

## Audit and Risk Committee Agenda

**Date:** Wednesday, 26 June, 2019

**Time:** 9:00 am

**Location:** Council Chamber  
Forum North, Rust Avenue  
Whangarei

**Elected Members:** Cr Sharon Morgan (Chairperson)  
Her Worship the Mayor Sheryl Mai  
Cr Crichton Christie  
Cr Shelley Deeming  
Cr Sue Glen  
Cr Cherry Hermon  
Cr Greg Innes

For any queries regarding this meeting please contact  
the Whangarei District Council on (09) 430-4200.

<b>1. Declarations of Interest</b>	
<b>2. Apologies</b>	
<b>3. Confirmation of Minutes of Previous Audit &amp; Risk Committee Meeting</b>	
3.1 Minutes of the Audit and Risk Committee meeting 27 March 2019	3
<b>4. Information Reports</b>	
4.1 Financial Management Activity Update Report - June 2019	7
4.2 Health and Safety, June 2019	29
4.3 Internal Audit - Contract Management May2019	39
4.4 Internal Audit Actions - June 19 Update	71
4.5 Audit NZ Draft Interim Report June 2019	75
4.6 External Audit Actions - June 2019 Update	95
4.7 June 2019 - Risk Report	101
<b>5. Public Excluded Business</b>	
<b>6. Closure of Meeting</b>	

## Audit and Risk Committee – Terms of Reference

### Membership

<b>Chairperson:</b>	Councillor Sharon Morgan
<b>Members:</b>	Her Worship the Mayor Sheryl Mai Councillors Crichton Christie, Shelley Deeming, Sue Glen, Cherry Hermon, Greg Innes
<b>Independent Advisor:</b>	Philip Jones
<b>Meetings:</b>	Quarterly.
<b>Quorum:</b>	4

### Purpose

To oversee risk management and internal control, audit functions (internal and external), financial and other external corporate reporting, governance framework and compliance with legislation.

### Key responsibilities include:

- Audit
  - Agree audit scope with Management
  - Provide direct input on audit scope to the external auditor
  - Consider audit management report, taking appropriate action
  - Consider any internal audit needs, including probity, waste and performance
  - Hold a confidential meeting with the external auditors at least once every year.
- Risk
  - Ensure a comprehensive risk management framework is in place and being operated effectively
  - Identify and monitor risks for the organisation including major projects
  - Ensure Council's assets are insured appropriately.
- Ensure Council has suitable business continuity arrangements in place.
- Policy review program.
- Service delivery review program.

### Delegations

- (i) All powers necessary to perform the committee's responsibilities, including:
  - (a) establishment of working parties or steering groups.



**Item 3.1**
**Audit and Risk Committee Meeting Minutes**

**Date:** Wednesday, 27 March, 2019  
**Time:** 9:00 a.m.  
**Location:** Council Chamber  
 Forum North, Rust Avenue  
 Whangarei

<b>In Attendance</b>	Cr Sharon Morgan (Chairperson) Her Worship the Mayor Sheryl Mai Cr Crichton Christie Cr Shelley Deeming Cr Sue Glen Cr Cherry Hermon Cr Greg Innes
<b>Also present</b>	Cr Stu Bell Cr Vince Cocurullo Philip Jones (Independent Adviser)
<b>Scribe</b>	C Brindle (Senior Democracy Adviser)

---

**1. Declarations of Interest**

There were no declarations of interest made at this meeting.

**2. Apologies**

There were no apologies.

**3. Confirmation of Minutes of Previous Audit and Risk Committee Meeting**
**3.1 Minutes of the Audit and Risk Committee meeting held  
5 December 2018**

**Moved By** Her Worship the Mayor

**Seconded By** Cr Cherry Hermon

That the minutes of the Audit and Risk Committee meeting held on Tuesday 5 December 2018, having been circulated, be taken as read and now confirmed and adopted as a true and correct record of proceedings of that meeting.

**Carried**

#### 4. Decision Reports

##### 4.1 Internal Audit 3 Year Rolling Plan 2019

**Moved By** Cr Sue Glen

**Seconded By** Cr Greg Innes

That the Audit and Risk Committee adopts the updated internal audit strategy and three year rolling plan for 2019-2022.

**Carried**

*Cr Cocurullo joined the meeting at 9.02am during discussion on Item 4.1.*

*Cr Deeming joined the meeting at 9.016am during discussion on Item 4.1.*

##### 4.2 Health and Safety Report

**Moved By** Her Worship the Mayor

**Seconded By** Cr Greg Innes

1. Notes the Health and Safety report and;
2. Commission a full safety risk assessment, prior to reaching a decision about permitting Lime Scooters or those of similar organisations, to use Council owned footpaths.

**Carried**

#### 5. Information Reports

##### 5.1 ICT Risk Report - March 2019

**Moved By** Cr Crichton Christie

**Seconded By** Cr Shelley Deeming

That the Audit and Risk Committee notes the information presented in the report.

**Carried**

##### 5.2 Financial Management Activity Update Report - March 2019

**Moved By** Cr Sue Glen

**Seconded By** Cr Shelley Deeming

That the Audit and Risk Committee notes the financial management activity over the previous three months.

**Carried**

**5.3 Risk Report March 2019****Moved By** Cr Sue Glen**Seconded By** Cr Cherry Hermon

That the Audit and Risk Committee notes the report outlining the current risks across Council.

**Carried****5.4 Policy Register Update****Moved By** Her Worship the Mayor**Seconded By** Cr Shelley Deeming

That the Audit and Risk Committee notes the report.

**Carried****5.5 Terms of Reference Review Outcomes****Moved By** Cr Greg Innes**Seconded By** Cr Crichton Christie

That the Audit and Risk Committee notes the report.

**Carried****5.6 Procurement Policy Report March 2019****Moved By** Cr Shelley Deeming**Seconded By** Cr Sue Glen

That the Audit and Risk Committee note the report.

**Carried****6. Public Excluded Business**

There was no business conducted in public excluded.

**7. Closure of Meeting**

The meeting concluded at 10.36am.

Confirmed this 26<sup>th</sup> day of June 2019

Councillor Sharon Morgan (Chairperson)





## 4.1 Financial Management Activity Update Report – June 2019

**Meeting:** Audit and Risk Committee  
**Date of meeting:** 26 June 2019  
**Reporting officer:** Delyse Henwood (Finance Manager)

### 1 Purpose

To update the Committee on financial management activity over the previous three month period and upcoming financial matters.

### 2 Recommendation/s

That the Audit and Risk Committee notes the financial management activity over the previous three months.

### 3 Discussion

#### 2018-19 Annual Report

Planning for the 2018-19 Annual Report continues to progress both internally and through continued communication with Audit NZ.

Audit NZ have undertaken their interim audit, with the draft report to be tabled as a separate agenda item in this Audit and Risk Committee meeting. The final audit is scheduled to begin 26 August.

We have received the final Audit Plan from Audit NZ which details the main audit risks and issues including:

- Valuation of PPE and Investment Properties
- Hundertwasser Wairau Maori Arts Centre
- Significant projects – Whau Valley Water Treatment Plant and Civic Centre
- Risk of management override
- Carry forwards
- Effective corruption prevention and detection controls (this is largely a focus area for the OAG)

The final Audit Plan is included as an attachment to this agenda item.

## Tax Compliance

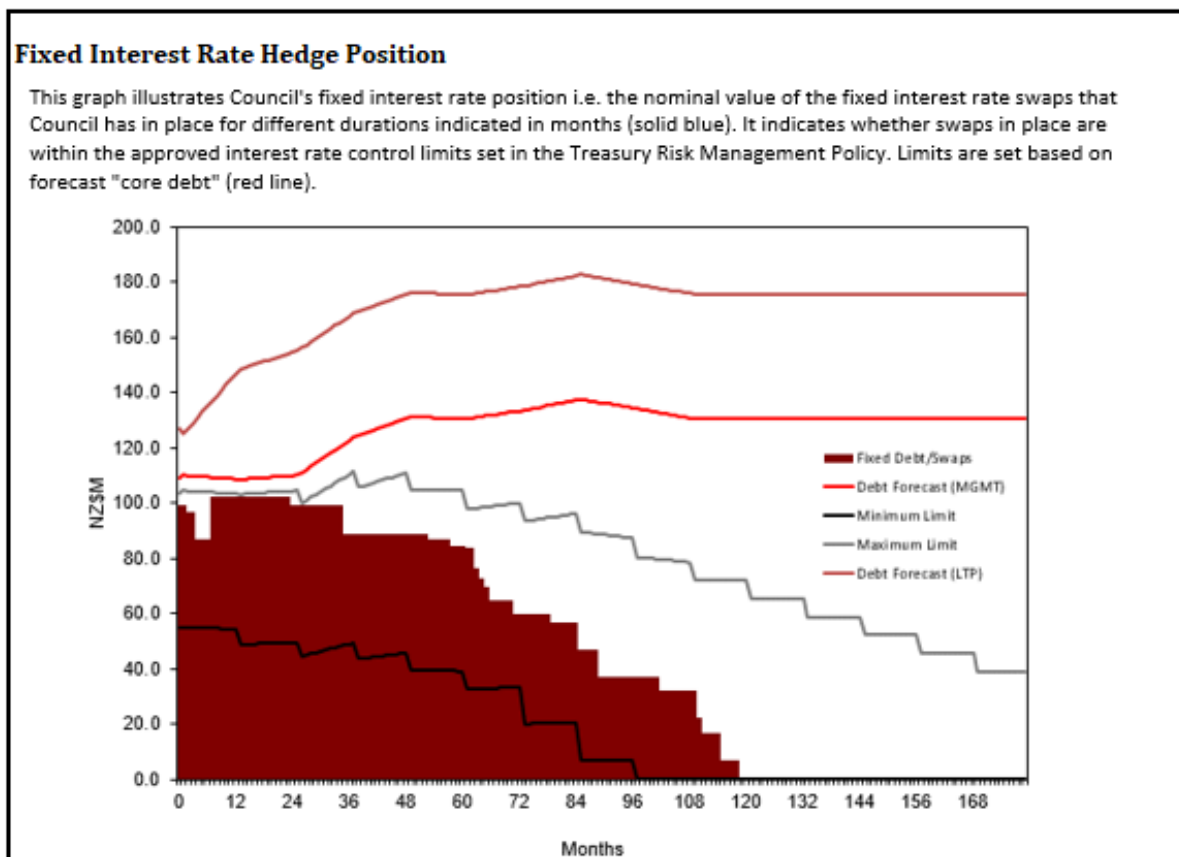
As part of the Tax Risk Governance Framework, our external tax advisors PwC, with assistance from the Finance department, will produce an Annual Tax Update. This memorandum will be included in the September Audit and Risk Committee meeting and will include:

- a summary of tax advice Council has sought throughout the year
- commentary on tax matters currently being addressed
- tax risk management strategy for the year ending 30 June 2020
- a more general update on the wider tax environment which may affect Council

The review of Council's property transactions will be finalised over the coming weeks with a summary provided in the July Finance and Corporate Committee meeting.

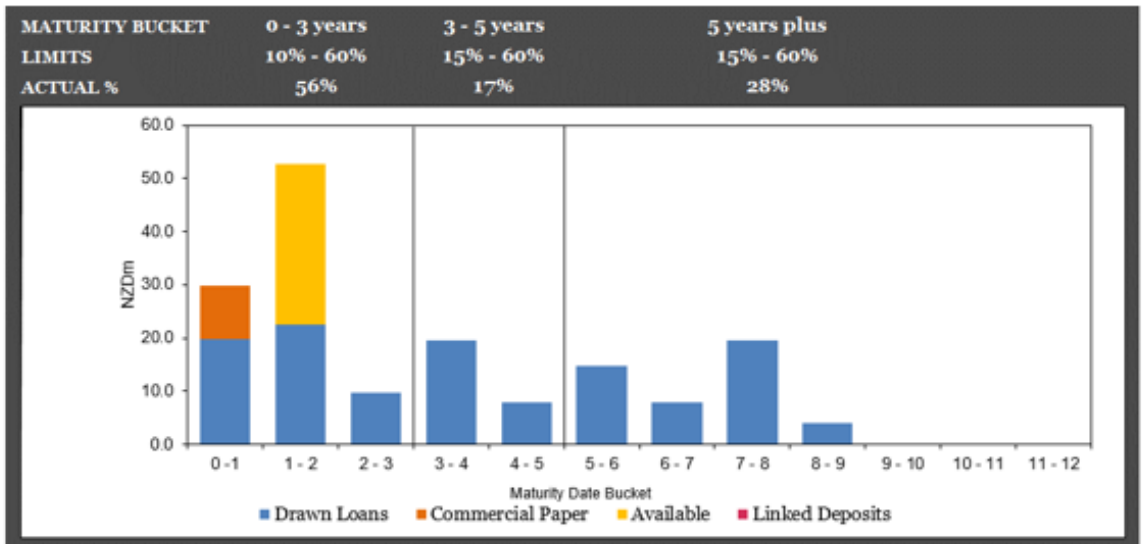
## Treasury Risk Management

The graphs below show Council's compliance to risk parameters set out in the Treasury Risk Management Policy.



### Funding Maturity

This graph illustrates the maturity of Council's total external debt against the approved limits within each maturity bucket. Current limits for each bucket are set in the Treasury Risk Management Policy and shown in the graph below, with percentages calculated on total external debt.



	Years
Weighted average duration of Loans	3.41
Weighted average duration of Swaps	7.02

## 4 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda publication on the website.

## 5 Attachment

Audit Plan for the year ending 30 June 2019



# Audit plan

## Whangarei District Council

For the year ending 30 June 2019

## Audit plan

I am pleased to present the arrangements for the audit of Whangarei District Council (the District Council) for the year ending 30 June 2019. The purpose of this audit plan is to discuss:

Audit plan .....	1
Audit risks and issues .....	2
Our audit process .....	8
Reporting protocols .....	11

The contents of this plan have been discussed and agreed with management.

We will be happy to elaborate further on the matters raised in this plan.

We are committed to delivering a high-quality audit. Our audit is risk based, which means that we focus on the areas that matter. Every member of the audit team will contribute to achieving the highest standard of professional excellence.

If there are additional matters that you think we should include, or any matters requiring clarification, please discuss these with me.

Yours sincerely



Athol Graham  
Director  
7 May 2019

## Audit risks and issues

### Focus areas



Based on the planning work and discussions that we have completed to date, this table sets out the main audit risks and issues.

Audit risk/issue	Our audit response
<b>Valuation of property, plant and equipment and investment properties</b>	
<p>The District Council periodically values its infrastructure assets and investment properties. The accounting standards, specifically <i>PBE IPSAS 17: Property, Plant and Equipment</i>, requires that valuations are carried out with enough regularity to ensure that the carrying amount does not differ materially from its fair value while <i>PBE IPSAS 16 Investment Property</i>, requires the District Council to revalue their assets annually.</p> <p>The District Council's roading assets, other infrastructure (such as water supply, wastewater, stormwater and etc.) and investment properties will be revalued this year to ensure the carrying value of these assets reflects their fair value. The District Council needs to ensure that it assesses the reasonableness all significant assumptions and methodologies applied over these valuations.</p> <p>For assets not being revalued the District Council will need to formally assess whether a revaluation is required to ensure the carrying value of these assets fairly reflects their fair value. It is important that the District Council makes this assessment at an early stage as a full valuation may require a significant amount of time to complete.</p>	<p>We will review the valuation methodology used to ensure it complies with generally accepted accounting practice and assess whether the District Council has correctly accounted for the valuation in its financial statements.</p> <p>We will assess the assumptions and methodologies applied over the valuations as well as assess the work of the expert engaged by the District Council to carrying out the valuations.</p> <p>We will review the District Council's assessment of whether there are any significant differences between the carrying amount and fair value of assets not revalued.</p>

Audit risk/issue	Our audit response
<b>Hundertwasser Wairau Maori Arts Centre (HWMAC)</b>	
<p>The Whangarei Art Museum Trust (the Trust) commenced building the HWMAC during 2018 and construction is now well underway.</p> <p>Since the Trust is a significant component of the group (refer to the group audit section of this plan), the group needs to ensure that:</p> <ul style="list-style-type: none"> <li>• revenue has been recorded in the correct accounting periods;</li> <li>• the various revenue streams (for example pledges) meet the revenue recognition criteria in terms of the Accounting Standards;</li> <li>• project costs have been correctly classified into work-in-progress (WIP);</li> <li>• any capitalised WIP has been tested for impairment. This is important in light of the recent design changes; and</li> <li>• disclosures around guarantees, commitments, work in progress, and revenue have correctly been disclosed.</li> </ul> <p>Additionally as the project progresses we expect that the Trust will closely monitor the project including contract variations. Given the significance of the project to the group Council needs to be satisfied that appropriate project governance processes are in place.</p>	<p>As part of the audit of the Trust, we will:</p> <ul style="list-style-type: none"> <li>• obtain an update on the status of the project;</li> <li>• review the accounting treatment applied over revenue;</li> <li>• review the disclosure around commitments, work and progress and revenue is accurate; and</li> <li>• review any impairment assessments over the work in progress at balance date; and</li> <li>• consider the adequacy of project management processes.</li> </ul>
<b>Significant projects – Whau Valley Water Treatment Plant and Civic Centre Projects</b>	
<p>The District Council plans to progress the development of the Whau Valley Water Treatment Plant and the Civic Centre Projects.</p> <p>Because of the scale of these projects it is important that the District Council establishes the necessary procurement, project governance and management processes to ensure these projects are successful.</p>	<p>We will update our understanding of the two projects and consider the adequacy of Council's project management processes.</p> <p>We will also consider the adequacy of systems in place for recording costs and commitments associated with the projects. This includes reviewing the classification of expenditure on the project to make sure this has been accounted for in accordance with generally accepted accounting practice, identifying commitments and reviewing the District Council's impairment assessment at balance date.</p>



Audit risk/issue	Our audit response
<b>The risk of management override of internal controls</b>	
<p>Management is in a unique position to perpetrate fraud through having the ability to manipulate accounting records and prepare fraudulent financial statements, by overriding controls that otherwise appear to be operating effectively.</p> <p>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 an inherent risk of material misstatement due to fraud, which auditing standards require us to consider in every audit.</p> <p>Council should have oversight of the significant judgements and accounting estimates made at balance date. Judgements and estimates should be appropriate and clearly defined.</p> <p>Council also has a role in setting the tone from the top by establishing appropriate policies and processes that clearly define the behaviour expected of management.</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> <li>• discussing with management their approach to reinforcing proper financial reporting and compliance with Generally Accepted Accounting Practice;</li> <li>• testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>• reviewing accounting estimates and provisions to ensure these are reasonable and supportable, with no indications of bias;</li> <li>• reviewing the appropriateness and application of the District Council's accounting and delegated financial authority policies;</li> <li>• evaluating any unusual or one-off transactions outside of the normal course of business, including those with related parties; and</li> <li>• considering the policies and processes established by Council to define the behaviour expected of management.</li> </ul>
<b>Carry forwards</b>	
<p>On 30 August 2018 Council approved capital projects carry forwards of \$20.7 million for 2018/19. Council will need to closely monitor carry forwards given the risks for the District Council of not delivering against these projects include:</p> <ul style="list-style-type: none"> <li>• a decline in the level of service delivery;</li> <li>• increased project costs; and</li> <li>• insufficient capability and capacity to clear project backlog.</li> </ul>	<p>Our audit work over capital projects carried forward will include:</p> <ul style="list-style-type: none"> <li>• assessing the proportion of carry forward projects that were completed at year end and what projects will be carry forward into the 2019/20 financial year;</li> <li>• obtaining an understanding of how the District Council is monitoring the capital projects carried forward; and</li> <li>• review disclosures in the performance information in relation to capital projects carried forward and the impacts on level of services delivery.</li> </ul>

Audit risk/issue	Our audit response
<b>Effective corruption prevention and detection controls</b>	
Parliament's Finance and Expenditure Committee are interested in understanding whether the public sector has effective corruption prevention and detection processes in place. As a result, the Office of the Auditor-General (OAG) is gathering initial information relating to how public entities address these risks, including what processes are used to prevent bribery and corruption. This work will be used to inform whether further investigation is undertaken by the OAG.	We will discuss with management and the Board what processes are in place to reduce the risk of bribery and corruption. Our findings will be reported to the OAG.

