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Effectiveness  
of governance  
arrangements in  
the arts, culture,  
and heritage  
sector



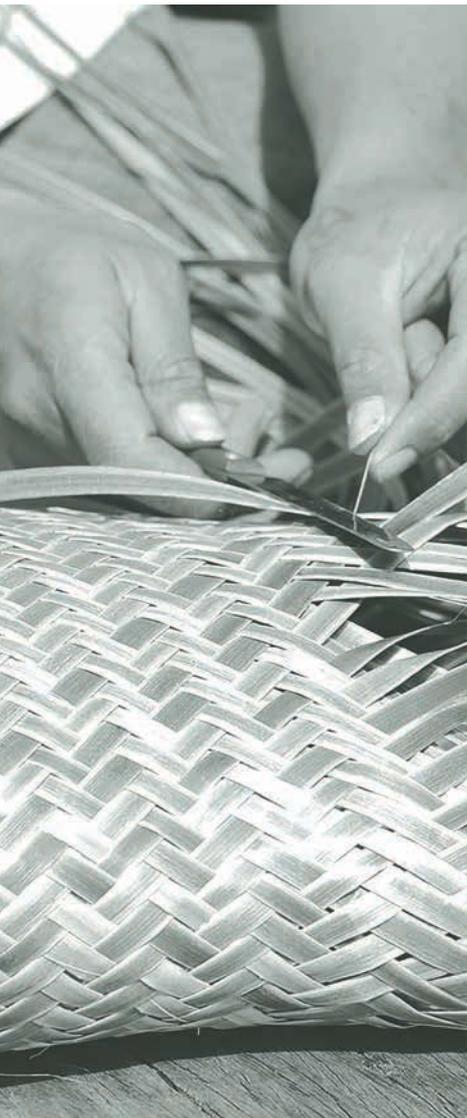


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# Effectiveness of governance arrangements in the arts, culture, and heritage sector

Presented to the House of  
Representatives under section 20 of  
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# Auditor-General's overview

New Zealanders place great value on culture and engaging in cultural activities. Public entities in the arts, culture, and heritage sector play an important role in ensuring that all New Zealanders have access to the arts and their heritage, and in supporting and developing artists and arts organisations. Some of these entities are also responsible for conserving many of our national treasures and artefacts.

The Government provides about \$500 million to the sector each year. Local authorities provide about another \$500 million.

The theme of my work programme for 2014/15 is *Governance and accountability*. As part of this theme, I wanted to look at whether entities in the sector have effective governance arrangements to help them fulfil their responsibilities. Governance arrangements in the arts, culture, and heritage sector play an important role in maintaining freedom of artistic expression and ensuring that the preservation of heritage is not unduly influenced by personal interests.

We looked at the effectiveness of governance arrangements in six public entities – two art galleries, a museum, a museums trust, and two funding agencies. For each entity, we assessed the governance arrangements according to five aspects of effective governance:

- strategic direction;
- leadership and culture;
- monitoring and review;
- risk management; and
- internal controls.

Overall, there is an effective level of governance in each of the six entities. The boards for these entities take their governance responsibilities seriously and have appropriate structures, policies, and practices to help their organisations achieve their strategic direction and fulfil their roles. They are strong advocates for their organisations and for the sector more generally.

The boards are aware of the need to be clear about the difference between the roles and responsibilities of the board and those of management. These roles are well set out in board charters and policies of the entities we looked at. In practice, some boards were becoming involved in detailed matters that we would expect to be left to management. Becoming too involved in operational decisions can limit the ability of boards to challenge and question the performance of management. It can also create a risk that personal views and preferences of board members can unduly influence decisions about funding, or about the management of collections. It is important that boards regularly review how they are fulfilling their role and how well this matches their board charter and policies.

The competence of board members is of paramount importance. Decisions about board appointments are outside of the control of most public entities. Regardless of how board members are appointed, good governance requires boards that have an appropriate mix of skills and experience, including people with an affinity with the sector and people with commercial expertise. Boards that are made up of members from diverse backgrounds provide a depth of perspective that is important for setting strategic direction and for monitoring and challenging the performance of the organisation.

Each of the entities' boards were aware of the importance of good stakeholder engagement, in particular the value to be gained from considering stakeholder views when making decisions, forming strategies, and identifying sources of funding. However, we saw few examples of formal stakeholder engagement plans or formal relationships with key stakeholders through, for example, regular updates on performance.

Many cultural assets are irreplaceable and susceptible to specific risks, such as earthquakes, and need digital or physical preservation. Other cultural assets are intangible, such as traditional knowledge, language, performing arts, and oral history. Understanding and mitigating potential risks to these assets is critical. Boards could improve their understanding of risk and develop better processes for identifying and managing risks.

The training and professional development available to boards and board members could also be improved. I am aware of the successful governance induction workshops for new board members run by the Ministry for Culture and Heritage. These could be extended to provide ongoing programmes for boards and senior managers in the sector. This would help entities and boards to share ideas, information, and good practice.

In carrying out this performance audit, we have prepared criteria for evaluating five aspects of governance arrangements in arts, culture, and heritage organisations. I encourage other entities in the sector to use these criteria to evaluate the performance of their own governance arrangements.

I thank the boards and management of the six entities featured in this report and the staff of the Ministry for Culture and Heritage for their co-operation and help. I also thank Ernst and Young Limited for its significant contribution to our audit.



Lyn Provost  
Controller and Auditor-General

19 May 2015

# Introduction

- 1.1 In this Part, we describe:
- the arts, culture, and heritage sector;
  - the purpose of our audit;
  - how we carried out our audit; and
  - the structure of this report.

## The arts, culture, and heritage sector

- 1.2 The arts, culture, and heritage sector plays an important role in New Zealand's cultural, creative, social, and economic life. Entities in the sector create, present, conserve, and safeguard New Zealand's arts, culture, and heritage, and preserve many of New Zealand's natural treasures and cultural assets.
- 1.3 The sector has a large number of entities, which range in size and are based throughout the country. The Ministry for Culture and Heritage (the Ministry) estimates that the sector contains "tens of thousands" of organisations.
- 1.4 Collectively, the sector has a complex, diverse, and influential range of stakeholders, including artists, iwi, pacific community organisations, Ministers, funders, monitoring agencies, the public, philanthropists, and international audiences.
- 1.5 New Zealanders place great value on culture and engaging in cultural activities. The Ministry's report *Cultural Indicators for New Zealand 2009*<sup>1</sup> showed that almost three-quarters of New Zealanders considered culture and cultural activities to be very, extremely, or critically important to national identity. This ranked above sport and the economy.
- 1.6 The sector also has an important role in supporting and providing opportunities for the development of Māori art and cultural expression. This includes ensuring that all New Zealanders have access to, and benefit from, Māori culture.
- 1.7 The Government is providing about \$500 million to the sector in 2014/15. This includes direct funding of Crown entities and non-government organisations, as well as spending by government departments such as the Ministry, Te Puni Kōkiri (the Ministry of Māori Development), and the Ministry for Business, Innovation and Employment. The Ministry for Culture and Heritage estimates that local government provides about \$500 million annually to the sector, and that New Zealand Lottery Grants Board and non-casino gaming machines provide a further \$100 million or more each year.
- 1.8 Cultural goods and services provide value to individuals, society, and the economy. They increase individual capacities, bind society, provide jobs, and foster innovation. A recent report about the economic effects of the music,

1 Available at [www.mch.govt.nz](http://www.mch.govt.nz).

book publishing, and film and television industries found that these industries contribute \$1.6 billion to New Zealand's gross domestic product each year.<sup>2</sup>

### The sector's challenges

- 1.9 Funding from central and local government has mostly been static for some years. The Ministry's 2014 briefing to the incoming Minister for Arts, Culture and Heritage states that:

*While total revenue for the agencies in the Vote has increased by eight percent over the past five years to \$328 million in 2013/14, real income (adjusted for inflation) has declined by 11 percent.*

*... agencies have struggled to maintain revenue over the past five years, despite their innovation in developing new lines of business and increasing sponsorship.<sup>3</sup>*

- 1.10 Alongside these constraints, scrutiny of the sector and expectations of its accountability have increased. Government funding, corporate sponsorship, grants, and donations now often require greater levels of transparency and accountability. This requires more evidence and documentation of decisions, expenditure, and outcomes achieved, and higher levels of accountability for those outcomes.
- 1.11 Changes to the nature of demand also pose a challenge to the sector. The move to digital channels, social media, and the exposure to global arts and cultural products through those channels mean that the sector must meet different and higher expectations. This requires different capabilities, investment in new infrastructure, and changes to the traditional operating models of many agencies.
- 1.12 Entities in the sector are guardians of many of New Zealand's national treasures and cultural assets. Many cultural assets are irreplaceable and susceptible to specific risks, such as earthquakes, and need digital or physical preservation. Other cultural assets are intangible, such as traditional knowledge, language, performing arts, and oral history. Because these risks are so varied and the assets cannot be replaced if damaged or lost, guarding and conserving these assets presents a distinct challenge for the sector.
- 1.13 This means that risk management policies and practices are critical. Boards need to assure themselves that they have identified organisational risks, particularly for the assets they conserve and display, and that they have appropriate mitigation plans.

2 PricewaterhouseCoopers, *Employment and national GDP impacts of music, book publishing and film and television in New Zealand*. See [www.wecreate.org.nz/home/facts-stats/](http://www.wecreate.org.nz/home/facts-stats/).

3 Ministry for Culture and Heritage (2014), *Briefing for the Incoming Minister for Arts, Culture and Heritage: October 2014*, page 34, available at [www.mch.govt.nz](http://www.mch.govt.nz).

- 1.14 These factors mean that entities in the sector are increasingly looking to work together to understand issues, prepare strategies, share resources, and deliver shared outcomes. There is an increasing expectation from stakeholders, particularly funders, that entities will work together effectively to achieve outcomes either for particular communities (such as Auckland) or particular audiences (such as children and young people).

### **The purpose of our audit**

- 1.15 The theme of our work programme in 2014/15 is *Governance and accountability*. We chose this theme because good governance is important to the performance and accountability of public entities.
- 1.16 We are carrying out several performance audits on how governance and accountability mechanisms in the public sector support effective spending and investment.
- 1.17 This audit focused on the governance arrangements of six entities in the arts, culture, and heritage sector. Good governance in this sector plays an important role in making sure that freedom of artistic expression is maintained and that the preservation of heritage (through the management of museum collections, archives and the funding of intangible heritage such as language, dance, and performance) is not unduly influenced by personal or political interests. We did not assess how effectively the monitoring departments, such as the Ministry, carry out their roles and responsibilities.

### **How we carried out our audit**

- 1.18 We looked at the governance arrangements of six entities: Auckland Art Gallery, Creative New Zealand, Govett-Brewster Art Gallery, Te Māngai Pāho, Museum of New Zealand Te Papa Tongarewa (Te Papa), and Wellington Museums Trust.
- 1.19 We carried out our audit in four stages. The first stage involved reviewing a range of literature, including information about good practice in governance in the arts, culture, and heritage sector. We also looked at frameworks for assessing the maturity of governance arrangements to identify what good governance looks like.
- 1.20 We used this information to develop criteria for assessing five aspects of governance. Those five aspects are:
- strategic direction;
  - leadership and culture;
  - monitoring and review;
  - risk management; and
  - internal controls.

