

Report to Council on the interim audit of
Rangitikei District Council
for the year ended 30 June 2017

Key messages

Summary

We have completed the interim audits for the year ended 30 June 2017. This report sets out our findings from the interim audit and draws attention to areas where Rangitikei District Council (the Council) is doing well or where we have made recommendations for improvement.

Issues identified during the audit

The following table summarises our recommendations and their priority:

Ref	Recommendation	Urgent	Necessary	Beneficial
4.1	Expenditure coding processes Continue to liaise with the providers of MagiQ to resolve the expenditure coding for complex invoices.		✓	
4.2	Payroll Reviews Implement a system to ensure that there is adequate evidence that key payroll checks and report reviews have taken place during the payroll process.		✓	
4.3	Manual Expenditure Approval Process Implement an independent review process for expenditure that is approved manually to ensure that the expenditure is appropriate and bona fide.			✓
4.4	Sensitive expenditure approvals We recommend that: <ul style="list-style-type: none"> All credit card statements get approved on a one-up basis in a timely manner. Sufficient supporting documentation for purchases be included with the credit card statement. 		✓	
5.1	MagiQ staff access to councils systems Review and enhance process around access to ensure only relevant users have access to Council systems.		✓	
5.2	MagiQ users access levels Develop a report which shows MagiQ users and their access levels so that regular reviews can be done to ensure access remains appropriate		✓	
5.3	Documentation of Change management procedures Develop documented procedures for logging, testing and approving any changes to councils IT systems before the changes are made live.		✓	

Ref	Recommendation	Urgent	Necessary	Beneficial
5.4	Information System Policies Undertake a review and update of IS policies and ensure staff guidance aligns with IS policies. In conjunction with this we recommend that Council staff and contractors be provided training on the policies and recommended practices.		✓	

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

Thank you

We would like to thank the Council and management for the cooperation received during our interim audit visits.



Debbie Perera
Director
11 August 2017

Contents

1 Overview of the Interim Audit5

2 Assessment of your control environment.....5

3 Key financial and non-financial information systems reviewed5

4 Financial System and Controls Improvement areas6

5 Summary of recommendations 10

Appendices12

Appendix 1: Explanation of priority rating system..... 13

Appendix 2: Status of recommendations..... 14

Appendix 3: Follow up of audit recommendations from prior years..... 19

1 Overview of the Interim Audit

The primary purpose of our interim visits was to update our understanding of the Council's control environment and to perform audit testing of systems and transactions. We have done so by discussing the Council's systems and transactions with staff members (principally the Group Manager and members of the finance team), documenting the systems and procedures in place for payroll, expenditure, revenue, fixed assets, non-financial performance, and other ancillary systems, performing walkthroughs of these systems, and relevant testing.

2 Assessment of your control environment

We have performed a high-level assessment of the control environment. This assessment was performed for the purpose of planning the most effective and efficient audit approach, in order to enable us to express an audit opinion on the Council's financial statements and the non-financial information. We considered the overall attitude, awareness, and actions of the Council and management in establishing and maintaining effective management procedures and internal controls.

In performing this assessment we consider both the "design effectiveness"¹ and "operational effectiveness"² of internal control. The explanation of these terms is outlined below. However, it is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

In performing this assessment we have identified areas where we believe the control environment can be improved. These matters are later in this report.

Internal controls

We reviewed the internal controls in place for your key financial and non-financial information systems, as detailed below. Internal controls are the policies and processes that are designed to provide reasonable assurance as to reliability and accuracy of financial and non-financial reporting, as well as compliance with significant legislative requirements. These internal controls are designed, implemented and maintained by the Council and management. Both "design effective" and "operationally effective" internal control is important to minimising the risk of either fraud or misstatement occurring. The responsibility for the effective design, implementation and maintenance of internal control rests with the governing body.

