

# Audit/Risk Meeting

## Tabled Documents

27 February 2020

- |                |   |
|----------------|---|
| <b>Item 10</b> | Work programme matrix – update                                |
| <b>Item 13</b> | Report to Council on the Audit of Rangitikei District Council |

## AUDIT/RISK COMMITTEE - WORK PROGRAMME FOR THE 2019-22 TRIENNium

Topic	What	Why	Who/How	Priority	Committee decision/action	Progress to 15 February 2020
<b>1. Trust and confidence is tarnished</b>						
<b>Alignment with Council strategic framework and key priorities</b>	Progress with key priorities (reported monthly to relevant Council committees)	Ensure that the identified key priorities are implemented or modified to give effect to the strategic direction	Chief Executive	High	Review draft consultation document for 2021-31 LTP and determine whether risks and uncertainties have been adequately addressed.	Strategic vision document accepted by Council. More detailed strategies and key actions being developed by Executive Leadership Team
<b>Reviews of Council operations (other than Audit New Zealand)</b>	(Will include the reassessment under CouncilMARK, June 2020)	Ensure recommendations are well-founded and there is a robust plan of action	Chief Executive	Medium	As required	In December 2019 MBIE advised its finding from its visit to monitor progress with earthquake-prone building assessments. The major concern was whether sufficient regard had been given to vehicle/pedestrian thoroughfares between unreinforced masonry buildings.
<b>Project management</b>	High-profile, high value or strategic projects - e.g. Bulls Community Centre, Marton Civic Centre, Taihape Memorial Park facilities, Ratana wastewater, Marton-Bulls wastewater	Ensure significant projects meet Council's outcome, time, risk and cost expectations	Principal Infrastructure Advisor	High	Review and comment on project plan and exception reporting to each meeting	Management of timeline and costs of the Bulls Community Centre contracted to specialist adviser.
	Implementation of Project Management Office	Ensure consistent, 'traffic light' approach which is easily understood, fosters transparency and provides for robust governance	Principal Infrastructure Advisor	High	Exception reporting ('red light')	
<b>Customer-focussed services</b>	A more effective and efficient customer focus in all public offices of the Council and internally.	A well-managed customer interface will provide an improved and more consistent level of service and be more efficient	GM Finance & Business Support	Medium/High	Review periodic updates on implementation of the Customer Experience Strategy and the associated performance measurement.	Initial briefing to Finance/Performance Committee, 27 February 2020
<b>Information management</b>	Progress in implementing robust, integrated and accessible electronic corporate records systems	Ensure Council meets Public Records Act and LGOIMA requirements and aligns with the Government's Cyber-security Strategy (2019)	GM Finance & Business Support	Medium	Review periodic updates on implementation of the Information Services Strategic Plan. There is currently no compliance reporting undertaken by Archives New Zealand	Part of the Information Services Strategy being implemented
<b>Prosecution of Council for breaches of consents or statutory requirements</b>	Approach taken to avoid prosecution when this is being contemplated and, if prosecution proceeds, how Council presents its case	Ensure the community understands the circumstances leading to the prosecution and actions being taken to avoid a similar incident	Principal Infrastructure Advisor	High	Review briefings and, if necessary, recommend changes in approach to Council	Active preparation and negotiation in response to prosecution by Horizons of discharge of Taihape wastewater into the Hautapu River.
External investor perception	Progress in presenting the District as a desirable location for new or expanding businesses	Builds a more sustainable community and economy	Chief Executive	High	Review briefings and, if necessary, recommend changes in approach to Council	Formal presentation in February made to convince an existing Marton business to remain and expand

Topic	What	Why	Who/How	Priority	Committee decision/action	Progress to 15 February 2020
<b>2. Human capital is weakened</b>						
Staff development and motivation	Increased focus on mentoring, job overlap and succession planning	Ensure low ongoing dependency on sole specialists	Chief Executive	Medium		
	Revised annual survey of staff perceptions of themselves and the work environment	Ensure clear understanding of issues for staff and an approach to addressing these	Chief Executive	Medium/High	Review summary results of survey and updates on progress to addressing issues raised.	
	Implement regular one on one sessions between staff and their line manager	Build trust. Provide constructive and effective feedback	GM Finance & Business Support	Medium/High		
<b>3. Legal and political environment requires excessive resources</b>						
Water supply	Drinking-water standards compliance	Ensure Council's potable water supplies address changes in requirements from the independent Drinking-water Regulator	Principal Infrastructure Advisor	Very high	Understand government policy setting; review project plan for giving effect to this and exception reporting to each meeting, and recommend Committee's view to Council.	Taumata Arowai - the Water Services Regulator Bill is with the Parliamentary Health Committee; Council is making a submission.
Impact of Government's fresh-water direction	New standards affecting discharge of wastewater and stormwater	Impact on Council's expenditure (and thus rates)	Principal Infrastructure Advisor	High	Understand government policy setting as it evolves	
Planning standards	New standards affecting the presentation of the District Plan	Ensure the District Plan has the national definitions embedded and meets the required level of e-access.	GM Community & Regulatory Services	Medium/ High	Review progress updates at each meeting	The foundation requirements in terms of electronic accessibility and functionality, due by 5 April 2020, are being progressed. All other requirements, except having an online interactive plan, are due by 5 April 2024; the online interactive plan requirement is due by 5 April 2029.
<b>4. Capital programme falters</b>						
Ongoing analysis of capital expenditure	Capacity	Ensure that the projected capital work programme is realistic (i.e. affordable and achievable) and that carry-overs are minimised and validated against external factors	GM Finance & Business Support	Very high	Review proposed capital programme at October or December meetings. Recommend changes to Council if warranted.	This will be a major focus for the 2021-31 Long Term Plan, in both the financial strategy and the infrastructure strategy.
Consenting requirements	Timelines for new consents and variations to existing ones are those agreed with Horizons Regional Council	Ensure that consenting requirements (including required remedial actions) are reflected in capital programme	Principal Infrastructure Advisor	High	Consider exception reporting when necessary. Review update briefing on consenting requirements at October meetings	No new issues arising. Approach to the exposed historic landfill at Putorino has yet to be determined with Iwi and Horizons; consent application will follow that.

Topic	What	Why	Who/How	Priority	Committee decision/action	Progress to 15 February 2020
<b>5. Financial stability is lost</b>						
Annual Audit review	Interim management report (2018/19, 2019/20, 2020/21)	Ensure Council operating procedures and policies are appropriate and managed	Council management and Audit Director	Very high	Review Audit comment and Council response; recommendation to Council	Interim audit planned for late March-early April
Access to external funds	Borrowing is at sustainable levels and other external funding is as projected.	Ensure short-term and long-term implications of borrowing are understood and accepted by Council	GM Finance & Business Support	Medium	Review updates provided to each meeting of the Committee	This will be a focus in developing the 2020/21 Annual Plan.

<b>6. Regulatory effectiveness is questioned</b>						
Appetite for risk around consents	Policy and procedure for exercise of discretion and enforcement of Code requirements	Ensure Council and local building sector are clear on balance between compliance and discretion	GM Community & Regulatory Services	High	Consider periodic updates from Chief Executive and determine whether a recommendation to Council is warranted in terms of perceived risks	One critical test of the balance between discretion and compliance is the construction of the new Bulls Community Centre. The external project management adviser has assessed the BCA's approach and finds it is strict but is within accepted practice.
Customer experience with consenting	Timeliness of approvals and communication at all stages	Ensure applicants are well informed at all stages of the consenting process	GM Community & Regulatory Services	Medium/ High	Review updates provided to each meeting of the Committee	This will be part of the Customer Service Experience Strategy about to be implemented.

<b>7. Climate change responsiveness is effective</b>						
Potential to disrupt people's lives and livelihoods	Engagement with community on proposed strategy and policies, and subsequent actions	Ensure Council understands the degree of potential risks and takes appropriate action (including advocacy to central government)	GM Community & Regulatory Services	Medium	Review periodic updates	Focus is on regional collaboration on developing a vulnerability assessment.
Council's initiatives	Action plan for Council's operations:'walking the talk'	Council needs to show leadership in reducing emissions	GM Community & Regulatory Services	Medium	Review periodic updates	

Topic	What	Why	Who/How	Priority	Committee decision/action	Progress to 15 February 2020
8. Business continuity is compromised						
Natural disaster events	Annual insurance reviews	Ensure accurate, appropriate and cost-effective cover for all built assets	GM Finance & Business Support	Medium	Review periodic updates from GM (Finance and Business Support) Committee has already reviewed decision to cease membership of LAPP.	
	Business continuity	Ensure Council can maintain business operations	GM Finance & Business Support	High	Review periodic updates from GM	Part of the Information Systems Strategy about to be implemented.
	Disaster recovery	Ensure robust processes aligned with MCDEM requirements	Chief Executive	Very high	Review six-monthly updates on development of internal capability and external liaison, periodic MCDEM reviews, and recommend any changes or enhancements	
Health and safety	High awareness of potential health and safety issues and willingness to take corrective action	Proactive attitude to health and safety is the strongest assurance that Council's facilities and operations are safe for staff and the public	Principal Infrastructure Advisor	High	Review six-monthly updates on health and safety considerations at unit toolbox meetings, Council's health and safety committee, to the senior leadership team	
	Focus on all aspects of physical and mental health for staff	Proactive approach to encourage individual staff members to be at their best and to be sensitive when circumstances warrant assistance.	Chief Executive	High	Review periodic updates	
9. Changes to government legislation are transformational						
Sustainable future for the District	High awareness of potential risks to delivery of services, maintenance of infrastructure	Significant and sudden changes in standards for freshwater and emissions may threaten existing agriculture enterprises and thus affordability of Council services. In addition, significant and sudden changes in what local councils are expected to do for their communities may prove costly and of no value.	Chief Executive	Medium/High	Review periodic updates and make recommendations to Council	Council is expressing its concerns to the Ministry for the Environment on the proposed National Standard for indigenous biodiversity, highlighting affordability and potential negative impact on farming.