- 1.21 The second stage involved collecting information about each entity's governance arrangements. We reviewed documents such as board charters, reports, and minutes. We then asked entities to complete a self-assessment survey. We used the survey responses and our document review to identify aspects of each entity's governance arrangements that we wished to explore further.
- 1.22 To explore these aspects further, we interviewed people involved in the entities' governance processes, including each entity's chairperson, longest-serving board member, shortest-serving board member, chief executive officer, member(s) of the senior management team (for example, the chief financial officer), and chairpersons of any subcommittees. In total, we carried out 35 interviews.
- 1.23 The third stage involved assessing each entity's governance arrangements against criteria for the five aspects governance (the Appendix summarises the criteria).
- 1.24 The fourth stage involved gathering further information about governance arrangements in New Zealand and overseas. We also discussed trends in governance arrangements with experienced governance practitioners to get their insights about our findings.

### **Structure of this report**

- 1.25 In Part 2, we describe and discuss the governance arrangements of the six entities we looked at.
- 1.26 In Parts 4 to 7, we set out our observations about how the entities were performing against the five aspects of governance.

# The governance arrangements of the entities we looked at

# 2

- 2.1 In this Part, we:
- describe the six entities we looked at; and
  - summarise their current governance arrangements.
- 2.2 The six entities are:
- Auckland Art Gallery;
  - Creative New Zealand;
  - Govett-Brewster Art Gallery;
  - Te Māngai Pāho (the Māori Broadcasting Funding Agency, also known in statute as Te Reo Whakapuaki Irirangi);
  - Te Papa; and
  - Wellington Museums Trust.
- 2.3 We looked at these six entities because they represent a cross-section of public entities in the sector, with different institutional and governance arrangements.
- 2.4 Governance of these six entities operates under an “arms-length” model through which the Government or local government owns and funds (in full or in part) the entities and appoints their governing boards.
- 2.5 Wellington Museums Trust, Auckland Art Gallery, and Govett-Brewster Art Gallery are subject to the Local Government Act 2002. Wellington Museums Trust is a council-controlled organisation. Auckland Art Gallery is governed by a council-controlled organisation (Regional Facilities Auckland). Govett-Brewster Art Gallery is governed by New Plymouth District Council.
- 2.6 Te Māngai Pāho, Te Papa, and Creative New Zealand are Crown entities. They are all governed by independent boards and must comply with specific legislation, as well as the Crown Entities Act 2004.

**Figure 1**  
The six entities that we looked at

Organisation	Type of organisation	Number of full-time employees	Revenue 2013/14	Expenditure 2013/14
Auckland Art Gallery	Business unit of Regional Facilities Auckland (which is a council-controlled organisation)	94	Revenue is aggregated into the financial statements of Regional Facilities Auckland	Expenditure is aggregated into the financial statements of Regional Facilities Auckland
Creative New Zealand	Autonomous Crown entity	51	\$54.2 million	\$50.5 million
Govett-Brewster Art Gallery	Facility provided by New Plymouth District Council	17	\$2.5 million	\$2.8 million
Te Māngai Pāho	Crown entity	11	\$54.8 million	\$55.0 million
Te Papa	Autonomous Crown entity	328	\$55.0 million	\$63.7 million
Wellington Museums Trust	Council-controlled organisation	90	\$11.3 million	\$11.3 million

## Auckland Art Gallery

- 2.7 Auckland Art Gallery is the largest art institution in New Zealand, with a collection of more than 15,000 works. The Gallery’s purpose is to be “a creative catalyst for art and ideas, offering transformational experiences that strengthen and enrich the community”.<sup>4</sup>
- 2.8 As well as holding exhibitions, Auckland Art Gallery runs education and public programmes, including outreach programmes in areas such as South Auckland and Waiheke Island. The Gallery has a strong focus on community engagement and encouraging participation from a range of different community groups.

## Auckland Art Gallery’s governance arrangements

- 2.9 Auckland Art Gallery is one of five business units governed by Regional Facilities Auckland. Regional Facilities Auckland is a council-controlled organisation responsible for “providing a regional perspective for the development of Auckland’s regional arts, culture, and heritage, leisure, sport, and entertainment

venues”.<sup>5</sup> The other business units that the board of Regional Facilities Auckland governs carry out a wide range of facilities, including stadiums, conventions, and Auckland Zoo.

- 2.10 Regional Facilities Auckland governs Auckland Art Gallery and is accountable to Auckland Council. Regional Facilities Auckland’s constitution outlines the requirements of its relationship with Auckland Council and the structure of its board of directors. The board must have no more than nine members, none of whom may be employees or members of Auckland Council. The board of Regional Facilities Auckland has nine members.
- 2.11 When we talked to Regional Facilities Auckland’s senior management team and board, we asked them to focus on governance and management for Auckland Art Gallery only.

## Creative New Zealand

- 2.12 Creative New Zealand is an autonomous Crown entity governed by the Arts Council of New Zealand Toi Aotearoa. Creative New Zealand’s purpose is “to encourage, promote and support the arts in New Zealand for the benefit of all New Zealanders”. The Ministry is the monitoring agency for Creative New Zealand.
- 2.13 Creative New Zealand’s main sources of funding are from Vote Arts, Culture and Heritage \$15.7 million (30%) and the New Zealand Lottery Grants Board \$37.4 million (70%).
- 2.14 Creative New Zealand administers several funding programmes, ranging from significant investment for arts organisations to smaller community arts projects. These are:
- investment programmes (60% of total funding);
  - grants and special opportunities (26% of total funding);
  - creative communities scheme (8% of total funding); and
  - international presentation and exchange programmes (6% of total funding).
- 2.15 As well as administering funding programmes, Creative New Zealand carries out other activities, including capability-building initiatives for artists, arts practitioners, and arts organisations, and advocacy activities, including research for the sector.

## Creative New Zealand’s governance arrangements

- 2.16 Before May 2014, Creative New Zealand was governed by a governance board, the Arts Council, and two funding boards – Te Waka Toi and the Arts Board. The Arts Board also had a subcommittee, the Pacific Arts Committee. This structure had a

<sup>5</sup> Regional Facilities Auckland, *Statement of Intent 2013 to 2016*.

total of 28 members. To simplify the governance arrangements, these four bodies have been replaced by a single board, the Arts Council, which is responsible for all Creative New Zealand governance activities. These new governance arrangements were established by the Arts Council of New Zealand Toi Aotearoa Act 2014, which came into effect on 1 May 2014.

- 2.17 There is an arm's-length relationship between the Minister for Culture and Heritage and the Arts Council. Section 8 of the Arts Council of New Zealand Toi Aotearoa Act 2014 states that "The Minister may not give a direction to the Arts Council in relation to cultural matters."
- 2.18 The newly formed Arts Council has 13 members, all appointed by the Minister for Culture and Heritage. Six of the members are appointed for their knowledge of specific areas.
- 2.19 The Arts Council has a Māori Committee (established under the Arts Council of New Zealand Toi Aotearoa Act 2014). The committee's role is to provide advice to the Arts Council on matters about Māori arts. The Arts Council must include two members with knowledge of the arts, and the traditions or cultures, of the Pacific Island peoples of New Zealand. These members are appointed in consultation with the Minister of Pacific Island Affairs.
- 2.20 At the time of our audit, the new Arts Council had held four meetings in May, July, August, and October 2014.

### **Govett-Brewster Art Gallery**

- 2.21 Govett-Brewster Art Gallery is a facility provided by the New Plymouth District Council. It is home to a collection of Taranaki, national, and international artworks with a Pacific focus, and the collection and archive of Len Lye (a New Zealand film-maker, poet, painter, and sculptor). The organisation's primary objective is to provide relevant and accessible art for New Plymouth residents and to raise New Plymouth's national and international profile.
- 2.22 The building that houses Govett-Brewster Art Gallery has been closed for redevelopment and earthquake strengthening since April 2013. Its expansion will also house the Len Lye Foundation Collection and Archive, a 62-seat cinema, an education studio, and two galleries for exhibiting Len Lye's work. The combined institution opens on 25 July 2015 and will be managed by the Director of Govett-Brewster Art Gallery.
- 2.23 An important element of the project has been building museum-standard off-site collection storage to permanently house the Govett-Brewster collection and temporarily house the Lye collection during the construction project.

- 2.24 Construction and fit-out of the Len Lye building is estimated to cost \$11.5 million. This cost is being largely met by funders other than New Plymouth District Council, including the New Zealand Lottery Grants Board, the Ministry's Regional Museum Policy Fund, and Todd Energy Limited. The Council is also contributing additional funds to the earthquake strengthening of the adjacent Govett-Brewster Art Gallery building. When completed, the two buildings will be connected.

### **Govett-Brewster Art Gallery's governance arrangements**

- 2.25 Govett-Brewster Art Gallery operates under the Local Government Act 2002 and the Monica Brewster Trust Deed 1962. Its core funding is from New Plymouth District Council. As a Council facility, Govett-Brewster Art Gallery is accountable to the Council and reports to the Council's Monitoring Committee, a standing committee of the Council. The Council has full governance authority over Govett-Brewster Art Gallery.
- 2.26 The Len Lye Committee is a permanent committee of New Plymouth District Council, established under a Deed of Relationship. It has limited delegated decision-making powers, including overseeing matters to do with caring for the collection. The Council makes all main governance decisions, such as setting the budget and preparing annual and long-term plans. The committee is made up of four councillors and four Len Lye Foundation members.
- 2.27 Several other main stakeholder groups work alongside Govett-Brewster Art Gallery:
- The Len Lye Foundation owns the Len Lye Collection and Archive. It is registered in New Zealand as a non-profit incorporated society. Its function is to provide for the conservation, reproduction, and promotion of the works of Len Lye and to make facilities available for research.
  - The Len Lye Centre is managed as a single entity with Govett-Brewster Art Gallery by the Director of Govett-Brewster Art Gallery. The Director reports to the chief operating officer of New Plymouth District Council and liaises with the Len Lye Foundation (as a contributor of art works) and the Len Lye Committee. The relationship between these parties was set out in the 1980 Deed of Trust. The expectations of the relationship were further refined in a Deed of Relationship in 2004.
  - The Govett-Brewster Foundation is a charitable trust. Its role is to seek donations, gifts, and bequests to develop Govett-Brewster Art Gallery's collection and realise major projects.
  - Under the Monica Brewster Trust Deed, Govett-Brewster Art Gallery can call on an advisory committee if there are any disputes between the Director of the Gallery and the Monitoring Committee. The decision of the majority of the

advisory committee is final and binding. The advisory committee consists of the directors of Auckland Art Gallery, Te Papa, Robert McDougall Art Gallery in Christchurch, and Dunedin Public Art Gallery. Govett-Brewster Art Gallery has used this committee once in the past, but not recently.

## Te Māngai Pāho

- 2.28 Te Māngai Pāho is a Crown entity. Its primary role is promoting and revitalising Māori language and culture by funding broadcasters, te reo Māori programmes, Māori culture programmes, and music producers to create cost-effective products that can be distributed through a wide range of media.<sup>6</sup> Te Māngai Pāho also has a role archiving television and radio programmes.
- 2.29 Te Māngai Pāho was established under the Broadcasting Act 1993 after a claim under the Treaty of Waitangi and is funded through Vote Māori Affairs.

