AUDIT AND RISK COMMITTEE

AGENDA

Meeting to be held

FRIDAY 16 FEBRUARY 2018

8.30am

In the Manawatū District Council Chambers,
135 Manchester Street, Feilding

Dr Richard Templer
Chief Executive
MEMBERSHIP

Chairperson

Councillor Stuart Campbell

Deputy Chairperson

Councillor Barbara Cameron

Members

Her Worship the Mayor, Helen Worboys
Councillor Barbara Cameron
Councillor Stuart Campbell
Councillor Hilary Humphrey
Councillor Phil Marsh
Councillor Howard Voss

External Member – John Fowke
ORDER OF BUSINESS

1. MEETING OPENING

2. APOLOGIES

3. CONFIRMATION OF MINUTES

   Draft resolution

   That the minutes of the Audit and Risk Committee meeting held 10 November 2017
   be adopted as a true and correct record.

4. DECLARATIONS OF INTEREST

   Notification from elected members of:

   4.1 Any interests that may create a conflict with their role as an elected
       member relating to the items of business for this meeting; and

   4.2 Any interests in items in which they have a direct or indirect pecuniary
       interest as provided for in the Local Authorities (Members’ Interests) Act 1968

5. NOTIFICATION OF LATE ITEMS

   Where an item is not on the agenda for a meeting, that item may be dealt with at
   that meeting if:

   5.1 The Council by resolution so decides; and

   5.2 The Chairperson explains at the meeting at a time when it is open to the
       public the reason why the item is not on the agenda, and the reason why
       the discussion of the item cannot be delayed until a subsequent meeting.

6. OFFICER REPORTS

   6.1 AUDIT REPORT FOR YEAR ENDED 30 JUNE 2017

       Report of the General Manager – Corporate and Regulatory dated 2
       February 2018. Members of Audit New Zealand will be in attendance to
       speak to their report.

   6.2 LONG TERM PLAN 2018-28 – CONSIDERATION OF AUDIT ARRANGEMENTS

       Report of the General Manager – Community and Strategy dated 8
       February 2018.

   6.3 INTERNAL AUDIT STATUS REPORT

       Report of the General Manager – Corporate and Regulatory dated 7
       February 2018.
6.4 INTERNAL AUDIT – MOUNT LEES PROPERTY AND LEASE

6.5 REVIEW OF POLICIES – PROTECTED DISCLOSURES POLICY

6.6 REVIEW OF POLICIES – SENSITIVE EXPENDITURE POLICY

6.7 QUARTERLY REPORT TO 31 DECEMBER 2017
Report of the General Manager – Corporate and Regulatory dated 30 January 2018

7. CONSIDERATION OF LATE ITEMS

8. NOTIFICATION OF ITEMS FOR NEXT MEETING

9. PUBLIC EXCLUDED BUSINESS

COMMITTEE TO RESOLVE:
That the public be excluded from the following parts of the proceedings of this meeting, namely:

a) Corporate Risk Register – Key Risks, Controls and Treatments

That 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:

<table>
<thead>
<tr>
<th>General subject of each matter to be considered</th>
<th>Reason for passing this resolution in relation to each matter</th>
<th>Grounds under Section 48(1) for the passing of this resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Corporate Risk Register – Key Risks, Controls and Treatments</td>
<td>Section 7(2)(j) - prevent the disclosure or use of official information for improper gain or improper advantage.</td>
<td>Section 48(1)(a) - the public conduct of the relevant part of the proceedings would be likely to result in a disclosure of information for which good reason for withholding that information would exist, under Section 7 of the Local Government Official Information and Meetings Act 1987.</td>
</tr>
</tbody>
</table>
This resolution is made in reliance on Section 48(1) of the Local Government Official Information and Meetings Act 1987 and the particular interests protected by Section 6 or Section 7 of the Act which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public as specified above.

10. **MEETING CLOSURE**
Minutes of a meeting of the Audit and Risk Committee held on Friday 10 November 2017, commencing at 8.30am in the Manawatu District Council Chambers, 135 Manchester Street, Feilding.

PRESENT:    Cr Stuart Campbell (Chairperson)
   Cr Barbara Cameron
   Cr Phil Marsh
   Cr Howard Voss
   Mayor Helen Worboys
   Mr John Fowke

APOLOGIES:     Cr Hilary Humphrey

IN ATTENDANCE:     Cr Michael Ford
   Luele Driescher (Internal Auditor)
   Richard Templer (Chief Executive)
   Shayne Harris (General Manager – Corporate and Regulatory)
   Tracey Hunt (Acting General Manager - Community and Strategy)
   Hamish Waugh (General Manager – Infrastructure)
   Frances Smorti (General Manager – People and Culture)
   Michael Hawker (Project Delivery Manager)
   Colleen Morris (Chief Financial Officer)
   Paul Stein (Communications Manager)
   Doug Tate (Community Facilities Manager)
   Nichole Ganley (Governance Support Officer)

ARC 17/037 MEETING OPENING

The Chairperson declared the meeting open.

ARC 17/038 APOLOGIES

RESOLVED

That the apologies from Councillor Hilary Humphrey and Councillor Phil Marsh for lateness be accepted.

Moved by: Councillor Howard Voss
Seconded by: Councillor Barbara Cameron

CARRIED
ARC 17/039 CONFIRMATION OF MINUTES

RESOLVED

That the minutes of the Audit and Risk Committee meeting held 11 August 2017 be adopted as a true and correct record.

Moved by: Councillor Howard Voss
Seconded by: John Fowke

CARRIED

ARC 17/040 DECLARATIONS OF INTEREST

There were no declarations of conflict of interest.

ARC 17/041 NOTIFICATION OF LATE ITEMS

There were no items of late business notified.

Councillor Phil Marsh joined the meeting at 8.37am

ARC 17/042 INTERNAL AUDIT CHARTER

Report of the General Manager – Corporate and Regulatory dated 3 November 2017 presenting the proposed Internal Audit Charter for approval.

RECOMMENDED

That the Council adopts the Internal Audit Charter for the provision of the internal auditing function for the Manawatū District Council.

Moved by: Her Worship the Mayor Helen Worboys
Seconded by: John Fowke

CARRIED
ARC 17/043 INTERNAL AUDIT SERVICE LEVEL AGREEMENT

Report of the General Manager – Corporate and Regulatory dated 3 November 2017 presenting the Internal Audit Service Level Agreement for the provision of Internal Audit services from 1 October 2017 to 30 September 2020.

RECOMMENDED

That the Council adopts the Internal Service Level Agreement for the provision of Internal Audit services by Manawatū-Wanganui Local Authority Shared Services Limited for the period 1 October 2017 to 30 September 2020.

Moved by: Councillor Barbara Cameron
Seconded by: Councillor Phil Marsh
CARRIED

ARC 17/044 PROPOSED INTERNAL AUDIT PLAN

Report of the General Manager – Corporate and Regulatory dated 1 November 2017 presenting for approval the Internal Audit plan for the 2017-18 year.

RECOMMENDED

That the Council approves the Internal Audit plan for the 2017-18 year as set out in Appendix 1 to the report of the General Manager – Corporate and Regulatory dated 1 November 2017.

Moved by: Councillor Phil Marsh
Seconded by: Her Worship the Mayor Helen Worboys
CARRIED

ARC 17/045 REVIEW OF SENSITIVE EXPENDITURE

Report of the General Manager – Corporate and Regulatory dated 1 November 2017 presenting the summary of key findings and recommendations arising from the review of Sensitive Expenditure for the 2016-17 year.

RECOMMENDED

That the Council receives the Sensitive Expenditure Internal Audit report dated September 2017 and notes the management response to recommendations and actions to be taken.

Moved by: Councillor Howard Voss
Seconded by: Her Worship the Mayor Helen Worboys
CARRIED
ARC 17/046 CORPORATE RISK REGISTER - ANALYSIS


RESOLVED

That the Audit and Risk Committee receives the report “Corporate Risk Register – Analysis”.

Moved by: Councillor Howard Voss
Seconded by: Councillor Barbara Cameron

CARRIED

Her Worship the Mayor Helen Worboys left the meeting at 10.00am

ARC 17/047 FIRST QUARTER REPORT TO 30 SEPTEMBER 2017


RECOMMENDED

That the Council receives the First Quarter Report and the Capital Expenditure Report for the period ended 30 September 2017.

Moved by: Councillor Phil Marsh
Seconded by: Councillor Howard Voss

CARRIED

ARC 17/048 CONSIDERATION OF LATE ITEMS

There were no late items for consideration.

ARC 17/049 NOTIFICATION OF ITEMS FOR NEXT MEETING

The following items were notified for including on the agenda for the next meeting of the Audit and Risk Committee:

• External Audit Management Report
ARC 17/050 MEETING CLOSURE

The meeting closed at 10.03am

Approved and adopted as a true and correct record:

--------------------------------------------------
CHAIRPERSON                                      DATE
--------------------------------------------------
Audit and Risk Committee

Meeting of 16 February 2018

Business Unit: Corporate and Regulatory
Date Created: 02 February 2018

Audit New Zealand Report on Annual Audit of Manawatū District Council for year ended 30 June 2017

Purpose

To present Audit New Zealand’s management for the year ended 30 June 2017.

Significance of Decision

The Council’s Significance and Engagement policy is not triggered by matters discussed in this report.

Recommendations

That the Audit and Risk Committee receives the Audit New Zealand management report on the Manawatū District Council for the year ended 30 June 2017.

Report prepared by:
Allie Dunn
Governance Team Leader

Approved for submission by:
Shayne Harris
General Manager - Corporate and Regulatory

1 Contribution to the Council Vision and Council Outcomes

1.1 Relationship to the Council Outcomes that underpin the Council’s Vision:

Connected, vibrant and thriving Manawatū – the best rural lifestyle in New Zealand

| Manawatū District will improve the natural environment, stewarding the district in a practice aligned to the concept of kaitiakitanga. | The Manawatū will attract and retain residents. | Manawatū district develops a broad economic base from its solid foundation in the primary sector. | Manawatū and its people are connected via quality infrastructure and technology. | Manawatū’s built environment is safe, reliable and attractive. | Manawatū District Council is an agile and efficient organisation. |
2 **Background**

2.1 Following completion of their annual audit, the Council’s auditors Audit New Zealand provided their report in which they set out their observations on key issues and the associated risks that had been identified in the process of conducting the audit.

2.2 Management is given the opportunity to respond to the suggestions made in the Audit report, and these are then incorporated into their final report.

2.3 The attached report from Audit New Zealand identifies a number of areas that were recommended for improvements, and the management responses to each of these matters is set out within the report.

3 **Discussion and Options considered**

3.1 Audit New Zealand identified twelve areas where they recommended improvements be made. Three of these matters were categorised as needing urgent attention. Audit’s observations related to the following areas:

- Revenue undercharged for development contributions;
- Classification of work-in-progress;
- Legal review of validity of rates;
- Recording of IT infrastructure changes;
- Update of fraud policy;
- Undertake fraud assessment;
- Performance measures – drinking water standards;
- Scope of future peer reviews;
- Unit rates for future roading valuations;
- Completeness of assets subject to valuation;
- Review of Makino Aquatic Centre redevelopment project; and
- Establish process to investigate and resolve retention balances.

4 **Operational Implications**

4.1 Some operational changes in processes or controls have been made, as disclosed in the management’s response to the recommendations that the auditors have made.

5 **Financial implications**

5.1 There have been no matters identified in the audit that are believed to present a financial risk to Council.

6 **Statutory Requirements**

6.1 There are no statutory requirements associated with this matter.
7 Delegations

7.1 The Audit and Risk Committee’s Terms of Reference include the responsibility for reviewing significant audit findings and recommendations, as well as monitoring progress on recommendations within the audit report.

8 Consultation

8.1 There are no community consultation requirements associated with this report.

9 Cultural Considerations

9.1 There are no cultural considerations associated with this report.

10 Conclusion

10.1 The attached report from Audit New Zealand contains recommended actions arising from Council’s recent audit, along with management responses and details of actions that have been taken to date on the audit recommendations. The Audit and Risk Committee are asked to note the findings outlined in the attached audit report and the associated management responses.

11 Attachments

- Audit New Zealand report on Manawatū District Council audit for year ended 30 June 2017
Report to the Council on the annual audit of

Manawatu District Council

for the year ended 30 June 2017
Key messages

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

Audit opinion

Our opinion will include a qualification on the statement of service performance as our work was limited with respect to the comparative year.

Significant audit risks

Mandatory performance measures

We reviewed this system and are satisfied that the issues we identified last year had been resolved.

Feilding wastewater treatment plant

We are satisfied that the costs associated with the project have been correctly accounted for including an assessment as to whether only valid costs were included in current work in progress. We did however note errors in the timing of the recognition of the assets constructed.

Revaluation of property, plant and equipment

We are satisfied that property plant and equipment is materially correct. We recommend that the District Council consider and implement recommendations 4.3.1, 4.3.2 and 4.4.1 in the table below.

Makino Aquatic Centre redevelopment project

In considering whether the management of the project met our expectations we found a number of areas where we feel the project would have benefitted from some improvement or greater attention. Once underway, the project was reasonably well managed and governed. We assessed that there was a high degree of reliance on the external contractor engaged by the District Council. Such an approach exposes the District Council to project, reputational, and financial risk. The same approach on future similar construction based projects may not lead to such a favourable outcome. We have made a number of recommendations for the District Council to consider going forward.
Issues identified during the audit

The following table summarises our recommendations and their priority:

<table>
<thead>
<tr>
<th>Item</th>
<th>Recommendation</th>
<th>Urgent</th>
<th>Necessary</th>
<th>Beneficial</th>
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<tbody>
<tr>
<td>3.1</td>
<td>Revenue undercharged for development contributions</td>
<td></td>
<td></td>
<td>✓</td>
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<td></td>
<td>The District Council implements a formal review process to ensure that changes</td>
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<td></td>
<td>made to fees and charges are accurate and that the District Council is</td>
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<td></td>
<td>collecting all of the revenue it is entitled to collect.</td>
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<td>3.2</td>
<td>Work-in-progress classification</td>
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<td></td>
<td>✓</td>
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<td></td>
<td>Capital projects should be capitalised on the date that the asset becomes</td>
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<td></td>
<td>available for use.</td>
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<td></td>
<td>A quarterly review of work-in-progress balances be performed by the asset</td>
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<td>managers and the Chief Financial Officer.</td>
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<td>3.3</td>
<td>Recording of IT infrastructure changes</td>
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<td>✓</td>
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<td></td>
<td>A process be established and followed for logging and approval of all changes</td>
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<td></td>
<td>to IT infrastructure and systems.</td>
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<td>3.4</td>
<td>Rates</td>
<td></td>
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<td>✓</td>
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<td></td>
<td>We recommend that the District Council seeks a legal review on the validity of</td>
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<td></td>
<td>its rates for the 2017/18 period.</td>
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<tr>
<td>3.5</td>
<td>Update fraud policy to align with best practice guidance</td>
<td></td>
<td>✓</td>
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<tr>
<td></td>
<td>That the fraud policy is updated to align with the Office of the Controller</td>
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<td></td>
<td>and Auditor General's (OAG) best practice guidance.</td>
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<tr>
<td>3.6</td>
<td>Need to assess where the District Council may be susceptible to fraud</td>
<td></td>
<td>✓</td>
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<td></td>
<td>Undertake a formal fraud assessment to assess:</td>
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<td></td>
<td>• transactions, activities, or locations that may be susceptible to fraud;</td>
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<td></td>
<td>and controls/processes the District Council has in</td>
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<td></td>
<td>place to mitigate those risks.</td>
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<tr>
<td>3.7</td>
<td>Retentions under investigation</td>
<td></td>
<td>✓</td>
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<tr>
<td></td>
<td>The District Council establishes a formal process to investigate and resolve</td>
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<td></td>
<td>retention balances that it is withholding from contractors.</td>
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<tr>
<td>Item</td>
<td>Recommendation</td>
<td>Urgent</td>
<td>Necessary</td>
<td>Beneficial</td>
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<tr>
<td>4.1</td>
<td><strong>Performance measures – drinking water standards</strong>&lt;br&gt;The District Council implement procedures to ensure that it is able to collect samples in a timely and regular manner in order to allow for testing and that compliance with the various criteria of the standards be prioritised.</td>
<td></td>
<td>✓</td>
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<tr>
<td>4.3.1</td>
<td><strong>Scope of the peer review</strong>&lt;br&gt;That the scope of future peer reviews includes a detailed review of the asset management systems for errors and omissions and a detailed review of the valuation results to assess their accuracy.</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>4.3.2</td>
<td><strong>Unit rates for roading valuation</strong>&lt;br&gt;That the District Council develops a schedule of unit rates paid for its roading contracts and uses the average of these rates as the unit rate in future valuations.</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>4.4.1</td>
<td><strong>Completeness of assets subject to valuation</strong>&lt;br&gt;The District Council reviews the valuation report and asset schedule for future revaluations to ensure that all assets have been revalued and the valuations are accurate.</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td><strong>Review of Makino Aquatic Centre redevelopment project</strong>&lt;br&gt;Recommendations arising from our review of the project in Appendix 4.</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

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

**Thank you**

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

Clint Ramoo  
Audit Director  
31 January 2018
Contents

1  Our audit opinion ........................................................................................................................................5
2  Control environment ..................................................................................................................................5
3  Matters identified during the audit ..........................................................................................................6
4  Matters identified during audit planning ................................................................................................12
5  Status of previous recommendations ....................................................................................................19

Appendix 1: Explanation of priority rating system ......................................................................................20
Appendix 2: Uncorrected misstatements ......................................................................................................21
Appendix 3: Recommendations made by peer reviewer ..............................................................................22
Appendix 4: Detailed findings regarding our review of the Makino Aquatic Centre redevelopment project .................................................................................................................................25
Appendix 5: Status of previous recommendations ........................................................................................29
Appendix 6: Mandatory disclosures ............................................................................................................34
1 **Our audit opinion**

1.1 **We plan to issue a modified audit opinion**

We plan to issue a modified audit opinion on 19 October 2017 upon receipt of the signed financial statements and letter of representation.

Our opinion will include a qualification on the statement of service performance as our work was limited with respect to the comparative year.

1.2 **Uncorrected misstatements**

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management the misstatements that we found, other than those which were clearly trivial. The significant misstatement that has not been corrected is set out in Appendix 2 along with management’s reasons for not adjusting this misstatement. We are satisfied that this misstatement is not material.

2 **Control environment**

We performed a high-level review of the control environment. We considered the overall attitude, awareness, and actions of the Council and management in establishing and maintaining effective management procedures and internal controls. Our assessment of these areas was based on regular discussions with key members of senior management, members of the Council, and our accumulated knowledge of the District Council’s business.

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

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

**Internal controls**

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

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

2 Control has operated effectively throughout the period tested.
2.1 Risk of management override of controls

Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it could result in a risk of material misstatement due to fraud.

We have reduced the risk to an acceptable level through the following audit work:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewed accounting estimates for biasness and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud.
- Reviewed valuations and confirmed that movements tied through to the financial statements.
- Confirmed management’s assessments of the fair value of significant community loans.
- Maintained an awareness of any significant transactions that were outside the normal course of business, or that otherwise appear to be unusual given our understanding of the Council and its environment, and other information obtained during the audit.

Based on the work performed and controls in place, we assessed that the risk of material misstatement, due to management override, is sufficiently mitigated.

3 Matters identified during the audit

In the course of completing the audit, we have identified a number of areas where the District Council should make improvements. The following recommendations are designed to strengthen the control environment or processes within the District Council.

3.1 Revenue undercharged for development contributions

Recommendation

The District Council implements a formal review process to ensure that changes made to fees and charges are accurate and that the District Council is collecting all of the revenue it is entitled to collect.

Findings

We reviewed the system for collecting development contributions and identified that the District Council was not charging the correct amount. The fees for development contributions were set in the 2015-25 Long Term Plan and are stated as being GST exclusive. When developers were invoiced for their fees the same amount as per the LTP was charged but as the GST inclusive amount.
The amount of uncollected revenue for the year was $250,000. Approval has been received from the CEO not to collect this amount from developers.

The District Council also has a number of deferred payment arrangements with developers. The fees have already been charged based on the incorrect amount. The CEO has also approved not to amend the fees charged for deferred payment arrangements. Management has estimated the uncollected revenue for the 2017/18 year as being another $250,000.

We have confirmed that the fees charged for new development contributions in 2017/18 have been updated and are correct.

**Management comment**

*We thank the auditors for bringing this error to our attention.*

### 3.2 Work-in-progress classification

**Recommendation**

We recommend that for capital projects, the assets are recognised on the date that the asset becomes available for use. This recognition is to occur within the relevant asset management system as well as the fixed asset register within the financial reporting system. This will require clear communication between the infrastructure and finance teams to ensure that the appropriate assets are recognised as completed and in operation at the correct dates.

Further, it is recommended that a quarterly review of work-in-progress balances be performed by the asset managers and the Chief Financial Officer. This review should focus on the validity of the total work-in-progress balances and whether any of these amounts should be recognised as completed assets.

**Findings**

As part of our review of the year-end work-in-progress balance, we identified that a significant amount of completed assets were recorded as work-in-progress. This was especially evident within the wastewater work-in-progress.

This misstatement resulted in property, plant and equipment being understated and work-in-progress overstated, which misrepresents the actual position of the District Council’s capital projects at year-end. In addition, the depreciation expense for the year is understated because depreciation is to be charged once an asset is available for use as prescribed by PBE IPSAS 17 *Property, plant and equipment*.

The misstatement in depreciation expense is estimated to be $263,000 based on analysis of the quarter during the year in which the assets became available for use. Management has decided not to adjust for this error.

**Management comment**

*Management plans to conduct quarterly reviews of WIP in order to improve the accuracy of the classification.*
3.3 **Recording of IT infrastructure changes**

**Recommendation**

We recommend that a process be established and followed for logging and approving changes to IT infrastructure and systems.

**Findings**

There is no documented IT change management process in place and not all IT infrastructure changes are being logged in the IT service desk system.

This raises the risk that changes may be made which result in an incident or outage, and tracking back to the cause of the incident will be more difficult.

**Management comment**

*Management will document the IT change management process and ensure all changes are recorded.*

3.4 **Rates**

**Recommendation**

We recommend that the District Council seeks a legal review on the validity of its rates for the 2017/18 period.

This review should include all aspects of the rates setting process, including the relevant section of the 2017/18 Annual Plan, the 2017/18 Rates Resolution, and the Rating Information Database (RID).

**Findings**

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

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

Because rates are set at the beginning of the year to which they relate, we aim to perform our audit work on them at the earliest possible opportunity. For our work on 2017/18 rates this was immediately after the completion of our audit for the 2016/17 year.
The District Council should ensure it has appropriate processes in place, including seeking legal advice where appropriate, to ensure compliance of its rates and rating processes with the LGRA.

During our work on 2017/18 rates we have identified the following potential issues:

- **Feilding CDB Redevelopment Targeted Rate** – in the 2017/18 Annual Plan it says ‘The capital value of the property is multiplied by $0.00190’ but in the Rates Resolution it says ‘0.00190 cents rate in the dollar of capital value…’. The wording is inconsistent and the inclusion of the word ‘cents’ means that the dollar amount in the resolution is actually $0.0000190.

  *The change in wording was not correctly captured in the resolution. Following the legal advice received in relation to the drainage scheme issue raised in the prior year, the risk is perceived as minimal and no further action has been taken. This issue has been corrected in the 2018/19 resolution.*

- **Himatangi Beach Wastewater Disposal - Capital Contribution Targeted Rate** – The categories of rateable land are five year term, ten year term, and twenty year term. These categories do not comply with the LGRA Schedule 2.

  *To be discussed during our legal review.*

- **Rongotea Water Supply - Capital Contribution Targeted Rate** – The categories of rateable land are three year term, five year term, ten year term, and twenty year term. These categories do not comply with the LGRA Schedule 2.

  *To be discussed during our legal review.*

- **Uniform Targeted Rates** – there is a table in the 2017/18 Annual Plan and 2017/18 Rates Resolution that splits out the rates by the activities they fund. In the District Council’s RID the Uniform Targeted Rates are charged as one rate, not as individual targeted rates for each activity.

  *This is the same disclosure reviewed by our solicitor during the preparation of the 2015-25 Long Term Plan. However, going forward Council will be charging an Uniform Annual General Charge and the funded activities are not listed.*

- **For the following rates the 2017/18 Annual Plan and 2017/18 Rates Resolution refer to the area upon which the rate will be charged. There does not appear to be a clear definition of where these areas are, and there are no maps provided that show the areas. Providing a map of an area upon which rates will be charged is good practice.**

  - **Ultra-Fast Broadband Targeted Rate** – the wording for this rate refers to the ‘industrial area’.

    *To be considered and discussed during our legal review.*
Rural Land Drainage Targeted Rates – a series of targeted rates are set for the Bainesse, Makowhai, Maire, and Oroua Downs ‘drainage districts’.

This has been considered but any maps we have will be at such a high level that would not be meaningful.