# **Report to the Council on the audit of**

**Rangitikei District Council**

For the year ended 30 June 2019

# Contents

Key messages .....	3
1 Recommendations .....	4
2 Our audit report .....	7
3 Matters raised in the Audit Plan .....	12
4 Matters arising from revaluations and review of property, plant and equipment .....	16
5 Matters identified at the final audit .....	19
6 Review of Bulls Community Centre Project .....	23
7 Public sector audit.....	26
8 Key changes to the Government Rules of Sourcing.....	27
9 Helping you to understand your risks: procurement and contract management.....	29
10 Useful publications.....	35
Appendix 1: Status of previous recommendations .....	39
Appendix 2: Disclosures .....	49

## Key messages

We have completed the audit for the year ended 30 June 2019. This report sets out our findings from the audit and draws attention to areas where the Rangitikei District Council (the District Council) is doing well and where we have made recommendations for improvement.

### Audit opinion

We issued an unmodified audit opinion dated 31 October 2019. This means we were satisfied that the financial statements and statement of service performance present fairly the District Council's activity for the year and its financial position at the end of the year.

### Matters identified during the audit

#### Revaluation of property, plant and equipment (PPE)

The District Council revalued its infrastructure assets at 30 June 2019. These represent a significant portion of the District Council's asset base. We are satisfied that the revaluation of infrastructure assets is appropriate and that the valuation results have been reflected in the District Council's financial statements. The work we performed over this revaluation is included in section 3 of this report. We have made some recommendations relating to matters arising from the revaluations and review of property, plant and equipment.

#### Bulls Community Centre Project

We undertook a review of the project management of the Bulls Community Centre Project. The review identified a number of good features within the project management arrangements and practices as well as a number of opportunities for the District Council to improve its project management arrangements and practices. The District Council are taking on board our recommendations for improvement for future projects.

We are satisfied the accounting treatment of the Bulls Community Centre Project is appropriate.

### Thank you

We would like to thank the Council, management and staff for the assistance we received during the audit.



Chris Webby  
Appointed Auditor  
26 February 2020



# 1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of the difference between the standard appropriate for, and current good practice for an entity of the size, nature and complexity of the District Council. We use the following priority ratings for our recommended improvements.

Priority	Explanation
Urgent	<p><b>Needs to be addressed <i>urgently</i></b></p> <p>These recommendations relate to a significant deficiency that exposes the District Council to significant risk or for any other reason need to be addressed without delay.</p>
Necessary	<p><b>Address at the earliest reasonable opportunity, <i>generally within six months</i></b></p> <p>These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.</p>
Beneficial	<p><b>Address, <i>generally within six to 12 months</i></b></p> <p>These recommendations relate to areas where the District Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.</p>

## 1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
<b>Quality and timeliness of information provided to audit</b>		
<ul style="list-style-type: none"> <li>Ensure that fair value assessments are performed earlier for assets not being revalued.</li> <li>Perform revaluations early to ensure that for the final audit all the information required is able to be provided and has been reconciled and included in the first draft of the financial statements. We note that the land and building valuations are due to be performed next year.</li> <li>Perform a quality assurance review over the annual report by a staff member not directly involved in collating the information.</li> <li>Provide a complete annual report at the start of the audit.</li> </ul>	2.9	Necessary

Recommendation	Reference	Priority
<b>Condition and performance data for Infrastructure Assets</b>		
Continue to implement a program to collect condition and performance data.	4.1	Necessary
<b>Unsealed road useful life change</b>		
Review the unsealed road useful life to ensure that the useful life of 19 years is appropriate.	4.2	Urgent
<b>Assets with no construction date</b>		
Implement a process to improve the asset data on road assets with no construction date.	4.3	Beneficial
<b>Tracing infrastructure assets from the asset management systems to the finance system</b>		
Develop a common asset identifier to ensure assets in roading asset management system (RAMM) and Assetfinda can be reconciled with the District Council's finance system.	4.4	Beneficial
<b>Monthly reconciliation of operational property, plant and equipment to the fixed asset register</b>		
Implement a monthly reconciliation of work-in-progress and the fixed asset register to the general ledger which is independently reviewed.	4.5	Necessary
<b>2019/20 rates resolution variance to the annual plan</b>		
<ul style="list-style-type: none"> <li>Obtain legal advice on the process to follow to address the legislative breach.</li> <li>Check the funding impact statement in the published annual plan to ensure that the funding impact statement agrees with the Rates resolution.</li> </ul>	5.1	Necessary
<b>Creditors Cut-off</b>		
Review and improve the current cut-off procedures to ensure expenditure is recorded in the correct period.	5.2	Necessary
<b>Risk management Improvements</b>		
<ul style="list-style-type: none"> <li>At the next update, ensure the risk management policy and guidance incorporate the 11 principles in line with AS/NZS ISO 31000:2009.</li> <li>Formally review risks and update the District Council's risk management framework on an annual basis.</li> </ul>	5.3	Beneficial
<b>Performance Measure Result Classification</b>		
The District Council report its statement of service performance results as achieved/not achieved with additional disclosure if required.	5.4	Necessary

Recommendation	Reference	Priority
<b>Legislative compliance</b>		
Implement a process to ensure the summary annual report is made publicly available within a month of signing the annual report.	5.5	Necessary
<b>Review of Bulls Community Centre Project July 2019</b>		
Review and apply the improvement in project management identified in our review of the Bulls Community Centre Project.	6	Necessary

## 1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 2 sets out the status of previous recommendations in detail. There are a number of previous recommendations that remain open. The District Council should continue to address these recommendations.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open		22	3	25
Implemented or closed		2		2
Closed – management accept the risk		2		2
<b>Total</b>		<b>26</b>	<b>3</b>	<b>29</b>

## 2 Our audit report

### 2.1 We issued an unmodified audit report



We issued an unmodified audit report on 31 October 2019. This means we were satisfied that the financial statements and statement of service performance present fairly the District 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 matter. Sections 3 and 4 have details of other matters also taken into consideration in forming our audit opinion.

### 2.2 Prior period error

A prior period error was identified in relation to the District Council's roading assets not being revalued as at 30 June 2017 and 30 June 2018.

As at 1 July 2016 the District Council had cumulatively expensed \$17.495 million of impairment losses for roading assets. PBE IPSAS 17 Property, Plant and Equipment requires revaluations for revalued assets to be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. It was concluded that there was a material difference between the carrying value and fair value of roading assets as at 30 June 2017 and 30 June 2018.

The District Council revalued the roading assets as at 30 June 2019 and disclosed the prior period error in note 34. The prior period error has not been corrected as at 30 June 2017 and June 2018 as it was assessed impracticable to determine the amount of the error in each year. Instead the reversal of the cumulative impairment losses of \$17.495 million has occurred as part of the revaluation of roading assets as at 30 June 2019. We reviewed the accounting treatment and disclosure and confirmed the District Council correctly accounted for and disclosed the prior period error in compliance with PBE IPSAS 3. The prior period error has no impact on the audit report.

### 2.3 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. The misstatements that have not been corrected are listed below along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

Current year uncorrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Revaluation Reserve	1			8,727,478	
Fixed Assets		(8,727,478)			

Current year uncorrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Expenditure	2				166,681
Fixed Assets		(166,681)			
Expenditure.	3				119,000
Fixed Assets		(119,000)			
Expenditure	4				46,006
Provisions			(46,006)		
Accounts payable	5		51, 657		
Income in Advance			(51,657)		
<b>Total</b>		<b>(9,013,159)</b>	<b>(46,006)</b>	<b>8,727,478</b>	<b>331,687</b>

#### Explanation of uncorrected misstatements

- 1 The updated road assets valuation dated 20 September 2019 corrected the overhead charge which was overstated by 2% in the draft valuation and consequently reduced the depreciated replacement cost for the road network assets. This adjusted value, which was not recognised by the District Council, would have decreased the road network asset by 8,727,478 and the road revaluation reserve in equity by the same amount.
- 2 The adjustment relates to the Martin Civic Centre project costs incurred to date being assessed as feasibility work and an operating expense by Audit New Zealand. The District Council have assessed this to be capital expenditure.
- 3 The adjustment to recognise the impairment on the Taihape Women's Club building which is impacted by asbestos.
- 4 To adjust the expenditure and landfill provision for the change in the discount rate to the risk free rate of 2.14%. This has the effect of increasing expenditure and the landfill provision.
- 5 To adjust for dog registrations paid in advance which have been incorrectly classified as payables.

## 2.4 Uncorrected disclosure deficiencies

There are no uncorrected disclosure deficiencies.

## 2.5 Uncorrected performance reporting misstatements

There are no uncorrected performance reporting misstatements.

## 2.6 Corrected misstatements

We also identified misstatements that were corrected by management. These corrected misstatements had the net effect of decreasing expenditure by \$17.438 million and revaluation reserves by \$17.495 million, increasing assets by \$0.556 million and current liabilities by \$0.616 million. The corrected misstatements are listed below.

Current year corrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Revaluation Reserve	1			17,495,000	
Expenditure					(17,495,000)
Fixed Assets	2	559,772			
Accrued Expenditure/Creditors			(616,206)		
Expenditure					56,434
<b>Total</b>		<b>559,772</b>	<b>(616,206)</b>	<b>17,495,000</b>	<b>(17,438,657)</b>

### Explanation of corrected misstatements

- 1 To adjust for the road revaluation gains which had to be recognised through the profit/loss to reverse prior year losses through the profit and loss.
- 2 To recognise expenditure and accruals relating to 2019 in the 2019 financial statements.

## 2.7 Corrected disclosure deficiencies

The following disclosure deficiencies were corrected. We note that many of these are similar to those raised in the prior year audit.

Detail of disclosure deficiency
Improvements were required to the variance explanations to ensure these were transparent and more clearly articulated the reasons for significant movements.
Changes were required to the revaluation disclosures to agree with the movements recognised in the initial revaluation reports.

Detail of disclosure deficiency
Reclassifying \$0.587 million of rates in advance as income in advance and \$0.205 million of payroll accruals as employee entitlements. As in 2018 these had been classified as other accruals/accrued expenditure.
Several disclosures relating to remuneration disclosures including the salary band information, CEO remuneration and key management personnel disclosures were amended to take into account additional full time equivalents or to include all remuneration benefits.
Some Funding Impact statements (FIS) and disclosures required adjustments as figures did not flow through or were included on the wrong line. The related FIS reconciliations initially did not reconcile to the main financial statements.
Capital Commitments were adjusted to reflect the formal contract price and work to be completed on the build for the Bulls Community Centre.
Accounting policies and changes to standards had to be updated.
Corrections to the statement of cash flow mainly relating to the adjustments for revenue in advance, and updating for capital creditors and matured term deposit in the investing cash flow. Some adjustments were also required for the cash flow reconciliation.
Benchmark disclosures required updating for prior year, LTP, targets and graph colours.
Changes required to update prior year information and ensure consistency of note information and the face of the accounts and within disclosures.