Please tell us about any additional matters we should consider, or any specific risks that we have not covered. Additional risks may also emerge during the audit. These risks will be factored into our audit response and our reporting to you.

### **Fraud risk**

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are relevant – misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets. The primary responsibility for the prevention and detection of fraud and error rests with the District Council, with assistance from management. In this regard, we will discuss the following questions with you:

- What role does the District Council play in relation to fraud? How do you monitor management's exercise of its responsibilities?
- Has a robust fraud risk assessment been completed? If so, is the District Council satisfied that it had appropriate input into this process?
- How does management provide assurance that appropriate internal controls to address fraud risks are in place and operating?
- What protocols/procedures have been established between the District Council and management to keep you informed of instances of fraud, either actual, suspected, or alleged?
- Are you aware of any actual, suspected, or alleged fraud? If so, have the results of management's investigation been reported to the District Council? Has appropriate action been taken on any lessons learned?

***Our responsibility***

Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and performance information are free from material misstatement resulting from fraud. Our approach to obtaining this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls in mitigating the risks;
- perform substantive audit procedures when applicable; and
- remain alert for indications of potential fraud in evaluating audit evidence.

The Auditor-General has published useful information on fraud that can be found at [oag.govt.nz/reports/fraud-reports](https://oag.govt.nz/reports/fraud-reports).

## Group audit



The group is comprised of:

- Whangarei District Council;
- Whangarei Art Museum Trust;
- Whangarei District Airport;
- Springs Flat Contractors Limited;
- Whangarei Waste Ltd;
- Northland Events Centre Trust;
- Northland Regional Landfill Limited Partnership; and
- Whangarei Quarry Garden Trust.

Our auditor's report covers the group as a whole. Our audit approach is developed to ensure we have sufficient information to give an opinion on the group. In designing our group audit approach, we considered the structure of the group and identified the entities which are included in the group financial statements. Each entity is referred to as a component. We have assessed the risks of material misstatement and have identified our approach for each component. The table below shows the work planned for each significant component.

Significant component	Work to be performed
Whangarei Art Museum Trust (the Trust) is considered a significant component due to the HWMAC project.	<p>The Trust will be audited by the same Appointed Auditor as the District Council. Group instructions will be issued to the component audit team which will specify information we require.</p> <p>We have assessed the HWMAC project to be the significant audit risk of the Trust and have detailed more information on this risk in the Audit Risks and Issues section above.</p>

For non-significant components, we will perform analytical procedures at the group level to identify unexpected movements. We will report any significant internal control deficiencies to the governing body and management of the group. This will include any deficiencies identified by the group engagement team or brought to our attention by the component auditor. We will communicate deficiencies related to:

- group-wide internal control; or
- internal controls at each component.

We will also communicate any fraud identified by the group engagement team or brought to our attention by the component auditor.

## Our audit process

### Initial planning

Initial planning activities include verifying compliance with independence requirements and building the audit team.

### Understand your business and environment

We use our extensive sector and business knowledge to make sure we have a broad and deep understanding of you, your business, and the environment you operate in.

### Assess audit risk

We use our knowledge of the business, the sector and the environment to identify and assess the risks that could lead to a material misstatement in the financial statements and performance information.

### Evaluate internal controls (interim audit)

During the interim audit, we update our understanding of internal control. This includes reviewing the control environment, risk assessment processes, and relevant aspects of information systems controls.

### Finalise the audit approach

We use the results of the internal control evaluation to determine how much we can rely on the information produced from your systems during our final audit.

### Gather audit evidence (final audit)

During the final audit we will be auditing the balances, disclosures, and other information included in the District Council's financial statements and performance information.

### Conclude and report

We will issue our audit report on the financial statements and performance information. We will also report to the District Council covering any relevant matters that come to our attention.

## Materiality

In performing our audit, we apply the concept of materiality. In the public sector, materiality refers to something that if omitted, misstated, or obscured could reasonably be expected to:

- influence readers' overall understanding of the financial statements and performance information; and
- influence readers' in making decisions about the stewardship and allocation of resources, or assessing your performance.

This definition of materiality is broader than the one used in the private sector.

Accounting standards also require the District Council and management to consider materiality in preparing the financial statements. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance on how to make materiality judgements from a financial statements preparer's perspective.

Whether information is material is a matter of judgement. We consider the nature and size of each item judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. Materiality will be lower for some items due to their sensitivity.

## Misstatements

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of your financial statements and performance information. During the audit, we will provide details of any such misstatements we identify to an appropriate level of management.

We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement we will seek written representations from representatives of the District Council that specify the reasons why the corrections will not be made.

## Professional judgement and professional scepticism

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about the future, involve estimates. Estimates are inevitably based on imperfect knowledge or dependent on future events. Many financial statement items involve subjective decisions or a degree of uncertainty. There is an inherent level of uncertainty which cannot be eliminated. These are areas where we must use our experience and skill to reach an opinion on the financial statements and performance information.

The term "opinion" reflects the fact that professional judgement is involved. Our audit report is not a guarantee but rather reflects our professional judgement based on work performed in accordance with established standards.

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mind-set. A sceptical mind-set drives us to adopt a questioning approach when considering information and in forming conclusions.

Exercising professional scepticism means that we will not accept everything we are told at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgements and assumptions and weigh them against alternative possibilities.

### **How we consider compliance with laws and regulations**

As part of the Auditor-General's mandate, we consider compliance with laws and regulations that directly affect your financial statements or general accountability. Our audit does not cover all of your requirements to comply with laws and regulations.

Our approach involves first assessing the systems and procedures that you have in place to monitor and manage compliance with laws and regulations relevant to the audit. We may also complete our own checklists. In addition, we will ask you about any non-compliance with laws and regulations that you are aware of. We will evaluate the effect of any such non-compliance on our audit.

### **Wider public sector considerations**

A public sector audit also examines whether:

- the District Council carries out its activities effectively and efficiently;
- waste is occurring or likely to occur as a result of any act or failure to act by the District Council;
- there is any sign or appearance of a lack of probity as a result of any act or omission by the District Council or by one or more of its members, office holders, or employees; and
- there is any sign or appearance of a lack of financial prudence as a result of any act or omission by the District Council or by one or more of its members, office holders, or employees.

## Reporting protocols

### Communication with management and the District Council



We will meet with management and the District Council throughout the audit.  
We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are “no surprises”.

### Reports to governors



We will provide a draft of all reports to governors to management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to the District Council.

We will also follow up on your progress in responding to our previous recommendations.



## Audit logistics

### Our team



Our senior audit team members are:

Athol Graham

Appointed Auditor

Leon Pieterse

Engagement Quality Control Director

Warren Auths

Audit Manager

Nikita Hanright

Assistant Manager

Our engagement team is selected to ensure that we have the right subject matter expertise and sector knowledge. Each member of the audit team has received tailored training to develop their expertise.

## Timetable



Our proposed timetable is:

29 April 2019	Interim audit begins
31 May 2019	Draft interim management report issued (if required)
TBC	Availability of the valuation reports
26 August 2019	Draft financial statements available for audit (including notes to the financial statements) with actual year-end figures
26 August 2019	Final audit begins
2 September 2019	Significant component clearance
13 September 2019	Final financial statements available, incorporating all the amendments agreed to between us
16 September 2019	Non-significant components clearance
13 September 2019	Annual report available, including any Chair's and Chief Executive's overview or reports
23 September 2019	Verbal audit clearance given
26 September 2019	Audit opinion issued
26 September 2019	Draft final detailed management report issued

## Expectations



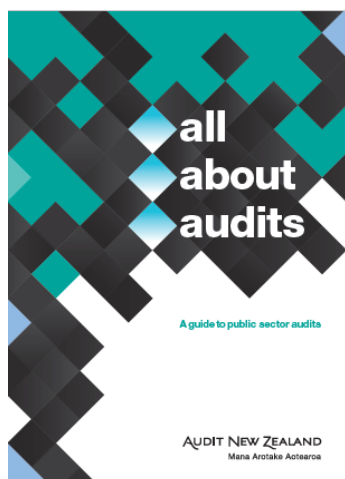
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our Audit Engagement Letter dated 8 June 2017.

We expect that:

- you will provide us with access to all relevant records and provide information in a timely manner;
- staff will provide an appropriate level of assistance;
- the draft financial statements, including all relevant disclosures, will be available in accordance with the agreed timetable;
- management will make available a detailed workpaper file supporting the information in the financial statements; and
- the annual report, financial statements and performance information will be subjected to appropriate levels of quality review before being provided to us.

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit. We have also published information to explain what to expect from your audit:



## Health and safety



The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff.

Under the Health and Safety at Work Act 2015, we need to make arrangements with management to keep our audit staff safe while they are working at your premises.

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required. We also expect management to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.





## 4.2 Health and Safety Report June 2019

**Meeting:** Audit and Risk Committee

**Date of meeting:** 26 June 2019

**Reporting officer:** Desarae Williams

### 1 Purpose

To provide the Audit and Risk Committee with information on key health and safety risks and the measures in place to mitigate those risks at the Whangarei District Council workplace.

### 2 Recommendation

That the Committee notes the Health and Safety Report.

### 3 Background

Elected members have significant influence over our workplace and are obliged to:

- Apply due diligence to ensure the council is meeting legal health and safety obligations.
- Ensure that health and safety risks have been identified and are being suitably mitigated.
- Be confident that Council is providing a safe workplace for workers.

This report provides key information that addresses these matters at a governance level.

### 4 Discussion

The top risks remain as detailed in the last report (see Attachment 1). However, during a recent hazard review on energy risks, it was noted that working under powerlines had not been specifically recorded. This risk is as high scoring as working in a confined space, working at heights and other similar high risk tasks. However, with the mitigating actions we have in place, this risk is significantly reduced.

#### **Changes to legislation - Hazardous Substances Regulations**

Since the last report, there has been an amendment to the Hazardous Substances Regulations, effective from April 1, 2019. The key item affecting us in the amendment is the training. All workers handling Class 61A and 61B chemicals will be required to undertake Hazardous Substances Certified Handler training. Previously, they could work under the supervision of someone who held this. This affects our Water Operations staff who handle chlorine. Other staff handling hazardous chemicals will need to undertake Hazardous Substances training.

Worksafe NZ have also provided a hazardous substances calculator to document all hazardous substances kept on a site. We had been using the calculators provided on the website but they have been amended and updated making them more user friendly. We were looking at other options of keeping an inventory of all chemicals used at Council, but the new calculator provided makes this the obvious choice to use going forward. The key advantage of using this resource is that if Worksafe NZ visit a site, we will be legally compliant in terms of chemical inventories.

Over the last year or more appropriately qualified staff have been reviewing what chemicals are used, reducing stock levels, disposing of redundant chemicals and adding quantities into the chemical inventories ensuring we are fully compliant with legal requirements. A number of the Waste and Water operations sites have had chemical audits as well.

Waste hazardous goods also have a few amendments, such as requiring bunding.

### **Contractors**

One of our top risks is that of our contractors who undertake a number of high risk activities on our behalf. One of our key roles is to monitor the health and safety of contractors.

Initially, we ask high risk contractors to become Sitewise approved to a level of 50% or more. Sitewise is a basic cost effective health and safety pre-qualification system. Contractors are asked to provide examples of their accident register, emergency plans, tool box talks, verification of occupational health monitoring and respond to a number of questions. Once accredited, we then review their Sitewise report and, where required, query any items of concern. Maintaining annual recertification is also a prerequisite to continue working for Council.

By using an external provider to maintain impartiality and manage workload. With approximately 350 new suppliers either supplying goods or services to Council this financial year alone, this prequal is an invaluable health and safety check of the approximately 50 high-risk contractors that are taken on each year. We have held numerous workshops for our contractors to support them in attaining their Sitewise application most recently in April this year.

Once a contractor is engaged, our Council staff are required to monitor physical work undertaken by the contractor. These documented health and safety checks are periodically audited by Health and Safety staff and changes are currently underway to improve the level and quality of the monitoring undertaken by our Council staff at contractor worksites. Staff are attending workshops to improve their level of knowledge and information. We have amended the name of these from H&S inspections or audits, to 'Contractor be safe' engagements.

### **Acceptable behaviours in the workplace**

Last year all staff attended workshops about acceptable behaviours in the workplace including diversity and inclusion. The workshops also addressed a number of unacceptable behaviours like bullying and harassment. Following this, a peer support network has been established. These staff are available to provide confidential advice and support if staff feel they are being bullied or harassed. This has been viewed by staff as a very positive move.

### **Wellness**

Since the last report, 150 of our staff received flu vaccinations. This was a higher than usual uptake – approximately 43% of staff.



The recent measles outbreak has slightly affected us. So far, we have been able to accommodate staff who may have been exposed to work from home.

Each year we send out a workstation assessment check and this year, by using the newly established Whanau groups, we have had our highest ever return rate. It is heartening to see an improvement in this area, with only three staff reporting any issues.

### Council chamber risks

To meet our approved Fire Evacuation Scheme for Forum North, we are restricted in the number of people permitted on the level one, at any one time. The general calculation, permits a maximum of 40 members of the public to be admitted into the Council Chamber area for open meetings. To manage this limitation, when we become aware of larger numbers of people wanting to attend a meeting, a plan is put in place including increased fire and emergency evacuation response.

A review of security risks in the Council Chamber area has been underway for some time. With the planning for the new Civic Centre now underway we need to ensure consideration is given to any expenditure relative to the life of the facility. Following a recent incident where a member of the public entered an internal meeting a protocol is being developed.

### Injuries and Incidents

The table below shows injuries within the January to March, 2019 quarter.

Injury Type	Employee January - March 2019	Contractor January - March 2019	Public January - March 2019	Totals January - March 2019	Last quarter totals	Trend Since last quarter
Worksafe NZ Notifiable event	0	0	0	0	0	Same
Lost time injury (injury needing days off)	1	1	0	2	1	↓
Medical treatment Injury (visited doctor or physio)	2	7	4	13	9	↑
Occupational health exposure	0	3	0	2	0	↑
Minor injuries (First Aid)	7	31	16	54	20	↑
Pain and Discomfort	12	3	0	15	15	Same
Incidents	25	67	4	96	60	↑

*Table 1: Council workplace injuries 1 January – 31 March 2019 quarter*

WorkSafe NZ issued us with a Prohibition notice in January 2019, requiring us to improve our traffic management system after two staff were observed working in the road corridor. This was lifted shortly after. We have done a lot of work publicising this event internally and in the community, so others can learn from this.

Councillors may be interested to note that there were no reports of work related stress this reported quarter.

This is a new graph in the report, below showing the incident trends this year to end of March 2019. The trend over last six years follows.

<b>Injury Type</b>	<b>Employee July 2018 – March 2019</b>	<b>Contractor July 2018 – March 2019</b>	<b>Public July 2018 – March 2019</b>	<b>Totals July 2018 – March 2019</b>
Injury event to WorkSafe NZ	0	0	0	0
Lost time injury (injury needing days off)	2	6	0	8
Medical treatment Injury (visited doctor or physio)	7	19	7	33
Occupational health exposure	0	3	0	3
Minor injuries (First Aid)	12	66	22	100
Pain and Discomfort	20	13	0	33
Incidents	49	138	9	196

*Table 2: Total Council workplace injuries 1 July 2018 – 31 March, 2019 YTD*

<b>Incident Type</b>	<b>2013 - 2014</b>	<b>2014 - 2015</b>	<b>2015 - 2016</b>	<b>2016 - 2017</b>	<b>2017 - 2018</b>	<b>2018 - 2019 to end March 2019</b>	<b>Trend since previous year</b>
Injury notifiable to WorkSafe NZ	3	6	2	3	0	0	Same
Lost Time Injuries	13	14	7	11	11	8	↓
Medical Treatment Injuries	37	19	46	51	77	33	↓
Occupational Health Exposure	0	0	0	11	4	3	↓
Minor Injuries	40	46	74	127	160	100	↓
Pain and Discomfort	9	18	84	109	138	33	↓
Incidents	137	116	382	283	389	196	↓

*Table 3: Council workplace injuries over last five financial years*

### Training undertaken since last report

Internal training	External training
<ul style="list-style-type: none"> <li>• Health and safety inductions</li> <li>• Chemwatch awareness training</li> <li>• Fire warden refreshers</li> <li>• A well-attended Safetywhys workshop on rehabilitation</li> <li>• Contractor Be safe engagement workshops</li> </ul>	<ul style="list-style-type: none"> <li>• First Aid (new and refreshers)</li> <li>• Methamphetamine exposure risk (Arranged to be held at Council, by external providers)</li> <li>• Various traffic management course training</li> <li>• H&amp;S Rep training – level 1</li> </ul>

*Table 4: Health and Safety Training undertaken since last report*

### H&S Plan

The updated health and safety plan was adopted earlier in the year.

