



**Rangitikei**  
UNSPOILT...

**Rangitikei District Council**

Telephone: 06 327-0099

Facsimile: 06 327-6970

# **Audit/Risk Committee Meeting**

## **Order Paper**

**Monday, 11 December 2017,  
2:00pm**

**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**

Councillors Nigel Belsham, Angus Gordon and Dean McManaway  
His Worship the Mayor, Andy Watson (ex-officio)

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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

Agenda – Monday 11 December 2017 – 2.00 pm

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The quorum for the Audit and Risk Committee is 3.

Council's Standing Orders (adopted 3 November 2016) 10.2 provide: The quorum for Council committees and sub-committees is as for Council, i.e. half the number of members if the number of members (including vacancies) is even or a majority if the number of members is odd.

## **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**

The Minutes of the Audit/Risk Committee meeting held on 18 September 2017 are attached.

File ref: 3-CT-17-2

### **Recommendation:**

That the Minutes of the Audit/Risk Committee meeting held on 18 September 2017 be taken as read and verified as an accurate and correct record of the meeting.

## **7 Chair's report**

A report will be provided at the meeting.

### **Recommendation:**

That the Chair's report to the Audit/Risk Committee meeting held on 11 December 2017 be received.

## **8 Local Government Excellence Programme outcome**

The Chief Executive will provide a verbal update to the meeting.

## **9 Committee review process**

The Chair will comment on the review forms received from members.

## **10 Internal Audit programme – progress update (includes charter)**

A report is attached.

File ref: 3-CT-17-1

### **Recommendation:**

That the report 'Final Internal Audit Charter Rangitikei 2017' be received.

## **11 LED Procurement**

A report is attached.

File ref: 3-CT-17-1

### **Recommendation:**

That the report 'Final LED Procurement Report 22 Nov 17' be received.

## **12 Proposed revision to risk management framework – further consideration**

A memorandum is attached.

File ref: 5-PO-1

### **Recommendations:**

1. That the memorandum 'Revised risk framework' be received.
2. That the Chief Executive prepares a draft action plan to address items in the revised risk framework where the risk is not accepted, for consideration at the Committee's next meeting, in February 2018

## **13 Audit arrangements letter and engagement plan for the 2018-28 Long Term Plan**

To be tabled at the meeting

### **Recommendation:**

That the Audit arrangements letter and engagement plan for the 2018-28 Long Term Plan be received.

## **14 Final Audit management report on the 2016/17 audit**

A report is attached.

File ref: 5-EX-2-4

### **Recommendation**

That the Final Audit management report on the 2016/17 audit (and proposed management responses) be received.

## **15 Outcome of the New Zealand Transport Agency's investment audit, October 2017**

A report is attached.

File ref: 6-RT-2-1

### **Recommendation:**

That the New Zealand Transport Agency Investment Audit Report October 2017 be received.

## **16 Report of the Havelock North Drinking Water Inquiry: Stage 2**

A presentation will be provided to the meeting on the report (released on 7 December 2017)

## **17 Late items**

## **18 Future items for the agenda**

Work programme matrix - progress

Understanding Council's risk appetite

## **19 Next meeting**

12 February 2018, 2.00 pm

## **20 Meeting closed**

# Attachment 1

# Rangitikei District Council

## Audit and Risk Committee Meeting

Minutes – Monday 18 September 2017 – 10:00 am

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**Present:** Mr Craig O'Connell (Chair)  
His Worship the Mayor, Andy Watson  
Cr Nigel Belsham  
Cr Angus Gordon

**In attendance:** Mr Ross McNeil, Chief Executive  
Ms Luele Driescher, Internal Auditor  
Mr Michael Hodder, Community & Regulatory Services Group Manager  
Ms Christin Ritchie, Governance Administrator  
Mr Ashley Dahl, Financial Services Team Leader  
Mr Fiona Elkington, Audit Manager (by teleconference)

**Tabled documents:** Item 12: Draft Internal Audit Plan 2017/18

Unconfirmed



## 1 Welcome

The Chair welcomed everyone to the meeting

## 2 Council prayer

The Chair read the council prayer

## 3 Apologies

That the apologies for the absence of Cr Dean McManaway and Ms Debbie Perera, Audit Director be received.

His Worship the Mayor / Cr Belsham. Carried

## 4 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.

## 5 Confirmation of order of business

The Chair noted that Ms Fiona Elkington, Audit Manager, has committed to be phoned into the meeting from 10.15 am so items 11 and 12 would be brought forward to accommodate that.

The Chair accepted one late item from His Worship the Mayor on the basis that it had not been known at the time the meeting agenda was prepared and it needed discussion at this meeting.

- Council contract on LED streetlighting installation

## 6 Confirmation of minutes

**Resolved minute number**

**17/ARK/022**

**File Ref:**

**3-CT-17-2**

That the Minutes of the Audit/Risk Committee meeting held on 14 August 2017 be taken as read and verified as an accurate and correct record of the meeting.

Cr Belsham / Mr O'Connell. Carried

## 7 Chair's report

No report was provided.

Cr Gordon arrived 10.08 am.

## **8 Local Government Excellence Programme outcome**

The Chief Executive updated the Committee in regards to the Local Government Excellence Programme (LGEP). This is an independent look at all councils across the country, where areas of improvement are identified using 96 indicators. The possible ratings range from C to AAA. Definitions for each rating are provided.

The process and deliverables have taken much longer than anticipated. Local Government New Zealand initially thought this would be a few weeks, but it has taken close to 6/7 months. The assessment report for Rangitikei is now due to be released early October.

The process is essentially made up of two review steps. The first step consisted of the assessors' draft report, which was then critiqued and Council given an opportunity to review the content for accuracy. The second step is the review by the Independent Assessment Board, which is yet to be finalised.

## **11 Annual Report for year ending 30 June 2017**

*(Fiona Elkington, Audit Manager was teleconferenced into the meeting at 10.28am)*

A progress assessment was provided by Fiona Elkington. The onsite work is mostly complete, and she and Debbie Perera, Audit Director will be completing their review in the next two or three days. The three-yearly revaluation review of the roading network was not yet settled; it will be based on the whole roading network (apart from land under road)

Although there are some other details to be finalised, no real issues have been identified and, at this stage, there seemed no impediment to Council's adoption of the Annual Report on 28 September 2017 with an unmodified audit opinion.

## **12 Internal Audit programme**

The Internal Audit, Luele Driescher, commented on the internal audit programme for 2017/18 accepted at the Committee's last meeting. She highlighted that the current year focus has been on Value protection to provide assurance on the adequacy and effectiveness of management control over key business processes. The four main areas of focus are NZTA claims, Cash handling, Procurement and contract management, and Audit/Risk Committee attendance and reporting. 160 hours has been allowed to complete this; she has to strictly adhere to this, because the allocation of her time is shared with other MW LASS member councils. Ms Driescher anticipated that the procurement review would focus on one or two contracts; her experience was that typically the learnings from such sampling would readily apply to other contracts.

The Chair was comfortable with the programme but acknowledged that the outcome of the LGEP assessment might mean some amendment.

The process between MW LASS councils has been different depending on the previous audit experiences, with new councils tending to have heat maps covering their main areas and longer running councils having specified areas drilled into.

The Chief Executive explained that, while the Internal Auditor reports to him, she had a direct line to the Committee, initially to the Chair.

*(Fiona Elkington left the call at 10.52am)*

## 9 Proposed Council participation in the Local Government Funding Agency as a borrower

At its meeting on 31 August 2017, the Finance/Performance Committee considered the documentation required for the Council to formally join the Local Government Funding Agency. The Committee resolved to recommend to Council that the Council's proposed participation in the Local Government Funding Agency (LGFA) as a borrower be referred to the Audit/Risk Committee for consideration and subsequent recommendation to Council. This recommendation was accepted by Council (as a late item) on 31 August 2017.

The Chair suggested that the Committee's concern was to consider whether the documents had been appropriately prepared and scrutinised. He suggested that it was reasonable to rely on the expertise of Simpson Grierson and Russell McVeigh who had done this work. The documents were not unusual or unique, and Council had previously decided, in principle, to become a member of the LGFA.

The Chair noted that borrowing beyond \$20 million would commit the Council to taking a pro rata share of the liability for all LGFA's debt. The Committee acknowledged this, considering that the risk was exceedingly low and it would be some time before Council's borrowing reached that threshold. The Committee could see no possibility of funds not being available when required but considered that Council's current borrowing and related police should be reviewed so that there was clear alignment with what was intended with LGFA.

The report 'Local Government Funding Agency update' and its 11 appendices as provided to the Finance/Performance Committee are attached.

<b>Resolved minute number</b>	<b>17/ARK/023</b>	<b>File Ref</b>	<b>5-FM-8-3</b>
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1	That the report 'Local Government Funding Agency update' as provide to the Finance/Performance Committee's meeting on 31 August 2017 be received.
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2	That the Audit/Risk Committee recommends to Council that Council:
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agrees to participate in the LGFA Scheme as a Borrower, which will include the following:

a. entry into the following documents:

- i. Debenture Trust Deed between the Council and Trustees Executors Limited;
- ii. Registry Customer Agreement between the Council and Link Market Services Limited;
- iii. Security Transition Deed between the Council, Westpac New Zealand Limited, Westpac Banking Corporation and Covenant Trustee Services Limited;
- iv. Accession Deed to Notes Subscription Agreement between the Council

- and the LGFA;
  - v. Accession Deed to Multi-Issuer Deed between the Council and LGFA;
  - vi. Security Stock Certificate in favour of LGFA;
  - vii. Security Stock Certificate in favour of Westpac New Zealand Limited and Westpac Banking Corporation;
- b. subscribing for Borrower notes with LGFA;
- c. issuing stock to lenders in accordance with the Debenture Trust Deed;
- d. any other things which are contemplated in the attachments to this report that a Borrower will do; and
- e. anything which is not specifically described in paragraphs (a) to (d) above, but which is ancillary to or not materially different from those.
- 3 That the Audit/Risk Committee recommends to Council that Council:
- delegates authority to the Chief Executive to:
- a. Agree the terms on which Rangitikei District Council participates in the LGFA Scheme as a Borrower, including which of the arrangements described above are entered into and the terms of those arrangements;
  - b. Determine how Rangitikei District Council exercises its rights under the arrangements entered into in connection with the LGFA Scheme.
- 4 That the Audit/Risk Committee recommends to Council that Council:
- delegates authority to the Chief Executive to execute such documents and take such other steps on behalf of the Council as the Chief Executive considers it is necessary or desirable to execute or take in connection with Rangitikei District Council's participation in the LGFA Scheme as a Borrower.
- 5 That the Audit/Risk Committee recommends to Council that Council:
- authority be delegated to His Worship the Mayor, and the Chair of the Finance/Performance Committee to execute the Debenture Trust Deed and such other deeds on behalf of the Council as the Chief Executive considers it is necessary or desirable for them to execute in connection with Rangitikei District Council's participation in the LGFA Scheme as a Borrower.
- 6 That the Audit/Risk Committee recommends to Council that Council:
- reviews and aligns its borrowing and related policies in light of Council's membership of the Local Government Funding Agency and its intention to borrow from the

agency.

Mr O'Connell / Cr Gordon. Carried

## **10 Committee review process**

The results would be discussed at the next meeting.

## **13 Late items**

Council contract regarding LED street lighting installation

The Committee discussed the recent contract awarded for the LED street lighting installation, and the process/system used to award this. The Chief Executive noted that he had discussed this issue with the Internal Auditor and they had agreed that this would be the first item on the Internal Audit programme for 2017/18. Three aspects would be considered:

- reviewing the process to award the contract against Council's procurement policy,
- examining the status of the entity which was awarded the contract, and
- identifying any residual risks and defining these.

## **14 Future items for the agenda**

### **December 2017**

Understanding Council's risk appetite – possible framework for exercising discretion (This will progress the discussion from the Committee's June 2017 meeting.)

Revised risk management framework (This will include the points raised at the Committee's August 2017 meeting.)

Audit Arrangements letter and engagement plan for the 2018-28 Long Term Plan (as foreshadowed at the Committee's August 2017 meeting),

## **15 Next meeting**

Monday 11 December 2017, 2.00 pm

## **16 Meeting closed**

11.30 am.

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

Date:

Unconfirmed

# Attachment 2



## Internal Audit Charter



The mission of internal auditing is to provide an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit at Rangitikei District Council ("RDC") is managed by the Internal Audit Coordinator who is the designated Head of Internal Audit (HIA) within the Council. The HIA is the top position within an organisation for internal audit activities, as defined in The International Standards for the Professional Practice of Internal Auditing (Standards) issued by the Institute of Internal Auditors.

## **1 Introduction**

This Internal Audit Charter is a formal statement of purpose, authority and responsibility for the internal auditing function within RDC.

It establishes Internal Audit within RDC and recognises the importance of such an independent and objective service to the Council.

It outlines the legal and operational framework under which Internal Audit will operate.

It authorises the Head of Internal Audit to promote and direct a broad range of internal audits across RDC and, where permitted, external bodies.

## **2 Role and Authority**

The HIA is authorised to direct a comprehensive program of internal audit work in the form of reviews, previews, consultancy advice, evaluations, appraisals, assessments and investigations of functions, processes, controls and governance frameworks in the context of the achievement of business objectives.

For this purpose, all members of Internal Audit are authorised to have full, free and unrestricted access to all functions, property, personnel, records, information, accounts, files, monies and other documentation, as necessary for the conduct of their work.

## **3 Objectivity, Independence and Organisational Status**

Objectivity requires an unbiased mental attitude. As such, all Internal Audit staff shall perform internal audit engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Further, it requires Internal Audit staff not to subordinate their judgment on internal audit matters to that of others.

