
REVISED TERMS OF REFERENCE FOR THE AUDIT AND RISK MANAGEMENT SUBCOMMITTEE

1. Purpose of Report

The purpose of this report is to present the revised terms of reference for the Audit and Risk Management Subcommittee. This report is in response to a request from the Subcommittee at its last meeting in June 2005.

2. Recommendations

It is recommended that the Audit and Risk Management Subcommittee:

- 1. Receive the information.*
- 2. Consider the revised terms of reference as attached in Appendix One to the officer's report.*
- 3. Recommend to the Strategy and Policy Committee that it recommend to Council that it approve the revised terms of reference for the Audit and Risk Management Subcommittee as attached.*

3. Background

At the June Audit and Risk Management Subcommittee meeting, the Subcommittee discussed the difficulties that the existing terms of reference for the Subcommittee caused them in fulfilling their role on the Subcommittee. Consequently, the Director Risk Assurance and the Chief Executive were asked to review the terms of reference and propose revisions where necessary to bring the terms of reference in line with best practice.

4. Approach to the review

Internet based research was conducted primarily focusing on audit committee best practice in public sector entities. Information on international best practice was reviewed from reports relating to requirements in a number of countries including Canada, Australia, Scotland, United Kingdom, United States and Thailand.

This was supplemented with best practice information from a variety of sources from within New Zealand including the Institute of Directors, the Institute of Internal Auditors, the Institute of Chartered Accountants, the Office of the Auditor-General, Contact Energy and a number of metropolitan Councils.

Feedback was also sought from the members of this Subcommittee, the Chief Executive, Chief Operating Officer, City Secretary, Finance and Audit New Zealand. The revised terms of reference reflect their feedback. In addition, we ensured that the revised terms of reference did not exclude any responsibilities that were listed in the existing terms of reference.

A proposed forward programme has been included in Appendix Two. This programme reflects the revised terms of reference and outlines when matters could be considered by the Audit and Risk Management Subcommittee.

5. Summary of key changes

Description of Change	Rationale
Objectives have been broadened and put at the beginning of the document.	Objectives now better reflect the nature and extent of the Subcommittee's purpose/role.
Quorum has been increased from two to three and requires at least one Councillor and one external member to be present.	Ensures that there is sufficient breadth of experience at any meeting and therefore sound decision making.
Responsibilities have been grouped into seven categories as follows: <ul style="list-style-type: none"> – Internal control framework – External reporting and accountability – Risk management – Internal audit – External audit – Legislative compliance – Other responsibilities. 	Improves clarity through these categories corresponding to the categories listed in the objectives section (apart from protection of assets which is covered generally by the other categories).
Addition of two new clauses under the heading Internal Control Framework: <p><i>Review whether appropriate policies and procedures are in place for the management and exercise of delegations (1.1).</i></p> <p><i>Review whether management has taken steps to embed a culture that is committed to ethical behaviour (1.2).</i></p>	New requirements to reflect best practice.

Description of Change	Rationale
<p>Addition of two new clauses under the heading External Reporting and Accountability:</p> <p><i>Recommend signing of the financial statements by the Chief Executive/Mayor and adoption by Council (2.4).</i></p> <p><i>Confirm that processes are in place that ensures financial information included in the entity's annual report is consistent with the signed financial statements (2.5).</i></p>	<p>New requirements to reflect best practice.</p>
<p>Addition of new clarified clauses under the heading Risk Management:</p> <p><i>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 financial, business and project risks. This could include reviewing (3.1):</i></p> <ul style="list-style-type: none"> <i>– whether a sound and effective approach has been followed in developing strategic risk management plans for major projects or activities.</i> <i>– the impact of the entity's risk management framework on its control environment and insurance arrangements.</i> <i>– whether a sound and effective approach has been followed in establishing the entity's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically.</i> <i>– whether there are appropriate processes or systems in place to capture and effectively investigate fraud related information.</i> <i>– whether appropriate action is being taken by Management to mitigate Council's significant risks.</i> 	<p>A combination of new requirements and clarification of existing requirement to reflect best practice broadening of the focus on risk management to areas beyond financial reporting.</p>
<p>Addition of new clarified wording under the heading Internal Audit:</p>	<p>A combination of new requirements and clarification of existing requirement to</p>