One of the actions was to develop an office environment guideline and this has been done and been presented to the architects working on the new Civic Centre.

With aggressive people being one of our highest risks, another action was to draft a security review report and this too has been picked up by various parties and is being actioned.

## 5 Significance and engagement

The decisions or matters of this report do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via report publication on the website.

## 6 Attachment

Highest Health and Safety Risks, March 2019



## Attachment 1: Highest Health and Safety Risks in Whangarei District Council ‘workplaces’

These risks have been identified from the Council hazard register, based on residual (After controls put in place) risk scores.

Risk Description	Cause of the Risk	Consequence/ impact of an event happening	Inherent Risk Rating	Controls in Place	Residual Risk Rating	Future Controls	Future Risk Rating
Threats and aggression from members of public.	<p>Workers out in field coming across aggressive people, causing physical and/or emotional harm to workers.</p> <p>Aggressive people coming in or around our workplaces, causing physical and/or emotional harm to workers.</p> <p><i>Note: Why this risk remains so high, is the lack of control we have as council in controlling the behaviour of the public.</i></p>	Worksafe notifiable injury affecting workers	Critical	<ul style="list-style-type: none"> <li>Security systems, policies, procedures and information in place to cover many eventualities</li> <li>Regular training sessions on what to do in threat and lockdown events.</li> <li>Training provided to cover off differing threat situations</li> <li>H&amp;S &amp; Security meetings held with other tenants and PCBUs</li> <li>Planned emergency drills, which check the effectiveness of the systems</li> <li>Audits of high risk areas</li> <li>CCTV and panic buttons installed</li> <li>Work alone devices and cell phones, to summon assistance</li> <li>Use of security companies to provide assistance</li> <li>Audits and monitoring</li> </ul>	High		Little change foreseen
Traffic, pedestrian and driving hazards	Poor driving behaviour of other people, causing accidents involving our workers, both in vehicles and as pedestrians.	One Worksafe notifiable injury or potentially many fatalities	Critical	<ul style="list-style-type: none"> <li>Driver assessments</li> <li>Driver licence checks</li> <li>Driver – car control training provided for high use fleet drivers</li> <li>Driver checklists</li> <li>Driver inductions</li> <li>Safe access through traffic guidelines</li> </ul>	High		Little change foreseen

Risk Description	Cause of the Risk	Consequence/ impact of an event happening	Inherent Risk Rating	Controls in Place	Residual Risk Rating	Future Controls	Future Risk Rating
	Poor driving behaviour of our workers, causing accidents and injuries.  <i>Note: Why this risk remains so high, is the lack of control we have as council in controlling the behaviour of the public.</i>			<ul style="list-style-type: none"> <li>Staff informed of requirements</li> <li>Road safety and traffic management requirements</li> </ul>			
Workplace stress and fatigue	Work overload, working long hours and overtime (for a long period of time), bullying and other unreasonable behaviours, including unresolved conflict.  This can be compounded by out of work issues.	WorkSafe NZ notifiable injury	Critical	<ul style="list-style-type: none"> <li>EAP (Employee Assistance Programme) system available</li> <li>Encouragement to early report and resolve issues</li> <li>Policies in place giving guidance</li> <li>Fatigue management processes in place and monitoring</li> <li>Leader awareness of issues, with individual plans to resolve</li> <li>Support of individuals from People and Capability team</li> <li>Monitoring of this area and reporting</li> </ul>	High		
Contractors creating risks in the workplace	Contractors injuring themselves and others when undertaking council work or while at council workplace.	Multiple fatalities WorkSafe NZ and likely prosecution, affecting workers	Critical	<ul style="list-style-type: none"> <li>Initial health and safety appraisal system, using a prequalification requirement of being SiteWise approved to 50% or more</li> <li>Annual review of existing contractors</li> <li>Stringent asbestos removal controls</li> <li>Monitoring processes</li> <li>Contractors informed of requirements and standards, with regular communication to contractors</li> <li>Council staff trained in requirements</li> </ul>	Medium		

Risk Description	Cause of the Risk	Consequence/ impact of an event happening	Inherent Risk Rating	Controls in Place	Residual Risk Rating	Future Controls	Future Risk Rating
				<ul style="list-style-type: none"> <li>Contractor Management policy in place</li> <li>Permit to Work system in place</li> <li>Lockout system in place</li> <li>Induction of contractors</li> </ul>			
Slips and trips	Slippery surfaces, unrecognised trip hazards, people not paying attention	WorkSafe NZ notifiable injury affecting workers	High	<ul style="list-style-type: none"> <li>Encouragement of reporting and remedying of the risk as soon as possible</li> <li>Workplace inspections</li> <li>Worker awareness</li> </ul>	Medium		
Work at heights (WAH)	Falling from height	WorkSafe NZ notifiable injury affecting workers	High	<ul style="list-style-type: none"> <li>WAH training, with two-yearly refresher requirements</li> <li>WAH permit to work in place for high risk work at height</li> <li>WAH reviews and audits</li> <li>WAH Policy and procedures</li> <li>Fall prevention hardware, such as handrails and use of scaffolding</li> <li>Use of Elevated work platforms</li> <li>Assessments of risk and plans to work safely</li> <li>Supervision and monitoring</li> <li>WAH gear and equipment checked and certified</li> </ul>	Medium		
Confined space entries (CSE)	Entry into confined spaces where there is; insufficient oxygen, the risk of toxic or solvent chemicals, engulfment and energy sources or processes that could start up.	Multiple fatalities WorkSafe NZ Prosecution	High	<ul style="list-style-type: none"> <li>Requirement to use CSE permit to work and suitable procedures</li> <li>CSE policy and procedures</li> <li>Only trained workers to enter with a two-yearly refresher requirement</li> </ul>	Medium		

Risk Description	Cause of the Risk	Consequence/ impact of an event happening	Inherent Risk Rating	Controls in Place	Residual Risk Rating	Future Controls	Future Risk Rating
		affecting workers		<ul style="list-style-type: none"> <li>CSE registers in place, making it clear what is a confined space</li> <li>Air &amp; gas monitoring requirements before and during entry</li> <li>Rescue plans planned in advance</li> <li>Monitoring and supervision</li> <li>Notification to our contractors about our standards and requirements</li> </ul>			
Fire and emergency in workplaces	<p>Unplanned fire, bomb threat, gas leak and similar causing the need to evacuate a building.</p> <p>Crowd control can become a risk in some workplaces, with the potential for crushing, if people panic.</p>	Multiple fatalities (But low probability)	High	<ul style="list-style-type: none"> <li>Drills held six monthly in most workplaces, or annual table top review in small workplaces</li> <li>Procedures in place, that are regularly reviewed and updated</li> <li>Trained fire wardens</li> <li>Sprinkled buildings</li> <li>Approved fire evacuation schemes in place</li> <li>Emergency lighting and systems in place</li> </ul> <p>Workers informed of risks and procedures to adhere to</p>	Medium	Hard wired smoke detectors	
Seismic risk at Kioreroa road Admin Building, Whau Valley Water Treatment building and Forum North	<p>Earthquake risk.</p> <p>The key aspect being, lack of compliance to new earthquake building standards, although not enforceable till 2025.</p>	Multiple fatalities (But note – very low probability)	High	<p>Nil, just awareness.</p> <p>Earthquake procedures available and two yearly drills arranged.</p>	Medium	Building new Water plant. One building concept – so staff not in at risk area. Remedial action at Waste plant	Eliminated



## 4.3 Internal Audit – Contract Management May 2019

**Meeting:** Audit and Risk Committee  
**Date of meeting:** Wednesday 27 June 2019  
**Reporting officer:** Emily Thompson (Audit and Risk Analyst)

### 1 Purpose

To Present the BDO internal audit report on Whangarei District Council's Contract Management Processes.

### 2 Recommendations

That the Audit and Risk Committee notes:

- (a) The Final Contract Management Internal Audit Report issued by BDO.
- (b) The recommendations raised by BDO and Councils response to them.

### 3 Background

As part of our ongoing internal audit programme we engaged BDO to undertake an internal audit of our contract management process to identify potential areas of weakness or concern that may create risks for Council.

It is important that a public entity create an environment that mitigates risks associated with the implementation of contracts. Proactive contract management activities that are fit for purpose are central to mitigating these risks.

The contract management review covered a sample of 10 current or recently completed contracts across the Council.

### 4 Discussion

The objective of the audit was to assess, based on procedures performed, if contract management policies and controls are designed adequately and are implemented effectively.

BDO's work encompassed a review over contract management practices. They reviewed methods used to actively manage contracts to ensure contract deliverables are met.

The agreed focus was on the following areas:

- Assessing the adequacy and effectiveness of internal policies and controls in place to manage key risks associated with contract management; and

- Assessing compliance of contract management practices against Council policies and controls and sector best practice.

This was a limited assurance audit engagement conducted in accordance with New Zealand Audit Standard ISAE 3000.

The key finding, that exposes Council to the most risk, is the monitoring of contract management (reference 4.2 in the attached report). This is shown as the highest risk rating to Council in the table of findings below:

REF	TITLE	TYPE	RATING
4.1	Structure of policies and procedures	Risk	Medium
4.2	Monitoring of contract management	Risk	High
4.3	Assignment of responsibility	Risk	Medium
4.4	Communication and reporting	Risk	Medium
4.5	Liquidated damages	Risk	Low
4.6	Contract signing date	Risk	Low
4.7	Documentation/ record keeping	Risk	Low
4.8	NZTA agency investment audit	Opportunity	Low
4.9	Venue and Events - NECT	Risk	Medium

BDO also noted that Council are doing some things well and made the following positive comments:

- Content and coverage of contract management guidance covers fundamentals to ensure contracts are managed to deliver the best outcomes for Council and these are consistent with key aspects of OAG best practice guidance.
- The detail testing found that infrastructure contracts for 'contracts to build' followed the requirements of NZS3910:2013, as specified by Council policy.
- That 'contracts for services', of duration less than a year were generally well managed though the contract life. This is likely due to the concise and often unique nature of the services provided.
- BDO did not identify any unusual patterns with payments to contractors that would suggest large payments prior to contract milestones or delivery being met.

The full report from BDO is provided in attachment one. BDO will be in attendance for this item to contribute to the discussion.

## **5 Next Steps**

Already the results of this internal audit have been shared with the operational leadership team and there is a plan of action to improve how we ensure that all department managers are aware of their responsibilities in managing contracts across the organisation.

Actions from this internal audit will be added to the internal audit action log and will be monitored and reported to this Committee every six months. There is a separate report on this month's agenda for this.

## **6 Significance and engagement**

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

## **7 Attachment**

BDO Final Internal Audit Report – Contract Management





## WHANGAREI DISTRICT COUNCIL

Internal Audit

Review of contract management processes

Final Report

May 2019

## TABLE OF CONTENTS

1.	SCOPE AND APPROACH	1
2.	EXECUTIVE SUMMARY OF FINDINGS	3
3.	CONCLUSION	5
4.	DETAILED FINDINGS	6
5.	INTERNAL AUDIT WORK CONDUCTED	17
	APPENDIX 1 - FINDINGS RATING	19
	APPENDIX 2 - LIMITATIONS OF INTERNAL AUDIT PROJECT	20
	APPENDIX 3 - EXTRACT FROM OAG BEST PRACTICE	21

---



Tel: +64 4 472 5850  
Fax: +64 4 472 0130  
www.bdo.co.nz

BDO Wellington  
Level 1, Chartered Accountants  
House  
50 Customhouse Quay  
PO Box 10 340  
Whangarei 6143, New Zealand

Private & Confidential

27 May 2019

Dominic Kula  
GM Strategy and Democracy  
Whangarei District Council  
Private Bag 9023  
WHANGAREI 0148

Dear Dominic

We are pleased to present our report pertaining to the Internal Audit of Contract Management.

In accordance with the relevant AoG Consultancy Services Order the Whangarei District Council (the 'Council') engaged BDO Wellington and Northland to undertake an internal audit over contract management processes. This report sets out a summary of the work we have performed, our findings, the conclusion that we reached, and recommendations we have made.

We would like to take this opportunity to acknowledge our appreciation for the assistance and co-operation provided to us in addressing our information requests and dealing with our queries as they arose during the course of the audit.

Yours sincerely

BDO Wellington

BDO Northland

Mark Bewley  
Partner

Adelle Allbon  
Partner

☎ DDI +64 4 498 3860  
✉ [Mark.Bewley@bdo.co.nz](mailto:Mark.Bewley@bdo.co.nz)

☎ DDI +64 9 430 0471  
✉ [Adelle.Allbon@bdo.co.nz](mailto:Adelle.Allbon@bdo.co.nz)

## 1. SCOPE AND APPROACH

Our internal audit has been performed in accordance with the Consultancy Services Order dated 10 April 2019. The objective of the audit is to assess, based on procedures performed, if contract management policies and controls are designed adequately and are implemented effectively.

Our work encompassed a review over contract management practices. We reviewed methods used to actively manage contracts to ensure contract deliverables are met.

The agreed focus was on the following areas:

- Assessing the adequacy and effectiveness of internal policies and controls in place to manage key risks associated with contract management; and
- Assessing compliance of contract management practices against Council policies and controls and sector best practice.

Based on our review of the above areas, we have highlighted in this report the issues identified, implications and our recommendations for continuous improvement as applicable.

### Key Activities

To complete the objectives of this engagement, we have performed the following activities:

Interviewed	• Relevant personnel from Business Support and elsewhere within Council.
Reviewed	• Council policies relevant to contract management practices and evaluated against OAG guidance and sector best practice.
Evaluated	• The adequacy and effectiveness of policies and controls in place to manage associated risks relevant to contract management.
Evaluated	• The implementation of Council policies and controls in practice. This was achieved through the evaluation of the contract management process for a selection of 10 active or recently completed contracts.*
Reported	• Work completed and significant issues identified together with our recommendations.

\* The nature of a limited assurance audit determines that selection sizes for testing are judgemental. As such the selection size of transactions/ activities tested are deemed appropriate in the context of the scope of this limited assurance audit. It is important to note, due to the nature of the limited assurance audit, we cannot conclude over the entire population of contracts during the period. The work completed by BDO Northland is subject to the limitations set out in [APPENDIX 2](#).





### BDO's reference points

We have used interviews with relevant Council management and staff as a fixed point of reference for conducting our review. The management and staff interviewed included:

Interviewee	Position
Tracey Schiebli	Manager (Democracy & Assurance)
Emily Thompson	Senior Audit and Risk Analyst (Democracy & Assurance)
Heather Edmeades	Procurement Coordinator (Business Support)
Shelley Wharton	Manager (Infrastructure Planning and Capital Works)
Marie-Katrin Richter	Team Leader (Infrastructure and Capital Works)
Fiona Pratt	Project Engineer (Infrastructure and Capital Works)
Claire Walls	Senior Community Property Advisor (Community Development)
Sue Hodge	Manager (Parks and Recreation)
Spencer Jellyman	Technical Officer (Parks and Recreation)
Werner Theron	Team Leader, Property Assets (Business Support)
Alan Adcock	General Manager (Corporate)
Jeff Devine	Strategy and Planning Manager (Strategy and Planning)
Tony Horton	Manager (Strategy)
Carina de Graaf	Manager (Venues and Events)

### BDO's work completed

For a detailed summary of work completed refer to [SECTION 5 - INTERNAL AUDIT WORK CONDUCTED](#).

## 2. EXECUTIVE SUMMARY OF FINDINGS

It is important that a public entity create an environment that mitigates risks associated with the implementation of contracts. Proactive contract management activities that are fit for purpose is central to mitigating these risks. Having appropriate tools and support available to staff will ensure that the agreed terms of the contract are met, and if issues arise these are addressed in a timely manner before they escalate.

There is excellent content within existing policies, procedures and supplementary guidance. These align with sector best practice, however, the content is bulky and is a one-size fits all approach which is onerous for smaller contracts. We recommend that a user-friendly contract management guidebook is created which draws on the content from existing guidance but also provides a risk-based approach to contract management.

We have found that Council operate a largely decentralised approach to contract management whereby staff at a department level are required to manage contracts. The decentralised approach is coupled with a lack of monitoring systems to enable oversight of contract management activities. This creates a relatively high risk of non-compliance in departments that do not regularly undertake contract management, and accordingly non-compliance can go undetected.

The detailed testing phase of the audit considered contract management of 10 current or recently completed contracts. It was evident that in some areas there is limited use of Council procedures and guidance. As such, we assessed contract management activities against the fundamental principles of contract management. These principles are included in Appendix 3 of this report.

Our findings identified areas of weakness, and in our view are symptomatic of an inconsistent approach to contract management across departments and from contract to contract. We also found areas of opportunity and a number of positive findings as specified in the report.

Overall, we would categorise contract management practices at Council to be developing with room for improvement. This is consistent with a previous internal audit we completed in 2018 for procurement processes and controls (business case to contract), and many of the themes in that report show through again.

REF	TITLE	TYPE	RATING
4.1	Structure of policies and procedures	Risk	Medium
4.2	Monitoring of contract management	Risk	High
4.3	Assignment of responsibility	Risk	Medium
4.4	Communication and reporting	Risk	Medium
4.5	Liquidated damages	Risk	Low
4.6	Contract signing date	Risk	Low
4.7	Documentation/ record keeping	Risk	Low
4.8	NZTA agency investment audit	Opportunity	Low
4.9	Venue and Events - NECT	Risk	Medium



## Positive Findings

TITLE	SUMMARY OF KEY FINDINGS
Content of contract management guidance	Our review found the content and coverage of contract management guidance covered fundamentals to ensure contracts are managed to deliver the best outcome for Council and these are consistent with key aspects of OAG best practice guidance.
Processes followed for contract to build and short-term contract for services	<p>Our detailed testing found that infrastructure contracts for 'contracts to build' followed the requirements of NZS3910:2013, as specified by Council policy.</p> <p>We also note that 'contracts for services', of duration less than a year, were generally well managed through the contract life. This is likely due to the concise and often unique nature of the services provided.</p>
Payment management - no balloon payments	We did not identify any unusual patterns with payments to contractors that would suggest large payments prior to contract milestones or delivery being met.