To facilitate this approach, Internal Audit shall have independent status within RDC, and for this purpose shall be responsible directly through the HIA to the Audit and Risk Committee and administratively to the Chief Executive. Internal Audit shall be independent of the activities reviewed, and therefore shall not undertake any operating responsibilities outside internal audit work. Neither shall Internal Audit staff have any executive or managerial powers, authorities,

functions or duties except those relating to the management of Internal Audit. Internal Audit staff and contractors shall report to the HIA any situations where they feel their objectivity may be impaired. Similarly, the HIA should report any such situations to the Audit and Risk Committee.

The work of Internal Audit does not relieve the staff of RDC from their accountability to discharge their responsibilities. All RDC staff are responsible for risk management and the operation and enhancement of internal control. This includes responsibility for implementing remedial action endorsed by management following an internal audit.

Internal Audit shall not be responsible for operational activities on a daily basis, or in the detailed development or implementation of new or changed systems, or for internal checking processes.

#### 4 Scope of work

The scope of services provided by Internal Audit shall encompass:

- The examination and evaluation of the adequacy and effectiveness of systems of internal control, risk management, governance, and the status of ethical behaviour.
- Ascertaining conformity with the goals and objectives of RDC.
- Assessment of the economic and efficient use of resources.
- The examination of compliance with policies, procedures, plans and legislation.
- Assessment of the reliability and integrity of information.
- Assessment of the safeguarding of assets.
- Any special investigations as directed by the Audit and Risk Committee.
- All activities of RDC, whether financial or non-financial, manual or computerised.

#### 5 The scope of work may include

- **Assurance services** – objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organisation. Examples may include financial, performance, operational, compliance, system security, and due diligence engagements.
- **Consulting services** – advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organisation's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

## 6 Internal Audit Methodology

Internal Audit shall use the most appropriate methodology for each internal audit engagement, depending on the nature of the activity and the pre-determined parameters for the engagement. Generally, internal audits will include:

- Planning.
- Reviewing and assessing risks in the context of the audit objectives.
- Examination and evaluation of information.
- Communicating results.
- Following up on implementation of audit recommendations.

## 7 Operating Principles

Internal Audit shall conform with:

- The Standards and Code of Ethics issued by the Institute of Internal Auditors.
- Where relevant, the Statement on Information Systems Auditing Standards issued by the Information Systems and Control Association.
- Relevant auditing standards issued by the Auditing and Assurance Standards Board.

## 8 Internal Audit shall:

- Possess the knowledge, skills, and technical proficiency essential to the performance of internal audits.
- Be skilled in dealing with people and in communicating audit issues effectively.
- Maintain their technical competence through a program of continuing education.
- Exercise due professional care in performing internal audit engagements.

## 9 Internal Audit staff shall:

- Conduct themselves in a professional manner.
- Conduct their activities in a manner consistent with the concepts expressed in the Standards and the Code of Ethics.

## **10 Reporting Arrangements**

The HIA shall at all times report to the Audit and Risk Committee. At each Audit and Risk Committee, the HIA shall submit a report summarising all audit activities undertaken during the period, indicating:

- Internal audit engagements completed or in progress.
- Outcomes of each internal audit.
- Remedial action taken or in progress.

On completion of each internal audit engagement, Internal Audit shall issue a report to its audit customers detailing the objective and scope of the audit, and resulting issues based on the outcome of the audit. Internal Audit shall seek from the responsible senior executive an agreed and endorsed action plan outlining remedial action to be taken, along with an implementation timetable and person responsible. Responsible officers shall have a maximum of ten working days to provide written management responses and action plans in response to issues and recommendations contained in internal audit reports.

The HIA shall make available all internal audit reports to the Audit and Risk Committee. However, the work of Internal Audit is solely for the benefit of RDC and is not to be relied on or provided to any other person or organisation, except where this is formally authorised by the Audit and Risk Committee.

In addition to the normal process of reporting on work undertaken by Internal Audit, the HIA shall draw to the attention of the Audit and Risk Committee all matters that, in the HIA's opinion, warrant reporting in this manner.

## **11 Planning Requirements**

Internal Audit uses a risk-based rolling program of internal audits to establish an annual Internal Audit Plan to reflect a program of audits over a 12 month period. This approach is designed to be flexible, dynamic and more timely, in order to meet the changing needs and priorities of RDC.

The HIA through consultation with the Audit and Risk Committee Chair, Chief Executive and relevant senior executives shall prepare an annual Internal Audit Plan for review and approval by the Audit and Risk Committee, showing the proposed areas for audit. The annual Internal Audit Plan shall be based on an assessment of the goals, objectives and business risks of RDC, and shall also take into consideration any special requirements of the Audit and Risk Committee and senior executives.

The HIA will also prepare a 3 year Strategic Audit Plan to facilitate the monitoring of rotational audits.

The Internal Audit Plan may be adjusted based on receiving special requests from management to conduct reviews that are not on the plan, subject to approval by the Chief Executive and the Audit and Risk Committee.

## **12 Quality Assurance & Improvement Program**

The HIA shall oversee the development and implementation of a quality assurance and improvement program for Internal Audit, to provide assurance that internal audit work conforms to the Standards and is focused on continuous improvement.

### **13 Co-ordination with External Audit**

The HIA shall periodically consult with the external auditor, to discuss matters of mutual interest, to co-ordinate audit activity, and to reduce duplication of audit effort.

Internal Audit will make Internal Audit staff, and any relevant work papers or reports available to the External Auditor on request.

### **14 Review of Internal Audit Charter**

The HIA shall periodically review (at least every two years) the Internal Audit Charter to ensure it remains up-to-date and reflects the current scope of internal audit work. Amendments should be approved by the Audit and Risk Committee.

### **15 Evaluation of Internal Audit**

The HIA shall develop performance measures (key performance indicators) for consideration and endorsement by the Audit and Risk Committee, as a means for the performance of Internal Audit to be periodically evaluated.

Internal Audit shall also be subject to an independent quality review at least every five years. Such review shall be in line with the Standards of Professional Practice in Internal Audit and be commissioned by and report to the Audit and Risk Committee.

### **16 Conflicts of Interest**

Internal auditors are not to provide audit services for work for which they may previously have been responsible. Whilst the Standards provide guidance on this point and allow this to occur after 12 months, each instance should be carefully assessed.

When engaging internal audit contractors, the Head of Internal Audit shall take steps to identify, evaluate the significance, and manage any perceived or actual conflicts of interest that may impinge upon internal audit work.

Instances of perceived or actual conflicts of interest by the Head of Internal Audit or Internal Audit staff and contractors are to be immediately reported to the Chief Executive and Audit and Risk Committee by the HIA.

Any changes to this Internal Audit Charter will be approved by the Audit and Risk Committee.

Approved: \_\_\_\_\_

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

Designation: \_\_\_\_\_

# Attachment 3

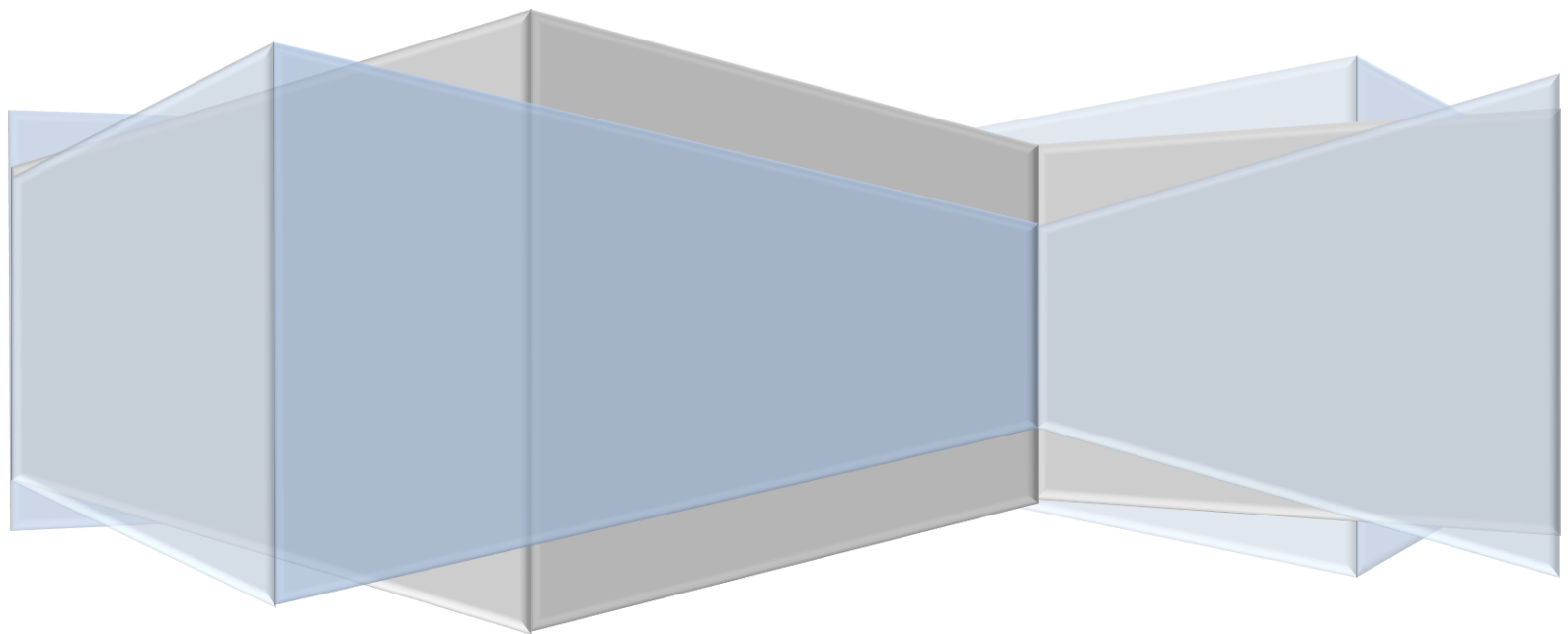
## Rangitikei District Council

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# Procurement – LED Streetlights

Special Review

November 2017



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# 1 – Scope and Approach

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## Background

Following on from a specific request from the Chief Executive, we have conducted a review of the LED Streetlight Procurement process with a specific focus on the award of the installation contract.

Following the approval of Rangitikei District Council's (RDC's) application for enhanced financial assistance through New Zealand Transport Association (NZTA) for accelerated LED installation, RDC commenced with the procurement of the LED supply and the installation thereof. The LED supply procurement was driven through a joint tender process with Manawatu District Council (MDC) and resulted in the award of the contract to Orange Tek International Ltd with the RDC portion totalling \$263,255. The LED installation contract was awarded to C&J Contracting 2011 Ltd after obtaining three quotations from qualified installers and totalling \$229,100.



**Objective:** To provide inputs on the adequacy and effectiveness of the process followed in awarding the LED Streetlight contracts with a particular focus on the LED installation contract.



**Scope:** Our work considered the extent of compliance with the RDC Procurement Policy and assessment of the effectiveness of the procurement process followed.



**Approach:** Gained an understanding of the RDC Procurement policies and procedures; assessed the process against good practice; conducted interviews with key staff involved in the procurement process; and inspected relevant documentation supporting key decisions.

## 2 - Executive Summary

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Our high level review of the procurement process of the LED Supply Contract identified no exceptions in relation to the process followed. We have however identified improvement opportunities in respect of the RDC Procurement Policy and documentation provided to the Infrastructure Committee which is relevant to both the supply and installation contracts.

Our review of the procurement process of the LED Installation Contract identified a number of issues of concern relating to the application of the process. We have also identified certain improvement opportunities to assist management in enhancing the procurement process as whole. Details of our work and recommendations are included in **Section 3 – Detailed findings**.

