

AUDIT AND RISK COMMITTEE

AGENDA

Meeting to be held

THURSDAY 1 SEPTEMBER 2016

11.00am

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

R.G. Templer

Dr Richard Templer
Chief Executive

MEMBERSHIP

Chairperson

Mr John Fowke

Deputy Chairperson

Councillor Tony Jensen

Members

Her Worship the Mayor, Margaret Kouvelis
Councillor Barbara Cameron
Councillor Tony Jensen
Councillor Howard Voss

External Member – John Fowke

ORDER OF BUSINESS

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<i>Draft resolution</i>	
<i>That the minutes of the Audit and Risk Committee meeting held 7 July 2016 be adopted as a true and correct record.</i>	
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.
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9. MEETING CLOSURE	

MINUTES	MEETING	TIME
AUDIT AND RISK COMMITTEE	THURSDAY 7 JULY 2016	11.00AM

Minutes of a meeting of the Audit and Risk Committee held on Thursday 7 July 2016, commencing at 11.00am in the Manawatu District Council Chambers, 135 Manchester Street, Feilding.

PRESENT:	Cr Tony Jensen	(Chairperson)
	Mayor Margaret Kouvelis	
	Cr Barbara Cameron	
	Cr Howard Voss	
IN ATTENDANCE:	Cr Steve Bielski	
	Cr Shane Casey	
	Cr Alison Short	
	Richard Templer	(Chief Executive)
	Shayne Harris	(General Manager - Business)
	Brent Limmer	(General Manager - Community and Strategy)
	Hamish Waugh	(General Manager - Infrastructure)
	Colleen Morris	(Principal Financial Adviser)
	Michael Hawker	(Project Delivery Manager)
	Darryl Black	(Corporate Projects Adviser)
	Paul Stein	(Communications Adviser)
	Allie Dunn	(Business Support Team Leader)

ARC 16/001 MEETING OPENING

The Chief Executive took the Chair and declared the meeting open.

ARC 16/002 APPOINTMENT OF CHAIRPERSON AND DEPUTY CHAIRPERSON

The Chief Executive called for nominations for positions of Chairperson and Deputy Chairperson of the Audit and Risk Committee.

RESOLVED

That the independent member of the Audit and Risk Committee be appointed as Chairperson and that the Deputy Mayor Councillor Tony Jensen be appointed as Deputy Chairperson of the Audit and Risk Committee.

Moved by: Her Worship the Mayor Margaret Kouvelis

Seconded by: Councillor Howard Voss

CARRIED

Councillor Tony Jensen took the Chair as Deputy Chairperson to Chair the meeting.

ARC 16/003 APOLOGIES

There were no apologies.

MINUTES	MEETING	TIME
AUDIT AND RISK COMMITTEE	THURSDAY 7 JULY 2016	11.00AM

ARC 16/004 DECLARATIONS OF INTEREST

There were no declarations of interest.

ARC 16/005 NOTIFICATION OF LATE ITEMS

There were no late items notified for consideration.

ARC 16/006 DISCUSSION OF CHIEF EXECUTIVE'S VIEW OF RISK

The Audit and Risk Committee received a presentation from the Chief Executive on the topic of risk. The presentation updated members on progress on what actions taken by Council and officers to date and the next steps. The next steps identified were:

- Update Risk Register, Risk Matrix, Treatments and Controls
- Present, discuss and review these with the Audit and Risk Committee
- Identify areas for internal / external audit; and
- Undertake regular reviews of risk.

ARC 16/007 CONSIDERATION OF INDEPENDENT MEMBER

The Audit and Risk Committee discussed potential individuals that could be approached to be appointed as the independent member of the Audit and Risk Committee, for recommendation to Council.

RECOMMENDED

That Mr John Fowke be approached regarding being appointed Independent Member of the Audit and Risk Committee.

Moved by: Her Worship the Mayor Margaret Kouvelis

Seconded by: Councillor Howard Voss

CARRIED

ARC 16/008 DISCUSSION OF AUDIT

The Audit and Risk Committee considered reference material from the Office of the Auditor General providing guidance regarding Audit Committees. It was noted that a conflicts of interest register would be brought to the Audit and Risk Committee, providing transparency of potential conflicts of interest of elected members and senior officers. It was requested that a workshop session be held on the guidance provided by the Office of the Auditor General regarding "Knowing what you don't know".

ARC 16/009 DISCUSSION OF REPORTING AGAINST TERMS OF REFERENCE

The committee considered the Audit and Risk Committee Terms of Reference and discussed the level of reporting they would like to see at meetings of the committee.

MINUTES	MEETING	TIME
AUDIT AND RISK COMMITTEE	THURSDAY 7 JULY 2016	11.00AM

The following matters were noted:

- Meetings to be held bi-monthly initially;
- Internal audit programme for the coming year to be brought to the Audit and Risk Committee;
- Internal Auditor and External Auditor to be present at meetings of the Audit and Risk Committee, with opportunity for discussion with members without executive in attendance;
- Previous internal audit reports to be reviewed by the Audit and Risk Committee;
- External audit management reports to be considered by the Audit and Risk Committee;
- Health and Safety reports would come to Audit and Risk Committee as part of internal reporting;
- Agendas to include an item for members to notify items they would like to be brought to the next meeting.

ARC 16/010 CONSIDERATION OF LATE ITEMS

There were no late items for consideration.

ARC 16/011 MEETING CLOSURE

The meeting closed at 12.08pm

Approved and adopted as a true and correct record:

.....
CHAIRPERSON

.....
DATE

Audit and Risk Committee

Meeting of 01 September 2016

Business Unit: Corporate and Regulatory

Date Created: 24 August 2016

Internal Audit reports

Purpose

The Manawatu District Council internal audit programme has completed a number of audit reviews over the past three years. The committee requested that we present to them the most significant audits and in particular the audit conducted on the Feilding Wastewater Treatment Plant project.

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 reports for:

- Project Implementation Review of the Feilding Wastewater Treatment Plant
- Contract Management and Procurement Review on Infrastructure Contracts
- Sensitive Expenditure

Report prepared by:

Shayne Harris

General Manager - Corporate and Regulatory

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 Manawatu – the best rural lifestyle in New Zealand

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

2 Background

- 2.1 MDC commenced an internal audit function three years ago. Each year an audit programme was signed off by the Executive Team that required the internal auditor to undertake a number of reviews across various council activities.
- 2.2 The audit programme was designed to address any issues that had been raised in the external audit reports and to also concentrate on the more at risk functions of council.
- 2.3 Reports were then prepared and reported back to the Chief Executive.
- 2.4 General Managers were then responsible for ensuring that any recommendations agreed from those reports were implemented.

3 Discussion and Options considered

- 3.1 The Sensitive Expenditure audit was undertaken in 2013. All the recommendations have been implemented. Staff now have an annual meeting with General Managers that updates them on key policies. Staff are then required to sign acknowledging they have attended the policy briefing sessions and understand the policies.
- 3.2 The update on the recommendations contained in the Project Implementation Review of the Feilding Wastewater Treatment Plant and the Contract Management and Procurement Review on Infrastructure Contracts is covered off separately by the attached update from the General Manager – Infrastructure

4 Financial implications

- 4.1 There are no financial implications.

5 Conclusion

- 5.1 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. Good internal audit should also provide

the evidence that Council is managing its risk areas, and provide constructive feedback on any improvements that can be made that might lower the risk exposure.