## 2.8 Corrected Statement of Performance deficiencies

There were corrections required to initial performance data reported as part of audit review. We also noted areas where prior year information or targets had not been updated in the initial drafts. These were subsequently corrected.

## 2.9 Quality and timeliness of information provided for audit



Management provides information for audit for the annual report of the District Council. This includes the draft annual report with supporting working papers. We provided a listing of information we required to management on 12 August 2019. This included the dates we required the information to be provided to us.

We noted that while the financial statements were substantially complete, revaluation movements, the statement of service performance, reconciliation of FIS and variance explanations were not completed in the initial draft provided on 5 September 2019. We also noted the quality of the variance explanations could be improved. Management did work well with the audit team and provided supporting working papers for the balances in the financial accounts.

We have noted the following areas for improvement for the 2020 annual report process.

- Ensure that fair value assessments are performed earlier for assets not being revalued.
- Perform revaluations early to ensure that for the final audit all the information required is able to be provided and has been reconciled and included in the first draft of the financial statements. We note that the land and building valuations are due to be performed next year.
- Perform a quality assurance review over the annual report by a staff member not directly involved in collating the information.
- Provide a complete annual report at the start of the audit.

We will work with management around improving the process for next year.



### 3 Matters raised in the Audit Plan



In our Audit Plan of 20 June 2019, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
<b>Bulls Community Centre Project</b>	
<p>Development of the Bulls Community Centre commenced during the financial year and is expected to be completed in the 2019/20 financial year.</p> <p>This is a significant project for the District Council (both reputational and financial) so it is important that the District Council has a robust business plan in place and follows good practice in the areas of contract and project management. This is especially important given this project is the first in a series of significant builds planned as part of the District Council's 2018-28 Long-Term Plan.</p> <p>The District Council is continuing to fundraise for the cost of the project through grants and donations. There is judgement required in particular to when to recognise a grant as revenue and the amount. The accounting treatment of each grant is dependent on the conditions or milestones included in the agreement. For example if the District Council received a grant with no conditions attached, then the District Council would need to recognise the grant revenue once the agreement has been signed.</p>	<p>We engaged our specialist audit assurance services team to review key aspects of the project including project management.</p> <p>The review identified a number of good features with the project management arrangements and practices and a number of opportunities for the District Council to improve its project management arrangements and practices. The District Council are taking on board our recommendations for improvement for future projects.</p> <p>Detailed findings from our review are included in section 6 of this report.</p> <p>We reviewed the accounting treatment of the costs and revenue for the year. From our review we have gained assurance the costs and revenue for the project are materiality fairly stated in the financial statements.</p>
<b>Infrastructure valuations</b>	
<p>The accounting standard PBE IPSAS 17, Property, Plant and Equipment, requires valuations to be conducted with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>The infrastructure asset classes were last revalued to fair value at 1 July 2016. The Council uses the depreciated replacement cost methodology to determine fair value. The valuation is based on a number of</p>	<p>As part of our work to gain assurance over the revaluation of roading and the three water infrastructure assets, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>assessed the valuation process, including the competence and experience of the person completing the valuations;</li> <li>assessed the peer review process and questioned where required;</li> </ul>

Audit risk/issue	Outcome
<p>significant assumptions, including the useful lives and costs of the assets. The high level of estimation uncertainty resulting from the need to apply these assumptions in the valuation creates a risk that the value is materially misstated.</p> <p>The previous revaluations for roading assets resulted a net valuation decrement of \$17.495 million being expensed through the profit and loss. This means that any valuation increase for roading assets will go through the profit and loss up until the previous decrements are reversed (\$17.495 million).</p> <p>The District Council assessed for roading and the three water assets that there was a material difference between the carrying value and fair value which meant these were revalued as at 30 June 2019.</p>	<ul style="list-style-type: none"> <li>• reviewed how the District Council ensured completeness over the asset data;</li> <li>• tested the integrity of the underlying data used for the valuations;</li> <li>• tested the validity of the significant judgments and assumptions applied and whether they have been applied consistently;</li> <li>• evaluated how management has considered alternative assumptions or outcomes for the roading assets valuation;</li> <li>• reviewed the valuation reports to assess whether the requirements of PBE IPAS 17 Property, Plant and Equipment (including the appropriateness of the valuation basis) have been met;</li> <li>• ensured changes to values and depreciation charges have been appropriately accounted for;</li> <li>• assessed the presentation and disclosure of information related to the valuations in the financial statements; and</li> <li>• obtained confirmation from the independent valuer and peer reviewer.</li> </ul> <p>For the roading assets we tested a sample of units rates used and compared these against contracts and other Councils to ensure the District Council's unit rates used were within the expected range. When we had queries around unit rates we enquired with the peer reviewer and the District Council staff.</p> <p>Overall we were satisfied that the assumptions and unit rates applied in the infrastructure valuations were appropriate and the fair value of the infrastructure assets are fairly stated.</p> <p>We have noted some areas of improvement or follow-up required by the District Council and these are specifically commented on in section 4.</p>

Audit risk/issue	Outcome
<b>Fair value assessment of assets – infrastructure assets (excluding roading assets) and land and buildings</b>	
<p>Infrastructural assets and other revalued assets need to be revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. The relevant accounting standard is PBE IPSAS 17, <i>Property, Plant and Equipment</i>.</p> <p>The District Council revalues its property, plant and equipment on a three yearly cycle.</p> <p>In a non-revaluation year the District Council must consider whether there has been any significant movement in fair value of the land and building assets.</p> <p>The last full revaluation cycle was 1 July 2016.</p> <p>We expect that the District Council will have done a comprehensive analysis to determine whether there is a significant variance between the fair value as at 30 June 2019 and the carrying value that would trigger the need for the District Council to revalue or impair the land and building.</p>	<p><u><i>Three water infrastructure assets</i></u></p> <p>The District Council completed a fair value assessment of the three water infrastructure assets and from the assessment a revaluation was completed. We reviewed the valuation and concluded the three water infrastructure assets are fairly stated.</p> <p><u><i>Land and buildings</i></u></p> <p>We reviewed management's assessments showing there was no material difference between the fair value and carrying value of the land and building assets.</p> <p>We are satisfied that there is not a material difference between the fair value and carrying value of the District Council's land and building assets. As per the District Council's accounting policy a revaluation is required in 2019/20.</p>
<b>Impairment assessment of Plant, Property and Equipment</b>	
<p>PBE IPSAS 21 Impairment of Non-Cash-Generating Assets and PBE IPSAS 26 Impairment of Cash Generating Assets require assets held at cost to be assessed for indicators of impairment on an annual basis.</p> <p>On a yearly basis the District Council must review its property, plant and equipment for impairment indicators.</p> <p>We expect that the value of work in progress (WIP) on projects that span an extended period of time to be assessed for impairment regularly over the period of the project.</p>	<p>From our review we are satisfied that there is no material impairment identified that has not been recognised.</p>

Audit risk/issue	Outcome
<b>Management override</b>	
<p>Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, 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.</p>	<p>To reduce the risk of material misstatement due to fraud to an acceptable level we completed the following audit work:</p> <ul style="list-style-type: none"> <li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li> <li>• Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</li> <li>• Reviewed the roading asset valuation and key assumptions used.</li> <li>• Maintained awareness of any significant transactions that were outside the normal course of business, or that otherwise appear to be unusual given our understanding of the Council and its environment, and other information obtained during the audit.</li> </ul> <p>From our testing we did not identify any issues that indicated management override.</p>

## 4 Matters arising from revaluations and review of property, plant and equipment

We noted a number of issues that arose from our review of the revaluations and plant, property and equipment.

### 4.1 Condition and performance data for Infrastructure Assets

When the three waters infrastructure assets were valued by the District Council as at 1 July 2016 the District Council took into account data it had on the condition and performance of its assets.

These assets were valued as at 30 June 2019 by an external valuer. When the valuer carried out the valuation they concluded that they had low confidence in the currency and accuracy of the District Council's condition and performance data. They did not account for this data in the valuation. We also noted that for roading assets, the valuer has not carried out specific inspections of the road asset to establish road asset condition but relied on the existing condition data included in the District Council RAMM database.

We determined that omitting the condition and performance data did not have a material impact on the value of the assets in the financial statements. There is an increased expectation that condition information is taken into account for future valuations. However, the lack of current and accurate condition and performance data could impact on future three waters asset management decisions made by the District Council, such as what assets to renew and when to renew them. We are aware that the District Council is currently going through a process to develop a strategy around its three waters which should address some of these concerns in future.

**We recommend** that the District Council continue to implement a program to collect condition and performance data.

#### **Management comment**

*The Rangitikei District Council is looking at the information systems required to supply this, including RAMM and Asset Finder.*

### 4.2 Unsealed road useful life change

In the roading asset valuation the unsealed road useful life has increased from 7 years to 19 years. This has a significant impact on annual depreciation (around \$0.8 million) going forward.

We obtained initial support from the District Council over why they have significantly changed the useful life but given the impact on depreciation and our review of other Councils, the useful life appears high. We have accepted as it doesn't materially impact on the roading asset value as at 30 June 2019, but if incorrect this will materially impact depreciation in 2019/20.

**We recommend** formally reviewing the unsealed road useful life to ensure that the useful life of 19 years is appropriate.

**Management comment**

*Rangitikei District Council will formally undertake a review of the useful life of unsealed roads to inform the 30 June 2020 Financial Statements.*

#### **4.3 Assets with no construction date**

Our review of the road valuation identified there were 12,864 individual road asset components with no construction date. 11,344 of these had a value of \$9.65 million and were depreciable. Annual depreciation on these assets is \$0.832 million per annum.

While we were satisfied the level of such assets was not significant enough to impact the road valuation, without an asset construction date or formal condition assessment to determine the remaining useful life, there is a risk that these assets are being over/under depreciated.

