



# INVESTMENT AUDIT REPORT

## Procedural Audit of Manawatū District Council

### Monitoring Investment Performance

Report of the investment audit carried out under Section 95(1)(j)(ii)(iii) of the Land Transport Management Act 2003.

Tony Pinn

30 January 2026

|   |   |
|---|---|
| <b>Approved Organisation (AO):</b>                                    | Manawatū District Council                         |
| <b>Waka Kotahi NZ Transport Agency Investment (2024 – 2027 NLTP):</b> | \$25,047,820<br>(budgeted programme value)        |
| <b>Date of Investment Audit:</b>                                      | 10 <sup>th</sup> – 13 <sup>th</sup> November 2025 |
| <b>Auditor(s):</b>  | Tony Pinn - Senior Investment Auditor             |
| <b>Report No:</b>   | RATPI-2538  |

## **AUTHORITY SIGNATURES**

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Date

### **DISCLAIMER**

WHILE EVERY EFFORT HAS BEEN MADE TO ENSURE THE ACCURACY OF THIS REPORT, THE FINDINGS, OPINIONS, AND RECOMMENDATIONS ARE BASED ON AN EXAMINATION OF A SAMPLE ONLY AND MAY NOT ADDRESS ALL ISSUES EXISTING AT THE TIME OF THE AUDIT. THE REPORT IS MADE AVAILABLE STRICTLY ON THE BASIS THAT ANYONE RELYING ON IT DOES SO AT THEIR OWN RISK, THEREFORE READERS ARE ADVISED TO SEEK ADVICE ON SPECIFIC CONTENT.



## EXECUTIVE SUMMARY

New Zealand Transport Agency Waka Kotahi (NZTA) funds Manawatū District Council's land transport activity through its National Land Transport Programme (NLTP). Council is responsible for the management of the land transport activity, excluding the state highways, within the Manawatū District boundaries. This procedural investment audit was completed for the period 1<sup>st</sup> of July 2021 to 30<sup>th</sup> of June 2025.

Claims for funding assistance covering the four financial years 1<sup>st</sup> of July 2021 to 30<sup>th</sup> of June 2025 were reconciled against Council's General Ledger (GL). While claims were generally accurate and supported by a good audit trail, the absence of a formal documented process for claim preparation remains unresolved from previous audits, creating reliance on key personnel and increasing operational risk.

Funding variances were identified due to NZTA's tight cut-off deadlines and Council's year end procedures and coding errors. Although most discrepancies were minor and could be offset by overspends in other categories, overclaims occurred across three of the four financial years, these overclaims totalled \$173,358 plus GST. These relate to Road to Zero, Structures Maintenance, and Street Cleaning, with the latter incorrectly claimed at 100 percent instead of the NZTA policy allowance of 30 percent. The conditions of funding for the Low-Cost Low Risk programme were not fully met, with template updates overdue.

Procurement practices were generally compliant with the NZTA Procurement Manual and were supported by good documentation.

Contract management processes were effective, with evidence of verification and monitoring in place.

Safe System Audits remain a significant concern. The previous two audits identified that SSA activities were being undertaken but not being fully closed out. The October 2021 audit found the SSA reports for Awahuri Fielding Safety Improvements and Rongotea Road Right Turn Bay projects were incomplete, and these still appear to lack signatures from all parties. This exposes Council to potential liability if safety risks result in serious incidents. Immediate action is required to complete and formally close these audits or document exemptions where applicable.

Professional services were delivered effectively; however, the cost recovery multiplier for in-house services appears low compared to peer councils and should be reviewed to ensure full cost reflection.