Wastewater Disposal Targeted Rate – under Restricted it says ‘This includes Mount Taylor’.

The rate is based on the service received and not the location. Mount Taylor is only used as an example.

Water Supply Targeted Rates - Urban – also refers to Mount Taylor.

The rate is based on the service received and not the location. Mount Taylor is only used as an example.

- Volumetric Water Charges – the 2017/18 Annual Plan has amounts charged every three months. The 2017/18 Rates Resolution has the same amounts, but also has amounts under the heading ‘Annually’ (which equal four times the three monthly amount). This may be confusing for some ratepayers.

To avoid confusion for the 2018/19 year we have changed the headings in both the Rating System and the Rates Resolution to read.

Invoiced (every 3 months) and Annual Cost.

- Volumetric Wastewater Charge – this is not a rate but it is included in the Rating System section of the 2017/18 Annual Plan.

It is noted that these are not rates but are additional disclosure in the Annual Plan to ensure completeness.

- Differences in wording throughout – there are differences in the way things are worded in the 2017/18 Annual Plan and 2017/18 Rates Resolution. An example is the General Rate. The 2017/18 Annual Plan says ‘The capital value (CV) of the property is multiplied by the rate in the $ that the property category is assigned to’. The 2017/18 Rates Resolution says ‘Under section 13(2) and 14 of the Local Government (Rating) Act 2002, a general rate is made on every rating unit, assessed on capital value of all rateable land in the district and on a differential basis, in accordance with Council’s Funding Impact Statement’. Whilst these may mean the same thing there is no reason for them to be stated differently.

Different language is due to the Rates Resolution being written for legal compliance and the Annual Plan is written for the public. Compliance will be included as a part of our legal review.
We have also enquired with management about the date of the last legal review of the rates setting process. The last time a review was conducted was prior to adopting the 2015-25 Long Term Plan.

Management comment

Both the Rates Resolution and the Rating System in the LTP for the 2018/19 rates have been sent to our solicitors for review. The Rating Information Database has not yet been updated with the 2018/19 rates.

3.5 Fraud policy

Recommendation

We recommend that the fraud policy be updated to align with the Office of the Controller and Auditor General’s (OAG) good practice guidance.

Findings

We reviewed the District Council’s fraud policy for alignment with the OAG’s best practice guidance.

We noted that a “system for undertaking regular review of transactions, activities or locations that may be susceptible to fraud” is not specifically mentioned in the District Council's fraud policy and there is currently no system in place to undertake this type of review.

Management comment

Management will work with our Internal Auditor to develop a process to review the transactions and will update the policy. Management notes the guidance from the SFO that most Fraud is identified by whistle blowers rather than audits.

3.6 Fraud assessment

Recommendation

We recommend that the District Council undertake a formal fraud assessment to assess:

- transactions, activities, or locations that may be susceptible to fraud; and
- controls/processes the District Council has in place to mitigate those risks.

Findings

From discussions with the management it was identified that no formal fraud risk assessment has been performed to assess where the District Council may be susceptible to fraud.

A formal fraud assessment is intended to assess:
transactions, activities, or locations that may be susceptible to fraud; and

controls/processes the District Council has in place to mitigate those risks.

The responsibility for the prevention and detection of fraud rests with the Council and management through the implementation and continued operation of adequate internal control systems. In order to discharge this responsibility the Council and management should be aware of where the District Council may be susceptible to the risk of fraud and to design controls to mitigate those risks.

Fraud, by its nature, always attracts a great deal of interest irrespective of the scale of the fraud. Invariably questions are asked about how the fraud took place and whether the controls designed to stop fraudulent activity were operating effectively.

In the public sector the interest in fraud is heightened because public funds are involved, and because those individuals entrusted with public funds are expected to exhibit the highest standards of honesty and integrity. Because of the increased scrutiny it is especially important that the District Council have an active fraud risk assessment process in place.

Management comment

Management will work with our Internal Auditor to undertake a Fraud assessment.

3.7 Retentions under investigation

Recommendation

We recommend that the District Council establishes a formal process to investigate and resolve retention balances that it is withholding from contractors.

Findings

At year-end the District Council had a balance of $1.06 million of retentions that it is withholding from contractors in line with the terms of its contracts. Included in the total amount is $162,000 of retentions which relate to old contracts and which management believes are unlikely to be claimed by contractors. If the District Council is not required to pay these retentions they should be recognised as revenue.

As a good citizen, the District Council should make a concerted effort to settle any issues related to these retentions.

Management comment

Management will work towards settling these issues. If there are retentions left after such efforts have been exhausted they will be taken as revenue.

4 Matters identified during audit planning

In our audit arrangements letters dated 31 August 2017, we identified the following significant audit risks. Our findings in relation to these matters are included below.
4.1 Mandatory performance measures

During our 2015/16 audit, we found that the District Council had not implemented systems that enabled reporting on all of the mandatory measures promulgated by the Department of Internal Affairs. As a result we issued a qualified audit opinion on the statement of service performance.

At 1 July 2016 the District Council implemented a new system for reporting on the mandatory measures that it could not report on last year. We reviewed this system and are satisfied that the issues we identified last year had been resolved.

We also made recommendations in last year’s report to the Council for improvements to other systems for collecting data. These recommendations have been adopted by the District Council.

We note that during the year, due to insufficient samples being taken, the District Council did not comply with the drinking water standards for bacteria. Furthermore, we note that the Feilding water scheme did not demonstrate compliance with the protozoa criteria in March and May 2017 while a number of other water schemes are non-compliant for this criterion.

We recommend that the District Council implement procedures to ensure that it is able to collect samples in a timely and regular manner in order to allow for testing and that compliance with the various criteria of the standards be prioritised.

4.2 Feilding wastewater treatment plant (WWTP)

The District Council has been upgrading the WWTP over a number of years as outlined in the 2015-2025 Long Term Plan.

We identified this as a significant risk for our audit due to the financial significance of the overall upgrade project, and past resource consent and project management issues. We reviewed the costs incurred during the year to ensure these have been correctly accounted for, that only valid costs were included in current work in progress, and the District Council’s project management processes for the project, including project governance.

We tested a sample of costs incurred for the various aspects of the project. We are satisfied that the costs were capital in nature. The majority of the costs we tested were initially recorded in work in progress. We discussed the classification of these costs with management and identified that a large amount of the costs were for completed assets that were in use. Following our discussions management capitalised these costs. We are satisfied that at the end of the period they were classified correctly.

We reviewed the remaining balance in work in progress for indicators of impairment. No indicators were identified so no formal impairment assessment was performed by management.

We discussed project governance with the Audit and Risk Committee. From our discussions and from a review of meeting minutes we are satisfied that management is regularly updating those charged with governance on the projects’ progress.
4.3 Revaluation of infrastructure assets

The District Council’s infrastructure assets are revalued annually at the beginning of each year in accordance with the District Council’s accounting policy.

As PBE IPSAS 17 Property, Plant and Equipment no longer requires internal revaluations to be subject to external peer review, the District Council has chosen to obtain an independent peer review every third year rather than annually. A peer review was performed by consultants MWH over the revaluations as at 1 July 2016.

To gain assurance over the valuations we completed the following audit work:

- Performed an analytical review over movements in asset classes at a component level, and obtained explanations for significant movements.
- Tested a sample of components from the Asset Management System (AMS) back to supporting documentation.
- Reviewed the useful lives of a sample of components to ensure compliance with the District Council’s accounting policy on useful lives.
- Reviewed methodology documented in the valuation reports.
- Reviewed the results of the peer review, and obtained an assurance letter from the peer reviewer.
- Reviewed the reasonableness of the key assumptions.
- Reviewed the process to ensure that all assets were valued.

We are satisfied that the revaluations of infrastructure assets are materially correct.

During our review of the valuations we did however identify two issues. These are set out below.

4.3.1 Scope of the peer review

Recommendation

We recommend that the future scope of peer reviews includes a detailed review of the Asset Management Systems for errors and omissions and a detailed review of the valuation results to assess their accuracy.

Findings

The scope of the peer review was to look at and report on:

- Consistency between the reports for Roading and Utilities and their methodologies where appropriate;
• Comparison with best practice from NAMS\(^3\) and current practice across the industry;

• High level audit on the figures and values produced; and,

• Raise any potential issues that audit may comment on.

We were concerned that the scope of the peer review was too narrow, and should have included a more detailed review of the AMS and of the actual values produced. To mitigate the risk to our audit we have performed additional audit work on these aspects of the valuations.

The peer reviewer has made a number of recommendations for improvements to future valuations. These are set out in Appendix 3. We discussed the recommendations with the peer reviewer and we are satisfied that the recommendations do not materially affect the valuations.

**Management comment**

*Management will review the pros and cons of the current annual evaluation of assets and determine if the process should be continued.*

### 4.3.2 Unit rates for roading valuation

**Recommendation**

We recommend that the District Council develops a schedule of actual unit rates paid for its roading contracts and use the average of these rates as the unit rate in future valuations.

**Findings**

The unit rates used in the roading valuation are based on nationally consistent rates set in the AMS. The rates were reviewed by staff in the roading team and adjusted based on their professional judgement to align with the District Council’s actual contract rates and current industry standards.

We tested a sample of unit rates back to actual unit rates paid for work in the previous year. For three of the unit rates tested there was a significant difference between the unit rates used in the valuation and the actual rates the District Council has paid.

We discussed this issue with the peer reviewer and they were satisfied that there is nothing in the valuation in relation to unit rates that appears either too high or too low. We have accepted the peer reviewer’s judgement on this matter.

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\(^3\) New Zealand Asset Management Support (NAMS) is an industry organisation established to promote asset management through the development of best practice guidelines and training.
Management comment

We note the Auditors are satisfied with the peer reviewer’s judgment.

4.4 Revaluation of land and building assets

The District Council’s land and building assets are revalued every three years in accordance with the District Council’s accounting policy. The valuation of land and buildings as at 30 June 2017 was carried out by Quotable Value Limited (QV).

To gain assurance over the valuation we completed the following audit work:

- Reviewed the valuation report from QV, and obtained an assurance letter from the valuer.
- Reviewed the assumptions and methodology employed by QV to ensure they were appropriate and result in a valuation which is in line with the requirements of PBE IPSAS 17 Property, Plant and Equipment.
- Reconciled the source data to the valuation schedule from QV to ensure all assets had been revalued.
- Performed an analytical review over movements in assets, gaining explanations for significant movements.

We are satisfied that the revaluation of land and building assets is materially correct.

During our review of the valuation we did however identify one issue, as set out below.

4.4.1 Completeness of revalued assets

Recommendation

We recommend that the District Council reviews the valuation report and asset schedule for future revaluations to ensure that all assets have been revalued and the valuations are accurate.

Findings

As part of our review of the valuation report we noted that a number of assets had not been revalued. This included a large park ($525,000) and a pathway ($300,000). Our enquiries revealed that the valuer had omitted the park from the valuation in error and that the valuer was not made aware of the improvements to the pathway.

Due to the errors identified the valuation report and asset schedule was not finalised until 26 September 2017.

Management comment

Management notes the correction.
4.5 Makino pool redevelopment

**Recommendation**

We recommend that

- The District Council ensure future viability and desirability of projects are supported by a clear justification for the project through an up to date business case or similar documentation. This should be kept up to date throughout the life of the project to ensure that it remains justified, particularly where cost increases may impact the cost/benefit of the project.

- The commencement of any project should be supported by a project plan which sufficiently clearly defines and confirms the scope of the project, how it can be delivered and managed together with defined roles and responsibilities.

- Clear project critical success factors should be determined at the project justification stage and monitored against throughout and at the end of the project. It is essential that a project has specific, well defined and measurable benefits identified so that the District Council can ensure the benefits used to justify the investment in the project are delivered in practice.

- The District Council should consider the use of formal independent Project Quality Assurance arrangements to help provide comfort that the project is being conducted appropriately and complies with management standards and policies.

- The District Council ensures has its own framework for monitoring overall project progress.

- The District Council clearly defines the change management approval process including where appropriate the definition and application of tolerance levels for such changes or deviations from plan.

- The District Council ensures an overall project level risk assessment is conducted from the start and a risk register maintained throughout the project.

- Ensure the governance and accountability structure in place for the project continues through to the formal project closure approval.

**Findings**

The project to redevelop the Makino Aquatic Centre was completed during the year.

Given the significance of the project for the District Council (both reputational and financial) we engaged our specialist audit assurance services team to review key aspects of the project. This included procurement, contract management, and project management. The findings of the review are set out below. The full report is in Appendix 4.
It is reasonable to consider that the project was a success as it delivered on time, in line with budget and we understand to the required quality although we recognise this will be formally assessed through a Post Implementation Review (PIR) to be conducted by Internal Audit. But with the limited up-to-date project justification it will prove difficult to judge whether the project overall is a success. The ultimate test is whether the project has delivered the benefits that outweigh the cost of the investment. We would expect the PIR to conclude on that.

In considering whether the management of the project met our expectations we found a number of areas where we feel the project would have benefited from some improvement or greater attention. Once underway, the project was reasonably well managed and governed. We assessed that there was a high degree of reliance on the external contractor engaged by the District Council. Such an approach exposes the District Council to project, reputational, and financial risk. The same approach on future similar construction based projects may not lead to such a favourable outcome.

We also tested the accounting treatment of the costs related to the project. The costs incurred on the project were correctly capitalised upon completion of the project. We reviewed the useful lives attributed to significant components and are satisfied that they are in line with the District Council’s accounting policy on useful lives.

**Management Comment**

We thank the audit team for the feedback received from the specialist project auditor. We will incorporate consideration of the recommendations into our final Makino project closeout review and assess the implications for our organisational approach to project management.

We do however wish to record our disappointment at the complete lack of engagement by both the specialist project auditor and the wider audit team with the Makino Redevelopment Project Sponsor (the General Manager – Community and Strategy), the Chief Executive and the Governance team regarding project oversight, governance and reporting.

We consider that a discussion by the audit team with those mentioned would have provided greater clarity about the management and governance of the project and would have given MDC management the opportunity to share the lessons learned from the project including those more widely applicable to our organisational approach to managing projects. This was an opportunity missed by the audit team in our view.

### 4.6 Community loan to Manawatu Community Trust

We reviewed the accounting treatment of the interest free loan made by the District Council to the Manawatu Community Trust. This included reviewing assumptions made about the loan by the District Council and re-performing the calculation of the fair value of the loan.

We are satisfied that the accounting treatment was correct and the value of the loan is appropriately disclosed in the financial statements.
4.7 Actual renewals and capital expenditure below forecasts

In prior years we identified that the District Council had significantly under spent on its renewals and new capital expenditure budget.

We identified this as a risk because budget carry forwards have the potential to impact on the District Council’s ability to deliver the levels of service it has committed to deliver. It can also cause cost escalation issues for the District Council if projects are not completed in a timely manner.

Performance has improved from the prior year. The District Council has spent 85% of its capital budget. We discussed significant under spends on some individual projects with management. From our discussions we understand that the majority of the under spend was a conscious decision and was not merely due to under delivery.

We are satisfied that the current underspend did not impact on the financial statements or levels of service delivered. We will continue to monitor the District Council’s performance in this area and any potential effects on the services delivered.

5 Status of previous recommendations

The status of each matter that was outstanding in last year’s report to the Council is summarised in Appendix 5.

Summary of action taken against previous years’ recommendations:

<table>
<thead>
<tr>
<th>Number of recommendations from previous years’ audits</th>
<th>Current status</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>Matters that have been resolved</td>
</tr>
<tr>
<td>5</td>
<td>Progress is being made, but not yet fully resolved</td>
</tr>
<tr>
<td>6</td>
<td>No progress has been made</td>
</tr>
</tbody>
</table>

This summary needs to be read in conjunction with the status of recommendations raised in previous years’ management reports as detailed at Appendix 5.
Appendix 1: Explanation of priority rating system

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

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

<table>
<thead>
<tr>
<th>Urgent</th>
<th>Needs to be addressed urgently</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major improvements required</td>
<td>These recommendations relate to a significant deficiency that exposes the District Council to significant risk. Risks could include a material error in the financial statements and the non-financial information; a breach of significant legislation; or the risk of reputational harm.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Necessary</th>
<th>Address at the earliest reasonable opportunity, generally within 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvements are necessary</td>
<td>These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness that could undermine the system of internal control or create operational inefficiency.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Beneficial</th>
<th>Address, generally within 6 to 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some improvement required</td>
<td>These recommendations relate to deficiencies that result in the District Council falling short of best practice. These include weaknesses that do not result in internal controls being undermined or create a risk to operational effectiveness. However, in our view it is beneficial for management to address these.</td>
</tr>
</tbody>
</table>
Appendix 2: Uncorrected misstatements

<table>
<thead>
<tr>
<th>Current year misstatements</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Equity</th>
<th>Financial Performance</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dr (Cr)</td>
<td>Dr (Cr)</td>
<td>Dr (Cr)</td>
<td>Dr (Cr)</td>
<td></td>
</tr>
<tr>
<td>Depreciation expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$263k</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td></td>
<td>($263k)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total parent</td>
<td></td>
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<td></td>
<td>$263k</td>
</tr>
<tr>
<td>Total group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes

1. Relates to depreciation on assets not capitalised when available for use.

Management comment:
Appendix 3: Recommendations made by peer reviewer

Recommendations made in peer reviewer’s report on the roading valuation

The following recommendations were made by the peer reviewer in Section 2.2 of their report:

- Where Council have a practicing construction policy use this to optimise all roads in the network not only those with unknown pavement depths.

- Split Subbase and base course and report them separately.

- Pavement type of unsealed in the treatment length table should be used to value wearing course as data in the surfacing table is inadequate.

- MDC need to update the default construction dates for all assets before their next valuation run.

- The ages of the kerb and channel should relate to the ages applied to the pavement.

- Annual checks need to be done to identify any new assets, material types that have been added in the last year. Amend RAVM to price these new assets.

- Ensure the right asset component is used to price assets. With signs ADS and IDS signs are costlier to replace than the price assigned to guide signs.

- MDC should review their drainage rates, in view of the rates applied in the utilities valuation for the same pipe sizes.

- Check all roads that do have shoulder are in the database as there is a potential 36km shortfall between the length of the network and the combined shoulder and kerb and channel length.

- Four railings require length information to value, this needs to be resolved.

- It is recommended that an evidence based total useful life is extracted from maintenance activity for railings. The lives used are potentially too high.

- Those asset types that are depreciated are to be reported separately from those in the markings table that are not

- There are a number of markings that are not valuing correctly (136 records with a replacement cost of $0.00) that are identified as local authority owned. These need to be fixed.

- The total useful lives of islands should match that of the pavement.

- Concrete footpath in the RAVM setup needs to be amended to include basecourse.
• In the drainage table the use of “Other” needs to be discouraged and actual asset type used.

• The bridge culverts require a culvert component to value correctly as do the bridges require a deck.

• Berms and Features need to be added to Table 4 in the MDC valuation report.

• It is recommended that Council investigate the actual lives achieved for railings and streetlights as they are they considerably different from what is expected.

• MDC are missing elements of a good valuation from the NAMS guidelines. These should be included in the next valuation report.

• Audit have asked, recently, for data on a specific contract number and the information that relates to that from RAMM. It is recommended that Council do a check to ensure contract data has been entered into RAMM to make this potential request easy to answer.

• A simple improvement plan is suggested for any future valuation reports.

Recommendations made in peer reviewer’s report on the utilities valuation

The following recommendations were made by the peer reviewer in Section 2.2 of their report:

• The Council’s assumptions relating to missing data also needs to be stated in the addendum.

• Check the criteria to distinguish a stormwater rural roadside drain from a transportation drain are clear

• Set actual minimum remaining useful lives and use these to calculate annual depreciation where assets have reached the end of their useful lives and are still in use.

• Council should review its approach to valuing for annual depreciation when assets are at the end of their lives but still in service.

• As the LTP is reviewed at periods greater than the valuation the LTP will need to be amended with the new lives from the valuation.

• Discussion on unit rates used in the valuation are discussed at the start of the annual valuation process for consistency.

• Decommissioning is not stated as an element of the replacement rates, this needs to be accounted for where appropriate.

• Add assumptions for assets with no construction date or asset size/model/type or other gaps in the data that would stop an asset from valuing, not just material.

• The Valuation report results require Total Accumulated Depreciation to be calculated in the results table.
• Quantities of each asset type, are to be reported either in a separate table or included with the final results.

• A comparison between TUL used in the valuation and those in the management plan is required in the report.

• Remove the rounding in tables 6-2 to 6-4 of the report.

• There would be benefit in duplicating the improvement plan and formula used in calculating replacement cost, depreciated replacement cost and annual depreciation in the final valuation report. It ensures the valuation report is whole if read in isolation from the addendum.
Appendix 4: Detailed findings regarding our review of the Makino Aquatic Centre redevelopment project

Background

The Makino Aquatic Centre (MAC) redevelopment is a significant project for MDC and the District, both financially and reputationally. It was also one that was being considered to set the standard for future Council projects to follow, so we decided in 2015 to review this project as part of our audit. We were not able to conclude our review of the project by the end of last year’s audit due to the lack of availability of the Project Manager and some of the documentation we required to conclude our review. As a result we have continued to follow progress with the project during 2016/17.

Our approach

We met with the Community Facilities Manager (the MAC Project Manager) in August 2015 to get some background to the project, an overview of how it was being managed and a status update.

Some of the project documentation we requested was shared with us via Dropbox in December 2015. Following our review of this documentation, we had several attempts to contact and meet with the Project Manager. Following requests by email, further documentation was made available to us in Dropbox in July 2016.

We met again with the Project Manager on 5 September 2016 to get a project status update, discuss our initial review observations and to confirm the remaining information and documentation we required. Michael Hawker, MDC Project Delivery Manager and Ernest Bernard MDC Internal Auditor were also present for the start of the meeting.

The remaining documentation we requested and final status update was provided to us on 7 December 2016.

Our audit included a review of the documentation provided and discussions and clarifications with the Project Manager. We assessed whether the management of the project met our good practice expectations considering the following areas:

- What mechanisms were in place to judge whether the project was desirable, viable and achievable (the justification)?
- How were the project accountability and responsibility structures implemented and maintained?
- How was progress and delivery of the project monitored?
- Was there an appropriate process for completion of the project?

Our findings and where applicable, recommendations under each of these areas are set out below:
Project justification

The project has had a long inception period of around 12 years. In that time various, strategic documents have been prepared including:

- Initial justification work performed by MDC in 2009/10
- A business case in March 2013 prepared by Strategic Leisure (NZ) Ltd building on the earlier work
- An Aquatic Services Review (ASR) in November 2014 as part of the 2015 LTP round (and in accordance with Section 17A Local Government Act).

The original budget in the 2012 LTP was $3.2m which included covering the outdoor pool. Later budgets for the outdoor pool indicated $6m for that element alone so a phased approach was introduced with the outdoor pool to be considered separately later. The project budget to cover Phase 1 was increased to $4.5m in June 2014 and then again in August 2015 to $5.3m following the contractor tender process.

The Strategic Leisure business case considered, through various scenarios and benchmarking with equivalent industry and regional facilities, whether the expected operational costs from phase 1 would be covered by expected resulting increased revenue. It notes that MDC should test the extent to which the capital and increased maintenance costs would be covered by expected revenue increases. However we saw no evidence of that having been done. Neither was there a clear conclusion or recommendation from this business case.

Overall, while many aspects we would expect to be covered in such a business case or equivalent document have probably been addressed in some form at some point in time over the long gestation period of this project, some have not. Such areas include optioneering, consideration of risk and robust benefits analysis. It is challenging where a project has such a long gestation period but good practice would see a final justification document prepared that helps inform the final decision to proceed or not. It would support the ultimate decision to proceed with the project, bringing together and updating all previous justifications prepared together in one document. This is particularly important where the budgeted costs have been changing over time.

Recommendation

Ensure future viability and desirability of projects are supported by a clear justification for the project through an up to date business case or similar documentation. This should be kept up to date throughout the life of the project to ensure that it remains justified, particularly where cost increases may impact the cost/benefit of the project.

Project structure of accountability and responsibilities

From a formal project planning perspective, a Project Plan had been prepared in 2012 which covered the proposed team and organisation structure well but this was clearly out of date by the time the project actually commenced. We would also expected resourcing for the project to be regularly reviewed throughout particularly where key resources have significant non-project responsibilities. There was no evidence of this having been done despite resourcing being clearly identified as a risk for the project almost from the start.
The 2014 ASR set out proposed changes to the MAC performance measures which would have been relevant for measuring the success of the project. We also understand from the Project Manager that an increase in the Learn to Swim capacity and enrolment were key success criteria. However in the absence of an updated business case or project plan this was not addressed anywhere in formal project documentation.

There were no formal project Quality Assurance arrangements in place. An initial high level review by internal audit in September 2015 raised some recommendations based on the start-up of the project. And the intent was for some on-going project assurance from internal audit but this did not occur due to the departure of the internal auditor. We recognise that the constructor prepared and applied a Project Quality Plan and a Quantity Surveyor was engaged however both of these are from a construction perspective rather than independent QA for MDC’s overall MAC project.