Improving the asset information around the higher value depreciable assets with no construction date would ensure the District Council would be better able to estimate the remaining life of those assets and then reflect this in the depreciation recognised. This would ensure adequate provision is being made for their eventual replacement.

**We recommend** implementing a process to improve the asset data on road assets with no construction date.

**Management Comment**

*Rangitikei District Council will continue to look at processes that will improve the integrity of asset data. Analysis and implementation of possible measures will require a multiple-year timeframe.*

#### **4.4 Tracing infrastructure assets from the asset management systems to the finance system**

There is currently no easy way to trace the roading asset additions in the District Council's finance system to the roading asset management system (RAMM). This is the result of the asset additions in the finance system being based on invoices whereas the actual physical completed asset is added into RAMM by the contractor once complete.

Both the systems use a different identification of asset ID and it is not easily traceable from the District finance system to RAMM or vice versa. As there isn't a common identification that can trace the assets added between the systems, this results in difficulties reconciling the two systems, ensuring assets are recorded in the correct period and classified correctly as work in progress and completed assets. The same situation also applies to the AssetFinda (three waters) management system.

We continue to raise the issue around the reconciliation of the work in progress. Development of a common asset identifier may assist with the District Council developing a

more robust understanding of the level of work in progress of its infrastructure assets. It may also more easily identify asset expenditure which needs to be recognised at year end and assist with reducing the level of cut-off issues encountered this year.

**We recommend** management develop a common asset identifier to ensure assets in RAMM and Assetfinda can be reconciled with the District Council's finance system.

**Management comment**

*Rangitikei District Council will investigate this.*

#### **4.5 Monthly reconciliation of operational property, plant and equipment fixed asset register**

The District Council currently only reconciles the operational property, plant and equipment fixed asset register to the general ledger at year-end. This can create issues with reconciling the balances at year end.

Performing regular reconciliations during the year which are independently reviewed would ensure any issues are addressed early. We also note that we have continued to recommend improvements in the reconciliation processes for infrastructure assets in particular work-in-progress (refer to 4.4 and Appendix 1).

**We recommend** implementation of a monthly reconciliation of work-in-progress and the fixed assets register to the General Ledger which is independently reviewed.

**Management comment**

*Roles and responsibilities within the Finance area are being reviewed to allow for monthly reconciliations that are reviewed independently.*

## 5 Matters identified at the final audit

### 5.1 2019/20 Rates resolution variance to the Annual Plan

Rates are the District Council's primary funding source and as auditors we are seeking to gain reasonable assurance that rates revenue has been properly calculated and that there is no major risk to collecting rates. Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates setting and collection is critical to ensure that rates are validly set and not at risk of being successfully challenged.

Our work on rates is designed to give reasonable assurance that the rates revenue recorded in the financial statements materially reflects what the District Council can collect. Our review cannot be taken as equivalent to a full legal review of how well the District Council complied with aspects of rating law for every rate and every ratepayer.

Because rates are set at the beginning of the year to which they relate, we aim to perform our audit work on them at the earliest possible opportunity. For our work on 2019/20 rates this was immediately after the completion of our audit for the 2018/19 year.

The District Council should ensure it has appropriate processes in place, including seeking legal advice where appropriate, to ensure compliance of its rates and rating processes with the LGRA.

Through our review of the 2019/20 Rates Resolution we noted that the water connection rates did not agree to the amount in the adopted annual plan for 2019/20. The amount set per the rates resolution is \$722.40 and the amount per the annual plan is \$772.40 (both including GST).

There is a risk to the District Council that a rate payer may successfully challenge the water connection rate as there is a difference between the funding impact statement and rates resolution. We understand that the lower amount (as per the rates resolution) was charged to the affected ratepayers which lowers this risk.

**We recommend** the District Council:

- Obtain legal advice on the process to follow to address the legislative breach.
- Implement a process to ensure that there is a check of the published annual plan before it is made publically available to ensure that the funding impact statement agrees with the Rates resolution.

#### **Management comment**

*Rangitikei District Council are certain that the correct figure is \$722.40.*



*As has been the practice for some years, Council had Simpson Grierson review the rates resolution against the funding impact statement. Both showed the water supply connection rate as \$722.40, so there was no discrepancy in what was provided to Simpson Grierson. This rate of \$722.40 was slightly different from the rate in the draft annual plan associated with the Consultation Document (\$717.25), which was subsequently changed. The total funding required from \$722.40 is the same as that stated for the \$772.40 in the adopted annual plan.*

*The document provided for Simpson Grierson was not extracted from a version of the annual plan document stored in the corporate records directory, SharePoint. Rangitikei District Council have checked all versions over the period March-June and conclude that there was a typing error when preparing what is version 29 of the annual plan.*

## **5.2 Creditors Cut-off**

Although the creditor's reconciliation process has improved from the prior year, our testing identified \$0.6 million of expenditure that related to the 2019 financial year which was not initially accrued.

Ensuring appropriate cut-off procedures in place is important to ensure expenditure is recorded in the appropriate period and that the District Council is correctly monitor expenditure against budget.

**We recommend** reviewing and improving current cut-off procedures to ensure expenditure is recorded in the correct period.

### **Management comment**

*Rangitikei District Council recognises that it has made significant improvements in this area. For the 30 June 2020 Financial Statements the Council will review the year end accrual processes.*

## **5.3 Risk management improvements**

An effective risk management strategy and programme is one that achieves the optimum balance between risk and opportunity, that is, key risks are appropriately mitigated without creating an environment which is so risk averse as to stifle innovation and the leveraging of opportunities for the District Council.

Having an effective risk management strategy and programme in place is increasing in importance as organisations that understand their key risks and have put together appropriate mitigations which are monitored are better positioned to be able to respond quickly to change.

We reviewed the District Council's risk management framework and identified the following areas of improvement:

- The District Council has a risk framework but the risk management policy and guidance does not cover the 11 principles contained in AS/ NZS ISO 31000:2009 which is considered best practice.

- The District Council's "Risks to Rangitikei District Council: revised framework proposed to Audit/Risk Committee" was last formally updated on, 11 December 2017 and was due to be updated in December 2019. This lists the District Council's identified risks, their likelihood and impact and these are only formally updated every two years and risk mitigations every six months.

The District Council should consider whether the frequency of the formal risk framework update is sufficient to ensure it remains relevant. The district is undergoing some changes with growth in the population and there may be a need to review the appropriateness of the risks to the District Council on a more regular basis. An annual review process would seem more appropriate for the District Council.

**We recommend:**

- At the next update, ensuring the risk management policy and guidance incorporate the 11 principles in line with AS/NZS ISO 31000:2009.
- Formally reviewing risks and updating the District Council's risk management framework on an annual basis.

**Management comment**

*This is now being reviewed by the Audit and Risk Committee and reported back to the full Council.*

## **5.4 Performance Measure Result Classification**

The District Council has historically used a classification system to effectively grade their performance measure results.

While this has been accepted in prior years, there has always been queries around the interpretation of some results especially where the result was not achieved. We found during our review of the statement of service (SSP) reporting that the reported result could be misleading, there was some inconsistency in application of different classifications of results and the grading system itself is overly complicated. To interpret the SSP results you needed to refer frequently to the guide on page 22 of the annual report.

We would be more comfortable with the District Council reporting their results against targeted performance as either achieved or not achieved. An explanation of the reason for non-achievement and, where practical, an explanation of steps being taken to address the non-achievement should also be included. We appreciate that the District Council has a number individual communities and some measures such as the water and wastewater schemes measures in a given year will not be achieved for all the communities which may result in an overall not achieved. However with adequate disclosure this can be addressed to provide a clear picture to the affected ratepayers.

In limited circumstances a result could be classified as partially achieved.

**We recommend** the District Council reports its statement of service performance results as achieved/not achieved with additional disclosure if required.

#### **Management Comment**

*The Rangitikei District Council will continue to use the assessment of achieved / partly achieved / not achieved as they are specified in the current Long Term Plan. The review of assessments will be included as part of the process for the next Long Term Plan.*

### **5.5 Legislative compliance**

The District Council has not met the statutory deadline for publishing its summary annual report. The Local Government Act 2002 paragraph 98 clause 4 requires the summary annual report to be made publicly available within one month after the adoption of its annual report. The summary annual report was made available on 9 December 2019.

The annual report summary was cleared by Audit in time to meet the legislative deadline but delays in signing the letter of representation and returning the signed documents back to Audit did not allow the audit opinion to be released in time.

**We recommend** management implement a process to ensure the summary annual report is made publicly available within a month of signing the annual report.

#### **Management comment**

*Processes will be reviewed to ensure the summary annual report is made publicly available within a month of signing the annual report.*

### **5.6 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:

- Ensure variances between the NZTA online claims and the District Council supporting documentation from RAMM are followed up and reconciled.
- Review accounting disclosures such as valuation disclosures against the Audit New Zealand latest Local Government model annual report to ensure that disclosure requirements are met. If the disclosures are not included in the model annual report then the District Council should refer to the applicable accounting standard.
- Review the treatment of borrower notes to ensure that they are accounted for appropriately going forward. The District Council is forecasted to borrow more from the Local Government Funding Agency so the borrower notes will become more significant in future years.

## 6 Review of Bulls Community Centre Project

We undertook a review of the District Council's project management of the Bulls Community Centre Project (the Project). Our work involved the review of documentation provided to us on 3 July 2019 and a meeting with staff including the Chief Executive on 18 July 2019. We have provided our findings and conclusions to Council management on 20 September 2019. These are outlined below:

We noted a number of good features with the project management arrangements and practices:

- A robust approach was taken in 2015 to the development of an early feasibility study for the Project including costing information and funding proposals.
- An outline Project Plan was prepared in August 2016. This was a useful first plan. It identified key activities associated with fundraising, site identification, design, construction and community engagement.
- During 2018 a recognised and conventional procurement strategy was followed in terms of the design being fully developed and made available for the advertising and award of a construction contract. This may have reduced price and delivery risk.
- Tenders for the construction contract closed in August 2018. A conventional weighted attribute approach was used for the evaluation of tenders.
- A contract was awarded in November 2018. A comprehensive Contract Agreement was prepared and formally executed in a timely manner in January 2019.
- A Project management team with good membership has been established to provide oversight of the Project.
- Elements of project planning such as the programme, cost, progress and risk reporting have been kept up to date.
- The staff managing the day to day activities with the Project appear to be appropriately qualified.
- The contractor is presenting well-structured monthly reports – this accords with good practice.
- Monthly reports are being provided to the Council by the Chief Executive on the District Council's "Top 10" projects. This accords with good practice.