### Te Māngai Pāho's governance arrangements

- 2.30 Te Māngai Pāho operates under the Crown Entities Act 2004. The organisation is an arm's-length agency. This means that, although it is accountable to the Minister of Māori Affairs, the Minister cannot make everyday decisions about the operation of Te Māngai Pāho.
- 2.31 The Broadcasting Act 1993 states that the board of Te Māngai Pāho must comprise up to seven members, each of whom, including the chairperson, is appointed by the Minister of Māori Affairs. The current board has seven members.
- 2.32 Te Māngai Pāho has six subcommittees. These include an established Audit and Risk Committee and five newly introduced subcommittees. The subcommittees are:
- Budgeting and Planning: This subcommittee approves budgets and non-financial goals, and reviews the performance of Te Māngai Pāho against budgets.
  - Ensuring Board Effectiveness: This subcommittee reviews the board's performance and ensures the continuous improvement of Te Māngai Pāho.
  - Human Resources: This subcommittee monitors the chief executive's performance, approves key appointments, and carries out succession planning.
  - Reporting to Stakeholders and Regulatory Compliance: This subcommittee approves the statement of intent and annual report, and monitors regulatory compliance.
  - Strategy and Policy: This subcommittee approves the strategy, monitors the organisation's culture, reviews compliance, and determines the Māori language strategy.

- Audit and Risk: This subcommittee oversees the regulatory and risk elements of the organisation, and looks at operations through a different lens to the other committees.

## Te Papa

- 2.33 Te Papa is an autonomous Crown entity that operates under the Museum of New Zealand Te Papa Tongarewa Act 1992. As set out in that Act, Te Papa is “a forum for the nation to present, explore, and preserve the heritage of its cultures and knowledge of the natural environment” to:
- better understand and treasure the past;
  - enrich the present; and
  - meet the challenges of the future.
- 2.34 Te Papa carries out several activities as well as holding exhibitions and developing and preserving collections. It has a repatriation programme, is increasing public access to collections through digital channels, helps iwi claimant groups to realise the cultural redress provisions of Treaty of Waitangi Settlements, and provides practical and strategic help and advice to other museums and galleries throughout New Zealand.
- 2.35 Te Papa’s executive team structure has a bicultural leadership model that includes a chief executive and a kaihautū (Māori leader).

## Te Papa’s governance arrangements

- 2.36 Te Papa’s board is accountable to, and appointed by, the Minister for Arts, Culture and Heritage. The board’s structure is determined by the Museum of New Zealand Te Papa Tongarewa Act 1992, which states that there must be no fewer than six and no more than eight members. There are currently eight board members.
- 2.37 The board appoints Te Papa’s chief executive. The chief executive is responsible for managing Te Papa and implementing the strategic direction and policy set by the board.
- 2.38 Te Papa has an Assurance and Risk Committee, which is responsible for providing assurance and help with Te Papa’s risk management, financial management practices, control and compliance framework, and its external accountability responsibilities.

## **Wellington Museums Trust**

- 2.39 Wellington Museums Trust was established in 1995 by Wellington City Council to manage City Gallery Wellington, Capital E, the Museum of Wellington City & Sea, Wellington Cable Car Museum, the Carter Observatory, and the Colonial Cottage Museum. The Trust also has a management agreement with the board of the New Zealand Cricket Museum to provide that museum with support, including financial management services.<sup>7</sup>
- 2.40 Wellington Museums Trust is a council-controlled organisation (CCO) and operates under the Local Government Act 2002. The Trust's purpose is to provide a visitor experience that set Wellington apart and to further the development of museum and cultural activities within Wellington for the benefit of residents and the wider community.

### **Wellington Museums Trust's governance arrangements**

- 2.41 The board of Wellington Museums Trust, which includes one councillor, is accountable to and appointed by Wellington City Council.
- 2.42 The trust deed for Wellington Museums Trust outlines the relationship between Wellington City Council and the Trustees, and determines the Trust's governance structure. The deed states that there must be at least seven but no more than nine trustees, and two of these trustees should be councillors.<sup>8</sup> A 2012 review resulted in the Council determining that it would appoint only one councillor to CCOs, including the Trust, instead of the two provided for in the trust deed.
- 2.43 The board has three subcommittees: the Audit and Risk Committee; Chief Executive Performance and Remuneration Committee; and the People Performance and Safety Committee.
- 2.44 The Audit and Risk Committee's function is to help the board in carrying out its financial reporting, risk management, and legislative compliance duties. The Chief Executive Performance and Remuneration Committee advises the Chairperson about the performance and remuneration of the Trust's chief executive. The People Performance and Safety Committee's role is to provide guidance and support to the chief executive on human resource matters and to help the board to meet its health and safety responsibilities.

<sup>7</sup> See [www.wmt.org.nz/aboutBackground.html](http://www.wmt.org.nz/aboutBackground.html).

<sup>8</sup> Wellington Museums Trust Incorporated, Trust Deed first executed on 18 October 1995 and updated on 15 August 2007.

## Strategic direction

- 3.1 In this Part, we discuss:
- why setting a clear strategic direction is important for effective governance;
  - the main findings from our work; and
  - how well each entity performed against our expectations.

### **Why is setting a clear strategic direction important for effective governance?**

- 3.2 Boards have a central role in setting their organisation's strategic direction. Strategic direction-setting includes setting realistic medium and short-term outcomes, priorities, and expenditure/investment choices and budgets.
- 3.3 Input into strategic thinking and planning to prepare a coherent strategy is of fundamental importance to effective governance.
- 3.4 We expect boards to set the strategic direction of their organisations. Boards need to contribute to, and challenge, the strategic planning process, based on an understanding of stakeholder expectations and the wider context that their organisations operate in.
- 3.5 Once established, a board needs a shared and strong understanding of its organisation's strategic direction and to use that understanding to inform its decisions.
- 3.6 An organisation's board has a role in maintaining oversight of the main activities the organisation is carrying out to drive its strategic direction – for example, significant change projects such as restructuring. Boards need to balance this role with maintaining the important distinction between governance and management activities. The process through which the board agrees the organisational strategy, its explanation in the strategic plan, and strategic activities should include identifying how the board will be kept informed of progress against the main activities.
- 3.7 Boards must consider how they maintain oversight of any significant deviations from strategy, emerging risks, and delivery of planned benefits from any significant change programmes. This is particularly important when entities have limited resources to carry out significant change or redevelopment programmes.

### **Main findings about strategic direction**

- 3.8 Overall, the boards were appropriately engaged in setting the strategic direction of the entities.

### Setting strategy

- 3.9 The boards demonstrated a strong and shared understanding of the strategies for their organisation. Board members were able to explain the strategic direction of their organisation and how this strategic direction aligned with the broader strategies set by their primary stakeholders – for example, a ministry or local authority. Boards demonstrated that they were using strategic direction to make decisions and assess the organisation's performance.

### Working with others

- 3.10 We saw some entities working effectively with others in the sector to understand and work towards sector-wide outcomes and activities. This is important in determining the strategic direction of the organisation and the key strategic activities.
- 3.11 However, the sector can do more to ensure that entities are working together to deliver sector-wide outcomes. The positive work that is being done by entities throughout the sector to understand sector-wide outcomes and activities could be better translated into action, with oversight and direction from the boards.
- 3.12 The level of engagement with external stakeholders in the preparation of strategies varied among the six entities. Overall, more could be done to increase the involvement of stakeholders in strategy. We discuss stakeholder engagement in more detail in Part 5.

### The entities' performance

- 3.13 Figure 2 sets out the criteria we have used to assess each entity's performance for the strategic direction aspect of governance.

**Figure 2**  
**Framework for assessing a board’s performance – strategic direction**

Assessment rating	Criteria
Leading	<p>The board draws on its knowledge of the wider strategic outcomes associated with the cultural, arts, and heritage sector and the Government’s strategic priorities.</p> <p>The board places strategic direction at the centre of all decisions it makes.</p> <p>There is a strong alignment between strategic outcomes and performance assessment.</p>
Comprehensive	<p>Strategic direction is comprehensively documented and aligned with strategic vision.</p> <p>There is a shared understanding of strategy, which drives decision-making. Stakeholders are consulted in the preparation of strategic documents.</p> <p>The board demonstrates shared understanding of the factors responsible for the organisation’s success.</p>
Progressing	<p>Strategic direction is documented and aligned to the strategic vision.</p> <p>The strategic direction is aligned with the expectations of stakeholders.</p> <p>The board demonstrates an understanding of the key factors responsible for the organisation’s success.</p>
Developing	<p>Strategic direction is documented and partly aligned to strategic vision.</p> <p>Stakeholders are partly involved in preparing strategic documents.</p> <p>The board demonstrates some understanding of factors responsible for the organisation’s success.</p>
Ad hoc and limited	<p>Strategic direction is somewhat documented but inconsistently understood.</p> <p>The board demonstrates limited understanding of factors that contribute to achieving strategic outcomes.</p>

### Auckland Art Gallery

- 3.14 We assessed Auckland Art Gallery’s performance on strategic direction as “Comprehensive”.
- 3.15 The board and management team at Regional Facilities Auckland and the management team at Auckland Art Gallery have a shared understanding of the strategic direction of the Gallery. This strategic direction was well documented and understood by the board and management, and was well explained in the board papers we reviewed.

- 3.16 We saw evidence that the board’s understanding of Auckland Art Gallery’s strategic direction is used to inform decision-making. For example, the board agreed to hold the “My Country” exhibition even though it was forecast to operate at a loss. The board understood that the Gallery’s strategic direction includes the cultural value and cultural outcomes of an exhibition, as well as the potential for profit, and any losses could be offset by other exhibitions likely to receive high visitor numbers.
- 3.17 The board has considered how the operations of the different business units of Regional Facilities Auckland can help Auckland Art Gallery deliver its strategic outcomes. For example, the Gallery shares back-office resources such as marketing and human resources with other Regional Facilities Auckland business units, which supports operational efficiencies and financial sustainability.

### **Creative New Zealand**

- 3.18 We have not assessed Creative New Zealand against this aspect of effective governance. Because new members to the Arts Council had recently been appointed when we did our audit, the Arts Council had not had a chance to be fully involved in preparing or challenging the strategic direction of Creative New Zealand.

### **Govett-Brewster Art Gallery**

- 3.19 We assessed Govett-Brewster Art Gallery’s performance on strategic direction as “Progressing”.
- 3.20 Govett-Brewster Art Gallery’s strategic direction, outcomes, and performance expectations are documented, but detailed information is not published. This is because Govett-Brewster Art Gallery is a small component of larger long-term planning for New Plymouth District Council.
- 3.21 Govett-Brewster Art Gallery has a relationship with several trusts and foundations, but interviewees noted that these organisations had limited involvement in preparing the Gallery’s strategic documentation. We expect funding bodies to be consulted in the strategy-setting process. This would help align each group’s understanding of the strategic direction and their contribution to it.
- 3.22 There is some shared understanding among board members of Govett-Brewster Art Gallery’s desired strategic direction after the Len Lye Centre has been completed, but the current focus is on the immediate requirements of the building development.