**Recommendations**

The commencement of any project should be supported by a project plan which sufficiently clearly defines and confirms the scope of the project, how it can be delivered and managed together with defined roles and responsibilities.

Clear project critical success factors should be determined at the project justification stage and monitored against throughout and at the end of the project. It is essential that a project has specific, well defined and measurable benefits identified so that the council can ensure the benefits used to justify the investment in the project are delivered in practice.

*MDC should consider the use of formal independent Project Quality Assurance arrangements to help provide comfort that the project is being conducted appropriately and complies with management standards and policies.*

**Managing progress and delivery**

A project programme was used throughout to monitor progress of the MAC construction work elements and also formed part of the contractor’s regular report to MDC. The programme covered key work components and deadlines. This is positive but meant there was considerable reliance on the constructor for managing, monitoring and reporting against the programme. It also only covered the construction aspects of the project whereas good practice would also see monitoring against a plan covering the wider aspects of the project from MDC’s perspective.

There were monthly Project Control Group (PCG) meetings and Project Steering Group (PSG) meetings which as well as the programme monitoring referred to above constituted the framework for generally monitoring progress and dealing with any issues, risks or variations. Overall this appeared to work well despite not always achieving the intended monthly frequency. Regular Project Status Reports were also prepared for the purpose of keeping Council informed which reported the status and progress of the project against key project metrics of Scope, Quality, Time and Cost among others.

The only evidence of a formal risk management assessment was a risk register prepared by Create in February 2016. The matrix covers our expectations but is very much a construction based risk assessment. We would expect a further or expanded risk assessment from a MDC project perspective. As noted above, risk was an agenda item at the PSG meetings so at least appears to have been considered throughout the project although apparently not supported by a project-wide risk register.
When considering the handling of changes to the project our impressions is that any change was dealt with as an exception and considered by the PCG and PSG. While on the one hand that ensures complete control, on the other it risks drowning governance in a level of detail which may not warrant their attention and creates possible risk to the programme if there is a long lead time in obtaining such approvals. Good practice would see better definition up front around the handling of changes including the setting of tolerances which determine the level of escalation and approval required.

**Recommendations**

*Ensure MDC has its own framework for monitoring overall project progress.*

*Clearly define the change management approval process including where appropriate the definition and application of tolerance levels for such changes or deviations from plan.*

*Ensure an overall project level risk assessment is conducted from the start and a risk register maintained throughout the project.*

**Project closure**

The redeveloped facility re-opened at the end of July and we understand that practical completion occurred at the end of 2016 but we have not seen any evidence of formal closure of the project. A final PCG meeting was held 9 December to confirm closure of some final minor operation issues however the last PSG meeting was held in May. It would be good practice to at least have a final PSG meeting to confirm closure of risks, issues, successful handover to operations and approve closure of the project.

We understand that a project team debrief was held at the end of December and that internal audit plan a project Post Implementation Review as part of their 2016/17 audit plan. This is in line with good practice.

**Recommendation**

*Ensure the governance and accountability structure in place for the project continues through to the formal project closure approval.*
Appendix 5: Status of previous recommendations

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Current status</th>
<th>Priority</th>
<th>Management's proposed action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of robust review for journals posted</td>
<td>Outstanding</td>
<td>Urgent</td>
<td>Only four staff can approve and post journals: Chief Financial Officer, Strategic Accountant, Accounting Operations Manager, Senior Finance Officer. As a part of the current approval process, supporting documentation is reviewed, if relevant.</td>
</tr>
<tr>
<td>Current performance framework</td>
<td>Outstanding</td>
<td>Urgent</td>
<td>The Council is unable to change the performance framework between LTPs. A new Framework will be developed prior to June 2018</td>
</tr>
<tr>
<td>Valuation of rural stormwater drains</td>
<td>Outstanding</td>
<td>Necessary</td>
<td>This will be taken into account at the time of the next valuation.</td>
</tr>
<tr>
<td>Risk management</td>
<td>In progress</td>
<td>Necessary</td>
<td>As noted a detailed risk register is being developed and will be complete by the end of 2017.</td>
</tr>
<tr>
<td>Recommendation</td>
<td>Current status</td>
<td>Priority</td>
<td>Management’s proposed action</td>
</tr>
<tr>
<td>------------------------------------</td>
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<td>------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Procurement policy</strong></td>
<td>Outstanding</td>
<td>Necessary</td>
<td>Once all of Council is on our new document management system, this process will be completed. Estimated finish by end of June 2018.</td>
</tr>
<tr>
<td>The District Council continues to develop the associated policies, procedures and templates required to support the newly adopted procurement policy.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Contract management</strong></td>
<td>In progress</td>
<td>Necessary</td>
<td>This will be completed after the document management system is finished.</td>
</tr>
<tr>
<td>The District Council develops an organisation-wide contract management system, and develops appropriate policies and procedures to facilitate the oversight of contracts.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>IS Policies</strong></td>
<td>In progress</td>
<td>Necessary</td>
<td>IS policies will be stored in a central location in the new document management system. All new staff are trained in the policies as part of their induction. IS policies are also included in our IS training.</td>
</tr>
<tr>
<td>IS policies need to be adopted by management and staff need to be made aware of the new policies. Policies need to be available in an easily accessible space and new staff need to be trained in the policies.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Review Ozone users and their access levels</strong></td>
<td>Outstanding</td>
<td>Necessary</td>
<td>Although users are not marked “inactive” in Ozone, they have been removed from the “active” directory and therefore are unable access Ozone and other systems. Management will conduct an annual rolling review of Ozone users.</td>
</tr>
<tr>
<td>Annual reviews of users and their access levels be performed.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Asset management plans</strong></td>
<td>In progress</td>
<td>Necessary</td>
<td>Complete</td>
</tr>
<tr>
<td>We identified a number of areas where Council could improve its asset management planning, in particular around the accuracy of data relating to condition and performance.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Roading asset management plan has been updated and Audit New Zealand have been engaged separately to perform a review of this plan.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Recommendation | Current status | Priority | Management’s proposed action
--- | --- | --- | ---
Revaluation of asset classes | Outstanding | Necessary | We are still working with the Kiwitea Rural Water Scheme Trust to get a full inventory of assets

Perform formal restore tests from backup | In progress | Necessary | Management will ensure that documentation of future tests is stored on the document management system

Matters that have been resolved

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>After-hour calls</strong></td>
<td>Record the after-hour callout times into the customer request system (CRM) as the start time when the call was actually received by the after-hours provider, and that the District Council considers a process to review the accuracy of the input. This information can then be used to assess the performance of the contractor in terms of their response time.</td>
</tr>
<tr>
<td><strong>Rounding error for rural drainage rates</strong></td>
<td>The District Council seek legal advice about the validity of its rural drainage scheme rates.</td>
</tr>
<tr>
<td><strong>Payment dates for targeted rates for water supply</strong></td>
<td>Review rates resolution and, if appropriate, seek legal advice over whether the District Council’s rates resolution meets the requirements of section 24 of the Local Government (Rating) Act 2002 in relation to payment dates for targeted water rates.</td>
</tr>
<tr>
<td><strong>Review of delegation changes</strong></td>
<td>A review of changes to financial delegations is performed at least every six months. The review should be performed by someone who does not have access to make delegation changes in the system.</td>
</tr>
<tr>
<td>Recommendation</td>
<td>Outcome</td>
</tr>
<tr>
<td>----------------</td>
<td>---------</td>
</tr>
<tr>
<td>Councillors’ remuneration not in line with determination</td>
<td>We tested the Councillors’ remuneration and verified that it is in line with the determinations released during the year.</td>
</tr>
<tr>
<td></td>
<td>The District Council initiate a formal process to update Councillor’s remuneration each time a new Local Government Elected Members Determination is released by the Remuneration Authority. This should include a formal post input review of the new information input into the payroll system.</td>
</tr>
<tr>
<td>Support for unit rate calculations</td>
<td>The supporting documentation and calculations have been retained and a sample of unit rates was tested and verified as accurate and reasonable.</td>
</tr>
<tr>
<td>Ensure that all of the supporting information and calculations are retained so that average unit rates can be verified as accurate and reasonable.</td>
<td></td>
</tr>
<tr>
<td>Cash reconciliation – segregation of duties/unique logons</td>
<td>There is still no review of the end of day cash up at the main office. Management accepts the risk of not having a review, and instead places reliance on the bank reconciliation process to identify any variances between amounts receipted in the system and physical cash received.</td>
</tr>
<tr>
<td>A peer review be carried out by till operators when tills are cashed up, or alternatively, spot checks are implemented by internal audit to ensure that cash floats reconcile.</td>
<td>Each till operator now has their own unique logon ID.</td>
</tr>
<tr>
<td>Individual logons are used by all staff when using the front of house till. If cover is needed over a break period, the till should be set up as a shared till and the staff member performing cover be added as a till user for the period.</td>
<td></td>
</tr>
<tr>
<td>Archive of asset systems information</td>
<td>Raw data for both the utilities and roading valuations has been retained. The results of both valuations have been reconciled with the finance system.</td>
</tr>
<tr>
<td>An archive or snapshot be made of both the utilities and roading asset management systems at the time of the valuation, and that these files then be reconciled to the valuation report and fixed asset register (which includes the additions and disposals during the year) to ensure there are no variances.</td>
<td></td>
</tr>
<tr>
<td>Water assets – condition rating</td>
<td>Each asset has its own useful life based on industry knowledge and observations by the District Council of the actual lives of its assets.</td>
</tr>
<tr>
<td>The District Council reviews its policy for the condition rating and useful lives for “below ground assets”, and consider using deterioration modelling. Currently assets “under the ground” are set at 99 years useful life.</td>
<td>Assets without actual condition ratings have their default rating set to ‘Not Assessed’. The ‘age vs condition remaining life weighting’ is set 100% to age. This means that condition is not taken in to account in the valuation.</td>
</tr>
<tr>
<td>Recommendation</td>
<td>Outcome</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Utilities Infrastructure valuation methodology</td>
<td>The valuation methodology was peer reviewed by consultant MWH. They have concluded that “best practice has been followed where appropriate”. The year-end valuation process is documented in the District Council's valuation report. The report includes some high level comments on valuation changes. We have made enquiries with management to obtain more detailed explanations for the purposes of our audit.</td>
</tr>
<tr>
<td>Documentation of Valuation Procedures – Roading</td>
<td>A process map has been developed to document the steps taken to perform a valuation.</td>
</tr>
<tr>
<td>Improve procedures for deletion of users from systems when they leave</td>
<td>Our testing noted that IT are now being advised of users leaving and are removing access.</td>
</tr>
<tr>
<td>Contract for IT support</td>
<td>Quarterly performance reporting is now in place.</td>
</tr>
<tr>
<td>Improve service desk logging and reporting</td>
<td>The new SharePoint service desk system is now in use and all staff are encouraged to log their incidents and requests in the system.</td>
</tr>
<tr>
<td>Update and test business continuity and IT disaster recovery plans</td>
<td>Business Continuity Planning has been updated and a desktop exercise of business recovery was completed in late 2016. Learnings from that exercise have been actioned. IT have established a disaster recovery site at the Library and have tested switching computers over to that site.</td>
</tr>
</tbody>
</table>
## Appendix 6: Mandatory disclosures

<table>
<thead>
<tr>
<th>Area</th>
<th>Key messages</th>
</tr>
</thead>
</table>
| Our responsibilities in conducting the audit | We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.  
The audit of the financial statements does not relieve management or the Council of their responsibilities.  
Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the Council. |
| Auditing standards                        | 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.  
The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters. |
| Auditor independence                      | 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): Code of Ethics for Assurance Practitioners, issued by New Zealand Auditing and Assurance Standards Board.  
Other than the audit and an independent assurance review of the District Council’s Debenture Trust Deed, we have not provided any engagements for the District Council during the year ended 30 June 2017. In addition, we have no relationships with, or interests in, the District Council. |
| Other relationships                       | We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the District Council that is significant to the audit.  
We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council during or since the end of the financial year. |
| Unresolved disagreements                  | We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion. |
Audit and Risk Committee

Meeting of 16 February 2018

Business Unit: Community and Strategy
Date Created: 08 February 2018

Long Term Plan 2018-28 – Consideration of Audit Arrangements

Purpose

To consider and endorse the audit arrangements for the Manawatū District Council draft Long Term Plan 2018-28 as set out in the draft Audit Engagement Letter from Audit New Zealand.

Significance of Decision

The Council’s Significance and Engagement policy is not triggered by matters discussed in this report.

Recommendations

1. That the Audit and Risk Committee receives and endorses the audit arrangements as set out in the draft Audit Engagement Letter from Audit New Zealand dated 30 January 2018 and attached at Appendix 1.

2. That the Audit and Risk Committee notes that Mayor Helen Worboys will sign the final audit engagement letter on behalf of the Manawatū District Council.

Report prepared by:
Brent Limmer
General Manager - Community and Strategy

Approved for submission by:
Brent Limmer
General Manager - Community and Strategy
1 Contribution to the Council Vision and Council Outcomes

1.1 Relationship to the Council Outcomes that underpin the Council’s Vision:

*Connected, vibrant and thriving Manawatū – the best rural lifestyle in New Zealand*

<table>
<thead>
<tr>
<th>Manawatū District will improve the natural environment, stewarding the district in a practice aligned to the concept of kaitiakitanga.</th>
<th>The Manawatū will attract and retain residents.</th>
<th>Manawatū district develops a broad economic base from its solid foundation in the primary sector.</th>
<th>Manawatū and its people are connected via quality infrastructure and technology.</th>
<th>Manawatū District Council is an agile and efficient organisation.</th>
</tr>
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<tr>
<td>✓</td>
<td></td>
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</tbody>
</table>

2 Discussion

2.1 The draft Audit Engagement Letter attached at Appendix 1 has been sent to Manawatū District Council (MDC) on behalf of the Auditor General who is the auditor of all “public entities” under section 14 of the Public Audit Act 2001.

2.2 The Auditor General has appointed Mr Clint Ramoo, using the staff and resources of Audit New Zealand, under section 32 and 33 of the Public Audit Act 2001, to carry out the audit of the District Council’s consultation document and Long Term Plan (LTP).

2.3 The engagement letter outlines:

- the terms of the audit engagement and the respective responsibilities of the governing body (the Council) and Mr Ramoo as the appointed auditor;
- the audit scope and objectives;
- the approach taken to complete the audit;
- the areas of audit emphasis – Financial Strategy, Infrastructure Strategy, Assumptions, Quality of assets related forecasting, Consultation Document, Rates review, Waste water consents, Growth (refer section 4 of the letter at Appendix 1 for full explanations);
- the audit logistics; and
- the professional fees - $95,000 excluding GST and reasonable disbursements.

2.4 The points of audit emphasis are consistent with the wider Local Government sector expectations and are of no surprise to the MDC Executive Management Team.

2.5 Regarding the fee set, it is worthwhile noting that Audit New Zealand do reserve the right to recover extra costs should the work needed to complete the audit exceed the time and fee allowed (refer section 7 of the letter at Appendix 1).

2.6 The Long Term Plan project team and the Executive Management Team are ready to assist the auditors as needed throughout the audit phase of the project.
2.7 Once approved, the draft Audit Engagement Letter will be finalised by Audit New Zealand and returned to MDC for signing. Mayor Helen Worboys will sign the finalised letter on behalf of the Manawatū District Council.

3 **Operational Implications**

3.1 The key operational implication of the audit is the impact on MDC staff time to assist the auditors. This time commitment is expected as part of an LTP audit process and has been built into the project planning. Exact time implications are unknown, but we can expect time being required by activity managers from across MDC particularly those who work in the activity areas of audit focus. Bases upon past experience, there will also be a considerable time commitment required from the Chief Finance Officer and team.

4 **Financial implications**

4.1 As noted in the draft engagement letter, the fee for the LTP audit is set at $95,000 excluding GST and reasonable disbursements. This fee has been budgeted for. A key risk remains where additional work by the audit team is be required and those unbudgeted costs have to be passed on to MDC.

5 **Statutory Requirements**

5.1 An audit of the LTP is a statutory requirement of the Local Government Act 2002. The relevant sections are referenced in the draft Audit Engagement Letter attached at Appendix 1.

6 **Delegations**

6.1 The Audit and Risk Committee can receive and consider the audit arrangements for the Manawatū District Council draft Long Term Plan 2018-28 as set out in the draft Audit Engagement Letter from Audit New Zealand.

7 **Consultation**

7.1 No consultation is required regarding the draft audit arrangements set out in the draft Audit Engagement Letter from Audit New Zealand.

8 **Conclusion**

8.1 The Executive Management Team and Chief Financial Officer have reviewed the audit arrangements set out in the draft Audit Engagement Letter from Audit New Zealand. The matters contained in the letter are consistent with MDC management expectations and those of the wider local government sector.

8.2 It is the recommendation of the management team that the audit arrangements set out in the draft Audit Engagement Letter be received and endorsed.
9 Attachments

- Appendix 1: Audit Engagement Letter: Audit of the consultation document and Long Term Plan for the period commencing 1 July 2018
Dear Helen

Audit Engagement Letter: Audit of the consultation document and Long-Term Plan for the period commencing 1 July 2018

This audit engagement letter is sent to you on behalf of the Auditor-General who is the auditor of all “public entities”, including Manawatu District Council (the District Council), under section 14 of the Public Audit Act 2001. The Auditor-General has appointed me, Clint Ramoo, using the staff and resources of Audit New Zealand, under section 32 and 33 of the Public Audit Act 2001, to carry out the audit of the District Council’s consultation document and Long-Term Plan (LTP).

This letter outlines:

1. the terms of the audit engagement and the respective responsibilities of the governing body (the Council) and me as the appointed auditor;

2. the audit scope and objectives;

3. the approach taken to complete the audit;

4. the areas of audit emphasis;

5. the audit logistics; and

6. the professional fees.

1 Specific responsibilities of the council for preparing the consultation document and the Long-Term Plan

Our audit will be carried out on the basis that the Council acknowledges that it has responsibility for preparing the consultation document and LTP, by applying its own assumptions, in accordance with the Local Government Act 2002 (the Act) (in particular, the requirements of Part 6 and Schedule 10), and in accordance with generally accepted accounting practice in New Zealand. We assume that elected members are familiar with those responsibilities and, where necessary, have obtained advice about them.
For clarity we note the following statutory responsibilities as set out in the Act:

- Section 93 of the Act requires Council to have an LTP at all times, and Part 1 of Schedule 10 governs the content of the LTP.
- Section 111 aligns the financial information with generally accepted accounting practice.
- Section 83 (with reference to section 93A) sets out the special consultative procedures that the Council is required to follow to adopt the consultation document and LTP.
- Section 93C(4) requires an auditor’s report on the consultation document and section 94 requires a separate opinion on the LTP.

Please note that the audit does not relieve the Council of any of its responsibilities.

Other general terms are set out in the relevant sections of this letter and Appendix 1.

2 Our audit scope

The Act requires us to provide two separate reports as follows:

- On the consultation document, a report on:
  - whether the consultation document gives effect to the purpose specified in section 93B; and
  - the quality of the information and assumptions underlying the information in the consultation document.
- On the LTP, a report on:
  - whether the LTP gives effect to the purpose in section 93(6); and
  - the quality of the information and assumptions underlying the forecast information provided in the LTP.

We expect our work to assess the quality of underlying information and assumptions to be a single, continuous process during the entire LTP preparation period.

Our focus for the first limb of each opinion will be to assess whether each document meets its statutory purpose. Given the different purposes of each document, we will assess the answers to different questions for each opinion.

Our focus for the second limb of each opinion will be to obtain evidence about the quality of the information and assumptions underlying the information contained in the consultation document and LTP. How we obtain this information depends on our judgement, including our assessment of the risks of material misstatement of the information and assumptions underlying the information contained in the consultation document and LTP, whether because of fraud or error.
Our audit opinions do not:

- provide a guarantee of absolute accuracy of the information in the relevant document;
- provide a guarantee that the District Council has complied with all relevant legal obligations;
- express an opinion on the merits of any policy content; or
- include an opinion on whether the forecasts will be achieved.

3 Our approach to this audit

3.1 The content of the consultation document

The Act emphasises the discretion of the Council to decide what is appropriate to include in the consultation document and the associated consultation process. In deciding what to include in the consultation document, the Council must have regard to its significance and engagement policy, and the importance of other matters to the district and its communities.

We will need to understand how the Council has approached the task of applying its significance and engagement policy, and how it has considered the importance of other matters in deciding what to include in the consultation document. This will help inform our assessment of whether the consultation document achieves its statutory purpose.

3.2 Adopting and auditing the underlying information

Before adopting the consultation document, section 93G of the Act requires the Council to prepare and adopt the information that:

- is relied on by the content of the consultation document,
- is necessary to enable the Auditor-General to issue an audit report under section 93C(4), and
- provides the basis for the preparation of the LTP.

The information to be prepared and adopted needs to be enough to enable the District Council to prepare the consultation document.

We consider that local authorities will need to have thought comprehensively about how best to meet the requirements of the Act. Consistent with the guidance of the Society of Local Government Managers’ (SOLGM), our view is that core building blocks of an LTP will be needed to support an effective consultation document. This will include, but not be limited to, draft financial and infrastructure strategies and the information that underlies them, including asset management information, assumptions, defined levels of service, funding and financial policies, and a complete set of financial forecasts.
We will work with management to understand the information proposed to be adopted and assess whether it will enable us to issue an audit report under section 93C(4).

In addition, the time frames to consider and adopt the LTP after the consultation process will be tight. From a practical perspective, it will be important that the District Council is well advanced with the preparation of the full LTP when it issues the consultation document. Otherwise you may find it difficult to complete the work and adopt the full LTP before the statutory deadline. The same is true for the audit work. The more audit work that is able to be completed at the first stage of the process, the less pressure there will be on you and the audit team at the end of the process.

3.3 Control environment

The Council is responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of the District Council), supported by written policies and procedures, designed to prepare the consultation document and LTP, and to provide reasonable quality information and assumptions underlying the information contained in these documents.

Our approach to the audit will be to identify, confirm and assess the District Council’s key processes and controls over the underlying information and the production of both the consultation document and the LTP. The purpose of this assessment is to enable us to plan the most effective and efficient approach to the audit work needed to provide our two audit opinions. Our assessment is not for the purpose of expressing an opinion on the effectiveness of the District Council’s internal controls.

We will carry out a review of the control environment to help us understand the approach taken to develop the consultation document and LTP, develop expectations of what should be included in the consultation document and LTP, and identify areas of potential audit risk. This will involve discussions with elected representatives and selected staff throughout the District Council, review of publicly available information about the District Council, updating our knowledge of the District Council issues developed during recent years, and a review of Council minutes since the last audit review.

Our review of your self-assessment response (see below), and key controls relating to the underlying information and development of the LTP is useful to our initial assessment of audit risk and so the nature and extent of our overall audit work.

3.4 Project management, reporting deadlines, and audit progress

The development of the consultation document and LTP is a significant and complex project and a comprehensive project plan is required for a successful LTP process. It is also essential that there is commitment throughout the organisation for the project, starting with the elected representatives. The involvement of senior management and elected representatives is important in deciding what to include in the consultation document.

The LTP has complex and inter-related information needs and draws together plans, policies, decisions and information from throughout the District Council and its community. We recognise that the District Council will be doing its LTP preparation over an extended period. A more efficient and cost effective audit can be achieved
when audit work and feedback is provided in “real time” or on an “auditing as you go” basis as the underlying information is developed.

Consequently, we will discuss with you and your staff the District Council’s approach to preparing and completing the LTP. We expect that the District Council is approaching its preparation on a project basis and recognise that ideally our audit work should “shadow” that project timetable. The success of this “auditing as you go” approach will depend on the District Council’s project management of the overall LTP process which should include time for audit work at appropriate points in the process. We have agreed key milestones in section 6 and a detailed schedule of deliverables in Appendix 3.

3.5 Self-assessment

To assist our audit planning we intend to use a self-assessment process to assist with our risk assessment process. The self-assessment requires you to reflect on your most significant issues and risks, governance of the LTP project, and the systems and processes you have in place (particularly to meet the purposes in the Act for the consultation document and the LTP), asset management, performance management and reporting, and financial management.

We have sent the self-assessment to you and have received the completed assessment.

The self-assessment is similar to those used with our audit of previous LTPs. The information provided through the self-assessment will be confirmed with you through discussion.

4 Our particular areas of audit emphasis

4.1 Financial strategy and infrastructure strategy

The Act requires a local authority to prepare two key strategies as part of the LTP: the financial strategy and the infrastructure strategy. The purpose of the financial strategy is to:

- facilitate prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against; and
- provide a context for consultation on the local authority’s proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority’s services, rates, debt, and investments.

The purpose of the infrastructure strategy is to:

- identify significant infrastructure issues for the local authority during the period covered by the strategy; and
- identify the principal options for managing those issues and the implications of those options.
The Act expects close alignment between the two strategies and section 101B(5) allows for them to be combined into a single document.

