



Rangitikei District Council

Telephone: 06 327-0099

Facsimile: 06 327-6970

**Rangitikei**  
UNSPOILT...

## Audit/Risk Committee Meeting

# Order Paper

**Monday 5 December 2016,  
2 pm**

**Council Chamber, Rangitikei District Council  
46 High Street, Marton**

**Website: [www.rangitikei.govt.nz](http://www.rangitikei.govt.nz)**

**Email: [info@rangitikei.govt.nz](mailto:info@rangitikei.govt.nz)**

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### **Chair**

Mr Craig O'Connell

### **Membership**

His Worship the Mayor, Andy Watson and Councillors Nigel Belsham, Angus Gordon and Dean McManaway,

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**Please Note:** Items in this agenda may be subject to amendments or withdrawal at the meeting. It is recommended therefore that items not be reported upon until after adoption by the Council. Reporters who do not attend the meeting are requested to seek confirmation of the agenda material or proceedings of the meeting from the Chief Executive prior to any media reports being filed.

# Rangitikei District Council

## Audit and Risk Committee Meeting

Order Paper – Monday 5 December 2016 – 2:00 p.m.



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### The quorum for the Audit/Risk Committee is 3.

At its meeting of 28 October 2010, Council resolved that "The quorum at any meeting of a standing committee or sub-committee of the Council (including Te Roopu Ahi Kaa, the Community Committees, the Reserve Management Committees and the Rural Water Supply Management Sub-committees) is that required for a meeting of the local authority in SO 2.4.3 and 3.4.3.

**1 Welcome**

**2 Council prayer**

**3 Apologies**

**4 Members' conflict of interest**

Members are reminded of their obligation to declare any conflicts of interest they might have in respect of items on this agenda.

**5 Confirmation of order of business**

That, taking into account the explanation provided why the item is not on the meeting agenda and why the discussion of the item cannot be delayed until a subsequent meeting, ..... be dealt with as a late item at this meeting.

**6 Confirmation of minutes**

**Recommendation**

That the Minutes of the Audit/Risk Committee meeting held on 25 August 2016 be taken as read and verified as an accurate and correct record of the meeting.

**7 Audit management report 2015/16**

The final report (with management responses) is attached.

File ref: 5-EX-2-4

**Recommendations**

That the final Management Report for the full year Audit 2015/16 be received.

**8 Outcome of NZTA audit**

The final report (with management responses) is attached.

File ref: 5-EX-2-4

**Recommendations**

That the final report of the NZTA audit conducted October 2016 be received.

**9 Internal audit programme**

Council's internal auditor will be in attendance to discuss this item.

## **10 Committee review**

The Chair had previously distributed an evaluation for Committee members to complete prior to the August 2016 meeting. The intention still is to discuss the results – and the usefulness of the evaluation form – at the meeting.

## **11 Late items**

## **12 Future items for the agenda**

Understanding Council's risk appetite.

Actions from the Risk Management Framework to address risk (July – December 2016).

## **13 Next meeting**

Monday 13 February 2017, 2pm

## **14 Meeting closed**



# Attachment 1



# Rangitikei District Council

## Audit/Risk Committee Meeting

Minutes – Thursday 25 August 2016 – 3:20 p.m.

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**Present:** Mr Craig O'Connell (Chair)  
Cr Dean McManaway  
Cr Nigel Belsham  
Cr Lynne Sheridan  
His Worship the Mayor, Andy Watson

**Also present:** Cr Cath Ash  
Cr Richard Aslett (until 4.50 pm)  
Cr Angus Gordon (until 4.25 pm)

**In Attendance:** Mr Ross McNeil, Chief Executive  
Ms Debbie Perera, Audit Director, Audit New Zealand  
Mr Michael Hodder, Community & Regulatory Services Group Manager  
Mr George McIrvine, Finance & Business Support Group Manager  
Ms Samantha Kett, Governance Administrator

## 1 Welcome

The Chair opened the meeting at 3.20 pm and then adjourned it until Council had concluded its business.

The Chair reconvened the meeting at 3.56 pm and welcomed everyone present.

## 2 Apologies/Leave of Absence

Nil

## 3 Members' conflict of interest

Members were reminded of their obligation to declare any conflicts of interest they might have in respect of items on this agenda.

## 4 Confirmation of order of business

The Chair suggested that item 11 (Board evaluation) be held over until the Committee's next meeting.

## 5 Confirmation of minutes

Resolved minute number	16/ARK/025	File Ref
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That the Minutes of the Audit/Risk committee meeting held on 3 June 2016 be taken as read and verified as an accurate and correct record of the meeting.

Cr Belsham / Cr McManaway. Carried

## 6 Actions to Address Unacceptable Risk

Mr Hodder highlighted the reduced risk in 5.1 (Breach of health and safety requirements). Despite the new legislation coming into effect from 4 April 2016, the substantial work on work processes and documentation (led by the Health & Safety Adviser contracted by MW LASS), Council was sufficiently secure in its processes to invite ACC to conduct an accreditation audit during September.

Main points raised in discussion were:

- 2.1 (Customer service eroded). The weekly reports provided to Elected Members on requests for service and actions taken were hard to understand. The Chief Executive undertook to have an interpretation guide compiled and included with the reports.
- 2.6 (Inability to recover/continue business following disaster). The loss of staff to help with recovery operations was a risk; after the June 2015 storm, restoration of

the damaged parts of the roading network had been the main focus of work for Council's roading team.

- 2.9 (Business objectives not met). The comment 'Repairs to roads damaged in the June 2015 achieved...' to be changed to 'Repairs....being achieved' so as not to imply that the work had been completed (as it had not).
- 2.11 (Shared Services falters...). The additional comment against 'Review of Infrastructure Shared Service's and feasibility study for forming a CCO' to be deleted. The councils had not taken a decision to 'end' the investigation; rather it was in a new phase.
- 2.12 (Exposure to Council following non-compliance in consent processes). While Council's potable supplies were all chlorinated, it was known that many of those properties on the rural stock water schemes were using that water for drinking and other household purposes. The Committee accepted that chlorinating these schemes would be a prohibitive cost and endorsed the Chief Executive's suggestion to include a reminder about the purpose (and limitations) of the supply in the quarterly invoicing to those on any of these schemes.
- 8.2 (Inaccurate responses to the District's natural hazards). The final comment to read 'However, he [i.e. the Commissioner] sees a need for Horizons to improve the quality of the data' so that it is clear this is not a matter which Council can resolve for itself.

His Worship the Mayor suggested that the Council's signing up to (and using) the Local Government Excellence Programme warranted inclusion. Given the comprehensive coverage of that programme, the Committee agreed to discuss this idea further in a subsequent meeting which was considering the Council's risk framework.

**Resolved minute number**      **16/ARK/026**      **File Ref**

That the report 'Actions to address unacceptable risk' to the 25 August 2016 meeting of the Audit/Risk Committee be received.

Cr Belsham / Cr McManaway. Carried

## **7 Considerations for Joint-Venture Engagement**

The Chief Executive noted that the Office of the Auditor General has published two reports on its investigations in to this topic, one of which focussed on Council's involvement with third parties to promote economic development<sup>1</sup>.

The Committee agreed to his suggestion that he work with Ms Perera for a report to a subsequent meeting. The scale of Council's joint ventures was comparatively small, but good practice principles applied whatever the scale of the enterprise.

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<sup>1</sup> Inquiry into property investments by Delta Utility Services Limited at Luggate and Jacks Point (2014); Local authority involvement in economic development initiatives, 2002.

## 8 Management Report for Interim Audit Conducted June 2016

The Committee considered the points raised in the draft management report on the interim audit and Mr McIrvine elaborated on the proposed responses.

Main points raised in discussion were:

- Councillors did not have access to Council's internal information systems, but the Mayor did. So it was important for him to be informed of the policies developed to safeguard the network.
- Succession planning was important for the rates administration function, for which Council currently had one experienced staff member. The Committee agreed with the proposed management response but suggested that it include reference to the MW LASS project which included seconding staff to different councils.
- The Committee suggested documenting more clearly how and by whom rates payments plans were authorised and monitored.

**Resolved minute number**

**16/ARK/027**

**File Ref**

That the draft Management Report for Interim Audit Conducted June 2016 be received.

Cr McManaway / Cr Sheridan. Carried

## 9 Results of the 2014/15 audits – performance of Rangitikei District Council in the five highlighted concerns for the local government sector

Mr Hodder outlined his memorandum.

Main points raised in discussion were:

- In Rangitikei, there were instance of deliberate delay and compression of projects closer to the time when conditions required by a new consent had to be met and the asset was delivering satisfactorily. This strategy would inevitably affect a comparison of actual capital expenditure against budget. In recent years there had been a practice of getting carry-forward projections included in the adopted annual plan (and its budgets). Carry-forwards approved after adoption (but before 30 June) would not show in the budgets considered in the OAG analysis.
- Divergence between budget and actual capital expenditure in Rangitikei was very largely over water/wastewater/stormwater infrastructure. Roading consistently had high alignment.
- It was normal for councils to take a conservative view over depreciation – i.e. that it would typically be higher than actual expenditure.