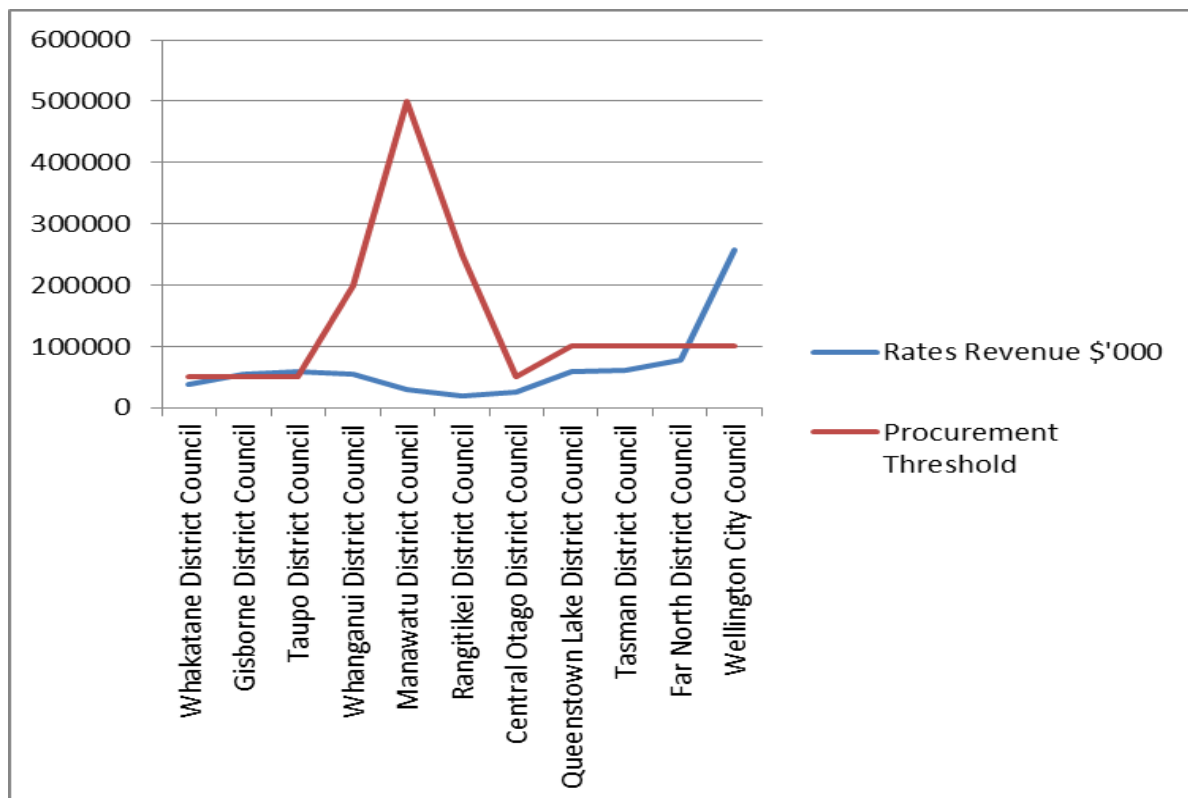
<b>Policies and Procedures</b>	Management should consider whether the threshold set remains appropriate. Furthermore, better practice is for procurement selection decisions to be based on risk as well as threshold. For example, if a procurement contract is under threshold but is deemed a high risk contract, the procurement should follow the open advertising route. Management should consider revising the Procurement Policy to incorporate consideration of risk.
<b>Value estimation</b>	Procurement estimates, in line with RDC Procurement Policy requirements, should be based on the maximum total estimated value of procurement. Such estimates should be considered in conjunction with consideration of procurement risk.
<b>Requests for quotation</b>	Management should ensure that all relevant details are included in the RFQ to ensure accuracy of quoting and prevent suppliers claiming variations post contract award citing that they had not been made aware of the full requirement. Any pertinent requirements should be included in the contract concluded with the contractor and monitored throughout the life of the contract.
<b>Quotation assessment and motivation</b>	Management should consider revising the amount of detail provided to Council on which to base decisions to allow for informed decision making. Where assumptions have been applied to pricing, these should be clarified with the supplier and separately reported. Furthermore, all reports should detail the relevant risks attributable to each approach to support the decision making process and derive maximum value for money.
<b>Contract award</b>	Health and Safety compliance issues as identified should be followed up on and resolved prior to the contractor commencing with any RDC installation work. In addition, management may wish to consider enhancing the process by requiring the contract manager to specifically detail the required certifications to enable RDC Health and Safety to monitor this process effectively. Management should ensure that terms and conditions are attached to all purchase orders. In addition, in cases where “time is of the essence”, management should consider concluding contracts with suppliers to safeguard Council’s interests.

## 3 – Detailed Findings

### Policies and Procedures

The procurement process is regulated by the RDC Procurement Policy as adopted by the RDC Council in March 2014. The document closely follows the guidelines as set out in the Office of the Auditor General's Procurement Guidelines for Public Entities and covers the entire procurement process from planning to contract award.

We found the document to be largely sensible and sufficiently detailed to allow staff to understand the requirements of the Policy. The default position for Council procurement is to openly advertise (i.e. put out to tender) all contract opportunities exceeding \$250,000. Review of the NZ Government Agency requirements identified that this limit is set at \$100,000 for government agencies. We also assessed the policies of a number of other local authorities and identified that the majority of councils have set the threshold at, or below \$100,000 (certain Council's with a larger rateable value than RDC have set thresholds as low as \$50,000). The graph below illustrates the thresholds set in relation to rates revenue for a number of councils.



### **Recommendation R1**

Management should consider whether the threshold set remains appropriate. Furthermore, better practice is for procurement selection decisions to be based on risk as well as threshold. For example, if a procurement contract is under threshold but is deemed a high risk contract, the procurement should follow the open advertising route. Management should consider revising the Procurement Policy to incorporate consideration of risk.

#### *Management Comment:*

*The Procurement Policy was developed in 2013 and adopted by Council in early 2014. It is good practice to review these policies on a routine basis. Therefore, a review of the Policy is proposed to be undertaken in 2018, and the review process will include consideration of threshold value and risk criteria.*

### **Value estimation**

To determine the procurement selection method, the RDC Policy requires that the procurement value be estimated. As discussed, a value exceeding \$250,000 is required to undergo an open tender process.

The process followed to estimate the LED installation procurement was estimated at \$230,000. Whilst the estimate is deemed reasonable, it is fairly close to the threshold of \$250,000 and has been calculated based on an assumption that only 10% of poles will require cable repairs. Although the LED installation itself is not considered to be a complex task, given the strict deadlines requiring completion of the installation of 1097 lights by 30 June 2018, and the resource constraints experienced by most contractors, there is increased risk attached to the procurement and the potential for cost variations should not be excluded. A more prudent approach would in all likelihood have resulted in an estimated value in excess of \$250,000.

Through enquiry, the responsible engineers confirmed that the three quote system was deemed adequate due to the estimated value being below threshold and timing constraints. Whilst traditionally, a three quote approach delivers a speedier outcome, in this instance, the request stretched over a period of nine weeks.

### **Recommendation R2**

Procurement estimates, in line with RDC Procurement Policy requirements, should be based on the maximum total estimated value of procurement. Such estimates should be considered in conjunction with consideration of procurement risk as discussed in Recommendation R1.

#### *Management Comment:*

*Procurement value estimation methodology can be considered in conjunction with procurement risk assessment, and will be given consideration as part of the Procurement Policy review proposed for 2018.*

## Request for quotation

Through enquiry with the responsible engineers, we determined that the Powerco website was consulted to identify accredited contractors for streetlight work. All contractors were emailed with the requirements of the installation contract and requested to provide quotations should they be interested in quoting. Inspection of the request emails, identified that the quote requests for MDC and RDC installations were initially handled separately (the LED supply had been handled as a joint procurement). C&J Contracting and Alf Downs were contacted in May 2017, with Strong Electrical, Max Tar and Scanpower being requested to quote in mid-June 2017. We noted that although the initial emails were focussed on the RDC requirement, the later request emails detailed both the MDC and RDC installation requirements. It is unclear as to why only two contractors were initially contacted if the Powerco website was consulted to identify accredited contractors at the start of the procurement process.

Our inspection of the Powerco website (October 2017) identified the following additional accredited contractors in the Manawatu/Whanganui regions who were not contacted to quote:

- Downer Taranaki/Manawatu
- NPE –Tech Limited

Max Tar and Strong Electrical were no longer reflected as accredited streetlight installers in the region. On first inspection C&J Contracting were also not reflected as accredited, however through communications with Powerco, it was established that there had been a website update and an error made on the recorded information. The website has subsequently been amended.

We understand from the relevant engineers that certain of these contractors do not actively operate in the region for streetlight installations and as a result were not contacted. We have not performed any procedures to verify this.

The RFQ was found to be generally consistent to all contractors, with the exception of the requests to Strong Electrical, Max Tar and Scanpower which included the MDC requirement. The RFQ also made mention of the fact that maps are available to identify the respective poles requiring LED replacement. We identified that such maps were only requested by C&J Contracting.

Review of the RFQ identified a number of improvement opportunities. All likely requirements for the service should be included. We found no mention of requirements in respect of:

- electrical testing and certificates
- update of RAMM and reporting on progress
- RDC health and safety contractor qualification
- warrantee period on installation service
- Powerco accreditation to be maintained throughout life of contract for company and relevant staff
- insurance cover to be maintained
- company resources

As previously noted, Strong Electrical was no longer listed as an accredited contractor on the Powerco website at the time of our review. We established through confirmation with Powerco that the accreditation was in place at the time of the RFQ. Had Strong Electrical been awarded the

installation contract, it is likely that this would have remained undetected. Management are therefore encouraged to ensure that measures are put in place to monitor compliance throughout the contract.

### **Recommendation R3**

Management should ensure that all relevant details are included in the RFQ to ensure accuracy of quoting and prevent suppliers claiming variations post contract award citing that they had not been made aware of the full requirement. Any pertinent requirements should be included in the contract concluded with the contractor and monitored throughout the life of the contract.

#### *Management Comment:*

*Where it is appropriate to procure via a Request for Quote (RFQ), the use of a standard template could help ensure the required information is signalled and subsequently supplied as part of a quote. The template content can be modified to suit the procurement.*

### **Quotation evaluation**

Three quotations were received. The contractors who quoted were C&J Contracting, Alf Downs and Strong Electrical. We understand that no responses were received from the other two contractors requested to quote.

The responsible engineers reviewed the quotations prepared and prepared a motivation paper to the Infrastructure Committee for approval. Our analysis of the process and submitted quotations is detailed below:

#### **C&J Contracting**

- The quotation is a one page document dated 10 May 2017 and stipulates that a 30 day validity period applies, yet the expiry date of the quotation is 24 May 2017. This could potentially indicate that the quote was submitted at an earlier date and later revised to be in line with the RFQ.
- The quoted values are almost exactly in line with the values used for the estimated procurement calculation.
- The RFQ requested material and labour rates for the repair/replacement of wiring– a blanket rate has been provided, this has not been quoted on as requested.
- The RFQ requested that 31 spigots be quoted on – no rate has been provided in the quotation.
- No reference has been made to traffic management. Both other contractors quoted on traffic management specifically.
- No reference has been made to the treatment of variations to the contract.
- The quotation requests that a 50% deposit be paid on acceptance of the quotation – this has not been specifically considered in the motivation document assessing the quotations submitted.

- Whereas other electrical contractors refer to all their certifications on their letterhead (e.g. Master Electrician etc.), the C&J Contracting letterhead makes no reference to such certifications. Similarly, the Company email address is a simple Yahoo email address. Whilst such issues do not necessarily hold any significance, they may bring into question the reputability of the contractor.
- No adjustments were made to the values as quoted by the contractor and the total quoted value determined to be \$229,100.

### ***Alf Downs***

- A detailed cost breakdown was provided for each area of the LED retrofit. One assumes that due to their involvement with RDC streetlight maintenance, they had more information at their disposal than the other contractors.
- The wiring and fuse repair/replacement rates have not been provided; instead it is referenced to the rates utilised in the existing maintenance contract.
- Spigots have not been quoted on. Through discussion with the contractor, it was established that there had been an issue with design changes in the past which had resulted in losses to the contractor and they therefore wished to limit their exposure.
- Reference was made to the fact that the contractor reserved the right to reclaim costs from the Council in the event of severe weather conditions requiring that work be abandoned until conditions improved. Through discussion with the contractor, we determined that this is rarely enforced but that records are kept to support such claims should it be deemed necessary to reclaim through a variation. Given the deadlines imposed by the RFQ, this safeguard is not considered unreasonable.
- To determine the total value of procurement, a number of assumptions have been applied. A rain delay provision of 5 days has been included, totalling \$13,750. A wiring/fuse repair rate of \$143.50 per unit has been used – discussion with the contractor identified that this amount is incorrect and that a more accurate rate would be around \$40 per unit. If this is correct, the repairs have been overstated by \$10,500. A disposal rate of \$1 per light has been applied for packaging – this amount is unsubstantiated and cannot be verified. We note that administrative costs of \$9,279 have been included in the detailed cost breakdown, a large percentage of which relates to the update of RAMM and maintenance of archive records. We understand that the requirement for the contractor to upload details onto RAMM has been discontinued. In the absence of specific mention thereof, the existing contractor could reasonably assume that the expectations remain unchanged. The omission thereof has therefore potentially compromised the current contractor's pricing. The determined procurement value was reported as \$282,488. If one adjusts this value based on the identified issues, a more reflective value may be \$247,787.

### **Strong Electrical**

- A combined quotation was received with a single rate for MDC and RDC. The explanation provided to support the decision to utilise separate RFQ's was that the installation requirements for MDC were more urban and therefore more economical. The pricing provided has therefore in all likelihood resulted in a blended rate.

- The contractor quoted on all requested areas including on the spigot adapters and separately quoted on traffic management.
- The quotation also makes reference to the fact that a 7.5% P&G variation applies.
- The total procurement value was calculated as \$261,387. We noted however that a 50% allocation was applied to the traffic management cost. Given that the RDC installation is almost double that of MDC, this split appears incorrect and is potentially understated by \$1,150. In addition, the quoted cost of the spigots has been included in the value (\$2,325) - none of the other contractors quoted on this requirement. There has been no consideration of a potential variation.

### Motivation

In calculating the procurement value by which to compare costs quoted, any assumptions should be separately detailed and reported for consideration by Council. Any relevant risks attributable to utilising a specific contractor should also be flagged. Our review of the paper prepared for both the supply and installation contracts and presented to the Infrastructure Committee/Council, identified that little detail was included in the report – a range of calculated contract values were provided with a motivation to make use of the lowest quotation. We note that C&J Contracting has been referred to as East Coast Lines Limited – an error as there is no such trading company.

There are a number of known risk factors applicable to the installation contract. Whilst these may have been discussed in the meeting, there is no evidence to support that risk has been specifically considered. Although C&J Contracting may have presented the lowest quote, there is a certain amount of risk attributable to working with a small and unfamiliar contractor. The requested 50% deposit on acceptance could potentially be indicative of cash flow concerns which could negatively impact on the delivery of the contract. We understand that a Powerco inspector was contacted to enquire as to the quality of C&J Contracting's work and that no issues were noted. The details of the conversation (i.e. date, time) and reference to specific work performed have not been noted.

Through discussion with management, we have determined that the information provided to Council has since been improved to include additional detail, we support management's efforts in this regard.

### Recommendation R4

Management should consider revising the amount of detail provided to Council on which to base decisions to allow for informed decision making. Where assumptions have been applied to pricing, these should be clarified with the supplier and separately reported. Furthermore, all reports should detail the relevant risks attributable to each approach to support the decision making process and derive maximum value for money.

#### *Management Comment:*

*Procurement decisions requiring Council sign-off are now being considered in public excluded session, which allows for more detailed reporting of the procurement assessment/evaluation process.*



## Contract Award

We inspected the communications to the respective contractors post award. Communication was timely with it being highlighted that the lowest quote was accepted.