## AUDIT RATING ASSESSMENT

| Subject Areas  |                        | Rating Assessment*             |
|----------------|------------------------|--------------------------------|
| 1              | Previous Audit Issues  | N/A                            |
| 2              | Financial Processes    | Some Improvement Needed        |
| 3              | Procurement Procedures | Effective                      |
| 4              | Contract Management    | Significant Improvement Needed |
| 5              | Professional Services  | Effective                      |
| Overall Rating |                        | Some Improvement Needed        |

\* Please see Introduction for Rating Assessment Classifications Definitions

## RECOMMENDATIONS

The table below captures the audit recommendations. Agreed dates are provided for the implementation of recommendations by the approved organisation.

| That Manawatū District Council: |  | Council Comments and Implementation Date  |
|---------------------------------|--|---|
| R2.1                            | <p>Confirms that the following amounts are subject to recovery by NZTA:</p> <p>FY 2022/23: Road to Zero: \$17,447</p> <p>FY 2023/24: Structures Maintenance: \$20,347</p> <p>FY 2024/25: Street Cleaning: \$135,564.04</p> <p>Total to recover \$173,358.04 + GST.</p> | <p>MDC has identified where this discrepancy has originated, and addressing the coding for the non-subsidised component of the streetcleaning. Road to zero and structures items accepted.</p> <p>MDC does however request that the pay-back is made on the 1st July 2026 to allow for management of current budgets.</p> |
| R2.2                            | Ensures that only 30% is claimed for street cleaning in FY2025/26 and future financial years.  | As addressed above. Non-sub code setup correctly.<br>Completed 30th Jan 2026  |
| R2.3                            | Meets the conditions of funding for the LCLR programme, and any associated programmes that utilise the LCLR spreadsheet, for future years.   | Noted.<br>30th Jan 2026   |
| R2.4                            | Formally documents its process for claiming funding assistance.  | Noted and being documented.<br>1st April 2026 completion  |
| R3.1                            | Updates and enforces internal procedures for contract award notice publication and documentation.  | Noted and refresher of Council project management processes. Ongoing alongside some other procurement works.<br>30th Jan 2026   |
| R4.1                            | Ensures Safe System Audits reports for Rongotea Rd Right Turn Bay Project and Awahuri Fielding Safety Improvements are completed and signed by relevant parties.   | Working with external safety consultant to complete the signing process. Noted following site inspection that works are completed.<br>1st April 2026  |

| <b>That Manawatū District Council:</b> |  | <b>Council Comments and Implementation Date</b>  |
|--|--|--|
| R4.2                                   | Ensures all future Safe System Audits reports are finalised, signed by relevant parties, and filed appropriately.              | Noted as process improvement<br>30th Jan 2026  |
| R4.3                                   | Files a documented exemption declaration where it elects not to undertake a Safe System Audit.                                 | Noted and implement as determined.<br>30th Jan 2026  |
| R5.1                                   | Reviews its inhouse professional services costs to ensure that all costs associated with the roading unit are fully reflected. | Is been discussed and under review as 27-30 NLTP development.<br><br>Wider review of procurement and service delivery model in-progress. Will be presented in procurement policy which is subject to review by NZTA by 1st July 2027 |

# 1. INTRODUCTION

## 1.1. Audit Objective

The objective of this audit is to provide assurance that the NZ Transport Agency Waka Kotahi (hereafter NZTA) investment in Council's land transport programme is being well managed and delivering value for money. We also seek assurance that the Council is appropriately managing risk associated with NZTA investment. We recommend improvements where appropriate.

## 1.2. Assessment Ratings Definitions

|                               | Effective  | Some Improvement Needed  | Significant Improvement Needed   | Unsatisfactory   |
|-------------------------------|--|--|--|--|
| <b>Investment management</b>  | Effective systems, processes, and management practices used.       | Acceptable systems, processes, and management practices but opportunities for improvement. | Systems, processes, and management practices require improvement.                  | Inadequate systems, processes, and management practices.   |
| <b>Compliance</b>             | NZTA and legislative requirements met.                             | Some omissions with NZTA requirements. No known breaches of legislative requirements.      | Significant breaches of NZTA and/or legislative requirements.                      | Multiple and/or serious breaches of NZTA or legislative requirements.                                |
| <b>Findings/ deficiencies</b> | Opportunities for improvement may be identified for consideration. | Error and omission issues identified which need to be addressed.                           | Issues and/or breaches must be addressed, or on-going NZTA funding may be at risk. | Systemic and/or serious issues must be urgently addressed, or on-going NZTA funding will be at risk. |

## 1.3. Council Comments

Council was provided with the opportunity to comment on any recommendations made as a result of the audit. These are shown in the recommendations table.