- The OAG analysis had been unable to take asset performance into account – and the new mandatory measures would not make that possible. Fundamentally, the issue was the extent to which councils were assuring business continuity.

**Resolved minute number**                      **16/ARK/028**                      **File Ref**

That the memorandum 'Results of the 2014/15 audits – performance of Rangitikei District Council in the five highlighted concerns for the local government sector' be received

His Worship the Mayor / Cr Belsham. Carried

## **10 Understanding the Council's Risk Appetite**

The Committee agreed that it was implicitly making a judgement on its risk appetite when deciding which risks to accept and which not to accept in the risk framework. The next review of the framework could benefit from having that judgement made more explicit. The checklists in the paper from Carnegie Mellon University's Office of Risk Initiatives (Exhibits 6 and 7) could help with that.

The Committee endorsed the Chief Executive's suggestion to take building consents as a test case and develop a risk appetite scenario around that for consideration at the next meeting.

## **11 Board Self-Evaluation**

The Committee agreed with the Chair's suggestion to postpone this item until the next meeting. That would allow time for all members to complete the form sent out by the Chair and for him to analyse them.

## **12 Late items**

None

## **13 Future items for the agenda**

None

## **14 Next meeting**

This is the Committee's last meeting for the triennium. The Chair thanked members and staff for their contributions.

**15 Meeting closed**

5.36 pm

Confirmed/Chair: \_\_\_\_\_

Confirmed/Chief Executive: \_\_\_\_\_

Date: \_\_\_\_\_

Unconfirmed

# Attachment 2



11 November 2016

Andy Watson  
Mayor  
Rangitikei District Council  
Private Bag 1102  
Marton 4741

31 Amesbury Street  
Palmerston North  
PO Box 149, Palmerston North 4440

Fax: 06 356 7794  
www.auditnz.govt.nz

RECEIVED

14 NOV 2016

To: R McN

File: 5-EX-2-4

16 0776

Dear Andy

**Audit of Rangitikei District Council for the year ended 30 June 2016**

Please find enclosed our Management Report for the year ended 30 June 2016.

We wish to thank you and your staff for the assistance and cooperation extended during the course of the audit. If you have any questions please contact me directly on 021 222 8318.

Yours sincerely



Debbie Perera  
Audit Director

cc: Ross McNeil, Chief Executive

**Report to the Council on the audit of  
Rangitikei District Council  
for the year ended 30 June 2016**

Prepared by: Debbie Perera

Ph: 021 222 8318

Email: [Debbie.Perera@auditnz.govt.nz](mailto:Debbie.Perera@auditnz.govt.nz)

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## Key messages

We have completed the audit for the year ended 30 June 2016. This report sets out our findings from the audit and draws attention to areas where Rangitikei District Council (the Council) is doing well or where we have made recommendations for improvement.

### Audit opinion

We issued an unmodified audit opinion on 29 September 2016. This means that we are satisfied that the financial statements and statement of service performance fairly reflect the Council's activity for the year and its financial position at the end of the year.

### Significant matters considered during the audit

#### June 2015 Floods

We reviewed the Council's accounting treatment for the work completed to remedy the roading infrastructure caused by the June 2015 floods and gained assurance that the flood damage repair expenditure has been correctly accounted for.

#### Performance measures

We reconfirmed that the performance framework from the 2015-2025 Long Term Plan remains an appropriate base to enable the Council to tell a concise performance story.

This is the first year that Council has had to report against the DIA's mandatory performance measures. Overall we are satisfied that the Council's performance information over these measures fairly reflects the actual performance of the Council for the year. We have noted some areas of improvement in section 2.2 of this report.

#### Property, plant and equipment

We reviewed the Council's assessment of property, plant and equipment and confirmed that no revaluation was required and that the assets are fairly stated.

#### Review of procurement

We completed a review of the joint procurement process undertaken by Manawatu District Council, Horowhenua District Council, and Rangitikei District Council. This was for the tendering of Road Maintenance Contracts across the three Councils. Overall we found that the processes used in this joint procurement process were consistent with accepted good procurement practice and MBIE's Government Rules of Sourcing with some improvements noted.

#### Issues identified during the audit

The following table summarises our recommendations and their priority:

Reference	Recommendation	Urgent	Necessary	Beneficial
2.2.2	<b>Performance measure rules</b> Continue to review the effectiveness of the collection and reporting of data.	✓		
3.1.1	<b>Creditors master file</b> Implement an independent review of all changes to the creditors master file and evidence this review on a system generated report. This report should be independently generated and cover the entire period from the last review to ensure all changes for the period are captured.	✓		
3.1.2	<b>Delegated financial authority</b> Independently review changes to financial delegations on a monthly basis. We recommend that this check should be included as part of the current month end review process.	✓		
3.1.3	<b>Electronic purchase order usage</b> Generate a system report to allow the Council to monitor the level of purchasing processed outside the electronic purchase order system.	✓		
3.2	<b>Suspense accounts</b> Reconcile and clear all suspense accounts at year-end.		✓	
3.3	<b>Payment dates for targeted rates for water supply</b> Review Council's rates resolution and, if appropriate, seek independent advice over whether its resolution meets the requirements of section 24 of the Local Government (Rating) Act 2002 in relation to payment dates for targeted water rates.	✓		
3.4	<b>Capital Work in progress</b> Review the capital WIP balance to: - clearly identify projects included in the balance; - perform an impairment assessment over WIP at year-end; and - ensure projects are capitalised on a timely basis once they are ready for use.	✓		
3.5	<b>Carry forward of Capital Expenditure</b> Continue to reduce the amount of capital expenditure and carry forward to the next financial year.		✓	



Reference	Recommendation	Urgent	Necessary	Beneficial
3.6	<p><b>Contract management</b></p> <p>Endorse an integrated policy for organisation-wide use and review its current contract management system for appropriateness.</p> <p>Monitor service contracts between contractors and the Council against the Key Performance Indicator's (KPI's); to confirm the work performed is completed to a satisfactory standard.</p>		✓	
3.7	<p><b>Project management</b></p> <p>Consider:</p> <ul style="list-style-type: none"> <li>- formalising the methodology for managing projects;</li> <li>- having a planned approach to post implementation review in place; and</li> <li>- routinely subject significant projects to independent quality assurance reviews (IQA).</li> </ul>		✓	

There is an explanation of the priority rating system in Appendix 1.

**Thank you**

We would like to thank the Council, management and staff for their assistance throughout the audit.



Debbie Perera  
Audit Director  
10 November 2016

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## **1 Our audit opinion**

### **1.1 We issued an unmodified audit opinion**

We issued an unmodified audit opinion on 29 September 2016. This means that we are satisfied that the financial statements and statement of service performance fairly reflected the Council's activity for the year and its financial position at the end of the year

In forming our audit opinion, we considered the following matters.

### **1.2 Uncorrected misstatements**

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. There were no significant misstatements identified during the audit that have not been corrected.

## **2 Business Issues/Risks**

### **2.1 June floods**

The June 2015 floods caused significant damage to the Council's roading infrastructure which has resulted in a large amount of remedial work being undertaken during the financial year. We identified this as a business risk for the Council as there is a level of judgement required in coding costs as either operating or capital expenditure.

We reviewed the progress of the repairs made to the Council's affected infrastructure assets and obtaining a listing of all expenditure related to the flood and assessed whether it had been correctly coded.

We are satisfied that the flood damage repair expenditure is fairly stated in the financial statements.

### **2.2 Audit of performance information**

#### **2.2.1 Current performance framework**

We have reconfirmed that the performance framework from the 2015-2025 Long Term Plan remains appropriate.

Our audit work over the performance reports took into account the:

- Quality of the overall story the performance reporting tells;
- Reliability/accuracy of the reporting;
- Completeness of the reporting against the performance framework as outlined in the LTP; and

- Compliance with relevant legislation (in particular the Local Government Act 2002, Schedule 10).

We confirmed that the framework and associated performance measures provide an appropriate basis for performance reporting in 2015/16.

### 2.2.2 Performance measure rules

The Non-Financial Performances Measures Rules 2013 promulgated by the Department of Internal Affairs (DIA) specified a set of standard performance measures for all local authorities. These measures were included in the 2015-25 Long Term Plan and this is the first year the Council have been required to report against them in the annual report.

With this being the first year of the new performance measures we expected there to be some issues for Councils. While we did identify areas for improvement overall we are satisfied that the Council's performance information over these measures fairly reflects the actual performance of the Council for the year.

We identified the following areas for improvement:

- Continue to review the effectiveness of the current reporting and systems to accurately capture the underlying data and to ensure the data is complete. Systems and processes should be formally documented and regular training provide to all staff involved;
- Perform a regular weekly or even daily quality review of data entered into the Customer Request Management system (CRM) in relation to complaints, service requests and response times to ensure it is complete, accurate and supportable. Reviews should also focus on following up unclosed jobs, ensuring all data fields are updated and review of unusual response times. We would expect that these reviews are formally evidenced by way of a date and signature;
- Ensure data fields include information to clearly show why data has been amended or re-categorised with a clear audit trail of any changes made and who authorised these;
- Document any calls that are excluded as DIA service requests or complaints. This may require additional fields to be added to the existing CRM if this information is not already captured;
- Continue to review DIA guidance to ensure that the data being captured and reported meets the mandatory reporting requirements. We expect that there will be further clarification around these measures as they become embedded into the annual reporting; and
- Ensure there is a system in place to check contractor times recorded are accurate instead of relying solely on the time that the contractor/staff noted. This is important to ensure accurate monitoring of performance by contractors against the Council's key performance targets.