We inspected the Contractor documentation provided by C&J Contracting to RDC Health and Safety. Whilst all requested documentation was provided, we noted that no certificates were provided for any electricians. Given that electrical compliance certificates are required to be prepared for the LED installations, this should be followed up. Through RDC consultation with Powerco, it has also been identified that not all Line Mechanics are Powerco accredited. This should be resolved prior to any work commencing on the contract.

We understand that a formal contract has not been concluded with C&J Contracting – a purchase order has been issued. We note that the standard RDC terms and conditions of trade have not been included with the purchase order sent to the Contractor. Given that many requirements e.g. warrantee have not specifically been detailed in the RFQ, this is a potential exposure.

### Recommendation R5

Health and Safety compliance issues as identified should be followed up on and resolved prior to the contractor commencing with any RDC installation work. In addition, management may wish to consider enhancing the process by requiring the contract manager to specifically detail the required certifications to enable RDC Health and Safety to monitor this process effectively.

#### *Management Comment:*

*Agreed. Again a template approach could be adopted to assist with concluding any relevant contract award requirements (e.g. Health and Safety) before any work commences. This approach should be supported by a 'one-up' review process, where the relevant manager of the 'Engineer to the Contract' sign-off on the contract award process.*

### Recommendation R6

Management should ensure that terms and conditions are attached to all purchase orders. In circumstances where “time is of the essence”, management should consider concluding contracts with suppliers to appropriately safeguard Council’s interests.

#### *Management Comment:*

*Agreed. This could be incorporated into the contract award template. The Finance team could regularly review purchase orders issued to ensure terms of trade requirements have been issued to suppliers.*

## Appendix A - Distribution List

Ross McNeil - Chief Executive Officer

George McIrvine - Group Manager – Finance and Business Support

*For information*

Audit & Risk Committee

# Attachment 4



## Memorandum

**To:** Audit/Risk Committee  
**From:** Michael Hodder  
**Date:** 5 December 2017  
**Subject:** Revised risk framework  
**File:** 5-PO-1

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The Committee reviewed the framework in a comprehensive way in December 2015.

During the year it has reflected on concepts developed for a national framework but these have yet to be developed in a well-defined way.

At its meeting on 14 August 2017, the Committee noted preliminary investigation about using vulnerability in the risk framework but considered it as difficult for an interested reader of the framework to understand and thought it preferable to park this refinement for the time being.

Attached (as Appendix 1) is a revised framework. Proposed changes in the comments/assessments are shown in blue type. These are typically associated with a suggested change to whether to accept the risk (and may be associated with a reassessment of the raw/present risk and the effectiveness of controls). The risk matrix is attached as Appendix 2.

Suggested changes on acceptance of risk are in:

- 1.7 Needs of stakeholders are not met
- 1.10 Ineffective Council leadership
- 2.2 Exposure to Council following poor tender process
- 2.7 Relationship with Maori deteriorate
- 4.1b Inability to provide access to stakeholders following damage to assets – earthquakes
- 8.2 Inaccurate responses to the District's natural hazards

Two new items in the framework are proposed:

- 8.3 Insufficient regard to risks posed by earthquake-prone buildings
- 8.4 Insufficient regard to risks posed by climate change.

Once the framework is agreed, the next step is for the Management Team to develop an action plan to address those items where the risk is not accepted. Once that is approved, it is suggested that the framework is conveyed to Council so that all Elected Members are aware of it and the work being done to support it.

### **Recommendations**

1. That the memorandum 'Revised risk framework' be received.
2. That the Chief Executive prepares a draft action plan to address items in the revised risk framework where the risk is not accepted, for consideration at the Committee's next meeting, in February 2018

Michael Hodder  
Community & Regulatory Services Group Manager

# *Appendix 1*

## Risks to Rangitikei District Council: revised framework proposed to Audit/Risk Committee, 11 December 2017

		Consequence and likelihood			PRESENT SYSTEMS AND PROCESSES	Accept risk	Comment/proposed actions
		RAW RISK	PRESENT RISK	EFFECTIVENESS			
1. Governance							
1.1	Conflicts of interest of Council members	C2	B3	4	Induction process after each triennial election; Register maintained by Executive Officer, EM knowledge of one another's interests; noted in Elected Members Handbook; on agenda for every Council meeting	yes	
1.2	Council members do not fulfil their roles and responsibilities; periodic Elected Member only discussions.	C1	B1	3	Peer pressure; Mayor's oversight	yes	
1.3	Inappropriate behaviours of Council members	D4	B1	5	Code of Conduct; peer pressure	yes	
1.4	Inadequate governance systems and procedures	D3	C2	4	Internal reviews by Elected Members; Use of Model Standing Orders; Elected Members Handbook; participation in LGNZ training; ability to get clarification from the Chief Executive.	yes	
1.5	Relevant information not reported to Council	E2	D4	5	Mayor's and Chief Executive's reports to monthly meetings of Council; 'monthly top 10' project reports, monthly activity reports to Committees; monthly portfolio reports from Councilors, LGNZ sector briefings	yes	

1.6.	Pursuing inappropriate business strategies	D4	D5	2	Cost benefit analysis; Consideration of community support and external funding; Investment policy - and reporting of any non-compliance through quarterly reports to Finance/Performance Committee. External advice, e.g. from Horizons, Ministry of Primary Industries.	no	This level of risk recognises the view of the Independent Assessment Board (in the Local Government Excellence Programme) about major infrastructure projects. NZTA has required a business case approach as part of its co-investment and this approach has been used in considering options to manage Marton's wastewater. Steps are in place to use this approach in considering options for future delivery of Council's administrative and library services in Marton.
1.7	Needs of stakeholders are not met	D1	C2	3	Statutory consultation and decision-making requirements; annual survey of community stakeholders and partnership organisations.	no	There needs to be clear use of survey results in terms of changes to services and facilities and reporting these back to stakeholders.
1.8	Appointment of inappropriate Chief Executive	D5	B3	5	External consultant typically used to guide the recruitment process	yes	
1.9	Relationship between Chief Executive and Council not effective	D5	B3	4	Performance management process with guidance from external consultant	yes	



1.10	Ineffective Council leadership	E2	D4	3	Clear vision and targets set through the Long Term Plan and Annual Plan processes and monitored during the year; renewed policy framework; commitment to collective decision-making.	no	The Independent Assessment Board considered there should be a more effective governance-management balance, without which strategic risks are given insufficient attention. So the raw and present risk are considered higher and controls less effective than previously.
1.11	Not giving effect to legislation concerning the Treaty of Waitangi	D4	B3	3	Te Roopu Ahi Kaa; Policy on development of Maori capacity to contribute to Council decision-making; maintaining awareness of current Treaty claims and developing relationships with Iwi post settlement.	yes	Controls have a high dependence on informal relationships between Iwi and the Mayor and Chief Executive
1.12	Actions of Chief Executive do not meet required standard	D5	B3	5	Performance management process with guidance from external consultant	yes	

## 2. Business risks

2.1	Customer service eroded ( <i>changes in expectations under/over-estimated</i> )	E2	C3	4	Monitoring of levels of service and specific requests for service; mystery shopping; annual stakeholder survey; ad hoc surveys.	no	Monthly analysis for management of issues in service requests; weekly report to Elected Members on requests for services received
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2.2	Exposure to Council following poor tender process	E2	D4	4	Procurement policy aligned to NZTA guidelines and accepted by Council's auditors; Shared Services through Manawatu District brings higher expertise to tendering processes	no	A review of the procurement policy (simultaneously with Manawatu District Council) was undertaken in 2013 and subject to internal audit late 2014. The policy is supported by an electronic purchasing system and use of Tenderlink. However, there have been some inconsistencies in applying the policy
2.3	Exposure to Council following poor contract management process	E2	D4	2	Audits with contractors; monthly meetings; referral back to asset management plans, but no specific policy	no	This has been highlighted in the Audit management report. A policy needs to be developed by Rangitikei and used consistently to monitor performance of major contracts.
2.4	Action, inaction and/or advice resulting in adverse effects on person or property	E2	C2	3	Timely information flows within the organisation and early access to legal advice where potentially necessary.	yes	
2.5	Exposure to Council due to related entity performance	B3	D4	4	Council's only commitment to a CCO (MW LASS Ltd) is in conjunction with other local authorities within the Horizons region. However, this may change is the proposed CCO for infrastructure services proceeds. As a member of LAPP, Council has exposure in terms of earthquake contingencies.	yes	

2.6	Inability to recover/continue business following disaster	D6	D4	1	<p>Experience in the 2004, 2006, 2010 and 2015 emergencies showed the Council was able to continue business.</p> <p>Vulnerabilities, especially around IT, have been addressed through the CommVault project and improved fibre connectivity between offices.</p>	no	<p>The response to the June 2015 rainfall event, while effective, would have benefitted from a current business recovery plan - see review provided to Council on 1 October 2015 (part of that meeting's minutes). A Civil Defence Improvement Plan is being implemented, picking up lessons learned during the 2017 storm and snow events.</p>
2.7	Relationship with Maori deteriorate	E2	D4	3	<p>Examples are the Memorandum of Understanding - Tutohinga, Te Roopu Ahi Kaa (with its renewed focus on the strategic plan); Ratana Community Board; specific engagement with Iwi - Ngati Apa in the Community Partnership Project; Ngati Whitikaupeka in the Taihape Memorial Park Reserve Management plan, the current Maori Community Development Project with Ngati Hauiti and the inclusion of Mokai-Patea Services Trust's Waitangi Big Day Out as an event funded through the Events Promotion Scheme.</p>	no	<p>While Te Roopu Ahi Kaa acknowledges the collaborative approach taken by Council, the relationship is not yet secured through structural considerations (as distinct from personal relationships). One mechanism which is intended to assist with this is the creation of a Maori/Iwi Liaison role, now under discussion with Te Roopu Ahi Kaa. So, the raw and present risk are assessed as higher than previously, and controls less effective.</p>

2.8	Resource base does not meet community needs	E3	E2	3	Advocacy to central government for continued accessibility to a realistic level of funding outside rates (roading, the three waters and community facilities) as well as providing funding assistance to owners of earthquake-prone buildings. Maximise use of volunteers	no	Raw risk reflects tightening parameters on central government funding to local councils (e.g. One Network Road Classification) alongside the possibly different approach to be taken by the new Coalition Government.
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2.9	Business objectives not met	D3	D3	2	Monthly monitoring of the annual capital programme; Progressive reviews during (and at the end of) the year of progress with non-financial objectives in the Long Term Plan/Annual Plan. Commentaries in the bi-monthly activity reports provided to Elected Members (and publicly available).	no	This remains an area of concern with the Council's auditors. The effectiveness of controls has been assessed as lower than previously.
2.10	Population projections are incorrect	C3	B1	5	Updated estimated annual population from Statistics New Zealand are monitored.	yes	
2.11	Shared Services falters and/or leads to higher costs for equivalent services	D7	D4	3	Signed MoU between Rangitikei and Manawatu (three months notice); a dispersed risk through agreements with other councils (e.g. the regional LASS); formal and informal meetings by Elected Members and Chief Executive with counterparts in the other councils.	no	A more rigorous agreement has been negotiated by the two chief executives (Rangitikei and Manawatu). However, comparative costing with other options may require further consideration.
2.12	Exposure to Council following non-compliance in consent processes	E3	D4	3	Real-time monitoring of water and wastewater consents enables potential or actual breaches to be detected promptly. Peer review of building consent processes lessens the risk of losing IANZ accreditation. Increasing regional collaboration over all regulatory services.	no	Review processes for monitoring drinking water standards compliance - and ensure full adherence to these. Effectiveness of controls has been reduced to reflect this position.

### 3. Legal compliance

3.1	Exposure to Council following negligent advice	D5	C3	4	Chief Executive monitoring of all advice provided to Council.	yes
3.2	Not complying with relevant legislation	D3	B3	4	Sector-wide sharing of new requirements; SOLGM legal compliance modules; External compliance reviews - liquor licensing, resource consents, leases. Management updates and reviews	yes
3.3	Proper consultation not followed	D3	C2	4	Awareness of and use of statutory consultation processes. Greater clarity from significance and engagement policy.	yes

#### 4. Built assets

4.1	Inability to provide services to stakeholders following damage to assets				Relationship with suppliers [for availability of parts; work to uniformity] and neighbouring councils. Dependent on continuity of IT systems (see 2.6)	
	a. Storms and floods	D4	C3	4	Experience in the 2004, 2006, 2010 and 2015 storm and flood emergencies showed the Council was able to continue business. Some redundancies in infrastructure. A component of asset management plans	yes
	b. Earthquakes	D8	D8	0	Resilience after a destructive earthquake has not been specifically considered or tested. See 2.6 above.	no  (See 2.8 for cost risk). Clarity on meeting IL4 requirements for EoCs is necessary - but, so too, are the requirements around places of public assembly - such as libraries and halls.