We noted a number of opportunities for the District Council to improve its project management arrangements and practices:

- The Project Plan that was prepared in 2016 has not been updated. It should have been updated at least in December 2018 at the time that the construction contract commenced.
- An updated Project Plan should have given consideration to other recognised elements of project planning including quality management, contract management arrangements, risk management, scope management, resourcing and stakeholder engagement and communications.
- In the evaluation of the tenders three of the six tenders were set aside and not evaluated because of their higher price. This is not good practice. All the tenders had been assessed to be compliant with the submission requirements. Consequently they should all have been evaluated particularly when a weighted attribute methodology is used for the evaluation.
- The Mayor was a member of the panel that assessed the tenders. This is not good practice. The presence of an elected member on the panel potentially compromises his/her governance role. It also confuses the accountabilities and responsibilities for the management of the Project. In most cases tender evaluation includes the assessment of technical issues that a management team is usually better placed to assess. We have advised staff that where some project sensitivity exists there are other options to involve the Council in the tender evaluation process.
- During the tendering process for the construction contract there was no process in place to manage conflict of interest. This created a risk for the Project.
- The formal letter of acceptance that was issued to the preferred tenderer on 27 November 2018 was signed by the Architect appointed by the District Council to support the Project. The Architect would not usually hold a delegation from Council to issue a letter that effectively confirms a contract. To ensure clarity of Council decision making and delegations this formal letter would have been better signed by the CEO.
- The District Council has itself recognised an opportunity to improve its regular project reporting to Council. Including additional information on progress and costs against forecast would be helpful.
- Generic policy and procedures related to project management activities by the District Council do not exist. Consideration should be given to developing them. The policy could consider what documents should be retained for the long term record.

- No Independent Quality Assurance (IQA) arrangements are in place for the Project. If an external IQA provider is regarded as too costly then consideration could be given to securing these services at presumably lower cost through the District Council's shared services organisation. We note this would not be a fully independent arrangement.

**Management comment**

*Management have noted the above improvement opportunity for project management.*

## 7 Public sector audit



The District Council is accountable to their local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the District Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the District Council has fairly reflected the results of its activities in its financial statements and non-financial information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the District Council carrying out its activities effectively and efficiently;
- the District Council incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the District Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, or employees.

As part of our interim report to Council we recommended improvements to the sensitive expenditure policy and one-up approval process. There were no other items noted during our audit that we need to bring to your attention.

## 8 Key changes to the Government Rules of Sourcing



As from 1 October 2019, the new Government Procurement Rules (the Rules) come into force. The Rules are a revision of the previous third edition of the Government Rules of Sourcing and were approved by Cabinet in May. Much of the content is consistent with the third edition with some re-numbering of Rules. The new Rules and a table of rule changes can be found in this link [Table of Rule Changes](#). A few important changes are noted below.

Whilst these Rules are not mandatory for the District Council, the Government encourages the wider public sector, including all Regional Councils and Territorial Authorities, to apply the Rules as good practice.

### **Government Procurement Charter**

The new rules include a Charter for the first time. The Charter sets out the Government's expectations of how agencies should conduct their procurement activity to achieve public value. The Charter applies even when the Rules do not. The District Council should consider whether they need to demonstrate how they are meeting these expectations in their procurement activity.

### **Broader outcomes**

The new Rule 16 outlines a number of secondary benefits that it is seeking from the way in which procurement is conducted in the public sector. These secondary benefits relating to the costs and benefits to society, the environment and the economy are required to be considered (where appropriate) along with the whole of life costs of the procurement.

To maximise the effects of these priorities, the Government will be designating some contracts or sectors where the outcomes must be prioritised. These will be published at [www.procurement.govt.nz](http://www.procurement.govt.nz).

### **Procurement planning**

A new Rule 15 includes guidance and expectations related to procurement planning. Rule 22 has been amended so that significant procurement plans must be submitted to the Ministry of Business, Innovation, and Employment for review on request.

### **Threshold changes**

The thresholds for when the Rules apply (contained in Rules 6 and 7) have been taken out of the Rules document and will now be found at [www.procurement.govt.nz](http://www.procurement.govt.nz). We understand this is to facilitate changes in the thresholds as necessary, without a full change to the GPS. The immediate change is to the threshold for new construction works, which reduces from \$10 million in the current edition to \$9 million.



We encourage procurement staff to understand the changes, and prepare for their implementation by considering the changes that may be appropriate for the District Council's procurement policies, procedures and practices.

## 9 Helping you to understand your risks: procurement and contract management

### Why it matters

Procurement and contract management carry high risk in terms of costs, public and political profiles, reputation, and performance. Delivering services well depends on doing procurement and contract management well.

### Understanding your risks

We have used our sector expertise, and recognised best practice, to develop a standardised risk assessment tool to analyse your local authority's procurement and contract management risks. We have included the sector context by displaying your position compared to other entities in the sector<sup>1</sup>.

### What do we mean by procurement and contract management?

Procurement is the overarching term used to describe all the business processes associated with purchasing goods and services. Procurement is much more than “buying something” – it includes all the processes involved in acquiring goods and services from a third party. Effective contract management helps ensure goods and services are delivered well, to specification, and in full. Both go together to ensure public value is realised.

### The Auditor-General's work programme – Procurement

The Office of the Auditor-General is part way through its work programme on Procurement.

Earlier this year performance auditors visited 22 local authorities in the Waikato, Bay of Plenty, Canterbury, and Wellington Regions to talk about how local authorities in those regions carry out procurement. This audit identified some challenges that local authorities need to respond to so that procurement can continue to support the delivery of infrastructure and services to local areas. This will be particularly important with the significant growth that is forecast in many areas.

The Office of the Auditor-General plans to publish its findings by the end of 2019. It will be important for each local authority to consider the Auditor-General's findings in order to determine priorities for further improving or developing the approach to procurement.

Figure 2  
The eight-stage life cycle of procurement



Source: (Recoloured from) the Ministry of Business, Innovation and Employment.

<sup>1</sup> This analysis is limited to entities audited by Audit New Zealand only.

## How do we assess risk?

Our assessment tool considers risk from two angles:

- The risk in the environment. This is the inherent risk. It is influenced by complexity, instability, change, delivery of critical services, interdependencies, and reliance on third parties. Size, strategic direction, and the nature of services are also important.
- The effectiveness of management systems and processes. This is control risk and covers the main aspects of good practice that we would expect to be applied. Effective management systems and processes mitigate aspects of inherent risk and reduce the risk of something going wrong.

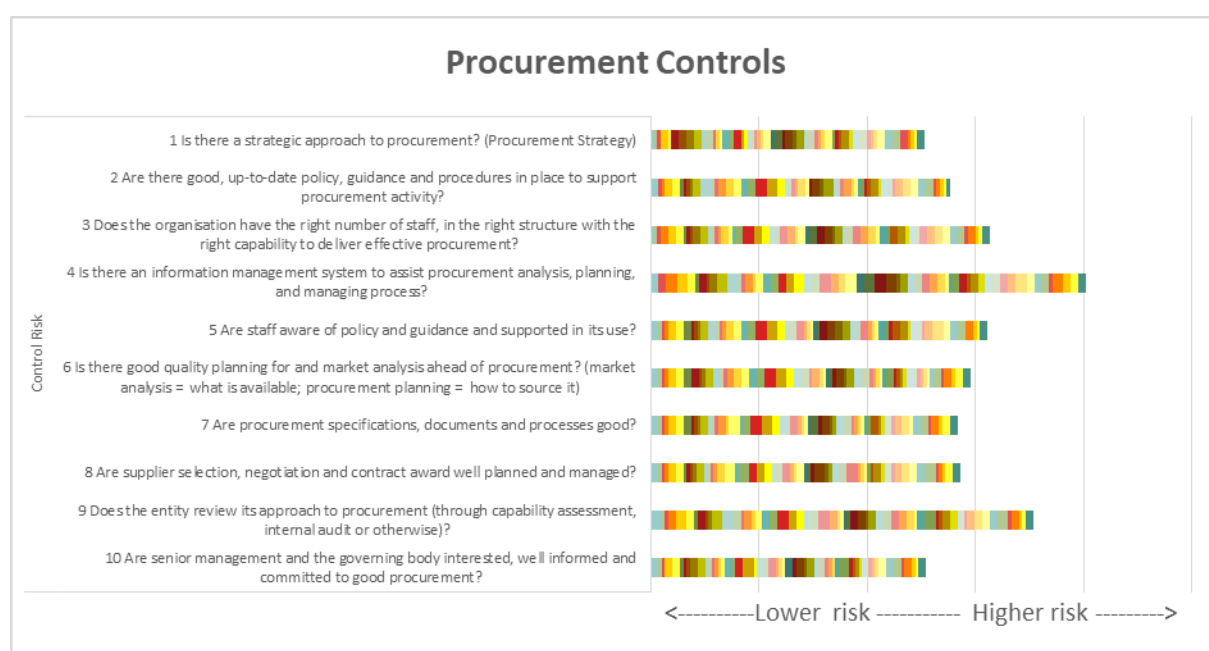
The risk assessment process we have undertaken is based on the design of the controls only. We have not performed testing to ensure the controls are operating effectively.

## What are the assessments telling us?

Procurement is particularly important for local authorities, in which investment in developing, renewing and maintaining infrastructure is typically outsourced to private sector providers. In addition, many local authorities have entered into alliances, partnerships or other collaborative arrangements to support service delivery. With continued pressure on rates and other sources of funding, the need to achieve good value for money remains an important consideration. However, many local authorities have told us that they aim to use their spend to deliver other benefits, such as supporting the local economy.