## 2. ASSESSMENT FINDINGS

Our findings relating to each subject area are presented in the tables below. Where necessary, we have included recommendations and/or suggestions.

### 1. Previous Audit Issues

From the previous October 2021 Procedural Audit, there were eight recommendations.

That Manawatū DC:

R2.1 Documents the claim process to reduce the risk of reliance on key staff.

R2.2 Validates claim to ensure transactions and LC/LR are checked prior to claims being submitted to NZTA.

R2.3 Carries out a full reconciliation of the retentions account.

R3.1 Openly advertises financially assisted tenders on the Government Electronic Tenders service (GETS).

R3.2 Publishes Council's current endorsed Procurement Strategy on the Council's website.

R3.3 Applies a consistent late tenders' policy to its request proposal documents.

R3.4 Ensures that any changes to tender evaluation team members from that stated in the RFT are communicated to potential tenderers through a Notice to Tenderers.

R4.1 Urgently addresses outstanding recommendations resulting from road safety audits conducted on Awahuri Fielding Safety Improvements and Rongotea Rd Right Turn Bay projects

Most of the recommendations have been addressed, however recommendations 2.1 and 4.1 remain partially outstanding and are discussed in the relevant sections below.

\* \* \*

**2. Financial Processes**

**Some Improvement Needed**

Claims for funding assistance for the four financial years 1<sup>st</sup> of July 2021 to 30<sup>th</sup> of June 2025 were reconciled against Council’s final Transport Investment Online (TIO) claim submissions.

Overall, there are sound controls in place for managing and monitoring Manawatū District Council’s financial accounting systems. Two staff members can prepare claims; however, there is no formal documented claims process. This issue was identified in the previous audit and remains unresolved. Action is required to reduce the risk associated with reliance on key personnel.

Tight financial year end cut off deadlines have resulted in some late transactions (e.g. purchase order receipting) not being included in claims. Consequently, a small number of work categories were overclaimed. While most variances can be offset by overspends in other areas, the following overclaims require recovery by NZTA:

- FY 2022/23: 341 – Road to Zero: \$33,552 \* 52% FAR =\$17,447
- FY 2023/24: 114 – Structures Maintenance: \$39,896 \* 51% FAR =\$20,347

Total to recover \$37,794 +GST

Transaction testing was performed across multiple Local Road activity classes. Although all expenditure tested was eligible, there were instances of incorrect coding, for example, sealed pavement maintenance included costs for vegetation control and slip clearing. With the introduction of new NZTA activity classes (e.g., pothole prevention, road operations), claiming across combined operations/renewals categories is no longer appropriate. Council should consult with their NZTA investment advisor to ensure accurate allocation, as both Council and NZTA require visibility of true spend by work category.

Council should also perform a follow-up reconciliation after each year-end to confirm that account code balances have not changed.

The 30/70 funding split for street cleaning was tested. NZTA policy provides funding assistance for 30% of the total cost of cleaning channels, sumps, and cesspits in urban areas, reflecting the benefit to the road and its users. However, in FY 2024/25, 100% of costs were claimed (possibly due to a new contractor arrangement). Street cleaning must be separated from drainage maintenance, and the difference refunded at 70%. Future claims should be corrected accordingly.