5.2 The 2015 – 2016 internal audit programme is proposed in another report.

6 Attachments

- Project Implementation Review of the Feilding Wastewater Treatment Plant
- Contract Management and Procurement Review on Infrastructure Contracts
- Sensitive Expenditure

Memorandum

File Ref FWWTP Internal Audit (201412) – Audit and Risk Committee update
To Audit and Risk Committee
From General Manager - Infrastructure
Date 25 August 2016
Subject **Feilding WWTP Internal Audit (December 2014) – Audit and Risk Committee update**

The Feilding WWTP is a complex project involving a significant number of deliverables. The scope of the project implementation review from the Feilding Wastewater Treatment Plant (WWTP) examined Manawatu District Council's development, implementation, and oversight of the Feilding WWTP upgrade (and any related projects), from inception including:

Council's planning, decision-making and compliance with policies and strategies including the legal requirements for decision-making:

- Governance, management, and contracting arrangements for the project
- Financial management, monitoring, and reporting
- Adequacy and application of project management controls and processes
- Identifying good practices that can be adopted for future projects

Some of the key findings of the internal audit are as follows:

- The design and build of anaerobic pond and relining of the storage lagoon project, aligned to NZ3910 (New Zealand Standard-Conditions of contract for building and civil engineering construction) generally met recommended practices.
- Smaller enabling upgrade projects had significant gaps in project management practices.
- Additional significant risks to this project are conducting upgrades to the plant prior to the receipt of the resource consent and the ability for ratepayers to afford future upgrades and its associated costs. I understand that Council was aware of these risks and agreed to proceed with the plant upgrades whilst obtaining the resource consent.

Specific audit findings and implemented improvements post audit are as follows:

Audit Observation (Summarised)	Improvement
Poorly defined project scope i.e. no project briefs were prepared.	Council now has a clear process for defining the project brief prior to project commencement.
Poor governance	Major projects across Council now have a steering group function associated their oversight and delivery. The Feilding WWTP has a weekly steering group chaired by the General Manager – Infrastructure and attended by all

Audit Observation (Summarised)	Improvement
	utility management staff and appropriate engineering and operational managers / staff.
Disjointed management	The above mentioned steering group function is now in place across Council and ensures that disjointed management and decision making is no longer an issue.
Poor communication	The above mentioned steering group function is now in place across Council and ensures that poor communication is no longer an issue. This also include more frequent Elected Member updates.
Inadequate risk management	Risk management practices are now in place across Council and frequent councillor updates ensures the project risk are well documented and understood.
Inadequate performance reporting	Performance reporting is now in place across Council with key project status reports reviewed by the Executive Team and Elected Members.
Significant revision and development of Councils capital project management procedures and processes are required to align with best practice.	Council has invested in project management training and targeted recruitment of experienced staff to manage large and complex projects.

The internal audit noted that from late 2012, improvements identified and implemented by staff have improved the contract and project management practices within the WWTP upgrade.

The internal audit also noted that Council is to be commended for using in-house resources rather than external consultants and managing projects directly rather than sub-contracting to a main contractor and acknowledged the resultant value for money for ratepayers.

Hamish Waugh
General Manager – Infrastructure



Internal Audit Report

Project Implementation Review of Feilding Wastewater Treatment Plant

December 2014

Issued to:	Lorraine Vincent	Chief Executive
Copied to:	Shayne Harris Hamish Waugh	General Manager - Business General Manager - Infrastructure

Executive Summary

In November 2013, The Office of the Auditor General issued their Inquiry into the Mangawhai community wastewater scheme. The inquiry was undertaken because the community had concerns over the financial management, planning for the scheme, the significant increase in the total cost of the scheme, and the lawfulness of the Kaipara District Council's decision-making processes and the development contributions and rates used to fund the scheme. The projects lifespan over 16 years cost \$63.3million compared to a budget set of \$14million. The inquiry was widely advertised and consequently, ratepayers have an increased awareness of sewerage plant upgrades and possible cost escalations.

The scope of this review examined, Manawatu District Council's development, implementation, and oversight of the Feilding Wastewater Treatment Plant upgrade (and any related projects), from inception including:

- The Council's planning and decision-making, including how well it complied with its policies and strategies, and the legal and other requirements for decision-making;
- The governance, management, and contracting arrangements for the project;
- The Council's financial management, monitoring, and reporting;
- Evaluating the adequacy of controls and processes for project management, and the extent to which controls have been applied.
- Identifying good practices that can be adopted for future projects.

The Feilding Wastewater Treatment Plant (FWWTP) has undergone a long-term programme of upgrades, which started back in 1997 to increase the quality of the discharged effluent. The upgrades have been designed to accommodate growth and address resource consent non-compliance. Access to records dating back to 1997, when the project commenced has been challenging due to the poor state of records and the turnover of staff during this period made my enquiries difficult.

Consequently, my review has concentrated on the plant upgrades and resources consent applications post March 2011.

Summary

The corporate management framework for the management of capital projects, which includes capital planning, budgeting, monitoring and reporting, needs to be strengthened. The design and build of anaerobic pond and relining of the storage lagoon project, aligned to NZ3910 (New Zealand Standard-Conditions of contract for building and civil engineering construction) generally met recommended practices. However, the other smaller enabling upgrade projects (including installation of BAS Curtains and the Biolak system) had significant gaps in project management practices (these are detailed later in the executive summary).

Significant revision and development of Councils capital project management procedures and processes are required to align with best practice.

The Council's practice of discussing issues and proposals relating to the plant upgrade and resource consent application at project workshops, meant that the formal records presented to Council and minutes of the workshop were often not enough to give a clear picture of what had been discussed and why. This lack of information has made it difficult for an assessment of the robustness of Council's Governance role.

Handouts were often presented at the workshop as handouts but were not filed with the workshop agendas or provided with minutes. My review also identified that some of the workshop agendas and minutes could not be located. I acknowledge that workshops can be an extremely useful addition to formal council meeting and decision-making processes, because they enable more open discussion and exchange with advisers and that formal Council reports were prepared for the procurement of significant capex items and plant.

I have two major concerns over the reporting of risks relating to the non-installation of the Fixed Biofilm Attachment Surface (BAS) curtains and their deterioration whilst exposed to the elements and the tearing of the anaerobic pond cover due to scum built up. The contractor for the installation of the BAS curtains has been paid a substantial portion of the contract price even though they are still not installed. I do acknowledge that since the commencement of my review, many meetings and site trials have occurred with the supplier and that the supplier of the BAS curtains has agreed to replace the damaged curtains at no cost to Council.

I understand that regular discussions are continuing with the supplier of the anaerobic pond cover to find a resolution to resolve the tearing of the anaerobic pond cover due to scum build and that the issue is being managed as an operational risk by the General Manager – Infrastructure.

Monthly reporting to Council did not accurately reflect the status of these risks or the mitigations to resolve these issues. Overall monthly and quarterly reporting to Governance Team does not adequately identify the overall project risks and mitigations required.

Additional significant risks to this project are conducting upgrades to the plant prior to the receipt of the resource consent and the ability for ratepayers to afford future upgrades and its associated costs. I understand that Council was aware of these risks and agreed to proceed with the plant upgrades whilst obtaining the resource consent.

In conclusion, this is a complex project involving a significant number of deliverables. However, within the wider context of a long-term, wide-ranging project, this project comprised, elements (further expanded on in the detailed findings of this report) of:

- poorly defined project scope, for example no project briefs were prepared;
- limited best practice procurement practices; for example whole of life costs including contingencies had not been prepared and limited pre-feasibility documents could be located;
- poor governance; for example no plant upgrade steering group established to review regular reports submitted by the project manager;
- disjointed management (three phases – initiation, implementation and closure), for example, project roles and responsibilities for the FWWTP upgrade were defined in late 2013 and the subsequent appointment of one project manager to manage the remainder of the project delivery;
- poor communication; for example the Technical Manager did not communicate all aspects of the project with relevant stakeholders;
- inadequate risk management; for example an issues register for the projects underway was only developed in late 2012;
- inadequate performance reporting, for example project reporting to council included comments such as “ A number of projects have been coded to this job, therefore costs are yet to be re-allocated between various Feilding Waste Water capital jobs, including the growth project.” and;
- inadequate retention of records.

