

Mayor and Councillors
COUNCIL

24 JANUARY 2019

Meeting Status: **Public**

Purpose of Report: For Decision

APPOINTMENT OF INDEPENDENT MEMBER TO THE AUDIT AND RISK COMMITTEE

PURPOSE OF REPORT

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

DELEGATION

- 2 The 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 In its review of Councils participating in the LGNZ Council MARK Local Government Excellence Programme, the LGNZ emphasises the importance of having two independent members on audit and risk committees.
- 7 The current composition of the Kāpiti Coast District Council's Audit and Risk Committee is two independent members and five members who are councillors including the Mayor.
- 8 On 7 November 2018 the Chief Executive received the resignation from Independent Member Warwick Tuck with effect from 31 May 2019.

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 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 committee's 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 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 appointment of Independent Member Gary Simpson took effect from 1 September 2018 through to 31 August 2021.
- 19 If the Council approves the appointment of an independent member to replace Mr Tuck, a selection process will begin. This will involve advertising and searching for candidates, and a selection panel will be convened. It is proposed that the panel will comprise of Chief Executive, the Mayor, the Chair and Deputy Chair of the Audit and Risk Committee.

CONSIDERATIONS

Policy considerations

- 20 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

- 21 There are no legal considerations.

Financial considerations

- 22 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. There is allowance for this within existing budgets.

Tāngata whenua considerations

- 23 There are no Tāngata Whenua considerations.

SIGNIFICANCE AND ENGAGEMENT

Significance policy

- 24 This matter has a low level of significance under the Council's Significance and Engagement Policy.

Publicity

- 25 Subject to the Council's approval to appoint a second independent external member, the process will involve seeking expressions of interest through appropriate media advertising.

RECOMMENDATIONS

26 That Council:

- a) agrees to appoint an 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.
- b) that a selection panel comprising the Chief Executive, the Mayor, the Chair and Deputy Chair of the Audit and Risk Committee be delegated the authority to manage the appointment of the independent external member for Council Approval.

Report prepared by	Approved for submission	Approved for submission
Leyanne Belcher	Sharon Foss	Sean Mallon
Democracy Services Manager	Acting Group Manager Corporate Services	Group Manager Infrastructure Services