### 3. CONCLUSION

Based on our work performed, as specified in the scope of work in our terms of reference we have formed the following conclusions:

SCOPE OF WORK	CONCLUSION	EFFECTIVENESS
Adequacy and effectiveness of internal policies and controls in place to manage key risks associated with contract management.	Other than the findings in section 4.1 and 4.2 nothing has come to our attention to indicate that the policies and controls in place to manage risks associated with contract management is not effective.	Partially effective
Compliance of contract management practices against Council policies and controls and industry best practice	Other than the findings in section 4.3 to 4.9 nothing has come to our attention to indicate that the implementation of policies and controls in place to manage risks associated with contract management is not effective.	Partially effective

Because of the inherent limitations of limited assurance audits, it is possible that fraud, error or non-compliance may occur and not be detected. A limited assurance audit is not designed to detect all instances of non-compliance within the areas reviewed by BDO, as it generally comprises making enquiries, primarily of the responsible party, and applying analytical and other review procedures. The opinion expressed in this report has been formed on the above basis. Our firm provides no other services to the Council and we have no other relationship or interests in the Council.

## 4. DETAILED FINDINGS

### 4.1 Structure of policies and procedures

Type	Risk
Rating	Medium

#### Audit Findings:

During our assessment of the effectiveness of internal policies and procedures we note the following observations:

1. There is no reference in the procurement policy (2018) to the procurement procedures manual (2015).
2. The procurement procedures manual mentions the importance of contract management procurement cycle, and makes reference to project execution plan (2011). However neither document specifies when a project execution plan needs to be put in place, or how to manage contracts that are not part of a wider project.
3. The project execution plan is a template that provides a user with useful guidance regarding contract management strategy. The project management framework guidebook (2009) also contains quality content. However both documents are relatively heavy and are too detailed for more simple contracts.

#### Implication:

The implication is that procedures, guidance and templates are not widely used in practice, as evidenced by the number of findings in this report. This creates a risk that fundamental contract management processes are not followed.

An exception to the above is contract management activities for infrastructure contracts. The procurement procedures manual contains an appendix for infrastructure contracts which is modelled on the requirements of NZS3910:2013. We have reviewed this appendix and consider the guidance to be within our expectations and in line with best practice.

#### Recommendations:

1. Insert an amendment to the procurement policy (2018) to ensure there is a clear link to the procurement procedures manual.
2. Strengthen the wording in the contract management section of the procurement procedures manual to clearly state the objectives of contract management at Council, and these should be aligned with the OAG good practice guide 'Procurement guidance for public entities'. See appendix 3 of this report. We understand the procurement procedures manual (2015) is in the process of being revised.
3. Consider creating a new 'contract management guidebook' to replace the existing project execution plan and project management framework guidebook. Our view is that the new contract management guidebook should be user friendly and outline a risk-based approach to contract management so that contract management activities for each respective contract are appropriate given the nature of the contract. i.e. not a one size fits all approach. The contract management guidebook should also cross reference to available Council tools and templates.



4. Once this documentation is live it is important that Council roll out an effective training program across all users.

Management Comments:

Management accept the recommendations and a link to the current Procurement procedures manual will be added.

The recommendation relating to the creation of a new document will be considered as part of the review and update of the PPM that is currently in the pipeline. At the time of this report the timeframe for this update is not known.

## 4.2 Monitoring of contract management

Type	Risk
Rating	High

### Audit Findings:

The Council operate a decentralised contract management function. This means that planning and performing contract management activities is the responsibility of those within the department to which the contract relates. We found that there is limited use of centralised controls. The key characteristics of the current contract management environment are:

- No monitoring of compliance with contract management policy and procedures. There are no business tools used by Council to enable the collation of information to summarise contracts in progress, nearing expiring, recently completed and key data regarding contract type, size, owner, etc.
- Business Support have limited staff resources available to proactively assist business owners with contract management support and advice.
- During the testing phase of our review we observed that many different departments are tasked with the responsibility of contract management activities. Within this cross section of staff there is a wide range of contract management knowledge. It was evident departments that do not routinely manage contracts find the application of contract management principles challenging.

### Implication:

In our view, with the exception of infrastructure contracts, there is a moderate/ high risk of insufficient contract management activities being undertaken.

### Recommendations:

We recommend that immediate action is taken to improve the monitoring of contract management activities and compliance with policies and procedures. Tools need to be introduced to enable oversight of all contracting activity within Council. Doing so will provide a birds-eye view of all contracts with all the necessary information to identify areas of risk or concern. Staff resourcing for monitoring and support of users also needs to be considered.

During the interim, we recommend that at a minimum, all new or existing contracts have the following (i) a contract manager identified; (ii) a basic communications plan is agreed between the contractor and these communications are recorded; and (iii) contact manager and management agree on the most effective method in Tech1 to administer payments for the contract.

### Management Comments:

Management accept the recommendation. Procurement and contract management training is already scheduled for regular contract managers. Staff will work to ensure that awareness of contract management principles are shared across the organisation.

The recommendation regarding an overview mechanism is well received and will be considered as the Manager - Business Support looks at how best to hand over contract management after the completion of the procurement phase.

### 4.3 Assignment of responsibility

Type	Risk
Rating	Medium

#### Audit Finding:

During the testing phase of our review, we identified instances where there was a lack of clarity regarding the roles and specific responsibilities of the contract manager. This is symptomatic of a lack of use of contract management tools and templates which incorporates the fact that there is no active 'contract management plan'.

#### Implications:

In the absence of formally identified responsibilities, accountabilities are not clear and invariably the approach to contract management becomes passive or reactive. This creates a risk that agreed outcomes of the contract are not met or managed effectively.

An example of this we found was CON13048 which is an ongoing contract for services of approx. \$280k per year. The contract is for services to be provided across a range of Council groups and departments, which creates numerous staff contact points between Council and contractor. Since the commencement of the contract in 2014 there has been staff movements within Council which has left responsibilities of the contract manager unattended. Resulting in:

- No evidence or regular reporting provided by the supplier (contract specifies Quarterly reporting required)
- No evidence of regular meetings between WDC and contractor
- No assessment of contractor performance documented

We note that this contract is being replaced in June-19 and contract management plans and tools have been put in place to address these issues.

#### Recommendations:

A key principle of contract management is the assignment of contract management roles and responsibilities. Doing so enables Council to achieve the best outcomes and value for money during the life of the contract.

We recommend roles and responsibilities of the contract manager are specified in a contract management plan and this is agreed between department management and contractor prior to starting the contract. We acknowledge that there is no 'ready-to-go' contract management plan template so as an interim measure we suggest roles and responsibilities are agreed between all parties via a meeting (with minutes taken and circulated).

#### Basic areas to cover are:

- Single point of contact for all correspondence
- Maintaining contract performance measures
- Monitoring contract performance and reporting requirements
- Approving payments
- Issue resolution process
- Ensuring contract meetings are occurring and are minuted

#### Management Comments:

Management accepts the recommendations. Roles and responsibilities should be identified as part of the contract; it is recognised that this may not be clear to staff who are managing the contract.





Consideration will be given to creating a standard document to allow role and responsibilities to be defined in a standard CON folder (as used on Kete for procurement and management of contracts).

#### 4.4 Communication and reporting

Type	Risk
Rating	Medium

##### Audit Finding:

During the testing phase of our review, we identified instances where communications and performance reporting between Council and the contractor were not implemented effectively during the life of the contract.

	Effective implementation to manage risk	
	No	Yes
Communications	4	6
Performance reporting	3	7

##### Implications:

Ineffective communication and reporting channels between the Council and contractor leads to an inability for Council to proactively monitor contractor performance, contract cost or completion timelines. This increases the likelihood of issues becoming major issues with serious outcomes, on the basis that they are not addressed in a timely manner.

A further negative outcome from ineffective communication and reporting channels is a lack of documentation regarding contractor performance. This documentation is essential to allow the Council to objectively assess the performance of the contractor at the conclusion of the contract, and to feed this assessment into future procurement decisions where that contractor may have tendered.

##### Recommendations:

We recommend that a clear communications plan with expectations regarding performance reporting is agreed upon at the outset of the contract. These two areas are fundamental building blocks to enable effective contract management throughout the life of the contract. The specifics of communication and performance reporting requirements need to be appropriate for the risk profile of the respective contract.

##### Management Comments:

Management notes the recommendation. Staff are ensuring that KPI's are clearly identified within contracts as they come up for renewal. There is a programme of training now in place for contract managers to ensure that they understand their responsibilities on going management of a contract. Staff will consider how to engage with department managers to ensure that they are reminded of their obligations for ongoing communication and reporting on contracts.

#### 4.5 Liquidated damages

Type	Risk
Rating	Low

##### Audit Findings:

During the testing phase of our review we identified a contract (CON17005) which had a significant delay in the delivery of the project. The delay was approximately 1 year. The contract contains a clause for liquidated damages in the event of late completion of contract works. The damages rate is \$660 per working day.

The contract engineer from Council, in consultation with the department manager did not pursue liquidated damages from the contractor as the Council did not incur any direct financial loss from the delivery being late. This type of decision is within the authority of the department manager, as specified in the procurement manual. The Council informed the contractor of this decision during a monthly meeting which was minuted.

Information regarding this decision made within Council was obtained through inquiry with staff only.

##### Implication:

The decision to remit liquidated damages can have significant financial implications.

##### Recommendations:

We recommend decisions regarding the recovery of liquidated damages is formally documented and retained for record keeping purposes. This is not a requirement of NZS3910:2013, however does align with the principles of contract management.

##### Management Comments:

Management note this recommendation as an improvement and it will be implemented on future contracts.

#### 4.6 Contract signing date

Type	Risk
Rating	Low

##### Audit Finding:

During the testing phase of our review we identified 2 contracts for services that were not signed until after the contract had commenced. Details of the contracts are:

	CON17073	PRO17061
Nature	\$900k per annum (approx.)	\$160k
Start date	July 2018	September 2017
Contract signing date	January 2019	April 2018

CON17073 - Through inquiry, we found that the contracts were signed after commencement date due to timing and resourcing constraints within Council. The risks of services being provided without a contract in place were partly mitigated as the suppliers used for this contract had been used by the Council in the same capacity in the period preceding July 2018.

PRO17061 - We identified this issue during our previous internal audit (Procurement process and controls), where at the time of the there was no contract in place. It is positive to find a contract has now been formalised and signed by both parties.

##### Implications:

The implications of receiving services from a supplier without a contract in place are numerous. Of specific relevance to contract management is the risk that supplier performance quality, timeliness of services and price agreements cannot be effectively managed as there is no contract to benchmark against.

##### Recommendation:

We recommend that all contracts are signed by both parties prior to contracted works/ services commencing. In the rare occasion that this is not possible, the decision to commence without contract is agreed upon by department management in consultation with in-house legal advice. This decision is documented and record retained.

##### Management Comments:

Management accepts the recommendations. Council recognise that there are occasions when contract works are started prior to the formal signing of a contract. Staff are working with Department Managers and Contract Managers to ensure that contracts are signed prior to commencement of contracts.

In the short term the approach to reducing this risk is via training department managers and contract mangers, however in line with the response under finding 4.2, if there is a monitoring process put in place then there may be capacity for central co-ordination and oversight.

#### 4.7 Documentation/ record keeping

Type	Risk
Rating	Low

##### Audit Findings:

There are inconsistencies in the methods used by Council for maintaining records of contract management activities. The methods that we observed ranged from full documentation within Kete; to split use of Kete and hard copy files; and some examples of little record keeping at all.

We also noted an example where Kete has been used, but the naming conventions and tagging of documentation was haphazard. With this particular example there were over 500 documents within Kete but with little order to be able to find documents with reasonable ease.

##### Implication:

Inadequate record keeping of contract management activities creates a lack of transparency and a risk that documentation is unable to be found when needed. The need to access contract management documentation arises from time to time and becomes particularly relevant when the contract owner leaves Council and a new staff member is required to manage the remaining life of the contract.

##### Recommendations:

Kete is a document filing system, that when used consistently is a reasonable system to file documents. In the absence of another document management system being available, we recommend further education and self-policing of Kete.

##### Management Comments:

Management accepts the recommendation. Staff continue to communicate with both department managers and contract managers about the use of CON folders. CON folders are used for the procurement process and should be maintained throughout the contract lifecycle by the contract manager to show how the contract is being managed.

Staff are aware that the metadata in the smart folders are not being used effectively and this should be addressed as part of the current Kete review that is occurring across the organisation.

#### 4.8 NZTA agency investment audit

Type	Opportunity
Rating	Low

##### Audit Findings:

The scope of the contract management internal audit is to consider contract management activities across all of Council. This considers all departments, including Roding for which Council staff and processes are used within the Northland Transport Alliance. As such one of the contracts selected for testing was CON16020, being a \$1.8m contract to build a pedestrian/ cycle pathway.

Through inquiry with management from Roding it was found that the New Zealand Transport Authority ('NZTA') perform operational audits every two years, which are called 'NZTA agency investment audit'. Included within the NZTA agency investment audit (July-18) was CON16020.

The scope of this audit included assessment regarding the effectiveness of the WDC contract management practices against NZTA procurement requirements. Results from the NZTA agency investment audit were positive on a whole, the and specific to contract management stated: "WDC has contract management practices in place to ensure contracts are managed effectively."

##### Recommendations:

We recommend that when setting the overall risk management framework for the Council the nature and scope of NZTA audits are considered in the overall assurance offering to mitigate Council risks.

Further to this, we recommend an exercise is undertaken to identify all other audits/ assurance services that are currently provided to Council, and these areas are also considered in the risk management framework of Council.

##### Management Comments:

Management accepts the recommendation. Staff are now working with the NTA to ensure that our audit function is aware of any completed audits from NZTA.

Staff will initiate a piece of work to understand any other areas of the business that undergo robust audit processes, particularly those by external parties.

#### 4.9 Venues and Events - NECT

Type	Risk
Rating	Medium

##### Audit Findings:

As part of our testing we were asked to consider contract management activities between the Northland Events Centre Trust ('NECT') and the food service provider at the Northland Events Centre stadium. The existing contract has been in place since 2011.

NECT is a Council Controlled Organisation ('CCO') and Council employees staff the management and operations of NECT. Through inquiry with new management at NECT we found that for this contract:

- There is a lack of documentation available pertaining to the historic activities regarding contract management.
- No evidence of clear communication between parties.
- No performance monitoring of the contractor.
- Provisions within the contract relating to annual spend of assets by the contractor but little record of this.
- Lack of content within the contract regarding the use of NECT premises by the contract to service other clients.

##### Implication:

As discussed throughout this report, ineffective contract management activities has the implication of not enabling NECT to:

- Proactively manage contract issues to prevent small issues becoming major issues
- Objectively assess contractor performance
- Assess if contracted obligations have been met by the contractor

##### Recommendations:

We recommend that practical contract management processes be put in place going forward to effectively manage this contract.

##### Management Comments:

Council welcomes this review which has occurred ahead of a contract renewal. The information will be fed back to the NECT. There are currently limited operational policies within NECT therefore staff will align future contract management processes to the principles of WDC contract management as detailed in the procurement policy and Procurement Procedures Manual.



## 5. INTERNAL AUDIT WORK CONDUCTED

The following summarises the work that we conducted during our internal audit. The purpose of this summary is to provide an understanding of the areas we covered.

Scope Required	Work Completed	Conclusion								
Adequacy and effectiveness of internal policies and controls in place to manage key risks associated with contract management	<ul style="list-style-type: none"><li>Interviewed relevant Council staff to identify and assess the adequacy and effectiveness of all relevant policies and controls.</li><li>Assessed the adequacy and effectiveness of the Council's:<ul style="list-style-type: none"><li>Procurement policy</li><li>Procurement manual (where relevant to contract management)</li><li>User guidance and templates for contract management</li></ul></li><li>Evaluated current policies and controls against OAG guidance and industry best practice.</li><li>Documented and communicated where there are policy limitations and control gaps.</li></ul>	Based on work completed we noted limitations with the design of policies and controls. Refer to section 4 for points to consider.								
Compliance of contract management practices against Council policies and controls and industry best practice	<ul style="list-style-type: none"><li>Evaluated actual practices against policy and controls through testing of a selection of contracts.</li><li>10 contracts were tested in total and our review involved assessment of Council documentation to support conformance of the following key activities:<ol style="list-style-type: none"><li>Contract finalised and approved prior to work commencing</li><li>Responsibility of contract management assigned</li><li>Effective communication structures with contractor</li><li>Continuous assessment of quality</li><li>Proactive management of timeframes</li><li>Systems used for cost management</li><li>Effective communication channels within Council</li><li>Documentation of key contract management activities and decisions during life of contract</li></ol></li><li>The 10 contracts tested were selected by the Strategy and Democracy team, so as to ensure a range in nature and dollar value.</li><li>Included in the selection are 4 contracts that BDO reviewed during the 'Procurement internal audit' in May 2018.</li><li>As a point of the reference, the 10 selected contract contained the following attributes:<table><tr><td>Selected</td><td>Contract value</td></tr><tr><td>2</td><td>\$100,000 - \$250,000</td></tr><tr><td>6</td><td>\$250,001 - \$2,000,000</td></tr><tr><td>2</td><td>\$2,000,001 - \$10,000,000</td></tr></table></li></ul>	Selected	Contract value	2	\$100,000 - \$250,000	6	\$250,001 - \$2,000,000	2	\$2,000,001 - \$10,000,000	Based on work completed we noted instances of non-compliance with policies and controls. Refer to section 4 for points to consider.
Selected	Contract value									
2	\$100,000 - \$250,000									
6	\$250,001 - \$2,000,000									
2	\$2,000,001 - \$10,000,000									





Selected	Department	Group
2	Community Development	Community
1	Business Support	Corporate
1	Communications	Corporate
1	Strategy	Strategy & Democracy
1	Parks and Rec	Infrastructure
2	Roading	Infrastructure
1	Infrastructure planning and capital works	Infrastructure
1	Venues and Events	Community/ NECT



Selected	Duration 0 - 1 year	Duration 1+ years
Contract for services	1	6
Contract to build	2	1


## APPENDIX 1 - FINDINGS RATING

We classify our findings according to whether the matter raised represents, in our view, either a risk or an opportunity to the company. A risk is generally linked to an internal control weakness whereas an opportunity represents the identification for a potential efficiency.