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### **Management comment**

*We have started a review of the current reporting – both in terms of data capture and the way the system reports it. There have been a number of changes recently to the customer service team (who field service requests during working hours) and training will be provided to these people once the new procedures are finalised. At that time, we will talk with our after-hours call centre provider to ensure their staff are familiar with our requirements.*

*We are introducing a weekly review of data entered into the service request system, to be signed off by the relevant activity manager. This will enable early highlighting of any inaccuracies or undue delays, as well as ensuring these managers are aware of the performance of their teams and contractors in responding to the community. These reviews will be cumulative from the start of the financial year to be sure that any overdue/unclosed jobs are not lost sight of.*

*A scrutiny is in progress over the data fields in the service request system. There will be instances when re-categorisation is necessary (e.g. a request for ponding of water at an intersection may be reported as a roading issue but, on investigation, really be a storm water drainage matter). Re-categorisation is treated as an action and, as such, allows the identity of staff doing this to be shown*

*All requests from staff to attend to a defect are now being dealt with as internal service requests so will automatically be excluded from the assessment of customer requests or complaints. It will still be feasible for managers to view their team's performance with such requests – which (if dealt with promptly) will potentially avoid requests from the community. We are asking Internal Affairs to verify this is the approach they expect.*

*Contractors are being asked to provide the time of getting to a site as well as when the problem, which was the subject of the request/complaint has been fixed.*

### **2.3 Property, plant and equipment**

We reviewed and confirmed the Council's assessment that there was no significant difference between the carrying amount and fair value of its operational and infrastructural assets that would trigger the need for a revaluation for the year ended 30 June 2016.

## **3 Significant findings from the audit**

### **3.1 Expenditure system**

Having effective internal controls in place is important as it safe guards the staff and reduces the risk of unauthorised expenditure against the Council either unintentionally or through fraudulent activity.

We reviewed the Council's electronic and manual expenditure system to identify whether there were effective controls in place. Our work identified deficiencies in expenditure internal controls which the Council should rectify in a timely manner. Our recommendations are listed below. We also refer you to the issues raised in previous years that are included in Appendix 2.

### 3.1.1 Creditors master file

#### Recommendation

Implement an Independent review of all changes to the creditors master file and evidence this review on a system generated report. This report should be independently generated and cover the entire period from the last review to ensure all changes for the period are captured.

#### Findings

Our testing identified that the:

- Review of the creditors master file change report was not independent as the reviewer had edit access to make changes to the system; and
- Creditors master file change report did not cover the entire period under review, therefore we could not assess the completeness of the changes made during the year.

Ensuring there is effective internal control around the creditors master file changes report will mitigate the risk of errors or inappropriate changes.

#### Management comment

- 1 *Independent Review; with the small size of council staff we often have more open system access than optimal from a control point of view in order to back up other staff on leave, off sick, etc. In the period under review and the last few years it is the case that the originating and checking staff have had have this access. With staff changes, new staff and the current cross training of staff means that we can now have an independent checker who does not have access and two staff who are trained and have access to master data creditors maintenance to retain the cover we require.*
- 2 *System Reporting Constraints; the NCS system sits on a dated Cobal based flat file structure which was very efficient in its day with the restricted computer power available at the time.*
  - (a) *This is proving a constraint in Creditors, Payroll and in Purchase Orders with Financial Authorities. The constraint we face is that the changes are recorded in the appropriate date but this file structure does not allow reporting easily for the given period or date range as requested by Audit.*
  - (b) *Our understanding from NCS is that the current reports operate on a runfile process from the last runfile date. We are endeavouring the get this in writing as a system note from our software supplier.*
  - (c) *We will change our runfile processing date to run for creditors, with payroll to be on the first day of the next month rather than fortnightly. However the report will not have a date range on face of the report.*

- (d) We have also tried to export this information using SQL queries and have also investigated reporting options from NCS without success so far.
- (e) Our understanding is that with next NCS upgrade to version 4.0 moves the system to a true SQL database structure which replaces the old Cobal based database which should allow fuller access and period selectable reporting across the database.

### 3.1.2 Delegated financial authority

#### Recommendation

Independently review changes to financial delegations on a monthly basis. We recommend that this check should be included as part of the current month end review process.

#### Findings

There is currently no independent post input review of changes made to the approved delegated financial authority updates into the Financial Management Information System.

An independent post input review is important to provide assurance that any changes to delegations are both accurate and appropriately authorised.

#### Management comment

*This is noted, however changes to Delegations happen relatively infrequently and see system constraints above.*

### 3.1.3 Electronic purchase order usage

#### Recommendation

Generate a system report to allow the Council to monitor the level of purchasing processed outside the electronic purchase order system.

#### Findings

The Council has implemented the electronic purchase order system to ensure there is adequate segregation of duties in place to mitigate the risk of unauthorised expenditure.

We found that currently no report is run which can quantify the value of purchases made through either the electronic or manual purchase order systems. Monitoring the usage of the electronic system will allow appropriate action to take place if staff are using the manual purchase order system when it is not appropriate.

We note that the manual system allows staff to raise and approve a purchase order and also receipt the goods as long as the expenditure is within their delegated authority. This creates a risk to the Council the principles of good internal control (such as an independent person to approve the purchase order or receipt the goods) can

be avoided for dollar amounts that are within delegations. This could mean that goods or services that are for a personal purpose could be purchased by staff and paid for by the Council and go undetected.

### **Management comment**

*This is not an issue with the Electronic Purchase Order but rather a Manual Payments System issue in our view.*

*As Audit is aware the electronic purchase order system replaced a manual purchase order book system that provided little financial control, no tolerance monitoring, and no authorisation evidence prior to purchase commitment. The purchase orders are reviewed on a regular basis by finance staff in the Purchase Order system and a number of reviews of this expenditure have occurred with Internal Audit with more work planned.*

1. *As Audit is aware it is not practical for all payments to be made via a purchase order system. All Manual payments are held in a file which Audit have reviewed and staff review of this indicates that the bulk of payments have some other control element present to prevent irregularities. In Council's view the bulk (in dollar value) of manual payments are those which by their nature have a compensating control present in that they are paid in response to deducted payments or regularly monitored utilities expenses. Many of these items can effectively be regarded as "held in trust" by Council and include;*
  - a. *GST and PAYE payments to Inland Revenue with the appropriate tax return*
  - b. *Grants approved by Council and often received from third-parties, such as Dudding Trust, etc.*
  - c. *Agency payments received by Information Centres for third-party services such as Inter-City, Bluebridge Ferries, etc.*
2. *Repayment of "debtor" payments when appropriate where requested from a lawyer or the debtor;*
  - a. *Rates refunds for property sales, overpayments, etc*
  - b. *Refund of dog fees, such as if a dog is deceased following registration*
3. *Payment for services across Council for major Utilities such as Electricity, phones, etc where budgetary controls exist.*
4. *Re-imburement of petty cash where all payments are supported by evidence of appropriate expenditure.*

*The above payments constitute the vast majority by value of payments. Other manual payments are unusual and so are noticed by Finance staff (and potentially alerted to the Group Manager, Finance & Business Support). We do agree however that additional monitoring is required and intend to do the following;*

1. *When processed the run file documenting manual payments will be added to the manual payments file (it is currently checked against the payments in the file but filed separately which will included for completeness for both Finance and Audit).*
2. *A number of small payments were noted for the local Supermarket for catering at meetings. These were appropriately authorised but an additional review by finance staff for the appropriateness of expenditure will be actioned.*
3. *Continue to work with our software supplier to enable better reporting of manual and purchase order payments both in total and also by specific times.*

### **3.2 Suspense accounts**

#### **Recommendation**

Reconcile and clear all suspense accounts at year-end.

#### **Findings**

We found one suspense account which was not cleared out which was being accounted for as a liability. On review of this account it was identified that this suspense account contained both assets and liabilities with the net balance being presented in the financial position. This accounting treatment is not in line with the accounting standards.

It is important for Council to monitor and clear out suspense accounts on a timely basis to ensure accurate reporting by Council.

#### **Management comment**

*This situation occurred due to a change in the AON insurance contract renewal date moving from June to October, so that for the first time at year end there was a prepaid asset balance in this account which was normally a liability account. As this renewal date will continue these accounts have been separated with additional General Ledger Accounts and as with all Suspense accounts they are reconciled monthly and will be monitored on a quarterly basis.*

### **3.3 Payment dates for targeted rates for water supply**

#### **Recommendation**

Preview Council's rates resolution and, if appropriate, seek independent advice over whether the resolution meets the requirements of section 24 of the Local Government (Rating) Act 2002 in relation to payment dates for targeted water rates.