## Te Māngai Pāho

- 3.23 We assessed Te Māngai Pāho's performance on strategic direction as "Comprehensive".
- 3.24 The board understands Te Māngai Pāho's strategic purpose and objectives well. Interviewees had a shared understanding of the long-term strategy and how this aligned to Te Māngai Pāho's objectives.
- 3.25 The board has strategic oversight of the organisation through being actively involved in developing Te Māngai Pāho's strategy and direction. For example, the board was heavily involved in developing Te Māngai Pāho's Right-Shift framework.<sup>9</sup>
- 3.26 The board demonstrated passion for promoting and revitalising Māori language and culture. Interviewees demonstrated awareness of the potential implications of the Māori Language Strategy and Māori Language Bill for Te Māngai Pāho. The board has engaged with Te Puni Kōkiri to understand and contribute to this strategy and has linked its strategic priorities to the Māori Language Strategy.

## Te Papa

- 3.27 We assessed Te Papa's performance on strategic direction as "Progressing".
- 3.28 Te Papa's recent focus has been on improving its financial sustainability and embedding the restructuring that began in 2013. At the time of our audit, Te Papa was operating under an interim senior management structure until the new chief executive was appointed.
- 3.29 Board members acknowledged that they could have had more oversight of the restructure – such as looking at whether restructuring decisions were aligned with the strategic plan. The board acknowledged that a requirement for more specific reporting on the progress of Te Papa's major organisational projects would have helped identify financial risks at an earlier stage.
- 3.30 The focus on financial sustainability during 2013 and 2014, along with the change in senior leadership, has restricted the time the board has spent on setting Te Papa's strategic direction. Board members recognise that the new chief executive will provide the board and Te Papa with a good opportunity to confirm Te Papa's strategic direction.

<sup>9</sup> Individual attitudes to learning te reo Māori have been described on a spectrum from "zero" (on the left) through "passive" to "active" (on the right). In this context, encouraging a shift to the right means trying to soften attitudes towards learning or maintaining Māori language and culture, and increasing the likelihood of speakers of te reo Māori to speak it in certain situations.

### Wellington Museums Trust

- 3.31 We assessed Wellington Museums Trust's performance on strategic direction as "Comprehensive".
- 3.32 Wellington Museums Trust reviews its strategic direction each year. The 2014-18 strategic plan was prepared using a "bottom up" approach that allowed all staff to be involved in its preparation through their business unit. The strategic direction of Wellington Museums Trust is aligned to Wellington City Council's 2040 vision.
- 3.33 The board had a shared understanding of the strategic direction of Wellington Museums Trust and the main factors that influence its ability to deliver its strategic outcomes. The board's decision-making and actions reflect this understanding. For example, the recent appointment of a board member with strong digital knowledge reflects the Trust's strategic focus on enhancing digital engagement opportunities.
- 3.34 Wellington Museums Trust's key performance indicators are aligned to the strategic plan and actions within the plan. For example, both virtual visitation and physical visitation numbers are measured, reflecting the Trust's digital strategy.
- 3.35 We saw evidence of how Wellington Museums Trust works with other organisations from the sector to deliver sector outcomes. For example, it is working with Wellington's nationally significant institutions to refine practical teaching and learning programmes about citizenship. However, this emphasis on working with others was not as evident during our interviews with trustees as it is in the Trust's accountability documents.

## Leadership and culture

4.1 In this Part, we discuss:

- why leadership and culture is important for effective governance;
- the main findings from our work; and
- how well each entity performed against our expectations.

### **Why is leadership and culture important for effective governance?**

4.2 The leadership role of boards includes setting a suitable culture, values and ethics for the organisation. This is achieved through establishing and approving policies, activities, decisions, and from the approach and behaviour the board takes to its work.

### **Separation between governance and management**

4.3 Good governance requires a clear distinction between the role of the board to govern and the role of management to manage the operations of the organisation. Governance involves ensuring that systems and process are in place that shape, enable, and oversee the management of an organisation. Management is concerned with carrying out the day-to-day operations of the organisation.

4.4 An important aspect of the distinction between governance and management is the allocation and delegation of decision-making rights. The decisions that organisations make in the sector (such as which organisations to fund, or how collections are managed) have a significant effect on the future of the creative and cultural life of New Zealand.

4.5 Governance documents, such as charters and terms of reference for the board and board subcommittees, provide an important framework for guiding the board and management in keeping to their respective roles and responsibilities.

### **The relationship between the chairperson and the chief executive**

4.6 Appointing chairpersons with the skills, experience, sector knowledge, commitment, and time to support effective governance is critical. A strong relationship between the chairperson and chief executive is a key factor in supporting an effective relationship between governors and management. The chairperson plays a pivotal role in setting the tone and culture for the board and senior management team. The more competent and committed the chairperson, the more effective the board. The chairperson is critical to creating an inclusive board culture that values the contribution of individual board members and allows for robust challenge and debate.

- 4.7 Effective chairpersons:
- have a strong affinity with the sector;
  - understand and apply the separation between governance and management;
  - draw on their wider experience to challenge and guide management;
  - run effective meetings to time, encourage diverse views, and expect management to prepare high-quality material;
  - develop a constructive, respectful, and professional relationship with the chief executive and their management team;
  - develop and mentor less experienced board members to grow their knowledge and expertise; and
  - delegate roles and responsibilities to other board members.

### **Board composition**

- 4.8 To be effective leaders, boards need to include members from diverse backgrounds with appropriate skills and experience. Boards that include skills and experience in areas such as public life and business will bring a good breadth of perspective to their work.
- 4.9 Decisions about board appointments are outside of the control of most public entities (for Crown entities, boards are appointed by the responsible Minister). Chairpersons and boards can contribute to the appointment process by identifying where there are gaps in skills and experience on the board and by forming strong relationships with external stakeholders to help identify suitable candidates.
- 4.10 Regardless of how board members are appointed, good governance requires boards that have an appropriate mix of skills and experience, including people with an affinity with the sector in which they will govern and people with commercial expertise. Boards that are made up of members from diverse backgrounds provide a depth of perspective that is important for setting strategic direction, and for monitoring and challenging the performance of the organisation.

### **Effective policies and practices**

- 4.11 We expect boards to prepare good policies and practices for itself and the organisation (including a code of conduct, statements of value, a confidentiality of information deed, and a code of ethical behaviours). We also expect boards to consider their social responsibilities (for example, accountability to the sector and enabling cultural aspirations).

- 4.12 Boards should not only adhere to policies but also be seen to use them to guide behaviour and decision-making.

### **Main findings about leadership and culture**

- 4.13 We observed good leadership and culture in all six entities. We assessed the effectiveness of their governance of the organisations' strategic direction as either "Progressing" or "Comprehensive". Significantly, interviewees emphasised the importance of strong leadership and culture for effective governance. We identified four factors that are contributing to good leadership and culture in the six entities.

### **The distinction between governance and management**

- 4.14 The line between governance and management (including decision-making rights and delegations) is set out in the policies and charters of the boards of the six entities, and was expressed in our interviews with board members and management. In practice, the separation between boards and management was sometimes blurred and some boards were carrying out activities that we would normally consider to be management activities.
- 4.15 There are several reasons for this. In times of change or when an organisation is facing particularly challenging issues, it can be appropriate for the board to become more involved in operational activities that are normally within the remit of management. In small organisations, the line between management and governance can be harder to delineate and there can be a tendency for the board to become involved in operational decisions. Where boards become involved in operational decisions, there is a risk that the boards limit their ability to hold management to account.

### **Importance of the chairperson**

- 4.16 The chairperson is critical to effective governance. Chairpersons, board members, and managers in the six entities identified that the chairperson was the cornerstone of effective governance arrangements. The chairpersons of the boards all invested significant time and effort in their role.
- 4.17 Each chairperson was focused on making it easy for board members to work together well. We also observed the importance of gaining the trust of the chief executive and management while still providing some challenge to the management team.

### **Importance of the board's ability to challenge the management team**

- 4.18 In our view, the boards of the six entities were challenging management effectively. There was evidence in board papers of questioning of management that was constructive but also testing. The boards were using their combined experience and skills to query information, probe and challenge the basis for recommendations, improve understanding, and make informed decisions.
- 4.19 We identified three areas where boards were effectively questioning management:
- Asking questions from a governance perspective, not from a management perspective. This means that the questions are focused on identifying and understanding risks, organisational effects, and wider stakeholder considerations. Usually, these questions did not focus on details.
  - Where boards had concerns or queries about the information or analysis provided, there were targeting questions to clearly identify the aspect of the information and/or decision that the board was unclear about.
  - We found a willingness to ask questions and seek further information until the boards had gained the level of comfort required. Sometimes, this meant that the boards needed to defer decisions until they got the information they needed.

### **An effective relationship between governance and management**

- 4.20 The relationship between a board and management team, and the organisation's workplace culture, affect how easy it is for a board to ask questions openly, freely challenge management, ask good questions, and get good answers. A strong relationship between the chairperson and chief executive is critical in supporting an effective relationship between governors and management. In the six entities we looked at, those relationships were strong.
- 4.21 Ultimately, a board relies on the management team to provide it with the right information and the appropriate level of detail. Management relies on the board to provide guidance and make effective decisions. The chief executives we interviewed were able to provide several examples where interacting in a mature and trusted way with their board had enabled them to make better management decisions and produce better organisational outcomes.
- 4.22 Developing this trust and maturity is not intuitive for board members or senior managers who are not used to reporting to a board. The Ministry provides an induction day for board members who are new to governance in the sector.

There might also be a role for the Ministry (in the case of Crown entities) or other entities in inducting new senior managers on how to use a board effectively.

## The entities' performance

4.23 Figure 3 sets out the criteria we have used to assess each entity's performance for the leadership and culture aspect of governance.

**Figure 3**  
**Framework for assessing a board's performance – leadership and culture**

Assessment rating	Criteria
Leading	<p>Board members are aware of their leadership role in, and effect on, the wider arts, culture, and heritage sector.</p> <p>Decisions made by the board consider long-term effect on/benefits for the wider arts, culture, and heritage sector – not just the organisation in isolation.</p> <p>The board regularly assesses whether it and the organisation are meeting the policies that it has set and drives behavioural change to ensure that this occurs.</p>
Comprehensive	<p>The board demonstrates and promotes desired leadership behaviours aligned with the organisation's vision and culture, and is focused on nurturing the arts, culture, and heritage sector.</p> <p>The board and chairperson demonstrate sound leadership and set a good organisational tone focused on good governance.</p> <p>The board develops fit-for-purpose policies and practices and has considered social responsibilities. The board has ownership of policies and is committed to operating by them.</p>
Progressing	<p>The board demonstrates desired leadership behaviours (such as integrity, insight, "big picture" orientation, openness, sound judgement, and the ability to challenge and lead) aligned with the organisation's vision and culture.</p> <p>The board and chairperson demonstrate some ownership over setting the organisation's tone.</p> <p>The board develops and communicates a range of policies and practices that are well understood throughout the organisation.</p>
Developing	<p>The board's leadership behaviours partially demonstrate an understanding of the organisation's vision. However, the board does not fully understand the specific culture of the organisation.</p> <p>The board develops a range of policies and practices and has some engagement with, and understanding of, them in the organisation.</p>
Ad hoc and limited	<p>The board has a limited understanding of organisation vision and culture, which is reflected in leadership behaviours.</p> <p>The board has adopted some generic policies and practices but has limited understanding of, and engagement in, the organisation.</p>

### **Auckland Art Gallery**

- 4.24 We assessed Auckland Art Gallery's performance as "Comprehensive".
- 4.25 Regional Facilities Auckland has appropriate policies and practices in place to allow the board to provide leadership to Auckland Art Gallery. These are well understood and owned by the board members.
- 4.26 Although Regional Facilities Auckland has a wide remit (it provides governance for a range of different organisations), there are board members on Regional Facilities Auckland who have specific expertise and knowledge of the arts sector. This skill and experience is applied to the leadership and culture of Auckland Art Gallery.
- 4.27 We saw that the board was making decisions about Auckland Art Gallery that recognised the need to balance commercial considerations with desired culture outcomes and nurturing the national arts, culture, and heritage sector.
- 4.28 Board minutes and interviews show that the board asks robust questions of Regional Facilities Auckland and Auckland Art Gallery. The board has said "no" or asked for decisions to be deferred until it had additional information.
- 4.29 Interviewees told us that they considered the board's leadership to be effective. They thought that the board provided strategic oversight and guidance while enabling the Gallery to manage itself.

