
TIFFIN REPORT RECOMMENDATIONS

1. Purpose of Report

The purpose of this report is to:

- inform the Committee about the findings from a review undertaken by Mr Tiffin on the relationship between the Audit and Risk Management and CCO Performance subcommittees
- seek the Committee's endorsement of particular recommendations made in the review.

2. Executive Summary

Officers engaged Mr Roy Tiffin to undertake a review of the relationship between the Audit and Risk Management (ARMS) and CCO Performance subcommittees (CCOPS), as part of a series of actions aimed at implementing the findings of the 2006 Roche review of Council Controlled Organisations.

Mr Tiffin was asked to make recommendations on:

- the extent to which he considers that the Boards of CCOs should be accountable to the Council Audit and Risk Management Subcommittee
- how he considers that the relationship between the external auditors of CCOs and the Council's auditor should operate
- how he considers that internal assurance arrangements in the CCOs should operate.

Mr Tiffin made six key recommendations in his report, which are outlined in Section 5 of this paper. Officers recommend that this Committee endorses the following of Mr Tiffin's findings:

- The Council's auditor should be requested to provide ARMS with an annual summary of any relevant issues arising from the audits of the CCOs in the audit clearance letter and the annual audit management report.

- Monitoring activities of the CCOs are adequately performed by CCOPS with the support of the CCO Unit. However, CCOPS should provide their quarterly and annual reports on the activities of the CCOs to ARMS for information.
- Council may wish to consider requesting the Auditor-General to change the auditor of 100% owned CCOs to Audit New Zealand, but this is not critical
- CCOs are being encouraged by CCOPS and the CCO Unit to formalise risk management and internal assurance activities. The use of the Council Internal Audit division should be considered by CCOs which are considering utilising sub-contracted internal audit resources.

Officers consider that these four recommendations will improve the quality of the information received from and its monitoring of CCOs. The remaining two recommendations from Mr Tiffin, outlined below, are not supported by officers:

- Council should consider amending the ARMS Terms of Reference to include the review of the risk management activities within the CCOs.
- Council may wish to reconsider the creation of a holding company structure for CCOs.

Officers, and the two subcommittees concerned, considered that amending the terms of reference for the ARMS subcommittee for the risk management activities within CCOs would blur the responsibilities and accountabilities between ARMS and CCOPS.

The option of a holding company was assessed by PricewaterhouseCoopers in the Roche review. The Strategy and Policy Committee agreed in September 2006 that a holding company structure was not a priority for the Council at the time. The general view at the time was the cost of changes to the CCO operating model would outweigh any perceived advantages.

3. Recommendations

It is recommended that the Committee:

1. *Receive the information.*
2. *Note the contents of Mr Tiffin's report, attached as Appendix 1*
3. *Agree that the current terms of reference for both the ARMS and CCOPS subcommittees are appropriate in respect of CCOs*
4. *Agree that the CEO should write to the Council's auditor requesting that ARMS is provided with an annual summary of any relevant issues*

arising from the audits of the CCOs in the audit clearance letter and the annual audit management report

- a) *Note that a verbal report of this nature was provided by the Council's auditor at the ARMS meeting on the 2006/07 Annual Report at its meeting of 17 August 2007*
5. *Agree that the CEO should write to the Auditor-General requesting that all 100%-owned CCOs have Audit New Zealand appointed as their auditor*
6. *Note that officers will provide the ARMS subcommittee with summary reports from CCOPS meetings, specifying any issues that it wishes the ARMS subcommittee to note*
7. *Note that Council's Risk Assurance team has written to all CCOs offering its services to CCOs that are considering utilising sub-contracted internal audit resources.*

4. Background

In 2006, Council commissioned a review of Council Controlled Organisations (CCOs) from PricewaterhouseCoopers. The review was led by Brian Roche, and its findings were discussed at a Strategy and Policy Committee (SPC) meeting of 21 September 2006.

The Roche review considered that the operating model for CCOs was fundamentally sound, but made a number of recommendations for improvement to its functioning. A summary of progress with implementing the Roche Review recommendations is attached as Appendix 4 to this report.

One of the areas recommended by Roche for clarification was to revisit the delegations and responsibilities between the Waterfront Development Subcommittee (WDSC), Audit and Risk Monitoring Subcommittee (ARMS), Council Controlled Organisations Performance Subcommittee (CCOPS) and SPC.

A review of broader governance and decision-making arrangements for Council will be done for the new triennium following the October local government elections.

