An independent audit committee member, as defined by the Global Institute of Internal Auditors, is a person who is not employed by, or providing any services to, the organisation beyond his or her duties as a committee member. To ensure an Audit Committees Independence it is leading practice for the majority of its members to be independent from the organisation. In local government this is

generally manifested as two independent members (a minority), given the overall accountability of elected members for the performance of the organisation.

Other considerations

- 17 The length of members' terms on the audit committee should generally be for two or three years, with the option of one further term. Members' appointments should be staggered to ensure continuity and to avoid too many members leaving/starting at the same time. It is useful for external members' terms to straddle the triennium when there is likely to be a change of councillors appointed to the committee.
- 18 The first issue is the reappointment of the existing independent member. The first term ends on 30 June this year. For continuity it would be appropriate to renew this appointment for a further term of three years.
- 19 Mr Tuck has indicated that he would be happy to be reappointed to the Audit and Risk Committee for a further three years.
- 20 The Second issue is whether to appoint a second independent member to the committee. This is recommended, as it best aligns with the OAG recommendations for best practice.
- 21 If the Council approves this addition to the committee, a selection process will be implemented. This will involve advertising and searching for candidates, and a selection panel will be convened, in the same manner as was undertaken previously. It is proposed that the panel will comprise of Chief Executive, the Chair of the Audit and Risk Committee and the Mayor.

Policy considerations

- 22 There are no policy implications however the paper recommends that the Council's Governance Structure and Delegations document and Governance Statement are amended accordingly

Legal considerations

- 23 There are no legal considerations.

Financial considerations

- 24 External members are entitled to be paid \$190 for every meeting that they attend. The Audit and Risk Committee meets on a quarterly basis or as required and so the financial impact is likely to be approximately \$1,520 per annum, which can be covered under existing budgets.

Tāngata whenua considerations

- 25 There are no Tāngata Whenua issues.

SIGNIFICANCE AND ENGAGEMENT

Significance policy

- 26 This matter has a low level of significance under Council policy.

Publicity

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

RECOMMENDATIONS

28 That Council:

- a) approves the reappointment of Warwick Tuck to the Audit and Risk Committee for a further three years from 30 June 2018 to 30 June 2021.
- b) agrees to appoint an additional independent external member with full voting rights to the Audit and Risk Committee in the current triennium for a term of three years from the date of the appointment.
- c) agrees that the independent external members be remunerated at a standard meeting fee of \$190 each; and
- d) that the Council's Governance Structure and Delegations document is amended accordingly.
- e) that a selection panel comprising the Chief Executive, The Chair of the Audit and Risk Committee and the Mayor be delegated the authority to manage the appointment of the second external member for Council Approval.

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