Although the Act clearly sets the minimum requirements for these strategies, it does not define the only things that can be in a strategy. A good strategy should include what is needed to be a good quality strategic planning document. In the case of the infrastructure strategy the principles of ISO55000 should be considered, particularly where the District Council is seeking to prepare a best practice strategy.

The Office of the Auditor-General has included sector-wide strengths and weaknesses in the publication Matters arising from the 2015-25 local authority long-term plans, which is available from http://www.oag.govt.nz/2015/ltps.

Our focus when reviewing both strategies is to assess whether the District Council has met the purpose outlined in the Act and presented the strategies in a coherent and easily readable manner. Specifically, we will:

- confirm that the two strategies are appropriately aligned; and
- understand the impact of the financial forecasts included in the infrastructure strategy on the prudence of the financial strategy; and
- assess the reasonableness of the prepared forecasts by:
  - understanding how the District Council has applied the effect of its assumptions (for example, allowing for changing demographics) and levels of service on expenditure decisions, and outlined the implications of these decisions in the strategies;
  - reviewing the District Council’s relationship between its renewal capital expenditure and depreciation expenditure forecasts; and
  - checking that the infrastructure strategy is appropriately inflated.

The District Council’s financial modelling is a significant component of the underlying information that supports both the financial strategy and infrastructure strategy. We will place particular emphasis on the integrity and effectiveness of the financial modelling of all local authorities.

An additional role played by these strategies is to facilitate accountability to the community. It is critical that these strategies are presented in such a way that they are engaging and informative, and support the presentation of issues, options and implications presented in the consultation document.

4.2 Assumptions

The quality of the District Council’s financial forecasts is significantly affected by whether the assumptions on which they are based are defined and reasonable. The Act recognises this by requiring all local authorities to clearly outline all significant forecasting assumptions and risks underlying the financial estimates in the LTP (Schedule 10, clause 17). Prospective Financial Statements (PBE FRS 42) also requires the disclosure of significant assumptions.
The following are a list of the minimum expected significant assumptions for the District Council.

- Life cycle of significant assets
- Sources of funds for future replacement of significant assets
- Projected growth changes
- Potential climate change effects
- Potential societal changes, particularly the effect of the ageing population in the period of the 30 year Infrastructure Strategy
- Future price changes (inflation)
- NZTA subsidy rates
- Revaluation of non-current assets
- Forecast return on investments
- Expected interest rates on borrowing
- Changes to the local authority’s business dictated by as yet unknown/unconfirmed legislation or central government policy change

We will review the District Council’s list of significant forecasting assumptions and confirm that they are materially complete. We will also test the application of selected assumptions in the financial forecasts to check they have been reasonably applied. Finally, we will confirm that:

- all significant forecasting assumptions disclose the level of uncertainty associated with the assumption; and
- for all significant forecasting assumptions that involve a high level of uncertainty, the uncertainty and an estimate of the potential effects of the uncertainty on the financial forecasts are appropriately disclosed in the LTP.

We consider that the significant forecasting assumptions are crucial to the underlying information for the consultation document and will complete our review during our audit of the consultation document.

4.3 Quality of asset-related forecasting information

A significant portion of the District Council’s operations relates to the management of its infrastructure: the roading network and the “three-waters” of water supply, sewerage, and stormwater drainage. These activities typically make up a significant component of operational expenditure and capital expenditure.

To prepare reasonable quality asset information, the District Council needs to have a comprehensive understanding of its critical assets and the cost of adequately
maintaining and renewing them. An important consideration is how well the District Council understands the condition of its assets and how the assets are performing.

In reviewing the reasonableness of the District Council's asset-related forecasting information, we will:

- assess the District Council's asset management planning systems and processes;
- understand what changes the District Council proposes to its forecast levels of service;
- understand the District Council's assessment of the reliability of the asset-related information;
- consider how accurate recently prepared budgets have been; and
- assess how matters such as affordability have been incorporated into the asset-related forecasts prepared.

Depending on what we identify in completing the above, we may have to complete further detailed testing on the District Council's asset-related information.

4.4 Consultation Document (CD)

The 2015-25 LTP was the first year a CD was required to be prepared and audited under the Local Government Act.

We encourage the District Council to review the SOLGM guidance as part of its LTP planning, so it can identify aspects of good practice to incorporate into its 2018-28 CD.

4.5 Rates review

As part of the 2016/17 report to the Council we recommended that the District Council should seek a legal review on the validity of its rates. Our understanding is the District Council is engaging a legal review as part of the LTP process and will consider the findings as part of the LPT process.

We consider rates to be a significant area relevant to the LTP process and will be an area of focus during the LTP audit.

4.6 Wastewater resource consents

The District Council operates eight wastewater networks with 6 resource consents coming up for renewal during the long-term plan period. For the District Council to meet future resource consent conditions it needs to improve the way it treats wastewater. It is our current understanding that the District Council is considering whether to centralise wastewater from outlying areas (i.e., pipe it back to Feilding Wastewater Treatment Plant) which would result in only one resource consent being required during the period.

The District Council's Feilding Wastewater river discharge resource consent is set to come up for renewal in 2026. Closer to the time, the District Council is planning to
carry out an intensive investigation as to what is the best solution going forward. As a result of the time required to complete the investigation, the likelihood of being able to discharge into the river is unknown as well as the related cost implications.

We will review all significant assumptions relating to the wastewater management in the District as part of our audit taking into account the various options available to the District Council and the related costs and time required.

4.7 Growth

We identified managing growth and the resulting pressure on infrastructure as a key issue for the LTP with our audit to include specific focus on the impacts on:

- Rates revenue forecasting;
- Operational expenditure;
- Debt levels and compliance with debt covenants; and
- Timing of development contributions.

5 Other matters

5.1 Our independence

It is essential that the audit team and Audit New Zealand remain both economically and attitudinally independent of the District Council (including being independent of management personnel and the Council). This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with integrity, objectivity and independence.

5.2 Publication of the consultation document and adopted LTP on the District Council’s website

The District Council is responsible for the electronic presentation of the consultation document and LTP on its website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the presented data. Please ensure that your project plan allows time for us to examine the final electronic file version of the respective documents, including our audit report, before their inclusion on the website.

We need to do this to ensure consistency with the paper-based documents that have been subject to audit.

6 Audit logistics

6.1 Audit timing

The key dates in the audit timetable are as follows:

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>First interim visit (initial assessment)</td>
<td>19 February 2018</td>
</tr>
<tr>
<td>Proposed consultation document available</td>
<td>16 February 2018</td>
</tr>
</tbody>
</table>
Audit opinion on consultation document required 29 March 2018

Draft report to the Council on consultation document engagement 29 March 2018

Finalised report to the Council on consultation document engagement 12 April 2018

Proposed LTP for adoption available 6 June 2018

Audit opinion on adopted LTP required 28 June 2018

Draft report to the Council on LTP engagement 6 July 2018

Finalised report to the Council on LTP engagement 20 July 2018

<table>
<thead>
<tr>
<th>Audit opinion on consultation document required</th>
<th>29 March 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Draft report to the Council on consultation document engagement</td>
<td>29 March 2018</td>
</tr>
<tr>
<td>Finalised report to the Council on consultation document engagement</td>
<td>12 April 2018</td>
</tr>
<tr>
<td>Proposed LTP for adoption available</td>
<td>6 June 2018</td>
</tr>
<tr>
<td>Audit opinion on adopted LTP required</td>
<td>28 June 2018</td>
</tr>
<tr>
<td>Draft report to the Council on LTP engagement</td>
<td>6 July 2018</td>
</tr>
<tr>
<td>Finalised report to the Council on LTP engagement</td>
<td>20 July 2018</td>
</tr>
</tbody>
</table>

Should we encounter any significant problems or delays during the audit, we will inform you immediately.

We have an electronic audit management system. This means that our auditors will complete most their work on their laptops.

Therefore, we would appreciate it if the following could be made available during our audit:

- A suitable workspace for computer use (in keeping with the health and safety requirements discussed in Appendix 1).
- Electronic copies of key documents.

As noted in section 3.4, our audit work needs to be done as you develop your underlying information and prepare your consultation document and LTP, to ensure the timely completion of our audit.

To ensure that we meet agreed deadlines, it is essential that the dates agreed are adhered to.

7 **Professional fees**

Our audit fee, covering both the consultation document and the LTP for the period commencing 1 July 2018, is $95,000 (excluding GST and disbursements) as outlined in Appendix 2

The proposed fee is based on the following assumptions:

- Information required to conduct the audit is complete and provided in accordance with the agreed timelines, including the draft consultation document and the full draft financial strategy and draft infrastructure strategy that supports it.
- There will be an appropriate level of assistance from your staff.
- All documentation (consultation document, LTP and all other underlying documentation) provided will be subject to appropriate levels of quality review before submission for audit.
The consultation document and LTP will include all relevant disclosures.

We will review, at most, two drafts of each of the consultation document and LTP during our audit.

We will also review one printer’s proof copy of the consultation document and LTP and one copy of the electronic version of the consultation document and LTP (for publication on your website).

There are no significant changes in the structure or level of operations of the District Council.

The local authority is preparing forecast financial statements for the “District Council parent” only, rather than including consolidated forecast financial statements for the District Council and any controlled entities in the adopted LTP.

If the scope and/or amount of work changes significantly (such as a change in direction during the development of the consultation document or between the development of the consultation document and the LTP), we will discuss the issues with you at the time.

If information is not available for the visits as agreed, or the systems and controls the District Council uses to prepare the underlying information and assumptions cannot be relied on, we will seek to recover all additional costs incurred as a result. We will endeavour to inform you as soon as possible should such a situation arise.

This fee is exclusive of any subsequent amendments the Council might make to the adopted LTP under section 93D.

We wish to interim bill as work progresses. We propose the following billing arrangements:

<table>
<thead>
<tr>
<th>Date</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2018</td>
<td>20,000</td>
</tr>
<tr>
<td>February 2018</td>
<td>55,000</td>
</tr>
<tr>
<td>June 2018</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>95,000</strong></td>
</tr>
</tbody>
</table>

8 **Personnel**

Our personnel involved in the management of the audit are:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clint Ramoo</td>
<td>Director</td>
</tr>
<tr>
<td>John Mackey</td>
<td>Engagement Quality Control Review Director</td>
</tr>
<tr>
<td>Jonathan Roylance</td>
<td>Specialist Audit and Assurance Services</td>
</tr>
<tr>
<td>Chris Webby</td>
<td>Manager</td>
</tr>
<tr>
<td>Alistair Love</td>
<td>Assistant Manager</td>
</tr>
</tbody>
</table>
We have endeavoured to maintain staff continuity as far as possible.

9 Agreement

Please sign and return the attached copy of this letter to indicate that:

- it is in accordance with your understanding of the arrangements for this audit of the consultation document and LTP for the period commencing 1 July 2018; and

- you accept the terms of the engagement set out in this letter that apply specifically to the audit of the consultation document and LTP and supplement the existing audit engagement letter dated 31 August 2017.
If there are any matters requiring further clarification please do not hesitate to contact me.

Yours sincerely

Clint Ramoo
Director

cc Richard Templer, Chief Executive
    Brent Limmer, General Manager - Community and Strategy
    Shayne Harris, General Manager – Corporate and Regulatory

I acknowledge that this letter is in accordance with my understanding of the arrangements of the audit engagement. I also acknowledge the terms of the engagement that apply specifically to the audit of the consultation document and LTP, and which supplements the existing audit engagement letter dated 31 August 2017.

Signed: ________________________ Date: ________________________
Helen Worboys
Mayor on behalf on Council
Manawatu District Council
Appendix 1: Terms of the engagement that apply specifically to the audit of the consultation document and LTP

Objectives

The objectives of the audit of the consultation document and LTP are:

- to provide independent opinions on the consultation document (under section 93C(4) of the Act) and on the LTP (under section 94(1) of the Act) about:
  - whether each document gives effect to the relevant statutory purpose; and
  - the quality of the information and assumptions underlying the information included in each document; and
- to report on matters relevant to the District Council’s planning systems that come to our attention.

Our audit involves performing procedures that examine, on a test basis, evidence supporting assumptions, amounts and other disclosures in the consultation document and LTP, and evaluating the overall adequacy of the presentation of information.

We also review other information associated with the consultation document and LTP to identify whether there are material inconsistencies with the audited consultation document and LTP.

Provision of a report to the Council

At a minimum, we will report to the Council at the conclusion of the engagement. The report to the Council communicates matters which come to our attention during the engagement and that we think are relevant to the Council. For example, we will report:

- any weaknesses in the District Council’s systems; and
- uncorrected misstatements noted during the audit.

Please note that the Auditor-General may refer to matters that are identified in the audit of consultation documents and LTPs in a report to Parliament if it is in the public interest, in keeping with section 20 of the Public Audit Act 2001.

Materiality

Consistent with the annual audit, the audit engagement for the consultation document and LTP adheres to the principles and concepts of materiality during the 10-year period of the LTP and beyond (where relevant).

Materiality is one of the main factors affecting our judgement on the areas to be tested and the nature and extent of our tests and procedures performed during the audit. In planning and performing the audit, we aim to obtain assurance that the consultation document and LTP, and
the information and assumptions underlying the information contained in these documents, do
not have material misstatements caused by either fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that, in our
judgement, are likely to influence a reader’s overall understanding of the forecast financial
statements and performance information.

Consequently, if we find material misstatements that are not corrected, we will refer to them in
the audit opinion. Our preference is for any material misstatement to be corrected, avoiding
the need to refer to misstatements in our opinion.

The standards applied when conducting the audit of the consultation
document and adopted LTP

Our audit is carried out in accordance with International Standard on Assurance Engagements
(New Zealand) 3000 (Revised): Assurance Engagements Other Than Audits or Reviews of
Historical Financial Information. In meeting the requirements of this standard, we took into
account particular elements of the Auditor-General’s Auditing Standards and International
Standard on Assurance Engagements 3400: The Examination of Prospective Financial
Information that were consistent with those requirements.

Responsibilities

General responsibilities

The general responsibilities of the Council for preparing and completing the consultation
document and LTP are consistent with those for the annual report, as set out in the audit
engagement letter dated 31 August 2017 – but noting that the consultation document and LTP
include forecast information.

These responsibilities include those set out in Appendices 1 and 2 of that audit engagement
letter as detailed below:

- Appendix 1: Respective specific responsibilities of the Council and the Appointed
  Auditor:
  - Responsibilities for compliance with laws and regulations.
  - Responsibilities to establish and maintain appropriate standards of conduct and personal integrity.

Specific responsibilities

The Council is responsible for:

- maintaining accounting and other records that:
  - correctly record and explain the forecast transactions of the District Council;
  - enable the Council to monitor the resources, activities and entities under its control;
  - enable the District Council’s forecast financial position to be determined with reasonable accuracy at any time; and
enable the District Council to prepare forecast financial statements and performance information that comply with legislation.

providing us with:

- access to all information and assumptions relevant to preparing the consultation document and LTP, such as records, documentation and other matters;
- additional information that we may request from the District Council for the purpose of the audit;
- unrestricted access to Council members and employees that we consider necessary; and
- written confirmation concerning representations made to us in connection with the audit.

Health and safety of audit staff

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 you to keep our audit staff safe while they are working at your premises. We expect you to provide a safe work environment for our audit staff. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment, where required. We also expect you 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.
Appendix 2: Team mix and hours for the audit of the consultation document and LTP for the 10-year period commencing on 1 July 2018

<table>
<thead>
<tr>
<th>Role</th>
<th>Total hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appointed Auditor</td>
<td>90</td>
</tr>
<tr>
<td>Engagement Quality Review Director</td>
<td>10</td>
</tr>
<tr>
<td>Audit Manager</td>
<td>110</td>
</tr>
<tr>
<td>Other CA staff</td>
<td>260</td>
</tr>
<tr>
<td>Other Expert or Specialist Assistance: SAAS</td>
<td>40</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>510</strong></td>
</tr>
</tbody>
</table>

Fee calculations

<table>
<thead>
<tr>
<th>Description</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net fee</td>
<td>95,000</td>
</tr>
<tr>
<td>OAG overhead contribution*</td>
<td>NIL</td>
</tr>
<tr>
<td><strong>Total fee (including overhead contribution)</strong></td>
<td><strong>95,000</strong></td>
</tr>
<tr>
<td>GST</td>
<td>14,250</td>
</tr>
<tr>
<td><strong>Audit fee for the LTP for the period commencing 1 July 2018</strong></td>
<td><strong>109,250</strong></td>
</tr>
</tbody>
</table>

* No OAG overhead is charged in relation to the audit of the LTP.

We will charge disbursements, including travel, on an actual and reasonable basis.
## Appendix 3: Audit’s 2018 LTP information and documentation requirements

<table>
<thead>
<tr>
<th>Information required</th>
<th>Relevance to our audit</th>
<th>Timing considerations</th>
<th>Agreed deliverables</th>
<th>Agreed date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit planning phase</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The District Council’s timetable</td>
<td>So we can understand and assess the District Council’s planning processes and plan our workflows.</td>
<td>As soon as possible so we can populate key sign-off dates and deliverables into the audit arrangements letter. We also need this information to plan our resourcing of the audit given the major impact of LTP audits on our organisation.</td>
<td>The district Council’s timetable for the LTP process.</td>
<td>Received.</td>
</tr>
<tr>
<td>Signed audit arrangements letter</td>
<td>To agree expectations, fee and timeframes.</td>
<td>Once timing and deliverables are agreed.</td>
<td>Signed audit arrangement letter returned to Audit NZ.</td>
<td>16 February 2018</td>
</tr>
<tr>
<td>Description of the District Council’s higher level planning processes (from self-assessment plus discussions)</td>
<td>So we can assess the robustness of the District Council’s overall LTP preparations processes.</td>
<td>Initial phase of Audit’s engagement with the District Council.</td>
<td>The District Council completed self-assessment.</td>
<td>Received.</td>
</tr>
<tr>
<td>Description of the state of progress in updating the District Council’s AMPs and in particular a description of the significant issues/changes that have arisen since 2015</td>
<td>So we can understand the state of the District Council’s knowledge about its assets and the robustness of the forecasts that flow from the AMPs.</td>
<td>Initial phase of Audit’s engagement with the District Council as the AMPs drive the large and critical service components of the LTP.</td>
<td>Description of the state of progress in updating the District Council’s AMPs and in particular a description of the significant issues/changes that have arisen since 2015.</td>
<td>All AMPs have been updated. These are being present to Council for approval on 15 February.</td>
</tr>
<tr>
<td>Information required</td>
<td>Relevance to our audit</td>
<td>Timing considerations</td>
<td>Agreed deliverables</td>
<td>Agreed date</td>
</tr>
<tr>
<td>----------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Description of the District Council’s processes for preparing its forecasts (including its QA process) for non-asset based activity forecasts</td>
<td>So we can assess the robustness of the District Council’s overall financial forecasting processes.</td>
<td>Initial phase of Audit’s engagement with the District Council as our audit approach is built on our assessment of the robustness of the District Council’s forecasting processes. If they are not sufficiently robust then there will likely be issues for our audit opinion.</td>
<td>Description of the District Council’s processes for preparing its forecasts (including its QA process) for non-asset based activity forecasts.</td>
<td>19 February 2018</td>
</tr>
<tr>
<td>Financial model</td>
<td>We need to understand the functionality and controls in the model which applies the key forecasting assumptions to the raw forecasts from the planning and budgeting and the AMPs.</td>
<td>This could be done at an early stage, potentially even before we commence our work on the consultation document (CD) phase of the audit.</td>
<td>The District Council’s financial model that underlying the forecast financial information. Copy of or access to the financial model (unpopulated).</td>
<td>19 February 2018</td>
</tr>
</tbody>
</table>

**CD audit phase**

<p>| Underlying assumptions | Key assumptions drive the LTP and are important to our assessment and understanding of the District Council’s forecasts. | Early advice on the nature (completeness) of assumptions as part of the initial phase of Audit’s engagement with the District Council. Support for the assumptions actually applied is required as part of our audit of the CD. | Complete significant assumptions used in the CD/LTP, and their supporting documentation. | 16 February 2018 |</p>
<table>
<thead>
<tr>
<th>Information required</th>
<th>Relevance to our audit</th>
<th>Timing considerations</th>
<th>Agreed deliverables</th>
<th>Agreed date</th>
</tr>
</thead>
</table>
| Financial Strategy (FS) | To assess how well the FS communicates the District Council’s financial strategy in terms of:  
  - **The financial position**  
    the District Council is starting in and what position it is aiming to be in at the end of the LTP period.  
  - **The funding approach**  
    and implications to achieve the position on key elements of the District Council’s financial strategy – particularly investments, debt and rates?  
  - How the District Council has taken into account current and future ratepayers when considering the funding of services and asset purchases.  
    We also assess the financial prudence (including balanced budget) of the financial strategy. | As with the infrastructure strategy, we expect the FS to be available relatively early in the process as it provides the high level, long-term context for the District Council’s financial policies and forecasts. | District Council reviewed and approved draft Financial Strategy. | 16 February 2018 |
<table>
<thead>
<tr>
<th>Information required</th>
<th>Relevance to our audit</th>
<th>Timing considerations</th>
<th>Agreed deliverables</th>
<th>Agreed date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure Strategy</td>
<td>To assess the IS which provides a long-term perspective on the District Councils infrastructure which is:</td>
<td>As with the FS, we expect the IS to be available relatively early in the process as it provides the high level, long-term context for the District Council's infrastructural assets which contribute the majority of the District Council's forecast expenditure and deliver core services to the community.</td>
<td>District Council reviewed and approved draft Infrastructure Strategy.</td>
<td>16 February 2018</td>
</tr>
<tr>
<td>(IS)</td>
<td>• <strong>Visionary</strong> – tells the story about where the District Council is, where it expects to be, and how it intends to get there.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• <strong>Realistic</strong> – includes assumptions and disclosures that are relevant and achievable.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• <strong>Relational</strong> – creates the right debate and is credible because it connects to financial strategy and other relevant influences.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information required</td>
<td>Relevance to our audit</td>
<td>Timing considerations</td>
<td>Agreed deliverables</td>
<td>Agreed date</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>AMPS</td>
<td>The AMPs identify the key issues that drive the District Council’s IS and also provide the financial forecasts for the asset based activities. They also provide the underlying information for a large portion of the District Council’s financial forecasts. Also provides the underlying information on which the 30 year forecasts in the FS are built.</td>
<td>As with the FS, we expect the updated AMPs to be available relatively early in the process. We use the information in and from the AMPs to understand the key issues facing the District Council and also to assess the proposed levels of service and financial forecasts in both the IS and the LTP.</td>
<td>District Council reviewed and approved draft AMPs.</td>
<td>16 February 2018</td>
</tr>
</tbody>
</table>
| Full financial forecasts    | We need these so we can:  
  - understand the overall financial context for the CD; and  
  - assess the robustness of the financial forecasts in the LTP.                                                                                                                                                                                                                                                                                       | We require the financial model, populated with full financial forecasts, at least three weeks before sign-off on our CD audit.                                                                                                                                                                                                                                           | District Council reviewed and approved draft financial forecasts including forecast financial statements and funding impact statements.                                                                                                                                                                       | 19 February 2018 |
<p>| Funding and Financial policies | To assess their alignment with the FS and their prudence.                                                                                                                                                                                                                                                                                                                                                           | As with the FS, we expect these to be available relatively early in the process as they provide the framework for the District Council’s financial forecasts.                                                                                                                                                                                                                     | District Council reviewed and approved draft Funding and Financial Policies.                                                                                                                                                                                                                  | 16 February 2018 |</p>
<table>
<thead>
<tr>
<th>Information required</th>
<th>Relevance to our audit</th>
<th>Timing considerations</th>
<th>Agreed deliverables</th>
<th>Agreed date</th>
</tr>
</thead>
</table>
| Draft performance framework | We are required to form a view about whether the District Council has complied with its performance reporting obligations as set out in the Local Government Act 2002. We assess whether the forecast performance report:  
  • constitutes an adequate performance reporting framework;  
  • provides an adequate basis for presenting fairly, in all material respects, the performance of the District Council; and  
  • complies with generally accepted accounting practice. For key performance measures we also assess whether the District Council has adequate systems and controls in place to appropriately record and report its performance. | We need a clear understanding of the proposed levels of service (and, in particular, significant proposed changes) in the LTP before we complete our audit of the CD. However, a complete draft performance framework is not required at this stage. It would be helpful, however, to at least have a reasonable understanding of the proposed structure and format of the performance framework at this stage. We will need to have substantially completed our work on the performance framework by the time the Council completes its consideration of submissions. | District Council reviewed and approved draft performance framework.                                                                                                                                                      | 16 February 2018  |
<table>
<thead>
<tr>
<th>Information required</th>
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<th>Timing considerations</th>
<th>Agreed deliverables</th>
<th>Agreed date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significance and engagement policy</td>
<td>We need to understand how the Council has approached the task of applying its significance and engagement policy, and how it has considered the importance of other matters in deciding what to include in the consultation document. This will help inform our assessment of whether the CD achieves its statutory purpose.</td>
<td>We expect this to be available relatively early in the process as it provides the basis for the Council determining the significant issues it wishes to consult on with its community.</td>
<td>District Council reviewed and approved draft significance and engagement policy.</td>
<td>16 February 2018</td>
</tr>
<tr>
<td>Draft Consultation Document (CD)</td>
<td>Our audit opinion on the CD provides assurance to the community:</td>
<td>We expect this to be available relatively early in the process as it provides the basis for the Council determining the significant issues it wishes to consult on with its community.</td>
<td>District Council reviewed and approved draft CD.</td>
<td>16 February 2018</td>
</tr>
<tr>
<td></td>
<td>• that the CD gives effect to the purpose set out in section 93B; and</td>
<td>At the commencement of our fieldwork we will need a clear understanding of what the Council has identified as the key consultation issues. Where appropriate this should also cover those choices for the community to consider which the Council has identified. We will need a good complete draft CD at least three weeks before we sign off on the CD audit.</td>
<td>District Council reviewed and approved draft CD.</td>
<td>16 February 2018</td>
</tr>
<tr>
<td>Final version of (CD)</td>
<td>Our audit opinion on the final version of the CD must be included in the document that goes out for consultation.</td>
<td>The Local Government Act 2002 does not specify that the Council needs to make a formal resolution to adopt the (audited) CD. However, the Council must approve the CD before we can issue our audit opinion.</td>
<td>District Council reviewed and approved final draft CD.</td>
<td>2 April 2018 (CD is being approved 29 arch 2018)</td>
</tr>
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</table>