This paper focuses on the decision-making and accountability arrangements in respect of CCOs, and in particular in respect of audit and risk management issues, and as such examines the relationship between the ARMS and CCOPS subcommittees. Officers engaged Mr Tiffin to made recommendations in respect of:

- the extent to which he considers that the Boards of CCOs should be accountable to ARMS

- how he considers that the relationship between the external auditors of CCOs and the Council's auditor should operate
- how he considers that internal assurance arrangements in the CCOs should operate.

5. Discussion

Mr Tiffin made six key recommendations in his report:

- 1.1. The Council's auditor should be requested to provide ARMS with an annual summary of any relevant issues arising from the audits of the CCOs in the audit clearance letter and the annual audit management report.
- 1.2. Monitoring activities of the CCOs are adequately performed by CCOPS with the support of the CCO Unit. However, CCOPS should provide their quarterly and annual reports on the activities of the CCOs to ARMS for information.
- 1.3. Council may wish to consider requesting the Auditor-General to change the auditor of 100% owned CCOs to Audit New Zealand, but this is not critical
- 1.5. CCOs are being encouraged by CCOPS and the CCO Unit to formalise risk management and internal assurance activities. The use of the Council Internal Audit division should be considered by CCOs which are considering utilising sub-contracted internal audit resources.
- 1.4. Council should consider amending the ARMS Terms of Reference to include the review of the risk management activities within the CCOs.
- 1.6. Council may wish to reconsider the creation of a holding company structure for CCOs.

These recommendations from Mr Tiffin are discussed in the following section, alongside officers' advice.

5.1 Annual Summary from Council Auditor

ARMS is charged with the responsibility for monitoring the activities of the external and internal audits of the Council, together with financial reporting and risk management. Its Terms of Reference do not refer to the CCOs.

Paragraph 2.9 of the ARMS Terms of Reference requires ARMS to "review, and challenge where necessary, the actions and judgements of management, in relation to the annual financial statements before recommending them for approval to Council.....". Mr Tiffin reported that the ARMS subcommittee considered that it was limited in its ability to discharge this responsibility

without access to the external auditors of the CCOs, as these entities are included in the consolidated financial statements.

ARMS receives material prepared by Council officers that sets out a summary of the reviews of CCOs financial information, including:

- the planning and management of the consolidation process
- letters of comfort from the CCO Chief Executives
- information on the status of the CCOs external audit processes
- significant issues outstanding relating to the CCOs.

In addition, for the 2005/06 (management-excluded session) and 2006/07 audit cycles, an informal verbal report on CCO audit results was provided by the Audit Director to ARMS.

Officers consider that it is inappropriate for CCO Boards to be accountable directly to ARMS in respect of their audit results. However, given the responsibility that ARMS holds for the audit results of the Council group as a whole, we support Mr Tiffin’s recommendation to provide additional comfort to ARMS members through the provision of an annual summary from the Council auditor of relevant CCO audit issues. Council’s auditor has agreed that this is feasible and would represent an improvement – and he has provided this summary verbally at the recent meeting of ARMS.

Officers also note that this recommendation would be more effective if implemented in tandem with recommendation 1.3, which would see all 100% Council-owned CCOs adopting the same auditor, and therefore providing audit comfort over a larger group of CCOs.

Tiffin Recommendation:	Officer View
The Council’s auditor should be requested to provide ARMS with an annual summary of any relevant issues arising from the audits of the CCOs in the audit clearance letter and the annual audit management report.	Agree. Would be more effective in adopted in conjunction with recommendation 1.3.

5.2 Information sharing between ARMS and CCOPS

Mr Tiffin makes the following observation in respect of the monitoring functions carried out by CCOPS:

I have noted the annual process which is undertaken in respect of each CCO, from the preparation of Letters of Expectation from the Chief Executive, through the preparation of Statements of Intent and finally to the quarterly and annual reporting cycle. The process appears to be robust and well-administered.

Having set up [CCOs for a number of reasons], it would be inappropriate for Council to then attempt to control all of their activities. The way in which CCOPS, supported by the CCO Unit, monitors the financial and non-financial information of CCOs is, in my opinion, entirely appropriate. I do not therefore recommend any changes to the way that the Boards of the CCOs are accountable through CCOPS to Council. I do not consider that the Boards of CCOs should be accountable to ARMS.

However, in order to assist ARMS in its consideration of the Group annual financial statements, Mr Tiffin recommended that CCOPS provide its quarterly and annual reports on the activities of the CCOs to ARMS for information.