#### **Findings**

The High Court has recently considered the requirements of section 24 of the Local Government (Rating) Act 2002. Section 24 requires rates resolutions to specify the due dates for the payment of rates. In an interim judgment affecting the Northland Regional Council, the High Court found that the regional council's rates resolution did

not meet the requirements of section 24 because it specified payment dates by reference to dates to be set by collecting territorial authorities. The High Court said that a rates resolution should include calendar dates for the due dates for rates. It was not sufficient to define the due date by reference to some other document.

The High Court found other issues with the way the territorial authorities were collecting rates for the regional council, but has not yet determined what relief will be given.

It is appropriate for all councils to consider the High Court's view of the requirements of section 24 of the Local Government (Rating) Act 2002, and how the judgment might affect them.

From our review we note the Council has not specified calendar dates in its rates resolution for targeted rates for water supply.

Although the High Court did not consider the issue of dates for targeted water rates, including volumetric or metered water rates, we believe this is a potential risk for the Council to consider.

#### **Management comment**

*This matter has been referred to Simpson Grierson for advice which has been received.*

*Council will set three due dates for metered water each year, from the rates resolution to be adopted for 2017/18. One of those dates will be in the following financial year – rating for metered water supply is retrospective – and consumption before the start of the financial year will be charged at the amount per m<sup>3</sup> for the previous year and the amount after the start of a financial year charged at the amount per m<sup>3</sup> for the current year.*

*Because there is a low level of arrears, Council does not consider it necessary to reset section 19 rates in 2016/17 under section 119 of the Local Government (Rating) Act 2002.*

### **3.4 Capital work in progress (WIP)**

#### **Recommendation**

Review the capital WIP balance to:

- clearly identify projects included in the balance;
- perform an impairment assessment over the outstanding WIP balance at year-end; and
- ensure projects are capitalised on a timely basis once they are ready for use.

## Findings

We were not able to obtain a detailed listing of the projects that make up the WIP balance at year-end. WIP is currently calculated as a balancing figure by taking last years WIP balance, adding additions for the year and deducting capitalised assets in the current year.

We understand the current process of capitalising is done once the last invoice has been received for that job, rather than capitalising when the asset is ready for its intended use. This runs the risk that depreciation for assets completed is not fairly reflected in the financial statements.

By not being able to ascertain what makes up the WIP balance raises concerns over the recoverability of some of the items included. There is a risk that there are items within the balance which should have been expensed through the surplus or deficit.

With the Council revaluing their assets next year it is very important that all assets that should be capitalised are. Otherwise there is a risk that not all assets will be revalued.

Ensuring the revaluation information is complete is important not only for the financial statements but also for Asset Management Plans (AMPs) as this data feeds into the Council's capital work programme that will form part of the 2018-28 Long Term Plan. If the information is not accurate then this effects the Council's reliability of budgets and potential levels of service.

## Management comment

*This issue has been an issue for a number of years and relates to contract staff not following fully the concepts within ANZA standards 3910, 6, 7, relating to practical completion of the projects which should align with the accounting capitalisation but does not. Subsequent to this practical completion milestone any additional capitalisation adjustments with final rectifications and settlement of retentions and contract bonds can be capitalised in a standard contract process which aligns with the accounting treatment rather than waiting until final costs are received.*

### 3.5 Carry forward of capital expenditure

#### Recommendation

Continue to reduce the amount of capital expenditure carried forward to the next financial year.

#### Findings

We note that the Council has significant capital expenditure carried forward to the next financial year. We understand this was partly a result of the June 2015 flooding event as resources had to be diverted to repair flood damage.

There is a risk that having high carry forwards could have the potential to impact on the levels of service being provided. High carry forwards can also reflect negatively

on the control environment and financial management and undermine the reliability of financial forecasts.

We understand that management is aware of the magnitude of the carry forwards and are working to reduce this to an acceptable level.

We recommend that when setting budgets that a reasonable estimate is included based on what is achievable after making allowances for the time taken to obtain resource consents and the availability of contractors to fulfil the work.

We will continue to monitor the Council's progress in addressing this matter as part of our future audits.

#### **Management comment**

*The largest sums for carry forwards were for projects needing consents from Horizons. The continuing presence of approved funding is an unambiguous indicator (to Horizons and the community) of Council's intentions to undertake such projects. We do not intend to change that approach.*

*However, an analysis of capital under-expenditure in 2015/16 showed other causes and the development of the capital budget for 2017/18 will look for stronger assurance that the projects are realistic, have a clear management plan, and have a high probability of being completed during the year (at least that part which is covered by the capital expenditure provision).*

*Council also intends to either re-implement its job costing system or to implement Project Accounting in the NCS system to provide one clear source and more specific tracking of these projects and their carry forwards over multiple years. There are some system constraints currently with NCS as noted above but with careful management this could also assist with WIP and the capitalisation of assets in Asset Finda (Council's asset management system) as noted below.*

### **3.6 Contract management**

#### **Recommendations**

Endorse an integrated policy for organisation-wide use and review the Council's current contract management system for appropriateness.

Monitor service contracts between contractors and the Council against the Key Performance Indicator's (KPI's); to confirm the work performed is completed to a satisfactory standard.

#### **Findings**

We reviewed how contracts are managed within the Council. We found that:

- There is no integrated policy for organisation-wide use; and
- The contract management system in place could be improved.



While there are external contract management guidelines available which the infrastructure managers maybe familiar with, the rest of the Council might not have the same level of awareness.

The contracts that define the services being provided by third parties need to be well managed to ensure that what is being paid for is delivered effectively.

Contract Management is about ensuring that all obligations under those contracts are fulfilled and is fundamental to efficient and effective service delivery. It impacts on the Council's achievement of its objectives, the quality of its operations, value for money, probity, management decision making, financial and performance reporting.

Having an integrated policy for organisation-wide use would ensure there is consistency in the expected approach for contract management. A fully functional contract management would capture all contracts and link them directly to the FMIS to help management and Council to actively manage their contracts. It would also provide sufficient information on performance that can be linked to payments throughout the contract and used to assist contract renewal decisions.

#### **Management comment**

*An organisation-wide policy will be developed having regard for the guidelines in place at Manawatu District Council.*

*Monitoring of current contracts (with annual value of \$50,000 or more) will be reviewed, initially by the Management Team (with Internal Audit assistance, if available), and subsequently to the Audit/Risk Committee.*

### **3.7 Project management**

#### **Recommendation**

Consider:

- formalising the methodology for managing projects;
- having a planned approach to post implementation review in place; and
- routinely subjecting significant projects to independent quality assurance (IQA) reviews.

#### **Findings**

Project management is the planning, delegating, monitoring and control of all aspects of the project, and the motivation of those involved, to achieve the project objectives within the expected performance targets for time, cost, quality, scope, benefits and risks.

During our review of project management practices within the Council, we found that there is no formalised, documented methodology for managing projects; and no planned approach to post implementation review (PIR) which could include independent quality assurance reviews on significant projects.

A structured approach to post implementation review helps identifies lessons learnt from past projects and applies them to current projects.

Given the turnover in staff, having a formalised, documented methodology in place would help ensure a consistent approach within the Council.

We understand that several staff are currently undertaking formal project management training.

**Management comment**

*Formalised, documented project management methodology will be introduced for major projects, (including post-implementation review); progress with these projects will be an item on the fortnightly Management Team agenda, and will continue to be reported regularly to Council committees.*

*Training on project management tools such as Microsoft Project has been provided and purchase of a number of software licences has also occurred.*

*Improved project cost management via NCS job costing or project accounting implementation is also planned.*

**4 Review of Procurement**

We completed a review of the joint procurement process undertaken by Manawatu District Council, Horowhenua District Council, and Rangitikei District Council. This was for the tendering of Road Maintenance Contracts across the three Councils. We reviewed the process' compliance with both good procurement practice and the Councils' procurement procedures.

Overall we found that the processes used in this joint procurement process were consistent with accepted good procurement practice and MBIE's Government Rules of Sourcing with some improvements noted. See Appendix 2 for a copy of the report.

**5 Status of previous recommendations**

The status of each matter that was outstanding in last year's report to the Council is summarised in Appendix 3.

Summary of action taken against previous years' recommendations:

Number of recommendations from previous years' audits	Current status
11	Closed - Matters that have been cleared
6	In progress - Progress is being made, but not yet fully resolved
11	Outstanding - No progress has been made

This summary needs to be read in conjunction with the status of recommendations raised in previous years' management reports as detailed at Appendix 2.

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## Appendices

**Appendix 1: Explanation of priority rating system**

**Appendix 2: Detailed finding regarding our review of Procurement practice**

**Appendix 3: Status of previous recommendations**

**Appendix 4: Mandatory disclosures**

## Appendix 1: Explanation of priority rating system

Our recommendations for improvement and their priority are based on our assessment of how far short **the Council** is from a standard that is appropriate for the size, nature, and complexity of its business.

We have developed the following priority ratings for our recommended improvements:

### **Urgent**

Major improvements  
required

### **Needs to be addressed *urgently***

These recommendations relate to a significant deficiency that exposes the District Council to significant risk. Risks could include a material error in the financial statements and the non-financial information; a breach of significant legislation; or the risk of reputational harm.

### **Necessary**

Improvements are necessary

### **Address at the earliest reasonable opportunity, generally *within 6 months***

These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness that could undermine the system of internal control or create operational inefficiency.

