

Audit and Risk Committee

AGENDA

Notice of Meeting:

A meeting of the Audit and Risk Committee will be held on:

Date: Wednesday 30 November 2022
Time: 2.30pm
Venue: Council Chamber
137 Havelock Street, Ashburton

Membership

Chairperson	Russell Ellis
Deputy Chairperson	Leen Braam
Members	Carolyn Cameron Liz McMillan Richard Wilson Murray Harrington (external appointee) Mayor Neil Brown (ex-officio)

Watch the live-stream of this meeting on our You Tube channel, Facebook page and website:

<https://www.ashburtondc.govt.nz/council/public-meetings-research-centre>

Audit & Risk Committee

Timetable

2.30pm	Meeting commences
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ORDER OF BUSINESS

- 1 Apologies
- 2 Extraordinary Business
- 3 Declarations of Interest

Reports

- | | | |
|---|---------------------------------------|---|
| 4 | Committee terms of reference | 3 |
| 5 | Update on current auditing challenges | 3 |

Business transacted with the public excluded

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| 6 | Health & Safety
Section 7(2)(a) Protection of privacy of natural persons | PE 1 |
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24 November 2022

4. *Audit & Risk Committee terms of reference*

At the start of the 2019 term Council established the Audit, Risk & Finance Committee which was reconstituted as the Audit & Risk Committee in November 2020, as a result of the governance structure review.

The Committee terms of reference are presented unchanged, other than the change of membership. Should the Committee wish to review the terms of reference, a report will be prepared for Council.

5. *Update on current auditing challenges*

Correspondence received from the Deputy Controller and Auditor-General, Greg Schollum has highlighted the issues they are facing with delays in completing audits for some councils, and is provided for the Committee's information.

From: Controller and Auditor-General <ControllerandAuditor-General@oag.parliament.nz>
Sent: Thursday, November 17, 2022 8:59:12 AM
Subject: Update on current auditing challenges

Tēnā koe,

I am aware that delays in completing audits are causing concern for some councils. I hope that the following information provides you with some reassurance about what we are doing to address this.

Councils around New Zealand have newly elected councillors, and some have newly elected mayors or chairpersons. They understandably want to know about their council's financial position and challenges, and the affordability of the council's plans, as do ratepayers and other interested stakeholders.

As well as the economic uncertainty facing the country, there is uncertainty throughout the local government sector about the reforms of the three waters services, the reform of the Resource Management Act, and the Ministerial review into the future for local government. These are all adding to the pressure of delivering council services, while dealing with possible amendments to long-term plans and the need to prepare the 2023/24 annual plan.

Although many councils have been affected by delayed audits, most of these audits either have been or will be completed within the extended statutory deadline of 31 December 2022. However, there are some council audits that we simply cannot complete until early 2023. It is not the situation any of us wanted to be in, but it is the situation we are facing.

Why are we in this situation?

There is currently a global shortage of auditors, with Covid-19 significantly affecting the availability of auditors internationally. Given the concentration of public sector balance dates around 30 June, audit firms would normally supplement their permanent audit staff with senior auditors from overseas.

The extended period for which borders were closed and immigration settings since borders were reopened have meant that we have been unable to secure permanent and supplementation resources in the way we have in the past. These border and immigration settings have been a major contributing factor to the shortage of senior auditors in New Zealand.

What are we doing to address this?

To carry out public sector audits, we have an in-house provider, Audit New Zealand, and contractual arrangements with private sector audit firms. Across the Auditor-General's portfolio, we have reallocated more than 50,000 hours of audit work between providers to where there is suitable capacity to take on work. We are currently testing how many more audits we can reallocate.

Not all audit work can or should be shifted – some private sector audit firms are also unable to complete public sector audits on time this year. We also need to consider auditor independence, the knowledge that different audit firms' hold about public organisations and public sector audits, the particular audit skills required, the results of any recent audit quality reviews, and the Auditor-General's aim of all councils within a region having the same audit service provider. We need to consider those factors for both the short and longer term.

For Audit New Zealand, we have worked to minimise the effects of the challenges brought about by border restrictions, immigration settings, and Covid-19. We have been recruiting experienced public sector and private sector auditors from overseas. We have enabled international remote working options and set up new reciprocal secondment opportunities with audit offices in Australia (and we are seeking similar arrangements with audit offices in the United Kingdom and Canada).