3 Key financial and non-financial information systems reviewed

During our interim visit we completed work on the following areas:

Review of systems of internal control:

- Payroll;

¹ Control is effective to either prevent or detect a material error in either the financial statements and/or non-financial information. The control is "fit for purpose".

² Control has operated effectively throughout the period tested.

- Expenditure;
- Revenue/cash collection;
- Fixed assets;
- Asset management;
- General ledger reconciliations;
- Related parties;
- Investments and debt management;
- Performance management (mandatory measures);
- Legislative compliance systems;
- Sensitive expenditure - testing transactions for compliance with policy; and
- Review of IS controls.

Areas identified during our interim where systems and controls can be improved on are noted in sections 4 and 5 below.

4 Financial System and Controls Improvement areas

4.1 Expenditure coding processes

Recommendation

Continue to liaise with the providers of MagiQ resolve the expenditure coding issues for complex invoices.

Findings

During key item testing of expenditure we found that some expenditure for March and April 2017 was not included in the GL transaction listing. The issue appears to have stemmed from the software upgrade that was undertaken in mid-March, which caused issues with the complex receipting in both April and May this year.

As a result expenditure is not being allocated to all the relevant account codes. We understand that Council is aware of this issue and working with the vendor. Until the issue is resolved a manual reconciliation process has been put in place to ensure that transactions are coded to the correct code.

Management comment

The software upgrade occurred on the week of the 27th of March. The transactions were coded to a "suspense" account when the complex receipting part of Purchase Order system stopped coding fully. These transactions were posted manually to the correct GL

as part of the reconciliation of this account. While the supplier has fixed this issue and a number of others, they have conceded that this upgrade did not have enough testing done prior to release and they have (as at 7 August 2017) applied a large number of "fixes" to our test system as part of remedying this situation. These will be tested fully before being applied to production, which is planned for the week ending the 11 Aug 2017.

4.2 Payroll reviews

Recommendation

Implement a system to ensure that there is adequate evidence that key payroll checks and report reviews have taken place during the payroll process.

Finding

During our review of payroll we noted some inconsistency in the documentary evidence of the reviews around payroll. We found that the payroll reports were not consistently signed and dated as evidence of the review.

This does create a risk that a payroll payment could be made without adequate evidence of authorisation. A payroll checklist with formal signoffs of all the key review checks and reports could help ensure that all relevant review processes are formally documented and signed off during the payroll process.

Management Comment

The addition of a payroll checklist will be made to the documentation.

4.3 Manual Expenditure Approval Processes

Recommendation

Implement an independent review process for expenditure that is approved manually to ensure that the expenditure is appropriate and bona fide.

Findings

Most Council expenditure is subject to the inbuilt system controls which ensure there is adequate segregation of duties in the raising, approving and receipting processes. However, there is a lack of segregation of duties in the expenditure approved manually (i.e. where a purchase order has not been raised in the system).

The raising, approving and receipting of the expenditure can be performed by one person if it is within their financial delegation. A lack of segregation of duties can expose the Council to inappropriate expenditure being incurred or the expenditure not being bona fide.

Identifying and independently reviewing regular or more significant 'manual' payment included in the creditors payment run will mitigate the risk of inappropriate expenditure not being identified.

Management comment

Most of the payments on behalf of Council are made via the purchase order system. A small number of manual payments are made for items such as PAYE, GST, Staff expense refunds (signed by their manager), rates refunds and agency payments from information centres. There are a small number of other payments which are authorised within delegation and supported by, for example, Council resolutions and often supplier invoices where effectively one person could potentially approve this payment without a second signature. A second signature will be required in future.

4.4 Sensitive expenditure approvals

Recommendation

We recommend that:

- All credit card statements get approved on a one-up basis in a timely manner.
- Sufficient supporting documentation for purchases be included with the credit card statement.

Findings

We have found the following issues when testing sensitive expenditure:

- Two occasions where expenditure has not been approved on a one-up basis. It has been approved within delegation but the expenditure should be approved on a one-up basis to ensure a lack of bias.
- Sufficient supporting documentation had not been provided on two occasions. Sufficient supporting documentation includes the reason for expenditure and a GST receipt/invoice or email confirmation with GST number and details of purchase.