### **Beneficial**

Some improvement required

### **Address, generally *within 6 to 12 months***

These recommendations relate to deficiencies that result in the District Council falling short of best practice. These include weaknesses that do not result in internal controls being undermined or create a risk to operational effectiveness. However, in our view it is beneficial for management to address these.

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## Appendix 2: Detailed findings regarding our review of Procurement practice

As part of our 2016 audit we completed a review of the joint procurement process undertaken by Manawatu District Council, Horowhenua District Council, and Rangitikei District Council. This was for the tendering of Road Maintenance Contracts across these three Councils. We reviewed the process' compliance with both good procurement practice and the Councils' procurement procedures. Our observations are detailed below.

### Procurement in practice

Overall, we found that the processes used in this joint procurement process were consistent with accepted good procurement practice and MBIE's Government Rules of Sourcing. We observed the following areas which demonstrated this.

- Conflict of interest declarations were completed in a timely manner by those on the evaluation team. This is well before tender documents have been completed.
- The Procurement Strategy provided good detail on the method, timelines, and requirements of the tender. Information regarding the length and type of the contract was also included.
- The tender document provided good detail on the conditions of tendering, parties' expectations, and a description of the contract. We found that there was sufficient information on this document to ensure that tenderers knew what was required to be submitted and when, and how the tender process would operate.
- Evaluation plans provided good detail on the proposed evaluation approach. This included the identification of key staff, timelines for each stage of the evaluation, and the evaluation method to be used.
- Tender documentation was appropriately distributed to all prospective tenderers via Tenderlink. This ensured that potential tenderers were given equal opportunity to submit tenders.
- Communications to tenderers were distributed as Notices to Tenderers. This upheld the requirement for a single point of contact from the Council leading the process and ensured that tenderers were receiving notices and clarifications at the same time. Communications were clear and appropriate to the issue being addressed. We did note one Notice being sent to tenderers cancelling a tendering meeting that was to be held the day that the Notice was sent out. The Councils need to ensure that the timing of its notices are appropriate and timely. This adds to the fairness of the process.
- We sighted evidence that the closing and checking of tender submissions was managed appropriately. This included the checking of submissions to ensure that they adhered to tender requirements before being passed to the evaluation team. This pre-checking ensured that additional pages added to those of one tenderer's submission were excluded and ensured the fairness of the process.

- The tender evaluation report provided good detail on the process followed and was consistent with other evaluation evidence sighted. We note that the evaluation plan required a non-price evaluation report to be completed prior to the opening of the price envelopes. We were unable to sight this interim report and were informed that while one had been completed it could not be located. The Councils need to ensure that all of its records, particularly signed versions, are retained and easily accessible for future reference. This helps the Councils defend any challenge to the process as well as being able to transfer learning from one process to another.
- Letters to successful and unsuccessful tenderers provided good detail on the outcome of the evaluation. We do note that letters did not provide unsuccessful tenderers the opportunity for a tender debrief, though we later clarified that these were requested anyway and did occur. The opportunity for a debrief allows unsuccessful tenderers to learn from their tender's deficiencies in order to improve on future submissions. We would expect these to be offered to all unsuccessful tenderers.

Other than those already mentioned above, we believe that the following improvements could be applied to future procurements to ensure the robustness of the process.

- Conflict of interest declarations should be signed off by the appropriate authority at the time that they are signed off by the person completing the declaration. This dual signing ensures that any risks have been appropriately considered and accepted by both the signee and the one-up authority. All of the conflict of interest declarations that we sighted were signed off in a timely manner by the person completing the declaration, but were not signed off for approval until tender submissions had been opened. This delay in signing creates the risk of issues arising from the continued involvement of someone with identified conflicts.
- Declarations should be regularly updated, both actively and at key stages of the procurement process. This ensures that declarations remain timely at any point of the process. Each update should also be signed off by the appropriate authority. We did not sight any evidence that declarations had been updated at any time after initial declarations had been completed. As more information becomes available the greater the pool from which a conflict of interest may arise. Updates to declarations may be in the form of updated declaration forms or asked and minuted at the beginning of subsequent meetings.
- Declarations should be completed by those with the ability to influence the decision of the evaluation team, regardless of whether or not these individuals have decision making power. This requirement extends to consultants, advisors, and auditors involved in the process. We sighted declarations from those on the evaluation team but did not sight declarations from the probity auditor or any subject matter experts. Given that advice from these individuals assist the evaluation team in forming their conclusions, we could have expected declarations from them too.
- A business case should be prepared for all procurements of significant value and risk. The detail contained within these include justification for the procurement, funding approval, and cost estimates. While we sighted a procurement strategy that covered all three procurement processes, we note that the purpose of a procurement strategy or plan is distinctive from a business case which justifies starting the procurement in the first place.

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- A procurement strategy or plan should specify the roles and responsibilities of those involved in the process. This includes those sitting on the evaluation team and any advisors to the process.
  - Risk should be considered during the procurement planning staff. These risks relate to the procurement process rather than the contract. A good risk assessment includes identification of the risk, analysis of the consequences and likelihood, and identification of mitigation strategies. Risks should also be assigned risk owners to ensure that accountability for each risk is maintained. We did not sight evidence that risk had been assessed as part of the procurement.
  - While the procurement strategy identified the broad scope of the procurement, we would expect to see more specificity around timing and quality of what was being procured.

#### **Management comment**

*Council will review its procurement processes to give greater robustness over:*

- *the business case for the procurement (and its approval as a pre-requisite for the procurement process)*
- *risk assessment*
- *roles and responsibilities of staff involved*
- *conflicts of interest declarations,*



## Appendix 3: Status of previous recommendations

### Outstanding matters

Recommendation	Current status	Priority	Management's proposed action
<b>Assurance over payment runs</b>			
Reconcile the approved postings input report to the payment run.	Outstanding We note that this is isolated to the manual expenditure system and that these manual payments are becoming fewer and fewer.	Necessary	Refer to the Management Comment regarding manual payment oversight and controls where the run file or approved posting input is reconciled and checked to the batch.
<b>Rates Remissions</b>			
Review the level of rates remissions on a regular basis to ensure that the rates being remitted remains reasonable and affordable for the District Council.  Review the current practices to ensure the District Council reduces the risk of unnecessarily remitting rates to ratepayers who are no longer eligible.	Outstanding	Beneficial	The basis for review will be made explicit in Council's policies. Council has a programme for most remissions. For example, community organisations are required, on an annual basis, to confirm their eligibility; Council's policy requires a review on a six-yearly basis of those receiving remissions on account of land-locked Maori land in multiple ownership. A property benefitting from the remission applying to contiguous rating units are monitored when sold.



Recommendation	Current status	Priority	Management's proposed action
<b>Bulls information centre and library cash receipting</b>			
A number of cash receipting controls be implemented at the bulls information Centre and Library.	<p>In progress.</p> <p>All of our recommendations in last year's report to Council have been cleared except for the daily counting of the cash float. Our review over daily banking at the Bulls Library we noted that the float on hand had not been counted for three days.</p> <p>We recommend staff count and sign for the float every morning, as this will help isolate where errors have originated.</p>	Necessary	<p><i>A procedural change is being implemented so that the people rostered on at the Bulls Information Centre and the Bulls Library will email the Community &amp; Leisure Assets Team Leader when the float has been counted and signed – and noting if there are any errors to be probed further.</i></p>
<b>Monitoring of Contractor Performance</b>			
Implement a quality assurance (QA) programme over services contracted out to third parties. This is especially important when the performance of these contractors feed into Council's KPIs, for example responding to roading call outs.	Outstanding	Necessary	<p><i>This is part of the response to 3.6 above.</i></p>
<b>Request for Service System</b>			
Review the process and remind staff of the need to ensure that the request for service (RFS) system is updated on a timely basis.	In progress.	Necessary	<p><i>Dealt with in response to 2.2.2</i></p>

Recommendation	Current status	Priority	Management's proposed action
<b>Journal Approval</b>			
Financial Services Team Leader's journals be approved by the Group Manager Finance and Business Support to ensure that all journals are approved on a one-up basis.	Outstanding	Necessary	<i>These will be signed but it should be noted that these are system generated for input.</i>
<b>Work in Progress</b>			
Perform a detailed review over the general ledger and infrastructure system to ensure that the work in progress balances included in the two systems align.  We recommend that Council ensure work in progress is appropriately capitalised in a timely manner.	Outstanding – See 3.4	Necessary	<i>This is covered in Council's response to 3.4.</i>
<b>Utilities Assets Valuation</b>			
Improve the asset structure and component breakdown within the asset management system, as identified in the peer reviewed report on the valuation.	Outstanding	Necessary	<i>This is an issues for the structure in Asset Finda (the assets system), there is a valuation process underway (Oct-Nov 2016) with MWH and progress on this issue will become clear after this valuation is completed.</i>