## Common areas of risk across local government

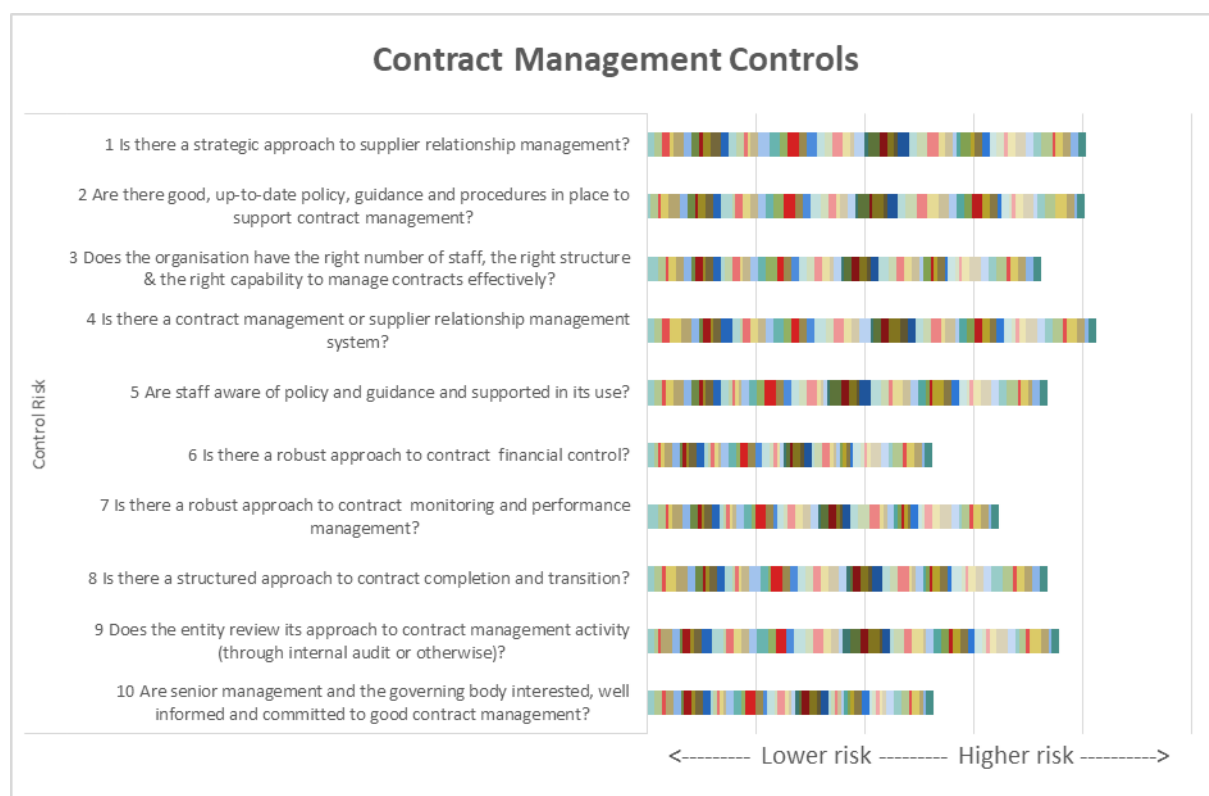
In the graph below we have summed the risk rating we assessed for each of ten procurement controls across all the local authorities we audit.



Two areas stand out across local government as priorities for improvement:

- Ensuring there is an appropriate information management system so that staff can analyse procurement spend, plan and manage procurement processes, and keep good records.
- Being open to continuous improvement through reviewing procurement practices and capability.

The graph below shows a similar analysis for contract management controls. Overall this indicates that contract management controls are weaker than those covering the purchasing stage of the procurement cycle. We encourage all local authorities to consider whether their approach to contract management is as clearly defined, well-resourced and implemented as it needs to be.

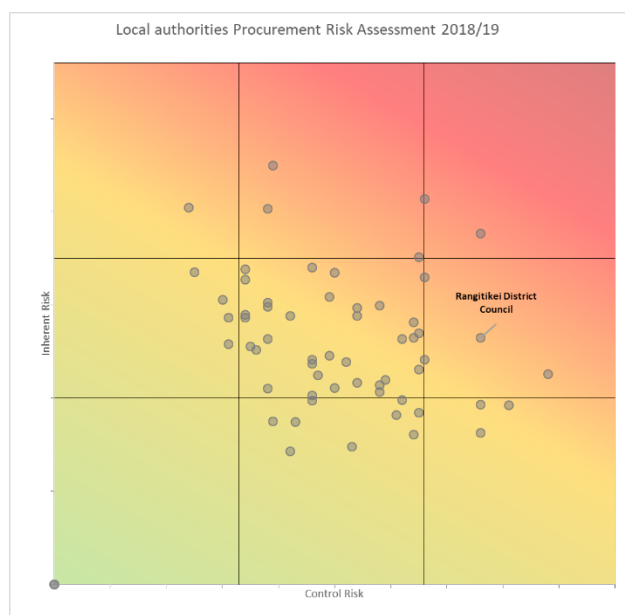


Three aspects of contract management might provide a focus for this consideration:

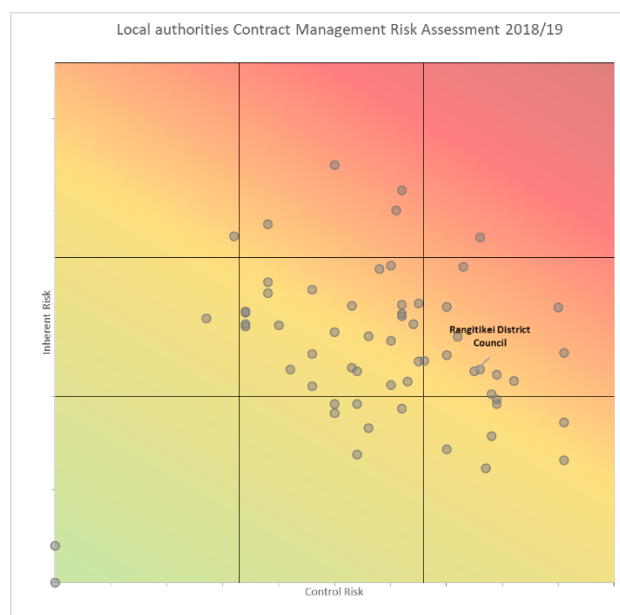
- Assessing whether there is a strategic approach to supplier relationship management.
- Making sure there are good, up to date policies, guidance and procedures in place to help staff manage contracts effectively.
- Ensuring there is an appropriate contract management system in place.

Each grey dot in the graphs below represents a local authority mapped according to our assessment of its inherent and control risk.

Procurement Risk levels



Contract Management Risk levels



Local authorities use a range of procurement approaches and have a significant number of contracts for a diverse range of goods and services. Levels of inherent risk vary widely depending on the size of local authorities, as well as the extent of and approach to outsourcing.

The District Council has medium levels of inherent risk for both procurement and contract management.

There is little the District Council can do to reduce its level of inherent risk. However, it can strengthen its systems and processes to bring down the overall level of risk. In our view the controls for procurement and contract management are just over the threshold between medium and high risk. In our view the District Council could strengthen its contract management systems and processes, to bring the overall level of risk down from what we have assessed to be at a high level overall.

We note that we have raised recommendations around improvement for both procurement and contract management in our previous management reports. There are also some areas noted in the recent review over the Bulls Community Centre project noted in Section 6 that the District Council should also take into consideration.

## **Our view on priorities for strengthening the District Council's control over procurement and contract management**

We expect up to date policy, procedures and guidance to form a sound basis for controlling contract management. Policy needs to be regularly updated to make sure it continues to comply with the good practice promoted by the Government Procurement Rules.

In our view, the top three areas we believe would make the most difference to strengthening the District Council's controls would be:

- 1        Ensuring there good, up-to-date policy, guidance and procedures in place to support contract management. This might include:
  - Putting in place an organisation-wide policy, supported by good quality detailed guidance, procedures and templates, including standard/pro-forma contracts.
  - Reviewing existing policy to make sure it is good, up to date and working well.
  - Being clear on when to use contract management plans, and how to assess delivery risks, perhaps with templates provided.
  - Comprehensive guidance on what to do when contract performance obligations and expectations are not being met.
  
- 2        Ensuring there is a fit-for-purpose contract management or supplier relationship management system, which might involve:
  - Ensuring there is an appropriate process to monitor service contracts between contractors and the Council including monitoring of key performance indicators and ensuring work performed is completed satisfactory standard. This will allow linkage between performance information, payments and contract renewal decisions.
  - Putting in place a functional contract management system in place to capture key information on all contracts.
  - Making links to the FMIS / payment system to help staff manage contracts.
  - Storing documentation electronically in easily accessible ways (original agreement, record of contract progress claims and payments, monitoring and inspection or meeting records, relevant correspondence, records of any variations or claims, producer statements and/or guarantees, completion certificates).
  - Maintaining appropriate physical security and disaster recovery arrangements in place for contracts and associated information.
  - Allowing contract information to inform or be integrated with budget setting and monitoring.

- 3 Regularly reviewing the approach to contract management (whether through internal audit or otherwise). This might involve:
- Putting a comprehensive programme of review in place.
  - Focussing internal audit reviews on contracting and outsourced delivery, informed by risk assessment. This could also include reviewing fraud risk with confirmation of no known contract related frauds.
  - Good evidence of action in response to review findings/recommendations with progress being made with reporting to senior management/governance on progress.

### **Continuing focus on risk for 2019/20**

As part of our 2019/20 audit we will consider procurement-related risks during our audit planning, based on our knowledge of your local authority, your pattern of spend and the range of contracts you have in place.

## 10 Useful publications



Based on our knowledge of the District Council, we have included some publications that the Council and management may find useful.

