
REPORT 4
(1215/55/IM)

RISK ASSURANCE REPORTING STRUCTURES AND INDEPENDENCE

1. Purpose of Report

The purpose of this report is to inform the Subcommittee of the approach Risk Assurance is taking to research best practice in terms of internal audit structures and any associated independence issues. This progress report is in response to a request from the Audit and Risk Management Subcommittee at its last meeting in March 2005.

2. Recommendations

It is recommended that the Subcommittee:

- 1. Receive the information.*
- 2. Note that Risk Assurance has a Charter, mission statement and values that clearly set out the authority that Risk Assurance operates under, its independence from management and its reporting lines.*
- 3. Note that Risk Assurance is currently researching best practice in terms of internal audit/risk assurance structures and independence issues.*
- 4. Note that a final paper including the results of the research into best practice will be presented to the Sub Committee in September 2005.*

3. Background

At the March Audit and Risk Management Subcommittee meeting, the Subcommittee raised a number of questions relating to the independence of the internal audit/risk assurance function. The Subcommittee requested a report from the Director, Risk Assurance, on how Risk Assurance is structured and how it maintains its independence.

4. Approach to this paper

In response to the Subcommittee's request Risk Assurance has collated existing Risk Assurance material covering:

- Mission statement
- Charter
 - Role and purpose
 - Independence
 - Authority
 - Activities and responsibilities
- Values
- Organisation structure and reporting lines
- Role of the Risk Assurance Director
- Role of Risk Assurance Advisors

This material covers many of the questions raised by the Subcommittee at the previous meeting. However, Risk Assurance will be supplementing its existing material with support (or otherwise) from research into national and international best practice. As we have only just initiated this research, it is too early to provide feedback on the outcome of that process.

A final paper will be provided to the Subcommittee in September 2005 that summarises our research and will report on Risk Assurance's alignment with that best practice.

5. Existing material on Risk Assurance

5.1 Risk Assurance mission statement

Our mission is to help the Council manage its risks and ensure probity and integrity in its operations.

We provide independent and objective advice, education review and investigation services. We also promote best practice risk management and internal control systems and processes.

Our work covers all aspects of the Council's operations, functions and activities.

5.2 Risk Assurance charter

Role and purpose

Risk Assurance exists to:

- provide the Chief Executive and the Audit and Risk Management Subcommittee with independent, objective assurance on the adequacy and effectiveness of risk management, internal control and governance processes
- assist the Council to develop and maintain systems of risk management and internal control that contribute to the successful achievement of our business objectives and strategies

- assist the Council to prevent and detect fraud, and to investigate allegations of fraud, wrongdoing and other misappropriations.

Independence

To carry out the internal audit function independently and objectively, the Risk Assurance Director (and the Risk Assurance unit where applicable):

- reports directly to the Chief Executive, and has a direct line of communication to the Chair of the Audit and Risk Management Subcommittee
- is separated from the operations of the business (ie is not responsible for setting or achieving business objectives other than those relating to the Risk Assurance unit)
- is not responsible for developing or managing systems of internal control and risk management, but is responsible for assessing and advising on their adequacy, and assisting in their development and/or improvement.

Authority

The Chief Executive has delegated to the Risk Assurance Director and the Risk Assurance unit:

- the authority for carrying out internal audit work to cover all facets of the Council's business
- the authority to determine the scope of matters to be audited and to set audit objectives
- the right of access to all Council records, personnel and property needed to carry out audits and reviews
- the authority to develop and champion the Council's risk management policy.

Activities and responsibilities

Risk Assurance's work will include, but not be limited to:

- developing, and carrying out, an audit programme to be approved by the Chief Executive and ARM Subcommittee annually. This will be based on a risk assessment of the Council's activities, systems, units and operations
- facilitating the identification and management of key risks facing the Council
- reviewing and appraising the effectiveness and adequacy of risk management and internal control processes and systems
- facilitating and reviewing a legislative compliance programme, to ensure that the risk of non-compliance with key legislation is minimised
- working with business unit managers and staff to ensure that policies and procedures are complied with, and that major risks are identified and managed
- carrying out fraud prevention and detection training and advice, and investigating any fraud, wrongdoing or other suspected misappropriations

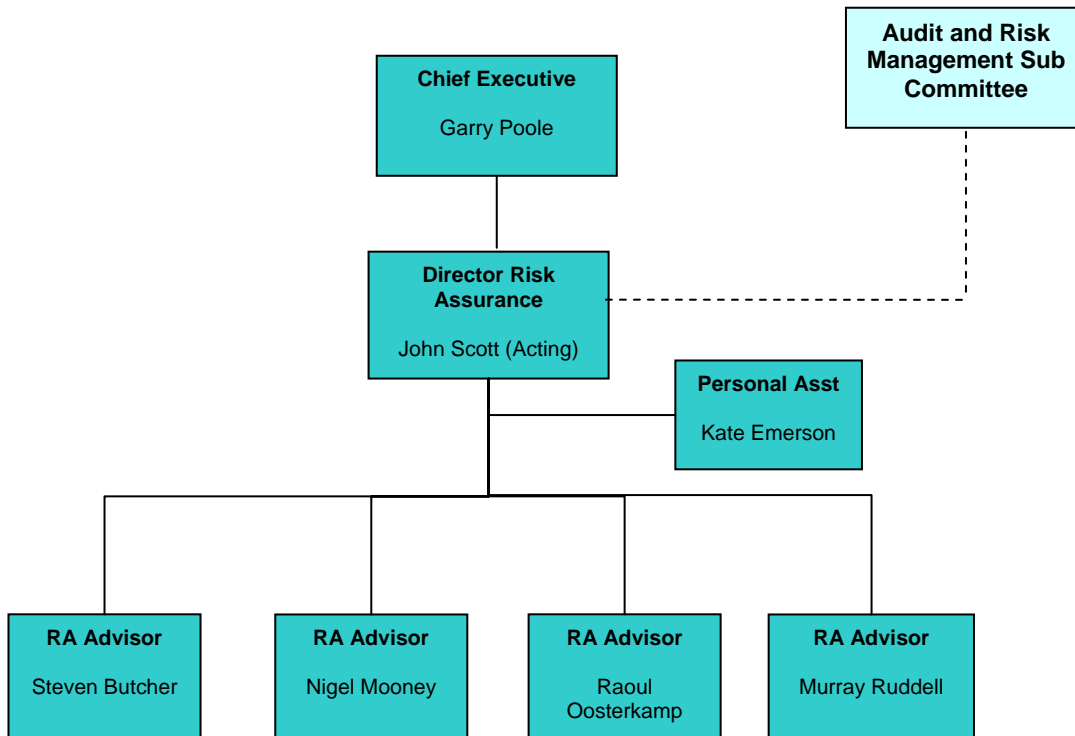
- always performing with due professional care to meet the requirements of the Institute of Internal Auditors Standards and Code of Ethics.