Recommendation	Current status	Priority	Management's proposed action
<b>Virus and patch management</b>			
<p>Formal reporting be established to ensure that patches and virus definitions are up to date.</p> <p>We also recommend that databases behind these systems be updated whenever devices change.</p>	In progress.	Necessary	<p><i>The virus protection regime is up-to-date a monthly regime is in place and documented.</i></p>
<b>Project Management</b>			
<p>Perform a review over Council's project management system to ensure that appropriate project management techniques are implemented, including developing a post implementation review (PIR) to bring forward lessons learnt from completed projects to current projects.</p>	Outstanding – see 3.7.	Necessary	<p><i>This is covered in Council's response to 3.7.</i></p>
<b>Marton Pool</b>			
<p>Perform a review of all invoices received from Nicholls Swim Academy to ensure they are paid in accordance with the contract.</p> <p>We also recommend that Council establish a process to ensure the reasonableness of the credit notes received for pool entry fees.</p>	Outstanding	Necessary	<p><i>Before being confirmed for payment (i.e. 'received' in the purchase order system) invoices from the Marton Pool will be referred to the Community &amp; Leisure Assets Team Leader to confirm they are in accordance with the contract</i></p> <p><i>The Pool's record of takings will be reviewed to check alignment with the credit notes.</i></p> <p><i>We intend to include this issue in the Internal Audit programme.</i></p>



Recommendation	Current status	Priority	Management's proposed action
<b>Creditors Masterfile Maintenance Report Review</b>			
<p>Independently review the Creditors Masterfile Maintenance Report back to supporting documentation by a staff member that has no edit-access.</p> <p>We also recommend that adequate supporting documentation for changes made to the masterfile be retained and filed with the Creditors Masterfile Maintenance Report.</p>	<p>Outstanding – see 3.1.1.</p>	<p>Necessary</p>	<p><i>Refer to the Management Comment for 3.1.1</i></p>
<b>Process for removing Manawatu District Council staff from Rangitikei District Council IT systems when they leave</b>			
<p>Establish a process whereby MDC HR staff advise the Council's IT staff when a staff member who is part of the works shared services arrangement is leaving. The Council IT staff can then process that termination through their existing procedures.</p>	<p>In progress.</p>	<p>Necessary</p>	<p><i>This requirement will be reiterated to MDC HR staff, so that the termination in Council's IT systems is done the same way (and time) as with RDC staff.</i></p>

Recommendation	Current status	Priority	Management's proposed action
<b>Credit Card Policy Update</b>			
<p>Update Council's credit card policy be updated to include:</p> <ul style="list-style-type: none"> <li>• Details on who is eligible for a credit card.</li> <li>• A process for cancelling and destroying cards that are no longer required.</li> <li>• Specific reference to good practises to follow when making purchases over the internet e.g. security practises.</li> </ul>	<p>Outstanding</p>	<p>Necessary</p>	<p><i>These proposed changes will be incorporated into the Council's credit card policy.</i></p>
<b>Sensitive Expenditure policy</b>			
<p>Update the sensitive expenditure policy to reflect the use of Council credit cards and reward schemes.</p>	<p>Outstanding</p> <p>We still noted instances of personal credit cards being used instead of Council credit cards.</p>	<p>Necessary</p>	<p><i>The sensitive expenditure policy has been updated to make explicit that Council does not does not participate in air points or other travel loyalty scheme. Sometimes the service provider requests a credit card transaction in preference to a purchase order.</i></p> <p><i>The use of personal credit cards arises when a Council credit card is not available; details of the transaction are recorded in the same way as other claims for personal reimbursement by staff.</i></p>
<b>No Regular Testing of Business Continuity and Disaster Recovery Plans</b>			
<p>Review, update, and testing of Business Continuity plans be carried out to ensure they still meet the needs of Council.</p>	<p>In progress.</p>	<p>Necessary</p>	<p><i>A review (and expansion) of information services staffing enables attention to be given this during 2017.</i></p>

Recommendation	Current status	Priority	Management's proposed action
<b>Earthquake-prone Assets</b>			
Undertake assessments of Council earthquake prone assets to establish the extent of exposure in relation to buildings that do not meet the required percentage of code. Based on the findings of these assessments we recommend that Council take appropriate action to ensure public safety and ensure that these assets have been appropriately accounted for.	In progress. Council is addressing this risk through the town centre plans.	Necessary	Council's strategy is to relocate its administrative offices and public facilities into new or substantially refurbished buildings which exceed the 34% NBS. A programme of seismic strengthening is in progress at Council's water and waste water treatment plants.

### Matters that have been resolved

Recommendation	Outcome
<b>Investment Policy</b> Council perform a thorough review of its Investment Policy to ensure that the policy is appropriate for the level of investment activity currently undertaken by Council.	Closed. Policy was adopted by Council as at 26/02/2016.
<b>Purchase order system</b> The tolerance level in the new purchase order system between the total value of the goods receipted and the original purchase order be tightened.	Closed. Tolerance level is now 10%



Recommendation	Outcome
<p><b>Two authorisers of online banking</b> Two employees be required to authorise online payments.</p>	<p>Closed. - Council accepts the risk. <i>Management comment: while we agree that it is best practice to have two authorisers this comes with a significant administration burden for a small organisation and we feel any risks with our current procedures are being effectively managed. When the file is authorised it has already been checked several times and signed as correct for payment.</i></p>
<p><b>Breach of Investment Policy</b> Ensure Council compliance with the Investment Policy.</p>	<p>Closed. No breaches in 2015/16 after the sale of the Telecom bonds.</p>
<p><b>Bonus listing</b> Investigate whether a report can be generated at year end that will capture all one-off payments and bonuses given to employees during the year.</p>	<p>Closed. Any bonuses are coded as a separate allowance code in the payroll system.</p>
<p><b>Purchase order weakness</b> Obtain updates from your service provider to ensure weaknesses within the system are fixed in a timely manner</p>	<p>Closed. Patch installed by provider, bug fixed</p>
<p><b>Improve procedures for logging and reporting on problems and incidents</b> Log all IT problems, incidents, request, and changes as actions and record them in the service desk system. Establish a consistent approach to service level reporting.</p>	<p>Closed. The backlog of requests has been resolved and reporting on problems, incidents and service requests is now occurring</p>

Recommendation	Outcome
<p><b>IT backup error</b> review of backups and reporting needs to be done to ensure that backups are completing successfully</p>	<p>Closed. External contractors Spark Digital plus the new IT Manager are now monitoring all backups</p>
<p><b>Register of cash received through the mail</b> Reconcile the cheque and cash payments received through the mail to a register maintained by those who open the mail in order to reduce the risk of payments not being recorded.</p>	<p>Closed - Council accepts the risk. <i>Management comment: We believe the extra-cost and benefit required to do this would not provide any additional control benefit to Council and increasingly payments are made by electronic banking either Council initiated or debtor initiated. On that basis we feel any risks associated with current practice are being appropriately managed.</i></p>
<p><b>Smooth travel exposure data post-input review</b> Perform a formal post-input over the smooth travel exposure data sets which are entered into the RAMM system.</p>	<p>Closed - Council accepts the risk <i>Management comment: Data input into Council's asset management systems is confined to roading assets. There has been a significant upgrade to the way RAMM Contractor (application in the system) and the RAMM database interact, with a robust checking process in both RAMM contractor and the database. Staff undertake checks on contractor data entry accuracy which is critical for the forward works programme approved by and the associated payments from NZTA.</i></p>
<p><b>NZTA subsidy claims</b> Claim all subsidised costs in a timely manner and review all claims for accuracy before being submitted to NZTA.</p>	<p>Closed. No issues found during the 2015/16 audit. We will continue to review NZTA claims through the course of our audit work.</p>



## Appendix 4: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carry out our audit in accordance with generally accepted audit standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We confirm that, for the audit of the Rangitikei District Council's financial statements for the year ended 30 June 2016, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.</p> <p>Other than the audit, we have not provided any engagements for the Rangitikei District Council during the year ended 30 June 2016. In addition, we have no relationships with, or interests in, the Rangitikei District Council.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Rangitikei District Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Rangitikei District Council during or since the end of the financial year.</p>

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Area	Key messages
Unresolved disagreements	We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.

# Attachment 3

## NZ TRANSPORT AGENCY INVESTMENT AUDIT REPORT

### Monitoring Investment Performance

Report of the investment audit carried out under section 95(1)(e)(ii) of the Land Transport Management Act 2003.

<b>Approved Organisation (AO):</b>	<b>Rangitikei District Council</b>
<b>NZ Transport Agency Investment (2015 - 2018 NLTP)</b>	<b>\$22.6m (budgeted programme value)</b>
<b>Date of investment audit:</b>	<b>29 August - 01 September 2016</b>
<b>Investment Auditor:</b>	<b>Ron Wheeler</b>
<b>Report No:</b>	<b>IARWI-1666</b>

#### OBJECTIVE

The objective of this audit is to provide assurance that the New Zealand Transport Agency's investment in Rangitikei District Council's land transport programme is being well managed and delivering value for money. We also sought assurance that the Council is appropriately managing risk associated with the Transport Agency's investment. We recommend improvements where appropriate (for audit programme refer appendix A).

#### EXECUTIVE SUMMARY

Rangitikei District Council manages its procedures for delivering its land transport programme well. However, some of its supporting administration processes do not meet Transport Agency requirements.