Description	Where to find it
<b>Public accountability: A matter of trust and confidence</b>	
<p>Public accountability is a cornerstone of our system of government. Knowledge on what the public is getting for their taxes and rates, how well that is being spent, and the integrity of the overall system are the basics of public accountability.</p> <p>This discussion paper is the first phase in a programme of work about the future of public accountability.</p> <p>The next phase of our research on public accountability will build on what we have learned here and focus on how well the current public accountability system is positioned to respond to the challenges and opportunities the public sector faces. This research will inform what the Auditor-General's Office does to improve trust and promote value in the public sector.</p>	<p>On Office of the Auditor-General's (OAG) website under 2019 publications.</p> <p>Link: <a href="#">public-accountability</a></p>
<b>Post-implementation reviews</b>	
<p>The OAG have recently completed a review of Auckland Council's post-implementation review process. While many aspects of the report are specific to Auckland Council, it documents the process that Auckland Council uses, and includes a post-implementation review checklist.</p>	<p>On the OAG's website under publications.</p> <p>Link: <a href="#">Post-implementation review process</a></p>
<b>Inquiry into Waikato District Health Board's procurement of services from HealthTap</b>	
<p>Findings of the inquiry into the decision of Waikato District Health Board in 2015, to enter into a contract with the United States-based company HealthTap Inc to provide "virtual care" services through an online service.</p> <p>There are important lessons about a good procurement process that can be learned and applied to other procurements in the public sector – in particular, when seeking to be innovative.</p> <p>Innovation in the public sector is important. It can lead to new and better services for the public and more efficient ways to deliver current services. However, when public organisations seek to innovate, it is all the more important to respect the disciplines of good procurement. Innovative service delivery and good procurement practice are not mutually exclusive.</p>	<p>On OAG's website under 2019 publications.</p> <p>Link: <a href="#">inquiry-waikato-dhb</a></p>



Description	Where to find it
<b>Inquiry into procurement of work by Westland District Council at Franz Josef</b>	
<p>This report concerns a decision of the Westland District Council to carry out work at Franz Josef to protect the town's wastewater treatment plant from flooding. The work was carried out on an urgent basis and resulted in the construction of a new 700-metres-long stopbank on the bank of the Waiho River.</p> <p>This report identifies numerous examples of poor decision-making and poor procurement practice. They include the lack of any proper risk analysis or consideration of alternative options, the failure to seek expert advice on either the immediacy of the flood risk or whether building a stopbank was the right response, an inadequate planning and procurement process for a project of this type and scope, an apparent disregard for legislated decision-making requirements, and a failure to consult those affected by the work until the work was already under way.</p>	<p>On OAG's website under 2019 publications.</p> <p>Link: <a href="#">westland-dc-procurement</a></p>
<b>Water reports</b>	
<p>A number of reports on water have been released:</p> <ul style="list-style-type: none"> <li> <p>Crown investment in freshwater clean-up</p> <p>The OAG examined how the Ministry for the Environment administered four Crown freshwater clean-up funds for improving lakes, rivers, streams, and wetlands. Our primary objective was to assess whether Crown funding was being used effectively to improve freshwater quality.</p> </li> <li> <p>Observations on Waikato River Authority's freshwater restoration operations.</p> <p>The OAG looked at the operational approach of the Waikato River Authority to restoring and protecting the Waikato and Waipā Rivers for additional insight into how different entities manage Crown funds.</p> </li> <li> <p>Managing freshwater quality: Challenges and opportunities.</p> <p>The OAG published a report on how effectively Waikato Regional Council, Taranaki Regional Council, Horizons Regional Council, and Environment Southland managed the effects of land use on freshwater quality in their regions. We found that the effectiveness of the four regional councils' approaches was variable. In this report, we assess the progress they have made since 2011.</p> </li> </ul>	<p>On OAG's website:</p> <p>Link: <a href="#">freshwater-clean-up</a></p> <p>Link: <a href="#">wra-freshwater-restoration</a></p> <p>Link: <a href="#">freshwater-quality</a></p>

Description	Where to find it
<b>Client updates</b>	
<p>In March 2019, we hosted a series of client updates. The theme was “Improving trust and confidence in the public sector”.</p> <p>These included speakers from both Audit New Zealand and external organisations.</p>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Client updates</a></p>
<b>Client substantiation file</b>	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a tool box called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a tool box to help you collate documentation that the auditor will ask for.</p>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Client Substantiation File</a></p>
<b>Severance payments</b>	
<p>Because severance payments are discretionary and sometimes large, they are likely to come under scrutiny. The Auditor-General has released updated good practice guidance on severance payments. The guide is intended to help public sector employers when considering making a severance payments to a departing employee. It encourages public organisations to take a principled and practical approach to these situations. The update to the 2012 good practice guidance reflects recent case law and changes in accounting standards.</p>	<p>On the OAG’s website under 2019 publications.</p> <p>Link: <a href="#">Severance payments</a></p>
<b>Good practice</b>	
<p>The OAG’s website has been updated to make it easier to find good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> <li>• audit committees;</li> <li>• conflicts of interest;</li> <li>• discouraging fraud;</li> <li>• good governance;</li> <li>• service performance reporting;</li> <li>• procurement;</li> <li>• sensitive expenditure; and</li> <li>• severance payments.</li> </ul>	<p>On the OAG’s website under good practice.</p> <p>Link: <a href="#">Good practice</a></p>

Description	Where to find it
<b>Reporting fraud</b>	
<p>The OAG have released data from 2012-2018 on fraud in public entities. This includes how the fraud was detected, the type of fraud and the methods and reasons for the fraud. The graphs show the high-level sector, and this can be broken down further into sub-sectors by opening the spreadsheets available.</p>	<p>On the OAG's website under data. Link: <a href="#">Reporting Fraud</a></p>

## Appendix 1: Status of previous recommendations

### Open recommendations

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Changes to financial delegations</b>		
<p>The District Council review all financial delegations set up within the system to ensure these are correct.</p> <p>Going forward each quarter there is an independent review of any changes made to the financial delegations with the District Council's FMIS.</p>	<b>2018/2019</b>	<p><i>Interim Status</i></p> <p><i>The Council is currently reviewing the processes supporting the financial delegation system, the above recommendations will be considered as part of this review.</i></p> <p><b>Open – in progress</b></p>
<b>Sensitive Expenditure policy to be updated</b>		
<p>The District Council consider incorporating further guidance into their next update of its sensitive expenditure policies and staff handbook.</p>	<b>2018/2019</b>	<p><i>Interim Status</i></p> <p><i>The sensitive expenditure policy has been updated and this is currently going through an approval process.</i></p> <p><b>Open – in progress</b></p> <p><b>Management Comment</b></p> <p><i>This policy has been approved and distributed.</i></p>
<b>Sensitive Expenditure – one up approval</b>		
<p>The District Council enforces a one up approval for sensitive expenditure items. Retrospective approval should be sought if the one up approval can't be given at the time of payment.</p>	<b>2018/2019</b>	<p><i>Interim status</i></p> <p><i>This has been included in the revised sensitive expenditure policy which is currently going through an approval process.</i></p> <p><b>Open – in progress</b></p> <p><b>Management Comment</b></p> <p><i>This policy has been approved and distributed.</i></p>
<b>Service Performance Information</b>		
<p>Implement a regular review of information entered to ensure that the correct data is being captured for attendance times.</p>	<b>2017/18</b>	<p><b>Open – in progress</b></p> <p><i>Audit update from Final.</i></p>

Recommendation	First raised	Status
Continue to reinforce training on requirements to ensure staff are aware of the correct processes to follow and understand the information being captured.		<i>We noted issues initially with complaints on the same water issue being treated as one complaint. While this was resolved during the audit it indicates that reinforcement on the requirements of the DIA regulations is still required.</i>
<b>Improving Creditor Masterfile review process</b>		
The District Council phone to confirm new creditors or changes to a creditor's bank account number to ensure they are valid.	<b>2017/18</b>	<p><i>Interim status</i></p> <p><i>The Council is currently considering an efficient and effective means of confirming new creditors or changes to a creditor's bank account.</i></p> <p><b>Open – in progress</b></p> <p><b>Management Comment</b></p> <p><i>A new system has been implemented where a creditor is checked against the Companies Register and contacted through their online information. An encoded deposit slip is then requested.</i></p>
<b>High Annual Leave Balances</b>		
Implement regular reviews of annual leave balances of all staff to ensure the liability and associated risks are minimised by implementing leave plans for staff with high leave balances.	<b>2017/18</b>	<p><b>Open</b></p> <p><i>Interim update</i></p> <p><i>While an annual leave review process had not been implemented at our interim visit, the District Council management are in the process of implementing this. It is planned that regular annual leave reports will be run and reviewed by the Group Manager Finance and Business Support. Staff with high leave balances will be followed up to put leave plans in place.</i></p> <p><b>Management Comment</b></p> <p><i>Annual leave reports are regularly run and reviewed by the Group Manager Finance and Business Support. Appropriate Managers are informed of any Staff with high leave balances so action can be taken.</i></p>

Recommendation	First raised	Status
<b>Capital Work in progress</b>		
<p>Review the capital WIP balance to:</p> <ul style="list-style-type: none"> <li>clearly identify projects included in the balance; and</li> <li>perform an impairment assessment over the outstanding WIP balance at year-end; and ensure projects are capitalised on a timely basis once they are ready for use; and</li> <li>perform a monthly reconciliation.</li> </ul>	<b>Prior to 17/18J</b>	<p><b>Open</b></p> <p><i>Interim update</i></p> <p><i>There is no change in this issue since progress reported in the 2017/18 final management report.</i></p> <p><b>Open – no progress</b></p> <p><b>Management Comment</b></p> <p><i>Rangitikei District Council is looking at ways to improve this process.</i></p>
<b>IS Policies are not up to date</b>		
<p>We continue to recommend that updates to IS policies be approved and staff and contractors made aware of the policies.</p>	<b>Prior to 17/18J</b>	<p><i>Update</i></p> <p><i>The IS section of the staff handbook has been updated.</i></p> <p><i>IS policies in the sharepoint document management system have been reviewed and updated and are awaiting approval from senior management.</i></p> <p><b>Open -in progress</b></p> <p><b>Management Comment</b></p> <p><i>IS policies in the sharepoint document management system have been reviewed, updated and actioned.</i></p>
<b>Inconsistent procedures for adding and removing users from systems</b>		
<p>We continue to recommended that procedures for amending and removing access should be formalised and all council staff be made aware of their responsibilities for advising IT about staff leaving.</p>	<b>Prior to 17/18J</b>	<p><i>Update.</i></p> <p><i>IT are still not being advised of all staff leaving or changing positions.</i></p> <p><b>Open – no progress</b></p> <p><b>Management Comment</b></p> <p><i>When adding users there is now a pre-employment checklist for HR and a helpdesk request sent to IT for setup. When HR is advised of a resignation a helpdesk request is sent to IT with the employee's resignation date so that all access can be removed at the appropriate time.</i></p>