It is acknowledged that in late 2013/14 there was urgency in the planning of the scope and procurement options to enable construction to commence in the correct season and reduce project delays caused by adverse weather conditions. I also understand that regular discussions and whiteboard brainstorming did occur between Councils Technical Manager and General Manager Infrastructure, however these may not have been formally documented due to the urgency of ensuring that construction commenced in the correct season.

Notwithstanding the above, I wish to commend the team’s stakeholders for delivering the plant upgrades and resource consent application in the challenging environment presented. Projects of this complexity, duration and budget are not the norm for Council. However, the lessons learnt from this review can be incorporated into Councils contract and project management methodologies.

I wish to commend the General Manager Infrastructure on his bold project delivery plan whilst having limited available staff resources. I also acknowledge that improvements, in particular from late 2012, identified and implemented by staff have improved the plant upgrade projects contract and project management practices. Council is commended for using in house resources rather than external consultants and managing projects directly rather than sub contracting to a main contractor and the resultant value for money for ratepayers.

Management Comment

Recommendations accepted. Recommendations will be discussed with Infrastructure staff prior June 2015 and the implementation of recommendations will be performed by responsible third tier managers. In December 2015, Internal Audit will undertake a follow-up review on the implementation of agreed audit recommendations.

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Background

The Feilding Wastewater Treatment Plant (WWTP) is undergoing a long-term programme of upgrades to increase the quality of the discharged effluent, which started prior 2008. In 2012/13, the cost was \$7.3 million with a further \$4.5 million in 2013/14. Work since 2008/09 completes a \$13.5 million upgrade of the plant and includes:

- Two new inlet screens to remove solids larger than 3mm
- A screw press delivering compacted waste to a bin for disposal to landfill
- Upgrades to the grit chamber removal system with a new hydraulic lifter and de-watering screw
- A new anaerobic lagoon fitted with a permeable membrane cover to remove a significant portion of the incoming load
- Upgrades to the two existing aerated lagoons including new impermeable liners and upgraded diffuse bubble aeration
- Two new high rate clarifiers (Actiflo systems) with flocculant and polymer dosing to remove suspended solids
- Final filtration through a Hydrotech disk filter prior to UV sterilisation
- One new 25,000 m³ treated wastewater storage lagoon (first of two proposed)

In addition, the new dual discharge regime proposed will require 50,000 m³ of effluent storage to act as a buffer in times of low river flows and solid saturation. The first storage pond (25,000 m³) was completed in September 2013. The second will be constructed prior to the first irrigation season in the 2015/16 financial year. A portion of this work has been funded by the \$1,000,000 that MDC has received from the Government's Freshwater Clean –up Fund.

A resource consent application has been lodged with Horizons Regional Council. This proposal has three key components that contribute to minimizing the environmental effects of the various discharge consents. These components include:

- Upgrading of the wastewater treatment plant to reduce contaminant concentrations and increase treatment capacity.
- Development of an irrigation application scheme to enable diversion of the majority of river discharge during low flow periods to land.
- Improved control of the remaining discharge to the river to reduce average contaminant concentrations and environmental effects, despite allowances for growth over the term of the consents.

This review was commissioned at the Chief Executives request and incorporated into Internal Audit Work Plan for the 2013/14.

Objectives and approach

Objectives

This review will examine Manawatu District Council's development, implementation, and oversight of the Feilding Wastewater Treatment Plant upgrade (and any related projects), from inception including:

- The Council's planning and decision-making, including how well it complied with its policies and strategies, and the legal and other requirements for decision-making;
- The governance, management, and contracting arrangements for the project;
- The Council's financial management, monitoring, and reporting;
- Evaluating the adequacy of controls and processes for project management, and the extent to which controls have been applied.
- Identifying good practices that can be adopted for future projects.

The review will also consider any other matters I consider desirable to report on.

Approach

The approach for this review includes the following:

- Reviewing Council papers, Long Term Plans and Annual Plans to identify the capital projects approved and the projects deliverables,
- Held meetings with key personnel to identify their roles and involvement in the project,
- Visited the Feilding Wastewater Treatment Plant to view project works undertaken,
- Reviewed project records to assess the effectiveness of project management and project governance,
- Assessed Council's financial management, monitoring and reporting,
- Identified good practices that can be adopted for future projects.

My review comprised reviewing the following possible risks arising in the Feilding Wastewater Treatment project:

- A business case was not documented or approved for the project;
- The processes to perform a scoping study, pre-feasibility and feasibility analysis may not have been followed and documented;
- The budget may not be adequate to complete the project;
- The project plan may not address all identifiable risks;
- Expenditure may not be approved by Council;

- Resources may not be available to complete or manage the project;
- Status reporting and forecasting methodologies are not in place to assist management with monitoring the projects status;
- Inadequate risk identification and mitigation plans;
- The vendor selection process is inadequate or not followed (competitive bids are not solicited and adequately evaluated prior to awarding contracts to vendors);
- Contract terms and conditions are not appropriate to manage project costs or to allow monitoring of vendors;
- Scope of work is not adequate, clearly defined, or could result in variation orders and project overruns;
- Variation orders may not be properly reviewed / approved to identify changes to scope, terms, labour rates and to confirm that changes are not included in the original scope of work;
- Invoices may not be properly reviewed prior to payment to confirm compliance with contract;
- Management may not review the quality and adequate completion of work prior to approval of progress payments;
- Misallocation of costs or purchase orders not closed;
- Retention released prior the completed work is reviewed for acceptable quality;
- Ineffective post-project review and evaluation.

I would like to express my appreciation to the individuals from Manawatu District Council who participated in this review for their input and support.

Findings

Project Planning

Capital projects are long-term projects which require relatively large sums of money to acquire, develop, improve, or maintain. Management is responsible for oversight and management of the Council's capital projects, including establishing internal controls to help ensure that capital projects are properly and adequately planned and managed. Effective controls help ensure that projects are properly planned, funding is authorised, and project costs are kept within their approved budget. Proper planning can minimize the possibility of cost overruns, which could have a negative impact on Council's finances.

Since 1997, the upgrade of the Feilding Wastewater Treatment Plant upgrade has presented Council with significant challenges, mainly the introduction of One Plan (resource consent requirements) by Horizons Regional Council, limited staff resources, high staff attrition of Asset Managers and other key staff and four declined resource consent applications.

During the period 1997 to early 2011, the plant upgrades were focused on improving the quality of the discharged effluent and the direction for upgrading the plant was led by consultants. A number of these upgrades are no longer required. Limited records were available for the upgrades commissioned during the period 1997 to early 2011, antidotal evidence suggests that components of the plant upgrades were not properly planned or well managed.

In May 2011, the current General Manager – Infrastructure commenced employment with MDC. One of his first tasks was to review the requirements for upgrading the Feilding Waste Water Treatment Plant with the purpose of obtaining a resource consent that meets the requirements of Horizons One Plan.

During the remainder of 2011, the former Technical Manager and current General Manager – Infrastructure considered feasibilities and identified a process design for the upgrade of the Feilding Wastewater Treatment Plant. The design proposal was presented to Council and accepted. My review of documentation and discussions held concludes that the design focused on only the high priority improvements needed for the wastewater treatment plant upgrade and did not include all of the required improvements. Moreover, the Project is still not complete and the Council will incur additional costs.

Proper planning of a capital improvement project requires a thorough understanding of the project's overall scope and cost. Initial estimated costs must be realistic so that Council can properly plan the methods and costs of financing the project and inform ratepayers of the amount needed to complete the project to required specifications. In conclusion, Council did not fully inform ratepayers of the entire costs at the outset of the Project to enable them to make informed decisions concerning the Project.

