

**Chairperson and Subcommittee Members**  
AUDIT AND RISK SUBCOMMITTEE

16 DECEMBER 2014

Meeting Status: **Public**

Purpose of Report: For Information

## **MEMBERSHIP OF THE AUDIT AND RISK SUBCOMMITTEE**

### **PURPOSE OF REPORT**

- 1 This report provides best practice guidance on the membership of Council's Audit and Risk Subcommittee (the Subcommittee).

### **DELEGATION**

- 2 While the Audit and Risk Subcommittee needs to be comfortable with all the proposals contained in this report, it does not have the delegated authority to authorise changes in its own constitution, as set down in Council's Governance Structure and Delegations. Accordingly, if the Subcommittee agrees with the proposal, it will still need to go to full Council for approval.

### **BACKGROUND**

- 3 Recently in the media it has been revealed that the Dunedin City Council was the subject of a fraud that occurred for at least the last ten years. Employees of that Council are alleged to have sold 152 of its Citifleet cars and taken the proceeds, which were in excess of \$1.5 million.
- 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 Also, in the last 12 months the Serious Fraud Office has launched investigations into the Far North District Council, Auckland Transport and Taupo District Council, all for alleged fraud.
- 6 In light of these recent actual and alleged frauds in local government, it is timely for the Subcommittee to review its format and constitution to determine whether any changes should be made to strengthen it.
- 7 The current composition of Kāpiti Coast District Council's Subcommittee is four members, all of whom are councillors. The membership includes the Mayor and Deputy Mayor, and the Chairperson is a councillor.

## CONSIDERATIONS

### Best practice for audit committees

- 8 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;
      - 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).
  - e) 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; and
  - f) The Audit and Risk Subcommittee's Terms of Reference will be contained in the Council's current Governance Structure and Delegations Document.

### Options for Council's Audit and Risk Subcommittee

- 9 Council's Audit and Risk Subcommittee already meets a number of the best practice guidelines set out by the OAG and therefore in this election cycle no major changes are suggested.

- 10 However, there are some minor amendments that should be made in this election cycle, which will add value to the current Subcommittee. For example, one additional member with relevant experience, including financial expertise should be added to the Subcommittee. This person should be external to Council, that is, neither a councillor nor a member of staff.
- 11 Individuals elected to Council have a large range of skills but these do not necessarily match those skills required by an audit and risk subcommittee. Given how crucial the specific skills are to the effectiveness of an audit and risk subcommittee, it is suggested that an external person is appointed to bridge any potential gaps in the Subcommittee's skills. All current members of the Subcommittee should continue to be members.
- 12 In addition, a skills matrix should be developed to identify the skills required by the Subcommittee. This is particularly important if it is decided that in the future the Subcommittee should have two external members.
- 13 The appointment of an external person to the Subcommittee can be effected through clause 31 of Schedule 7 of the Local Government Act 2002. Only Council can make such an appointment.

*Additional external expertise*

- 14 The OAG notes that the primary benefit of an audit and risk subcommittee should be its independence and objectivity in relation to management. This independence and objectivity can be further enhanced by the appointment to the Subcommittee of one or two independent external members.
- 15 The OAG suggests that members of audit and risk committees that are not on the governing body should be remunerated. If the Council agrees that external members should be appointed to the Subcommittee, advice will be sought on what would constitute an appropriate level of remuneration.

*Updating the existing Governance Structure of the Audit and Risk Subcommittee*

- 16 Officers will ask Council to approve an amended Governance Structure in relation to the Audit and Risk Subcommittee. This will address the following OAG recommendations:
  - 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 fulfill 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;
  - d) responsibilities;
  - e) administrative arrangements - meetings, attendance and quorums, decision-making and voting, secretariat, conflict of interest provisions, induction;
  - f) performance assessment arrangements; and

- g) system and schedule for reviewing the Governance Structure.

*Length of members' terms*

- 17 The length of members' terms should be set out in the Subcommittee's updated Governance Structure. It is logical for this to be three years so that councillors appointed to the 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 election cycle.
- 18 If the Subcommittee approves this proposal, as part of the report to Council, a recommended process for appointments will be included.

**Financial Considerations**

- 19 As noted above, independent external members should be remunerated for their services, and advice will be taken to determine an appropriate amount.

**Legal Considerations**

- 20 There are no legal considerations.

**Consultation**

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

**Policy Implications**

- 22 There are no policy considerations.

**Tāngata Whenua Considerations**

- 23 There are no tāngata whenua considerations.

**SIGNIFICANCE AND ENGAGEMENT**

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

**Publicity Considerations**

- 24 There are no publicity considerations at this stage.

## RECOMMENDATIONS

- 25 That the Audit and Risk Subcommittee recommends to Council that:
- 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 appropriately remunerated; and
  - c) the Council's Governance Structure and Delegations document and Governance Statement are amended accordingly.

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