A recommendation from the previous audit had not been actioned in relation to ensuring a current signed service level agreement was put in place with Manawatu District Council for the delivery of in-house professional services in accordance with its shared services arrangement. Council also needs to ensure it engages independent and appropriately qualified people for carrying out road safety audits.

Financial assistance claims for the four years ending 30 June 2016 were successfully reconciled to the general ledger. Council has good audit trails in place linking operational expenditure to its financial management systems.

Procurement of contract suppliers is well managed. Value for money options are considered in the context of Council's shared infrastructural services arrangement with Manawatu District

#### DISCLAIMER

While every effort has been made to ensure the accuracy of this report, the findings, opinions, and recommendations are based on an examination of a sample only and may not address all issues existing at the time of the audit. The report is made available strictly on the basis that anyone relying on it does so at their own risk, therefore readers are advised to seek advice on specific content.

Council and measured benefits are being realised.

In its response to this audit report draft, Council disagrees that a previous audit recommendation is outstanding. An action plan submitted by Council to address other audit report matters should sufficiently cover off the previous audit recommendation.

## RISK ASSESSMENT

	Issue	Risk Assessment**
Q.1	Previous audit issues	High
Q.2	Financial management	Low
Q.3	Procurement	Low
Q.4	Contract Management	Medium
Q.5	Professional Services	High

\* Key to risk assessment - refer appendix B

**Note:** Before being finalised this report was referred to Rangitikei District Council for comment. Council's response is appended as Appendix C and specific responses included in the body of the report.

## RECOMMENDATIONS SUMMARY

That Rangitikei District Council:

Q.3	When reviewing its documented procurement strategy, includes the requirements introduced by the Transport Agency's policy changes effective from 1 <sup>st</sup> July 2015.
Q.4	Confirms it will engage the services of independent and appropriately experienced people to carry out road safety audits in future.
Q.5	Confirms a current signed service level agreement with Manawatu District Council is in place for the delivery of its land transport professional services.



**FINDINGS**

<b>Question 1:</b>	<b>What issues, if any, remain unresolved from the previous procedural audit?</b>	<b>High</b>
Findings	<p>The previous procedural audit report from the September 2012 audit made five recommendations. With the exception of one issue the remaining four recommendations have been addressed.</p> <p>The outstanding matter relates to the need for Rangitikei District Council (RDC) to have a signed agreement in place for the provision of professional services delivered as part of its local authority shared services arrangement with Manawatu District Council (MDC). Council must ensure the recommendation, further discussed in the findings at question 5, is actioned.</p>	
Rangitikei DC response	<p>We disagree that this is an outstanding matter, and think there has been a misunderstanding of the arrangements between the two councils. I elaborate further when responding to Question 5.</p>	

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<b>Question 2:</b>	<b>Does the Rangitikei District Council have good financial systems in place to effectively manage the NZ Transport Agency's investment in the delivery of its land transport programme?</b>	<b>Low</b>
Findings	<p>Council's financial systems are well managed and appropriate trails between programmed expenditure and the general ledger are evident. Funding assistance claims for the four financial years ending 30 June 2013, 2014, 2015, and 2016 were successfully reconciled to Council's general ledger.</p> <p>Funding eligibility for a review sample of 2015/16 transactions was confirmed. Invoices were correctly coded and appropriately approved for payment.</p> <p>Activity on a sample of contract retentions was tested and confirmed to source records. The account is monitored and well managed.</p>	
Rangitikei DC response	<p>We agree with the findings.</p>	

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<b>Question 3:</b>	<b>Has Rangitikei District Council acted in accordance with its endorsed procurement strategy and the NZ Transport Agency's procurement requirements?</b>	<b>Low</b>
Findings	<p>A sample of one professional services and eight physical works contracts was selected for the review of Council's contract procurement procedures (refer appendix B). The sample met the Transport Agency's procurement</p>	

	<p>requirements and procedures were consistent with Council's procurement strategy.</p> <p>Council's procurement strategy is presently under review. The revised document needs to reflect amendments to Transport Agency policy introduced in July 2015. The changes affect procedures for the approval, delivery and accounting for professional services delivered in-house, These matters are further discussed in the findings at question 5.</p>
Recommendation	That Rangitikei District Council, when reviewing its documented procurement strategy, includes the requirements introduced by the Transport Agency's policy changes effective from 1 <sup>st</sup> July 2015.
Rangitikei DC response	<p>We agree with the findings.</p> <ul style="list-style-type: none"> <li>• Council will, when reviewing its documented procurement strategy, include the requirements introduced by the Transport Agency's policy changes effective from 1 July 2015. That review will be completed by 31 March 2017.</li> </ul>

\* \* \*

<b>Question 4:</b>	<b>Has Rangitikei District Council contract management practices in place to ensure contracts are managed effectively?</b>	<b>Medium</b>
Findings	<p>Appropriate systems are in place to ensure contracts are managed effectively. Documented examples of regular supplier meetings and management reporting are held on contract files. Reliable processes for managing and documenting contract variations was evident.</p> <p>Council's approach to carrying out road safety audits by using its own staff is inconsistent with Transport Agency requirements. Council needs to ensure these audits are carried out by appropriately experienced people who are independent of Council, designers or contractors who understand the Safe System approach. The <a href="#">Road safety audit procedures for projects</a> guidelines (Transport Agency May 2013) provide guidance in relation to road safety audits. This publication includes samples of a completed audit form, a completed exemption form, and checklists.</p> <p>A number of key documents were noted to be missing from contract files and electronically filed documents appeared to lack consistent naming protocols. Council may find using a contract document checklist could assist with the administration of its contract documents.</p>	
Recommendation	That Rangitikei District Council confirms it will engage the services of independent and appropriately experienced people to carry out road safety audits in future.	
Suggestion	That Rangitikei District Council consider using a contract document checklist to assist with contract file administration.	
Rangitikei DC response	<p>We agree with the findings.</p> <ul style="list-style-type: none"> <li>• Council will engage the services of independent and appropriately experienced people to carry out road safety audits in future.</li> </ul>	



	<ul style="list-style-type: none"> <li>• Council will use a contract document checklist to assist with file administration.</li> <li>• Both arrangements will be in place by 31 December 2016.</li> </ul>
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\* \* \*

Question 5:	Are Rangitikei District Council's professional services providing value for money?	High
Findings	<p>Resourcing issues, to enable the delivery of in-house professional services, led to a shared services arrangement with neighbouring Manawatu District Council to provide staff to deliver these services to Council. Both parties view this arrangement for providing these services in-house as being the most favourable economic solution.</p> <p>In November 2007 a memorandum of understanding was signed between RDC and MDC which provided a framework for the asset management shared services arrangement between both councils. Then, in February 2009 an agreement entitled "Framework for Service Level Agreement for Management and Physical Services" was signed by both parties. This agreement appears a general specification document for delivery of management and physical services across both councils' infrastructural services groups. However, it does not address detailed levels of service specific to the delivery of land transport professional services. The previous audit found that an agreement for delivery of professional services in 2010/11 had expired. Council was unable to provide evidence of a subsequent or current documented agreement during this audit.</p> <p>Council must ensure it puts in place a current signed service level agreement for the delivery of its land transport professional services, with Manawatu District Council.</p> <p>NZ Transport Agency policy changes coming into effect on 1<sup>st</sup> July 2015 introduced new procedures for the way in which Approved Organisations obtain and retain approval for claiming funding assistance for the delivery of in-house professional services. Approved Organisations must document the formal management structure for in-house operations and address how professional services are to be procured, including which services (if any) are to be obtained in-house, in their procurement strategy (refer hyperlink <a href="#">NZTA Planning &amp; Investment Knowledge Base</a>) Approved Organisations must also document the methodology covering how costs for in-house services, including associated overheads and administration are to be determined and allocated to work categories, and where appropriate to individual approved activities.</p>	
Recommendation	That Rangitikei District Council confirms a current signed service level agreement with Manawatu District Council is in place for the delivery of its land transport professional services.	
Rangitikei DC response	As noted in responding to Question 1, we disagree that the delivery of professional services expired in 2010/11. The following documents do not have an expiry date; they serve in perpetuity until amended by mutual	



	<p>agreement:</p> <ul style="list-style-type: none"> <li>• Memorandum of Understanding for Shared Services between Rangitikei and Manawatu District Council (September 2007);</li> <li>• Framework for Service Level Agreement for Management and Physical Services between Rangitikei and Manawatu District Council (July 2008);</li> <li>• Amendment to the 2007 Memorandum of Understand for Shared Services.</li> </ul> <p>However, we agree that the documents should be updated to incorporate the NZ Transport Agency policy changes that came into effect on 1 July 2015.</p> <ul style="list-style-type: none"> <li>• Rangitikei and Manawatu District Councils will amend their general agreement for the delivery of management and physical services across both councils' infrastructural services groups so that it -             <ul style="list-style-type: none"> <li>○ Incorporates the new procedures for the way in which Approved Organisations obtain and retain approval for claiming funding assistance for the delivery of in-house professional services;</li> <li>○ Details levels of service specific to the delivery of land transport professional services; and</li> <li>○ Documents the formal management structure for in-house operations.</li> </ul> </li> <li>• Rangitikei and Manawatu District Councils will document their respective procurement strategies to show how professional services are to be procured, including which services are to be obtained in-house.</li> <li>• This updating will be in place by 31 March 2017.</li> </ul>
<p>Audit Response</p>	<p>The aforementioned documents were reviewed during the audit. Although the 'Framework for Service Level Agreement for Management and Physical Services' document establishes the framework, it does not scope the nature of the roading professional services activities to be delivered. In this regard there is no performance measures against which assurance can be provided that RDC is getting what it's paying for.</p> <p>The auditor is satisfied that RDC has given assurance that its documents will be reviewed and amended to reflect the Transport Agency's policy changes by 31 March 2017. Once executed, this action will provide visible indicators for assessing delivered activities in the future.</p>

