

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE

AGENDA

WEDNESDAY 28 NOVEMBER 2012

AT 1PM

COMMITTEE ROOM 2, SECOND FLOOR, CIVIC OFFICES, 53 HEREFORD STREET

Subcommittee: Councillor Tim Carter (Chair).
Councillors Helen Broughton, Sally Buck, Ngaire Button, Jimmy Chen and Jamie Gough
and Messrs John Hooper and Michael Rondel.

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AUDIT AND RISK MANAGEMENT SUBCOMMITTEE 28. 11. 2012**1. APOLOGIES**

Nil.

2. CONFIRMATION OF MINUTES OF MEETING:

Attached.

It is recommended that the Subcommittee **confirm** the minutes of its meeting on 16 October 2012.

MINUTES

CHRISTCHURCH CITY COUNCIL

MINUTES OF A MEETING OF THE AUDIT AND RISK MANAGEMENT SUBCOMMITTEE
HELD AT 9AM ON TUESDAY 16 OCTOBER 2012

PRESENT: Councillor Tim Carter (Chairperson).
Councillors Helen Broughton, Sally Buck, Ngaire Button and Jimmy Chen and Mr John Hooper.

APOLOGIES: Mr Michael Rondel, Councillor Jamie Gough.

IN ATTENDANCE: Julian Tan and Andrew Timlin, Audit New Zealand
Murray Harrington, PriceWaterhouse Coopers
Paul Anderson, General Manager Corporate Services
Diane Brandish, Unit Manager Corporate Finance
Patricia Christie, External Reporting and Governance Manager
Rachael Brown, Committee Adviser.

1. APOLOGIES

The Subcommittee received apologies from Mr Michael Rondel and Councillor Jamie Gough.

It was **resolved** on the motion of Councillor Carter, seconded by Councillor Button, that the apologies be accepted.

2. CONFIRMATION OF MINUTES OF MEETING – 22 AUGUST 2012

It was **resolved** on the motion of Councillor Chen, seconded by Councillor Button, that the open minutes of the meeting held on 22 August 2012 be confirmed, subject to Councillor Button, rather than Councillor Buck, being recorded as the mover of the lost amendment to staff recommendation (d) in clause 4 of the minutes on the Procurement Policy.

3. MATTERS ARISING

It was noted that:

- terms of reference for the Subcommittee will be discussed at its next meeting on 28 November 2012
- the meeting that was scheduled for 26 September had been rescheduled to today.

4. DEPUTATIONS BY APPOINTMENT

Nil.

5. RESOLUTION TO EXCLUDE THE PUBLIC

It was **resolved** on the motion of Councillor Button, seconded by Councillor Chen, that the resolution to exclude the public, as set out on page 9 of the agenda, be adopted.

CONFIRMED THIS 28TH DAY OF NOVEMBER 2012

COUNCILLOR CARTER (CHAIRPERSON)

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE 28. 11. 2012**3. DEPUTATIONS BY APPOINTMENT**

Nil.

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4. PROPOSED TERMS OF REFERENCE FOR THE AUDIT AND RISK MANAGEMENT SUBCOMMITTEE

General Manager responsible:	General Manager Corporate Services, DDI 941-8528
Officer responsible:	General Manager Corporate Services
Author:	Paul Anderson – General Manager Corporate Services

PURPOSE OF REPORT

1. This report proposes a new terms of reference for the Audit and Risk Management Subcommittee. The Subcommittee is asked to consider these and to recommend to the Council that they are adopted.

BACKGROUND

2. The Subcommittee last considered its terms of reference on 1 June 2011. At that meeting, the Subcommittee noted the terms of reference that had been previously approved by the Council on 13 December 2007. Those terms of reference are:
 - approve the Annual Report and Audited Financial Statements of the Council
 - review and approve significant accounting policy changes
 - review the format of financial reports prior to audit
 - evaluate the adequacy and effectiveness of the administrative, operating and accounting policies through active communication with the external and internal auditors and consideration of their management report
 - the authority to recommend to the Council amended terms of reference for this subcommittee.
3. The Subcommittee also agreed to the following practices:
 - the subcommittee will meet at least four times a year
 - at least once a year the subcommittee may meet with the internal and external auditors without management present
 - the subcommittee will principally rely on discussions and reports from staff, and remain at arm's length from operational activity
 - the subcommittee will be serviced by the Secretariat
 - the Chairperson of the Subcommittee may initiate meetings as they see fit.
4. Following the 28 June 2012 Council meeting, the Council implemented a new standing committee structure, replacing the existing committees and council configuration. Regular meetings of the new standing committees commenced at the beginning of August 2012. At the 28 June 2012 meeting, the Council reaffirmed the membership and terms of references (as above) of the Audit and Risk Management Subcommittee.
5. Among the standing committees established by Council on 28 June 2012, the Corporate and Financial Committee was formed and is responsible for reviewing as appropriate and making recommendations to the Council on the following areas:
 - Assets
 - Treasury
 - Funding
 - Economic Development
 - Insurance
 - Development Contributions
 - Institutional Resilience
 - Christchurch City Holdings Ltd
 - Canterbury Development Corporation
 - Canterbury and Christchurch Tourism.