To enable Management to set priorities on their action plans we will report our findings in four categories, namely, critical, high, medium and low based on our assessment of the importance of each finding.

Definitions for each category are provided below.

Explanation	
	<b>Risk</b> A risk may represent a source of potential harm or negative impact.
	<b>Opportunity</b> Opportunities may represent sub-optimal performance or potential for an efficiency to be gained.

Explanation	
	<b>Critical</b> Severe breakdown in controls exposing Council to substantial risk, requiring immediate management attention and resolution as soon as practicable.
	<b>High</b> Significant breakdown in controls exposing the organisation to risk, requiring urgent management attention and resolution.
	<b>Medium</b> Breakdown in controls requiring timely management attention and resolution.
	<b>Low</b> Process inefficiencies or non-compliance with policies and procedures of a housekeeping nature.



## APPENDIX 2 - LIMITATIONS OF INTERNAL AUDIT PROJECT

This limited assurance quality assurance audit has been conducted in accordance with New Zealand Audit Standard ISAE 3000. This quality assurance audit is limited primarily to inquiries of entity personnel, inspection of evidence and observation of, and enquiry about, the operation of the control procedures for a small number of transactions or events. This audit is designed to provide a limited level of assurance in relation to the areas included within the terms of reference. An audit providing a high level of assurance has not been performed.

The engagement was performed on the basis of the following limitations:

- As a result of the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. Further, the internal control structure, within which the control procedures that we have reviewed operate, has not been reviewed and no view is expressed as to its effectiveness.
- The engagement is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis. Also, this engagement does not provide all the evidence that would be required in high level positive assurance audit.
- Any projection of the evaluation of the procedures reviewed for selected processes to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

The matters raised in this report are only those which came to our attention during the course of our limited quality assurance audit and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures reviewed, or potential instances of fraud that may exist. Findings within this report may have been prepared on the basis of management representations and should be read in the context of the scope of our work.

The Council should assess management actions for their full commercial impact before they are implemented. This report has been prepared by BDO Northland and Wellington for the purpose of, and with a view to access by the Council. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

## APPENDIX 3 – EXTRACT FROM OAG BEST PRACTICE

EXTRACT FROM 'Good practice guide: Procurement guidance for public entities (2008)'

Part 8 – Managing the contract

85

### Types of contract management

#### Conventional contract management

- 8.13 To achieve good contract performance, public entities should ensure that the terms of the contract are adhered to, and that all parties to the contract understand their respective obligations.<sup>3</sup>

#### Expectations

- 8.14 We expect a public entity to ensure that the terms of the contract are adhered to during the contract by regularly monitoring that the goods or services are delivered:
- on time;
  - at the agreed cost; and
  - to the required quality.
- 8.15 We also expect a public entity to maintain records of the monitoring and contract management that they have carried out.
- 8.16 Planning for the management of the contract should start at the procurement planning phase and continue through the evaluation and the contract negotiation.
- 8.17 A contract management plan should be prepared. The contents of the plan will depend on the value and risk associated with the goods or services procured.
- 8.18 The contract management plan will be a living document that is updated throughout the life of the contract.

#### Guidance

- 8.19 A public entity should include guidance in its relevant policies and procedures on how the delivery of goods or services will be managed.
- 8.20 Managing the delivery of goods or services is about ensuring that what has been agreed is delivered, to the appropriate quality standards. It is about assessing and managing the performance of the supplier to ensure value for money. Procedures may include:
- assessing whether the goods or services are delivered to the agreed levels or volumes;
  - assessing the quality of the goods or services – a measurement tool should be created that will allow the quality to be assessed, even in areas where it is hard to quantify;

- agreeing, before the contract starts, a baseline from which improvements in the goods or services can be measured (for example, benchmarking, or comparing performance across different organisations and providers, is another useful way to gauge improvements or pricing levels); and
  - ensuring that any other additional requirements under the contract have been fulfilled by the supplier (for example, reporting).
- 8.21 A public entity's relevant policies and procedures should also say how risks will be managed. Fulfilling the contract may be endangered by several kinds of risk – some in the supplier's control, and some outside it. To manage a contract, it is vital to identify and avoid or minimise the risks to the contract. This includes controlling those risks that are carried by the supplier under the contract.
- 8.22 Business continuity planning and contingency planning are an important part of managing risk. They help prepare the public entity for the situation where the supplier cannot deliver. A contingency plan proportionate to the scale, complexity, and risk of the contract should be prepared before the contract takes effect. For low value or low risk services, this may not be necessary. The plan may simply recognise that some delay could occur in restoring services, or dealing with problems, should the contract fail.
- 8.23 The management of relationships will vary, depending on the contract. Where appropriate, a public entity should ensure that:
- both parties understand and agree on an appropriate type of relationship model for each particular contract;
  - the contract's management structures support good relationships between the parties, and that staff at all levels show their commitment to it;
  - the flow of information and communications are established at the start of a contract, and maintained through its life – the three primary levels of communication in a contractual arrangement are operational (end users and technical support staff), business (contract manager and relationship manager on both sides), and strategic (senior management and board of directors); and
  - procedures for raising issues and handling problems are set up, so that any issues or problems are dealt with as early as possible and at the appropriate level in the public entity.
- 8.24 How the contract will be administered should also be included in a public entity's policies and procedures. Procedures should be in place for managing activities in the main contract. These procedures should be included in the contract management plan, and may include:
- contract variations, including control of any changes – the contract documentation must continue to reflect the arrangement accurately, and any

changes to it that are required by changes to services or procedures need to be carefully controlled;

- charges and cost monitoring;
- ordering and payment procedures;
- time management;
- management reporting; and
- asset management.

8.25 Clear administrative procedures will ensure that all parties to the contract understand who does what, when, and how.

8.26 The public entity's policies and procedures should include guidance on the information required in a contract management plan. Depending on the value and risk associated with the procurement, these may include:

- a summary of milestones, including any review of the contract and the lead time needed for any re-tender/proposal or renewal;
- a list of the main individuals and their responsibilities (for both the public entity and the supplier) – for example, the contract manager and the governance board;
- a schedule of risks that have been identified and that are being monitored and managed;
- the frequency and content of a supplier's reporting, and the content, frequency, and distribution of any reporting within the public entity – for example, monthly reporting to the senior management team on important service statistics;
- a schedule of meetings, and any standard agenda items;
- the processes by which some of the contractual obligations are to be achieved;
- the procedures for managing any specific activities in the contract;
- details of the process and authorities for approving variations to contracts (including delegations);
- details of any ordering procedures, such as ordering of hardware, travel services, and printing; and
- payment procedures, such as the level of detail to be provided in invoices (for example, asset numbers), and the format for any electronic invoices.

8.27 The frequency and type of meetings required to review contract performance should also be covered in public entities' policies and procedures. These may include:

- regular progress meetings that involve the supplier, the contract management team, and key staff of the public entity, to discuss performance, contract events



or milestones, changes to user demands, and proposed actions or responses to current or potential problems;

- technical meetings, as required, that involve specialist technical representatives of the contract management team and the supplier, to review technical reports and performance data and discuss technical issues; and
- longer-term reviews and audits, to consider the achievement of objectives, results against budget, user satisfaction, the extent to which value for money is being achieved and requirements are being met, and how to address any emerging need for changes.

8.28 The appointment of a contract manager, and that person's responsibilities, should also be covered in a public entity's policies and procedures. The responsibilities may include:

- translating the entity's requirements into contractual provisions;
- acting as a single point of contact for all formal and legal correspondence for the contract;
- maintaining contract performance measures;
- monitoring contract performance and reporting at an overall service or business outcome level;
- approving payment and making payments according to the contract;
- representing the public entity's interests to the supplier at contract level;
- overseeing the operation of the contract;
- negotiating remedies with the supplier and taking remedial actions;
- maintaining and developing contract specifications;
- setting up regular reporting procedures, both formal and informal, and ensuring that they are used;
- promoting an understanding of the business practices and common techniques of both parties to the contract; and
- approving deliveries and completions.

#### Contract management when contracting with non-government organisations

8.29 The Treasury has issued *Guidelines for Contracting with Non-Government Organisations for Services Sought by the Crown*. The Treasury guidelines include a section on managing the contract and monitoring, against which a public entity can gauge its own policies and procedures.





## 4.4 Internal Audit Actions – June 2019 Update

**Meeting:** Audit and Risk Committee  
**Date of meeting:** Wednesday 26 June 2019  
**Reporting officer:** Emily Thompson (Senior Audit and Risk Analyst)

### 1 Purpose

To report the status of outstanding actions from the internal audits conducted within Council.

### 2 Recommendation

That the Audit and Risk Committee notes the status of the outstanding internal audit actions.

### 3 Background

The internal action log provides an update on progress against recommendations made during any previous internal audits. These are monitored internally as they progress to completion

### 4 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

### 5 Attachment

Internal Audit Actions Update June 2019



Audit	Date of Audit	Audit report Reference	Title	Internal Audit Key Finding (summary as detailed in report)	Status	IA Recommendation (Summary as detailed in report)	Management Commitment	Action (extracted from management comment)	Owner	Due date	Update	Status
Revenue	16/11/2018	4.6	Debtor account access – segregation of duties (Revenue)	There are 27 staff with debtor management roles within Tech1, and 3 of these staff have responsibilities that include cash handling. This creates a risk of inappropriate writing-off of customer balances.	Low	We recommend that a monthly review process is put in place, and where possible reduce the number of staff that have debtor management roles within Tech1.	WDC Accept the recommendation  The development of a report to review all write off is being investigated.	Develop a report to review all write offs	Revenue (with ICT)	<del>May-19</del> Dec - 19	Quote received to complete this report. Due to the nature of the work this would have to be completed again following the upgrades to the ICT systems. Management decision made to delay until after the implementation of CiAnywhere.	Open
Revenue	16/11/2018	4.7	Payments received in advance (Code of compliance – Buildings)	There has been an increased focus internally to monitor the balance of revenue received in advance for code of compliance fees. However a degree of long standing balances remain, some dating back to the 1990's.	Low	It is a financial reporting requirement that liabilities are recognised only to the extent there is a likely outflow of economic resources. Therefore it is important the balance is reviewed periodically to identify amounts where there is no longer a reasonable expectation the customer will request inspection. We recommend an exercise is completed periodically to remove old balances, whilst ensuring a record of the write-back is retained should the customer inquire and that legal obligations are met. Consideration of best practice from other Councils is also recommended.	WDC Accept the recommendation  There is management support for option (i) as this would meet the requirements of the Building Act. If we record that the consent is essentially open and not completed, then it would be appropriate to write back the money.		Finance Team	Nov-19		Open
Payroll Audit	16/11/2017	4.4	Documentation of pay run process and continuity risk	There is no documentation of payroll processes and staff cover to process to cover a pay run is limited. We recommend documenting the payroll process in a set of work instructions. Another staff member to be trained in payroll processes in the event staff cover is needed.	Medium	Implications:  Payroll processes including the fortnightly pay run are critically important to Council operations and there would be widespread implications if the process was interrupted due to a lack of staff cover.  Recommendations: 1. We recommend work instructions for payroll processes are completed immediately. These should include all practical steps that needs to be taken to perform key payroll processes including the processing of the fortnightly pay run.  2. While the P&C Manager is cover when one of the administrator is on leave, our recommendation is that another staff member from the HR Group should be trained to process pay in the event both administrators are away from work. We do not recommend this staff member is given ongoing access to the payroll system, but rather is granted access in the event it is needed.	Work has already started on creating formal payroll processes that can be followed by any member of the P&C or Finance team, should the need arise. It is expected that this will be completed by the end of 2017.	P&C team to develop payroll operating procedures so that in the absence of the payroll staff another member of the team can complete the payroll process. This will build on the checklist that already exists.	P&C - Jenny Antunovich/ Marie Notton	<del>Dec-17</del> <del>Sept-18</del> May-19 April 20	Business Improvement Department is now working with the payroll team to confirm and document the process. However this has been delayed due to resource issues.	Open
Payroll Audit	16/11/2017	4.5	Documentation of payroll policies	There is no documented policy or principles for the payroll function. We recommend a payroll policy document is developed to address the overall objective and responsibilities of the payroll function.	Low	Implications: The implication of the payroll policy not being documented is a lack of clarity of the Councils responsibility and intent with regard to the payroll function.  Recommendations: We recommend that a payroll policy is developed to reference the overall objective of the payroll function and address the following responsibilities:  * Duty as an responsible employer to pay all employees accurately, on time and in accordance with employment agreements. * Compliance with applicable legislation * Compliance with income tax and IRD requirements * Security of payroll data * Description of the payroll function * Description of current calculation used to determine fortnightly payment * Segregation of duties * Reference to the location of instructional documentation and delegated authorities	Council agree that there is a need to have an overarching document relating to all payroll processes. This will be reviewed in line with an internal policy review that has just begun and is expected to continue through the first half of 2018. It may result in an alternate name to 'policy' but the principles of payroll will be included as detailed above.	P&C team to develop payroll process/ policy document for adoption. It has been agreed that it will include the details mentioned by the internal auditors and will be approved by the SLT(OLT via delegation)	P&C - Jenny Antunovich	<del>April-18</del> <del>Sept-18</del> <del>Nov-18</del> April 20	This will be reviewed by the people and capability department following the review and documentation of processes (action item 4.4)	Open
Procurement Audit	17/05/2018	4.1	Procurement environment	The procurement control environment at the Council can be described as a semi decentralised model, with limited use of centralised controls. There is an inconsistent knowledge base among staff responsible for procurement. We have recommended an immediate requirement for active oversight from Business Support to ensure compliance. There is an opportunity upon updating the procurement policies to redefine roles and responsibilities. We also recommend software is introduced to manage all procurements and contracts as a means of having visibility over procurements in progress, procurements completed and key details of the procurement.	Medium	We understand the Council is currently looking at redefining the roles and responsibilities within the procurement function. As such we have presented our recommendations in two phases – (i) Immediate action under the current environment; and (ii) Opportunities for the future. Immediate action – the status quo · Require oversight by the Business Support department for all procurements greater than \$100,000. We recommend oversight at a minimum includes initial meetings with the procurement leader to determine key features of the procurement plan and if support is required. Also oversight towards the end of the procurement to ensure the filing of procurement process documentation has been completed. · All variations to process should be reviewed by Business Support prior to Group GM and CEO approval. · To support the oversight function in the interim and future, BDO Northland are available to discuss ongoing assurance services to review procurement procedure compliance. We consider there to be value in this process for the Council and would follow a risk based approach. Opportunities for the future · We recommend the Council investigate software options for the managing of all procurements and contracts. In an ideal environment Business Support will have visibility over all procurements in progress, procurements complete and key details of procurement process followed (i.e. risk, tender method, evaluation method, variation used, etc.). Use of the tool could be extended to contract management and timelines for contract expiry to mitigate procurement risk throughout the life of the contract. · Responsibilities for compliance with procurement processes need to be clearly defined within the new procurement policies. We recommend consideration is given to thresholds (dollar value and risk) as to when active involvement of the Business Support team is necessary, and a threshold where external procurement process experts are used. It is our view that use of external experts should be limited to high value/ high risk procurements. This will ensure that skills and knowledge within the Council are developed and reduce the external costs attributed to a procurement. · Internal communication of new policies, procedures and responsibilities should be done with high prominence and communicated through multiple avenues to ensure maximum reach and impact. The procurement function should also be included within induction processes.	Affirmation of the Strategic Intent for Procurement is required by SLT. This will determine the model going forward, i.e. Centralised or decentralised or a hybrid model. Current resources in Business Support will not be able to achieve oversight of all procurement over \$100,000.00. Business Support will work with People and Capability to socialise the reviewed policy and provide learning and development opportunities for departments as required.	Business Support to confirm strategic intent for Procurement with SLT. Review of Policy to be shared with wider organisation, including if oversight stays with Business Support department.	Business Support - Manager	Dec-19	Procurement Policy has been updated was adopted by Council in October 2018. Associated documentation will be reviewed as operational priorities allow through out 2019.	Open
Procurement Audit	17/05/2018	4.2	Policies - Structure and Content	The current suite of procurement policies are overdue for revision. We identified structural limitations with the current procurement manual and provide recommendations to improve usability, remove unnecessary requirements/rules and introduce a risk based procurement framework.	Low	Consideration of a risk based framework should be developed as part of the procurement policies, including a risk assessment matrix. Reference to the risk assessment matrix together with the financial value of the procurement will guide the way procurement is to be undertaken. · The layout of the procurement manual should be revised to allow a clear structure that is user friendly with superfluous information and requirements removed. Of benefit to users would be a clear flow chart that provides a practical tool to guide what type of procurement process is needed for any type of procurement. An unambiguous procurement manual reduces the risk of challenges to the decision-making process and may reduce the cost of procuring. Clear requirements assist in ensuring procurement policy is consistently followed. · The revised procurement policy and manual should be prepared in-house to ensure it is written within the context of how the Council operates and is congruent with the intended users. Internal consultation should occur with relevant stakeholders, including input from various levels of staff. External consultation is also of benefit to ensure the overall objective of effective procurement is met. We are available to assist at this stage to complement the process if required. - Going forward it is important that all policy and procedure is updated in accordance with the required timeframe.	A risk management framework will be included in the current policy review. The subsequent documentation required for implementation of the new Policy will be completed when the Policy has been approved. This will include a review of the Procurement Manual and the Quote Pack.	Policy to be reviewed and will include a risk management framework. Once policy completed then associated documentation will be reviewed to align. This includes a review of the procurement manual and the quote pack.	Business Support - Manager	Dec-19	Procurement Policy has been updated was adopted by Council in October 2018. Some preliminary work has been undertaken to establish the scope of work required regarding templates provided to the business.	Open