Resource Consent

On 6 December 2013, a resource consent application for FWWTP was lodged with Horizons Regional Council. MDC has spent millions on upgrading the infrastructure of the FWWTP prior to the resource consent being granted. This exposes the Council to a significant risk, firstly, the resource consent application is not granted, secondly not granted for the period of 35 years as per the application lodged and thirdly, the resource consent includes conditions that could require further capital spend i.e. more discharge to land than MDC's resource consent application recommends.

It is acknowledged that Council is prudent waiting for the resource consent approval prior to implementing the irrigation to land system. However, best practice is to first obtain the resource consent and then design the treatment plant to meet the resource consent requirements. Plant upgrades have improved the quality of discharge and Council has shown its commitment to the Manawatu River Leaders Accord.

Costs for the resource consent application and subsequent hearings had not been separately budgeted, instead the costs are allocated to the same budget as the FWWTP upgrade. My review identified that no reconciliation or monitoring of resource consent costs is undertaken nor is internal time charged for work undertaken by Council Employees engaged with the resource consent staff application. In addition, purchase orders are not created at the date of commitment, which is contrary to Councils Purchase Order Policy. These issues could expose Council to potential cost overruns.

It is my understanding that consultant's advice provided for the 2011 resource consent application may not have been correct which may have resulted in delays in obtaining an approved resource consent and possible additional costs to Council.

Governance

It is acknowledged that Council has been engaged with the FWWTP upgrade, procurement decisions and resource consent application process. However, I do have concerns about the threshold at which project risks are communicated to the Council.

I have two major concerns over the reporting of risks relating to the non-installation of the Fixed Biofilm Attachment Surface (BAS) curtains and their deterioration whilst exposed to the elements and the tearing of the anaerobic pond cover due to scum built up. The contractor for the installation of the BAS curtains has been paid a substantial portion of the contract price even though they are still not installed. I do acknowledge that since the commencement of my review, many meetings and site trials have occurred with the supplier and that the supplier of the BAS curtains has agreed to replace the damaged curtains at no cost to Council.

I understand that regular discussions are continuing with the supplier of the anaerobic pond cover to find a resolution to resolve the tearing of the anaerobic pond cover due to scum build and that the issue is being managed as an operational risk by the General Manager – Infrastructure.

Monthly reporting to Council did not accurately reflect the status of these risks or the mitigations to resolve these issues. Overall monthly and quarterly reporting to Governance Team does not adequately identify the overall project risks and mitigations required.

Council did not establish the quality of governance required for a complex project of this nature. Best practice is that a Steering Group that reviews regular reports submitted by the project manager is established for complex projects and to provide support to the project sponsor. There was a large degree of turnover in key project leadership positions throughout the projects lifecycle and the defining project roles and responsibilities occurred during late 2013 when a dedicated project manager for project delivery. In hindsight, this project could have achieved improved governance by mirroring the governance structures applied to the Himatangi Beach Wastewater Scheme.

There is limited evidence available to confirm whether Council has asked the challenging questions about the management and monitoring of the FWWTP upgrade and resource consent application.

During 2011, a hands-on steering group was created for the 2013 resource consent application, which included both the General Manager Business and Infrastructure. The use of a steering group is aligned with best practice.

I have not seen any reports to Council from an Independent Quality Assurance about the projects progress or any post implementation reviews conducted internally for upgrades / sub projects completed since 1997. Undertaking of these reviews would have identified project management issues that have been identified later in this report.

Staff vacancies and turnover has influenced segregation of duties that would be traditionally present in a major project. For example: General Manger – Infrastructure) held the role of both Asset Manager and Project Sponsor for at least one year, the former Technical Manager performed the role of technical lead and directing elements of the project delivery relating to procurement . Inadequate segregation of duties could diminish the ability of key roles to view the project holistically.

Financial Management and budget consultation process

Financial management was complicated by a big bucket approach to budget allocation for all projects including the resource consent application. Budgets funding sources are variable which also makes management of the project holistically difficult. No separate budget has been set aside for resource consent application costs or major plant upgrade sub project deliverables. My review identified that commitments are not raised for resource consents and some of the sub projects. Internal costs related to the resource consent application have not been allocated to the project.

The big bucket approach to budgeting has made cost monitoring by project manager difficult and time consuming; consequently the cost monitoring was not conducted on a monthly basis. It was further complicated by Ozone including budgets set in previous years and carried over to new budget years, i.e. duplication of budget approved. Evidence of difficulties monitoring project costs is identified in both monthly and quarterly reporting with comments such as “ A number of projects have been coded to this job, therefore costs are yet to be re-allocated between various Feilding Waste Water capital jobs, including the growth project.”

MDC's long term plan 2012/22 and subsequent annual plans have made reference to the upgrade of FWWTP and in some instances changed the timing of when the project will be delivered. I have strong reservations about the commentary provided around the change of focus in upgrading the FWWTP and the perception by the Public that the upgrade includes funding of projects as originally intended. I strongly recommend that in future public consultation disclosures that the use of capex funds for a particular purpose are clearly articulated.

The investment in upgrading the plant, acquiring land for irrigation to land and preparing the resource consent application is approximately \$15 million. In addition to the \$2 million budgeted in 2015/16 for the implementation of the irrigational system, further capital expenditure (for example: automation of the biological trickling filters, chemical dosing, sludge dewatering processes and recent unbudgeted land purchase) will still be required to finalise the FWWTP upgrade. I understand that future costs will be produced during the development of the 2015/25 long term plan. This financial year Council has available approximately \$700k to finalise the resource consent application process and complete plant upgrades commissioned.

Whilst the FWWTP is being upgraded, Council needs to be aware of the affordability of the service to Ratepayers, within the last two years the wastewater-targeted rate has increased by at least 30%. Upon capitalisation of the FWWTP assets, the costs of providing the wastewater activity will increase. For every \$1 million borrowed by Council, the loan interest and depreciation, cost is approximately \$17 per ratepayer receiving the service. Government is in the process of amending the Local Government Act 2002 to provide a new purpose for Local Government which is focused on cost effective services for households and businesses.

I have observed that Councils Principal Financial Advisor is not involved in reviewing the financial elements of proposals relating to the upgrade, resource consent or land purchases prior to Council being advised. The Principal Financial Advisor needs to be aware of financial decisions that will affect Councils borrowing, cash flow and future affordability. Furthermore, ratepayer input and political direction should be obtained earlier in the budgeting process, for example the recent land purchase that occurred after the annual plan was adopted.

Project Management

Prior late 2012, project issues and risks were not clearly identified and managed for non NZ3910 (Conditions of contract for building and civil engineering construction followed sound project management practices) managed projects. In late 2012, an issues and risk register was collated by all project stakeholders and mitigations were identified, thereafter regular identification and mitigation of issues and risks continued. PSU are traditionally engaged to provide professional services upon advisement of the Councils Asset Manager, the scope of service is detailed through project briefs. I was not able to locate any project brief sheets for any of the upgrades to the FWWTP since 2011.

During late 2013, where project roles and responsibilities for the FWWTP upgrade formally defined and one project manager assigned to manage the remainder of the project delivery. This resulted in a significant improvement in project management. Projects (design and build of anaerobic Pond) governed by NZ3910 - Conditions of contract for building and civil engineering construction followed sound project management practices.

I also wish to commend the work undertaken by the Project Manager responsible for the construction of the storage reservoir and anaerobic pond throughout the challenging circumstances presented. The contribution provided by Downer EDI project manager to risk identification and mitigations resulted in significant safeguarding of Councils resources and reputation.