### **Creative New Zealand**

- 4.30 Several Arts Council members are new, and it was too early to assess whether they were using policies and practices in guiding their behaviour and decision-making.
- 4.31 However, Creative New Zealand has fit-for-purpose policies and practices for the board and Creative New Zealand. The chairperson of the Arts Council and the chief executive have a strong relationship, with clear and open lines of communication between them.
- 4.32 The board has been through an extensive induction process, which was led by the chairperson with support from the chief executive and Creative New Zealand's senior management team. One of the purposes of this induction was to make sure that the new board is clear in its understanding of its role and how the role is distinct from the operational tasks and of management. The induction included:
- an extensive induction, focused on clarifying the members' roles and responsibilities, and contrasting these with the activities of management;
  - some members attending a Ministry workshop on governance;
  - members observing other Creative New Zealand activities to provide them with a better understanding of its activities and processes – for example, such as assessing funding applications; and

- the chairperson and chief executive establishing an ongoing programme of education to further enhance governance skills and understanding, and knowledge of the sector.

4.33 Creative New Zealand has also published useful guidance material on good governance, as well as holding workshops for organisations in the sector, which we understand are highly valued.<sup>10</sup>

### Govett-Brewster Art Gallery

4.34 We assessed Govett-Brewster Art Gallery's performance as "Progressing".

4.35 New Plymouth District Council has led the development of organisational policies, including a code of conduct, confidentiality deed, health and safety policy, and a conflict of interest policy.

4.36 Interviewees recognised that the culture of New Plymouth District Council, specifically the leadership dynamics of Govett-Brewster Art Gallery, changed when Council membership changed. Interviewees considered the previous Council to be supportive of Govett-Brewster Art Gallery. Interviewees suggested that, after Council elections and the introduction of new councillors in 2013, there has been greater scrutiny of funding decisions about Govett-Brewster Art Gallery. Interviewees expressed a consistent view that the Council did not play an active role in setting the tone for leadership and culture for Govett-Brewster Art Gallery.

4.37 Interviewees expressed the view that the leadership of Govett-Brewster Art Gallery is influenced by the trusts and foundations that provide funding. The role of these bodies for leadership and culture is not clearly understood or defined. For example, interviewees found that it is not clear to what degree the trusts and foundations are entitled to provide (or should be providing) input into activities that influence the leadership and culture of Govett-Brewster Art Gallery.

4.38 Some interviewees noted that it could be beneficial to engage with Govett-Brewster Foundation and other trusts in both the process of selecting Gallery directors and being part of Govett-Brewster Art Gallery's long-term planning process. Interviewees did not have a shared understanding of whether the trusts and foundations had a right to engage in these matters or whether this fell outside their role.

<sup>10</sup> For example, *Getting on Board. A governance resource guide for arts organisations*. Available at [www.creativenz.govt.nz](http://www.creativenz.govt.nz).

### Te Māngai Pāho

- 4.39 We assessed Te Māngai Pāho's performance as "Comprehensive".
- 4.40 The board has led the development of organisational policies, including a code of conduct, confidentiality deed, health and safety policy, and a conflict of interest policy.
- 4.41 Interviewees considered the current board to be an "engaged board" that provides leadership and oversight to the organisation. Board members thought that the current chairman had created an open and sharing environment for board meetings. Interviewees told us that board members have a good understanding of te reo Māori and that this benefits the board because it allows members to be confident in expressing their views at meetings and engage in discussions about whether funding proposals are able to deliver the intended language outcomes.
- 4.42 The chairman has a strong understanding of the board culture that he wants to create, including a tikanga Māori approach to governance. He encourages behaviour that reflects these cultural norms.
- 4.43 Te Māngai Pāho runs an induction process for new board members. It includes a workshop that has presentations from Te Puni Kōkiri and the Institute of Directors.
- 4.44 The board members we spoke to were aligned with the organisation's vision of promoting te reo Māori and Māori culture and were taking a strategic view. For example, we saw evidence that the board was using the Right-shift approach to guide their governance of the organisation.
- 4.45 The board has, at times, become involved in discussing the detail underpinning some funding applications and recommendations as part of their approval role. This takes the board's discussions into a level of operational detail that we would normally expect to sit within the remit of management. The board's interest in the details of funding applications is driven by the in-depth knowledge of te reo Māori among the board and the board's passion for the revitalisation of the language. However, this creates a risk of limiting the board's ability to hold management to account for funding recommendations where the board has been involved in determining the recommendations.

## Te Papa

- 4.46 We assessed Te Papa’s performance as “Progressing”.
- 4.47 At the time of our audit, Te Papa had an interim leadership team in place with the kaihautū temporarily carrying out a dual role of kaihautū and acting chief executive. Te Papa appointed a new chief executive in November 2014. The intention is that the new chief executive will appoint several senior managers into permanent roles to take over the work consultants are carrying out and to build executive team capability and capacity.
- 4.48 The board played a pivotal role in helping Te Papa to operate effectively during the transition phase between the previous chief executive leaving and the appointment of a new chief executive. During this transition, the board – and, in particular, the chairman – had necessarily become more involved in operational decisions and providing visible leadership to the organisation, such as scrutinising some operational decisions and being the spokesperson for media inquiries.
- 4.49 Board decisions and activities have been focused on risk and financial management, including introducing appropriate policies and practices to improve risk management and financial performance. The board has used these policies and practices to drive its behaviour and behaviour within the organisation.
- 4.50 In hindsight, board members recognise that they should have asked more challenging questions of management and continued to ask these until they were satisfied with the financial reporting the senior management team provided. They thought that this questioning might have uncovered issues with the financial information earlier. However, the board members expressed the view that this would not have prevented the financial issues occurring.
- 4.51 The board members were particularly conscious of the culture of their organisation and their stakeholders. The board uses cultural considerations to guide its behaviour. For example, the use of te reo Māori is encouraged throughout the organisation, and the bicultural nature of Te Papa is reflected in the equal consideration of the chief executive’s and kaihautū’s monthly reports to the board.

### **Wellington Museums Trust**

- 4.52 We assessed Wellington Museums Trust's performance as "Comprehensive".
- 4.53 The board members we spoke to supported the chairman and his role in encouraging a culture of open dialogue and consultation. The chairman and the chief executive have a strong relationship, with clear and open lines of communication between them. This ensures that the board is well informed and that issues can be addressed quickly.
- 4.54 Informal mentoring processes were in place. This included more experienced board members providing coaching on effective governance behaviours to newer members. This included how to ask challenging questions and how to maintain the distinction between governance and management activities. Board members saw this mentoring relationship as a positive aspect of Wellington Museums Trust's governance culture.
- 4.55 A formal code of conduct policy outlines the expected behaviour of trustees. A document is also circulated when appointments are made to the board or management outlining expectations of their role.
- 4.56 Wellington Museums Trust has agreed a set of principles that govern its relationship with Wellington City Council. The Trustees that we spoke to were aware of these principles and referred to them when describing the leadership and behaviours of the board. For example, the "no surprises" principle between the board and the Council was also a principle underpinning the relationship between the board and senior management.

## Monitoring and review

- 5.1 In this Part, we discuss:
- why monitoring and review are important for effective governance;
  - the main findings from our work; and
  - how well each entity performed against our expectations.

### **Why is monitoring and review important for effective governance?**

- 5.2 The monitoring and review role of boards involves the processes and actions the board takes to track an organisation's financial and operational performance, including how the chief executive's performance is managed. We also looked at whether boards understand and manage accountabilities to stakeholders well.
- 5.3 Effective governance depends on boards receiving regular reports that provide a clear and objective view of an organisation's performance. Critically, boards need to be provided with enough detail to support performance management and decision-making while avoiding unnecessary details about operational matters.
- 5.4 We expect boards to be responsible for appointing a chief executive and regularly reviewing the chief executive's performance against an agreed set of criteria.
- 5.5 We also expect organisations to have prepared a comprehensive stakeholder engagement plan that details the board's role in stakeholder engagement and management. The plan should show that the board considers the needs of stakeholders as part of its governance discussions and decisions, as well as gaining a view from stakeholders on how they see the organisation is performing.

### **Main findings about monitoring and review**

- 5.6 The entities have set appropriate key performance measures and boards are regularly provided with reports that provide a sound basis to monitor and review performance. We saw evidence through board minutes that boards and subcommittees have invested a significant amount of time and effort in understanding and agreeing accountability documents.
- 5.7 We found evidence of the boards regularly reviewing organisational performance and questioning results to understand the main drivers of organisational performance.
- 5.8 We also saw evidence that boards are asking for more detail to allow them to understand issues and whether the actions in response are having the desired effect. For example, the reporting provided to the board of Te Papa on the financial performance of the organisation against targets and budgets became noticeably more detailed when Te Papa was focusing on resolving its financial issues.

- 5.9 Boards were sometimes receiving reports that were too detailed which did not aid decision-making. It was not always clear whether the value of providing a high level of detail had been weighed against the additional time required to discuss it at board meetings. The chairperson often plays a pivotal role in working with management to ensure that information presented to the board is relevant.
- 5.10 Boards in the sector would benefit from reviewing their current monitoring and review arrangements, and agreeing with management the relevant set of financial and operational performance measures and associated reporting requirements. Boards and management should regularly revisit the amount and type of information given to boards to ensure its continued relevance.
- 5.11 Achieving the appropriate balance between receiving relevant information and receiving too much information is an ongoing tension for boards in the public and private sectors. This has also been recognised as an issue for organisations in other jurisdictions, including the Arts Council of England.
- 5.12 Mostly, the entities we looked at knew who their major stakeholders are, knew how to engage with them, and considered stakeholder's views when making decisions. However, most of the entities had not used that information to prepare formal stakeholder engagement plans.
- 5.13 Boards would benefit from formalising their engagement with stakeholders. This should include board members formally updating other members on any notable stakeholder interactions, as well as stakeholder-related issues. This knowledge is valuable in helping board members to carry out environmental scans, identify risks, and explore opportunities.
- 5.14 Formalising stakeholder engagement also recognises the increasing importance of stakeholders in providing revenue to organisations beyond the funding from central or local government. A formal approach to stakeholder management might help organisations develop effective relationships with stakeholders that can help to secure additional funding sources and revenue.

### **The entities' performance**

- 5.15 Figure 4 sets out the criteria we have used to assess each entity's performance for the monitoring and review aspect of governance.