5.3 Values

The Risk Assurance team is committed to embracing the following values:

- Integrity** encompasses the notions of honesty, trustworthiness, independence, impartiality, mutual respect, consistency, fairness and transparency
- Excellence** refers to the notion of striving for the best, being professional, continually seeking to improve and leading the way in the fields in which we operate
- Collaboration** refers to people consulting each other, seeking honest feedback, working co-operatively together and negotiating outcomes
- Leadership** means more than providing direction. It embodies the ability to create and convey a compelling vision that invigorates and excites colleagues to make that vision a reality
- Innovation** involves seeking creative and lateral solutions, seeing problems differently and finding opportunities that may not be immediately obvious.

5.4 Organisation structure and reporting lines



5.5 Role of Risk Assurance Director

The Director reports to the Chief Executive Officer and is a member of the Operational Management Team. Key responsibilities are to manage the Risk Assurance function and team within Council. This includes but is not limited to:

Internal Audit	provide leadership in all audit services and develop a programme of internal audit activities and projects, and assist staff in the delivery of this programme
Risk Management	continue to review and implement the risk management strategy for the Council to help ensure key risks are effectively managed. Continue with the programme of raising staff awareness of the importance of risk management at all levels, and across all activities of the Council
Special Projects/Investigations	to assist the CEO in investigating and dealing with special projects, investigations and complaints in accordance with specifications as agreed
Audit and Risk Management Board	forward programme, agenda, liaison with Chair and other members.

5.6 Role of Risk Assurance Advisors

The Risk Advisor reports to the Director Risk Assurance. He or she has no direct reports but may have supervision responsibilities on individual reviews from time to time. Key responsibilities are to:

- undertake audit and review work designed to provide assurance to the CEO, management and the Audit and Risk Management Board that compliance with internal controls is being achieved and significant risk is being managed; and
- assist the Risk Assurance Director to develop, enhance and promote best practice risk management Council-wide.

Specifically, the Risk Assurance Advisors conduct risk based audits, ad hoc investigations and reviews, risk management development and promotion, and provide advice and training. Each of these activities is described in more detail below:

Risk-based audits:

- (a) Perform independent risk-based audits of business units, functions and projects to assess compliance with internal controls and how well key risks are being managed.

- (b) Suggest workable recommendations to remedy non-compliance, control weaknesses and inadequately managed risks noted during audits, and to prevent their recurrence.
- (c) Prepare and issue reports to managers that set out findings from audits and associated recommendations.
- (d) Discuss and agree the results of audits with business unit managers and senior managers.

Ad hoc reviews and investigations:

- (a) Conduct investigations into alleged fraud, theft, corruption or other wrongdoings in accordance with agreed Council procedures.
- (b) Conduct reviews of issues, events or outcomes apparently caused by, or contributed to by, inadequate risk management.

Risk management development and promotion:

Develop, enhance and promote best practice risk management processes and methodologies that aim to result in effective and active management of the Council's major risks.

Advice and training:

Provide advice and training to Council management and other staff on all aspects of risk management, internal controls and fraud detection and prevention.

6. Research into best practice

Risk Assurance is a member of an informal benchmarking group of metropolitan councils' internal audit and risk assurance functions. The councils involved are Wellington, Auckland, Waitakere, North Shore, Manukau, Hamilton and Christchurch.

From time to time members of the group will ask for information and feedback on issues in order to gauge where their council sits on a particular issue relative to other metropolitan councils. These councils have been surveyed for a range of information including:

- their audit structures
- whether internal audit and risk management responsibilities are combined
- resourcing of these functions
- reporting lines
- nature of reporting to audit committee
- approval of audit programmes.

Ernst & Young has also been approached to provide advice and information on international and national best practice. As a worldwide organisation, Ernst & Young has access to resources not available to us at the Council and they will be able provide

an up-to-date picture on what is best practice and likely trends. Ernst & Young also has access to an Australian Local Authority benchmarking group and will obtain information from them relevant to our needs.

We will also our own research via the internet through Internet research, particularly though the Institute of Internal Auditors site.

The results of this research and survey will be fed into the final report to the ARMS Committee in September.

7. Conclusion

Risk Assurance's existing Charter, mission statement and organisational structure reflect the independence needed to carry out the risk assurance function effectively. However, Risk Assurance has initiated some research into international and national best practice to ensure its practices are aligned to that best practice.

A further paper will be presented to the Audit and Risk Management Subcommittee in September 2005 summarising the results of research carried out by Risk Assurance.

Contact Officer: John Scott, Director, Risk Assurance