Management comment

Documentation needs to be complete before these are signed off and we will look at the procedure here when the Chief Executive is on leave. Approval by one group manager for expenditure proposed by another group manager may be a viable option.

5 Information systems (IS)

During our IS audit we identified the following opportunities for improvement.

5.1 Lack of controls around MagiQ staff access to councils systems

Recommendation

Review and enhance process around access to ensure only relevant users have access to Council systems.

This would include:

- All users having individual login accounts.
- Maintaining test environments and locking vendor access down to test environments unless there is a specific request which requires access to production data. Any such requests should be logged.
- External parties advising council when any of their staff leave so that access can be immediately terminated.

Findings

Staff from MagiQ (the supplier of council's financial, payroll and regulatory system) are able to access councils systems remotely and change data and application software in the live environment using a shared "Superuser" account at any time.

This raises several risks for council such as:

- untested and unapproved changes may be made potentially leading to system errors or inappropriate changes to data,
- use of shared accounts removes the ability to track who has made changes; and
- staff who leave MagiQ may also still be able to access councils systems.

Management comment

We will work with MagiQ to implement and maintain a user login system that provides the appropriate level of system access/management control. This will include regular review of the status of MagiQ staff to ensure staff who leave that company are unable to access Council's systems.

5.2 Reviews of MagiQ users access levels

Recommendation

Develop a report that shows MagiQ users and their access levels so that regular reviews can be done to ensure access remains appropriate

Findings

Reviews of users' MagiQ access are not being done as there is no report which shows what levels of access users have.

Management comment

Council are concerned about levels of access and we will look to develop a report to monitor this access so routine reviews are feasible.

5.3 Documentation of Change management procedures

Recommendation

Develop documented procedures for logging, testing and approving any changes to councils IT systems before the changes are made live.

Findings

Major upgrades to MagiQ go through testing before being made live, however, there are no documented procedures for consistently managing changes to councils IT applications and infrastructure

Management comment

There is a well proven process of migrating upgrades via test systems such as MagiQ. However we will establish an appropriate level of documentation for these.

5.4 Information System Policies

Recommendation

Undertake a review and update of IS policies and ensure staff guidance aligns with IS policies. In conjunction with this we recommend that Council staff and contractors be provided training on the policies and recommended practices.

Findings

Last year we noted that the information system (IS) policies were in draft and out of date and there no procedures in place for ensuring staff and contractors were aware of the Council's IS policies

During our review this year we found that the IS policies are included in the staff handbook which is given out to new staff and is available on the council Sharepoint intranet site. However, the outdated ICT draft policies 2010 are also on sharepoint, raising confusion as to which policies staff should be following.

The policies in the handbook also make no reference to modern IT risks such as cybersecurity and there is no guidance to staff about good practice to prevent cybersecurity incidents. Council staff and contractors do not appear to be provided with training on IS policies and recommended practices

Management Comment

A detailed work programme has been developed with advice from the Association of Local government Information Managers (ALGIM).

Guidance has been issued to staff on cybersecurity; this will be incorporated into the IS policies in the staff handbook (and the obsolete 2010 draft policies removed from the Intranet).

6 Summary of recommendations

Summary of action taken against previous years' recommendations:

Number of recommendations from previous years' audits	Current status
3	Closed - Matters that have been resolved
11	In progress – Progress is being made, but not yet fully resolved
3	Outstanding – No progress has been made
15	Matter that will be followed up in later visits (see Appendix 3)

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

Appendices

Appendix 1: Explanation of priority rating system

Our recommendations for improvement and their priority are based on our assessment of how far short District Council is from a standard that is appropriate for the size, nature, and complexity of its business. We have developed the following ratings for our recommendations:

Urgent Major improvements required	Needs to be addressed <i>urgently</i> These recommendations relate to a serious 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, <i>generally within 6 months</i> 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, <i>generally within 6 to 12 months</i> These recommendations relate to deficiencies that result in the District Council falling short of best practice. These include weakness 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.