Audit	Date of Audit	Audit report Reference	Title	Internal Audit Key Finding (summary as detailed in report)	Status	IA Recommendation (Summary as detailed in report)	Management Commitment	Action (extracted from management comment)	Owner	Due date	Update	Status
Procurement Audit	17/05/2018	4.4	Conflict of Interest - Implementation	During the testing phase of our review we identified 5 (out of 12) instances where conflict declarations had not been fully completed. We recommend immediate communication to set the expectation that the procurement leader is responsible to ensure conflict declarations are completed as required.	Medium	We recommend the procurement leader is responsible for ensuring conflict of interest declarations are completed by required staff. Communication of this responsibility should be completed by the Business Support department. Consider holding training sessions for staff to reinforce the need for complete and effective conflict of interest checks. As a broader consideration, a procurement checklist could be created to provide a visual, summarised document to work through to assess whether all required aspects of a procurement have been followed. Note – recommendations for conflict of interest compliance should also be read in conjunction with finding 4.3.	The conflict of interest processes will be reiterated in the reviewed procurement manual and training.	Procurement manual and associated documentation to be reviewed including conflict of interest requirements . This will follow the procurement policy review.	Business Support - Manager	Dec-19	Procurement Policy has been updated was adopted by Council in October 2018. A procurement checklist is currently being developed.	Open
Procurement Audit	17/05/2018	4.5	Variation of Procedure - Rationale	The variation to procurement procedure form does not provide guidance about how to consider risks that are created by using the variation. We recommend the form is enhanced to require risk based justification for the variation.	Low	We recommend the 'Variation to Procedure' form is enhanced to specify the requirement to provide supporting documentation (where necessary) and guidance to address risk. Example included in full report (justification for the variation and risks addressed).	The variation to procedure and/or policy form and process will be reviewed as part of the policy review and included in the training.	Procurement policy to be reviewed including variation to procedure requirements and process.	Business Support - Manager	Dec-19	The variation process and document has been amended to require the procurement coordinator to be informed of variations and enable reporting to be provided to Council. The template will be reviewed more fully as operational priorities allow.	Open
Procurement Audit	17/05/2018	4.7	Documentation of Procurement	During the testing phase of our review we identified 9 (out of 12) procurements that lacked complete documentation of procedures in Kete. We recommend requirements for documentation are communicated with staff and a checklist is developed to help staff ensure minimum documentation is filed. We also recommend the contract folder for high profile/ high value procurements are given restricted access permissions.	Low	We recommend communication to all staff regarding the requirement and responsibility to file documentation that supports a procurement. A checklist of key documentation needed to be stored on Kete could be developed to allow a simple check of completeness for the procurement leader. We recommend that contract folders of high profile/ high value are given restricted permissions for access. Also refer to our finding at 4.1 with regard to responsibilities within the current 'semi-decentralised' procurement environment at the Council.	Documentation will be reviewed as part of the review of the manual. Flow charts will be included. Business Support will work with People and Capability to socialise the reviewed policy and provide learning and development opportunities for departments as required.	Procurement manual and associated documentation to be reviewed including development of written process (ProMapp). This will follow the procurement policy review.	Business Support - Manager	Dec-19	Procurement Policy has been updated was adopted by Council in October 2018. Associated documentation will be reviewed as operational priorities allow through out 2019. A procurement checklist is currently being developed.	Open
Revenue	16/11/2018	4.1	Review of refunds (i-Site/ The Hub)	There is no second person review of documentation where refunds are issued. This creates an opportunity for staff to issue fictitious refunds without detection.	Low	We recommend processes are put in place to ensure independent review of documentation for all goods refunds.	WDC Accept the recommendation  Staff keep the receipt returned by the customer, although this is not a formal process. Staff can formalize this and confirm the reason for return, including getting a customer signature. Staff usually get the customer to sign the till receipt that is produced once the refund has been processed in IBIS either through cash or EFTPOS as a way for the customer to confirm that they have received the refund (particularly with cash). The process will be reviewed, updated and communicated to staff.	Consider the processing of refunds to include a independent review of refunds.	Customer Services - Lesley Ashcroft	May-19	All refunds to be processed by staff member, then sighted and signed off by TL/Manager (Second person reviews) No further action.	Closed
Revenue	16/11/2018	4.2	Cash register security (i-Site/ The Hub)	Currently the key for the cash registers is left in the cash register lock, which creates an opportunity for external theft. This also creates a risk to the safety of staff and financial loss.	Medium	We recommend this practice is stopped immediately and access to the cash registers is via IBIS only.	WDC Accept the recommendation  Staff note the comment regarding keys and will remove them from the tills for future. The IBIS system allows access. This will be communicated to staff by the end of the calendar year.	Consider the benefits of changing the process for opening the cash register	Customer Services - Lesley Ashcroft	May-19	As advised by the H&S Manager, recommendation is to leave keys in the cash drawers. The risk to staff safety outweighs the risk of financial loss. No further action.	Closed
Revenue	16/11/2018	4.3	Cash admissions (Clapham's Clock Museum)	No ticket is issued to visitors at the Clapham's Clock Museum. This creates an opportunity for staff to grant access but not process the transaction through the cash register.	Low	We recommend an independent review of admission receipts is performed on a monthly basis to identify irregularities.	WDC Accept the finding and note the recommendation.  There are only ever two staff on roster and it is likely that one person will be away from reception, giving a tour for example, and unavailable to verify the ticket. We agree with the auditor's observation that given the relatively low visitor numbers, especially those paying in cash, that the installation of a ticketed turnstile is unlikely to provide a benefit that exceeds the cost. We feel that this would also present a rather unwelcoming barrier to our visitors.  We assume that the analysis would be based on percentage differences in admission revenue, if this is the case then the museum's Monthly Stats spreadsheet (in Kete) which details Admission Numbers, Admission Revenue and Total Net Revenue on a Month End and Year End basis should be sufficient. This data is also summarised in the monthly Operational Report.	Due to the cost of implementing this there is no action to be taken.	Customer Services - Lesley Ashcroft	May-19	Staff note the points raised with this recommendation but will not be addressing this area in the current year. Therefore this item has been closed	Closed
Revenue	16/11/2018	4.4	Customer accounts access (Libraries)	When customers pay charges on their library account a staff member updates the customer account balance in Symphony. There is no reconciliation between the cash register and receipts in Symphony which presents an opportunity for staff to update the customer account but not process a cash payment through the cash register.	Medium	We recommend management introduce an analysis between Symphony 'receipting' and the cash register. Also to review levels of 'waiving' of account balances within Symphony.	WDC Accept the recommendation  (i)We are still researching ways to make useful comparisons but at present have not found a suitable report in Symphony that will be meaningful (ii)As above, we are working through the range of offered reports to find an appropriate one. In the interim, staff have been asked to be careful as to which categories they use in Symphony so that there is consistency with how bills are paid and that the reports will reflect actual practise – a necessary step.	Review the options to link the systems or the reports.	Library - Paula Ulrich	May-19	Staff investigated the possibilities of linking the cash register with Symphony but did not come up with a viable solution. Other Symphony libraries contacted by us did not have any recommendations as those who have tried to link the two systems found there was either no advantage or it was not feasible. After speaking with the auditor about this we reached the conclusion that there is no solution which would improve on the situation as it stands. Also the cash register is used for transactions other those generated by Symphony e.g. sales. No further action	Closed
Revenue	16/11/2018	4.5	Documentation of daily reconciliation (Libraries)	Record keeping of daily receipts reconciliations is retained by the Revenue team and filed in Kete, however the corresponding cash register till tapes are kept in library records. This creates a lack of cohesion in record keeping.	Low	We recommend that a copy of the reconciliation is retained by the library and attached to the corresponding cash register till tape.	WDC Accept the recommendation  This has been implemented	None - completed at time of report	Library - Paula Ulrich	Nov-18	None - completed at time of report	Closed

## 4.5 Audit NZ Draft Interim Report – June 2019

<b>Meeting:</b>	Audit and Risk Committee
<b>Date of meeting:</b>	Wednesday 26 June 2019
<b>Reporting officer:</b>	Emily Thompson (Senior Audit and Risk Analyst) Delyse Henwood (Manager – Finance)

### 1 Purpose

To present Audit NZ's Draft Interim Audit Report of Whangarei District Council for the year ended 30 June 2019.

### 2 Recommendation

That the Audit and Risk Committee notes the Draft Interim Audit Management Report issued by Audit NZ for the year ended 30 June 2019.

### 3 Background

Each financial year, Audit NZ performs an audit on the Council's financial statements and supporting processes. This is agreed with management prior to the audit commencement.

Audit NZ issues two Audit Management Reports each financial year, highlighting areas where they have identified Council's processes can be improved. The first report is called an Interim Audit Management Report following their interim audit visit prior to 30 June.

The second (and final) report is issued after conclusion of their final audit after 30 September every year. The final report incorporates the items in the Interim report as well as those items identified in their final audit visit.

Council management receives the draft Audit Management Reports and provides commentary to Audit NZ to clarify matters, provide explanations and address any technical concerns.

Audit NZ considers the comments and adjusts their findings, if needed, before finalising and issuing the Audit Management Reports to Council. The Audit Management Reports are reported to the Audit and Risk Committee, which has oversight of this function, every six months.

Council is committed to ensuring that any areas for improvement agreed with Audit NZ are monitored, addressed and implemented.

## **4 Discussion**

The Audit NZ draft interim report for the 2018/19 Financial year is attached.

Findings from the report will be added to the audit action tracker that is reported to the Audit and Risk Committee every six months.

## **5 Significance and engagement**

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

## **6 Attachment**

Audit NZ Draft Interim Audit Management Report

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

**Whangarei District Council**

For the year ending 30 June 2019

## Contents

Key messages .....	2
1 Recommendations .....	3
2 Assessment of internal control .....	5
3 Other matters .....	6
4 Useful publications.....	10
Appendix 1: Status of previous recommendations .....	12
Appendix 2: Disclosures .....	16



## Key messages

We have completed our interim audit for the year ending 30 June 2019. This report sets out our findings from the interim audit.

Our main focus for the interim audit visit during April 2019 was to perform a high level review of the Whangarei District Council's (the District Council) control environment and to evaluate the District Council's key internal control systems for financial and non-financial information. Overall we are satisfied that the control environment is effective. This enables us to plan and execute an efficient and effective audit.

The District Council is planning to revalue roading, water, wastewater, stormwater and investment properties at 30 June 2019. We will review the revaluation work during our final audit. It is important that the District Council ensures that current condition and performance information is factored into the valuations and the key valuation assumptions (such as the unit rate changes and componentisation of assets) are reviewed by management's experts to ensure they are up to date. This will ensure the District Council's valuations are correctly reflected in the financial statements and will not impact the annual reporting timelines.

We updated our understanding of the Whau Valley Treatment Plant (WVTP) project and the Civic Centre projects. The District Council has entered into a new contract for the Construction of WVTP during the year. The Civic Centre Building project has been delayed as the District Council is still considering location options.

We also followed up on the progress the District Council has made in addressing our recommendations made in prior years. We are pleased to note the District Council has continued to address our recommendations.

### Thank you

We would like to thank the District Council and management for their assistance on the audit to date.

Athol Graham  
Appointed Auditor  
Draft 6 June 2019

# 1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommendations.

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
<p><b>Sensitive expenditure testing</b></p> <p>We recommend management remind staff that tax invoices are retained for all credit card expenditure and ensure these are approved on a one-up basis. We further recommend that Council considers implementing processes that require sensitive expenditure to be reported.</p>	3.2	Necessary
<p><b>Roading satisfaction measure</b></p> <p>We recommend the disclosure of the roading satisfaction measure is improved to include all results from the survey carried out.</p>	3.3	Necessary

Recommendation	Reference	Priority
<b>Improvements to the Procurement policy</b> We recommend that the District Council considers including the improvements noted to the Procurement Policy to ensure it is in line with best practice.	3.4	Beneficial
<b>Improvement in process - Water Safety performance measure</b> We recommend that the District Council reviews its process around the monitoring and review of its Water safety performance measure ensuring that an independent peer review is performed over the data uploaded into Water Online. We further recommend that the District Council uploads the data from the laboratory results into Water Online at least every quarter and review the results uploaded to those previously reported to SLT at least every quarter when the data is uploaded.	3.5	Beneficial
<b>Inappropriate set-up of Wastewater Mandatory measure</b> We recommend that the District Council reviews all long term planning (LTP) measures uploaded into their Corporate Performance Module and ensure these are in-line with both the performance framework approved in the 2018-28 LTP and in line with the DIA regulations.	3.6	Beneficial
<b>Changing of employee bank account details</b> We recommend that the District Council strengthens the process around changing of employee bank account details.	3.7	Beneficial

## 1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 1 sets out the status of previous year's recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Matters outstanding	-	1	2	3
Matters cleared	-	1	2	3
Matters that will be followed up during our final audit visit	-	5	1	6
<b>Total</b>	-	<b>7</b>	<b>5</b>	<b>12</b>

## 2 Assessment of internal control



The District Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal controls relevant to preparing the financial statements and the service performance information.

We review internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work, and may not include all weaknesses for internal controls relevant to the audit.

### 2.1 Control environment

The control environment reflects the overall attitudes, awareness and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy, and is the context in which the accounting system and control procedures operate. Management, with the oversight of those charged with governance, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We have performed a high level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the District Council and management to establish and maintain effective management procedures and internal controls.

Overall our audit findings reflect that Council and management have created a culture of honesty and ethical behaviour. The elements of the control environment provide an appropriate foundation for other components of internal control.

### 2.2 Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented and maintained by the District Council and management.

We reviewed the internal controls, and related business processes, and are scheduled to complete our review of the information system control environment before the final audit begins. Based on our work carried out at the interim audit, we did not identify any new issues in relation to internal controls. We continue to report on prior year issues that have not yet been addressed in Appendix 1.

## 3 Other matters

### 3.1 Quality and timeliness of information provided for audit



The District Council's management is required to provide information for audit. We provided a listing of information we required to management on 15 April 2019. This listing included the dates we required the information to be provided to us.

The majority of the information requested was provided to us in a timely manner. For our final audit to be efficient we have asked management to provide us any valuation information received as soon as it is completed. We plan to review these prior to our final audit visit to ensure a smooth and timely audit process.

### 3.2 Sensitive expenditure testing

From our review of sensitive expenditure, we noted the following issues:

- we identified a credit card transaction that was for appropriate business expenditure, but the tax invoice had not been attached as it was lost; and
- we noted an invoice for a staff member's flights and accommodation that had been self-approved by the staff member through the Purchase Order (PO) system.

We recommend management remind staff that tax invoices are retained for all credit card expenditure and ensure one-up approval of transactions.

Due to recent media attention across all public entities senior management and Council members' expenditure, we have noted a number of organisations are now presenting all senior management and Council members' expenditure at Council meetings for transparency. This is an area that the District Council should consider implementing as it would give the District Council more visibility over all areas of sensitive expenditure.

#### **Management comment:**

### 3.3 Roding satisfaction measure

A recent quality review of the 2018 audit file noted that the reporting of satisfaction with roading could be more transparent about the make-up of the survey responses. The roading satisfaction measure is based on a survey carried out by an independent party.

Based on a satisfaction scale of one to 10 the survey report collated responses into the following categories:

- Very satisfied;

- Satisfied;
- Neutral result (neither satisfied or dissatisfied);
- Dissatisfied;
- Very dissatisfied; and
- Don't know.

The District Council, in its annual report stated the survey recorded results on a scale of one to 10, with results of five or higher being an indicator of satisfaction. This included neutral responses in the satisfied category which could be perceived as over representing those respondents that were neutral as being satisfied.

The District Council should consider how it can more transparently present the survey results (and other measures using a similar method). For example, the District Council could consider using bars to report the results, this bar should include all categories of the survey, or alternatively additional narrative could be included to explain the survey results and how these have been represented in the annual report (again, showing all categories of the survey results).

We recommend the disclosure of the roading satisfaction measure, and other similar measures, is improved to include all results from the survey carried out.

**Management comment:**

### **3.4 Improvements to the procurement policy**

During our review of the procurement policy, we have found some areas of improvement that will strengthen and enhance the policy. These are:

- the policy makes reference to a separate document called the “Policy Procedures Manual”. We noted this document was last updated in January 2015. Considering that the procurement policy was recently updated, we recommend that the “Policy Procedures Manual” be updated to be in alignment with the procurement policy;
- The policy does not identify the risk of creating a “process contract” and what that might mean for the procurement;
- the policy does not contain provisions related to recording risks in a risk register;
- the policy does not contain guidance on procurement methods for closed tendering, syndicated procurement and collaborative contracting such as Alliancing and Public Private Partnerships; and

We recommend that the District Council considers including the above improvements into the Procurement Policy to ensure it is in line with best practice.

**Management comment:**

### **3.5 Improvement in process - Water Safety performance measure**

From our review of the system and processes around the collating and recording of data around the Water Safety performance measure, we noted the following:

- there is no independent review of the data that is uploaded into Water Online from the Laboratory reports;
- the reporting of the measure on a monthly basis to the Senior Leadership Team (SLT) is from the Laboratory reports and not from Water Online and there is no check to ensure that what has previously been reported to SLT agrees back to Water Online; and
- the data upload into Water Online is untimely and not every quarter as reflected in the District Council's process.

We recommend that the District Council reviews its process around the monitoring and review of its Water Safety performance measure ensuring that an independent peer review is performed over the data uploaded into Water Online.

We further recommend that the District Council uploads the data from the laboratory results into Water Online at least every quarter to ensure timely reporting.

**Management comment:**

### **3.6 Inappropriate set-up of Wastewater Mandatory measure**

We noted from our review of the Wastewater performance measure "(a) The number of flooding events that occur in a TA district and (b) For each flooding event, the number of habitable floors affected. (Expressed per 1000 properties connected to the TA's stormwater system", that the District Council has inadequately set-up this measure within their Corporate Performance Module within TechOne.

There is no edit field to record part (b) of the measure (such as habitable floors). The risk arises that management are incorrectly reporting the measures within their system to their SLT and potentially in their Annual Report at year end.

We recommend that the District Council reviews all LTP measures uploaded into their Corporate Performance Module and ensure these are in-line with both the performance framework approved in the 2018-28 LTP and in line with the DIA regulations.

We further recommend that systems are reviewed to ensure these are robust and that reporting is accurate.

**Management comment:**

### **3.7 Changing of employees bank account details**

We understand that the process for an employee to change their bank account details requires the employee to send an email to the payroll department, who will then make the changes. We understand there are basic or no controls in place over this process.