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE 28. 11. 2012

4 Cont'd

6. Prior to the establishment of the Corporate and Financial Committee, staff had provided reports on some of the issues listed above to the Audit and Risk Management Subcommittee. However under the new committee structure, some reports are now more properly directed towards the Corporate and Financial Committee. For example, regular reports on insurance, treasury and funding issues are now directed to the Corporate and Financial Committee because these issues are clearly within that committee's terms of reference.
7. This means that the Subcommittee is focused on the following key areas, which align with the core responsibilities as outlined in the Office of the Controller and Auditor-General's (OAG) guide entitled "Audit Committees in the Public Sector":
 - the council annual report and external audit
 - accounting policy issues
 - internal control assurance (via the Internal Audit function)
 - risk management.

COMMENT

8. The Subcommittee has asked staff to review its existing delegations / terms of reference and to recommend whether changes should be made in light of the Council's new committee structure.
9. The new committee structure ensures increased governance and assurance across corporate and financial issues via the Corporate and Financial Committee. This committee is wholly made up with elected members. It is important that the Audit and Risk Subcommittee's terms of reference do not overlap with responsibilities delegated by the Council to this or any other Council committee. The addition of independent members to the Subcommittee ensures the presence of requisite expertise for its effective operation.
10. The OAG suggests the following good practice principles to support the effective operation of an audit committee:
 - Independence - most of the members of the audit committee need to be independent of the management team to provide objective and impartial advice.
 - Competence - audit committee members need to have relevant experience and expertise to bring valuable insights and perspectives to the areas of audit committee interest. The OAG guidelines note that to ensure this occurs, some audit committees have independent chairs
 - Clarity of purpose - an audit committee needs to be clear about its mandate, purpose and role in the organisation and within the governance structure as a whole.
 - Open and effective relationships - the audit committee needs to encourage open and transparent communication and effective ways of working with stakeholders.
11. The existing delegations of the Subcommittee are clearly defined and do not overlap with other committees. However, the Subcommittee may wish to provide itself with greater clarity of its role through recommending a more detailed terms of reference. A Proposed Terms of Reference is attached (**Appendix 1**) and it is recommended that the Subcommittee recommends to the Council that these be adopted.
12. In developing these terms of reference, staff reviewed terms of reference and committee structures from Auckland Council, Dunedin City Council, Hamilton City Council, Wellington City Council and Porirua City Council, and considered the existing delegations and committee structure of this Council. As well as this, staff considered the guidance provided by the OAG and also the Institute of Directors' guidance on audit committees.
13. Staff also requested advice from PriceWaterhouseCoopers and consulted with Audit New Zealand and the Subcommittee's independent members to ensure the proposed Terms of Reference meet best practice. PriceWaterhouseCoopers noted that the proposed Terms of Reference increases clarity, level of documentation and coverage of functions, and that in relation to other Councils, are amongst the strongest observed.

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE 28. 11. 2012**4 Cont'd****STAFF RECOMMENDATION**

That the Subcommittee recommend to the Council that it:

- (a) **Rescind** the existing delegations to the Audit and Risk Management Subcommittee.
- (b) **Adopt** the Terms of Reference in **Appendix 1**.

**APPENDIX 1: PROPOSED TERMS OF REFERENCE:
AUDIT AND RISK MANAGEMENT SUBCOMMITTEE**

Purpose

The purpose of these terms of reference is to assist the Council to discharge its conformance responsibilities as outlined below:

- the robustness of the internal control framework;
- the integrity and appropriateness of internal and external reporting and accountability arrangements;
- the robustness of risk management systems, process and practices;
- the independence and adequacy of internal and external audit functions;
- compliance with applicable laws, regulations, standards and best practice guidelines; and
- the establishment and maintenance of controls to safeguard the Council's financial and non-financial assets.