A major impact on this project was limited staff resources, lack of communication amongst stakeholders on the scope of work to be undertaken, limited feasibility studies relating to procurement practices and the limited holistic view of the project deliverables. During my review, I have had trouble in locating documents relating to pre-feasibility decisions, including how the whole of life costs had been determined for each of the procurement options selected. Records relating to project deliverables for some of the direct procurement elements could not be located, including details of product warranties.

The quality of other records maintained for various sub-projects was variable. Council's in-house technical manager identified specialist suppliers for direct procurement componentry and the anaerobic pond cover. He was responsible for significant input into the design and procurement options for the upgrade but was not necessarily good at documenting the rationale for decisions made or at communicating actions taken, in instances contract variations occurred without prior approval of the project engineer and he implemented design changes which could have affected the products warranties. Contingency amounts were often expended but it was not clear whether the contingency use was appropriate.

I understand that detailed business cases and project initiation documents were not produced for most of the components of the FWWTP upgrade, as it was not business practice at the time of budgets approval. Had these documents been produced with an independent review comprising finance, IT, independent project manager, and the projects outcomes may have been different. I could not locate any internal documents identifying internal stakeholder involvement or their costs budgeted for the project.

Even though the main construction and process ideas were discussed with Council and peer reviewed by an external consultant, the project delivery plan including the overall projects scope was not clearly defined, consequently significant scope creep in the project has occurred. The roles and responsibilities of stakeholders were not clearly defined at the commencement of the plant upgrade and limited communication with project stakeholders was evident.

No post implementation reviews undertaken of sub projects completed and Council's project management tools such as i-lign, MS Project, Ozone, project management methodology are not consistently used. My understanding is that training on the use of these tools is required. Additionally, no formal hand over process exists for the hand-over of a project to Operations Team upon commissioning thereof.

Procurement

Council papers have been prepared detailing the process requirements, procurement methodology and justification for direct engagement with selected suppliers and that Council approved these procurement purchases. I do however have concerns that whole of life costs including contingencies had not been prepared and limited pre-feasibility documents could be located.

Poor procurement practices evident during the review included awarding work to preferred suppliers where the scope of work was not adequate, not clearly defined and no contract / formal agreement was prepared. This is not aligned with OAG procurement guidance for public entities, which promotes the following principles: accountability, openness, value for money, lawfulness, fairness and integrity. Procurement with Council's preferred suppliers could challenge the above principles.

Direct procurement agreements with several of the suppliers did not require retentions; this can prejudice Council's ability to enforce deliverables or remedy disputes that may occur. It is my understanding that the procurement decisions were based on the principles of acceptable risk and optimizing procurement pricing. Limited evidence of project estimates were present for the direct procurement contracts issued.

Capital project management procedures and guidelines

Council has a number of templates and sub processes about for project management that are available to staff but there is no single Project Administration Practice manual available to guide the planning and execution of a project. This manual should include best practices in the following areas:

- Scope control
- Project schedule (time) management
- Project cost budgeting and cost control
- Project human resources management
- Project procurement management including procedures to address the following areas:
 - Scope planning, definition, verification and work breakdown structure
 - Project cost estimating
 - Project quality management and control
 - Project progress reporting
 - Project risk management
 - Project integration management
- Document control and retention procedures

Good Practice

- A consultant was engaged to confirm in principle the appropriateness of the plant processes upgrade.
- Council workshops were held to discuss the various components of the Treatment Plants upgrade and the aim of achieving a resource consent aligned with One Plan requirements.
- In late 2012, a risk and issues register was implemented and risk management was enhanced, regular meeting established with all stakeholders to review risks, discuss and identify mitigations and assign responsibility to resolve.
- In late 2013, project roles and responsibilities were defined and one project manager was assigned to manage the remainder of the project delivery.
- Projects governed by NZ3910 - Conditions of contract for building and civil engineering construction followed sound project management practices.
- IPENZ short form contracts used in instances to enhance Council's project management practices.
- 2013 Resource Consent application process was supported by General Manager – Business as well as a Steering Group.

Recommendations

- Existing projects financial position, including contingency amounts be reviewed and business cases be produced for any increased budget required.
- Governance be advised of all significant risks and be advised of the current financial position.
- Robust project management tools and methodology be developed and applied consistently to all Council projects.
- Project brief sheets be prepared, signed by the relevant asset manager and retained on the projects file.
- Project, risk and financial management training be provided to all staff.
- All staff working on the project complete time sheets and allocate their time spent to the project.
- A Project Management Office (i.e. Project Delivery Manager position) be implemented which provides oversight on all significant project budgets and reporting to governance team on projects they are monitoring.
- The current reporting cycle for major capital projects should be revised to include a well defined reporting process that enables monthly progress reporting to the Project Delivery Manager. Without accurate, complete and timely information on the condition of a project, the owner forfeits the ability to make timely and informed decisions, which might have serious ramifications on the ultimate project scope, cost, schedule and quality.
- A post implementation review be undertaken on components of the project completed, including a review of the project risk log to identify lessons learnt and use of contingencies.
- Formal processes be developed for the hand-over of a project to operations team upon commissioning.
- A steering group be convened made up of some members independent of the group receiving the benefits of the project with the purpose of supporting the project sponsor. These steering group governance roles are essential: they provide direction, guidance, and critical review of the project and its progress and can ask difficult questions about progress and the projects performance. They also provide support to the project manager by providing contacts and insights that help you get things done, and by providing "political cover" when needed.
- Regular reporting to the steering group by the project manager whereby risks as detailed in the project risk log and issues arising are discussed, achievement of milestones achievement and approval of scope / cost variations is sought.
- Strategic risks identified by the steering group must escalate for recording in Councils strategic risk register together with suitable mitigations.
- Development of robust asset management plans to lead the way in the development of sound business cases.
- One project manager be appointed from the inception of the project and all stakeholders roles and responsibilities are clearly defined prior to the project commencing. Resource capacity for the project manager is paramount to the success of the project.
- Communication logs and plans are maintained for projects and sub projects to ensure project staff know what communication is required and to whom. These should be available in a centralized location.

- Long term plan 2015/25 clearly articulates individual projects outcomes, phasing and amounts required. Governance reporting will be against the individual projects. Aligned with the identification of projects, appropriate non-financial measures should be developed.
- For budgets proposed for the 2015/2025 Long Term Plan budget, business cases including whole of life costs, contingencies, milestones, risks, resources and project success criteria be prepared. Guidelines should be provided for the level of accuracy of capital project estimates required. The estimates should be reviewed and revised annually.
- A team of specialists, including finance, Information Technology, independent subject expert, review robustness of business cases prepared.
- The financial impact of capital projects should be fully considered and reflected in the operating budget to ensure that the maintenance and operation of constructed capital assets are affordable into the future.
- Processes be developed to ensure records are maintained in accordance with Public Records Act 2005. For example: Sharepoint, EDRMS or an enterprise project management (i-lign) solution will assist in efficient access to appropriate records and legislative compliance.
- Casual contracts with contractors performing Electrical and Mechanical work for MDC and RDC need to be formalized. Prior to formalization of the contracts Council should allow the market to submit proposals, thus MDC is can demonstrate it is spending public money wisely, and properly managing the process for spending it according to OAG procurement guidelines. Their guidance includes six basic principles of public spending: Accountability, Openness, Value for Money, Lawfulness, Fairness, Integrity.
- All contractors providing goods and services are issued with contracts identifying deliverables, dispute resolution and warranties. All design and construction contracts should use the NZ3910 contract with others being aligned to IPENZ short form contract or being reviewed by legal counsel.
- All procurement decisions require supporting documentation on the rationale for procurement channel chosen / decision made to be able to show that openness and value for money is received. It is acknowledged that the current Procurement policy dictates these requirements.
- Financial management of projects be enhanced by the creation of sub projects within Ozone and assigning budgets to these sub projects to allow monitoring of costs. Create purchase orders in accordance with purchasing policy and utilise commitment reports to forecast sub-project costs. Budget Carry Over descriptions be improved to provide an appropriate record of why required. Ozone budgets be modified to reflect carry overs approved. The Contracts module within Ozone be used.
- A potential area which could be streamlined is in respect of financial monitoring. Budget spread sheets are currently maintained for projects by the Project Management team. In addition, the Finance team record project financial transactions in the Ozone finance system. Reconciliations between the two sets of records are prepared on a monthly basis. Whilst records are clearly maintained for differing purposes, there could be opportunity for more efficient practice through, for example, budget spread sheets being automatically updated/linked to financial data in the finance system and subject to appropriate in-built controls reducing the need for a monthly reconciliation.