With the increased number of frauds involving email, it would be beneficial to the District Council to consider strengthening the processes around changing of employee bank account details, for example developing a standard template and including a review process over the changes. This will safeguard both the District Council as well as the employee.

We recommend the process and procedures around changing of employees bank account details are strengthened.

**Management comment:**



## 4 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>Client updates</b>	
<p>In April 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>Model financial statements</b>	
<p>Our model financial statements reflect best practice we have seen to improve financial reporting. This includes:</p> <ul style="list-style-type: none"> <li>• significant accounting policies are alongside the notes to which they relate;</li> <li>• simplifying accounting policy language;</li> <li>• enhancing estimates and judgement disclosures; and</li> <li>• including colour, contents pages and subheadings to assist the reader in navigating the financial statements.</li> </ul>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Model Financial Statements</a></p>
<b>Tax matters</b>	
<p>As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.</p>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Tax Matters</a></p>

Description	Where to find it
<b>Data in the public sector</b>	
<p>The Office of the Auditor-General (the OAG) has published a series of articles about how data is being used in the public sector. These cover:</p> <ul style="list-style-type: none"> <li>• functional leadership;</li> <li>• building capability and capacity;</li> <li>• collaboration; and</li> <li>• security.</li> </ul>	<p>On the OAG's website under publications.</p> <p>Link: <a href="#">Data in the public sector</a></p>
<b>Audit Committees</b>	
<p>The OAG has released various best practice information on Audit Committees.</p>	<p>On the OAG's website under "Our Work – Audit Committee Resources"</p> <p>Link: <a href="#">Audit Committee Resources</a></p>
<b>Infrastructure as a Service</b>	
<p>The OAG has completed a performance audit on Infrastructure as a Service and considered whether the benefits are achieved.</p>	<p>On the OAG's website under publications.</p> <p>Link: <a href="#">Infrastructure as a Service</a></p>

## Appendix 1: Status of previous recommendations

### Open recommendations

Recommendation	First raised	Status
<b>Necessary</b>		
<p><b>Improvement to roading processes</b></p> <p>We recommended that:</p> <ul style="list-style-type: none"> <li>Processes are improved so that projects can be easily traced to assets capitalised within RAMM.</li> <li>A formal review over the unit prices and overhead rates be performed to ensure that unit prices reflect the contracted amount. This will ensure that there is no significant difference between the contract amount and valuation unit prices.</li> <li>For all new additions a record for that asset is added in RAMM or can easily be traced to an existing record.</li> <li>A review over operational contracts to ensure if a proportion of the contracts are capitalised that a proportion of the contracts are also included as part of capital commitments.</li> <li>All assets that are showing as capitalised in the financial statements should also be capitalised in the RAMM database.</li> </ul>	2018	<p><b>Matter outstanding: to follow up during our final visit</b></p> <p>Due to the timing of the District Council's valuation processes and our interim audit we have been unable to perform any testing around roading additions, disposals or revaluations.</p> <p>This will be reviewed during our final audit visit. It will be important that the valuation work has been completed and reviewed ahead of the final visit.</p>
<p><b>Expenditure cut-off</b></p> <p>We recommend that a review of invoices received after balance date to ensure all expenditure is recorded in the correct period.</p>	2018	<p><b>Matter outstanding: to follow up during our final visit</b></p> <p>The work will be completed during our final audit visit.</p>

Recommendation	First raised	Status
<b>Redundant network user accounts</b> We recommend that the review of user accounts and access rights at the network level is performed to ensure that unused accounts are disabled.	2018	<b>Matter outstanding: to follow up during our final visit</b> Due to the timing of our interim audit we have been unable to perform any testing of redundant network user accounts. This work will be completed during our final audit visit.
<b>Retaining signed employee agreement</b> We recommended that management ensures they retain a copy of the employee's signed employee agreement and ensure this is signed prior to the person starting employment. We also recommended that signed salary review letters are retained by the District Council.	2018	<b>Matter outstanding</b> From our interim audit testing, we found one employee who had not signed their employment agreement prior to commencement, however the agreement was signed by the CEO.
<b>Valuation of plant, property and equipment</b> We recommended that asset condition data should be incorporated into the asset management system. This will ensure that the assets are consistently and objectively valued.	2017	<b>Matter outstanding: to follow up during our final audit visit</b> Management are considering incorporating condition information in the asset management database. However this will not be completed until the upgrade of the asset management system.
<b>Valuer's recommendations</b> We recommended that the District Council implements the recommendations identified by the Roding valuers in 2014, 2016, 2017 and 2018.	2014	<b>Matter outstanding: to follow up during our final audit visit</b> The Opus roading valuation continues to raise three key recommendations to the District Council. We understand that management are continuing to progress the recommendations.
<b>Beneficial</b>		
<b>Project management</b> We identified the following areas for improvement: <ul style="list-style-type: none"> <li>The project management framework was last updated in 2009. This project management framework and guidance should be reviewed.</li> <li>There needs to be more clear guidance on what projects are</li> </ul>	2018	<b>To follow up during our final audit visit</b> A review of the project management activity is now underway. We understand that post implementation reviews of significant projects has now being included as part of the Audit Committees roles and responsibilities.

Recommendation	First raised	Status
<p>required to be managed by the project management team.</p> <ul style="list-style-type: none"> <li>• The scope of projects need to be more clearly defined so management can ensure the projects have achieved what they set out to achieve.</li> <li>• Post implement reviews over projects should be performed, documented and reported.</li> <li>• The project management system is currently being maintained on a spreadsheet. To gain efficiency and reduce the likelihood of human error it would be beneficial to improve this project management reporting system to enable better reporting. This system should be integrated with financial management and asset management and could be considered as part of the planned updates to the asset management systems.</li> </ul>		
<p><b>Review of employee Code of Conduct</b></p> <p>We recommended that the Employee Code of Conduct is reviewed and updated.</p>	2016	<p><b>Matter outstanding</b></p> <p>A review of the Code of Conduct is underway but has not yet been finalised or adopted.</p>
<p><b>Controls over employee masterfile changes</b></p> <p>We recommended that the District Council implements an effective review process for employee masterfile changes. This could be achieved by implementing a one-up approval step in the system.</p> <p>Alternatively, a masterfile change report can be obtained from IT and independently reviewed on a regular basis, for example, after each pay run.</p>	2015	<p><b>Matter outstanding</b></p> <p>A payroll masterfile report is now being generated from the system. However we noted this report is not independently reviewed by the Manager of People and Capability.</p> <p>We recommend that a review procedure is incorporated into the process.</p>

## Implemented or closed recommendations

Recommendation	First raised	Status
<p><b>Whangarei Waste Limited (WWL)</b></p> <p>We recommend that the District Council (as a shareholder of WWL) should ensure they prepare financial statements as required by the WWL Shareholders' Agreement, or remove this requirement from the WWL Shareholders' Agreement.</p>	<p><b>2018</b></p>	<p><b>Matter cleared</b></p> <p>We have been informed that the Partners of WWL have passed a resolution stating that WWL do not have to prepare financial statements nor have an audit.</p> <p>We understand the District Council also passed a resolution in April 2019 stating that WWL do not have to prepare financial statements (we also noted that a resolution was passed in August 2018 to confirm that WWL was an exempt CCO. This exemption is applicable until August 2021).</p>
<p><b>Review of delegation manual and policy</b></p> <p>We recommended a review of the delegation manual is performed to ensure that the delegation manual is up to date.</p>	<p><b>2018</b></p>	<p><b>Matter cleared</b></p> <p>A review over the delegation manual and policy has been performed. A new delegation register was presented and adopted at the October 2018 Council meeting.</p>
<p><b>Procurement and contract management</b></p> <p>The Procurement policy is due to be updated and we recommended:</p> <ul style="list-style-type: none"> <li>• assigning responsibility for updating the policy;</li> <li>• clarifying how late tenders will be handled; and</li> <li>• clarifying the policy about the handling of gifts or hospitality from suppliers.</li> </ul>	<p><b>2014</b></p>	<p><b>Matter cleared</b></p> <p>An updated Procurement policy has been drafted. This also incorporates any feedback provided by internal audit. This policy was adopted at the September 2018 Audit and Risk Committee meeting.</p> <p>We have reviewed the updated procurement policy and provided some additional areas for improvement in section 3.3.</p>

## Appendix 2: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carry 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. 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 District Council of their responsibilities.</p> <p>Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the District Council.</p>
Auditing standards	<p>We carry out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements.</p> <p>The District Council and management are responsible for implementing and maintaining 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 the Debenture Trust Deed audit, which are compatible with those independence requirements.</p> <p>Other than the audit and these engagements, we have no relationship with or interests in the District Council or its subsidiaries.</p>
Fees	<p>The audit fee for the year is \$199,166, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period that will be charged include \$4,154 for the Debenture Trust Deed audit.</p> <p>To date, no other fees have been charged in this period.</p>
Other relationships	<p>To date, 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 or its subsidiaries that is significant to the audit.</p>

## AUDIT NEW ZEALAND

Mana Arotake Aotearoa

National office  
PO Box 99  
Wellington 6140  
Phone: 021 222 8211

[www.auditnz.govt.nz](http://www.auditnz.govt.nz)





## 4.6 External Audit Actions – June 2019

**Meeting:** Audit and Risk Committee  
**Date of meeting:** Wednesday 26 June 2019  
**Reporting officer:** Emily Thompson (Senior Audit and Risk Analyst)

### 1 Purpose

To report the status of outstanding actions from Councils' External Audits.

### 2 Recommendation

That the Audit and Risk Committee notes the status of the outstanding external audit actions.

### 3 Background

External audits are performed annually by Audit New Zealand. This report is to show the progress on the actions highlighted from the external audit reports. These will not be closed by Audit NZ until, at least, the next annual audit.

Recommendations resulting from these audits have been reported to the Audit and Risk Committee.

### 4 Discussion

This is the regular six monthly cycle to report progress on external audit actions to the committee. There are currently nine 'open' actions. Attachment one provides a summary of the actions and their status. Since the last report, Audit NZ have cleared 3 items.

### 5 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

### 6 Attachment

External Audit Actions – June 2019 Update



## External audit Issues Action plan progress - audit issues identified during recent and prior audits - last updated 07 June 2019 for A&amp;RC committee

Business Owner	Audit Ref	FY raised	Audit Recommendation	Current status and previous comments	Priority	Management's action plans	Implementation Timeframe	Progress @ 31 May 2019	Status
Jeff Devine	4.1	2018	<b>Improvement to roading processes</b> Processes around reconciling the accounting system and RAMM be improved.  From our review of roading additions in the accounting system (TechOne), we found these were not easily reconcilable to the additions in the RAMM database. We understand RAMM is used as the primary source for roading revaluations and therefore it is essential that additions between TechOne and RAMM are identifiable and reconcilable.	Our detailed observations include: • It was difficult to trace roading projects back to the roading assets capitalised within the RAMM database. This is because the project ID is not currently included in the RAMM database to trace back to the project for some additions. • The unit prices and overheads rates were not always consistent with the recent contract rates. • A new asset record was not always created within RAMM for all additions. • There were some contracts that had been identified as only operational contracts. However, from our additions testing there was costs from those contracts that were capitalised which suggests these contracts include a capital element to them. However did not found these in the capital commitments at balance date. • There was assets capitalised in the financial statements but were still included as work in progress in RAMM. We recommend that: • Processes are improved so that projects can be easily traced to assets capitalised within RAMM. • A formal review over the unit prices and overhead rates be performed to ensure that unit prices reflect the contracted amount. This will ensure that there is no significant difference between the contract amount and valuation unit prices. • For all new additions a record for that asset is added in RAMM or can easily be traced to an existing record. • A review over operational contracts to ensure if a proportion of the contracts are capitalised that a proportion of the contracts are also included as part of capital commitments. • All assets that are showing as capitalised in the financial statements should also be capitalised in the RAMM database.	Necessary	Management will consider the above observations and recommendations.	TBC	Matter outstanding: to follow up during Audit NZ final visit Due to the timing of the District Council's valuation processes and the interim audit Audit NZ have been unable to perform any testing around roading additions, disposals or revaluations. This will be reviewed during the final audit visit.	Open
Alan Adcock	4.2	2018	<b>Expenditure cut-off</b> A review of invoices received after balance date to ensure that all expenditure is recorded in the correct period.	From our expenditure sampling testing, we identified out of our sample of 22 there were two invoices that related to the 2017 financial year that had not been correctly accrued for. These transactions were incorrectly recorded in the 2018 financial year. The amounts were immaterial but could highlight an issue that expenditure is not always being captured in the correct period. We recommend that a review of invoices received after balance date to ensure all expenditure is recorded in the correct period.	Necessary	Management considers that appropriate controls and procedures are in place to ensure expenditure cut-off and end of year accruals are as accurate and complete as possible. We are restricted by deadlines to close the General Ledger to prepare the Annual Report in a timely manner. Thus, invoices processed/received after 20 July may not be accrued into the correct year.	TBC	Expenditure cut-off. We will again base our accruals on the 20th July payment run. We will perform a check of these to ensure cut-off is as accurate as we can. We will also have a time restriction where we will need to close the ledger off and old invoices can come in after the fact but we will do what we can. Audit NZ will complete a review of this during the final audit visit.	Open
Alan Adcock	4.3	2018	<b>Redundant network user accounts</b> A review of user accounts and access rights at the network level is performed to ensure that unused accounts are disabled.	We noted that a regular review of network user accounts and their associated access rights is performed. However, there are some log on accounts at the network level that have not been used since 2016. There are also a number of accounts that have not been used at all and were created as far back as 2013. System accounts that have not been used for an extended period of time is an indication that they are no longer required. If these accounts are left open, it increases the risk of unauthorised access to the District Council's systems. We recommend that the review of user accounts and access rights at the network level is performed to ensure that unused accounts are disabled.	Necessary	Management will consider the above recommendation and undertake a review of user accounts and access rights.	TBC	Matter outstanding: to follow up during Audit NZ final visit Due to the timing of the District Council's valuation processes and the interim audit Audit NZ have been unable to perform any testing of redundant network user accounts. This will be reviewed during the final audit visit.	Open
Jenny Antunovich	App1	2018	<b>Retaining signed employee contracts</b> We recommended that management ensure they maintain a copy of the employee's signed contract and ensure they receive a copy of the employees signed contract prior to the person starting employment.	<b>Status: In Progress</b> During our additional testing at final, we also identified that signed salary review letters are also not being maintained by the District Council. We will follow up on this matter at our interim visit next year to ensure that all signed contracts and salary review letters are being maintained.	Necessary		Jun-19	From the Audit NZ interim audit testing, they found one employee who had not signed their employment agreement prior to commencement, however the agreement was signed by the CEO.	Open
Alan Adcock	App 1	2018	<b>Whangarei Waste Limited (WWL)</b> We recommend that the District Council (as a shareholder of WWL) should ensure they prepare financial statements as required by the WWL Shareholders' Agreement, or remove this requirement from the WWL Shareholders' Agreement.	<b>Status: Outstanding</b> We have been informed that the Partners of WWL have passed a resolution stating that WWL do not have to prepare financial statements nor have an audit. While there is no direct impact on the Council, we are currently making enquiries as to whether a resolution is sufficient.	Necessary		Jun-19	Audit NZ have confirmed that this matter has been cleared	Audit NZ - Cleared

## External audit Issues Action plan progress - audit issues identified during recent and prior audits - last updated 07 June 2019 for A&amp;RC committee

Business Owner	Audit Ref	FY raised	Audit Recommendation	Current status and previous comments	Priority	Management's action plans	Implementation Timeframe	Progress @ 31 May 2019	Status
Simon Weston	App 1	2018	<b>Project management</b> We identified the following areas for improvement: • The project management framework was last updated in 2009. This project management framework and guidance should be reviewed. • There needs to be more clear guidance on what projects are required to be managed by the project management team. • The scope of projects need to be more clearly defined so management can ensure the projects have achieved what they set out to achieve. • Post implement reviews over projects should be performed, documented and reported. • The project management system is currently being maintained on a spreadsheet. To gain efficiency and reduce the likelihood of human error it would be beneficial to improve this project management reporting system to enable better reporting. This system should be integrated with financial management and asset management and could be considered as part of the planned updates to the asset management systems.	<b>Status: In progress</b> A review of the project management activity is now underway. Post implementation reviews of significant projects has now being included as part of the Audit Committees roles and responsibilities.	Beneficial		Dec-19	Audit NZ will be following up during their final audit visit this year. A review of the project management activity is now underway.	Open
Dom Kula	App 1	2018	<b>Review of delegation manual and policy</b> We recommended a review of the delegation manual is performed to ensure that the delegation manual is up to date.	<b>Status: In progress</b> A review over the delegation manual and policy has been performed. A new delegation register is in the process of being finalised and is expected to presented to the October 2018 Council meeting.	Beneficial	Review in progress. Expected to go to Council in October 2018	Nov-18	Audit NZ have confirmed that this matter has been cleared	Audit NZ - Cleared
Alan Adcock, Sue Miller	App 3	2014	<b>Procurement and contract management</b> We have made a number of recommendations on procurement and contract management. Please see our prior year management report for details. <b>FY - 15-16</b> <b>Procurement and risk management</b> The Procurement policy is due to be updated and we recommend: - assigning responsibility for updating the policy; - clarifying how late tenders will be handled; and - clarifying the policy about the handling of gifts or hospitality from suppliers. The Risk Management framework could be improved by making it clear who is responsible for ensuring that risk processes are being applied within the Council	<b>Status: In Progress</b> As part of our assessment of the Council's management control environment we reviewed the Council's Procurement policy and manual, and Risk Management framework. A contract management plan is already contained in the matrix in the policy, however the need to pursue less costly means is covered by the use of a variation to policy which must be signed off by a Leadership Team member which protects staff from taking an unauthorised route to procure. We will follow up again on the progress next year.	Beneficial	Council review of procurement policy in progress. Risk Management framework is adopted and in place.	Jul-18	Audit NZ have confirmed that this matter has been cleared. They have provided some additional areas for improvement as part of the Interim audit recommendations.	Audit NZ - Cleared
Jenny Antunovich	App 3	2016	<b>Review of employee Code of Conduct</b> We recommend that the employee Code of Conduct is reviewed and updated.	<b>Status: In Progress</b> The review of the Code of Conduct is underway. Consultation with staff is about to commence. Council agree to the recommendation; the staff code of conduct review is In Progress but delayed. The elected member code of conduct is also being reviewed at the start of the term and it is important that both the staff code and the elected member code are aligned.	Beneficial	The elected members have not yet adopted their code of conduct - once they have we will progress to the next step and consult with employees. Elected members chose not to adopt their code of conduct.	Dec-18	People & Capability team are undertaking a review of the staff code of conduct, a preliminary document has been put together. Consultation with staff and departments has not yet started due to other priorities.	Open
Gary Scott	2.2	2017	<b>Valuation of Property, Plant and equipment</b>	<b>Status: New</b> The Council revalued its roading and other infrastructure assets (such as water, wastewater, storm water, parks, solid waste and flood protection) as at 30 June 2017. We reviewed the scope of the valuation and are satisfied that the valuers and peer reviewers engaged were independent and appropriately qualified. We reviewed the assumptions and methodology applied in completing the valuations and discussed these assumptions with the valuers in order to gain comfort over the valuation movements. We recommend that asset condition data should be incorporated into the asset management system. This will ensure that the assets are consistently and objectively valued.	Necessary	Improvement of asset information is a continual process. Management will consider incorporating condition information in the asset management database to more fairly reflect asset condition as part of the future year revaluations.	Jun-18	The need for condition assessment data is a new Audit point for Hansen assets (Parks, Solid Waste, Flood Protection, Storm water, Waste and Waste). Improvement of asset information is a continual process. Management will consider incorporating condition information in the proposed asset management database, as part of the AMS project.	Open
Jenny Antunovich	App 3	2015	<b>Controls over employee Masterfile changes</b> We recommend that the Council implements an effective review process for employee Masterfile changes. This could be achieved by implementing a one-up approval step in the system. Alternatively, a Masterfile change report can be obtained from IT and independently reviewed on a regular basis, for example, after each pay run.	<b>Status: In Progress</b> The Human Resources team currently operate a paper based one up approval for payroll changes and are working with TechOne to build a simple Masterfile change report to automate this process. Council agree to the recommendation; the Human Resources team currently operate a paper based one up approval for payroll changes and are working with Technology one to build a simple Masterfile change report to automate this process.	Necessary	We are currently reviewing the Masterfile change process that Technology One are proposing. June 2017 Comment: TechnologyOne are developing a new Masterfile process. We are waiting for delivering so we can test it	Mar-18	A payroll Masterfile report is now been generated from the system. However Audit NZ have commented that this is not independently reviewed by the Manager - People and Capability. Audit NZ have recommended that a review process is incorporated into the process.	Open