**Figure 4**  
**Framework for assessing a board’s performance – monitoring and review**

Assessment rating	Criteria
Leading	<p>The board is aware of how other organisations are measuring their performance and uses this information to seek out examples of best practice to improve monitoring and review.</p> <p>The board is aware of how wider stakeholder groups can work together to drive strategic outcomes for the culture, arts and heritage sector, and uses this knowledge to lead effective stakeholder engagement that drives performance improvement throughout the sector.</p>
Comprehensive	<p>The board has comprehensive structures and processes to monitor performance, and performance measures accurately reflect the strategic plan, including reviews of annual plans and ensuring that the plans are carried out.</p> <p>The board gets regular reports that provide a clear and objective view of operational performance, enabling the board to focus on matters of strategy, and avoid focusing on unnecessary details of operational matters.</p> <p>There is a comprehensive stakeholder engagement plan that is well understood by the entire organisation. Stakeholders are well known, and board behaviour is aligned to the plan.</p>
Progressing	<p>The board has well developed structures and processes to monitor performance, and performance measures align to the strategic plan.</p> <p>The board gets comprehensive reports that provide oversight of performance and address critical performance measures and issues for objectives and strategies.</p> <p>There is a solid understanding of the organisation’s accountability to stakeholders, and the board has appropriate measures in place to meet these accountabilities.</p>
Developing	<p>The board has structures and processes in place to monitor performance, and measures are partially aligned to the strategic plan.</p> <p>Reports to the board provide oversight of performance and highlight critical performance measures and issues.</p> <p>There is a stakeholder engagement plan in place, and there is increasing understanding of the organisation’s accountability to stakeholders.</p>
Ad hoc and limited	<p>The board has partially developed structures and processes to monitor financial and non-financial performance. However, there is no clear alignment between performance measures and strategic plan.</p> <p>Board reports do not always focus on key performance issues and tend to be too focused on operational matters.</p> <p>The stakeholder engagement plan is not widely understood or reviewed.</p>

### Auckland Art Gallery

- 5.16 We assessed Auckland Art Gallery's performance as "Comprehensive".
- 5.17 The board has structures and processes for monitoring financial and operational performance. Given that the board governs five different entities, it is particularly important that it gets the right level of information about each entity's performance, without any unnecessary detail. Auckland Art Gallery's management team and the board have worked closely together to ensure that performance information meets the board's needs and achieves this balance. The board members we spoke to were satisfied with the performance information that they received. The quality of information in the board reports was regularly reviewed by the board to ensure that it continued to meet the board's needs.
- 5.18 The board demonstrated awareness of its major stakeholders and their interests. As the shareholder of Auckland Art Gallery, Auckland Council is viewed as the major stakeholder, and there are clear roles and responsibilities for interacting with it.
- 5.19 The Regional Facilities Auckland team includes a Director of External Relations, as well as a part-time employee who is responsible for liaising with local boards. All Regional Facilities Auckland entities use a stakeholder management system. Auckland Art Gallery uses this for events such as exhibition openings. We were not made aware of a formal stakeholder management plan.

### Creative New Zealand

- 5.20 We assessed Creative New Zealand's performance as "Comprehensive".
- 5.21 The Arts Council has structures and processes for monitoring financial and operational performance. Board reporting packs showed that the board had discussed a draft statement of performance expectations in May 2014 and understood how this differed from previous performance documents because of changes to the Crown Entities Act.
- 5.22 Information provided to the board is detailed enough for board members to understand the main variances between actual and planned performance and what caused any variances.
- 5.23 The board reporting packs are extensive and provide substantial detail about Creative New Zealand's activities. Reporting packs include information required for decision-making as well as information to be noted. Some of the reports to the board included very detailed information that risks diverting attention from the strategic issues the board should be focusing on.

- 5.24 The chief executive and chairman are aware of their respective roles and responsibilities in interacting with stakeholders – in particular, the need to have transparent methods of allocating funding that stakeholders could understand. Creative New Zealand demonstrates awareness of the different types of stakeholders it has and actively seeks input from these stakeholders. For example, Creative New Zealand recently reviewed the literature sector and sought input from stakeholders through focus groups and questionnaires. We are not aware of a formal stakeholder management plan.

### **Govett-Brewster Art Gallery**

- 5.25 We assessed Govett-Brewster Art Gallery's performance as "Progressing".
- 5.26 We saw evidence that New Plymouth District Council has invested a significant amount of time and effort into understanding and agreeing its public accountability documents. The Council gets information that allows it to monitor the financial and operational performance of Govett-Brewster Art Gallery. Meeting minutes show that the Monitoring Committee uses this information to understand of the major drivers of organisational performance.
- 5.27 New Plymouth District Council demonstrates awareness of its main stakeholders and how to engage with them, and considers their views when making decisions. Govett-Brewster Art Gallery has a complex set of stakeholders, and the Gallery Director is able to distinguish between the main stakeholder and governance groups.
- 5.28 In the past, some of Govett-Brewster Art Gallery's stakeholders had become more involved in governance activities than we expect from stakeholders who are not responsible for governing the Gallery. Formalising how the Gallery wishes to engage with these stakeholders and mapping the stakeholder groups would help stakeholders and governors to have a shared understanding of their roles.
- 5.29 We saw no evidence of a specific stakeholder engagement plan. However, we understand that the community is able to contribute to certain decisions about Govett-Brewster Art Gallery. For example, a survey was carried out to understand the public's willingness to pay to use the Gallery's facilities after a request from New Plymouth District Council that the Gallery consider charging an entry fee to its facilities.

### Te Māngai Pāho

- 5.30 We assessed Te Māngai Pāho's performance as "Progressing".
- 5.31 The board is provided with detailed financial and operational reporting from the chief executive. This includes the progress each of the board subcommittees has made during the reporting period, the status of all conditional funding proposals, and progress made against legislative requirements.
- 5.32 The level of detail within board reporting packs is significantly more than we would expect to see. The degree of detail in the reporting creates the risk that board meetings are more focused on operational than governance matters. Interviewees recognised that more outcomes-based reporting might help direct the board towards a more strategic focus in meetings.
- 5.33 The board and management have identified a range of stakeholder engagement needs and opportunities. Stakeholder engagement occurs on a regular and planned basis – for example, at iwi radio station annual general meetings. The chairman told us that stakeholders were primarily managed through individual relationships. Te Māngai Pāho does not have a formal stakeholder management framework or management plan.

### Te Papa

- 5.34 We assessed Te Papa's performance as "Progressing".
- 5.35 During 2013 and 2014, the Te Papa board required a significant change in the amount and nature of performance information provided to it, including financial performance. The board thought that previous financial reports were not satisfactory, because they did not provide appropriate information about Te Papa's financial performance. At the time of our audit, the board was confident that the new reports (along with a range of other changes to financial reporting processes and policies) met its requirements.
- 5.36 The new reports are more detailed than we expect to see, but we understand the circumstances that have led to the board wanting this level of detail. A challenge for the board in the future will be how to reduce the level of operational detail required while maintaining enough assurance about Te Papa's financial (and operational) performance.
- 5.37 We saw evidence in the board reporting papers that the board was considering stakeholder perspectives in its decision-making and other activities.
- 5.38 We are not aware of a formal stakeholder engagement plan or stakeholder management framework.

### Wellington Museums Trust

- 5.39 We assessed Wellington Museums Trust's performance as "Comprehensive".
- 5.40 Performance reporting in board reports is aligned to the indicators of financial and operational performance in the Wellington Museums Trust's Statement of Intent. Board members we interviewed were satisfied with the quality of reports.
- 5.41 There was evidence that the board had proactively asked for more financial information – such as seeking further information on changes to the budget for the refurbishment of the Museum of Wellington City and Sea building.
- 5.42 The board's leadership in annual planning and reporting is visible in board report packs and minutes. Board members are provided with opportunities to review and discuss the contents of their accountability documents and annual report before they were asked to approve them.
- 5.43 There are formally defined principles for the relationship between Wellington Museums Trust and its primary stakeholder, Wellington City Council, against which there is quarterly reporting.
- 5.44 Wellington Museums Trust does not have a stakeholder management plan. Although trustees commented on their various interactions with stakeholders through a range of planned and formal meetings (such as with Wellington City Council) and informal means (such as exhibition openings), there are currently no formal stakeholder management plans in place. Wellington Museums Trust is reviewing its client relationship management system.

# 6

## Risk management

- 6.1 In this Part, we discuss:
- why risk management is important for effective governance;
  - the main findings from our work; and
  - how well each entity performed against our expectations.

### **Why is risk management important for effective governance?**

- 6.2 In the arts, culture, and heritage sector, understanding and mitigating risks is central to safeguarding New Zealand's most precious cultural assets.
- 6.3 Boards have a role in identifying, monitoring, and mitigating potential risks. This role includes establishing the organisation's overall understanding of risk, including its effect on the organisation's strategic, financial, operational, and reputational risks. It also covers the processes that are in place to identify, monitor, and manage risks.
- 6.4 Identifying, analysing, mitigating, monitoring, and communicating risks are important aspects of effective governance. Management teams and boards need to have a comprehensive understanding of risk and robust processes for identifying and managing risks. Good risk management also includes having clear roles for audit and risk committees.
- 6.5 To effectively manage risk, boards need a strong understanding of the major risks for the organisation and the processes for managing these. We expect to see a formal risk management framework and register that is formally defined, widely understood, and aligned to the organisation's strategy, risk appetite, objectives, business plan, and stakeholder expectations.
- 6.6 We expect a board to periodically review risk reports. The board needs to be satisfied that it is given accurate risk summaries that are a true reflection of the risks and issues facing the organisation.

### **Main findings about risk management**

- 6.7 Of the five governance aspects that we looked at, risk management is where the entities were performing least well.
- 6.8 Although each of the entities had formal risk management frameworks and registers, risk management practices were variable and generally not strong. The entities' risk registers tended to focus on operational rather than strategic risks, and some risk registers had not been reviewed for some time. In our interviews, board members identified that they could improve their risk management processes.

- 6.9 Risk processes varied between the entities, from minimal discussion and infrequent updating of registers, to the board regularly engaging with risk reports and seeking additional detail when required. We saw examples where risks were discussed and considered in decisions – such as discussing the risk associated with funding an exhibition.
- 6.10 All the entities, apart from Creative New Zealand, have audit and risk committees that report on risks to their boards. However, those committees tended to focus on audit requirements and treat risk management as a compliance exercise.
- 6.11 In our interviews, board members were not always clear about the respective roles of the audit and risk committee and the board. For example, some of the board members we spoke to were not clear about whether risk management was the role of the audit and risk committee or the role of the board. Some entities were reviewing the role of their audit and risk committee to ensure that the responsibility and accountability of the committee is well understood. This will allow the committee to perform its role and allow the board to hold the committee to account if it does not perform well.
- 6.12 Boards should assess and improve their understanding of the importance and use of risk management frameworks and processes and there should be more focus on the risks to implementing strategy.
- 6.13 In our view, there is an opportunity for entities in the sector to work together to identify and understand risks and learn how others are mitigating them. There are opportunities for the chairpersons of audit and risk committees to meet regularly to discuss common sector risks, risk management practices, and mitigation strategies.

### **The entities' performance**

- 6.14 Figure 5 sets out the criteria we have used to assess each entity's performance for the risk management aspect of governance.