We have also sought to recruit higher numbers of graduates in 2022 and for 2023 and adjusted our remuneration structures, where needed.

We have continued to carefully balance staff welfare with our responsibility to complete high-quality audits and endeavoured to meet extended statutory deadlines for as many public organisations as we can. However, not all of them will be done on time.

How did we decide which audits to do first?

In practice, we have had to make some difficult decisions. We completed the audits that are most important to New Zealand's overall public accountability system – such as the audits of the financial statements of the Government, government departments, Reserve Bank of New Zealand, New Zealand Superannuation Fund, State-owned enterprises, and Financial Markets Conduct reporting entities, such as Auckland Council. These were completed by their usual statutory time frames.

We also prioritised the audits of public sector companies. Late filing of a company's audited financial statements can have legal consequences for the directors.

We did not expect to have to defer audits into 2023. Once it became apparent that doing so was unavoidable, we have prioritised completing audits already under way. This meant a deferral into 2023 for the council audits that were due to start later. It made more sense to defer these audits further than stop working on an audit that could be completed in 2022.

In addition, some councils have needed to secure evidence for measures about drinking water quality. This has also contributed to audit delays.

What is our expectation for 2022/23 audits?

The normal statutory deadline of 31 October will apply in 2022/23. We expect to be able to meet that deadline for council audits next year.

Concluding comments

I hope this information has helped you appreciate the situation we are facing and understand what we have been doing to resolve it. I encourage you to share this email with your council's Audit and Risk Committee and councillors. Please do not hesitate to contact either your Sector Manager, Mark Maloney (Assistant Auditor-General, Local Government), or me if you wish to discuss the contents of this email.

Greg Schollum

Deputy Controller and Auditor-General

Recommendation

That the Audit & Risk Committee receives the correspondence from the Deputy Controller and Auditor-General.

Audit and Risk Committee Terms of Reference

Purpose

The purpose of the Audit & Risk Committee is to provide oversight of Council's audit processes, statutory compliance and internal risk management in a manner that promotes the current and future interests of the community (Local Government Act 2002).

Membership

Membership of the Committee comprises:

- Cr Russell Ellis (Chair)
- Cr Leen Braam (Deputy Chair)
- Cr Carolyn Cameron
- Cr Liz McMillan
- Cr Richard Wilson
- External appointee – Murray Harrington
- Mayor, Neil Brown (ex-officio)

The quorum is four members.

Meeting Frequency

The Audit & Risk Committee will meet on a six-seven weekly cycle, or on an as-required basis as determined by the Chair and Group Manager Business Support.

Committee members shall be given not less than 5 working days' notice of meetings.

Delegations

The Audit & Risk Committee has no delegated authority to make decisions. Its role is to consider and review matters of strategy, policy or significance in its sphere of Council business, and (if appropriate) to make recommendations to full Council.

Sphere of business

- To receive and consider the project plan and timetable for the following projects –
 - Long Term Plan (LTP) and any amendments
 - Annual Plan & Budget
 - Annual Report and Audit
- To receive progress reports on the above projects, where appropriate, and review significant issues and risks arising.
- To establish and maintain effective relationships with Council's auditors, including meeting with the audit representatives regarding significant policy and planning processes as appropriate, reviewing the Annual Audit Plan, and considering matters of significance raised by Council's auditors and action required.
- To receive reports on all external party audits of any and all Council activities, and review significant issues and risks arising.

- To be the primary monitoring mechanism for Council's Council Controlled Organisations (CCOs) and Council Controlled Trading Organisations (CCTOs) and shareholdings. Review the CCOs' draft statements of intent and advise CCOs of any comments.
- To provide overview of Council's performance management framework as included in the Council's LTP and Annual Plan documents.
- To provide overview of Council's statutory compliance and legal matters, monitoring any areas of statutory non-compliance.
- To provide overview of risk management and insurance. Review corporate risk assessment and internal risk management practices. Review insurance arrangements annually and monitor insurance claims.
- Monitor and review Health & Safety related matters. Participate in national risk management practices and implementation of risk management processes.
- To consider matters of organisational services in the area of Health & Safety

Reporting

The Audit & Risk Committee will report to the Council.

Adopted

17/12/20

Reviewed on 30/11/22