For Street Cleaning FY 2024 /25 the overclaim calculation is:

|                  |                              |
|------------------|------------------------------|
| Total cost       | \$379,731.20                 |
| 70% non-eligible | \$265,811.84                 |
| Overclaimed      | \$135,564.04 +GST to recover |

Overall, the total of all overclaimed expenditure for recovery is \$173,358.04 +GST

Retentions

The retentions account was reviewed together with Council’s latest reconciliation. No historic or excessive retentions relating to the roading activity are being held.

Low-Cost Low Risk Programme

There are some specific conditions of funding within W/C 341 Low Cost-Low Risk (LCLR), including “*The template list is expected to be maintained and updated regularly by the approved organisation and NZTA (for its own activities) and by the 31st August of the year the LC,LR template must be updated to reflect actual project expenditure in the previous year.* This has not been completed.

|   |  |
|---|--|
| Council must ensure that it meets the conditions of funding regarding LCLR, and other subsequent activities that will follow the LCLR funding conditions and spreadsheet. |  |
| Recommendations:  | <p>That Manawatū District Council:</p> <p>R 2.1 Confirms that the following amounts are subject to recovery by NZTA.</p> <ul style="list-style-type: none"> <li>• FY 2022/23: Road to Zero: \$17,447</li> <li>• FY 2023/24: Structures Maintenance: \$20,347</li> <li>• FY 2024/25: Street Cleaning: \$135,564.04</li> </ul> <p>Total to recover \$173,358.04 +GST.</p> <p>R2.2 Ensures that only 30% is claimed for street cleaning in FY2025/26 onwards and future financial years.</p> <p>R2.3 Meets the conditions of funding for the LCLR programme, and any associated programmes that utilise the LCLR spreadsheet, for future years.</p> <p>R2.4 Formally documents its processes for claiming funding assistance.</p> |
| Manawatū District Council’s comment   | As per recommendation table.   |
| Auditor Response  | In consultation with councils Investment Advisor, the request for the pay-back to be made on <b>1 July 2026</b> is approved to support the management of current budgets.  |

\* \* \*

| 3. Procurement Procedures   | Effective |
|---|-----------|
| <p>MDC currently has an NZTA endorsed Procurement Strategy, which is scheduled to expire on the 6<sup>th</sup> of May 2027. The Strategy is published on the Council’s website in compliance with Rule 10.6 of the NZTA Procurement Manual.</p> <p>Endorsement conditions relating to the term structure (3+3+3 years) for the maintenance contract and the requirement for meaningful work allocation to subcontractors were confirmed through governance meeting minutes.</p> <p>We reviewed the procurement processes for four physical works contracts and one professional services contract. No significant departures from the NZTA Procurement Manual were identified. Overall, procurement practices are good. However, we noted that letters of notification did not fully align with the Request for Tender (RFT) specifications, particularly regarding price ranges and supplier quality premiums.</p> <p><u>Positive Observations</u></p> <ul style="list-style-type: none"> <li>• Documentation was readily available and facilitated the audit process.</li> <li>• Tender Evaluation Team (TET) membership was consistent with RFT requirements, addressing an issue highlighted in the previous audit.</li> <li>• All Conflict-of-Interest forms were completed, and perceived conflicts were well managed.</li> </ul> |           |

|   |   |
|---|---|
| <ul style="list-style-type: none"> <li>GETS was consistently used to advertise tenders, meeting the recommendation from the last audit report.</li> </ul> <p>All contracts reviewed had a Qualified Tender Evaluator (QTE) appointed.</p> |   |
| Recommendation:   | That Manawatū District Council:<br>R3.1 Updates and enforces internal procedures for contract award notice publication and documentation. |
| Manawatū District Council's comment:  | As per recommendation table.  |