CCOPS reports are published and made available to the public, and hence are readily available for ARMS members. However these reports are often quite large documents, so officers propose to provide a summary version of papers for ARMS members. This will be in the form of a covering report on key issues/commentary identified, and officer's summary analysis of financial and performance monitoring data on CCOs.

It should also be noted that Mr Tiffin reviewed the Terms of Reference of the Strategy and Policy Committee in respect of its interaction with ARMS and CCOPS, and saw the process and delegations as appropriate and not requiring change.

Tiffin Recommendation:	Officer View
CCOPS should provide their quarterly and annual reports on the activities of the CCOs to ARMS for information.	<p>Quarterly and annual reports from all CCOs, along with officers' analyses of such, are already available to ARMS members (and the public).</p> <p>However in the interests of efficiency, officers suggest providing the information in more summary form for ARMS members, who can then access the full reports as and when they require.</p>

5.3 Auditor of 100% Council owned CCOs

The Auditor-General is the statutorily-appointed Auditor of the Council and the CCOs. Audit New Zealand is his contracted auditor for the Council audit and for a number of the CCOs, however some CCOs are contracted to other audit firms.

The Council's Audit Director, Rudi Tomlinson, has assured Mr Tiffin that any audit issues relating to a CCO which are significant to the Group financial statements taken as a whole will be reported to ARMS.

However it was the view of Mr Tiffin that the audit process, and the level of comfort available to ARMS and Council, would be improved if all CCOs had Audit New Zealand contracted as their auditor. While Mr Tiffin has stated that this is not a critical recommendation, in officer's view having a common auditor across the whole group represents a good opportunity to improve the level of comfort available to Council in respect of its CCOs, and would ensure that financial materiality is appropriately overlaid with political risks and issues.

Accordingly, officers would recommend that the Committee agrees that the Council's Chief Executive makes this request of the Auditor-General.

Tiffin Recommendation:	Officer View
Council may wish to consider requesting the Auditor-General to change the auditor of 100% owned CCOs to Audit New Zealand, but this is not critical.	Agree.

5.4 CCO Risk Management

As part of the implementation of the Roche review recommendations, Council's Chief Executive asked all CCOs to identify the key risks that the entity faces in the planning period and the risk mitigation strategies that are in place to manage these risks. This change is intended to provide greater confidence that risk is being actively considered and managed by all CCOs. The 2007/08 Statements of Intent from CCOs, approved by SPC Committee, all included a risk management section.

Mr Tiffin considered that the ARMS terms of reference should be amended to include the review of the risk management activities within the CCOs. Officers discussed these recommendations with both ARMS and CCOPS subcommittees. Following detailed discussion, both subcommittees agreed that this recommendation should not be given effect. The subcommittees considered that it would blur the accountabilities between the subcommittees - a view that is shared by officers.

In addition, the improved processes and information put in place since the Roche review will strengthen the monitoring of CCO risks within Council:

- via the risk identification and risk management strategies detailed in CCOs' Statements of Intent
- the CCO unit's ongoing relationship and monitoring work with CCOs
- quarterly and annual monitoring reports considered by CCOPS
- liaison and communication between Council's CCO and Risk Assurance business units. This includes the fact that the Risk Assurance business unit has offered its services to CCOs that wish to improve their risk management strategies.

Tiffin Recommendation:	Officer View
Council should consider amending the ARMS Terms of Reference to include the review of risk management activities within the CCOs.	Disagree. Would result in blurred accountabilities. Mr Tiffin also noted that “CCOs should not be accountable to the ARMS subcommittee”.

5.5 Use of Council’s internal audit function

Mr Tiffin recommended that ‘the use of Council’s Internal Audit division’ should be offered to CCOs that are considering utilising sub-contracted internal audit resources. As discussed in section 5.4, Council’s Risk Assurance team has already implemented this recommendations, and offered its services to CCOs. At least has agreed to work with Council’s Risk Assurance team to date.

Tiffin Recommendation:	Officer View
CCOs are being encouraged by CCOPS and the CCO Unit to formalise risk management and internal assurance activities. The use of the Council Internal Audit division should be considered by CCOs which are considering utilising sub-contracted internal audit resources.	Agreed. This recommendation has already been put into place by officers. At least 1 CCO has taken up this offer to date.