Recommendation	First raised	Status
<b>Process for removing Manawatu District Council staff from the Council's IT systems when they leave</b>		
We continue to recommend that formalised procedures be established, and managers made aware of their responsibilities for advising IT when external contractors cease employment with the council.	<b>Prior to 17/18J</b>	<p><i>Update.</i></p> <p><i>We understand a request to MDC HR to formally advise staff resignations to RDC HR was reiterated. This should mean that the IT team can disable access at 5.00 pm on the staff member's final day.</i></p> <p><b>Open -in progress</b></p>
<b>Reviews of Magiq users access levels</b>		
We continue to recommend that regular reviews of users of the District Council's Magiq system be completed to ensure access remains appropriate.	<b>Prior to 17/18J</b>	<p><i>Update.</i></p> <p><i>The review of Magiq system users and access levels has not yet been finalised.</i></p> <p><b>Open</b></p>
<b>No Regular Testing of Business Continuity and IT Disaster Recovery Plans</b>		
<p>We continue to recommend that Business Continuity and IT Disaster Recovery plans be finalised.</p> <p>As part of the project to implement new IT infrastructure we recommend that testing of failover to the new secondary datacentre be performed and the IT DR plan be finalised.</p>	<b>Prior to 17/18J</b>	<p><i>Update.</i></p> <p><i>Issue is still outstanding.</i></p> <p><b>Open – in progress</b></p> <p><b>Management Comment</b></p> <p><i>A plan has been finalised to test the current Disaster Recovery system, located offsite, on a monthly schedule. Now awaiting approval of monthly expenditure.</i></p>
<b>Carry forward of capital expenditure</b>		
Continue to reduce the amount of capital expenditure carried forward to the next financial year.	<b>Prior to 17/18J</b>	<p><i>The District Council approves any carry forward proposals. A consultation document for 2019/20 has been published by the District Council to consult with the public regarding some of these carry forward projects.</i></p> <p><b>Open – in progress</b></p>
<b>Performance measure rules</b>		
Continue to review the effectiveness of the collection and reporting of data.	<b>Prior to FY 2016/17</b>	<p><b>Open-In Progress</b></p> <p><i>We noted issues initially with complaints on the same water issue being treated as one complaint. While this was resolved during the audit it indicates that reinforcement on the requirements of the DIA regulations is still required.</i></p>

Recommendation	First raised	Status
<b>Review of Procurement Practice</b>		
<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 the Council. Our summarised recommendations are detailed below:</p> <ul style="list-style-type: none"> <li>• Conflict of interest declarations to be signed off by the appropriate authority at the time that they are signed off by the person completing the declaration.</li> <li>• Declarations to be regularly updated, both actively and at key stages of the procurement process.</li> <li>• Declarations to 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 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>• Consider risks during the procurement planning stage. 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>Prior to 17/18J</b></p>	<p><i>Interim Update.</i></p> <p><i>There is no change in this issue since progress reported in the 17/18 final management report.</i></p> <p><b>Open – in progress</b></p>



Recommendation	First raised	Status
<b>Succession Planning</b>		
There are some District Council staff members who have a vast amount of sector knowledge. The District Council needs to ensure that there are succession plans in place for when these staff members leave so that the operations of the District Council will not be effected. There is a risk that once staff members leave, there will no longer be this knowledge base within the District Council.	<b>Prior to 17/18J</b>	<p><i>Interim update.</i></p> <p><i>Progress is being made, but not yet fully resolved.</i></p> <p><i>The District Council has a mechanism called PROMAP which can help mitigate this risk by capturing job processes and instructions on how to do these.</i></p> <p><i>Group managers have been asked to identify top priority processes and to enter it in PROMAPP.</i></p> <p><i>The Chief Executive has reiterated that priority needs to be given to work on ProMapp and tracks progress of processes documented in PROMAPP at each corporate management meeting.</i></p> <p><b>Open- In Progress</b></p>
<b>Contract management</b>		
<p>Endorse an integrated policy for organisation-wide use and review the Councils current contract management system for appropriateness.</p> <p>Monitor service contracts between contractors and the Council against the Key Performance Indicator's (KPI's); to confirm the work performed is completed to a satisfactory standard.</p>	<b>Prior to FY 2016/17</b>	<p><i>2018 Update</i></p> <p><i>The development of this policy will be a project for the first half of 2019.</i></p> <p><b>Open- In Progress</b></p> <p><b>Management Comment</b></p> <p><i>The development of this policy is still to be completed.</i></p>
<b>Sensitive expenditure approvals</b>		
<p>We recommend that:</p> <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>	<b>Prior to FY 2016/17</b>	<p><b>Open- In Progress</b></p> <p><i>We note that there was adequate supporting documentation provided but there were some issues with one up approval.</i></p> <p><b>Management Comment</b></p> <p><i>Finance continues to monitor this to ensure that one-up approvals are consistently sought.</i></p>

Recommendation	First raised	Status
<b>Monitoring of Contractor Performance</b>		
Implement a quality assurance (QA) programme over services contracted out to third parties. This is especially important when the performance of these contractors feed into Council's KPIs, for example responding to roading call outs.	<b>Prior to FY 2016/17</b>	<p><i>2018 Update</i></p> <p><i>This will be associated with the development of a contract management policy (above). In addition, there is ongoing monitoring relating to health and safety compliance.</i></p> <p><b>Open- In Progress</b></p>
<b>Request for service</b>		
Review the process and remind staff of the need to ensure that the request for service (RFS) system is updated on a timely basis.	<b>Prior to FY 2016/17</b>	<b>In Progress</b>
<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>Prior to FY 2016/17</b>	<p><i>Council has indicated its desire to see more robust project management and the Chief Executive has undertaken to deliver that. Project proposals will be accompanied with an initial project management plan, to be refined and reported on as the project proceeds.</i></p> <p><i>The new Bulls Community Centre has a clearly defined project management structure. We have reviewed the project management ref to section 7 for our findings.</i></p> <p><b>Open -In Progress</b></p>
<b>Marton Pool</b>		
<p>Perform a review of all invoices received from Nicholls Swim Academy to ensure they are paid in accordance with the contract.</p> <p>We also recommend that Council establish a process to ensure the reasonableness of the credit notes received for pool entry fees.</p>	<b>Prior to FY 2016/17</b>	<p><i>2018 Update.</i></p> <p><i>Council will look into ways in which an objective measure is obtained of numbers using the pool and/or takings from users to provide a more certain basis for verifying that's the invoiced amounts are in accordance with the contract.</i></p> <p><b>In Progress</b></p>
<b>Beneficial</b>		

Recommendation	First raised	Status
<b>Bribery and Corruption policy</b>		
<p>The District Council consider the following:</p> <ul style="list-style-type: none"> <li>• Develop an overarching bribery and corruption policy that links to related policies and procedures.</li> <li>• Update the related policies/procedure to ensure their scope clearly includes bribery and corruption.</li> </ul>	<b>2019</b>	<p><i>Interim update.</i></p> <p><i>A draft anti-bribery and corruption policy has been developed and this is currently going through an approval process.</i></p> <p><b>Open – in progress</b></p>
<b>Conflict of Interest Policy</b>		
<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:</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> <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>Prior to 17/18J</b>	<p><i>Interim update</i></p> <p><i>A draft Conflict of Interest updated policy is in its final stages of approval/ review as at April 2019.</i></p> <p><b>Open - In Progress</b></p> <p><b>Management Comment</b></p> <p><i>A Conflict of Interest updated policy has been approved.</i></p>

Recommendation	First raised	Status
<b>Update to staff handbook</b>		
<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>	<b>Prior to 17/18J</b>	<p><b>In Progress</b></p> <p><i>Interim update</i></p> <p><i>This is expected to be resolved as part of the staff handbook update.</i></p> <p><i>We will follow up progress as part of our final audit.</i></p> <p><b>Management Comment</b></p> <p><i>A sensitive expenditure policy has been approved and communicated, with a copy on the staff intranet.</i></p>

## Implemented or closed recommendations

Recommendation	First raised	Status
<b>Virus and Patch management</b>		
IT need to develop monitoring and reporting on the status of patching and anti-virus updates across the District Council's IT to ensure they remain up to date.	<b>Prior to 17/18J</b>	<p><i>Spark are providing monthly reports that demonstrate that patch and virus management is up to date.</i></p> <p><b>Issue closed</b></p>
<b>Compliance with the Local Government Elected Members (Certain Local Authorities) Determination</b>		
Monitor payments to Councillors and Community Board members to ensure that they comply with the Local Government Elected Members (Certain Local Authorities) Determination.	<b>2017/18</b>	

## Management Accepts Risk (Closed)

Recommendation	First raised	Status
<b>Necessary</b>		
<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>Prior to FY 2016/17</b>	<b>Closed – Management Accepts Risk</b>  <i>No change from prior year status of buildings as council's plan is to abandon them.</i>  <i>Council has appropriately written down the assets to recognise the costs associated with earthquake repairs.</i>
<b>Lack of controls around MagiQ staff access to councils systems</b>		
<p>All users (including vendor staff) should have individual login accounts.</p> <p>Test environments should be maintained and vendor access should be locked down to test environments unless there is a specific request which requires access to production data. These requests should be logged.</p> <p>External parties need to advise council when any of their staff leave so that access can be immediately terminated.</p>	<b>Prior to FY 2016/17</b>	<b>Closed – Management Accepts Risk</b>  <i>Establishing a user log-in system (as is done by IT staff in other Council systems) is difficult in MagiQ because of the way the superuser is profiled in the system. An ex-MagiQ employee could access Council's system only if they still had access to MagiQ's own system. Council accepts this risk, on the basis that the risk is very low and liability for any unauthorized access will sit with MagiQ.</i>

Some progress has been made since our last report. We recommend the District Council continues their efforts in addressing issues raised.

## Appendix 2: 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 performance information 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 carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances 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 District 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>In addition to the audit we have carried out engagements in the areas of limited assurance engagements for the 2018 and 2019 debenture trust deed reporting certificates, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the District Council.</p>
Fees	<p>The audit fee for the year is \$121,732, as detailed in our Audit Proposal Letter.</p> <p>No other fees have been charged in this period.</p> <p>Other fees charged in the period are \$4,000 for the 2018 Debenture Trust Deed engagement and \$4,100 for the 2019 Debenture Trust Deed engagement.</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 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 District Council during or since the end of the financial year.</p>

# AUDIT NEW ZEALAND

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