We expect this to be available relatively early in the process as it provides the basis for the Council determining the significant issues it wishes to consult on with its community.
<table>
<thead>
<tr>
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<th>Relevance to our audit</th>
<th>Timing considerations</th>
<th>Agreed deliverables</th>
<th>Agreed date</th>
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<tbody>
<tr>
<td><strong>LTP audit phase</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Draft LTP</td>
<td>We need to review a complete draft as soon as possible to avoid last minute issues.</td>
<td>While the LTP document is not a pre-requisite for us to complete our CD audit, ideally we would have cleared much of the draft LTP document at the CD audit phase. In June there will be a compressed timeframe within which most local authorities will be finalising their LTPs after their consultation. This will put significant pressure on our staff resources. Therefore we will need to have substantially cleared all aspects of our audit work on the draft LTP document prior to the final, post-consultation, version being prepared.</td>
<td>District Council reviewed and approved draft LTP.</td>
<td>19 February 2018</td>
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<tr>
<td>A schedule of all changes arising from consultation, along with a description of how and where these have impacted the LTP</td>
<td>So we can follow the changes arising from consultation through the final version of the LTP.</td>
<td>After the Council has confirmed the changes arising from consultation (if any) and management has flowed these changes through the document. We will need at least one week (depending on the extent of changes) between receiving this schedule of changes and the final LTP and our sign off on the LTP audit. As noted above, our audit sign off needs to be before the Council formally adopts the LTP.</td>
<td>District Council reviewed and approved schedule of all changes arising from consultation, along with a description of how and where these have impact the LTP.</td>
<td>29 May 2018</td>
</tr>
<tr>
<td>Information required</td>
<td>Relevance to our audit</td>
<td>Timing considerations</td>
<td>Agreed deliverables</td>
<td>Agreed date</td>
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<tr>
<td>Supporting information for changes and how they have impacted the LTP</td>
<td>So we can assess the reasonableness of the changes.</td>
<td>After the Council has confirmed its changes and management has updated the document to fully reflect the effect of these changes.</td>
<td>Supporting information for changes and how they have impacted the LTP.</td>
<td>6 June 2018</td>
</tr>
<tr>
<td>Final version of LTP</td>
<td>So we can issue our audit opinion for inclusion as part of the document.</td>
<td>Our audit opinion is issued after the Council has finalised the content of the LTP document but before the Council formally adopts the LTP.</td>
<td>Final version of LTP with all audited information and changes updated.</td>
<td>12 June 2018</td>
</tr>
</tbody>
</table>
Audit and Risk Committee

Meeting of 16 February 2018

Business Unit: Corporate and Regulatory
Date Created: 07 February 2018

Internal Audit Status Report

Purpose
To present for information a report on status of internal audits programmed for 2017-18.

Significance of Decision
The Council’s Significance and Engagement policy is not triggered by matters discussed in this report.

Recommendations
That the Audit and Risk Committee receives the Internal Audit Status Report 2017-18 dated February 2018.

Report prepared by:
Allie Dunn
Governance Team Leader

Approved for submission by:
Shayne Harris
General Manager - Corporate and Regulatory

1 Contribution to the Council Vision and Council Outcomes

1.1 Relationship to the Council Outcomes that underpin the Council’s Vision:

Connected, vibrant and thriving Manawatū – the best rural lifestyle in New Zealand

<table>
<thead>
<tr>
<th>Manawatū District will improve the natural environment, stewarding the district in a practice aligned to the concept of kaitiakitanga.</th>
<th>The Manawatū will attract and retain residents.</th>
<th>Manawatū district develops a broad economic base from its solid foundation in the primary sector.</th>
<th>Manawatū and its people are connected via quality infrastructure and technology.</th>
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<td>✔</td>
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</table>
2 **Background**

2.1 Each year the Council undertakes a number of internal audits, as set out in the annual audit programme.

2.2 The audit programme for the 2017-18 year was approved by the Audit and Risk Committee at its meeting held 10 November 201.

3 **Discussion and Options considered**

3.1 The programme agreed for the 2017-18 year is as follows:

- Sensitive expenditure (reported to Audit and Risk Committee November 2017);
- Mount Lees Property and Lease;
- Solid Waste Procurement;
- Feilding Wastewater Treatment Plant Project;
- Cash Handling; and
- Cyber Security.

3.2 The status report on progress with the agreed audits is attached as Appendix 1 to this report.

4 **Operational Implications**

4.1 There are no capital / operating expenditure implications or maintenance costs associated with this paper.

5 **Financial implications**

5.1 There are no financial implications, the time required to undertake the programme is factored into the Internal Auditors twelve month work schedule.

6 **Statutory Requirements**

6.1 The approach to internal audit includes reviewing the Council’s compliance with applicable statutory requirements and regulations.

7 **Delegations**

7.1 The Audit and Risk Committee’s Terms of Reference sets out its responsibility for considering the scope of work for its internal audit. The Committee does not have delegated authority for decision making therefore recommendations are made to Council for adoption.

8 **Consultation**

8.1 There are no community consultation requirements associated with this paper.
9 Cultural Considerations

9.1 There are no cultural considerations associated with this matter.

10 Conclusion

10.1 The Internal Audit Plan for 2017-18 was been developed in partnership with management and agreed to by the Audit and Risk Committee in November 2017. A report on progress with the agreed audits is presented for review by the committee.

11 Attachments

• Internal Audit Status Report 2017-18 – February 2018
OVERVIEW OF INTERNAL AUDIT ACTIVITY

FY18IA Plan
Delivery of the internal audit plan has continued during the past quarter. Overall delivery is on schedule with the exception of the Solid Waste Procurement Advisory work which has been deferred. We are confident that we will be able to deliver the plan as approved. Specifically, whilst only one internal audit has been completed since the last meeting, planning has now been undertaken for a further review due to be completed during Quarter 3. Details on the status of the Plan are included on page 5.

Risk
Internal Audit has met with the “Risk Manager” to discuss progress in implementing the Risk Framework across MDC and IA aims to consider work performed in this space to facilitate the effective development of future IA plans.

Quality Control
Internal Audit continues to meet regularly with Senior Leadership to ensure satisfaction with the internal audit service.
Management has advised that there is 1 open action arising from 2017-18 internal audits as at 31 January 2018. Although the item is overdue, management have advised that progress is being made and the item will be fully resolved by 30 April 2018. The open action is categorised by audit risk as follows:
<table>
<thead>
<tr>
<th>Report</th>
<th>Circulation Date</th>
<th>Key Findings</th>
<th>Implementation Status of Corrective Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sensitive Expenditure</td>
<td>October 2017</td>
<td><strong>User Access – Ozone</strong>&lt;br&gt;Periodic Ozone user access reviews are not performed and as such inappropriate access rights may be in place compromising segregation of duties.&lt;br&gt;There are a large number of users with privileged access – the appropriateness of access should be reassessed as part of the periodic access review.</td>
<td>Management agreed to improve systems of internal control by:&lt;br&gt;• Implementing a cyclical to ensure all group or individual profiles are reviewed annually. This review is to be carried out by the Accounting Operations Manager and will be reviewed by the Chief Financial Officer.&lt;br&gt;• Reviewing the Datacom helpdesk profiles (Super-user access) on an annual basis for appropriateness as part of the annual review.</td>
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<td></td>
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<td></td>
<td>Management Response</td>
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</tbody>
</table>
# STATUS OF FY18 INTERNAL AUDIT PLAN

<table>
<thead>
<tr>
<th>Engagement</th>
<th>Timing</th>
<th>Budgeted Hours</th>
<th>Status</th>
<th>Report Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sensitive Expenditure</td>
<td>Q2</td>
<td>80</td>
<td>COMPLETED</td>
<td>Submitted to ARC Nov 17</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Cause for concern</td>
</tr>
<tr>
<td>Feilding Waste Water Treatment Plant Project</td>
<td>Q3</td>
<td>80</td>
<td>IN PROGRESS</td>
<td></td>
</tr>
<tr>
<td>Solid Waste Procurement</td>
<td>Q2-Q4</td>
<td>90</td>
<td>ON HOLD</td>
<td>Initial input has been provided, further work underway by the business unit.</td>
</tr>
<tr>
<td>Cyber Security</td>
<td>Q4</td>
<td>85</td>
<td>SCHEDULED – May 18</td>
<td></td>
</tr>
<tr>
<td>Cash Handling</td>
<td>Q4</td>
<td>80</td>
<td>SCHEDULED – April 18</td>
<td></td>
</tr>
<tr>
<td>Mt Lees</td>
<td>Q2</td>
<td>35</td>
<td>COMPLETED</td>
<td>Submitted to ARC Feb 18</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Cause for considerable concern</td>
</tr>
</tbody>
</table>
Internal Audit - Mount Lees Property and Lease

Purpose

To review the findings and recommendations arising from the Internal Audit of the Mount Lees property and its related lease.

Significance of Decision

The Council’s Significance and Engagement policy is not triggered by matters discussed in this report.

Recommendations

That the Audit and Risk Committee recommends:

That the Council receives the Mount Lees internal audit report dated November 2017 and notes the management response to recommendations and actions to be taken.

Report prepared by:
Allie Dunn
Governance Team Leader

Approved for submission by:
Shayne Harris
General Manager - Corporate and Regulatory
### Contribution to the Council Vision and Council Outcomes

**1.1 Relationship to the Council Outcomes that underpin the Council’s Vision:**

*Connected, vibrant and thriving Manawatū – the best rural lifestyle in New Zealand*

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</tr>
</thead>
</table>

### Background

**2.1 A review of the Mount Lees property and its related lease was undertaken as part of the Internal Audit Plan for 2017-18.**

### Discussion and Options considered

**3.1 The findings from the review of the Mount Lees property and lease are presented to the committee in Appendix 1 to this report.**

**3.2 The attached Mount Lees Internal Audit report dated November 2017 details the scope and approach taken for the audit, outlines the key findings and provides detailed commentary on each of the findings.**

**3.3 The Internal Auditor’s recommendations, and the management response to the recommendations are presented to the committee for review.**

### Operational Implications

**4.1 A number of minor operational implications were identified through the audit, which have been addressed.**

### Financial implications

**5.1 Funding has been sought through the 2018-28 Long Term Plan for funding to undertake exterior maintenance of the homestead at Mount Lees.**

### Statutory Requirements

**6.1 There are no statutory requirements directly related to this report.**

### Delegations

**7.1 The Audit and Risk Committee’s Terms of Reference sets out its responsibility for considering responses to internal audit recommendations. The Committee does not have delegated authority for decision making therefore recommendations are made to Council for adoption.**
8 Consultation
8.1 There are no community consultation requirements associated with this report.

9 Cultural Considerations
9.1 There are no cultural considerations associated with this report.

10 Conclusion
10.1 The internal audit plan and related audits provide a key health check on key policies, projects and processes. The recommendations from those reports provide management with a way of improving the way we do business.

10.2 The report on the Internal Audit of Mount Lees property and related lease undertaken in November 2017 is attached for consideration.

11 Attachments
• Mount Lees Internal Audit – November 2017
Manawatu District Council

Mt Lees
Internal Audit
November 2017
# Table of contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope and Approach</td>
<td>2</td>
</tr>
<tr>
<td>Executive Summary</td>
<td>3</td>
</tr>
<tr>
<td>Detailed Findings</td>
<td>4</td>
</tr>
<tr>
<td>Appendix</td>
<td></td>
</tr>
<tr>
<td>A – Distribution list</td>
<td>9</td>
</tr>
<tr>
<td>B – Ratings definitions</td>
<td>10</td>
</tr>
</tbody>
</table>
Introduction and background
As required in terms of the approved Internal Audit Plan 2017/18, we have performed a review of the Mt Lees property and related lease.

The Mt Lees Reserve Homestead is set amongst a 29.5ha scenic reserve administered by Manawatu District Council ("MDC"). The homestead block and bush was gifted to the Crown in 1971 and the property was administered by Palmerston North City Council until 1989, when MDC took over the administration. Pertinent details of the current lease are summarised below:

- Effective date of 1 July 2006 with a 10 year lease term, and with a further 10 year term being catered for, terminating 30 June 2026.
- The lease contains both a residential accommodation and commercial element, with the Tenant required to submit annual income statements to determine the rental due on the commercial element. The commercial element works on a sliding scale as follows:
  
  0 - $9,999 – 3%
  
  $10,000 - $19,999 – 5%
  
  $20,000 - $49,000 – 7%
  
  $50,000 and above – 10%
- The use of the premises has been defined as: Residential and bed and breakfast accommodation plus morning/afternoon tea to groups and individuals with the objective of also operating a small conference centre, café, bar and camping ground.
- The Tenant is responsible for the general maintenance within the interior of the property as well as the upkeep of the grounds. Further requirements include:
  
  - Payment of all NZ Fire Services charges and the maintenance charges in respect of all fire detection and fire-fighting equipment.
  
  - Maintenance of $500,000 Public Risk insurance cover, and glass insurance cover.
- The Landlord is responsible for maintaining the reserve grounds, insuring the building against fire and performing any structural maintenance.

Objective and scope: To provide assurance on the adequacy and effectiveness of the MDC managerial control environment surrounding the management of the Mt Lees property and related lease.

Approach: Obtained and reviewed the latest lease agreement; assessed the extent to which the requirements of the lease are being applied; assessed the process and feasibility surrounding the lease renewal.

Exclusion: We have not assessed compliance of the lease pursuant to the Reserves Act 1977.
2 - Executive Summary

Report classification and conclusion

The control environment applicable to the management of the Mt Lees property and lease as detailed in the aforementioned scope, needs to be enhanced to provide management with the required degree of assurance that risk is being managed effectively.

In 2015, Council conducted a comprehensive S17(A) review of Parks and Property. A number of deficiencies were identified by this review with many related to leases. The Draft 2018 Asset Management Plan presented to Council, further highlighted a number of unacceptable risk exposures. This report supports many of the previously identified weaknesses.

We acknowledge that management is aware of many of the identified issues and that the Mt Lees property represents a very small portion of the overall MDC portfolio. As agreed with Council, available resources have been allocated to address identified weaknesses based on priority. Management is however encouraged to take urgent action to address reported “extreme” and “high” risk findings.

Recommendations which have been allocated an extreme or high risk rating include:

- Requesting the Tenant obtains and provides evidence of the required public liability and glass insurance. Compliance should be monitored on an annual basis as part of the overall contract management process.
- Requesting the Tenant remedy the current health and safety non-compliances.
4 - Detailed Findings

4.1 – Lease

Rating: Moderate

Although the Tenant has requested renewal of the lease for a further 10 year period (2016-2026) as allowed for in the original lease, a renewal lease has not been formally concluded.

We reviewed the income statement relating to the homestead and note that expenses exceed rental income received. This is largely due to the fact that the commercial element of the lease has not delivered at the rate originally expected. The Tenant has claimed commercial income ranging between $1,715 and $4,670 per year between 2012 and 2016 rendering a nominal income to Council.

Although the original lease provided for a conference facility, bar and café, this has not been established. Through discussion with the Tenant, the facility has also not catered much in respect of morning/afternoon tea. The current lease provides little incentive for the Tenant to deliver commercial revenue. The Tenant is able to enjoy use of the Homestead for a nominal rental and has received little pressure from Council throughout the first 10 years of the lease to increase revenues.

Our scrutiny of the lease identified a clause allowing for revision of the lease terms should the commercial element prove to be unviable (Clause 2.5 : The Landlord’s expectations (together with those of the Tenant) are that there will be positive growth in the Commercial Element component of the lease and hence an extended period has been agreed to. Should the commercial element prove unviable, the Landlord reserves the right to review the lease conditions. This is not a residential lease.).

We understand that there has been recent communications by Council with the Tenant to encourage greater efforts to grow the Commercial Element of the business. Whilst the Tenant has submitted a Lease Renewal Proposal, there is uncertainty as to what the real effect will be on revenue generation. Many of the proposed items require further investment by Council which may impact on the viability of continuing the arrangement.

Recommendation

It is recommended that management review the Lease Renewal Proposal in order to expedite a decision on the renewal. Should the lease be renewed, the possibility of revising the Commercial element of the lease in light of Clause 2.5 provisions should be investigated and this should be further supported by the inclusion of suitable Key Performance Indicators (KPIs) over the remainder of the lease term. In the event of the Tenant not being accepting of proposed changes, management should seek the necessary legal counsel to determine the way forward.

Management comment and action date

Council has no choice other than to renew the lease with the current Lessee. The process is underway.
Officers have adopted a very risk averse approach to addressing performance of the Lessee. Historically there is only one early documented example where performance issues have been raised with the Lessee over ten years ago, prior to being raised by Management during the lease renewal process.

By taking the risk averse approach, a robust and documented performance process needs to be undertaken, giving the Lessee a fair opportunity to address performance issues in a timely manner.

A meeting was held with the Lessee in December, and a number of performance conditions and targets were provided. Monthly reviews of the Lessee’s performance will be conducted through the 2018 Calendar year.

4.2 – Insurance
Rating: Extreme

We identified that the Lessee has never held the required insurance and Council has not requested evidence thereof. The limit as set by the lease for public liability insurance may also require revision to a higher amount - $1,000,000 is believed to be more suitable.

Although not a Council responsibility to enforce, the Innkeepers Act 1962 requires that all hosts who take paying guests hold the necessary liability insurance cover. The Tenants are therefore not complying with this legislation either.

Recommendation
Management should request that the Tenant obtains and provides evidence of the required insurance. Compliance should be monitored on an annual basis as part of the overall contract management process.

Management comment and action date
Management were not aware of the Lessee’s requirements under the Innkeepers Act 1962. A copy of this insurance was requested from the Lessee and has now been received.

4.3 – Health and Safety
Rating: Extreme

We visited the property and identified that basic fire-fighting equipment and smoke detectors are on site, but that these have not been serviced for some years. It is likely that this could complicate the process in the event of an insurance claim due to fire.

The Fire Service considers the Homestay industry to represent a level of risk which supports the need for an evacuation scheme. At present the minimum recommendations for homestays/B&B’s that can accommodate 5 guests or less are:

- An evacuation advice card displayed in each bedroom
• Smoke alarms in each guest bedroom, each exit route, each public area – if battery operated they should be tested weekly, inspected monthly, and batteries replaced every six months (unless 10 year batteries are installed)
• A minimum 2Kg dry powder fire extinguisher located in or near the kitchen
• The kitchen should have a fire blanket
• A working torch beside every bed to assist egress in dark or smoke filled rooms

Given that there are three bedrooms and therefore is potential for guest numbers to exceed 5, the building falls under section 21A (1) (c) of the Fire Service Act 1975. Due to the building not being sprinkler protected, is required to have an approved evacuation scheme which must be approved by the Fire Service, and which much provide for the safe and quick evacuation of family and household members as well as guests. The Tenant currently does not comply with fire safety regulations.

Furthermore, the Fencing of Swimming Pools Act 1987 requires that the spa pool have proper fencing - spa pool covers are not deemed adequate. The Tenant currently does not comply with this legislation.

We understand that certain food preparation occurs on site with breakfast being served and dinner being provided on request. There has been no consideration of food hygiene and safety standards by the Tenant.

Recommendation

Management should request the Tenant to remedy the situation and comply with the necessary legislation as a matter of urgency as this is in direct contravention of lease requirements and represents a significant exposure to Council.

Management comment and action date

Officers have completed the testing of the extinguishers and smoke alarms.

It is the legal responsibility of the Building Owner to ensure an Evacuation Scheme is in place and followed by the tenant, in accordance with Section 6 (1) of the Fire Safety and Evacuation and Building’s Regulations. Council have engaged an external consultant to prepare a new Evacuation Scheme.

The Spa Pool is a new addition to the premises that wasn’t on site last time Officers visited the premises. We have confirmed that the spa pool complies with Regulations.

4.3 – Income verification

Rating: Moderate

The income spreadsheets provided by the Tenant contain very little detail, they are summarised per month. We have confirmed that no detailed scrutiny of income has occurred during the period of the lease. The Tenant states that they record any bookings in a diary and that a spreadsheet is created at year end for submission. No tax or GST returns accompany the submission.
The lease has set no minimum available days that the bed and breakfast is to remain open. Through discussion with the Tenant, it was determined that they are away for most of the winter. It is their view that the Homestead is a summer facility. This could negatively impact on the Homestead’s income generating ability.

**Recommendation**

Whilst the means by which to monitor income is complicated, management should request that the Tenant provide greater detail in respect of bookings e.g. number of nights, number of people and rate per night. Should the lease be adapted to include suitable KPIs, this should further facilitate Council’s ability to monitor and promote increased commercial activity. Management may wish to consider a fixed rental when concluding future leases to alleviate the compliance burden attached to income verification.

**Management comment and action date**

Overnight stay and accommodation detail is being formally measured and followed through as part of regular performance meetings planned for the 2018 calendar year, to address performance issues with the Lessee.

4.4 – Repairs and Maintenance

**Rating: Moderate**

The interior of the property was found to be generally well kept with no evidence of the property being used purely for residential purposes rather than for its intended purpose. The outside of the property was found to be generally neat and tidy, however it would seem that the exterior of the Homestead would benefit from a fresh coat of paint. We understand that this has not been done during the period of the lease.

Through discussion, we confirmed that no additional improvements have been made by the Tenant to the property. It is our understanding that certain wiring repairs were undertaken by the Tenant recently. Whether such repairs comply with electrical requirements is unclear. Management may wish to obtain an electrical certificate to satisfy itself that there are no exposures.

We were unable to obtain evidence of any formal property inspections over the term of the lease. Through discussion with the Tenant, it has been determined that no formal inspections have been performed by Council.

**Recommendation**

Management should ensure that formal inspection of the property occurs on a regular basis. Such inspections should note any repairs and maintenance issues, non compliance with fire requirements or other non-compliance with lease requirements. Any repairs conducted by the Tenant should be noted and the necessary electrical inspection certificates obtained and kept on file.
In addition, management should request that the Tenant comply with lease requirements in respect of painting of the exterior.

**Management comment and action date**

The exterior maintenance of the building is the Landlords responsibility. Funding has been sought through the 2018 Long Term Plan for this.

We sought clarification from the tenant as to exactly what electrical repairs have occurred, to determine if further action was required. The Lessee has confirmed electrical repairs extended to the replacement of light bulbs only.

We can confirm that a number of inspections have been undertaken over the first term of the Lease. Due to staff changes documentation of these inspections has not been forthcoming.
Appendix A - Distribution List

Richard Templer - Chief Executive Officer
Brent Limmer - General Manager – Community and Strategy
Doug Tate - Community Facilities Manager

For information
Stuart Campbell - Audit & Risk Committee Chair
Appendix B – Ratings Definitions

Overall report rating

The following rating definitions are used in assessing the control environment of the area subject to internal audit.