Memorandum

File Ref CMPR IFG Internal Audit (201412) – Audit and Risk Committee update

To Audit and Risk Committee

From General Manager - Infrastructure

Date 25 August 2016

Subject **Contract Management and Procurement Review of infrastructure projects Internal Audit (December 2014) – Audit and Risk Committee update**

Audit Observation (Mar 2014)	Improvement (Dec 2014)	Comment (Aug 2016)
The need to fully scope all jobs / projects ensuring that all staff with the practical and technical expertise that will use the asset in the future are fully involved so as to ensure that the best result for Council is achieved.	Project briefs were not evident on files in every instance. Note: the newer files include projects briefs. Instances identified where project brief is issued just prior to contractual commitments are made. Design and investigative work can be undertaken without a formal project brief.	Project briefs are a requirement for all contract works and are in place for all infrastructure projects prior to project initiation.
Develop and use an overall checklist for staff to clearly document and determine the appropriate procurement process to follow within the dollar limits set out in the project scoping.	Staff which have been interviewed are aware of the procurement thresholds. However, the use of the checklist will enhance compliance with the procurement policies for both RDC and MDC. Further explanation and criteria is required to identify the total project cost for all procurement decisions.	Documented procurement decision making process is in place and additional training has been given to all staff involved in procurement activities.
Develop specific checklists per each level of procurement to document compliance with the Procurement Policies.	New procurement policies created in March (RDC) and April 2014 (MDC). I expect that the audit recommendation will apply to all new procurement offerings. Tender evaluation reports are appropriate but only refer to the construction element of a project.	Documented delegations sign off in place to ensure compliance with the Procurement Policies.
Establish a criteria for determining who is considered	Informal supplier list in use, the criteria for determining who is considered to be an	An approved contractor list (and evaluation process) is in place for new service

to be an "appropriate supplier".	'appropriate supplier' is not documented. Additionally, I have not sighted any documentation relating to the selection of consultants.	connections. An appropriate supplier is very project specific, and where a single supplier is selected the justification is fully documented as part of the procurement process and delegated authority for approval.
Ensure all decisions to deviate from adhering to the Council's Procurement Policy are clearly set out in a report and that it is approved by the appropriate level of delegation, including the reasons for such a deviation.	The recording of decisions is variable. The preferred supplier lists used by MDC and RDC are different	This is now in place and there have been no variations from the Council's procurement policy since the new policy was introduced in April 2014.
Ensure all files are set up in accordance with the Council's file structure template.	Council's file structure is used, a review of different files identified that inconsistent templates are used. It is evident that no comprehensive manual for contract and project management is available nor is there formal induction training on project / contract management processes and guidelines.	Project management training has been rolled out across Council and recruitment of experienced staff added to Council's overall project management competency. Process mapping of all infrastructure processes and the interrelationship with project management and delivery is underway with completion expected by December 2016.
Ensure all approvals for accepting quotes and tenders are made within the staff's delegated authorities and are based on the total project costs as per the procurement policy	Consultant costs can be approved in accordance with an officer's delegation however, in instances the total consultancy costs incurred can be cumulatively greater than the original approver's delegation	All procurements are made with appropriate officer delegations and as per the Council's procurement policy.
Ensure all jobs are clearly scoped with engineer estimates so as to ensure that the most effective procurement process is followed.	Project briefs were not evident on files in some instances. Note: the newer files included projects briefs. Engineer estimates existed on the files I reviewed but I understand that work can be nominated to Council's preferred supplier without engineer's estimates being requested, e.g. electrical works.	Projects briefs are on file for all infrastructure projects including engineer estimates allowing management oversight of the appropriate procurement process.
Ensure that all contingencies (if applicable) are included in	I have identified instances where the contingency	Council papers and delegated authority approvals clearly

all tender recommendation reports and minuted when accepted.	amount is included in the tender award amount rather than the tender recommendation clearly identifying that the figure includes a contingency amount.	distinguish between contract price and contingency to show the total maximum commitment.
Ensure each contract file clearly holds the approval for a contract whether from Council, Committee, Chief Executive, Group Manager or Asset Manager.	Variable evidence of Council / Committee decisions on the files I reviewed. Tender evaluation reports approved by CE, Group Manager or Asset Manager was on file. Caveat: evidence of contracts issued for work awarded to contractors are not always evident on the contract file.	All contract files complete with appropriate approvals held on file.
Ensure all variations are fully documented and approved by the person with the appropriate delegation.	Variable evidence exists on the contract file, instances were identified that variation was approved on contract claims but no evidence of the Engineer's approval. I have sighted instances of Engineer's Representative requesting price variations but there was limited evidence of approval of the Engineer to Contract.	Documented Engineer to the contract approval on file for all contract variations involving a financial component within the requirements of NZS 3910 or 3017.
That each Tender Recommendation Report clearly identifies (where applicable) the contingency amount for approval.	I have identified instances where the contingency amount is included in the tender award amount rather than the tender recommendation clearly identifying that the figure includes a contingency amount.	Council papers and delegated authority approvals clearly distinguish between contract price and contingency to show the total maximum commitment.
Ensure the correct contract number is put on all documents. In instances, the contract number was omitted from file documents	A number of soft copy records maintained on Council's Network contract folders may not include the contract number. I have noted that the consistency for recording contracts numbers on key documents is not consistent, for example project file reference number is used on Council documents instead of the contract number. Inward correspondence reflects the	Allocation of contract number on all documents is now part of the project file set up process.

	incorrect contract reference format	
Review the authority for the Council Approved Contractors list and the appropriateness of it to ensure there is open fair and transparent quoting and tendering for jobs.	The Council Approved Contractors List requires review, the criteria needs to be established and documenting of the assessment conducted is required to ensure transparency. The preferred supplier lists used by MDC and RDC are different.	There is no Council approved contractors list other than the approved service contractors for connecting private connections in to the Council utility networks. The Council procurement policy allows for an approved contractors list but does not require it. All contractors are assessed for suitability during the procurement process taking into account a wide range of non-price attributes – including health and safety management.

Additional observations

The internal audit recognised and acknowledged that, as at December 2014, developments were underway that should resolve the majority of the audit recommendations raised. The creation of project briefs, enhancing of the recording of procurement decisions, including visibility of contingencies, and the consistent use of contract and project templates will assist in implementation of the recommendations. The internal auditor also recommends that another project engineer implement a quality assurance programme whilst the contract is underway which could include a peer review. This happens informally on a regular basis.

The internal auditor acknowledges that there have been improvements in the quality of documentation held on contract and project files throughout 2014, and that would be further enhanced by new staff receiving induction training on the document / completeness requirements for contract and project files and the different processes / procurement / delegations used at both RDC and MDC.

Hamish Waugh
General Manager – Infrastructure

Manawatu District Council

Internal Audit Report

Contract Management and Procurement Review of Infrastructure Contracts

December 2014

Issued to:

Hamish Waugh

General Manager – Infrastructure

Executive Summary

An Independent Audit Assurance provider undertook a review of three infrastructure utility projects. In their audit report issued in March 2014, they concluded that “There are a large number of instances where the documentation held by Council does not clearly demonstrate or provide evidence that the Council Approved contract management and procurement processes have been correctly followed” and identified 20 key recommendations for implementation.