4.2	Adverse impact from failure to assess risks to assets:	D7	D4	4	Expertise from Shared Services with Manawatu on Assets staff, and improving Asset Management Plans (and monitoring of these); arrangements with neighbouring authorities to cover prolonged staff absence (and also local contractors with Utilities).	yes
4.3	Poor asset design/maintenance resulting in potential safety and/or environmental issues				Expertise from Shared Services with Manawatu on Assets staff, and improving Asset Management Plans (and monitoring of these)	
	a. Water	D5	D5	5	Close liaison with Horizons in planning upgrades	yes
	b. Waste-water	D7	D5	5	Close liaison with Horizons in planning upgrades	yes
	c. Buildings	D7	D5	4	Health and safety audits	yes
	d. Recreational facilities	D3	D3	3	Poolsafe accreditation	yes



4.4	Poor management of assets	E2	C3	4	Periodically updated Asset Management Plans and their interaction with the Long Term Plan and Annual Plan processes	yes
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#### 5. Human resources

5.1	Breach of health and safety requirements	E1	D4	4	Organisation-wide health and safety policy, monitored periodically.	no	High raw risk reflects new legislative requirements. Council has undertaken considerable work in this area and currently has ACC tertiary accreditation. The effectiveness of controls is assessed as better than previously
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5.2	Staff are unsuitable or unavailable	D4	C2	4	Shared Services with Manawatu provides a more competitive recruiting arena; formal interviews always associated with referee checks; recognition that there are a large number of 'unique' roles and the need to ensure performance of time-critical functions.	yes	
5.3	Poor employee performance	D3	C3	4	Performance management system (initially refined in conjunction with developing the 'Rangitikei Road trip' together with actions from the Investors in people survey and feedback) is set in the context of the 'Working together for a better Rangitikei' framework which engages the whole organisation.	yes	Investors in People appears moribund. The Continuous Improvement process now under way helps employees understand the impact of their performance on others and the organisation as a whole.
5.4	Poor communication	D4	C3	3	Monthly staff meetings; bi-monthly corporate management meetings; team and section meetings; Intranet	yes	

5.5	Industrial action occurring	C3	B3	3	Low union membership; strong team leaders keeping pulse of the organisation.	yes	
5.6	Loss of corporate or tacit knowledge	E1	D3	2	Upgrades to corporate record-keeping and documentation of policies, procedures applicable to particular roles (cf. legal compliance project). Induction an opportunity to explain protocols.	no	No specific succession planning. However, Council has recently joined Promapp (a process mapping system with a high proportion of NZ councils as members), which will result in comprehensive documentation about 'how' things are done.

#### 6. Information systems

6.1	Poor information management	E3	D4	2	Implementation of SharePoint as corporate information system alongside several other business systems (especially NCS) and databases (AssetFinda and RAMM). No protocols over management of Council's asset management under Shared Services.	no	A higher raw risk with Shared Services for infrastructure services. Further work is planned in 2018 to improve coverage of SharePoint, its search function and linkages to other systems. However, integration with NCS does not appear feasible at this time.
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6.2	Breaches of information security	D4	B3	4	(External) Industry good practice in terms of firewalls; (Internal) restrictions on access to confidential records; automated monitoring of staff access into SharePoint (and deletion of records); review of access rights into NCS; policies in staff handbook	yes
6.3	Information system does not adequately support organisational needs	D3	C2	2	Newly adopted ICT Strategy a platform to achieve this objective.	yes

## 7. Financial management

7.1	Misuse of funds	C3	B4	4	Fraud procedure and small size of organisation. Separation of duties. Finance undertakes monthly review of where higher than budgeted expenditure is occurring and mystery shopping at those locations where cash handling may provide opportunities for fraud - the latter also a focus for a recent investigation by Internal Audit.	yes
7.2	Qualified audit report	D3	B4	5	Use of sector good practice guides; working relationship with auditors to secure early identification of any problems	yes

7.3	Financial exposure in the event of a loss or disaster	E4	D7	3	Insurance and likely central government support. However, there is currently uncertainty over affordable cover for below-ground assets following the exhaustion of LAPP with the two Christchurch earthquakes and also the gap left by the enhanced FAR for roading (particularly for bridges)	no	
7.4	Exposure to Council from entities in which Council has a financial interest	B4	C3	4	Those mentioned in 2.5.	yes	
7.5	<i>Exposure to market movements on borrowing costs</i>	E2	B4	4	Review of liability management policy and intended long-term use of LGFA facility	yes	

#### 8. Natural resources and hazards

8.1	<i>Inappropriate planning processes leading to degradation of the rural and urban environment through pollution, inappropriate and/or excessive use, or neglect.</i>	E3	C2	4	Most of the control measures are National Policy Statements, National Environmental Standards and provisions of Horizons' One Plan and its administration of water consents (river takes and ground water) and wastewater and stormwater discharges. Council has some impact through the land use and subdivision provisions of the District Plan	yes	
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8.2	<i>Inaccurate responses to the District's natural hazards</i>	E1	D3	3	The District Plan previously contained maps showing natural hazards, particularly seismicity and liquefaction. However, these maps were not intended to be taken as 'property specific', meaning the rules may be overly restrictive and inhibit development. They were removed in the targeted review of the District Plan conducted in 2016.	yes	
8.3	<i>Insufficient regard to risks posed by earthquake-prone buildings</i>	D8	C3	3	Council has documentation about many of the earthquake-prone buildings, but not all	no	The requirements for inspection under the Building Act will be carried out during 2018. This will include Council's own buildings.
8.4	<i>Insufficient regard to risks posed by climate change</i>	D8	B1	3	Horizons has done analysis of risks of inundation at Koitiata (negligible) but not yet at Scotts Ferry. The greater incidence of storm events has been factored into planning for road maintenance.	yes	A comprehensive national framework covering climate change risk and response is currently being developed

*Italics denotes risks additional to those identified as generic for all local councils*

## *Appendix 2*

## Risk matrix

		Likelihood				
		Almost certain	Likely	Possible	Unlikely	Rare
Consequences or Impact	Catastrophic	Extreme	Extreme	Extreme	High	High
	Major	Extreme	Extreme	High	High	Moderate
	Moderate	Extreme	Extreme	High	Moderate	Low
	Minor	Extreme	High	Moderate	Low	Low
	Insignificant	High	High	Moderate	Low	Low

See table 2 of the Risk management policy for meaning of impacts in terms of human life, service levels. The environment, compliance and corporate governance, financial performance and community/political

		Likelihood				
		Almost certain	Likely	Possible	Unlikely	Rare
Consequences or Impact	Catastrophic	E8 (9)	E7 (8)	E5 (7)	D8 (6)	D6 (5)
	Major	E6 (8)	E4 (7)	D7 (6)	D5 (5)	C4 (4)
	Moderate	E3 (7)	E2 (6)	D4 (5)	C3 (4)	B4 (3)
	Minor	E1 (6)	D3 (5)	C2 (4)	B3 (3)	B2 (2)
	Insignificant	D2 (5)	D1 (4)	C1 (3)	B1 (2)	A (1)

## Control effectiveness ratings

Rating	Effectiveness	Description	Quantification
0	Not effective	This control does not address risk	0%
1	Slightly effective	The control is not reliable as it is not well-designed, documented and/or communicated	1-20% effective
2	Somewhat effective	Control may be reliable but not very effective as control design can be improved	21-40% effective
3	Reasonably effective	Control is reliable but not effective as documentation and/or communication could be improved.	41-60% effective
4	Mostly effective	Control is mostly reliable and effective. Documentation exists but can be better communicated.	61-80% effective
5	Very effective	Control is reliable and effective. Fully documented process and well communicated.	81-100% effective

Source: Lismore City Council



# Attachment 5

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

## Key messages

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

### Audit opinion

We issued an unmodified audit opinion on 5 October 2017. 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

#### Revaluation of Property, Plant and Equipment

We reviewed the 1 July 2016 revaluations of the Council's land and buildings and infrastructure assets and found these were carried out in accordance with PBE IPSAS 17 *Property, Plant and Equipment* and the revaluation movements were correctly accounted for and supported. We identified areas where the Council could further improve for future valuations in section 3.1 of this report.

We also reviewed the Council's assessment of the fair value movement of its infrastructural assets and land and buildings since 1 July 2016 and are satisfied that there was no significant difference between the carrying amount and their fair value.

#### June 2015 Floods

We reviewed the Council's accounting treatment for the remaining work completed to remedy the roading infrastructure damage 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.

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 continuing improvement in section 2.4.2 of this report.

### Issues identified during the audit

This report should be read in conjunction with the interim management report issued 11 August 2017. The status of the issues raised in this report is included in Appendix 3.

The following table summarises our recommendations coming out of our final audit and their priority:

Ref	Recommendation	Urgent	Necessary	Beneficial
3.1	<b>Revaluation Improvements</b> Improve the revaluation process by: <ul style="list-style-type: none"> <li>• agreeing the terms of reference with the valuer and providing a list of all assets to be valued from the council's asset register</li> <li>• ensuring that all valuation movements are reconciled back to the relevant supporting valuation information and to all affected financial balances.</li> <li>• Re-assess the earthquake prone buildings for impairment during the 2017/18 year.</li> </ul>		✓	
3.2	<b>Review of useful lives</b> Review and understand the appropriateness of useful lives assessed by the valuer.		✓	
3.3	<b>Monthly capital work in progress reconciliations</b> Implement a monthly reconciliation of capital work in progress.		✓	

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

### Thank you

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

Debbie Perera  
Audit Director  
10 November 2017

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## **1 Our audit opinion**

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

We issued an unmodified audit opinion on 5 October 2017. 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 Management override**

In any entity, management are potentially in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although we do not have any indications that the level of risk of management override of controls for the Council is not low, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur it results in a risk of material misstatement due to fraud.

We did not identify any issues that would indicate management override occurring.

### **2.2 Revaluation of Property, Plant and Equipment**

The Council periodically revalues its land, buildings and infrastructure assets. The Council revalued its land and building and infrastructure assets at 1 July 2016 for the year ended 30 June 2017.

We reviewed the revaluation of its land and buildings and infrastructure and ensured that revaluation movements are correctly accounted for and supported. We reviewed the Council's explanations of variances between the latest and prior years' valuations for reasonableness.

Overall we found that the revaluations were carried out in accordance with PBE IPSAS 17 *Property, Plant and Equipment* and that the revaluation movements were correctly accounted for and supported. However, we identified several areas for improvement during our review and these were discussed with management during the audit and these are included in section 3.1 below.

As the valuations were as at 1 July 2016 we reviewed Council's assessment of whether there were any significant movement between the carrying amount and fair value of the operational and infrastructural assets at 30 June 2017. This assessment took into account:

- Price index changes for the different type of categories; and
- Recent activity within the area over sales.

We confirmed that the carrying value of Council's assets that are revalued were not materially different to the fair value and, as such, there was no need for a further revaluation as at 30 June 2017.

## **2.3 June 2015 rainfall event**

The Council completed the remainder of the work to repair its roading infrastructure damaged in the June 2015 flood event during 2017 financial year. As in the prior 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.

From our review we are satisfied that the flood damage repair expenditure is fairly stated in the financial statements.

## **2.4 Audit of performance information**

### **2.4.1 Performance management reporting**

During our audit we:

- reconfirmed the performance framework from the 2015-25 LTP remained appropriate with performance measures being reported on in the annual report;
- focused on the quality of the overall story and the performance it tells which showed the Council have clearly articulated within each activity what happened during the year and any major related issues; and
- found that the Council was able to report back on all its mandatory measures.

We confirmed that the framework and associated performance measures provide an appropriate basis for performance reporting in 2016/17.

### **2.4.2 Improvements in the performance management reporting**

In our 2016 audit we identified areas for improvement and raised these in last year's management report.

During our interim visit, we reviewed the systems in place for capturing performance information for selected mandatory measures to ensure these were appropriate to record and report on performance at year-end. Our issues around data capture for

all mandatory measures have been addressed. We found that the Council has implemented processes around:

- 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
- Verification of roading, utilities and animal control at least weekly.

We recommend that the Council 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 provided 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; 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 and contracts.

### **Management comment**

#### **1. Review the effectiveness ...**

*With Promapp being implemented, it is intended that the process for handling service requests will be formally documented and associated with training of Customer Services staff who input requests.*



2. *Perform a regular quality review ...*

*It is intended that the key departments involved in the SSP, namely Infrastructure, Animal Control and Environmental Health, will nominate someone to run the compliance report for their areas each week – daily will not be feasible given other duties expected of these staff.*

3. *Ensure data fields include information ...*

*We acknowledge that this is a training issue, to ensure that if changes are made, then who made them, when and the reason why are included in the details. MagiQ does record when actions are taken by staff when a request is edited but it is all coded and rather difficult to understand.*

4. *Document any calls that are excluded ...*

*We are unsure why this is needed. We already have a great many service requests that are excluded from the DIA reporting and these are excluded when we run the SSP reports. We do have a document that identifies what is included, but we do not have one for those not included.*

5. *Continue to review DIA guidance ...*

*We rely on DIA or SOLGM to alert us to any changes in the guidance for the mandatory performance measures. (Changes to the rules require formal consultation with the local government sector.) One of the perennial issues is that we can only work within the bounds of our software – getting changes made by MagiQ is both slow and expensive to Council.*

6. *Ensure system to check contractor times ...*

*We appreciate the need for data integrity and use the paper work as supplied as the cross-check into information provided earlier about their attendance on site and resolution of issues.*

### 3 Findings from the audit

Our significant findings from our final audit are noted below. Please also refer to our interim report dated 11 August 2017. The status of the interim items are detailed in Appendix 3.

#### 3.1 Revaluation Improvements

##### Recommendation

Improve the revaluation process by:

- Agreeing the terms of reference with the valuer and providing a list of all assets to be valued from the council's asset register;
- Ensuring that all valuation movements are reconciled back to the relevant supporting valuation information to all affected financial balances; and
- Re-assessing the earthquake prone buildings for impairment during the 2017/18 year.

##### Findings

During the course of review of the revaluations we found that:

- The revaluations did not initially reconcile back to the valuation information or there were unexplained differences between the peer review and the internal valuation report. We also found some reconciliation differences relating to double counting of building assets and non-revaluation of some land assets. These were subsequently corrected.
- The revaluation movements had not been reconciled to the equity movements in the asset revaluation reserves and did not agree back to the valuation movements. This was subsequently corrected.
- There was no formal consideration given to the likely impact of earthquake prone buildings on the valuation by Council. While we are satisfied that the building values are materially correct Council should ensure that these buildings assets are assessed for impairment during the 2017/18 year.