\* \* \*

## Audit Programme

1. Previous audit September 2012
2. Land Transport Disbursement Account
3. Final Claims for 2012/13, 2013/14, 2014/15, and 2015/16
4. Transactions (accounts payable) – 2015/16
5. Retentions Account
6. Reconciliation between ledgers supporting final claim and the audited financial statements
7. Procurement Procedures
8. Contract Management & Administration
9. Contract Variations
10. Professional Services
11. Transport Investment On-line (TIO) Reporting
12. Other issues that may be raised during the audit
13. Close out meeting

RISK ASSESSMENT TABLE

Low	<ul style="list-style-type: none"> <li>• Sound processes and procedures.</li> <li>• Reliable management practices.</li> <li>• Quality systems (assurance) in place.</li> <li>• NZ Transport Agency requirements met.</li> </ul>
Medium	<ul style="list-style-type: none"> <li>• Error and omission issues to be addressed.</li> <li>• Limited risk to the Transport Agency.</li> </ul>
High	<ul style="list-style-type: none"> <li>• Systemic and significant issues to be addressed.</li> <li>• Substantial risk to the Transport Agency.</li> </ul>
Critical	<ul style="list-style-type: none"> <li>• Serious issues that must urgently be addressed.</li> <li>• Serious risk to the Transport Agency.</li> </ul>

APPENDIX B

(from Question 3)

**CONTRACTS AUDITED**

Contract Number	Tenders Received	Date Let	Description	Contractor		
<b>Professional Services</b>						
1011	1 Expedited procedure	Oct 2015	Professional Services June 2015 Flood Event	GHD	Estimate Let Price Final Cost	N/A \$238,275 Ongoing
<b>Physical Works</b>						
980	3	May 2015	Roading Structural & Corridor Maintenance	Higgins Contractors	Estimate Let Price Final Cost	\$29,649,416 \$25,727,782 Ongoing
998	3	Apr 2016	Rata Bridge Replacement	Emmetts Civil Construction	Estimate Let Price Final Cost	\$586,460 \$599,478 Ongoing
1005	2	Dec 2015	Street Light Maintenance 2016 - 2018	Alf Downs	Estimate Let Price Final Cost	\$836,925 \$882,625 Ongoing
1013	2	Apr 2016	Mt Curl Rd RP3108 Dropout Repair	Stringfellow Contracts	Estimate Let Price Final Cost	\$249,029 \$225,807 Ongoing
1014	1	Apr 2016	Okirae Rd RP1709 Drainage Improvements & Armouring	I.D. Loader	Estimate Let Price Final Cost	\$245,752 \$290,029 \$293,900
1016	1 *	Jan 2016	Emergency Works 2015 Retaining Walls - Bundle 2	Fulton Hogan	Estimate Let Price Final Cost	Unspecified \$241,954 \$239,624
1019	1 *	Mar 2016	Emergency Works 2015 Retaining Walls - Bundle 5	Stringfellow Contracts	Estimate Let Price Final Cost	Unspecified \$180,251 \$245,230
1023	1 *	May 2016	Emergency Works 2015 Retaining Walls - Bundle 9	Higgins Contractors	Estimate Let Price Final Cost	Unspecified \$270,825 Ongoing

\* Multiple contracts put to tender as one by consultants GHD acting on behalf of Council pursuant to professional services Contract 1011.



14 October 2016

File No: 6-RT-2-1

Ron Wheeler  
Investment Auditor  
New Zealand Transport Agency  
Private Bag 6995  
Wellington 6141

Dear Ron

Monitoring investment performance - Rangitikei District Council – response to the investment audit carried out under section 95(1)(e)(ii) of the Land Transport Management Act 2003.

Approved Organisation (AO):	Rangitikei District Council
NZ Transport Agency Investment (2015-2018 N L T P)	\$22.6m (budgeted programme value)
Date of Investment audit:	29 August - 1 September 2016
Investment Auditor:	Ron Wheeler
Report No:	IARWI-1666

Thank you for the time you took to audit Rangitikei District Council's investment performance and the feedback you have provided. The following is Rangitikei District Council's response to your findings and recommendations.

**Question 1** What issues, if any, remain unresolved from the previous procedural audit?

The previous procedural audit report from the September 2012 audit made five recommendations. Four recommendations have been addressed. The outstanding matter relates to the need for Rangitikei District Council to have a signed agreement in place for the provision of professional services delivered as part of its local authority shared services arrangement with Manawatu District Council.

We disagree that this is an outstanding matter, and think there has been a misunderstanding of the arrangements between the two councils. I elaborate further when responding to Question 5.

Attached are the following documents:

- Memorandum of Understanding for Shared Services between Rangitikei and Manawatu District Council (September 2007);

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Rangitikei District Council, 46 High Street, Private Bag 1102, Marton 4741  
Telephone 06 327 0099 Facsimile 06 327 6970 Email [info@rangitikei.govt.nz](mailto:info@rangitikei.govt.nz) Website [www.rangitikei.govt.nz](http://www.rangitikei.govt.nz)

- Framework for Service Level Agreement for Management and Physical Services between Rangitikei and Manawatu District Council (July 2008); and
- Amendment to the 2007 Memorandum of Understanding for Shared Services.

**Question 2** Does the Rangitikei District Council have good financial systems in place to effectively manage the NZ Transport Agency's investment in the delivery of its land transport programme?

We agree with the findings

**Question 3** Has Rangitikei District Council acted in accordance with its endorsed procurement strategy and the NZ Transport Agency's procurement requirements?

We agree with the findings

- Council will, when reviewing its documented procurement strategy, include the requirements introduced by the Transport Agency's policy changes effective from 1 July 2015. That review will be completed by 31 March 2017.

**Question 4** Has Rangitikei District Council contract management practices in place to ensure contracts are managed effectively?

We agree with the findings.

- Council will engage the services of independent and appropriately experienced people to carry out road safety audits in future.
- Council will use a contract document checklist to assist with file administration.
- Both arrangements will be in place by 31 December 2016.

**Question 5** Are Rangitikei District Council's professional services providing value for money?

As noted in responding to Question 1, we disagree that the delivery of professional services expired in 2010/11. The following documents do not have an expiry date; they serve in perpetuity until amended by mutual agreement:

- Memorandum of Understanding for Shared Services between Rangitikei and Manawatu District Council (September 2007);
- Framework for Service Level Agreement for Management and Physical Services between Rangitikei and Manawatu District Council (July 2008);
- Amendment to the 2007 Memorandum of Understand for Shared Services.

However, we agree that the documents should be updated to incorporate the NZ Transport Agency policy changes that came into effect on 1 July 2015.

- Rangitikei and Manawatu District Councils will amend their general agreement for the delivery of management and physical services across both councils' infrastructural services groups so that it –
  - incorporates the new procedures for the way in which Approved Organisations obtain and retain approval for claiming funding assistance for the delivery of in-house professional services;
  - details levels of service specific to the delivery of land transport professional services; and
  - documents the formal management structure for in-house operations.
- Rangitikei and Manawatu District Councils will document their respective procurement strategies to show how professional services are to be procured, including which services are to be obtained in-house.
- This updating will be in place by 31 March 2017.

#### Summary of Rangitikei District Councils proposed actions

1. By 31 March 2017, Council will, in reviewing its documented procurement strategy, include the requirements introduced by the Transport Agency's policy changes effective from 1 July 2015.
2. By 31 December 2016, Council will engage the services of independent and appropriately experienced people to carry out road safety audits in future and be using a contract document checklist to assist with contract file administration.
3. By 31 March 2017, Rangitikei and Manawatu District Councils will amend their general agreement for the delivery of management and physical services across both councils' infrastructural services groups so that it –
  - a) incorporates the new procedures for the way in which Approved Organisations obtain and retain approval for claiming funding assistance for the delivery of in-house professional services;
  - b) details levels of service specific to the delivery of land transport professional services; and
  - c) documents the formal management structure for in-house operations
4. By 31 March 2017, Rangitikei and Manawatu District Councils will document their respective procurement strategies to show how professional services are to be procured, including those services that are to be obtained in-house.

Yours sincerely



Ross McNeil  
Chief Executive

**Investment Audit of Rangitikei District Council**

Report Number: IARWI – 1666

October 2016

Prepared by:   
\_\_\_\_\_  
Ron Wheeler, Senior Investment Auditor

Reviewed by:   
\_\_\_\_\_  
Tony Pinn, Senior Investment Auditor

Approved by:   
\_\_\_\_\_  
Antony Flux, Investment Assurance Manager (Acting)