<table>
<thead>
<tr>
<th>The Internal Audit identified one or more of the following</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cause for considerable concern</strong></td>
</tr>
<tr>
<td>• Significant control design improvements identified to ensure that the risk of material loss is minimised and functional objectives are met.</td>
</tr>
<tr>
<td>• An unacceptable number of controls (including a selection of both significant and minor) identified as not operating for which sufficient mitigating back-up controls could not be identified.</td>
</tr>
<tr>
<td>• Material losses have occurred as a result of control environment deficiencies.</td>
</tr>
<tr>
<td>• Instances of fraud or significant contravention of Council policy detected.</td>
</tr>
<tr>
<td>• No action taken on previous significant Internal Audit findings to resolve the item on a timely basis.</td>
</tr>
<tr>
<td><strong>Cause for concern</strong></td>
</tr>
<tr>
<td>• Control design improvements identified to ensure that the risk of material loss is minimised and functional objectives are met.</td>
</tr>
<tr>
<td>• A number of significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified.</td>
</tr>
<tr>
<td>• Losses have occurred as a result of control environment deficiencies.</td>
</tr>
<tr>
<td>• Little action taken on previous significant Internal Audit findings to resolve the items on a timely basis.</td>
</tr>
<tr>
<td><strong>No major concerns noted</strong></td>
</tr>
<tr>
<td>• Control design improvements identified, however the risk of loss is immaterial.</td>
</tr>
<tr>
<td>• Isolated or “one-off” significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified.</td>
</tr>
<tr>
<td>• Numerous instances of minor controls not operating for which sufficient mitigating back-up controls could not be identified.</td>
</tr>
<tr>
<td>• Some previous significant Internal Audit action items have not been resolved on a timely basis.</td>
</tr>
<tr>
<td><strong>No or limited scope for improvement</strong></td>
</tr>
<tr>
<td>• No control design improvements identified.</td>
</tr>
<tr>
<td>• Only minor instances of controls identified as not operating which have mitigating back-up controls or the risk of loss is immaterial.</td>
</tr>
<tr>
<td>• All previous significant Internal Audit items have been closed.</td>
</tr>
</tbody>
</table>
**Issue ratings – individual controls**

The following ratings as defined are applied to all issues identified in the course of our internal audit work:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Extreme (E)</strong></td>
<td>A very serious weakness likely to compromise internal control or operational efficiency; immediate action required as key controls are ineffective. Issue resolution will be monitored by Audit Committee and executive management.</td>
</tr>
<tr>
<td><strong>High (H)</strong></td>
<td>A significant weakness which could compromise internal control or operational efficiency and should be addressed as a matter of some urgency as soon as reasonably practicable (normally within 12 months). Issue resolution will be monitored by executive and senior management.</td>
</tr>
<tr>
<td><strong>Moderate (M)</strong></td>
<td>A weakness which could undermine the system of internal control or operational efficiency and requires improvement in the short term (normally within 12 to 24 months). Issue resolution to be monitored by senior management.</td>
</tr>
<tr>
<td><strong>Low (L)</strong></td>
<td>A weakness which does not seriously detract from the system of internal control or operational efficiency and is raised for management consideration only. If required, action should be taken within a specified period of time as determined by management and be monitored by the business.</td>
</tr>
</tbody>
</table>
Audit and Risk Committee

Meeting of 16 February 2018

Business Unit: Corporate and Regulatory
Date Created: 01 February 2018

Protected Disclosure Policy

Purpose
To present the Manawatū District Council’s Protected Disclosure Policy for information.

Significance of Decision
The Council’s Significance and Engagement policy is not triggered by matters discussed in this report.

Recommendations
That the Audit and Risk Committee receives the report of the General Manager – Corporate and Regulatory dated 1 February 2018 presenting the Manawatū District Council’s Protected Disclosure Policy for information.

Report prepared by:
Allie Dunn
Governance Team Leader

Approved for submission by:
Shayne Harris
General Manager - Corporate and Regulatory

1 Contribution to the Council Vision and Council Outcomes

1.1 Relationship to the Council Outcomes that underpin the Council’s Vision:

Connected, vibrant and thriving Manawatū – the best rural lifestyle in New Zealand

<table>
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<tr>
<th>Manawatū District will improve the natural environment, stewarding the district in a practice aligned to the concept of kaitiakitanga.</th>
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</tr>
</thead>
</table>

✔
2 Background

2.1 As part of its suite of management policies, the Council has a Protected Disclosure Policy.

2.2 Every employee of Manawatū District Council is required to read each of the policies and to sign that they have read and understood these.

2.3 The Audit and Risk Committee asked that the Protected Disclosure Policy be reported to them for review.

3 Discussion and Options considered

3.1 The Council’s Protected Disclosure Policy was first adopted in June 2006, and was recently updated. A copy of the current version is attached for information.

4 Operational Implications

4.1 There are no capital / operating expenditure implications or maintenance costs associated with this paper.

5 Financial implications

5.1 There are no direct financial implications associated with this paper.

6 Statutory Requirements

6.1 The Protected Disclosure Policy was developed to comply with the statutory provisions of the Protected Disclosures Act 2000 “the Whistleblowers” Act. This Act protects employees who raise with their employer or an outside agency, concerns about serious wrongdoing within their workplace.

7 Delegations

7.1 The Terms of Reference for the Audit and Risk Committee include the responsibility for Risk management and the system of internal controls, including setting the Council’s appetite for risk, understanding the key risk areas including likelihood and consequences, considering the effectiveness of internal controls; and fraud risk and procurement risk.

8 Consultation

8.1 There are no community consultation requirements associated with this report.

9 Cultural Considerations

9.1 There are no cultural considerations associated with this report.
10 Conclusion

10.1 The Council’s management policies relating to protected disclosures are provided for information purposes.

11 Attachments

- Appendix 1 – Manawatū District Council – Protected Disclosure Policy
Contents
Protected Disclosure Policy........................................................................................................ 2
1. Policy .................................................................................................................................. 2
2. Definitions .......................................................................................................................... 2
3. Procedures for reporting and investigating Serious Wrong doing ................................ 2
4. Exceptions to Disclosing Wrongdoing Information to Appointed Co-ordinator ............3
5. Protection ........................................................................................................................... 4

Type of policy | Management
Original policy date (adopted) | 19/06/2006
Policy updated / Reconfirmed | 31/1/2018 (U)
Policy Section | P&C
Policy review due | January 2019
Protected Disclosure Policy

1. Policy

1.1. This policy has been developed to comply with the statutory provisions of the Protected Disclosures Act 2000.

2. Definitions

2.1. What is a Protected Disclosure?

2.1.1. The Protected Disclosures Act 2000 is a “Whistleblowers” Act. It protects employees who raise with their employer or an outside agency, concerns about serious wrongdoing within their workplace organisation.

2.1.2. An employee may disclose information about serious wrongdoing if the employee reasonably believes that the information is true or likely to be true, and in addition the employee wishes the suspected wrongdoing to be investigated. This information should be disclosed as soon as possible.

2.1.3. As it is in the public interest that the wrongdoing should be raised by an employee without fear of retaliation, an employee who discloses information of wrongdoing in accordance with this policy will be protected from any disciplinary action. This protection does not apply to an employee who makes a disclosure knowing it to be false, or to disclosures that are malicious, vexatious or in bad faith.

2.2. What Constitutes Serious Wrongdoing?

2.2.1. Serious wrongdoing may be any of the following:

- Unlawful, corrupt or irregular use of public funds or public resources; or
- An act, omission, or course of conduct that constitutes a serious risk to public health or public safety or the environment; or
- An act, omission, or course of conduct that constitutes a serious risk to the maintenance of law, including the prevention, investigation and detection of offences and the right to a fair trial; or
- An act or omission, or course of conduct that constitutes an offence; or
- An act, omission, or course of conduct by a public official that is oppressive, improperly discriminatory, or grossly negligent, or that constitutes gross mismanagement.

3. Procedures for reporting and investigating Serious Wrongdoing

3.1. Who Should the Employee Approach with the Information?

3.1.1. Where an employee wishes to disclose information about serious wrongdoing, s/he should approach one of the following managers who have been appointed Protected Disclosure Co-ordinators:
3.1.2. The information disclosed will then be investigated by the Co-ordinator or a team of co-ordinators if required, and action or recommended action taken within 20 working days of it being raised. The Co-ordinator will use his/her best endeavours to keep confidential the identity of the employee disclosing the information.

3.1.3. The Co-ordinator may have to disclose the employee’s identity if she/he considers it is essential to the investigation of the allegations, or is essential to prevent serious risk to public health, public safety or the environment, or is essential for reasons of natural justice.

3.1.4. In any event, the identity of the employee disclosing the information may be revealed if that person consents to this in writing.

4. **Exceptions to Disclosing Wrongdoing Information to Appointed Co-ordinator**

4.1.1. There might be occasions when disclosing the information of wrongdoing to the Co-ordinator is inappropriate. The following sections deal with the different options open to the employee wishing to make the disclosure.

4.1.2. The employee may make disclosure of the wrongdoing information to the Chief Executive or to the General Manager – People & Culture instead of to the appointed Co-ordinators in the following circumstances:

   - If the employee reasonably believes that the appointed Co-ordinator is or may be involved in the serious wrongdoing alleged in the disclosure; or,
   - If the employee reasonably believes that it is not appropriate to make the disclosure to the appointed Co-ordinator because of any relationship or association between the Co-ordinator and a person who is or may be involved in the serious wrongdoing alleged in the disclosure.

4.1.3. The employee may seek to make disclosure of the wrongdoing information to an external body in the following circumstances:

   - If the employee reasonably believes that the Chief Executive of the Manawatū District Council is or may be involved in the serious wrongdoing alleged in the disclosure; or
   - Immediate reference to an appropriate authority is justified by reason of the urgency of the matter to which the disclosure relates, or some other exceptional circumstance; or
   - Where there has been no action or recommendation of action on the matter to which the disclosure relates within 20 working days after the date on which disclosure was made.
4.1.4. Under the Act, the external bodies to which the employee may have recourse above is called an “appropriate authority”. The Act lists the appropriate authorities and it includes:

- the Commissioner of Police
- the Controller and Auditor-General
- the Director of the Serious Fraud Office
- the Inspector-General of Intelligence and Security
- an Ombudsman
- the Parliamentary Commissioner for the Environment
- the Independent Police Conduct Authority
- the Solicitor-General
- the State Services Commissioner
- the Health and Disability Commissioner;

4.1.5. But does not include:

- a Minister of the Crown; or
- a member of Parliament

4.1.6. If the employee has raised the protected disclosure with the Chief Executive or the General Manager – People & Culture of the Manawatū District Council, or has raised it with an appropriate authority, and the person or appropriate authority has decided not to investigate the matter, or the investigation has not made progress within a reasonable time, or they have not taken any action in respect of the matter, or not recommended taking any action, the employee may seek to disclose the information to a Minister of the Crown or an Ombudsman, in accordance with the provisions of the Act.

5. Protection

5.1.1. If an employee makes a genuine protected disclosure and is then dismissed as a retaliatory action, the employee may have a claim for unjustified dismissal.

5.1.2. If the retaliatory action consists of action other than dismissal, such as demotion, the employee may have a personal grievance based on an unjustified disadvantage.

5.1.3. An employee who makes a genuine protected disclosure of information or refers protected disclosure of information to an appropriate authority for investigation will not be liable to any civil or criminal proceeding or to any disciplinary proceedings for having made that disclosure.

5.1.4. This protection, conferred by the Protected Disclosures Act 2000, does not apply where the employee knowingly makes a false allegation, or otherwise acts in a manner that is malicious, vexatious or in bad faith.
5.1.5. If the Employee wants more information about protected disclosures, or wants to know the full list of appropriate authorities and who would be appropriate to contact, the employee can call the Office of the Ombudsman.
Audit and Risk Committee

Meeting of 16 February 2018

Business Unit: Corporate and Regulatory
Date Created: 05 February 2018

Sensitive Expenditure Policy

Purpose

To present the Manawatū District Council’s Sensitive Expenditure Policy for information.

Significance of Decision

The Council’s Significance and Engagement policy is not triggered by matters discussed in this report.

Recommendations

That the Audit and Risk Committee receive the report of the General Manager – Corporate and Regulatory dated 5 February 2018 presenting the Manawatū District Council’s updated Sensitive Expenditure Policy for information.

Report prepared by:
Allie Dunn
Governance Team Leader

Approved for submission by:
Shayne Harris
General Manager - Corporate and Regulatory

1 Contribution to the Council Vision and Council Outcomes

1.1 Relationship to the Council Outcomes that underpin the Council’s Vision:

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<tr>
<td>✓</td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

111
2 Background

2.1 As part of its suite of management policies, the Council has a Sensitive Expenditure Policy.

2.2 Every employee of Manawatū District Council is required to read each of the management policies and to sign that they have read and understood these.

2.3 The Sensitive Expenditure Policy has recently been reviewed.

3 Discussion and Options considered

3.1 The Sensitive Expenditure Policy was provided to the Audit and Risk Committee meeting held 11 August 2017.

3.2 The policy was then reviewed and updated in December 2017.

3.3 A number of changes were made to the policy, including the following:

- Updated wording to refer to “purchase card” rather than “credit card”;
- Including Her Worship the Mayor in the purchase card policy;
- New procedure for purchase card expenditure approval;
- Changes to vehicle use policies;
- Changes to gift register policy; and
- Removal of ability of staff to make private purchases through Council suppliers.

3.4 The updated policy is attached in Appendix 1 to this report.

4 Operational Implications

4.1 There are no capital / operating expenditure implications or maintenance costs associated with this paper.

5 Financial implications

5.1 There are no direct financial implications associated with this paper.

6 Statutory Requirements

6.1 There are no statutory requirements associated with this paper. However the practice of identifying risks and determining how risks will be managed assists Council in maintaining legal compliance. In developing its Risk Appetite Statement, the Council recognised the need to place high importance on compliance, regulation and public protection and determined that it had no appetite for breaches in statute and regulation.
Delegations

7.1 The Terms of Reference for the Audit and Risk Committee include the responsibility for Risk management and the system of internal controls, including setting the Council’s appetite for risk, understanding the key risk areas including likelihood and consequences, considering the effectiveness of internal controls; and fraud risk and procurement risk.

Consultation

8.1 There are no community consultation requirements associated with this report.

Cultural Considerations

9.1 There are no cultural considerations associated with this report.

Conclusion

10.1 The Council’s management policy relating to sensitive expenditure is provided for information purposes.

Attachments

- Appendix 1 – Manawatū District Council – Sensitive Expenditure Policy
Sensitive Expenditure Policy

1. Purpose

1.1.1. This policy addresses issues referred to in the Controller & Auditor-General’s good practice guide, ‘Controlling sensitive expenditure: Guideline for public entities’ (February 2007).

1.1.2. The purpose of this policy is to:

- set out clearly the principles and decision guidelines for sensitive expenditure
- set out clearly defined parameters for sensitive expenditure
- ensure that sensitive expenditure is assessed, authorised and reviewed consistently for all staff and elected members

2. Definitions

2.1.1. **Conflicts of interest** exist when staff duties or responsibilities to Council could be, or could perceived to be, affected by some other separate interest or duty. Conflicts of interest can have both legal and ethical dimensions.

2.1.2. **Credit card** has the normal meaning, but should be read as applying to vehicle fleet cards, purchase cards, and equivalent cards used to obtain goods and services before payment is made.

2.1.3. **Proper and prudent behaviour**, in relation to expenditure, includes identifying and managing conflicts of interest (or situations with the potential to be perceived as conflicts of interest); being fair, honest, transparent, circumspect, and careful to avoid undesired consequences; and being accountable for complying with organisational controls over expenditure.

2.1.4. **Sensitive Expenditure** is expenditure by Council that provides, has the potential to provide, or has the perceived potential to provide a private benefit to an individual staff or elected member, that is additional to the business benefit to Council of the expenditure. It also includes expenditure by Council that could be considered unusual for Council’s purpose and/or functions.

3. Application

3.1.1. This policy applies to:

- staff of Manawatu District Council
- any contractor or consultant who agrees to be covered by this policy under the terms of their engagement agreement
- temporary staff supplied through an agency
- seconded personnel
3.1.2. All agreements relating to agency staff, seconded personnel, contractors and consultants should contain an express obligation on them to comply with policy.

3.1.3. This policy does not apply to:

- items of sensitive expenditure specifically provided for by employment agreements
- severance payments
- the tax implications, if any, of either private or organisational benefits obtained from sensitive expenditure
- Councillors, who are subject to provisions within the Local Authorities (Members' Interests) Act 1968, the Local Government Act 2002, and Manawatu District Council’s Code of Conduct for Elected Representatives

3.1.4. This policy should be read alongside the Council's Protected Disclosures policy.

4. Policy

4.1. Principles applicable to sensitive expenditure

4.1.1. Council is spending public money – it is not the property of staff or elected members to do with as they please. Consequently, all expenditure should be subject to a standard of probity and financial prudence that is to be expected of a local authority and be able to withstand public scrutiny.

4.1.2. Those standards apply the principle that expenditure decisions:

- have a justifiable business purpose.
- preserve impartiality.
- are made with integrity.
- are moderate and conservative, having regard to the circumstances.
- are made transparently.
- are appropriate in all respects.

4.1.3. In practice, an authorised staff member will make the decision on and/or payment for each item of sensitive expenditure. They will need to exercise careful judgement in accordance with these principles and this policy. This will always be about balance in the particular context. The principles must also be applied as a set as all are equally important.

4.2. Deciding when sensitive expenditure is appropriate

4.2.1. The quantity of money spent on an item of sensitive expenditure may be small relative to Council’s total expenditure. However, each sensitive expenditure decision is important, because improper expenditure could harm the reputation of, and trust in, the Council as well as local authorities in general.
4.2.2. In deciding what appropriate sensitive expenditure is, Council staff and elected members need to take account of both individual transactions and the total amount of sensitive expenditure.

4.2.3. Even when sensitive expenditure decisions can be justified at the item level, the combined amount spent on a category of expenditure may be such that, when viewed in total, the entity could be criticised for extravagance and waste.

4.3. **The responsibilities of the Mayor, Councillors and Executive Team**

4.3.1. To be truly effective, this sensitive expenditure policy, procedures and other controls must be embedded in the Council’s values, practices and business processes. When this occurs, everyone at Council becomes involved in the proper and prudent management of sensitive expenditure.

4.3.2. Overall responsibility for this policy rests with those at the top of Council, the Mayor, Councillors and Executive Team. This group must make it clear to staff what is and is not acceptable sensitive expenditure. This group also must model those behaviours to the highest standard.

4.4. **Good controls and judgement**

4.4.1. While the good controls at Council will assist good sensitive expenditure decisions, good judgement will also be required. This is because it is not possible or desirable to attempt to set rules for every possible situation that may arise. In the absence of a specific rule for a given situation, the Mayor, Councillors and the Executive Team are expected to exercise good judgement by taking the principles in this policy into account in the context of the given situation.

4.4.2. The Mayor, Councillors and the Executive Team are required to ensure transparency in both sensitive expenditure and remuneration systems, to avoid any trade-off between the two. Items of expenditure that may not be justified under the principles of this policy should not be included as part of an employee’s remuneration for the purposes of avoiding scrutiny against sensitive expenditure principles.

4.5. **General controls for sensitive expenditure**

4.5.1. Approval of sensitive expenditure should be:

- given only where the person approving the expenditure is satisfied that a justified business purpose and other principles have been adequately met
- given before the expenditure is incurred, wherever practical
- made within delegated authority in accordance with the Delegations Manual and only where budgetary provision exists
- given by a person senior to the person who will benefit or might be perceived to benefit from the expenditure, wherever practical. Where this is not possible, this fact should be recorded, and any such expenditure should be subject to some form of monitoring
given only where the person approving the expenditure is satisfied the expenditure supports the Council’s Vision and Values

4.5.2. In the case of the Executive Team the ‘one-up’ principle must be applied to the maximum extent possible. However, there will be some instances where an alternative approach will be required because there is no more senior person. In such instances, it is essential that there should be no reciprocal arrangement for approving sensitive expenditure. The Mayor will sign off the Chief Executive’s purchase card expenditure. The Chair of the Audit and Risk Committee will sign the Mayor’s purchase card expenditure.

4.5.3. In the case of expenditure incurred by the Mayor or other elected officials (not explicitly approved by Council), this is subject to review by the Chief Executive for compliance with this policy.

4.5.4. Claims relating to sensitive expenditure need to:

- clearly state the business purpose of the expenditure - where this is not clear from the supplier documentation supporting the claim, a written statement of the purpose should be included as part of the claim
- be accompanied by adequate original (not photocopied) supporting documentation, such as tax invoices or other validating documentation – credit card statements and EFTPOS receipts do not constitute adequate documentation for reimbursement
- document the date, amount, description, and purpose for minor expenditure (<$20) when receipts are not available
- be submitted promptly after the expenditure is incurred. Except in exceptional circumstances, this means within one month of the expenditure being incurred

4.5.5. The Mayor, Councillors and staff are, in accordance with the principles of this policy, required to exercise prudent judgement regarding all Council related expenditure.

5. Issue and operation of Council purchase cards

5.1.1. Using purchase cards is not a type of sensitive expenditure but is a common method of payment for such expenditure. This policy is designed to minimise the risks associated with their use namely:

- inappropriate business-related expenditure (in both quantity and type)
- to obtain cash for a business purpose, with subsequent expenditure being poorly documented or justified
- for personal benefit, by obtaining cash or paying for personal items

5.1.2. Eligibility for purchase cards. The following sets out who is eligible for a purchase card:

- the Mayor, Chief Executive and General Managers authorised under this policy
• the Chief Executive may approve the issue of additional cards to staff where that is appropriate. Before authorising the issuing of additional cards the Chief Executive must be satisfied that they are strictly necessary to cover either regular travel or are to be used for administrative efficiencies eg. payment of properly authorised purchases from overseas

5.1.3. Use of purchase cards

• In approving the issue of a card, the Chief Executive will confirm the approved credit limit. The credit limit will be set based on the minimum amount necessary to enable the cardholder to undertake their Council duties. The purchase card limit for the Chief Executive shall be set at $10,000 and $5,000 for Mayor and General Managers.

• All transactions are to be reviewed and approved monthly by the cardholder’s manager. This review/approval is to be completed by the 10th of the following month and forwarded to the Finance Team. The cardholder will code items for posting in the accounting system. Card limits will be set to ensure they are within the limits set in the Delegation Manual.

• The Chief Financial Officer or the Accounting Operations Manager will be responsible for monitoring all purchase card use on a monthly basis. The Chief Executive will be provided with a monthly transaction list of all cards. Non-compliance with the stated policy and procedures will result in the immediate suspension of the card.

• On the card holder’s termination of employment the card will be returned to the Chief Financial Officer who will arrange with the bank to cancel the card, physically destroy the card and confirm this to the Chief Executive.

• The use of Council purchase cards for private expenditure or credit is prohibited except in exceptional circumstances, where prior approval is required from the Chief Executive. In these rare cases, the expenditure is to be fully reimbursed to Council prior to the monthly purchase card payment being due.

• All purchase card transactions must be supported by original documentation to explain and collaborate transactions. The business reason and other parties (if any) must be recorded along with the purpose of the meeting for all entertainment and travel transactions.

• The cardholder will not give the PIN to the card to anyone else.

5.1.4. Purchase cards may not be used to obtain cash advances unless:

• cash is required in an emergency (usually related to travel on Council business).

• cash is required for official purposes (in rare circumstances) and there has been express prior approval from the Chief Executive, General Manager or Civil Defence Controller.

5.1.5. Purchase card payments over the internet need to reflect good security practice:

• Purchase card payments over the internet need to reflect good security practice, such as purchasing from only established reputable companies known.
to Council. The cardholder must keep a copy of any online order forms and invoice to support the payment.

- Online purchases must comply with Council’s normal purchasing policies and controls.

5.1.6. The unauthorised use or the misuse of a Council purchase card is treated as serious misconduct that will result in formal disciplinary action being taken. For repeat offenders or where the breach of this policy is significantly serious, the card will be automatically cancelled and subject to procedures under Council’s Disciplinary Policy.

5.1.7. Council reserves the right to recover inappropriate expenditure or expenditure with inadequate or untimely documentation (see section 5.3) directly from the cardholder.

6. Issue and operation of Council virtual credit cards

6.1. Virtual credit cards will be issued in the Customer Contact Centre, the Finance Team, the Community and Strategy Group and the Infrastructure Group. Card, transaction limits and the responsible staff member are to be approved by the Chief Executive.

6.1.2. Virtual credit cards are to be used for internet payments and other transactions where the “card not presented” is allowed.

6.1.3. Although other staff members may be given access to use the card, the responsible staff member must ensure the expenditure is supported, coded and reconciled at the end of each month. Expenditure is to be approved by the relevant General Manager and forwarded to the Finance Team.

6.1.4. All expenditure must be appropriately authorised (as per the delegation manual) prior to utilising the card.

6.1.5. All principles and rules in section 5 also apply to virtual credit cards.

7. Travel and accommodation expenditure

7.1. Principles

7.1.1. Elected officials and Council staff may need to incur travel and accommodation costs while conducting Council business elsewhere in New Zealand or overseas. The principles of a justified business purpose, moderate and conservative expenditure, are particularly relevant for travel and accommodation expenditure.

7.1.2. Travel and accommodation expenditure should be economical and efficient, having regard to purpose, distance, time, urgency and personal health, security and safety considerations.

7.1.3. Where travel arrangements are extended to accommodate personal arrangements, all costs in addition to those that would be expected for the business component of the trip are the responsibility of the staff member or elected official. Travel costs of
accompanying spouses, partners, or other family members will be the personal responsibility of the staff member or elected official.