To prevent issues with assets not being valued and assets being double counted, or incorrectly included in a valuation, agree the terms of reference with the valuer and provide a list all assets to be valued from the council's asset register. This would allow council to ensure all assets in an asset class to be are valued or, if assets are scoped out, to be easily identified and an assessment on their valuation made by Council.

Council should ensure that all valuation movements are reconciled back to the relevant supporting valuation information and to all affected financial balances and any ensure differences are followed-up.

### **Management Comment**

MWH was employed to provide peer review of the asset valuation information for Waters Infrastructure (from the Asset Finda System) and Roading (from the RAMM system) which are provided by MDC staff. QV was engaged to provide a valuation on the building and land assets (from the NCS Assets System).

There will be differing viewpoints on the replacement values used between staff and the appointed valuer. However this does highlight the issues around accuracy of the data. The QV valuer added valuation changes to the main asset number which had potential to understate the depreciation on the sub-assets if not corrected at the sub asset level. Any revaluation gain will then attach to the main asset number. This approach will not be accepted in the next revaluation.

Council has taken a position that all its building assets are earthquake prone and already has some estimates of a potential cost to strengthen them. Instead of doing this strengthening work Council has opted for a rolling programme to renew its key civic/community facilities in the District's main centres which it has included in the 2018-28 Long Term Plan. Council will review such assets for impairment but believes that the current book values fairly reflect the underlying asset value.

### 3.2 Review of useful lives

#### Recommendation

Review and understand the appropriateness of useful lives assessed by the valuer.

#### Finding

During our review of the roading valuation MWH re-assessed the useful lives of some assets reducing these to half of the previous default life.

In particular, this affected the first coat seal portion of the sealed pavement. These asset components' lives were reduced because these assets had no recorded construction date. While, in this case, only 9 records were affected (less than 1% of the total) the Council should ensure that this assessment is appropriate and based on the nature and condition of the asset.

Likewise where assets useful lives have not been reassessed to take in the potential impact of an asset's condition such as noted in 3.2 above Council should make its own assessment of the assets useful life.

#### Management comment

The issue of data missing is noted but in its Valuation Report MWH notes that Roothing data are "Reliable or Highly Reliable" MWH is employed to provide peer review of (a) the asset valuation information for Roothing and (b) the work that MDC staff do for RDC. It would be difficult for RDC to have a differing view on the lives of assets without engaging new staff or another provider to give a second opinion on this.

### 3.3 Monthly Capital WIP reconciliation

#### Recommendation

Implement a monthly reconciliation of capital work in progress.

#### Finding

In previous years we have noted issues with the capital work in progress (WIP) relating to identification of projects making up the balance. This has meant that the Council was unable to clearly review the WIP for impairment and ensure that completed projects are capitalised in a timely manner, with Council only fully reconciling WIP in a revaluation year. Due to the revaluation of infrastructure assets during the 2016/17 year the WIP balance has been brought into the asset management system and cleared.

It is essential, to avoid the issues encountered prior to the revaluation, that WIP is reviewed on a monthly basis for impairment and to ensure that any projects that have been completed are capitalised in a timely manner.

#### Management comment

Council is looking to other options to for how this is managed and is working with Ruapehu District Council to incorporate their learnings on asset capitalisation and WIP management with a separate provider into a workable system.

#### 4 Verbally discussed recommendations

We have made other recommendations on minor issues identified during the audit. These were communicated to management and a summary is detailed below:

- Provide a listing of outstanding accounts payable invoices that is reconciled to the accounts payable control account at year-end.
- Monitor annual leave balances and consider implementing leave plans for those employees with high leave balances. We found several employees have leave accrued greater than four weeks, which makes up a liability of \$173,000 at year end.

#### 5 Status of previous recommendations

The status of the matters outstanding from the prior year which were followed up during our final audit are included in Appendix 2. For completeness we have included the items outstanding from our interim management report dated 11 August 2017 in Appendix 3

Summary of action taken against previous years and Interim' recommendations:

Number of recommendations from previous years' audits	Current status
5	Matters that have been resolved
23	In Progress - progress is being made, but not yet fully resolved.
18	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.

## **Appendices**

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

**Appendix 2: Status of previous recommendations**

**Appendix 3: Recommendations from the August 2017 Interim Management Report**

**Appendix 4: Mandatory disclosures**

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## 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:

<b>Urgent</b> Major improvements required	<b>Needs to be addressed <i>urgently</i></b> These recommendations relate to a significant deficiency that exposes the Council to significant risk. Risks could include a material error in the financial statements <b>[and the performance information]</b> ; a breach of significant legislation; or the risk of reputational harm.
<b>Necessary</b> Improvements are necessary	<b>Address at the earliest reasonable opportunity, generally <i>within 6 months</i></b> 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.
<b>Beneficial</b> Some improvement required	<b>Address, generally <i>within 6 to 12 months</i></b> These recommendations relate to deficiencies that result in the 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.

## Appendix 2: Status of Previous Recommendations

### Outstanding matters

Recommendation	Current status	Priority	Management's proposed action
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Recommendation	Current status	Priority	Management's proposed action
<b>Performance measure rules</b> Continue to review the effectiveness of the collection and reporting of data.	<b>In progress</b> Council is aware of the DIA measures and are working hard to ensure team members and contractors are aware of the data they need to provide. Quarterly reporting of CRMs is being made. Refer to 2.4	Necessary	<i>Refer to management comment in 2.4</i>
<b>Capital Work in progress</b> Review the capital WIP balance to: <ul style="list-style-type: none"> <li>clearly identify projects included in the balance;</li> <li>perform an impairment assessment over the outstanding WIP balance at year-end; and</li> <li>ensure projects are capitalised on a timely basis once they are ready for use.</li> </ul>	<b>In progress</b> WIP was reviewed as part of the revaluation. Refer to 3.3 for our recommendation about WIP management going forward	Necessary	<i>Refer to management comment in 3.3</i>
<b>Carry forward of capital expenditure</b> Continue to reduce the amount of capital expenditure carried forward to the next financial year.	<b>In Progress</b> Capital expenditure carry forwards remain similar to the previous years. We understand that Council is aware of the level of carry forwards and the timing of proposed capital expenditure will be considered during the preparation of the 2018-28 LTP.	Necessary	<i>Capacity to undertake capital works has been taken into account in preparing the 2018-28 LTP. We will be more transparent about the reasons for carrying-forward funding for major projects by noting the rationale in any resolutions for that in future.</i>

Recommendation	Current status	Priority	Management's proposed action
<p><b>Review of Procurement Practice</b></p> <p>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. Our summarised recommendations are detailed below.</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Declarations should be regularly updated, both actively and at key stages of the procurement process.</li> <li>• 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.</li> <li>• A business case should be prepared for all procurements of significant value and risk.</li> <li>• 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.</li> <li>• Risk should be considered during the procurement planning staff. These risks relate to the procurement process rather than the contract.</li> <li>• 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.</li> </ul>	<p><b>In progress</b></p> <p>Council has made some progress in certain areas but not all.</p>	<p><b>Necessary</b></p>	<p><b>Management comment (from the 15/16 management report)</b></p> <p>Council will review its procurement processes to give greater robustness over:</p> <ul style="list-style-type: none"> <li>• the business case for the procurement (and its approval as a pre-requisite for the procurement process)</li> <li>• risk assessment</li> <li>• roles and responsibilities of staff involved</li> <li>• conflicts of interest declarations,</li> </ul> <p><i>The report in October 2017 from the Independent Assessment Board (for the CouncilMARK local government excellence programme has emphasised the need to develop robust business cases to justify large capital expenditure projects and for the Council to have a detailed understanding of strategic risk issues.</i></p>



Recommendation	Current status	Priority	Management's proposed action
<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.	<b>In Progress</b> Refer to 3.1 and 3.2 for issues identified this valuation.	Necessary	Refer to management comment in 3.1 and 3.2
<b>Credit Card Policy Update</b> Update Council's credit card policy be updated to include: <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>	<b>Outstanding</b>	Necessary	<i>A revised draft has been prepared for consideration by the Management Team at its December 2017 meeting.</i>
<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.	<b>Outstanding</b> Refer to our comments in 3.1	Necessary	Refer to management comment in 3.1
<b>Succession Planning</b> There are some Council staff members who have a vast amount of sector knowledge. The Council needs to ensure that there are succession plans in place for when these staff members leave so that the operations of the Council will not be effected. There is a risk that once these staff members leave, there will no longer be this knowledge base within the Council.	<b>Outstanding</b>	Necessary	<i>Council has started a process of systematically documenting all processes through Promapp. This will help preserve knowledge gained by long-serving Council staff members.</i>

Recommendation	Current status	Priority	Management's proposed action
<p><b>Update to staff handbook</b></p> <p>The staff handbook could be improved by including the following specific matters:</p> <ul style="list-style-type: none"> <li>• Prohibition (or disclosure) of any significant financial interests in customers, suppliers or competitors.</li> <li>• Prohibition or disclosure of the receipt of gifts, loans or other special privileges from customers, suppliers or competitors.</li> <li>• Prohibition of the payment of bribes and certain types of rebates or other forms of compensation to induce sales or obtain favourable contract terms.</li> <li>• Prohibition of the use of the Council's funds to reimburse employees or others for expenditures that would violate the entity's policies.</li> <li>• Prohibition of unrecorded cash funds.</li> </ul>	<p><b>In Progress</b></p> <p>The staff handbook has been updated as at 1 July 2016 but most items recommended to be updated are still are not updated.</p>	<p><b>Beneficial</b></p>	<p><i>This will be addressed by the adoption of a separate Conflicts of Interest Policy noted below.</i></p>
<p><b>Conflict of Interest Policy</b></p> <p>There is no organisation wide conflict of interest policy in place for Council Staff.</p> <p>While the staff handbook briefly mentions conflicts of interest, it is not robust.</p> <p>We expect Council to have a conflict of interest policy in place containing the following:</p> <ul style="list-style-type: none"> <li>• The principles that should guide decision making about Conflicts of Interest, including integrity, honesty, transparency, openness, independence, good faith, fairness, and impartiality</li> <li>• Comprehensive guidance on what may constitute a Conflict of Interest</li> </ul>	<p><b>Outstanding</b></p>	<p><b>Beneficial</b></p>	<p><i>A separate conflict of interest policy will be adopted, based on that used by Queenstown Lakes District Council, and cross-referenced in section 15.4 of the Staff Handbook.</i></p>

Recommendation	Current status	Priority	Management's proposed action
<ul style="list-style-type: none"> <li>Examples of circumstances in which there may be a perceived, actual, or potential interest</li> <li>Differences between pecuniary and non-pecuniary interests and when these may arise</li> <li>Broad range of options for avoiding or mitigating any Conflicts of Interest that may arise</li> <li>What gifts or hospitality may be acceptable and the process which applies to disclosure.</li> </ul>			
<b>Contract management</b> Endorse an integrated policy for organisation-wide use and review the Councils 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.	<b>Outstanding</b>	<b>Necessary</b>	<i>Council will use the Contract Management Guidelines issued by the Municipal Association of Victoria as the basis for developing this integrated policy. This notes that KPI's should be established that relate directly to the standards set in the contract.</i>

### Matters that have been resolved

Recommendation	Outcome
<b>Suspense accounts</b> Reconcile and clear all suspense accounts at year-end.	<b>Cleared</b> <i>Majority of the suspense accounts have been cleared (except 2 i.e. MDC suspense account and Asset Suspense account both amounted to below \$11,000 each) at year-end.</i> <i>Update 2017 MDC Suspense Account only contains MDC amounts should. All other accounts are cleared on a regular basis and Team Leader Finance is working on the Asset Suspense Account.</i>

Recommendation	Outcome
<p><b>Payment dates for targeted rates for water supply</b></p> <p>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.</p>	<p><b>Cleared</b></p> <p><i>The 2017/18 rates resolution includes the payments dates for water supply.</i></p>
<p><b>Sensitive Expenditure policy</b></p> <p>Update the sensitive expenditure policy to reflect the use of Council credit cards and reward schemes.</p>	<p><b>Cleared</b></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.</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</i></p>
<p><b>Journal Approval</b></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><b>Cleared</b></p> <p><i>Confirmed that each month there is now a journal sheet signed off by the Team Leader Financial Services the Accounts Officer. This sheet is also signed off as approved by the Group Manager Finance and Business Support.</i></p>
<p><b>Delegated Financial authority</b></p> <p>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><b>Cleared</b></p> <p><i>The financial Services Team Leader reviews the listing every 3-4 months to ensure the supporting documentation agrees to the online delegation.</i></p>

## Appendix 3: Recommendations from the August 2017 Interim Management Report

Recommendation	Current status	Priority	Management's proposed action
<b>Expenditure coding processes</b> Continue to liaise with the providers of MagiQ resolve the expenditure coding issues for complex invoices.	In progress	Necessary	<p>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.</p> <p>Nov 2017 Update this is now working as we expect and is completely functional.</p>

Recommendation	Current status	Priority	Management's proposed action
<b>Payroll reviews</b> Implement a system to ensure that there is adequate evidence that key payroll checks and report reviews have taken place during the payroll process.	In progress	Necessary	The addition of a payroll checklist <i>has been made</i> to the documentation <i>and [Nov 2017 update] the Team Leader Finance reviews each payroll. The GM Finance &amp; Business Support signs off on PAYE.</i>
<b>Manual Expenditure Approval Processes</b> Implement an independent review process for expenditure that is approved manually to ensure that the expenditure is appropriate and bona fide.	In progress	Necessary	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.