Description of Change	Rationale
<i>Review the internal audit charter to ensure appropriate organisational structures, authority, access, independence, resourcing and reporting arrangements are in place (4.3).</i>	reflect best practice.
<p>A new clause under the heading External Audit:</p> <p><i>Ensure any recommendation by management that the Office of the Auditor-General replace the external auditor is referred to and examined by the Audit and Risk Management Subcommittee (5.4).</i></p>	New requirement to reflect best practice. The wording reflects the statutory audit role of the Auditor-General.
<p>Addition of two new clauses under the heading Legislative Compliance:</p> <p><i>Review the effectiveness of the system for monitoring the entity's compliance with laws, including governance legislation, regulations and associated government policies (6.1).</i></p> <p><i>Determine whether management has appropriately considered legal and compliance risks as part of the entity's risk assessment and management arrangements (6.2).</i></p>	New requirements to reflect best practice.
<p>Addition of two new clauses under the heading Other Responsibilities:</p> <p><i>Review the Audit and Risk Management Subcommittee charter to ensure the charter is complete and appropriate (7.1).</i></p> <p><i>Conduct a self-assessment of the Audit and Risk Management Subcommittee's performance (7.2).</i></p>	New requirements to reflect best practice.

6. Conclusion

Changes are required to the Audit and Risk Management Subcommittee terms of reference so that they better reflect national and international best practice and provide clearer direction on the roles and responsibilities of its members. Appendix One contains the proposed revised terms of reference. Appendix Two contains a proposed forward programme based on the revised terms of reference.

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Supporting Information

1) Strategic Fit/Strategic Outcome

This project supports Key Achievement Area 9 Governance and Citizen Information: As per the Annual Plan, Governance and Citizen Information includes all those activities that make the Council accountable to the people of Wellington and ensure the smooth running of the city. That includes all meetings of the Council and its committees.

2) LTCCP/Annual Plan reference and long term financial impact

Relates to C534: Committee and Council process

3) Treaty of Waitangi considerations

There are no Treaty of Waitangi implications

4) Decision-Making

This is not a significant decision

5) Consultation

a) General Consultation

Audit New Zealand were consulted in the drafting of the revised terms of reference

b) Consultation with Maori

Not required

6) Legal Implications

None

7) Consistency with existing policy

This report is consistent with existing Wellington City Council policy

APPENDIX ONE

Audit and Risk Management Sub Committee Terms of Reference

Objectives of the Subcommittee

The Audit and Risk Management Subcommittee has been established as a sub-committee of the Strategy and Policy Committee of Wellington City Council and has a pivotal role in sustaining the credibility and objectivity of the Council's governance framework.

The objectives of the Audit and Risk Management Subcommittee are to provide *independent* advice and oversight of the Wellington City Council group, its business units and subsidiaries, assisting the Council in discharging its responsibility to exercise due care, diligence and skill in relation to the Council's:

- a internal control framework;
- b external reporting and accountability arrangements;
- c financial management practices;
- d risk management systems, processes and practices;
- e internal audit and external audit functions;
- f compliance with applicable laws, regulations, standards and best practice guidelines
- g protection of assets

Voting Membership

The Audit and Risk Management Subcommittee will have up to three Councillors and up to two external persons as members.

Quorum

Three members, of whom at least one must be a Councillor and one must be an external member, must be present for a quorum to exist

Chair

The chair will be elected by Council and remunerated at a level determined by the Remuneration Authority.

Frequency of Meetings

The Audit and Risk Management Subcommittee will meet on a quarterly basis or as required.

Parent Body

The Audit and Risk Management Subcommittee reports to the Strategy and Policy Committee.

Delegated Authority

The Audit and Risk Management Subcommittee has delegated authority to carry out activities within its terms of reference.

Terms of Reference

1. Internal Control Framework

- 1.1 Review whether management's approach to maintaining an effective internal control framework is sound and effective.
- Review whether management has in place relevant business standards, policies and procedures, and that these are periodically reviewed, updated and complied with.
 - Review whether appropriate policies and procedures are in place for the management and exercise of delegations.
- 1.2 Review whether management has taken steps to embed a culture that is committed to ethical behaviour.

2. External Reporting and Accountability

- 2.1 Consider the appropriateness of the Council's existing accounting policies and principles and any proposed changes:
- a whether the methods chosen by management are consistent with NZ-GAAP, international Reporting Standards and New Zealand law;
 - b whether any changes in significant accounting policies or their application are proposed during the reporting period, or whether any future changes in accounting standards are anticipated;
 - c the methods used to account for significant, unusual transactions or transactions in emerging areas for which there may be no specific accounting standard;
 - d any areas involving significant estimates and judgements and the process used in making those estimates and judgements;
- 2.2 Enquire of internal and external auditors for any information that affects the quality and clarity of the Council's financial statements, for example:
- actual and potential material audit adjustments,
 - financial report disclosures including post balance date events,
 - non-compliance with relevant laws and regulations,
 - internal control issues

and assess whether appropriate action has been taken by management in response to the above.

- 2.3 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 (ie letters of representation).