7.2. Air travel

7.2.1. To the extent practical, air travel is to be booked well ahead of the actual travel date, so the expenditure is the most cost-effective possible.

7.2.2. Discounted economy or economy class and/or a discount airline is to be the first choice for journeys where the uninterrupted flight time is at least four hours or less, except where the distance or hours travelled, work schedule on arrival, or personal health, safety or security reasons make business class preferable. In all circumstances, first class travel is prohibited.

7.2.3. Council payment for membership of airline travel clubs e.g. Koru Club requires the express approval of the Chief Executive. Membership must be supported by a clear business purpose and reviewed annually.

7.3. Air points

7.3.1. Air points (from loyalty schemes) accruing to staff and elected officials carrying out their official duties remain the benefit of the Council, provided the use of carriers supplying air points does not result in Council incurring additional costs. Air points may be used by individuals as a quid pro quo for time of travel outside work hours and in recognition that membership of air points is an individual choice. Staff are required to book travel through the centralised travel process administrated by Customer Contact Centre.

7.4. Meals and accommodation when travelling

7.4.1. To the extent practical, accommodation is to be booked well ahead of the actual travel date, so the expenditure is the most cost-effective possible. This must take into account the location of the accommodation relative to the event, the standard of the accommodation and security issues.

7.4.2. Where Elected officials and Council staff choose to stay privately and where this will not significantly result in extra travel or other costs being incurred, a daily allowance of $50 per night may be claimed to allow a gift or contribution to be given to the host.

7.4.3. Council will not reimburse mini-bar/video expenses.

7.4.4. All charges for business related telephone calls, faxes, email and internet access made by Council staff or elected official while travelling on Council business will be reimbursed. Council will also pay for one toll call home (10-15 minutes) each day while staff are travelling on Council business.
7.4.5. Accommodation ‘check out’ times are to be observed. In the absence of extenuating circumstances, any additional costs incurred as a result of failing to check out on time are the responsibility of the staff member or elected official.

7.4.6. Reasonable expenses will be met for unexpected events eg. overnight expenses due to a cancelled plane flight.

7.4.7. Where meals are required while travelling, ‘actual and reasonable’ meal expenses may be claimed which includes alcoholic drink (generally one or two drinks). Claims need to be supported by receipts. Separate meal expenses may not be claimed if a meal has been provided as part of the meeting, conference, training etc.

7.5. **Motor Vehicles and Taxis**

7.5.1. Council requires that the most economical type and size of rental car be used, consistent with the requirements (including the distance and number of people) of the trip. Rental cars are only available for business conducted outside the district. Any fines (parking or traffic offences) incurred while using a rental vehicle are the responsibility of the driver.

7.5.2. Private use of a rental car is only permitted in exceptional circumstances (such as reasonable weekend use when the driver is away from home and undertaking work for Council before and after the weekend) and requires the express approval of a General Manager or Chief Executive. All additional costs as a result of private use are the responsibility of the employee or elected official.

7.5.3. Council expects the use of taxis to be moderate, conservative and cost effective relative to other transport options. Wherever practicable shuttle or bus services are to be used in lieu of taxis. Council funded taxis are not available for travel between home and office.

7.5.4. Taxi cards are only to be issued in an individual’s name and require the express approval of a General Manager or Chief Executive. All use of taxi cards/chits is to be transparent with the purpose of each trip recorded on the account.

7.5.5. Council vehicles (except those provided explicitly under a remuneration arrangement) are not available for private use. Any fines (parking or traffic offences) incurred while using a Council vehicle are the responsibility of the driver unless the fines relate to an aspect of the condition of the vehicle outside the driver’s control. Full details on the provision of use of Council vehicles are contained in the Council’s ‘Vehicle Policy’.

7.5.6. Staff are expected to use a Council vehicle for Council business if one is available. However, it is not always an efficient use of a Council vehicle if it is only used to travel to a venue and then be parked up for the day, in which case taking a private vehicle may be considered more efficient. Approval in advance via e-mail from the General Manager is required in all instances where reimbursement by Council is claimed. Where the General Manager has approved use of a private vehicle, mileage
reimbursement for running costs will be made in accordance with the current Council ‘Vehicle Policy’. All reimbursement claims for use of a private motor vehicle must be made on Council’s expenses claim form located on the intranet (under Finance). Staff should attach the ‘approval e-mail’ to the expense claim.

7.5.7. The vehicle owner must ensure that they have appropriate insurance cover for the vehicle while it is being used on Council business. Any fines (parking or traffic offences) incurred while using a private vehicle on Council business are the responsibility of the driver.

7.5.8. Council vehicles may be provided explicitly under a remuneration arrangement. In most instances, Council vehicles will be attached to a particular position and not to an individual (and therefore will not be provided for explicitly under a remuneration arrangement). In those cases, the following provisions apply in addition to those in Council’s ‘Vehicle Policy’:

- a vehicle provided to the Chief Executive (or any replacement) require the express approval of the Mayor. This approval will confirm the capital expenditure amount
- vehicles (or replacements) provided to other staff require the express approval of the Chief Executive. In determining whether a vehicle is provided and the type of vehicle, the Chief Executive will consider specific industry practices, market requirements, the job function, and Council’s vehicle replacement policy
- Any fines (parking or traffic offences) incurred while using a Council vehicle provided under a remuneration arrangement are the responsibility of the driver unless the fines relate to an aspect of the condition of the vehicle outside the driver’s control

7.6. Tipping

7.6.1. The probity issue associated with tipping is that it is discretionary and usually undocumented expenditure. Tipping should not in any circumstances be extravagant. The principle of moderate and conservative expenditure is particularly relevant.

7.6.2. Council will not reimburse staff or elected officials for tipping while they are on business in New Zealand. Council will reimburse staff and elected officials for low to moderate tipping during international travel only in places where tipping is local practice.

7.7. Other travel issues

7.7.1. The use of communication technology. Council expects that the use of communication technology equipment eg. cell phones, telephones, email and internet access should be moderate. Reasonable private use to clear email and communicate with family members is permitted.
7.7.2. Private travel linked with official travel. Staff and elected officials with the express approval of the Chief Executive or Mayor (as applicable) may undertake private travel before, during or at the end of Council travel, provided there is no additional cost to Council and the private travel is only incidental to the business purpose of the travel.

7.7.3. Travelling spouses, partners, or other family members. As a general principle, travel cost for accompanying spouses, partners or other family members are a personal expense and will not be reimbursed by Council. In those rare instances where the involvement of a spouse directly contributes to a clear business purpose and pre-approval has been obtained from the Chief Executive, then Council may contribute to all or part of the additional costs.

7.7.4. The cost of stopovers. Council will only reimburse the cost of any stopover where they are pre-approved by the Chief Executive and have a clear business purpose.

8. Training/Conference Approval

8.1. Policy

8.1.1. Staff attendance at conferences, courses, seminars etc, will be subject to the overall approval of the respective General Manager. Staff are required to complete the intranet based ‘Training and Travel’ request which requires approval by their manager. Managers should consult their General Manager on their staffs’ attendance at training. Registrations for any training/conference and/or travel arrangements shall not be made until approval is given by the manager.

8.1.2. Staff need to refer to the Sensitive Expenditure Policy regarding accommodation, meals and travel expenses.

8.1.3. Expenses incurred by a staff member’s spouse/partner accompanying him/her to any conference, course, seminar etc, must be met by the staff member.

8.1.4. The attendance of a staff member at any overseas conference will be subject to the approval of the Chief Executive.

9. Entertainment and hospitality expenditure

9.1.1. Entertainment and hospitality can cover a range of items from tea, coffee and biscuits to catering, such as meals and alcohol. It also includes non-catering related items, such as Council funded entry to sporting or cultural events.

9.1.2. Expenditure on entertainment and hospitality is sensitive because of the range of purposes it can serve, the opportunities for private benefit and the wide range of opinions on what is appropriate.

9.2. Business purposes of entertainment and hospitality.

9.2.1. Five business purposes of entertainment and hospitality have been identified:
• building relationships
• representing the organisation
• reciprocity of hospitality where this has a clear business purpose and is within normal bounds – acceptance of hospitality is expected to be consistent with the principles and guidance for provision of hospitality
• recognising significant organisation achievement
• building revenue

9.2.2. In occasional circumstances, supporting the Council’s internal organisational development may also be a legitimate business purpose for moderate expenditure.

9.2.3. Given the many non-commercial functions of Council, there will only be limited justification for expenditure under some of the five purposes of entertainment and hospitality above, except in commercial business units.

9.2.4. The principles of a justified business purpose, moderate and conservative expenditure are particularly relevant to Council. Council requires tight control of expenditure and transparent reporting.

9.3. Entertainment and hospitality expenditure

9.3.1. Where practical, pre approval via email from the General Manager on all entertainment and hospitality expenditure is required. Approvals require clear documentation including the date, venue, costs, recipients and benefits derived and/or reasons for the event. The most senior person present should approve and confirm the expenditure as being appropriate.

10. Disposal of assets

10.1.1. Disposal of surplus assets. This section covers obtaining, disposing or using goods and services that are not covered by the terms and conditions of employment.

10.1.2. As part of normal business Council will from time to time dispose of assets. Typically, this is when the assets have become obsolete, worn out or surplus to requirements. Council’s disposals are intended to be both transparent and fair.

10.1.3. Council will not dispose of assets to staff or elected officials or related parties at a discounted rate if a greater net value is likely to be realised by an alternative method of sale.

10.1.4. The principles of preserving impartiality and integrity are particularly relevant. Council expects staff disposing of assets not to benefit personally from the disposal. All disposals are to be handled in a manner that ensures the staff’s personal judgement or integrity are not compromised.

10.1.5. To ensure transparency, fairness and receipt of best value for Council, the disposal of assets, which have become obsolete, worn out or surplus to requirements, shall
normally be conducted on the open market or by way of trade-in on a replacement asset.

10.1.6. Where disposal to officers or elected officials is approved by the Chief Executive (or delegated by the Chief Executive), the following principles shall apply:

- Officers involved in disposing of the asset shall not benefit from the disposal
- All assets identified for disposal to officers shall be valued and subject to a tender or other process that is appropriate to the value of the asset
- Assets shall not be sold at a discounted rate to officers or elected officials if a greater value could be realised by an alternative method of disposal.

11. Gifts and Loyalty Rewards

11.1.1. For the purposes of this policy, ‘gift’ shall refer to any gift, loyalty reward or inducement.

11.1.2. A gift is usually given as a token of recognition of something provided by the recipient. The giving of gifts must be appropriate, transparent and reasonable.

11.1.3. The giving of gifts by Council requires the prior approval of the General Manager.

11.1.4. The receiving of a gift is not strictly ‘sensitive expenditure’; nevertheless, it is a sensitive issue. It is especially important that receiving a gift does not alter Councils or a staff member’s decision-making, as this could be perceived as acting without impartiality or integrity.

11.1.5. Any Staff contractor, who works on behalf of Council, or elected member, shall not accept any gift, reward or inducements arising from any transaction on behalf of Council. They shall be viewed as Council property and reported to the Chief Executive or General Manager and shall not be used for personal benefit or gain. This is to protect both the individual and the organisation from any perceived impartiality or potential inappropriate advantage.

11.1.6. The Chief Executive or General Manager shall consider the following points to determine the appropriate disposal of any gift, reward, discounts or inducements:

- All “gifts” received by elected members or staff are to be recorded on the gift register in JARVIS.
- The Chief Executive/General Manager in conjunction with Human Resources may then distribute any such gifts including;
  - Allowing the recipient to keep the gift.
  - Consideration will be given to equity, and the association with provider and appropriateness of the person receiving the gift.
  - Internal staff rewards such as competition prizes where all staff have the opportunity of benefiting from the gift
  - Not for profit Community Groups and charity organisations
- Discretionary allocation of a gift over $100/$50 to an elected member/staff member may be decided by the Chief Executive/General Manager. They will consider equity, association with provider and appropriateness of the person receiving the gift.

11.7 Under no circumstances should a gift be accepted from an organisation or individual who is involved in the process of negotiating or tendering for the supply of goods or services to the Council.

12. **Private use of Council assets**

12.1. Any physical item owned, leased or borrowed by Council is considered an asset for the purpose of this policy. This includes photocopiers, telephones, cell phones, laptops, I Pads, cameras, means of accessing the Internet, and stationery.

12.1.2. The principles of transparency, moderate and conservative expenditure, are particularly relevant. Private use for personal purposes will only be permitted in limited circumstances. Staff should refer any proposed use to his/her General Manager to authorise private use.

12.1.3. Payment for the cost of personal use of assets is to be reimbursed to Council, unless the General Manager deems it is impractical or uneconomic to separately identify those costs. Staff should quote the correct GL code and make payment through Council’s Customer Contact Centre, attaching the receipt of payment to the account.

12.1.4. The use of Council assets in any private business that any employee or elected official may operate is strictly prohibited.

12.1.5. Staff provided with IT hardware and software to be housed at their place of residence to assist with Business Continuity Planning are permitted reasonable levels of private use of such equipment.

13. **Council use of private assets**

13.1. Council may decide that reimbursing staff for use of private assets is appropriate for reasons such as cost, convenience or availability. Council may also decide to do this in circumstances where it would not fully use an asset of the same type if it acquired it directly. Examples include private motor vehicles, private cell phones and private computers.

13.1.2. The main issue associated with Council’s use of private assets is the risk of the Council paying or reimbursing amounts that inappropriately benefit the staff member or elected official. Therefore, approval by the General Manager is required. In assessing the request, the General Manager will pay particular attention to the principles of a justified business purpose and preserving impartiality and integrity.

13.1.3. Staff members must not approve or administer payments to themselves for the Council’s use of their private assets.
14. **Private use of Council suppliers**

14.1. As staff may have access to some Council suppliers on the same basis as Council, they may receive preferential access to goods or services, and potentially at a preferential price, which is not available to the public (this is treated as private use of official procurement processes). The risk is that the availability of the discount to staff will influence the choice of Council suppliers. Council’s selection of suppliers must be in Council’s interest and decisions should not be affected by the availability or possibility of purchasing privileges for staff.

14.1.2. Staff may not use Council suppliers to access goods or services for private purposes.

14.1.3. This does not prevent suppliers offering discounts to Council staff or members providing they do not get processed through Council’s account with the supplier.

14.1.4. In rare circumstances, a Council order may cover expenditure with a personal component eg. Travel or accommodation booking. In this case, payment to Council for the personal component must be made on the confirmation of the cost or the receipt of the invoice from the supplier, whichever is received earliest.

14.1.5. Elected officials may have preferential access to goods or services through Council’s suppliers on the same basis as staff, provided there is no real or perceived conflict of interest.

15. **Staff support and welfare expenditure**

15.1. **Clothing**

15.1.1. Other than approved corporate clothing as per Council’s Corporate Uniform policy or health and safety-related clothing, staff will not be clothed at the Council’s expense, when they are engaged in a normal business activity.

15.1.2. Council guidelines on the provision of subsidy on Council branded clothing are contained in the Council’s ‘Corporate Uniform Policy’.

15.2. **Care of dependants**

15.2.1. The Chief Executive may authorise in exceptional circumstances – such as when the staff member is unexpectedly required to perform additional duties at very short notice, or a dependant unexpectedly requires additional care that the staff member cannot provide because of the essential nature of their duties at the time – the reimbursement of actual and reasonable costs. In all other instances, care of dependants is to be treated a personal and private expense of the staff member.

15.3. **Financing Social Club activities**

15.3.1. Staff social clubs typically provide the opportunity for staff to have social interaction with both immediate work colleagues and other people in Council with whom they
would not normally have contact. Social clubs may also assist staff to gain a better understanding of the wider roles and functions of Council and its business units.

15.3.2 Council may make a prudent and reasonable monetary contribution to a social club(s). The contribution may be in the form of an all-purpose grant towards the club’s annual budget or it may be a grant or subsidy for a specific event.

15.3.3 Before approving a grant to be made the Chief Executive must be satisfied that there is a justified business purpose for the contributions. This purpose would typically be connected with organisational development and staff welfare.

15.4  **Farewells and retirements**

15.4.1 Expenditure on farewells and retirements includes spending on functions, gifts and other items when staff are leaving or retiring from Council.

15.4.2 Expenditure on farewells and retirements should not be extravagant or inappropriate to the occasion. The principle of moderate and conservative expenditure is particularly relevant.

15.4.3 Expenditure on farewells or retirements is to be pre-approved by the General Manager or Chief Executive.

15.5  **Sponsorship of staff or others**

15.5.1 Staff taking part in an activity that is not part of their job, such as a sporting event, may be sponsored by Council through the provision of, or payment for, goods or services (for example, a t-shirt or an entry fee).

15.5.2 Sponsorship should have a justified business purpose. This could include publicity for the Council and its objectives and organisational development. The cost to Council must be moderate and conservative. If the sponsorship does not have a justified organisational purpose, the cost is a donation.

15.5.3 In normal circumstances, sponsorship will be provided through a social club rather than directly to the staff member.

15.5.4 Sponsorship of people who are not staff must be undertaken in a manner that is transparent. It is also preferable that, if non-staff are sponsored, the sponsorship is of an organisation they belong to, rather than directly of the individual.

16.  **Other types of expenditure**

16.1  **Donations**

16.1.1 A donation is a payment (in money or by way of goods or services) made voluntarily and without the expectation of receiving goods or services in return.

16.1.2 Council requires donations to be:
• lawful in all respects
• disclosed in aggregate in the Council’s annual report
• made to a recognised organisation by normal commercial means (not to an individual)
• not in cash
• non-political
• The detailed policy and monetary limits are included in the Council ‘Grants Policy’. update

17. Communications technology

17.1. Communications technology, such as cell phones, tablets, IPads, laptops, telephones, email and internet access is widely used in the Council workplace. While some personal use of this technology may be unavoidable, excessive use incurs costs, including lost productivity to Council and the direct cost of the technology.

17.1.2. Council’s policies on general and personal use of communications equipment is contained within Council’s ‘Communication Technology Policy’.

17.1.3. Where it is administratively possible and cost effective Council will require reimbursement of personal use.

18. Koha Payments Policy and Procedure

18.1. Policy

18.1.1. Purpose. This policy has been developed to clarify the circumstances in which the gifting of koha by Council to third parties is appropriate, and to explain the controls that apply.

18.1.2. Giving koha is the practice of bestowing an unconditional gift where the recipient has neither stipulated that it be given, nor has an expectation of receiving it. It is an integral part of Maori culture and significant protocol is attached to it. Traditionally, koha has taken many forms but in more recent times it has tended to be in the form of money.

18.1.3. Definition. Koha is an unconditional gift, or a spontaneous contribution given on appropriate occasions which carries no tax obligation as defined by the IRD.

18.1.4. Koha can be given or received for unsolicited services, as within tikanga Māori.

18.1.5. Koha will:

• be in the form of money
• be paid to external person(s) or non-profit community groups who provide support, or undertake a one-off activity and expect non-payment for such activity or support in return
• not be given in lieu of salary or as a payment for service(s) provided
not be given by the Council to Council employees

18.2. Determining Council Payments of Koha

18.2.1. Procedure for determining Council representation at cultural gathering (tangi, hui etc.)

18.2.2. Where staff attend a cultural gathering representing the Council, the Council may provide a contribution towards koha.

18.2.3. Therefore:

- The first point to consider is whether staff will attend in a personal capacity or whether they will attend as a formal Council representative(s).
- If it is deemed that attendance will be in a personal capacity, then any koha will be the responsibility of the staff member(s) concerned.
- Notification should be made by the staff member(s) of the Hui (including tangi), to their Manager/Supervisor, where possible, before attending the cultural gathering. The staff member(s) will also provide manager/supervisor with details of the purpose of the gathering (kaupapa, mate - deceased person etc.) in particular, advice will be sought on:

18.2.4. Importance of the event to Council.

18.2.5. In relation to tangi:

- the deceased having mana (wisdom, importance)
- significance and/or prominence within the community
- prominence and/or standing in local government or government sector
- association with the Manawatu District Council

18.2.6. If Council is to be formally represented consideration will have to be given to the level of staff who should attend. In some cases senior Council representation (i.e. Mayor, Chief Executive etc.) will be required. If there is difficulty in determining the level of representation, the General Manager should consult the Chief Executive to assist in deciding this.

18.2.7. When formally represented, the Council will provide koha, which is an unconditional gift. Koha will always be in the form of cash and the General Manager or Chief Executive will provide advice on the size of contribution.

18.3. Other circumstances where Koha payment may be made

18.3.1. Koha may be paid to external non-profit community groups and individuals (non-Council employees) in certain circumstances. This may include:

- acknowledging an individual or non-profit community group who support a conference opening;
• acknowledging an individual or non-profit community group who support an opening and/or blessing of a new building;
• where an individual or non-profit community group attend to support/lead a mihi whakatau (welcome) or poroporoaki (farewell or closing of a hui);
• where prominent guests are welcomed by mana whenua (people of the local area) at the request of the Council.

18.4. Procedure for Payment of Koha

18.4.1. All requests for koha must be made in advance of any koha being given.

18.5. Authorisation procedure for payment(s) of koha

18.5.1. Staff should notify their Manager/Supervisor prior to payment, of the intention to provide a koha payment. The staff member will also provide their Manager/Supervisor:

• brief explanation of the reason for the koha payment
• the date of the event
• details of who the payment will be made to
• details of the amount of the proposed koha payment
• details of the account to be charged

18.5.2. The Manager/Supervisor will make a recommendation to the General Manager for authorisation of the payment of koha.

18.5.3. The payment of koha, as defined within this policy will be approved by the General Manager up to $200.00. Any payment above this amount is subject to the approval of the Chief Executive. If there is difficulty in determining whether such a koha payment is in line with this policy, the General Manager should consult with the Chief Executive to assist in any determination.

18.6. Administration Procedures for payment(s) of koha

18.6.1. Following the approval for koha, as described above, the staff member should present to the Chief Financial Officer the request, along with the authorisation of the General Manager or Chief Executive.

18.6.2. The Chief Financial Officer will arrange for the cash to be collected.

18.6.3. All payments determined as koha under this policy will not be liable for GST, FBT or PAYE.

18.6.4. No cash advances for koha should be made by way of purchase cards.
Quarterly Report to 31 December 2018

Purpose

To provide a summary to 31 December 2017 of the Council’s performance against 2017/18 Annual Plan.

Significance of Decision

The Council’s Significance and Engagement policy is not triggered by matters discussed in this report.

Recommendations

That the Audit and Risk Committee recommends:

That the Council receives the Second Quarter Report and the Capital Expenditure Report for the period ended 31 December 2017.

Report prepared by:
Colleen Morris
Chief Financial Officer

Approved for submission by:
Shayne Harris
General Manager - Corporate and Regulatory
1 Contribution to the Council Vision and Council Outcomes

1.1 Relationship to the Council Outcomes that underpin the Council’s Vision:

Connected, vibrant and thriving Manawatū – the best rural lifestyle in New Zealand

<table>
<thead>
<tr>
<th>Manawatū District will improve the natural environment, stewarding the district in a practice aligned to the concept of kaitiakitanga.</th>
<th>The Manawatū will attract and retain residents.</th>
<th>Manawatū district develops a broad economic base from its solid foundation in the primary sector.</th>
<th>Manawatū and its people are connected via quality infrastructure and technology.</th>
<th>Manawatū’s built environment is safe, reliable and attractive.</th>
<th>Manawatū District Council is an agile and efficient organisation.</th>
</tr>
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2 Background

2.1 Quarterly governance reports provide interim updates towards end of year results to be published in the Annual Report 2017/18. The Annual Report accounts for how Council performed against the 2017/18 Annual Plan and the non-financial measures included in the third year of the 2015-25 Long Term Plan. The reports summarise Council’s financial performance, progress on capital projects, levels of service performance and reasons for significant differences from what was planned.

3 Discussion and Options considered

3.1 This report is for information purposes. Any matters that require resolution would be reported separately to Council.

4 Operational Implications

4.1 There are no capital or operating expenditure implications, or maintenance costs associated with this paper.

5 Financial implications

5.1 Any financial implications would be reported separately to Council.

6 Statutory Requirements

6.1 Quarterly governance reports provide an overview of results towards the Annual Report, which will be prepared and audited in accordance with the requirements of the Local Government Act 2002.

7 Delegations

7.1 The Audit and Risk Committee’s Terms of Reference includes the responsibility for financial reporting, including the following:

- long term planning including the financial strategy;
• appropriateness of accounting policies;
• annual report; and
• internal report (monthly and/or quarterly).