5.6 Holding Company

Mr Tiffin recommended that the Council may want to consider the creation of a holding company structure for CCOs:

“there are good reasons for the Council to re-consider the creation of a holding company structure for the CCOs for the following reasons:

- *There is already the nucleus of a Holding Company Board in existence through the CCOPS. Thus an additional layer of governance is avoided, since it is already in existence.*
- *Although I do not fully support PricewaterhouseCoopers’ suggestion of introducing an Advisory Group, it has some merit. This Group could be incorporated into the Holding Company Board structure.*
- *Some of the concerns expressed to me by members of CCOPS about their ability to have free and frank discussions with the CCOs could be addressed.*
- *The management team required to support the Holding Company Board is already in place (the CCO Unit).*

- *The Holding Company Audit Committee could have direct reporting from the Boards or Audit Committees of the individual entities, and could report directly to ARMS”*

The option of a holding company was assessed, albeit not in great detail, by PricewaterhouseCoopers in the Roche review. The Strategy and Policy Committee agreed when it considered the Roche review that a holding company structure was not a priority for the Council at the time. The general view was the cost of changes to the CCO operating model would outweigh any perceived advantages.

There are, clearly, advantages and disadvantages to various models under which CCOs could operate. Officers continue to review the operating models for CCOs to reassess from time to time whether changes are necessary. There was not strong support for investigating a holding company model from either the CCOPS or ARMS subcommittees when discussing the Tiffin report’s recommendations, and officer’s recommendation is that this is not a priority for the Council at this time.

Tiffin Recommendation:	Officer View
Council may wish to reconsider the creation of a holding company structure for CCOs.	This is not a priority for the Council at this time.

6. Conclusion

The Roche review recommended that a review be undertaken on the relationship between the ARMS, CCOPS and WDSC subcommittees, particularly in respect of audit and risk management issues. The WDSC has no responsibility for audit and risk management of Wellington Waterfront Limited.

Mr Tiffin was engaged to report on:

- the extent to which he considers that the Boards of CCOs should be accountable to the Council Audit and Risk Management Subcommittee
- how he considers that the relationship between the external auditors of CCOs and the Council’s auditor should operate
- how he considers that internal assurance arrangements in the CCOs should operate.

He made six recommendations, four of which are supported by officers. These recommendations, in our view, represent an improvement to the risk management and audit functions of CCOs and the Council as a whole.

Officers do not support changes to the ARMS terms of reference to make it responsible for the risk management functions of CCOs, as this would blur

accountability between the ARMS and CCOPS subcommittees. This view was endorsed by members of the subcommittees.

The issue of whether a holding company would represent a better governance model for CCOs was considered by PricewaterhouseCoopers in the Roche review. While the holding company model has some merit, this Committee decided in September 2006 that the current model should remain in place for the time being. Officers continually review the operating models for CCOs to reassess from time to time whether changes are necessary.

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Appendices:

- 1. Roy Tiffin Review**
- 2. CCOPS Terms of Reference**
- 3. ARMS Terms of Reference**
- 4. Update on implementation of Roche Review (2006) recommendations**

Supporting Information
<p>1) Strategic Fit / Strategic Outcome</p> <p><i>CCOs contribute to a wide range of Council and Community Outcomes. The ARMS and CCOPS subcommittees' work contributes to the Governance strategy.</i></p>
<p>2) LTCCP/Annual Plan reference and long term financial impact</p> <p><i>Activity 7.2.2 City Governance and decision-making</i></p>
<p>3) Treaty of Waitangi considerations</p> <p><i>N/A</i></p>
<p>4) Decision-Making</p> <p><i>This is not a significant decision.</i></p>
<p>5) Consultation</p> <p>a) General Consultation</p> <p><i>Mr Tiffin consulted with a number of individuals during the course of his review, including the Chief Executive Officer, the Mayor, Deputy Mayor (as Governance Portfolio Spokesperson), the Chairs of ARMS and CCOPS, Audit New Zealand, Office of the Auditor General, and a number of relevant officers.</i></p> <p><i>Officers discussed Mr Tiffin's findings with the ARMS and CCOPS subcommittees and Council's Governance Portfolio Spokesperson</i></p> <p>b) Consultation with Maori</p> <p><i>N/A</i></p>
<p>6) Legal Implications</p> <p><i>N/A</i></p>
<p>7) Consistency with existing policy</p> <p><i>This report is consistent with existing WCC policy.</i></p>

APPENDIX ONE

APPENDIX TWO

APPENDIX THREE

APPENDIX FOUR