**Figure 5**  
**Framework for assessing a board’s performance – risk management**

Assessment rating	Criteria
Leading	<p>Risk management underpins the board’s approach to achieving performance objectives and provides assurance that the organisation will achieve its goals with an acceptable degree of residual risk.</p> <p>The board’s focus on risk management provides value that is wider than a compliance and loss-avoidance exercise. The risk management process yields benefits and builds the organisation’s reputation.</p>
Comprehensive	<p>The board has complete oversight of important risks facing the organisation and the processes needed to manage these risks.</p> <p>There is a formal risk management strategy agreed by the board that is aligned to the organisation’s strategy, risk appetite, objectives, business plan, and stakeholder expectations.</p> <p>Risk management and reporting to the board is ongoing and consistent, and risks are effectively managed.</p> <p>Risk management processes allow the organisation to identify, analyse, mitigate/treat, monitor, and communicate risks throughout the organisation.</p> <p>There is significant evidence that these processes are consistently followed and fit for purpose.</p> <p>The board periodically reviews the risk register to make sure that it is being provided with accurate risk summaries of the risks and issues facing the organisation.</p>
Progressing	<p>There are formal and well defined risk management process in place. These processes are understood by the board and management.</p> <p>Risk management processes are aligned to the organisation’s strategy, risk appetite, objectives, business plan, and stakeholder expectations.</p> <p>Risk management is ongoing and consistent, and risks are continually identified and monitored by the board.</p> <p>There are some mechanisms for the board to evaluate the effectiveness of risk mitigation, and the board reports periodically on the effectiveness of the organisation’s risk management system.</p> <p>The Board uses its shared understanding of important risks to inform its decisions.</p>
Developing	<p>There is a formal risk management process in place that is communicated to the organisation and the board, but risk is only partially understood across the board and the organisation.</p> <p>There are risk management processes designed to reflect the organisation’s strategy, risk appetite, and objectives.</p> <p>Risk management processes allow the organisation to identify, analyse, mitigate/treat, monitor, and communicate risks.</p> <p>There is periodical evaluation of the effectiveness of risk mitigation.</p>

Assessment rating	Criteria
Ad hoc and limited	<p>Risk management processes are in place but they are not well explained, and the organisation and governance bodies have limited understanding of these processes.</p> <p>Risk management processes tend to be generic and not well aligned to the organisation's strategy, risk appetite, and objectives.</p> <p>Risk management processes allow the organisation to partially identify, analyse, mitigate/treat, monitor, and communicate some important risks.</p>

### Auckland Art Gallery

- 6.15 We assessed Auckland Art Gallery's performance as "Comprehensive".
- 6.16 Regional Facilities Auckland has implemented a new risk management framework, which includes quarterly reviews of the Regional Facilities Auckland risk register. We saw evidence that the board of Regional Facilities Auckland was engaged in this process and had asked for more detailed information on risks. We also saw evidence in the board papers that risks were considered as part of overall decision-making processes, not just through updating the risk register.
- 6.17 The Regional Facilities Auckland risk register is based on detailed operational reports provided by the Gallery to the Regional Facilities Auckland executive management team. This information is taken from Auckland Art Gallery's own risk register.
- 6.18 As well as the risk register, Auckland Art Gallery communicates risks to the board through different means – such as in business cases for exhibitions.

### Creative New Zealand

- 6.19 We assessed Creative New Zealand's performance as "Progressing".
- 6.20 The Arts Council's governance manual clearly explains its risk management role and responsibilities. The manual provides information on delegations and how the level of potential risk associated with the decision influenced the delegation level.
- 6.21 Creative New Zealand has a risk management policy and framework. Meeting minutes show that the new Arts Council has reviewed the risk management policy and framework, and reviewed the risk register and risk treatment plan. Other papers submitted to the board for either noting or decisions included potential risks. Meeting minutes show that the board considers risks in its decision-making.

- 6.22 At the time of our audit, Creative New Zealand did not have an audit and risk committee. Risk management is considered the responsibility of all members of the Arts Council, and the external auditors are invited to discuss matters concerning risk at each meeting of the Council.

### **Govett-Brewster Art Gallery**

- 6.23 We assessed Govett-Brewster Art Gallery's performance as "Developing".
- 6.24 New Plymouth District Council has a Risk and Audit Subcommittee, which is responsible for managing risks associated with all of the Council's activities and assets, including Govett-Brewster Art Gallery. The subcommittee has established a framework that holds the Gallery Director accountable for identifying and managing risks and action plans. High and extreme risks are reported to the Council.
- 6.25 We have not seen evidence of a comprehensive risk register that outlines the major strategic, financial, operational, and political risks that Govett-Brewster Art Gallery faces. Current risk reporting to New Plymouth District Council is focused on the operational risks associated with the development of the Len Lye Centre. While this may be appropriate at this time, we would expect to see more attention on strategic risks as the opening of the Len Lye Centre approaches.

### **Te Māngai Pāho**

- 6.26 We assessed Te Māngai Pāho's performance as "Developing".
- 6.27 We have not seen evidence of a comprehensive risk register that outlines the major strategic, financial, operational, and political risks that Te Māngai Pāho faces. Current risk reporting to the board is focused on the operational and financial risks associated with current broadcasting contracts.
- 6.28 Te Māngai Pāho does not have an organisational risk management framework. The Audit and Risk Committee has identified that a risk management framework is required and was preparing one at the time of our audit.

### **Te Papa**

- 6.29 We assessed Te Papa's performance as "Progressing".
- 6.30 Overall, interviewees had a shared understanding of risks facing Te Papa. Interviewees were aware of reputational risks and the risk of earthquakes damaging Te Papa's collections.

- 6.31 Some risk management processes are in place. For example, the Assurance and Risk Committee works with the senior management team to identify risks and develop risk mitigation strategies. Interviewees noted that the board acts swiftly to minimise the effect of financial risks, including changing financial delegations and using external advisors to identify the root cause of the issue and recommend changes.
- 6.32 We observed a lack of clarity about the Assurance and Risk Committee's roles and responsibilities. For example, it was not clear whether the Assurance and Risk Committee or the board were responsible for identifying and mitigating risks.
- 6.33 There was general acknowledgement from interviewees that more could be done to improve risk management processes. In particular, interviewees from the board and management said that senior management and the board could review and update risks more regularly.
- 6.34 Interviewees suggested that risk reporting was improving, with more focus on strategic risks. The board has started to have challenging conversations with management to understand risks and how these are being reduced (including defining the different roles of the board and management in reducing risks). This has not happened in the past.

### **Wellington Museums Trust**

- 6.35 We assessed Wellington Museums Trust's performance as "Comprehensive".
- 6.36 The board members that we spoke to have a shared understanding of the risks facing the Trust. These include financial sustainability, business continuity, and the redevelopment of the Museum of Wellington City and Sea.
- 6.37 We did not see evidence of a formal risk management process. The Trust has a risk register, which is included in its Strategic Plan each year. We compared the 2012 and 2014 risk registers, and they were unchanged. The same risks, mitigations, impact ratings, and owners were noted. Interviewees said that the risk register was being reviewed and that this was likely to be completed soon after our audit.
- 6.38 Although the Trust does not have a formal risk management process, risk is discussed at every board meeting for specific agenda items where appropriate – for example, the Carter Observatory's dependence on non-Council revenue to break even. Specific projects or activities that might be seen as, or are, high risk are routinely reported on to ensure that risks are thoroughly assessed and, where possible, mitigated. We saw evidence of such discussions in board minutes and Audit and Risk Committee minutes.

# 7

## Internal controls

- 7.1 In this Part, we discuss:
- why internal controls are important for effective governance;
  - the main findings from our work; and
  - how well each entity performed against our expectations.

### **Why are internal controls important for effective governance?**

- 7.2 Boards have a role in assessing the design and effectiveness of an organisation's internal controls. Those controls are organisational (terms of references, independence, and separation of duties), operational (planning and budgeting), and about personnel (training, development, and recruitment). Internal controls include periodic reviews (including internal and external audit). Internal controls are critical to providing assurance to a board that an organisation's activities are compliant and in line with the expectations of the board.

### **Safeguarding artistic freedom and integrity in the management of collections**

- 7.3 Internal controls to ensure independence are important (such as procedures and processes for declaring and managing conflicts of interest) because they help to maintain artistic freedom, and to manage the risk of personal interests of board members or staff from interfering in, or unduly influencing, funding decisions, and in the acquisition and management of collections. Controls that set terms of references for board committees and for management roles, and that define segregation of duties, are particularly important.

### **Audit and risk committees**

- 7.4 We expect boards to oversee the organisation's control systems and to have established audit and risk committees to carry out this role. The audit and risk committee's responsibilities should be well defined and understood. They should include overseeing the main financial and operational reporting systems and processes, and advising the board on the approval of audited financial statements.
- 7.5 Audit and risk committees need financial literacy and experience to robustly question and challenge the information they are presented with.

### **The role of external auditors**

- 7.6 External auditors are able to provide boards with a different perspective on the organisation, which can prove valuable when it comes to the monitoring and oversight that boards provide.

- 7.7 At the least, boards should expect the external auditor to have a view about the financial systems, processes and controls, and staff capability. Boards should ask their auditor for an independent view of their organisation.
- 7.8 Similarly, we expect an organisation's external auditors to provide the board with formal and informal feedback and insight to help the board maintain an overall view of how the organisation is performing. This is particularly true when organisations are going through significant change. Both internal and external sources of assurance should play an important role in providing information on the effect of this change.

### **Main findings about internal controls**

- 7.9 Overall, the boards of the entities we looked at have appropriate oversight of control systems. However, there is scope for boards to place more emphasis on assessing the effectiveness of their internal controls and identifying opportunities for improvements.

### **Independence and declarations of interest**

- 7.10 All the boards have policies for ensuring board members' independence, such as declarations of interest. We saw evidence through board minutes that board member independence is regularly reviewed and that members acted appropriately when conflicts of interest were identified.
- 7.11 The boards have policies to define the segregation of duties between the board and management, but, as we describe in Part 4, in practice the separation between the boards and management was sometimes blurred. This creates a risk that the personal interests of board members can unduly influence operational decisions about funding, and the acquisition and management of collections, which should be guarded against. We did not see any evidence that board members were unduly influencing decisions in the entities we looked at.

### **Audit and risk committees**

- 7.12 All but one of the entities had an established audit and risk committee (Creative New Zealand is considering whether to establish an audit and risk committee). Each of these boards were using the audit and risk committee to review the organisation's internal controls framework and provide assurance to the board that both the organisation's financial systems and its internal controls are sound.
- 7.13 The role of internal and external auditors in providing insight to the board would benefit from some attention. Internal audit work programmes could be strengthened with a clearer link to organisational challenges and risks. We also

found that the boards and their audit and risk committees could make more use of their external auditors, particularly in gaining a different perspective on the organisations' controls and wider organisational health and performance.

## The entities' performance

7.14 Figure 6 sets out the criteria we have used to assess each entity's performance for the internal controls aspect of governance.