Terms of reference

Internal Control Framework

- Ensure that management's approach to maintaining an effective internal control framework is sound and effective.
- Enquire as to the steps management has taken to embed a culture that is committed to probity and ethical behaviour.
- Review the processes or systems in place to capture and effectively investigate fraud or material litigation should it be required.

Risk Management

- Review whether management has in place a current and comprehensive risk management framework and associated procedures for effective identification and management of the Council's significant risks.
- Consider whether appropriate action is being taken by management to mitigate Council's significant risks.
- Ensure that management is kept apprised of the Council's governance body's views on uncontrolled risk.

Internal Audit

- Review the internal audit coverage and annual work plans, ensuring these plans are based on the Council's risk profile.
- Review the adequacy of management's implementation of internal audit recommendations.
- Conduct a members-only session with internal audit to discuss any matters that the auditors wish to bring to the Subcommittee's attention.

External Reporting and Accountability

- Consider the appropriateness of the Council's existing accounting policies and principles and any proposed changes.
- Enquire of external auditors for any information that affects the quality and clarity of the Council's financial statements, and assess whether appropriate action has been taken by management.

- Satisfy itself that the financial statements are supported by appropriate management signoff on the statements and on the adequacy of the systems of internal control (i.e. letters of representation), and recommend signing of the financial statements by the Chief Executive and Mayor and adoption by Council.
- Confirm that processes are in place to ensure that financial information included in the entity's annual report is consistent with the signed financial statements.
- Satisfy itself that the Statement of Service Performance is supported by appropriate management signoff on the statement and on the adequacy of the systems of internal management and control.
- Receive and consider the Summary Financial Statements for consistency with the Annual Report.

External Audit

- Confirm the terms of the appointment and engagement, including the nature and scope of the audit, timetable and fees, with the external auditor.
- Receive the external audit report(s) and review action to be taken by management on significant issues and audit recommendations raised within.
- Conduct a members-only session with external audit to discuss any matters that the auditors wish to bring to the Subcommittee's attention and/or any issues of independence.

Compliance with Legislation, Standards and Best Practice Guidelines

- Review the effectiveness of the system for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), with Council's own standards, and Best Practice Guidelines.

Frequency of meetings

- Subcommittee to meet at least quarterly.

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE 28. 11. 2012**5. RESOLUTION TO EXCLUDE THE PUBLIC**

Attached.

28. 11. 2012

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE**RESOLUTION TO EXCLUDE THE PUBLIC**

Section 48, Local Government Official Information and Meetings Act 1987.

I move that the public be excluded from the following parts of the proceedings of this meeting, namely clauses 6, 7 and 8.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987, for the passing of this resolution are as follows:

GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	REASON FOR PASSING THIS RESOLUTION IN RELATION TO EACH MATTER	GROUND(S) UNDER SECTION 48(1) FOR THE PASSING OF THIS RESOLUTION
6. PX MINUTES - 16 OCTOBER 2012)))
7. QUARTERLY INTERNAL AUDIT REPORT)) GOOD REASON TO WITHHOLD EXISTS)) SECTION 48(1)(a)
8. QUARTERLY PROCUREMENT REPORT)) UNDER SECTION 7))

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987, and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:

ITEM	REASON UNDER ACT	SECTION	PLAIN ENGLISH REASON	WHEN REPORT CAN BE RELEASED
6.	Protection of privacy of natural persons.	7(2)(a)	Contains sensitive information in relation to individuals.	25 October 2013.
7.	Prevent the disclosure or use of official information for improper gain or improper advantage.	7(2)(j)	Weaknesses in processes and controls reported could be exploited by staff or external persons for personal gain.	To be considered within 12 Months from date of reporting.
8.	Prejudice commercial position.	7(2)(b)(ii)	The information in the report would be likely to unreasonably prejudice the commercial position of suppliers.	Never.
	Commercial activities.	7(2)(h)	To enable the Council to carry out commercial activities without prejudice or disadvantage.	
	Conduct of negotiations.	7(2)(i)	To enable the Council to carry on negotiations without prejudice or disadvantage.	
	Prevention of improper advantage.	7(2)(j)	To prevent disclosure for improper gain or advantage.	

Chairperson's

Recommendation: That the foregoing motion be adopted.

Note

Section 48(4) of the Local Government Official Information and Meetings Act 1987 provides as follows:

“(4) Every resolution to exclude the public shall be put at a time when the meeting is open to the public, and the text of that resolution (or copies thereof):

- (a) Shall be available to any member of the public who is present; and
- (b) Shall form part of the minutes of the local authority.”