Recommendation	Current status	Priority	Management's proposed action
<b>Sensitive expenditure approvals</b> We recommend that: <ul style="list-style-type: none"> <li>All credit card statements get approved on a one-up basis in a timely manner; and</li> <li>Sufficient supporting documentation for purchases be included with the credit card statement.</li> </ul>	In progress	Necessary	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.
<b>Lack of controls around MagiQ staff access to councils systems</b> Review and enhance process around access to ensure only relevant users have access to Council systems. This would include: <ul style="list-style-type: none"> <li>All users having individual login accounts.</li> <li>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.</li> <li>External parties advising council when any of their staff leave so that access can be immediately terminated.</li> </ul>	Outstanding	Necessary	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 system.
<b>Reviews of MagiQ users access levels</b> Develop a report that shows MagiQ users and their access levels so that regular reviews can be done to ensure access remains appropriate.	Outstanding	Necessary	Council are concerned about levels of access and we will look to develop a report to monitor this access so routine reviews are feasible.

Recommendation	Current status	Priority	Management's proposed action
<b>Documentation of Change management procedures</b> Develop documented procedures for logging, testing and approving any changes to councils IT systems before the changes are made live.	In Progress	Necessary	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.
<b>Information System Policies</b> 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.	In Progress	Necessary	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).
<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 Council.  Review the current practices to ensure the Council reduces the risk of unnecessarily remitting rates to ratepayers who are no longer eligible.	<b>In progress</b> We will review this at the LTP audit.	Beneficial	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.



Recommendation	Current status	Priority	Management's proposed action
<p><b>Monitoring of Contractor Performance</b></p> <p>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><b>In Progress</b></p> <p>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>	<p>Necessary</p>	<p>Monitoring of contract over \$50k annual value will be reported to the Council's Management team.</p>
<p><b>Request for service</b></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><b>In progress</b></p> <p>The council have implemented:-</p> <ul style="list-style-type: none"> <li>• Ensuring the after-hours call centre provider's staff are familiar with RDC requirements</li> <li>• dealing with requests from staff to attend to a defect as internal service requests</li> <li>• clarification of change of categorisation of service requests</li> <li>• at least weekly verification of roading, utilities and animal control.</li> </ul>	<p>Necessary</p>	<p>Weekly review of data with activity managers to be formalised.</p> <p>Monitor time-recording of after-hours requests to be sure it is not changed subsequently by Council staff entering data.</p>

Recommendation	Current status	Priority	Management's proposed action
<b>Project Management</b> 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.	<b>In progress</b> 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.	Necessary	<i>A project management framework will be developed by staff trained in Project Management.</i>
<b>Marton Pool</b> Perform a review of all invoices received from Nicholls Swim Academy to ensure they are paid in accordance with the contract. We also recommend that Council establish a process to ensure the reasonableness of the credit notes received for pool entry fees.	<b>In progress</b> A high level review is performed to ensure invoiced amounts are in accordance with the contract. There is no detailed review of items in the credit note but a check is performed to ensure the amount is reasonable.	Necessary	<i>A variation to the contract will be considered for the next swimming season to address the identified issues with income sharing.</i>
<b>Creditors Masterfile Maintenance review</b> Independently review the Creditors Masterfile Maintenance Report back to supporting documentation by a staff member that has no edit-access. We also recommend that adequate supporting documentation for changes made to the masterfile be retained and filed with the Creditors Masterfile Maintenance Report.	<b>In Progress</b> The Finance Services Team Leader currently does spot reviews of the masterfile.	Necessary	<i>A monthly review, signing and dating these as evidence of the review, will be implemented.</i>

Recommendation	Current status	Priority	Management's proposed action
<b>Performance Reporting - Supporting Documentation Rooding</b> <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>	<b>In progress</b> <p>While there were still some missing fields in the testing that we performed, we noted that since our last management report was actioned that the contractor are better at providing the information required.</p>	Necessary	<p><i>This has been done. Higgins is now sending complete job sheets.</i></p>
<b>Payroll Maintenance</b> <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>	<b>In progress</b> <p>No Issues were noted with date ranges. However, there is still inconsistency in review processes.</p>	Necessary	<p><i>With the introduction of a check-sheet on the payroll files this should be completed.</i></p>
<b>Process for removing Manawatu District Council staff from Rangitikei District Council IT systems when they leave</b> <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>	<b>Outstanding</b>	Necessary	<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
<b>Inconsistent procedures for adding and removing users from systems</b> 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.	<b>In progress</b> 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.	Necessary	<i>Ensure current practice is followed in all instances for both RDC and MDC staff.</i>
<b>Virus and Patch Management</b> Develop monitoring and reporting on the status of patching and anti-virus updates across councils IT to ensure they remain up to date.	<b>In progress</b> While the virus protection regime is up-to-date we will follow up the documentation at our next IS visit with a view to clearing.	Necessary	<i>This virus protection regime is up-to-date, a monthly regime is in place and documented.</i>
<b>Prior Year Issue: No Regular Testing of Business Continuity and IT Disaster Recovery Plans</b> We continue to recommend that Business Continuity and IT Disaster Recovery plans be finalised and tested.	<b>In progress</b>	Necessary	<i>The refresh of the Council's IT infrastructure should address this.</i>

## 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 Auditor-General's Auditing 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 are independent of the Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>Other than the audit, we have no relationship with, or interests in, the 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>
Unresolved disagreements	<p>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.</p>

# Attachment 6

# 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>	Rangitikei District Council
<b>Maintenance Programme Value, 2015–18 NLTP (Transport Agency investment)</b>	\$29.0m
<b>Date of Investment Audit:</b>	9-12 October 2017
<b>Audit Team:</b>	Erik Teekman (Lead), Paul Murphy, Hartley Hare (Southland District Council)
<b>Report No:</b>	RAETT-1766

\* \* \*

### EXECUTIVE SUMMARY

Overall Rangitikei District Council's network is in good condition and well managed. The network compares very well to its peers with regard to smooth travel exposure; to some extent, this will reflect Council's relatively high surfacing and rehabilitation rates. Council acknowledges greater surface life is possible and is focused on such improvement.

Council's increased focus on drainage in the last two years is timely. We support Council's continued focus in this area as it helps to prevent more expensive pavement repairs.

Crash rates in the district appear comparable to other networks but we identified a number of focus areas that could deliver safety benefits. Focus areas include: active monitoring of sites with temporary traffic management; improving safety at bridges; and, ensuring consistency of delineation across the network.

Asset databases contain data that is largely complete, timely and accurate; providing confidence in the view network data provides.

Council staff are knowledgeable and have fostered good working relationships with contractors and work effectively with Manawatu District Council.

\* \* \*

### 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.

**SUMMARY AUDIT RATING ASSESSMENT**

Question Number	Subject	Rating Assessment*
1	Previous Audit Issues	Effective
2	Network Management	Effective
3	Activity Management Plan and Land Transport Programme	Effective
4	Databases	Effective
5	Safety Performance	Some Improvement Needed

*\* Please see Introduction for Rating Assessment Classification Definitions*

\* \* \*

**RECOMMENDATIONS/SUGGESTIONS**

The tables below capture the audit recommendations and suggestions respectively. Agreed dates are provided for the implementation of recommendations by the approved authority.

We recommend that Rangitikei District Council:		Implementation Date
Q2	Amend business case resurfacing expectations to better align with the AMPs intent to reduce the rate of resurfacing occurring on the network.	Included in 2018-21 AMP 16th December 2017
Q4	Consider undertaking 20% sealed road rating surveys at 200m intervals to improve network condition data representation.	Included in 2018-21 AMP 16th December 2017
	Resolve data anomalies relating to smooth travel exposure.	In Progress
Q5	Actively monitor temporary traffic management on the road network to ensure the safety of road users and workers alike.	On going
	Review bridge approaches and develop a strategy to ensure sufficient safety is afforded to road users from risks posed by steep valleys and watercourses.	Included in 2018-21 AMP 16th December 2017
	Ensure edge marker post and line marking application is consistent along routes and over the network, and provided in accordance with Council's delineation strategy.	Has commenced and will be on going.
	Ensure compliance with the Road Safety Audit Procedures for Projects (NZTA, 2013).	Will be adopted for all new capital projects in 2018/21



We suggest that Rangitikei District Council:	
Q2	Adjust condition rating survey frequency to match current Transport Agency requirements as per Planning and Investment Knowledge Base.
	Review culvert inspection and maintenance standards in light of network need and confirm whether a more tailored approach is appropriate.
	Continue focus on drainage, particularly the removal of high shoulder and road side drain improvements.
Q5	Review the suitability of the night time network inspection regime.

\* \* \*

## INTRODUCTION

The objective of this audit is to provide assurance that the NZ Transport Agency's investment in Rangitikei District Council's land transport programme is being well managed and delivering value for money. We provide this assurance on the basis of field visits (details of which are attached in Appendix A) and by answering the following questions:

- What issues, if any, remain unresolved from the previous audit?
- Is Council following good practice in network management?
- Do the Activity Management Plan (AMP) and Council's Land Transport Programme reflect the network needs?
- Does Council understand its databases and are the databases accurate and robust?
- Is safety performance understood and being well managed?

In answering the above questions, we assess whether Council is appropriately managing risk associated with the Transport Agency's investment. Our rating assessment is based on the audit rating classification definitions summarised in the following table. As part of our assessment we have made recommendations and suggestions where appropriate.

Audit Rating	Definition
Effective	<p><b>Investment management</b> – effective systems, processes and management practices used.</p> <p><b>Compliance</b> – Transport Agency and legislative requirements met.</p> <p><b>Findings/deficiencies</b> – opportunities for improvement may be identified for consideration.</p>
Some improvement needed	<p><b>Investment management</b> – acceptable systems, processes and management practices but opportunities for improvement.</p> <p><b>Compliance</b> – some omissions with Transport Agency requirements. No known breaches of legislative requirements.</p> <p><b>Findings/deficiencies</b> – error and omission issues identified which need to be addressed</p>
Major improvement needed	<p><b>Investment management</b> – systems, processes and management practices require improvement.</p> <p><b>Compliance</b> – significant breaches of Transport Agency and/or legislative requirements.</p> <p><b>Findings/deficiencies</b> – issues and/or breaches must be addressed or on-going Transport Agency funding may be at risk.</p>
Unsatisfactory	<p><b>Investment management</b> – inadequate systems, processes and management practices.</p> <p><b>Compliance</b> – multiple and/or serious breaches of Transport Agency or legislative requirements.</p> <p><b>Findings/deficiencies</b> – systemic and/or serious issues must be urgently addressed or on-going Transport Agency funding will be at risk.</p>

**AUDIT FINDINGS**

The following tables present the overall findings, rating assessment and recommendations and/or suggestions for each of the respective audit questions.

Question 1:	What issues, if any, remain unresolved from the previous audit?	
Findings	The 2012 Technical Audit (summarised in Appendix B) made eight recommendations to Council, and identified six opportunities for improvement. These items have been suitably implemented.	

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Question 2:	Is Rangitikei District Council following good practice in network management?	
Findings	<p>Council follows good practice in the management of the road network, and the road network is generally fit for purpose.</p> <p>Compared to its peer group and based on percentage of sealed network, the Rangitikei District does however have a high average sealing rate (19<sup>th</sup> out of 25), and a moderately high rehabilitation rate (16<sup>th</sup> out of 25). Council's draft activity management plan acknowledges that additional surface life could be achieved; the intent to develop the surfacing programme based on network need rather than simple target lengths should help achieve this. The supporting business case should be amended as it currently envisages resurfacing rates at or above existing levels until at least 2020/21. Use of Council's high speed data to support dTIMS modelling may provide RDC with an improved long-term indicative funding model for future surfacing activity.</p> <p>We observed a number of locations where poor road side drainage and/or high shoulder coincided with localised pavement failures, Ongo Road was a good example of this. At a number of isolated locations where culverts were blocked, such as those seen on Erewhon Road. Culvert inspection and maintenance standards are consistent across the network. However as localised conditions and network criticality vary; it may be appropriate to have varying culvert inspection and maintenance standards based on network location.</p> <p>Council's increased focus on drainage, particularly roadside drains and high shoulder in the last two years is timely and can assist with reducing more expensive pavement failure repairs. Council's focus in this area has also resulted in some good network outcomes (such as the removal of surface ponding at the intersection of Wanganui Road and Johnston Road). We encourage Council's continued focus on drainage, particularly in the northern part of the network where drainage issues appeared more prevalent.</p>	

	<p>While we visited only a small sample of unsealed roads in the district, those we saw were in good condition; and are typically subjected to three to four grading cycles per year. The combination of grading frequency and observed condition is considered reflective of good grading technique and a suitable intervention frequency.</p> <p>Council has good systems in place to verify contractor claims, and ensure that work activity data is entered into RAMM. These processes reflect well in the completeness, timeliness and accuracy of RAMM data.</p> <p>The continued focus on RAMM data is good, though it was not clear why condition rating should occur annually for roads carrying more than 500 vehicles per day. Current best practice suggests that condition rating is only undertaken annually for roads carrying more than 2,000 vehicles per day.</p> <p>Net present value (NPV) analysis is undertaken for rehabilitation projects meeting the Transport Agency's funding eligibility requirements for Work Category 214 (Sealed Road Pavement Rehabilitation). There is confidence in the scale, timing, and costs used in the analysis. In keeping with good practice road safety audits were completed as part of rehabilitation project scope.</p> <p>Council staff work collaboratively with Manawatu District Council through the sharing of staff. This approach enables a greater level of expertise (or specialisation) to both districts; and allows for more regionally consistent network outcomes.</p> <p>Council and contractor staff have good working relationships and are highly engaged in the management of the network.</p>
Recommendations to Council	Amend business case resurfacing expectations to better align with the AMPs intent to reduce the rate of resurfacing occurring on the network.
Suggestion to Council	<p>Adjust condition rating survey frequency to match current Transport Agency requirements as per Planning and Investment Knowledge Base.</p> <p>Review culvert inspection and maintenance standards in light of network need and confirm whether a more tailored approach is appropriate.</p> <p>Continue focus on drainage, particularly the removal of high shoulder and road side drain improvements.</p>
Council Comment	<p>The Business Case (Final bid 16/12/17) has been amended so that resurfacing expectations are better aligned with the AMPs intent to reduce the rate of resurfacing occurring on the network.</p> <p>The 2018-AMP has adjusted condition rating survey frequencies to match current Transport Agency requirements as per Planning and Investment Knowledge Base. Roughness and condition rating surveys of all sealed roads will be undertaken at least every second year.</p> <p>Condition rating surveys of all sealed roads carrying more than 2000 vehicles per day will be undertaken annually.</p> <p>Culvert inspection and maintenance standards will be reviewed in light of</p>

	<p>network need to determine whether a more tailored approach is appropriate.</p> <p>There will be a continued focus on drainage, particularly the removal of high shoulder and road side drain improvements.</p>
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<b>Question 3:</b>	<b>Does the Council's Activity Management Plan (AMP) and Land Transport Programme (LTP) reflect network needs?</b>	
<b>Findings</b>	<p>Council's AMP is up to date and demonstrates a very good understanding of the challenges and opportunities facing the district. The AMP follows the business case approach and reflects the ONRC framework. Network challenges are clearly defined in the AMP and supported by robust evidence in the business case. Council understands areas of the network that will be subjected to increasing pressure over the coming years.</p> <p>Continued awareness of local forestry activity (especially harvesting cycles, timing expectations and transport routes) will be required to ensure appropriate network management planning. Such awareness will also assist in reducing risks associated with unexpected network requirements.</p>	
<b>Council Comment</b>	Council concurs with the above comments.	