**Figure 6**  
**Framework for assessing a board's performance – internal controls**

Assessment rating	Criteria
Leading	<p>The board views the internal controls environment as a valuable input into guiding and governing the organisation, not as a compliance exercise.</p> <p>Internal controls are designed to support the strategic outcomes sought by the board and to drive continuous improvement in organisational performance.</p>
Comprehensive	<p>There is a well-established and strong internal controls environment.</p> <p>The board has oversight over the control systems that effectively and efficiently guide the organisation towards achieving its objectives and meeting the organisation's external accountabilities.</p> <p>Internal controls are effectively administered, and there is an understanding within the organisation, and by the board, of the importance of internal controls.</p> <p>The board reviews the effectiveness and efficiency of controls and draws on these reviews as a main input into assessing management's performance.</p> <p>As well as having an established audit and risk committee (see Progressing), there is evidence that the audit and risk committee regularly reviews the organisation's internal controls framework.</p>
Progressing	<p>There is an established internal controls environment.</p> <p>The board reviews the control systems (implemented and designed by management).</p> <p>There is some understanding within the organisation, and by the board, of the importance of internal controls.</p> <p>There is an audit and risk committee comprising some independent board members.</p> <p>The audit and risk committee's responsibilities are well defined and understood, and include ensuring efficiency of audits, overseeing the financial systems, and advising the board on the approval of audited financial statements.</p> <p>There is evidence that the audit and risk committee actively reviews the organisation's internal controls framework.</p>

Assessment rating	Criteria
Developing	<p>The internal control environment is partially established.</p> <p>The board carries out some reviews of the control systems, and these are partially aligned to the organisation’s objectives.</p> <p>There is a partially established audit and risk committee. The audit and risk committee’s responsibilities are defined but inconsistently understood.</p> <p>The audit and risk committee reviews the organisation’s internal controls framework on an ad hoc basis.</p>
Ad hoc and limited	<p>There are some basic internal control structures but they are not specifically designed to address the objectives and accountabilities of the organisation.</p> <p>There are some of the following controls: organisational controls (terms of references and segregation of duties), operational controls (planning and budgeting), personnel controls (training, development, and recruitment), and periodic reviews (internal and external audit).</p> <p>There is little understanding of the importance of having a separate audit and risk committee.</p>

## Auckland Art Gallery

- 7.15 We assessed Auckland Art Gallery’s performance as “Progressing”.
- 7.16 Auckland Art Gallery has a range of internal controls, including organisational (terms of references and separation of duties) and operational (planning and budgeting). An established Audit Committee conducts regular reviews – such as of the delegations held by Regional Facilities Auckland and Auckland Art Gallery.
- 7.17 The segregation of duties between the Regional Facilities Auckland board and Auckland Art Gallery are set out clearly in the board’s policies. From our review of board papers and minutes, there was evidence that the board and management were acting according to the policies for segregation of duties. The interests of the board members are regularly declared before board meetings. This creates a good environment for protecting the integrity of the acquisition and management of collections.
- 7.18 Interviewees had a shared understanding of the Audit Committee’s responsibilities. Board papers show that there has been minimal discussion about the effectiveness of internal controls or regular reviews of the internal controls in place. The board has confidence that the Audit Committee will highlight any issues with internal controls.
- 7.19 There was evidence that the Audit Committee is providing information to and advising the board on financial statements. The audit committee’s responsibilities

are primarily focused on compliance and reporting activities. However, there is an increasing focus on risk identification, management, and reporting.

### **Creative New Zealand**

- 7.20 We assessed Creative New Zealand's performance as "Comprehensive".
- 7.21 Creative New Zealand has a well-established and strong internal controls environment.
- 7.22 The new Arts Council was given an overview of the major internal controls as part of its induction process. The Arts Council's governance manual, which the Arts Council discussed at its first meeting, clearly sets out the major internal controls and compliance requirements.
- 7.23 We saw evidence in meeting minutes that the Arts Council has oversight and an understanding of the control systems. We also saw evidence that the Arts Council (in the absence of an audit committee) is actively reviewing policies and processes associated with the internal control framework – such as the process for legislative compliance reporting, and its fraud, separation of duties, and delegations policies.
- 7.24 The induction of the new board (described in Part 4) has included consideration of the segregation of duties between management and the board (particularly around funding decisions) and the importance of the policies for declaring interests. This included ensuring that the board understands the frameworks through which Creative New Zealand makes funding decisions, as well as the performance reporting and monitoring that underpins funding decisions.
- 7.25 As part of embedding its new governance arrangements, Creative New Zealand has decided to carry out all governance activities centrally and to not form any subcommittees. This is to ensure that all board members understand their responsibilities and are aware of the range of governance activities the board carries out. At the time of our audit, an audit and risk committee had not yet been put in place.

### **Govett-Brewster Art Gallery**

- 7.26 We assessed Govett-Brewster Art Gallery's performance as "Progressing".
- 7.27 New Plymouth District Council is responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurance of the integrity and reliability of financial reporting. Interviewees noted that an

advantage of being part of a Council governance structure was the comprehensive internal controls environment.

- 7.28 Many of the controls for Govett-Brewster Art Gallery are Council-wide control systems, focused on the needs of the New Plymouth District Council. We did not see evidence from the Monitoring Committee minutes or other documents that there are reviews of the internal controls framework, and whether this was meeting the specific needs of Govett-Brewster Art Gallery.
- 7.29 As we have described in Part 4, there is a lack of clarity in the role that the range of trusts and foundations and other bodies that provide funding have in the governance of Govett-Brewster Art Gallery. This lack of clarity could pose a risk to safeguarding the independence of how Govett-Brewster acquires and manages its collections.
- 7.30 The New Plymouth District Council's Audit and Risk Committee's responsibilities were heavily focused on compliance and reporting activities.

### **Te Māngai Pāho**

- 7.31 We assessed Te Māngai Pāho's performance as "Progressing".
- 7.32 The Audit and Risk Committee manages the external audit process. There is a six-monthly legislative compliance update at Audit and Risk Committee meetings, and the chief executive reports to the board about progress against legislative requirements.
- 7.33 There is evidence that the board is aware of relevant legislative changes, especially those regarding potential amendments to the Māori Language Act 1987. Strategic planning takes these changes into consideration.
- 7.34 At times, the board becomes involved in discussing the detail underpinning funding applications and recommendations as part of its approval role. This creates a risk that governance discussions are about operational matters that are usually better left to management and blurring the separation of duties between management and governance.
- 7.35 In Te Māngai Pāho's view, the board's discussions about funding applications are driven by the in-depth knowledge that board members have about te reo Māori and their passion for revitalising the language. However, there is a risk that the board's ability to hold management to account on funding recommendations is limited if the board is involved in the details of making funding recommendations.

## Te Papa

- 7.36 We assessed Te Papa's performance as "Progressing".
- 7.37 Board papers and minutes showed evidence that the interests of board members are appropriately declared in board meetings.
- 7.38 Te Papa's financial challenges in 2013 resulted in a review of its internal controls framework, as well as a targeted review of the factors that had led to the financial issues and why these were not identified earlier.
- 7.39 The Assurance and Risk Committee was involved in the internal controls framework review. The board also drew on external advice in reviewing Te Papa's internal controls and identifying improvement opportunities.
- 7.40 We saw evidence that the board was receiving regular updates about progress made towards strengthening the internal controls framework and associated behaviours – such as improving financial literacy across the organisation.
- 7.41 The board charter and policies include the separation of duties between the board and management, which includes how decisions are made on acquisitions and collections management. During the period between the previous chief executive leaving and the appointment of a new chief executive, the chairperson and the board become more involved in operational matters that would normally be the preserve of management. As we described in Part 4, this shift in the separation of duties was appropriate given that the museum was facing a range of significant financial challenges.
- 7.42 With the appointment of a new chief executive, the board is now stepping back into a more traditional governance role. It will be important for the board and management to establish and agree separation of duties now there is more stability in the management of the organisation.
- 7.43 The board has been taking a more active role in understanding and guiding the control systems. The board recognises that these are a main factor in the overall framework that the board uses to assure itself that the organisation will achieve its objectives and meet its external accountabilities. As part of this, Te Papa intends to clarify the role of its Assurance and Risk Committee and the interaction between this committee and the board.

### Wellington Museums Trust

- 7.44 We assessed Wellington Museums Trust's performance as "Comprehensive".
- 7.45 Board papers and minutes we reviewed show that the interests of board members are appropriately declared at board meetings. The separation of duties between the board and the management of Wellington Museums Trust are set out in the board policies.
- 7.46 Wellington Museums Trust has an established Audit and Risk Committee. There was a shared understanding of the role and responsibilities of the committee. These included ensuring the efficiency of audits, overseeing the financial systems, and advising the board on the approval of audited financial statements.
- 7.47 The committee is aware that Wellington Museums Trust's internal controls framework was part of the wider Wellington City Council's internal controls framework. The committee interacts regularly with the Council to understand how the relationship between the internal controls frameworks could be optimised. We saw evidence in the minutes of Audit and Risk Committee meetings that policies about internal controls (such as delegations and legislative compliance) are regularly reviewed and updated.
- 7.48 The board is aware of the internal controls through board reports, which include the minutes of Audit and Risk Committee meetings.

# Appendix

## Definitions of the criteria used in our assessments

The table below defines the criteria we used to assess the governance performance of each entity.

<b>Leading</b>	<p>Standards and practices for managing organisational capabilities set industry standards.</p> <p>Continuous improvement is embedded across all governance areas within the organisation.</p>
<b>Comprehensive</b>	<p>Consistent governance standards, practices, and processes across the organisation.</p> <p>Performance is measured and controlled.</p> <p>Some practices follow best practice.</p> <p>There are improvement plans to bridge some of the identified gaps.</p>
<b>Progressing</b>	<p>Governance structures, policies, and processes are fully established, but there are inconsistencies in the application of these in practice.</p> <p>Roles are further refined to include performance expectations.</p> <p>Understanding of existing gaps in comparison to best practices, but limited response.</p>
<b>Developing</b>	<p>General recognition of the importance of governance processes in providing direction and oversight.</p> <p>Attempts to establish formal practices and define standards.</p> <p>Improved monitoring and measurement in some areas.</p> <p>Good understanding of best practice but limited attempts to apply them.</p>
<b>Ad hoc and limited</b>	<p>Basic understanding of governance processes and their importance.</p> <p>No clear definitions or standards set.</p> <p>Limited monitoring and measurement of the performance of set processes/policies.</p> <p>High dependency on discretionary individual awareness and initiative.</p>

# Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Whānau Ora: The first four years
- Inland Revenue Department: Governance of the Business Transformation programme
- Auckland Council: How it deals with building consents
- Draft annual plan 2015/16
- Auditor-General's findings about AgResearch's Future Footprint project
- Local government: Results of the 2013/14 audits
- Education for Māori: Relationships between schools and whānau
- Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Fourth monitoring report
- Ministry for Primary Industries: Managing the Primary Growth Partnership
- Central government: Results of the 2013/14 audits
- Government planning and support for housing on Māori land
- Ministry of Social Development: Using a case management approach to service delivery
- Water and roads: Funding and management challenges
- Making the most of audit committees in the public sector
- Accident Compensation Corporation: Using a case management approach to rehabilitation
- Challenges facing licensing trusts
- Annual Report 2013/14
- Ashburton District Council: Allegations of conflicts of interest affecting decisions on a second bridge

## Website

All these reports, and many of our earlier reports, are available in HTML and PDF format on our website – [www.oag.govt.nz](http://www.oag.govt.nz).

## Notification of new reports

We offer facilities on our website for people to be notified when new reports and public statements are added to the website. The home page has links to our RSS feed, Twitter account, Facebook page, and email subscribers service.

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