The General Manager – Infrastructure requested that I perform a review to examine a sample of Manawatu District Council and Rangitikei District Council’s utility projects contract files to assess whether the issues identified in the independent review report are evident.

I have conducted a high-level review of Utility project and contract files in progress and associated documents to compare whether the issues raised in the audit report issued in March 2014 are present in the files reviewed. Of the twenty audit recommendations raised in the audit report, fourteen recommendations detailed below require implementation.

Ref	Audit Recommendation per report dated March 2014	Practice
1	The need to fully scope all jobs / projects ensuring that all staff with the practical and technical expertise that will use the asset in the future are fully involved so as to ensure that the best result for Council is achieved.	Project briefs were not evident on files in every instance. Note: the newer files include projects briefs. Instances identified where project brief is issued just prior to contractual commitments are made. Design and investigative work can be undertaken without a formal project brief.
2	Develop and use an overall checklist for staff to clearly document and determine the appropriate procurement process to follow within the dollar limits set out in the project scoping.	Staff which have been interviewed are aware of the procurement thresholds. However, the use of the checklist will enhance compliance with the procurement policies for both RDC and MDC. Further explanation and criteria is required to identify the Total project cost for all procurement decisions.
3	Develop specific checklists per each level of procurement to document compliance with the Procurement Policies.	New procurement policies created in March (RDC) and April 2014 (MDC). I expect that the audit recommendation will apply to all new procurement offerings. Tender evaluation reports are appropriate but only refer to the construction element of a project.

4	Establish a criteria for determining who is considered to be an "appropriate supplier".	Informal supplier list in use, the criteria for determining who is considered to be an 'appropriate supplier' is not documented. Additionally, I have not sighted any documentation relating to the selection of consultants.
5	Ensure all decisions to deviate from adhering to the Councils Procurement Policy are clearly set out in a report and that it is approved by the appropriate level of delegation, including the reasons for such a deviation.	The recording of decisions is variable. The preferred supplier lists used by MDC and RDC are different.
6	Ensure all files are set up in accordance with the Councils file structure template.	Councils file structure is used, a review of different files identified that inconsistent templates are used. It is evident that no comprehensive manual for contract and project management is available nor is their formal induction training on project / contract management processes and guidelines.
7	Ensure all approvals for accepting quotes and tenders are made within the staff's delegated authorities and are based on the total project costs as per the procurement policy.	Consultant costs can be approved in accordance with an officer's delegation however, in instances the total consultancy costs incurred can be cumulatively greater than the original approver's delegation.
8	Ensure all jobs are clearly scoped with engineer estimates so as to ensure that the most effective procurement process is followed.	Project briefs were not evident on files in some instances. Note: the newer files included projects briefs. Engineer estimates existed on the files I reviewed but I understand that work can be nominated to Councils preferred supplier without engineers estimates being requested, e.g. electrical works.
9	Ensure that all contingencies (if applicable) are included in all tender recommendation reports and minuted when accepted.	I have identified instances where the contingency amount is included in the tender award amount rather than the tender recommendation clearly identifying that the figure includes a contingency amount.
10	Ensure each contract file clearly holds the approval for a contract whether from Council, Committee, Chief Executive, Group Manager or Asset Manager.	Variable evidence of Council / Committee decisions on the files I reviewed. Tender evaluation reports approved by CE, Group Manager or Asset Manager was on file. Caveat: evidence of contracts issued for work awarded to contractors are not always evident on the contract file.

11	Ensure all variations are fully documented and approved by the person with the appropriate delegation.	Variable evidence exists on the contract file, instances were identified that variation was approved on contract claims but no evidence of the Engineers approval. I have sighted instances of Engineers Representative requesting price variations but there was limited evidence of approval of the Engineer to Contract.
12	That each Tender Recommendation Report clearly identifies (where applicable) the contingency amount for approval.	I have identified instances where the contingency amount is included in the tender award amount rather than the tender recommendation clearly identifying that the figure includes a contingency amount.
13	Ensure the correct contract number is put on all documents.	In instances, the contract number was omitted from file documents. A number of soft copy records maintained on Councils Network contract folders may not include the contract number. I have noted that the consistency for recording contracts numbers on key documents is not consistent, for example project file reference number is used on Council documents instead of the contract number. Inward correspondence reflects the incorrect contract reference format.
14	Review the authority for the Council Approved Contractors list and the appropriateness of it to ensure there is open fair and transparent quoting and tendering for jobs.	The Council Approved Contractors List requires review, the criteria needs to be established and documenting of the assessment conducted is required to ensure transparency. The preferred supplier lists used by MDC and RDC are different.

Additional observations

It was evident from my review that developments are underway that should resolve the majority of the audit recommendations raised above. The creation of project briefs, enhancing of the recording of procurement decisions, including visibility of contingencies, and the consistent use of contract and project templates will assist in implementation of the recommendations. I would also recommend that another project engineer implement a quality assurance programme whilst the contract is underway, this could include a peer review.

I acknowledge that there have been improvements in the quality of documentation held on contract and project files over the last twelve months, this can be further enhanced by new staff receiving induction training on the document / completeness requirements for contract and project files and the different processes / procurement / delegations used at both RDC and MDC.

At present Council is in breach of the Public Records Act 2005, records are retained in both hard copy and soft copy format, but the hard copy file does not refer to the soft copy files location. The soft copy files folder security allows “operations” users the ability to access, modify and delete records. I have also identified records relating to RDC are stored on MDC’s network. The introduction of an Electronic Document Management System should assist Council to comply with the Public Records Act 2005.

I have observed that the budgets allocated to a job number are not identifying all the components of a contract awarded. For example, the budget allocated to a job number may not include the full contingency amount identified in the engineers estimate or may not provide for appropriate professional services costs. I recommend that the project brief clearly identified the projects budget and that this budget is loaded against the projects job number in Ozone. Understatement of budgets in Ozone could result Council expending an amount that is greater than the approved Council set budget.

Instances noted whereby a job number was created in ozone well after the project had been established and the initial start up costs had not been allocated against the job number uniquely created for the contract awarded. Development of the forwards work programme in the year for which the budget is set will assist in resolving this issue.

The Council does not have a contract management policy in place to guide staff, nor does it have a comprehensive contract management system. Currently, contract files are numbered and stored in soft copy on the Council’s J Drive and hard copies are stored in the filing room or safe. These contract files are manually updated throughout the life of the contract.

This means that management does not have a clear line of sight at any one time of the \$ value of contracts for each contractor, or the total number of open contracts that span a number of years and may include retention liabilities. Furthermore, the collation of the MDC contract file number and the job number per ozone is not transparent, particularly in instances were the contract file contains no project brief.

It is recommended that the Council develop an organisation-wide contract management system. I further recommend that Council develop appropriate policies and procedures to facilitate the oversight of contracts.

RDC professional services costs are captured by project engineers in i-lign against unique project codes, when RDC load the information into their financial system the cost is not allocated to the project that the cost refers to, instead a judgment call is made each month on costs that need to be redistributed to individual contracts. One project reviewed actual professional services costs were \$3,800, costs allocated to the project was \$5,858. Consequently, cost monitoring for a project is difficult for the project engineer and the total cost of project capitalized could be incorrect. When there is a change of RDC

professional services charge rates, back charges are calculated and invoiced, in instances the project has been capitalised and these costs have to be allocated to other projects or the additional costs could result in a projects budget being exceeded.

It is recommended that a process is developed to ensure that the professional services costs are allocated to the correct project.