\* \* \*

|  |   |
|--|---|
| <b>4. Contract Management</b>  | <b>Significant Improvement Needed</b>   |
| <p>Sufficient evidence was found that regular meetings with the maintenance contractor are taking place with agenda items and minutes on file to support this.</p> <p>A sample of Dispatch IDs in RAMM was tested, and all data reviewed was complete. Each record included site photos and descriptions of work performed. We confirmed that Council staff verify a sample of work prior to approving costs for payment, and dispatch holds were applied where necessary. Meeting minutes and monthly reports were reviewed and found to be in good order.</p> <p><b><u>Safe System Audits (SSA) reports</u></b></p> <p>The previous two procedural audits (undertaken in FY's 2018/19 and 2021/22) identified that SSA activities were being undertaken but were not being closed out.</p> <p>The October 2021 audit found the SSA's for Awahuri Fielding Safety Improvements and Rongotea Rd Right Turn Bay projects were incomplete. These still appear to be incomplete i.e. no signatures from any of the parties.</p> <p>This exposes Council to potential liability if safety risks result in serious incidents. Immediate action is required to complete and formally close these audits or document exemptions where applicable.</p> |   |
| Recommendations:   | That Manawatū District Council:<br>R4.1 Ensures Safe System Audits reports for Rongotea Rd Right Turn Bay Project and Awahuri Fielding Safety Improvements are completed and signed by relevant parties.<br>R4.2 Ensures all future Safe System Audits reports are finalised, signed by relevant parties, and filed appropriately.<br>R4.3 Files a documented exemption declaration where it elects not to undertake a Safe System Audit. |
| Manawatū District Council's comment:   | As per recommendation table.  |

\* \* \*

| 5. Professional Services  | Effective  |
|---|--|
| <p>Professional services are provided both externally through consultants and in-house through an approved procurement procedure which has been endorsed by NZTA through its Procurement Strategy.</p> <p>The overhead cost allocation methodology and cost recovery multiplier (CRM) for in-house professional services was reviewed. The CRM is within acceptable tolerances but based on calculations provided, it appears significantly lower when compared to peer Councils. We recommend the CRM is reviewed to ensure all costs of the roading unit are being fully reflected.</p> |  |
| <p>Recommendation:</p>  | <p>That Manawatū District Council:</p> <p>R5.1 Reviews its in-house professional services costs to ensure that all costs associated with the roading unit are fully reflected.</p> |
| <p>Manawatū District Council's comment:</p>   | <p>As per recommendation table.</p>  |

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**APPENDIX A****Audit Programme**

|   |  |
|---|--|
| Previous audit outcomes – from last procedural audit undertaken in October 2021 |  |
| Land Transport Disbursement Account   |  |
| Final claims 2021/22, 2022/23, 2023/24, and 2024/25                             |  |
| Transactions (accounts payable)   |  |
| Retentions Account  |  |
| Procurement Procedures  |  |
| Contract Variations   |  |
| Contract Management   |  |
| Road Safety Audits  |  |
| Professional Services   |  |
| Transport Investment On-line (TIO) Reporting                                    |  |
| Other issues that may be raised during the audit                                |  |
| Close out meeting   |  |

## APPENDIX B

## Contracts Audited

| Contract Number | Tenders Received | Date let | Description  | Contractor             | Estimate<br>Let Price<br>Final Cost     |
|-----------------|------------------|----------|--|------------------------|---|
| 1397            | 5                | Oct 22   | Rongotea Road RP13.318 – 15.647 Seal Widening                    | McIntyre Construction  | \$618,569<br>\$500,954<br>Not supplied  |
| 1426            | 1                | Aug 22   | Roading Activity Management Plan 2024-2027 Professional Services | Stantec                | Quote<br>\$78,500<br>\$78,500           |
| 1518            | 7                | Nov 24   | Churchill Road Bridge Replacement                                | Emmett Civil           | \$6,100,000<br>\$5,899,699<br>ongoing   |
| 1456            | 1                | Oct 23   | Otara Bridge Investigation and Design of damaged bridge          | Riverside Construction | \$360,000<br>\$597,336<br>Ongoing       |
| 1414            | 3                | Nov 23   | Road Maintenance Contract 2024-2027                              | Fulton Hogan           | \$50,370,862<br>\$43,516,232<br>Ongoing |