Appendix 2: Status of recommendations

Outstanding matters

Recommendation	Current status	Priority	Management's proposed action
<p>Rates Remissions 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.</p> <p>Review the current practices to ensure the District Council reduces the risk of unnecessarily remitting rates to ratepayers who are no longer eligible.</p>	<p>In progress We will review this at the final audit.</p>	Beneficial	<p><i>The policy is specific that organisations receiving the remission under this specific objective must confirm their eligibility on an annual basis. Council staff remind organisations of this requirement prior to the first rates instalment in any rates year.</i></p>
<p>Delegated Financial authority 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.</p>	<p>In progress The financial Services Team Leader reviews the listing every 3-4 months to ensure the supporting documentation agrees to the online delegation.</p>	Necessary	<p><i>Will be done on a half-yearly basis as there are only a small number of changes to these delegations during the year.</i></p>
<p>Monitoring of Contractor Performance 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.</p>	<p>Outstanding We understand that currently contracts are monitored by relevant staff familiar with the contract provisions. The performance by the roading contractor is commented on at the monthly Assets/Infrastructure Committee meetings.</p>	Necessary	<p><i>Monitoring of contract over \$50k annual value will be reported to the Council's Management team.</i></p>

Recommendation	Current status	Priority	Management's proposed action
<p>Request for service</p> <p>Review the process and remind staff of the need to ensure that the request for service (RFS) system is updated on a timely basis.</p>	<p>In progress</p> <p>The council have implemented:-</p> <ul style="list-style-type: none"> • Ensuring the after-hours call centre provider's staff are familiar with RDC requirements • dealing with requests from staff to attend to a defect as internal service requests • clarification of change of categorisation of service requests • at least weekly verification of roading, utilities and animal control. 	<p>Necessary</p>	<p><i>Weekly review of data with activity managers to be formalised.</i></p> <p><i>Monitor time-recording of after-hours requests to be sure it is not changed subsequently by Council staff entering data.</i></p>
<p>Journal Approval</p> <p>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.</p>	<p>Outstanding</p> <p>Many of the journals produced are automated such as standing journals and are checked and verified by at least two Finance staff who have knowledge of the detail behind these. Non-standard journals such as year-end revaluations are understood by the wider finance team including the Group Manager. However we will approve on a one up basis.</p>	<p>Necessary</p>	<p><i>Will be implemented for the non-automated journals.</i></p>

Recommendation	Current status	Priority	Management's proposed action
<p>Project Management</p> <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>	<p>In progress</p> <p>We understand Council has three staff who have undertaken study with the Project Management Institute and are all Certified Associates in Project Management. Council maintains a general oversight of the Top 10 projects through monthly reporting by the Chief Executive. However no formalised, documented management methodology exists.</p>	<p>Necessary</p>	<p><i>A project management framework will be developed by staff trained in Project Management.</i></p>
<p>Marlon Pool</p> <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>	<p>In progress</p> <p>A high level review is performed to ensure invoiced amounts are in accordance with the contract.</p> <p>There is no detailed review of items in the credit note but a check is performed to ensure the amount is reasonable.</p>	<p>Necessary</p>	<p><i>A variation to the contract will be considered for the next swimming season to address the identified issues with income sharing.</i></p>
<p>Creditors Masterfile Maintenance review</p> <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>In Progress</p> <p>The Finance Services Team Leader currently does spot reviews of the masterfile.</p>	<p>Necessary</p>	<p><i>A monthly review, signing and dating these as evidence of the review, will be implemented.</i></p>