8 Consultation

8.1 There are no consultation requirements associated with this matter.

9 Cultural Considerations

9.1 There are no cultural considerations associated with this report.

10 Conclusion

10.1 The quarterly reports are a mechanism of transparently reporting against progress towards achieving targets set in the Annual Plan and the Long Term Plan

11 Attachments

• Quarter Two Report

• Capital Expenditure Report for the period ended 31 December 2017
Key Indicators
For the period ended 31 December 2017

Capital Expenditure

Loans Raised (excluding refinancing loans)

Total External Debt

Key Performance Indicators

Key

- Annual Plan
- YTD Budget
- Actual - On Track
- Actual - Needs Monitoring
- Actual - Not achieving
Overall Council Summaries
For the period ended 31 December 2017

Comments:
There was a breach in the Investment Policy in July. An early receipt of an NZTA claim caused the ratio of funds held with our transactional bank to exceed 40%.

In December 2017 Council borrowed $8m of which $5m was used to finance retiring debt.
Revenue is from rates and user fees and charges.

Makino Aquatic Centre swim programme revenue is lower than budget and is expected to be 50k lower than budget for the year.

Rental relief has reduced income for the Feilding Depot.

Makino Aquatic Centre - Opening the outdoor pool earlier than planned and increasing levels of service on other pools to meet Poolsafe requirements has resulted in increased staffing, energy, chemical and cleaning costs. Levels of customer demand is expected to be high over the remaining summer months.

Finance costs are lower than forecast due to loan funded projects (mainly Greenspine and the South Street development) being delayed.

The capital expenditure report contains the progress of individual projects.

Makino Aquatic Centre - The customer survey has not yet been carried out. The number of programme participant (27,590) in six months has doubled the annual target.

Library - There were 3.88 issues per capita and it is not expected to reach the target of 12 by the end of the year. The Library has hosted 571 programmes/events (target 920), however participation numbers are only 7,726 (target 20,200). The target for participant numbers is unlikely to be achieved at year end. Participant numbers at events have purposefully been reduced to mitigate issues that arose last year due to the variety of programmes and needs of user groups.

(Continued on page 15)
District Development
For the period ended 31 December 2017

Income is primarily from rates. The community projects budget is currently $185k under budget but is expected to be on track by the end of the financial year. The exception is the walkway to Palmerston North and the community plan project. The next funding round is planned for March 2018.

There is no capital expenditure for this activity. Economic Development - The latest annual report by the Central Economic Development Agency (CEDA) was received by both Manawatu and Palmerston North Councils in November 2017. Satisfaction with economic development services has increased 13% over the past year but has not met the required 80%. Growth in the local economy is particularly strong. The latest Manawatu District Economic report highlighted an estimated population of 30,307 at June 2017, showing annual average growth rate of 1.7% over the period 2014 to 2017.

Community Development - The customer survey has not yet been carried out. Reports from partnership funding agencies will be received later in the year.
Income is primarily received through rates.

The Civil Defence budget includes a small allowance for unexpected events. No such events have occurred this quarter.

The difference is due to timing of receipt of invoices from contractor and service not commencing until September 2017. (new contract started in Sept 2017). A small allowance was made in the budget for transition costs for rural fire to Fire and Emergency NZ.

There is no capital expenditure planned for this activity.

Civil Defence - The community satisfaction survey is yet to be completed.
Environmental Services and Monitoring
For the period ended 31 December 2017

Building inspections ahead of budget. This trend is expected to continue for the rest of the financial year.

Dog infringements higher than budgeted.

The compliance shared service revenue is down as the expected level of work was not provided by PNCC.

Building Control - Additional expense was incurred on building consultants due to the increased number of applications. This is offset by increased building control revenue.

The District Plan project spending is currently ahead of budget but will not exceed the annual budget for the year.

Due to more accurate timesheet recording costs have shifted from Environmental Health and Monitoring to Consent Planning.

There is no capital expenditure planned for this activity.

Animal Control - Between July and December 2017 of the 79 Priority 1, 112 Priority 2 and 385 Priority 3 requests have been received. The target of responding to 90% of within the agreed timeframes was achieved.

Building Control - Continued growth is resulting in an increase each month on the previous year of applications received. A total of 300 building consents, 429 code of compliance certificates and 135 fast track building consents have been issued for the six month period. Of these 64%, 95% and 83% were issued within the targeted timeframe.

(Continued page 15)
Governance and Strategy
For the period ended 31 December 2017

Income is received through rates.

Overhead costs are lower than budgeted for.

There is no capital expenditure planned for this activity.

There have been no breaches of the rating or debt limits set in the Financial Strategy. The limit for rates increases (as defined in the Financial Strategy) for the 2017/18 year is 5.9%. The rates set resulted in a 3.9% increase from last year. The borrowing limit for the 2017/18 year is $75.9m. The proposed borrowing at the end of the year is $62m.

The customer survey is yet to be carried out.
Roading
For the period ended 31 December 2017

Revenue is received through rates and NZTA subsidy.

The increased subsidy is a result of the increased expenditure for repairs caused by Cyclone Debbie in May 2017 and the July 2017 storm.

All work programmes will be reviewed in February 2018.

Work programme is ahead of budget due to the July 2017 storm event. Repair costs are estimated at $2.2m, part of which will be subsidised by NZTA. Construction methods were reviewed after initial assessment and the cost estimate reduced.

The capital expenditure report contains the progress of individual projects.

Several measures including, customer surveys (3), footpath assessment and the Smooth Travel Index review do not have information available at this stage.

Crash data shows there have been four fatalities and six serious injury crashes. This is an increase on the prior year.

The measures 'not met' relate to achieving the agreed response times 90% of the time:
- 58% of contracted service personnel were on site for urgent requests within one hour. The contract specification for this is two hours.
- 62% of non-urgent request were responded to, acknowledged and resolved within five days of receipt. Under the contract non-urgent works are programmed for repair within three months or as instructed by Council.
Solid Waste
For the period ended 31 December 2017

Revenue is primarily from rates, gate takings at the transfer station and blue bag sales.

Transfer Station gate takings ($59k) and Refuse Bags ($39k) are ahead of budget. This trend is expected to continue.

Expenditure is on track, small timing difference which is expected to be caught up by March 2018.

The capital expenditure report contains the progress of individual projects.

$100k was brought forward from the 2018/19 year for the design work for the Resource Recovery Centre.

All targets have been met.

The mini digital film competition was held in December. Prizes were awarded for the three categories and an overall winner. Zero Waste Education visited Kopane, Tangimoana, Manchester, Apiti, Taonui, Colyton and Pohangina Schools. Positive reports were received from schools.

Key

Operating Revenue

Operating Expenditure

Capital Expenditure

Key Performance Indicators

Key

Annual Plan
Year End Forecast
YTD Budget
YTD Actual - favourable OR unfavourable < 5% budget
YTD Actual - unfavourable 5-15% budget
YTD Actual - unfavourable > 15% budget

On Track
Needs Monitoring
Not achieving

0.0
0.2
0.4
0.6
0.8
1.0
1.2
1.4
1.6
1.8
2.0

$ millions

Kerbside Recycling
Solid Waste Collection and Disposal
Waste Minimisation
Education

0.0
0.1
0.2
0.3
0.4
0.5
0.6
0.7
0.8
0.9
1.0

$ millions

Kerbside Recycling
Solid Waste Collection and Disposal
Waste Minimisation
Education

0.0
0.05
0.10
0.15
0.20

Millions

Kerbside Recycling
Solid Waste Collection and Disposal
Waste Minimisation
Education

0.0
0.1
0.2
0.3
0.4
0.5
0.6
0.7
0.8
0.9
1.0

100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%

Kerbside Recycling
Solid Waste Collection and Disposal
Waste Minimisation
Education

3
1
Stormwater
For the period ended 31 December 2017

All revenue is sourced from rates.

Payments to staff and suppliers are on track.

Internal charges higher than budgeted due to levels of staff time charged.

The capital expenditure report contains the progress of individual projects.

Design work underway, project is on track for Feilding growth works.

The forecast reflects the carry forward expenditure made subsequent to the Annual Plan process.

All targets have been met.

Key

Operating Revenue

Operating Expenditure

Capital Expenditure

Key Performance Indicators

Key

0.0 0.2 0.4 0.6 0.8 1.0 1.2 1.4 1.6

$ millions

YTD Actual - favourable OR unfavourable < 5% budget

YTD Actual - unfavourable 5-15% budget

YTD Actual - unfavourable > 15% budget

On Track Needs Monitoring Not achieving

147
Wastewater
For the period ended 31 December 2017

Revenue is from rates, trade waste charges and volumetric charges.

Expenditure is on track.

Internal charges higher than budget due to staff time charged.

The capital expenditure report contains the progress of individual projects.

Feilding Wastewater Treatment Plant works are on schedule, Sanson works are on hold, pending the outcome of the centralisation proposal.

The forecast reflects the carry forward expenditure made subsequent to the Annual Plan process.

All targets have been met.

There has been one dry weather overflow and two wet weather overflows in Feilding. These were responded to within the agreed timeframe.

There have been 22 complaints received between 1 July and 31 December 2017 - odour (3), systems fault (10) and blockages (9). If this trend continues the number of complaints will be less than the targeted maximum.
Revenue is from rates and metered water.

Operating expenditure is on track.

The capital expenditure report contains the progress of individual projects.

The physical works programme is subject to the outcome of a new Water Strategy investigation.

The target not met relates to Protozoal compliance not being met at Stanway-Halcombe and Sanson. There are projects underway/planned to upgrade Sanson and Stanway-Halcombe to achieve protozoal compliance.

There have been 49 complaints received between 1 July and 31 December 2017 - odour (5), pressure (2), clarity (14), taste (3) and continuity of supply (25). If this trend continues the number of complaints will be less than the targeted maximum.
Health and Safety
For the period ended 31 December 2017

Notifiable events this quarter
Notifiable: 0 Not Notifiable: 36

Significant incidents this quarter
3 x rescues at the pool
1 x contractor not following safe trenching procedures

Lost time (days) this quarter

Communication and education
Hay fever
Summer safety

Training and inductions
11 new staff inductions
Confined Space Entry
Initial Health and Safety Rep

Wellness initiatives
Hepatitis vaccinations
Workstation assessments
Drug and alcohol testing
Lung function testing

Injury type for the quarter

Rolling year injuries
Abrasion 8
Bruise 11
Burns 2
Emotional 4
Fractured bone 1
Hyperventilation 2
Laceration/cut 5
Other 15
Comments Continued

Community Facilities

Property - The customer satisfaction survey is yet to be completed and hall usage will be measured at the end of the financial year.

Parks and Sports Grounds - The customer satisfaction survey is yet to be completed. No closures or health and safety incidents have occurred.

Cemeteries - The customer satisfaction survey is yet to be completed. No complaints about late or inadequate interment services have been received.

Public Conveniences - Three complaints have been received and were immediately rectified by our Open Spaces contractor (annual target is less than 17 complaints).

Environmental Services and Monitoring

Environmental Health and Monitoring - Between July and December 2017 84 food premises (51%) and 29 licensed premises (51%) have been inspected. Requests have been responded to within the agreed timeframes.

District Planning - 73 non-notified resource consents have been processed of which 63 were processed within the targeted 20 days (target is 100%). 21 controlled activities resource consent applications were received but only 14% processed within the required 10 working days. Currently controlled activities can be complex to process. The District Plan review team are reviewing the activity rules to ensure compliance with a 10 day timeframe required under the Resource Management Amendment Act can be achieved from October 2017.
## Community Facilities

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Original Budget</th>
<th>Revised Budget</th>
<th>Variance</th>
<th>Variance %</th>
<th>YTD</th>
<th>YTD %</th>
<th>YTD YTD %</th>
<th>Notes/Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feeding Gourney Extension</td>
<td>$107,000</td>
<td>$109,000</td>
<td>-20%</td>
<td>-10%</td>
<td>20</td>
<td>18%</td>
<td>-15%</td>
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<tr>
<td>Cemetery Renovation Works</td>
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<td>$0,000</td>
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<tr>
<td>Strength-Earthquake Prone Buildings</td>
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<td>$113,000</td>
<td>101%</td>
<td>100%</td>
<td>0</td>
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<tr>
<td>Feeding Little Theatre - Roof</td>
<td>$0,000</td>
<td>$20,000</td>
<td>-100%</td>
<td>-100%</td>
<td>20</td>
<td>100%</td>
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<tr>
<td>Whitmarsh Beach Hall Stage</td>
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<td>$0,000</td>
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<td>Library Collection Purchases</td>
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<td>-76%</td>
<td>-76%</td>
<td>22</td>
<td>22%</td>
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<tr>
<td>Makino Park Growth</td>
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<td>$315,000</td>
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<td>Makino Redevelopment</td>
<td>$64,000</td>
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<td>0%</td>
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<tr>
<td>Makino Park Playground and Skate</td>
<td>$0,000</td>
<td>$0,000</td>
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<td>Makino Pool General Renewals</td>
<td>$44,000</td>
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<td>5</td>
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<td>Public Conveniences Renewals</td>
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<td>$26,000</td>
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<tr>
<td>Sanson Public Toilets</td>
<td>$210,000</td>
<td>$210,000</td>
<td>0%</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
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<tr>
<td>Tangimoana Public Toilets</td>
<td>$61,000</td>
<td>$58,000</td>
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<tr>
<td>Manfield Park Development</td>
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<td>$420,000</td>
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<td>Property Renewal Projects</td>
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<tr>
<td>Parks and Reserves - Refurbish Victoria Park</td>
<td>$24,000</td>
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<td>n/a</td>
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<tr>
<td>Parks and Reserves - Playground Renewal</td>
<td>$0,000</td>
<td>$0,000</td>
<td>n/a</td>
<td>n/a</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
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</tr>
<tr>
<td>Parks and Reserves - Refurbish Victoria Park</td>
<td>$0,000</td>
<td>$0,000</td>
<td>n/a</td>
<td>n/a</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
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<tr>
<td>Parks and Reserves - Fountain Renewal</td>
<td>$6,111,000</td>
<td>$12,000</td>
<td>2%</td>
<td>2%</td>
<td>0</td>
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<tr>
<td>Parks and Reserves - Kowhai Fish</td>
<td>$16,488,000</td>
<td>$1,356,000</td>
<td>-92%</td>
<td>-92%</td>
<td>1</td>
<td>1%</td>
<td>1%</td>
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<tr>
<td>Parks and Reserves - Walkway / Linkages</td>
<td>$17,164,000</td>
<td>$732,000</td>
<td>-99%</td>
<td>-99%</td>
<td>0</td>
<td>0%</td>
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<tr>
<td>Parks and Reserves - Railway Reserve</td>
<td>$31,185,000</td>
<td>$3,690,000</td>
<td>-92%</td>
<td>-92%</td>
<td>24</td>
<td>24%</td>
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<tr>
<td>Parks Growth - Temora Park</td>
<td>$3,240,000</td>
<td>$48,000</td>
<td>-98%</td>
<td>-98%</td>
<td>0</td>
<td>0%</td>
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</tr>
<tr>
<td>Parks Renewal Projects</td>
<td>$22,177,000</td>
<td>$34,000</td>
<td>55%</td>
<td>55%</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Feilding Little Theatre - Roof</td>
<td>$2,167,000</td>
<td>$0,000</td>
<td>n/a</td>
<td>n/a</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
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<tr>
<td>Parks - Makino Precinct Growth</td>
<td>$2,733,000</td>
<td>$516,000</td>
<td>-78%</td>
<td>-78%</td>
<td>0</td>
<td>0%</td>
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<tr>
<td>Kitchener Park Toilets</td>
<td>$7,350,000</td>
<td>$77,000</td>
<td>10%</td>
<td>10%</td>
<td>0</td>
<td>0%</td>
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</tr>
<tr>
<td>Kitchener Park Capital Works</td>
<td>$36,000</td>
<td>$35,000</td>
<td>0%</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Johnston/Temora Park Redevelopment</td>
<td>$1,8,000</td>
<td>$2,000</td>
<td>11%</td>
<td>11%</td>
<td>0</td>
<td>0%</td>
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<tr>
<td>Railway Land Beautification</td>
<td>$35,836,000</td>
<td>$1,255,000</td>
<td>-96%</td>
<td>-96%</td>
<td>6</td>
<td>6%</td>
<td>6%</td>
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</tr>
<tr>
<td>Sanson Playground</td>
<td>$0,000</td>
<td>$0,000</td>
<td>n/a</td>
<td>n/a</td>
<td>0</td>
<td>0%</td>
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</tr>
<tr>
<td>Total Community Facilities</td>
<td>$69,832,000</td>
<td>$5,438,000</td>
<td>-78%</td>
<td>-78%</td>
<td>191</td>
<td>191%</td>
<td>191%</td>
<td></td>
</tr>
</tbody>
</table>

### Notes/Comments

- The project completion is expected in February with the beam installation. There is $21k allocated for the RSA area extension, which will be funded by the RSA.
- Costs are for planning as a result of a late invoice from 2016/17 financial year.
- Cost are for cemetery seats.
- Completion of the project will depend on the Theatre Trust seeking additional external funding. Budget to be requested for carry forward to 2018/19 financial year.
- Work is to be undertaken as part of the Feilding Little Theatre strengthening project. Budget balance to be requested for carry forward to 2018/19 financial year.
- The Makino Precinct project is currently on hold, pending wider strategic conversations for the precinct, and budget balance to be requested for carry forward to 2018/19 financial year.
- Project is the car park redevelopment between Council administration building and Makino Pool, and is in detailed design stage with the consultant. Project is on track, with tender ready to be let January with work starting mid February 2018.
- This project will be requested to carry forward to 2018/19 financial year.
- Project is almost complete, with minor costs to complete in January 2018.
- The project is for the Kaukauka Rd / South Street development. Costs will be incurred as sections sell. Budget balance to be requested for carry forward to 2018/19 financial year.
- Construction is underway, with completion of this section of works expected in January 2018.
- This is the fitness station and the project is nearing completion, with costs to be oncharged to Rotary on completion.
- Project is wrapped up with the Greenspine project which is currently in the detailed design stage and waiting on railway permissions.
- The Mount Stewart project is complete and further works are being scheduled.
- The project has been tendered and works scheduled to begin in February 2018.
- Costs are for the pathway and bridge. Further work is wrapped up with the Greenspine project which is currently in the detailed design stage and a final decision on the project scope will be made by 31 March 2018.
- Project is combined with the Greenspine project, which is currently in the detailed design stage and a final decision on the project scope will be made by 31 March 2018.
- This project is for the Kowhai Park, which is currently in the detailed design stage and a final decision on the project scope will be made by 31 March 2018.
- This is the fitness station and the project is nearing completion, with costs to be oncharged to Rotary on completion.
- Project is on track, with tender ready to be let January with work starting mid February 2018.
- Project is on hold, until the Sanson hotel developments are finalised. Budget to be requested for carry forward to 2018/19 financial year.
- Project is almost complete, with minor costs to complete in January 2018.
- The project is for the Kaukauka Rd / South Street development. Costs will be incurred as sections sell. Budget balance to be requested for carry forward to 2018/19 financial year.
Makoura Road stage 3A completed, Makoura Road stage 3B (final stage) started and due for completion in March 2018, overspend due to
284% increase in construction costs, up 3,421,000 $000 to 150,798,000 $000.
Makoura Road seal extension due for completion January 2018, overspend due to
20% increase in construction costs, up 2,319,000 $000 to 9,638,000 $000.

Makoura Rural Transfer Station Improvements
Resource Recovery Centre
Establish Mobile Recycling Centres

Solid Waste
Purchace of New Recycling Bins
Recycling Inventory
Resource Recovery Centre
Kaimanawa Rural Transfer Station Improvements
Establish Mobile Recycling Centres

Stormwater
Stormwater Growth Feilding
Stormwater New Work Feilding
Stormwater Unplanned Renewals
Stormwater Asset Renewal Tangimoana

Total Stormwater

Notes/Comments
- Closed landfill budget $75,000
- Turners Road project awaiting Council approval to proceed with land acquisition and consenting, reduced forecast reflects a planned request to carry forward the Turners Road budget portion.
- Turners Road project awaiting Council approval to proceed with land acquisition and consenting, reduced forecast reflects a planned request to carry forward the Turners Road budget portion.
- Catchment work completed. Kimbolton Road to commence January 2018.
- Catchment work completed. Kimbolton Road to commence January 2018.
- Renewals portion of Port Street contract awarded. Derby and North St tenders are being evaluated.
- Cost is for an emergency pump upgrade.
- The Pohangina Rd resilience project (Grand Canyon) is currently in design phase, with tender documents scheduled for issue in February 2018.
- 3% of council financial year funding is reserved for extraordinary events.
- Programmes reduced to offset some of the Non Sub Renewal overspend.
- Turners Road project awaits Council approval to proceed with land acquisition and consenting, reduced forecast reflects a planned request to carry forward the Turners Road budget portion.
- Wellington Street and Seddon Street projects complete. Seddon Street Stage 2 and Kimbolton Road reconstruction projects underway.
- Wellington Street and Seddon Street projects complete. Seddon Street Stage 2 and Kimbolton Road reconstruction projects underway.
- Wellington Street and Seddon Street projects complete. Seddon Street Stage 2 and Kimbolton Road reconstruction projects underway.
Wastewater

- Two vehicles purchased to date, with two further vehicles confirmed for delivery at end of January 2018.

- Pharazyn Street water main is completed with Port Street scheduled to commence in January 2018.

- No new equipment has been required to date.

- Design and investigation work is ahead of schedule. Contractor availability earlier than expected for relining works. Next stage is expected to commence in February/March 2018.

- Costs are on demand for Himatangi Beach connections and are offset by contributions from property owners.

- Costs are demand driven. No new equipment required to date.

- The bore has been completed, with reservoir to commence in January 2018. Delay in delivery of reservoir. Further treatment options are in investigation phase.

- Capital works on hold pending Drinking Water Standards NZ outcome which was received in December 2017. Forecast reflects investigation work as capital work on hold pending Drinking Water Standards requirements. Budget balance to be requested for carry forward to 2018/19 financial year.

- Capital works on hold pending Drinking Water Standards NZ outcome which was received in December 2017. Forecast reflects investigation work as capital work on hold pending Drinking Water Standards requirements. Budget balance to be requested for carry forward to 2018/19 financial year.

Water

- Fielding WTP Renewals 8 392 (384) -18% 67 1,508 1,260 0% 517 1,053 1,053 0% 1,053 Contract work are ahead of schedule due to contractor availability, with MacDonald Heights, South and Kawakawa Streets, and Dalzen Place and Wakefield Streets, completed.

- Fielding Water Supply Growth 309 222 87 30% 188 602 390 51% 12 101 100 0% 12 101 100 0%

- Hallie/Hamilton Water Supply New Work 17 258 (241) -9% 52 259 301 56% 0 20 20 0% 0 20 20 0%

- Sanson Water Treatment Plant New Plants 120 312 (192) -62% 276 761 350 16% 763 761 761 0%

- Sanson Water Asset Renewal 1 0 100% 0 100% 0 100% 0%

- Stanway/Waters Treatment Plant New Works 5 0 0% 5 350 350 0% 5 350 350 0%

- Stanway/Waters RWS intake and Capacity Improvements 16 275 (259) -9% 0 275 240 80% 275 240 240 0%

- Total Water Supply 1,178 2,126 (948) -42% 1,162 5,579 4,428 23% 3,396

Support Services and Other

- Motor Vehicle Renewals 60 150 (80) -40% 82 257 257 23% 257 Two vehicles purchased to date, with two further vehicles confirmed for delivery at end of January 2018.

- Computer Hardware 68 90 (22) -24% 36 102 102 29% 102 102 102 0%

- Software - Document Management 85 129 (44) -34% 253 257 257 66% 253 257 257 66%

- Boiler Replacement 0 16 (16) -20% 0 52 52 0% 52 52 52 0%

- Establishment of the Three Waters Reticulation Team 45 0 45% 0 0 0% 0 0 0% 1,572 1,572 1,572 0%

- General Renewals 3 11 (9) -75% 0 23 23 13% 23 23 23 13%

- General News 12 20 (8) -40% 1 40 40 0% 40 40 40 0%

- Total Support Services and other 270 426 (157) -37% 375 821 821 0% 783 783 783 0%

TOTAL CAPITAL EXPENDITURE 11,164 14,851 (3,750) -25% 6,812 10,402 3,580 47% 25,713

Note: District Wide condition assessment budget $11,500

- Design and investigation work is ahead of schedule. Contractor availability earlier than expected for relining works. Next stage is expected to commence in February/March 2018.

- Costs are on demand for Himatangi Beach connections and are offset by contributions from property owners.

- Costs are demand driven. No new equipment required to date.

- The bore has been completed, with reservoir to commence in January 2018. Delay in delivery of reservoir. Further treatment options are in investigation phase.

- Capital works on hold pending Drinking Water Standards NZ outcome which was received in December 2017. Forecast reflects investigation work as capital work on hold pending Drinking Water Standards requirements. Budget balance to be requested for carry forward to 2018/19 financial year.

- Capital works on hold pending Drinking Water Standards NZ outcome which was received in December 2017. Forecast reflects investigation work as capital work on hold pending Drinking Water Standards requirements. Budget balance to be requested for carry forward to 2018/19 financial year.

- No replacement pumps required to date.

- No replacement pumps required to date.

- No replacement pumps required to date.