- 2.4 Recommend signing of the financial statements by the Chief Executive/Mayor and adoption by Council.
- 2.5 Confirm that processes are in place that ensures financial information included in the entity's annual report is consistent with the signed financial statements.

3. Risk Management

- 3.1 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 financial, business and project risks. This would involve reviewing:
 - whether a sound and effective approach has been followed in developing strategic risk management plans for major projects or activities.
 - the impact of the entity's risk management framework on its control environment and insurance arrangements.
 - whether a sound and effective approach has been followed in establishing the entity's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically.
 - whether there are appropriate processes or systems in place to capture and effectively investigate fraud related information.
 - whether appropriate action is being taken by Management to mitigate Council's significant risks.

4. Internal Audit

- 4.1 Review and approve the internal audit coverage and annual work plans, ensuring these plans are based on the entity's risk management plan.
- 4.2 Review and endorse management's implementation of internal audit recommendations.
- 4.3 Review the internal audit charter to ensure appropriate organisational structures, authority, access, independence, resourcing and reporting arrangements are in place.
- 4.4 Conduct a members-only session (ie without any management present) with internal audit to discuss any matters that the auditors wish to bring to the Subcommittee's attention.

5. External Audit

- 5.1 At the start of each audit, confirm the terms of the engagement, including the nature and scope of the audit, timetable and fees, with the external auditor.
- 5.2 Receive the external audit report(s) and review action to be taken by management on significant issues and audit recommendations raised within.
- 5.3 Conduct a members-only session (ie without any management present) with external audit to discuss any matters that the auditors wish to bring to the Subcommittee's attention and/or any issues of independence.
- 5.4 Ensure any recommendation by management that the Office of the Auditor-General replace the external auditor is referred to and examined by the Audit and Risk Management Subcommittee.

6. Legislative Compliance

- 6.1 Review the effectiveness of the system for monitoring the entity's compliance with laws, including governance legislation, regulations and associated government policies.
- 6.2 Determine whether management has appropriately considered legal and compliance risks as part of the entity's risk assessment and management arrangements.

7. Other Responsibilities

- 7.1 Review the Audit and Risk Management Subcommittee charter to ensure the charter is complete and appropriate.
- 7.2 Conduct a self-assessment of the Audit and Risk Management Subcommittee's performance.

APPENDIX TWO

Audit and Risk Management Subcommittee Forward Programme

Forward Programme	Mar	Jun	Aug	Sep	Dec
Committee Administration/General					
Apologies	✓	✓	✓	✓	✓
Conflict of interest declarations.	✓	✓	✓	✓	✓
Confirm previous meeting's minutes	✓	✓	✓	✓	✓
Control Framework					
Management's approach to maintaining an effective internal control framework (1.1)	✓				
Ethical and lawful culture and behaviour (1.2)	✓				
External Reporting					
Appropriateness of the Council's accounting policies and principles including:	✓	✓	✓	✓	✓
- consistency with NZ-GAAP, FRS and New Zealand law (2.1 (a))					
- changes in accounting policies or application, or future changes in accounting standards (2.1 (b))					
- significant, unusual transactions or transactions in emerging areas for which there may be no specific accounting standard (2.1 (c))					
- significant estimates and judgement (2.1 (d))					
External auditors to comment on their views in relation to any of the above and appropriateness of management response (2.2)	✓	✓	✓	✓	✓
Management letters of representation (2.3)			✓		
Recommend signing of statements by the Chief Executive/Mayor (2.4)			✓		
Process for ensuring published report is consistent with the signed financial statements (2.5)			✓		
Risk Management					
Review risk management framework and associated procedures, including:		✓			
- soundness of approach taken for strategic risk management plans for major projects or undertakings	✓	✓		✓	✓
- impact of the risk management framework on control environment and insurance arrangements		✓			
- soundness of approach used in business continuity planning		✓			
- fraud control and investigation processes		✓			

Forward Programme	Mar	Jun	Aug	Sep	Dec
- appropriateness of management action to mitigate risk	✓	✓		✓	✓
Internal Audit					
Review internal audit coverage and annual work plans		✓			
Monitor implementation of internal audit recommendations.	✓	✓		✓	✓
Review the internal audit charter		✓			
Members-only session with internal audit.	✓	✓	✓	✓	✓
External Audit					
Confirm terms of the engagement, nature and scope of audit, timetable and fees	✓				
Monitor management's implementation of external audit recommendations	✓	✓	✓	✓	✓
Members-only session with external audit	✓	✓	✓	✓	✓
Replacement of external auditor (as required)					
Legislative Compliance					
Effectiveness of system for monitoring compliance with laws		✓			
Appropriateness and completeness of legal and compliance risks in risk management framework.		✓			
Other Responsibilities					✓
Review Audit Committee charter					
Self-assessment of Audit Committee performance.					✓