\* \* \*

<b>Question 4:</b>	<b>Does Rangitikei District Council understand its databases and are the databases accurate and robust?</b>	
<b>Findings</b>	<p>Good asset management decisions rely on complete, timely and accurate asset data; we therefore commend Council's strong focus on the quality network data. Council's road asset database (RAMM) contains maintenance, condition and network use data that is largely complete, accurate and timely. The Road Efficiency Group's data quality report supports this view. The quality of data ensures confidence in Council's network analysis and the basis of its AMP, and the ability to largely rely on Road Efficiency Group comparative reporting outputs.</p> <p>Network surface and pavement condition indices appear stable over time. Smooth travel exposure compares very well to peers. However, there was a sudden and unexplained reduction in smooth travel exposure (STE) for the network in 2013 and 2016. There was also a poor correlation between road roughness data and actual road roughness at a localised level such as that at Beamish Road (the only site we sought to validate). This site was ranked second worst in the district for STE, yet the road provided a very smooth ride.</p>	

	<p>Condition rating information recorded in RAMM complies with requirements set out in the Agency's Knowledge Base. Council has typically undertaken network rating surveys based on a 10% sample from a 500m long segment length, with the exception in 2015 when Council undertook a 100% sample.</p> <p>NZ Transport Agency Research Report 528 found that a change in segment length, from 500 metres to 200 metres and the sample size, from 10% to 20% can provide a better indication of actual network condition. It is our advice that Council modify current condition rating practice to 200 metre segments and a 20% sample for each segment.</p>
Recommendations to Council	<p>Consider undertaking 20% sealed road rating surveys at 200m intervals to improve network condition data representation.</p> <p>Resolve data anomalies relating to smooth travel exposure.</p>
Council Comment	<p>Council will consider undertaking a 20% sealed road rating surveys at 200m intervals to improve network condition data representation.</p> <p>Council will investigate and resolve data anomalies relating to smooth travel exposure.</p> <p>Council is currently in negotiations with suppliers of high speed data capture providers. Council understands that some systems can capture all the required pavement condition data in one pass.</p>

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Question 5:	Is safety performance understood and being well managed?	
Findings	<p>Rangitikei District Council understands the importance of a safe road network. Council is aware that a proportion of crashes (especially non-injury crashes) are likely to go unreported given the remoteness of the network.</p> <p>We passed a number of network utility work sites in Taihape and were concerned with the effectiveness of temporary traffic management in place. For example an effective lane closure on Kokako Street was not covered by any advance warning; and, utility operators working on Robin Street were not protected by a lateral safety zone and were outside of the speed restricted area. While the work does not relate to Council activity, Council is ultimately responsible for those travelling and working on its road network.</p> <p>Bridge end markers (width delineators) were in very good condition and present on all bridge approaches. We were however concerned that a number of remote rural road bridges did not protect errant vehicles from the risk posed by watercourses. Well-placed guardrail could help to provide a better level of safety in such locations.</p> <p>Edge marker posts and line markings were in very good condition.</p>	

	<p>Despite Council having a delineation strategy, delineation was inconsistently applied along some routes in the district, such as Kaurangaroa Road (edge marker posts) and Makiriki Road (road markings). According to RTS5 (Transit NZ, 2002) delineation devices aid journey predictability and can address loss of control accidents, particularly at night. They have been shown to reduce crashes on curves by 32-67%. We note that 'loss of control and head-on crashes' remains a high strategic priority (NZTA Communities at Risk Register, 2017).</p> <p>Council noted that they generally only undertook 'post-construction' road safety audits. While Council can choose not to follow the complete road safety audit process, we note that in not undertaking a design-phase road safety audit, Council risks incorporating design features that could be costly to rectify if identified in the latter stages of a project. We remind Council that a road safety audit waiver form should be completed where road safety audits are not completed for the various phases of a project.</p> <p>We reviewed Council's night time network inspections policy and found the policy suggested an inspection frequency of up to three years depending on road classification. It is considered that a three yearly inspection cycle is too long given that low volume roads typically have a lower level of redundancy in hazard warning signs (for example there may only be one sign indicating an out of context curve). Night time inspections were undertaken by contract and council staff, having 'fresh eyes' on this inspection could help identify safety risks not immediately obvious to people familiar with the network.</p> <p>Surface hazards (such as potholes, poor pothole repairs and loose gravel) were uncommon on the network.</p> <p>Council has managed vegetation adjacent to the road network very well thereby ensuring that forward visibility is maintained.</p>
Recommendations to Council	<p>Actively monitor temporary traffic management on the road network to ensure the safety of road users and workers alike.</p> <p>Review bridge approaches and develop a strategy to ensure sufficient safety is afforded to road users from risks posed by steep valleys and watercourses.</p> <p>Ensure edge marker post and line marking application is consistent along routes and over the network, and provided in accordance with Council's delineation strategy.</p> <p>Ensure compliance with the Road Safety Audit Procedures for Projects (NZTA, 2013).</p>
Suggestion to Council	Review the suitability of the night time network inspection regime.
Council comment	Council has a dedicated member of staff who manages Corridor Access Requests, approves TPMs and actively monitors temporary traffic management on the road network to ensure the safety of road users and

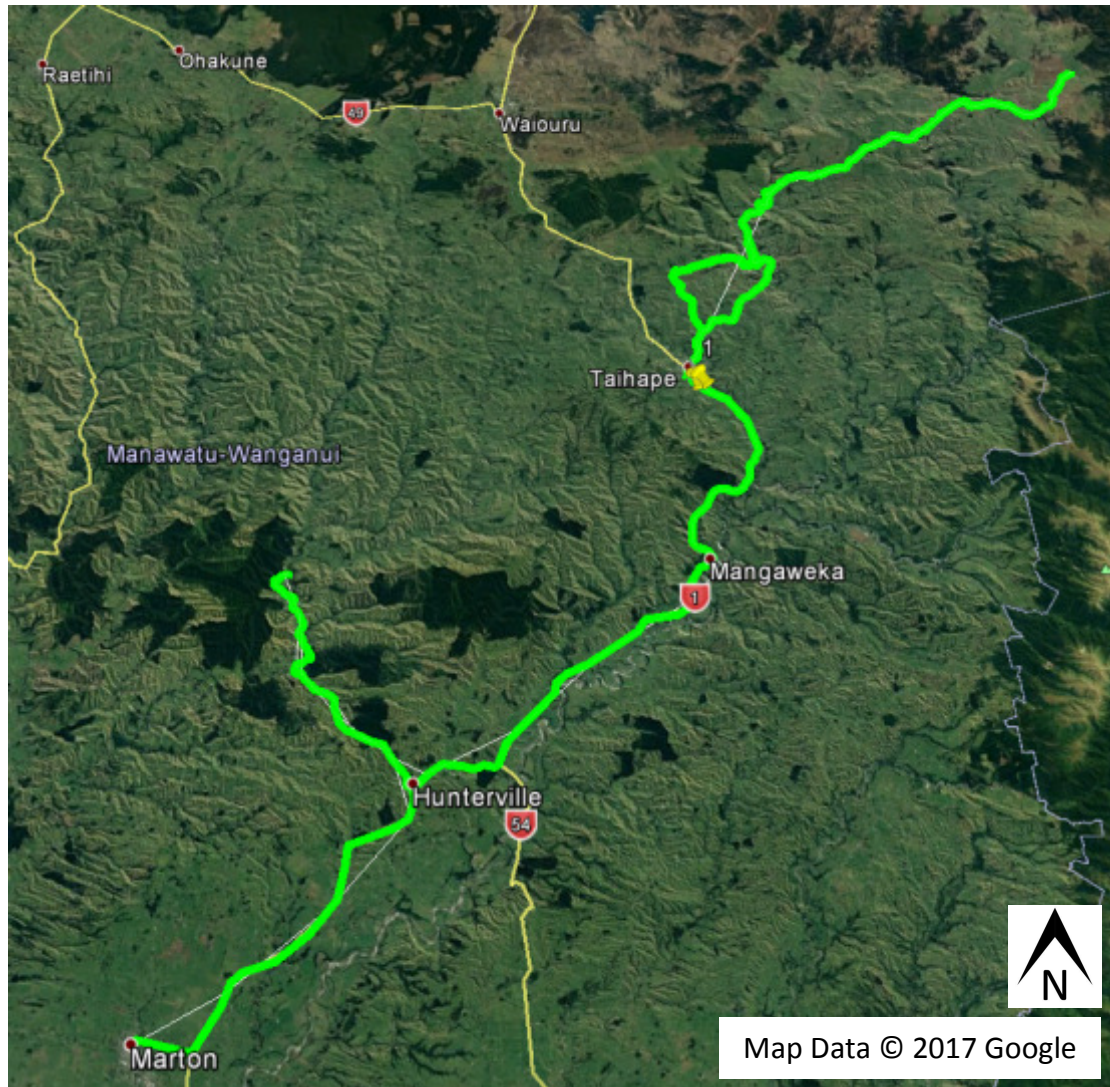
	<p>workers alike.</p> <p>Bridge approaches have been reviewed and a strategy has been developed to ensure sufficient safety is afforded to road users from risks posed by steep valleys and watercourses. This work has been programmed in the 2018/21 AMP for mitigating roadside hazards.</p> <p>There is an enhanced programme for Traffic Service Renewals (WC222) in the 2018/21 AMP. The goal is to reduce the number and severity of crashes on Council's roads by installing, upgrading or amending signage throughout the network. Also Council will ensure edge marker post and line marking application is consistent along routes and over the network.</p> <p>Council will ensure compliance with the Road Safety Audit Procedures for Projects (NZTA, 2013).</p> <p>Council will include personnel unfamiliar with the rural network to assist with night audits.</p>
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APPENDIX A

**Audit Field Visit Route (Day 1)**



*Please note: route section to Mangaweka Bridge is missing*

## Audit Field Visit Route (Day 2)



## APPENDIX B

### 2012 Technical Audit Report Recommendations and Opportunities for Improvement

We recommended that Council:

- a) Review the recommendations from the 2007 Technical Audit report and develop an improvement plan.
- b) Review and, where practical, action the findings from the 2011 RISA and develop a network safety improvement plan.
- c) We are aware that some improvements noted in RISA are high cost items. Therefore, any improvements undertaken need to consider value for money.
- d) That Council review the Project Feasibility Reports for rehabilitation projects identified in the 2012-13 programme in consultation with NZTA.
- e) That Council ensures future designs include drainage channels that comply with the Austroads Rural Design Guide.
- f) That Council addresses its current drainage issues as soon as practicable, preferably during renewals or rehabilitation projects
- g) That Council reviews rural delineation and markings for compliance with MOTSAM and RTS 5 guidelines.
- h) That Council instruct the maintenance contractor to comply with the condition of contract for the maintenance of Edge Marker Posts and that these are positioned as per MOTSAM.

We suggested the following opportunities for improvement:

- a) That Council review its resurfacing programme given the high PII values for the network.
- b) That Rangitikei considers the Manawatu DC AMP with a view to incorporate changes as part of the revision process for the 2015 AMP.
- c) Establish a regional RAMM user group to build local knowledge consisting of staff from Rangitikei, Manawatu, Palmerston and Tararua councils.
- d) Council investigate a shared service maintenance model with neighbouring AOs including HNO.
- e) Suggest that Council follows the methodology defined to rank projects in its Safety Management System and Council endorses' the resulting minor improvements programme.
- f) We suggest that people unfamiliar with the rural network assist with night audits.

**APPENDIX C**

**Technical Audit Report Quality Assurance**

Report Number: RAETT-1766

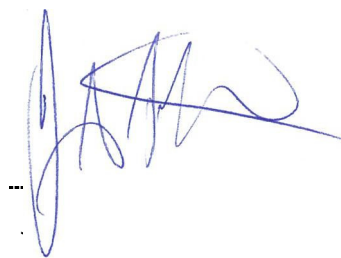
Prepared by:

-----  
Erik Teekman, Senior Investment Auditor

Reviewed by:

-----  
Tony Lange, Senior Investment Auditor (lead reviewer)  
Paul Murphy, Senior Investment Advisor  
Hartley Hare, Strategic Manager Transport (Southland  
District Council)

Approved by:



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per Audit & Assurance