Recommendation	Current status	Priority	Management's proposed action
<p>Performance Reporting - Supporting Documentation Rooding</p> <p>Contractors should provide complete job sheets with fields corresponding to the mandatory performance measures complete to ensure at year end Council can report accurately and completely on the contractor response and completion time for requests for service.</p>	<p>In progress</p> <p>The team are better at providing the information required.</p> <p>We will review at our final audit with a view to clearing.</p>	<p>Necessary</p>	<p><i>This has been done. Higgins is now sending complete job sheets.</i></p>
<p>Payroll Maintenance</p> <p>The payroll maintenance report be signed as evidence of review and the supporting documentation of the changes also be signed.</p> <p>The independent reviewer extract the report using appropriate date parameters to ensure it captures all changes since the last review. This will include the reviewer manually documenting the date range of the report if the system cannot automatically include this information.</p>	<p>In progress</p> <p>No Issues were noted with date ranges. However, there is still inconsistency in review processes ref to 4.2.</p>	<p>Necessary</p>	<p><i>With the introduction of a check-sheet on the payroll files this should be completed.</i></p>
<p>Process for removing Manawatu District Council staff from Rangitikei District Council IT systems when they leave</p> <p>We continue to recommend that a review and improvement to procedures for adding and removing external user's access be done to ensure security of councils systems and data.</p>	<p>Outstanding</p>	<p>Necessary</p>	<p><i>Current practice is to freeze accounts after three months if inactive. 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
<p>Inconsistent procedures for adding and removing users from systems</p> <p>Procedures for adding, amending and removing access should be formalised and all council staff be made aware of their responsibilities. User setup and removal requests should be logged as service requests with appropriate approval documentation attached.</p>	<p>In progress</p> <p>Current practice for new RDC staff is to complete a checklist for IT staff to action; likewise for RDC staff ending their employment. Amendments are typically logged as requests to the IT helpdesk but may be emails. However it is not always practicable to enforce this for new MDC staff.</p>	Necessary	<p><i>Ensure current practice is followed in all instances for both RDC and MDC staff.</i></p>
<p>Virus and Patch Management</p> <p>Develop monitoring and reporting on the status of patching and anti-virus updates across councils IT to ensure they remain up to date.</p>	<p>In progress</p> <p>While the virus protection regime is up-to-date we will follow up the documentation at our next visit.</p>	Necessary	<p><i>This virus protection regime is up-to-date, a monthly regime is in place and documented.</i></p>
<p>Prior Year Issue: No Regular Testing of Business Continuity and IT Disaster Recovery Plans</p> <p>We continue to recommend that Business Continuity and IT Disaster Recovery plans be finalised and tested.</p>	<p>In progress</p>	Necessary	<p><i>The refresh of the Council's IT infrastructure should address this.</i></p>

Matters that have been resolved

Recommendation	Outcome
<p>Electronic Purchase Order usage</p> <p>Generate a system report to allow the Council to monitor the level of purchasing processed outside the electronic purchase order system.</p>	<p>90%-95% of expenditure payment runs go through the PO system. Level of purchases outside the system is identifiable.</p> <p>Issue cleared</p>
<p>Assurance over payment runs</p> <p>Reconcile the approved postings input report to the payment run</p>	<p>From 7/11/2016 onwards, RDC has improved documentation on manual payment runs.</p> <p>Issue cleared</p>
<p>Bulls Information Centre and Cash receipting</p> <p>We recommend staff count and sign for the float every morning, as this will help isolate where errors have originated.</p>	<p>Tills are now counted once a day.</p> <p>Issue cleared</p>

Appendix 3: Follow up of audit recommendations from prior years

Matters that will be followed up at the final audit visit

- Performance measure rules
- Suspense accounts
- Payment dates for targeted rates for water supply
- Capital work in progress (WIP)
- Carry forward of capital expenditure
- Contract management
- Review of Procurement practice
- Monitoring of Contractor Performance
- Utilities Assets Valuation
- Credit Card Policy Update
- Sensitive Expenditure policy
- Earthquake-prone Assets
- Staff Handbook update
- Conflict of Interest Policy
- Succession planning