External audit Issues Action plan progress - audit issues identified during recent and prior audits - last updated 07 June 2019 for A&RC committee

Business Owner	Audit Ref	FY raised	Audit Recommendation	Current status and previous comments	Priority	Management's action plans	Implementation Timeframe	Progress @ 31 May 2019	Status
Jeff Devine	App 3	2014	<b>Valuer's recommendations</b> We recommend that the Council implements the recommendations identified by the Roading valuers in 2014, 2016 and 2017.	<b>Status: In Progress</b> This year Opus performed a valuation of the Council's roading asset class. A number of recommendations were made by the valuer, refer to Opus' valuation report Section 5 Improvement Recommendations for details. Addition for 2017 report:	<b>Beneficial</b>	14 action plans at various stages of completion by end of March 2017. In report: The Council will continue to implement the valuers recommendations	Mar-18	9 of the 14 items have been completed. Of the remaining 5 items 4 items have been scoped and assigned resource to be completed prior to the Jun-18 valuation. Expected completion of these 4 items is May-18. The final item is a large project and is On Hold until later in the year pending scoping and resources. Confirmation of status from Scott Veresis: 1. Validation of bridge unit rates used in valuation. Review has been completed meeting to be held to discuss issues that have arisen and confirm rate change for bridge valuation. Still expected to be implemented in 2018 valuation 2. Modelling the impact of including subbase components in the valuation as a depreciable asset for the urban pavements to match how we actually treat these assets. Review complete has been accepted just need confer with Finance on impact. 3. Change in approach to Unsealed basecourse components given the change in approach in the AMP to treatment of unsealed roads. Modelling and draft impact report complete under review for acceptance to change the valuation approach. 4. Inclusion of Unsealed Wearing course component in the valuation process with change in asset management strategy to treat the unsealed network. Completed with item 3 above as has a relationship with the unsealed network valuation. 5. Full review of bridge componentisations, requires strip down of the bridge asset data management approach. Significant item time and resource impacts is on hold until late this year. Will consider implementation in the 2019 valuation.	Open



## 4.7 June 2019 – Risk Report

**Meeting:** Audit and Risk Committee  
**Date of meeting:** Wednesday 26 June 2019  
**Reporting officer:** Emily Thompson (Senior Audit and Risk Analyst)

### 1 Purpose

Provide an update to the committee on the current risks across the Council.

### 2 Recommendation

That the Audit and Risk Committee notes the Risk Report.

### 3 Background

Council has a risk management framework. The framework details how each department of Council can record and manage their risks. It must be noted that risk management is a subjective activity and the framework aims to provide some consistency on the use and ratings identified for risks.

The audit and risk analyst provides support to all departments to identify risks and recognize any controls they have in place, or intend to put into place around these risks. Department Managers manage their risks as part of the operational management of the department.

The audit and risk analyst collates all of the risk information and provides a risk report to every audit and risk committee. Historically this has been a matrix of the risk spread with some narrative around the higher risk items. Council's strategic risks are reported as appropriate and were last reported to this committee in September 2018.

At the Audit and Risk Committee in March 2019 the committee asked for more detail around the critical Council risks. This report provides that additional detail.

### 4 Discussion

Historically risks have been reported to this committee as a risk matrix showing the spread of risk across the organisation with narrative on specific or changing risks that are identified.

The current risk management framework, adopted in April 2016, provides the following scale for risk categories following assessment of the risks for likelihood and impact. This scale has been used to identify the critical risks for the organization which are included in the attached report.

Impact	Catastrophic	High	Critical	Critical	Critical	Critical
	Major	High	High	Critical	Critical	Critical
	Moderate	Medium	Medium	High	High	Critical
	Minor	Low	Low	Medium	High	High
	Insignificant	Low	Low	Low	Medium	High
		Rare	Unlikely	Possible	Likely	Almost Certain
Likelihood						

The attached report shows the current risk spread across the Council and details those that sit within the 'critical' section of the risk matrix.

## 5 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

## 6 Attachment

June 2019 – Risk Matrix and Detailed Critical Risks to Council



## June 2019 – Risk Matrix and Detailed Critical Risks to Council

Risk Matrix showing the spread of risks across the organization. This has been prepared for the Audit and Risk Committee June 2019.

The table below shows the residual risk to Council of the current identified operational risks. Please note that the health and safety risks are managed via a database portal and reported separately to the Audit and Risk Committee.

**Table one: Residual risk spread of current Council risks.**

Impact	Catastrophic	3	Nil	3	Nil	Nil
	Major	6	4	9	3	2
	Moderate	8	38	53	33	2
	Minor	13	46	67	20	12
	Insignificant	4	8	4	4	3
		Rare	Unlikely	Possible	Likely	Almost Certain
Likelihood						

It should be recognized that whilst there are 19 risks categorised as 'Critical' there are none in the top right hand area of the matrix. This means that whilst there are some risks that can cause catastrophic damage to Council the likelihood of their occurrence is possible or lower.

Using the definitions provided in the risk management framework the following lists the current critical risks across the organization, this doesn't include Strategic risks or Health and Safety risks as mentioned previously.

The current critical rated risks have been split by operational group and then aligned to the LTP activity group.

**Table two: Council's current critical rated risks**

LTP Activity Group	Risk description	Current Controls - What we are already doing about it	Future treatment - What we plan to do
<b>Group - Community</b>			
Community Facilities and Services_Venue and Events	Replacement of Lighting Towers at NEC Stadium	Costings submitted via LTP process, support will be 50% WDC and 50%NECT in the LTP to be completed yr. 3/4 2019 Lux level testing occurred, levels not favourable for HDD coverage, therefore replacement brought forward to align to future televised events.	Procurement process underway to ensure replacement in time for Women's Rugby World Cup 2021. Remains a high risk due to short timeframes to procure, consent, design and build.
<b>Group - Corporate Services</b>			
Corporate Services_Support Services  Infrastructure	Construction assessment of vested assets	Design assessments and construction inspections carried out by qualified personnel. Most sites visited but only a small proportion of all assets inspected during construction	Reduce. Ensure vested assets are constructed to high standard. Hold points for essential construction points. Ensure adequate capacity in team for construction assessments - may require additional WDC resources or third party assessments by consultant engineers. (Ref Marsden City example) See also BP-PLAN-6

LTP Activity Group	Risk description	Current Controls - What we are already doing about it	Future treatment - What we plan to do
Corporate Services_SupportServices	Internal Intrusion - Resulting in a virus or business outage, loss of data caused by an unknown threat	AM18022019 - user devices operating systems and antivirus software updated regularly. Phriendly phishing training deployed to whole organisation. Quarterly security meeting held to discuss best practice. Mitigate: In place: Monitoring of all cyber threat activity on a daily basis. Updating of all Anti-Virus software on a daily basis – scheduled and managed by all Cloud providers and onto desktop equipment. Intrusion detection provided on all PC's. Separate “ghost” network for public spaces. By policy no Systems Administrator privileges applied to any devices to allow free install of applications by users. System policies employed to reduce ability to download or access black listed sites. Continuity plans in place to recover data.	Under constant review. Currently going to market to look at Cyber insurance for Council as a way to mitigate potential losses.
<b>Group - Infrastructure</b>			
Infrastructure Corporate Services_Support Services	Unclear legal liability for Council engineering and development approvals	Construction supervisor in W&D team to oversee developer projects. However, insufficient resources to maintain adequate level of supervision. Env engineering standards in place, also bylaws. However no clear legal liability for Council. Internal Reference: BP-PLAN-4	Reduce. Consider options to improve internal processes and clarify legal liability issues (ref Marsden City example)
Infrastructure	Inadequate scoping of proposed projects for inclusion in LTP	Ad hoc scoping of projects, reliant on individual experience at a high level with no or little detail. Trying to put a cost estimate on this is a “Gut Feeling” approach.	Review job descriptions and role requirements against staff experience and knowledge New processes required for the establishment of new LTP projects, and a structured process for late projects e.g. through submissions.

LTP Activity Group	Risk description	Current Controls - What we are already doing about it	Future treatment - What we plan to do
Flood Protection  Stormwater  Water	Climate change impacts on weather events and sea level rise impact service delivery across Council and communities across the district	Currently part of expectations with in the 30 year plan. Regular monitoring on the progress and changes that are occurring. Climate Change adaptation working group in development. Local mitigation will not prevent predicted weather changes, so adaptation necessary.	Reduce impacts. Improvement through AMS project will help with condition data. Once data available look at engaging a modelling resource to work out the key areas of concern for this type of change to the Whangarei district. Additional work then required to consider options and way forward. Develop Council wide Climate Change Strategy and implement.
Stormwater	Reliance on attenuation to cater for growth impacts on SW network	Vested assets assessed on application and inspected during construction but often are poorly maintained (no additional maintenance budget). Also may be issues with inadequate attenuation or required upgrades to WDC SW system. Inadequate knowledge of system capacity to identify high-risk areas.	Reduce. Develop case for collection of SW DC charges to anticipate attenuation maintenance costs as well as future upgrades of network. Review of attenuation policy
Transportation	Funding provision	Workshops with developers of the DC programme, department guidance on best practice, process management document compiled to track how DC have been developed for Transport. Continued staff training.	Continue with existing controls, ensure continued review of database setup
Transportation	Unauthorised corridor activity	Council Policy requires Traffic Management Plan (TMP) and RON when working on the road.	Providing a utilities engineer, public education programme. Corridor manager and general roading staff observe the network to identify unauthorised activity, and undertake site audits of worksites for compliance and training.

LTP Activity Group	Risk description	Current Controls - What we are already doing about it	Future treatment - What we plan to do
Water	Risk of prolonged inability to supply potable water	In place: Demand management strategy. Network maintenance strategy. Comply with NZ dam safety guidelines and comprehensive dam safety review regime every 5 years. Emergency action plan, understood by stakeholder and shared with contractors. Consent renewals for intakes (rivers and streams etc.)	This is a wider risk for managing in Council. Maintenance of the contingency plans and the specific requirements of key customers (Hospital/ refinery). Assumption is there may be pockets of outages rather than wide spread issues (widespread would be covered by drought planning). Generators at key sites, Fairway Drive pump station upgrade to include a generator, What Valley Dam Chimney Drain project. Wairua River source and treatment at Poroti. Engineering Lifeline protocols for power restoration to key sites (Ruakaka)
Water	Current Whau Valley Treatment Plant - location	Relocation project has been initiated to move the WTP to the new Whau Valley Road site. Land purchase in progress and design in waiting Capital Project no. WS01-03 Whau Valley Upgrade	Continue with project activities to relocate Whau Valley treatment plant. Risk will be reduced once new WTP in operation. Project WhauValley W14-W21)
<b>Group - Planning and Development</b>			
Planning and Regulatory services – Building Control	Swimming pool inspections	Following identification of issue in March 2018 operation splash project was set up to work across the organisation to manage the response process regarding the lack of swimming pool audits in the preceding years. Audit process for all Whangarei District pools on the register (including notice to fix and support for owners)	Close watch on progress through first year of operation. Risk has been reduced but still a lot of work to complete so will remain as critical risk until further project work completed.

LTP Activity Group	Risk description	Current Controls - What we are already doing about it	Future treatment - What we plan to do
Planning and Regulatory Services_District Planning	Review of District Plan	Negotiation with external stakeholders (minister for the environment, the court and NRC) to ensure they are aware of the delays and process status. Appointed consultants to help work through the gaps and progress the review.	As work progresses then there will be fewer stakeholders involved - to be monitored and updated regularly.
Planning and Regulatory Services_District Planning	Access and updating of GIS data	Outsourcing of non-BAU and urgent GIS work. One resource internally able to update for District Plan data not GIS	Liaison between internal teams to develop the GIS strategy (currently in draft). This includes all actions that relate to the implementation of this strategy -
<b>Group - Strategy and Democracy</b>			
Governance and Strategy _Democracy and Assurance	Delegation register not fit for purpose	Delegation Register has undergone complete review during 2018. The delegation training socialised the content with nearly 200 staff and allowed for over 100 queries to be raised for confirmation. These are still being worked though so there is still a residual risk. Any single delegation could cause a significant impact therefore the rating for this control is still critical until clean-up of the register can be completed. (expected June 2019)	Continue to monitor the delegation register in line with changes to staff and legislation. These changes are driven by the departments and supported by the 6 monthly attestation that they have remained aware of legislative changes in their areas.

**Table three: Councils strategic risks**

Area	Risk Description	Current Mitigation – what we are doing about it.
Data	Data sets across all systems and databases in Council are not currently aligned and interactive. This leads to lack of visibility of knowledge across management teams. Specific risk around GIS skill set within council	Current work on Trilogy part 2, and focus in multiple departments on development of better datasets to improve modelling and knowledge.

Area	Risk Description	Current Mitigation – what we are doing about it.
Staffing	Recruitment and retention of staff in public sector in Whangarei, with specific concerns around specialist roles, contract termination clauses and loss of organisational knowledge.	Limited. We can only employ people who live or are willing to move to Whangarei. The direction of the district and its development is helping to encourage skills into the area.
Regional growth	Growth of region is faster than identified in current Statistics New Zealand projections. Leading to lack of budget on development of core infrastructure and amenities to support the population.	Monitor and work with facts as they are identified.
Elections	Following a local government election, a number of Councillors on the Council may change leading to a change in direction for the organisation.	Limited. Until changes occur we are not able to respond. Changes will be managed as part of the election process and on boarding of new Councillors.
Way of working	Due to increase in the use of social media as a rate payer's communication tool, there is a risk that Council is not meeting the needs of the ratepayers in timely response to their concerns. This includes infrastructure real time maintenance information as well as 24/7 social media presence.	External facing departments are investigating ways to improve mobile working for infrastructure teams (to provide real-time information) and how staff can support the rise in social media communications coming into Council.
Litigation	Due to the increasingly litigious environment there is a potential for increase cases being brought against council. Some are appropriate however some are not.	Limited. Litigations brought against Council are being dealt with on a case by case basis with external legal support provided as required. Some transfer of risk under the insurance programme (statutory liability, public liability and professional indemnity insurances).
Government Policy Changes	Central government policy can be changed at any time outside the legislative process, this can impact Councils budget and the operational activities of the organisation. There is also potential for regulatory changes made through orders from Council which can cause significant costs to ratepayers with little consultation and no useful rights of appeal.	Limited: Until changes occur we are not able to respond. There is a process to engage following legislative changes but changes to central government policy have to be managed by the senior and operational leadership teams as they occur.





**RESOLUTION TO EXCLUDE THE PUBLIC**

That the public be excluded from the following parts of proceedings of this meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

1.	The making available of information would be likely to unreasonably prejudice the commercial position of persons who are the subject of the information. {Section 7(2)(c)}
2.	To enable the council (the committee) to carry on without prejudice or disadvantage commercial negotiations. {(Section 7(2)(i))}.
3.	To protect the privacy of natural persons. {Section 7(2)(a)}.
4.	Publicity prior to successful prosecution of the individuals named would be contrary to the laws of natural justice and may constitute contempt of court. {Section 48(1)(b)}.
5.	To protect information which is the subject to an obligation of confidence, the publication of such information would be likely to prejudice the supply of information from the same source and it is in the public interest that such information should continue to be supplied. {Section 7(2)(c)(i)}.
6.	In order to maintain legal professional privilege. {Section 2(g)}.
7.	To enable the council to carry on without prejudice or disadvantage, negotiations {Section 7(2)(i)}.

**Resolution to allow members of the public to remain**

If the council/committee wishes members of the public to remain during discussion of confidential items the following additional recommendation will need to be passed:

**Move/Second**

"That \_\_\_\_\_ be permitted to remain at this meeting, after the public has been excluded, because of his/her/their knowledge of Item \_\_\_\_\_.

This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because \_\_\_\_\_.

*Note:*

*Every resolution to exclude the public shall be put at a time when the meeting is open to the public.*