Council should consider changing its procurement practices for renewal works whereby work is issued to panel nominated contractors that have already tendered nominated rates to perform the work.

I would like to express my appreciation to the individuals from Manawatu District Council and Rangitikei District Council who participated in this review for their input and support.

Management Comment

Recommendations accepted. Recommendations will be discussed with Infrastructure staff prior June 2015 and the implementation of recommendations will be performed by responsible third tier managers. In December 2015, Internal Audit will undertake a follow-up review on the implementation of agreed audit recommendations.



Internal Audit Report

Sensitive Expenditure

November 2013

Issued to:	Shayne Harris	Support Services & Environment Group Manager
Copied to:	Brent Limmer	Community Services Group Manager
	Hamish Waugh	Infrastructure Group Manager
	Linda Gordon	Human Resources Manager
	Colleen Morris	Chief Financial Officer

Executive Summary

My review of Councils sensitive expenditure concludes that:

Overall, Council has robust policies and procedures in place that, if followed, ensure that expenditure considered to be of a sensitive nature, incurred in the course of conducting Council's business, meets public sector standards.

This review has identified a few instances where Council's policies have not been complied with, mainly by failing to provide the necessary documentation or information to support expenditure, in particular entertainment and hospitality expenditure. This not only breaches the requirements of the Sensitive Expenditure Policy but also exposes the Council to reputational and integrity risks associated with the inappropriate use of public money.

Whilst Councils policies are stored electronically on Councils Intranet site, they are not easily accessible. A survey of 35 staff concluded that 80% were unaware of the sensitive expenditure policy or its location on the intranet. 71% of respondents did not know what sensitive expenditure means. I have also identified a significant number of coding errors from the accounts reviewed.

The majority of Councils sensitive expenditure can be justified at a line item level but not necessarily at a macro level. It is my understanding that each activity manager is responsible for his or her own budgeted activities and that limited formal monitoring of sensitive expenditure at a macro level is undertaken. Excessive sensitive expenditure incurred at a macro level could expose Council to reputational and integrity risks associated with the inappropriate use of public money.

A possible fringe benefit tax liability for Council exists in relation to gifts purchased for staff.

The findings and associated recommendations of this review are provided in more detail in the report.

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Background

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

Sensitive expenditure remains a focus area of Audit New Zealand and is often the topic for Official Information Act requests. It is my understanding that Audit New Zealand has reviewed sensitive expenditure and has raised a finding related to insufficient evidence to support the nature of expenditure incurred.

This review was commissioned as part of the approved Internal Audit Work Plan for the 2013/14.

Objectives and approach

Objectives

The objective of this follow up review is to provide assurance to the Chief Executive that:

- Adequate policies and procedures exist with respect to sensitive expenditure.
- Council's policies and procedures on sensitive expenditure are being complied with.
- Adequate controls are in place for sensitive expenditure.
- Individual items of sensitive expenditure are appropriate and have been appropriately authorised.
- Fringe benefits are identified for tax purposes and GST treatment is correctly accounted for.

Approach

The approach for this review includes the following:

- Reviewing policies and procedures (Sensitive Expenditure, Koha Payments and Staff Purchases) for appropriateness and alignment with best practice;
- Interviewing Council staff to identify awareness of the above policies and procedures and practices followed;
- Documenting key controls / processes;
- Analysing the current processes and assess the appropriateness of controls;
- Taking a sample of transactions and reviewing them to ensure:
 - Compliance with policies and procedures;
 - Individual items of sensitive expenditure are appropriate and have been appropriately authorised;
 - Fringe benefits are identified for tax purposes and the GST treatment is correctly accounted for.
- Summarising the current findings;
- Reporting on the status and assessing the risks involved;
- The review excluded the review of expenditure of Council Controlled Organisations and grant payments.

I would like to express my appreciation to the individuals from Manawatu District Council who participated in this review for their input and support.

Findings

The table below outlines the key findings of the review:

Review area	Findings
<p>Formal Structures and Frameworks</p>	<ul style="list-style-type: none"> • Entertainment and hospitality expenditure of Councils Sensitive Expenditure policy is closely aligned to OAG guidelines. • A survey conducted concluded that 80% of the respondents were unaware of either the sensitive expenditure policy or its location on the intranet. 71% of survey respondents did not know what sensitive expenditure means. • Whilst Councils policies are stored electronically on Councils Intranet, these documents are not easily accessible. The intranet does not include search functionality to assist with retrieval. It is my understanding that the intranet will be revamped shortly. • The majority of Councils sensitive expenditure can be justified at a line item level but not necessarily at a macro level. It is my understanding that each activity manager is responsible for his or her own budgeted activities and that limited formal monitoring of sensitive expenditure at a macro level is undertaken. <p>Risk</p> <ul style="list-style-type: none"> • Council's control framework can be weakened when Staff are unaware of Councils policies and procedures. • Excessive sensitive expenditure incurred at a macro level could expose Council to reputational and integrity risks associated with the inappropriate use of public money. <p>Recommendation It is recommended that:</p> <ul style="list-style-type: none"> • Staff be reminded of the existence and location of Councils policies and their compliance thereof. • Councils polices be clearly identified on Councils intranet site. • The Intranet Training and Travel Application Screen provide a link to the sensitive expenditure policy. • Sensitive expenditure policy includes electronic links to the substantive policies to assist staff with accessibility to these policies.

	<p>Management response</p> <p>Noted and agreed. There are going to be policy review meeting for all staff in February 2014. These meetings will provide education on the following policies discipline, harassment, purchase order policy, sensitive expenditure, procurement policy, aggressive and threatening situations, study assistance, social media, health and safety, emergency evacuation, vehicle and star awards. Once staff have attended a meeting, they will be required to sign off on an overview document with a copy to be kept on their personal file.</p>
<p>Authorisation of sensitive expenditure</p>	<p>Findings</p> <ul style="list-style-type: none"> • Generally, sensitive expenditure is authorised by staff members holding the appropriate level of financial delegations with the ‘one up’ authorisation applied to the maximum extent possible. • However, in five instances entertainment and hospitality expenditure documentation excluded the names of attendees thus approval of own expenditure could not be confirmed. • Inadequate documentation was maintained to support pre-approval to incur expenditure. For example: gifts and farewell. • Ozone set-up only allows users to create purchase orders against codes that sit within the activities they have access to. Antidotal evidence suggests that purchase order coding is assigned to codes that exist rather than the code that aligns closely to the expenditure incurred. For example, gifts coded to sundry expenses (set up code) instead of gifts (no code set up). This miscoding may not be identified upon approval. <p>Risk</p> <p>Unauthorised expenditure may be incurred which may also adversely affect Councils reputation.</p> <p>Recommendation:</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> • Approvers of expenditure be made aware of Councils policies to ensure compliance thereof. • Expenditure coding be reviewed by the approver during the approval process and the Finance Team provide guidance on the process of creating a new posting code within the purchase order system. <p>Management response</p> <p>The above will be included in the education for staff in the policy review meetings.</p>

<p>Compliance with policies and procedures</p>	<p>I have identified control weaknesses where Councils policies on sensitive expenditure are not being complied.</p> <p>Gifts</p> <p>Council’s sensitive expenditure policy states the giving of gifts must be appropriate, transparent and reasonable and that the giving of gifts by Council requires the prior approval of the Group Manager. Evidence of Group Manager approval was not available for gifts purchased.</p> <p>STAR (Showing thanks, award and recognise) system</p> <p>Gift vouchers / movie tickets are purchased to provide an immediate recognition for staff nominated and approved to receive a NOVA award. My review has identified instances where gift vouchers and movie tickets were purchased which had not been nominated through the MDC Intranet STAR nomination system as is required by policy. These purchases did not identify the recipients of these gift purchases.</p> <p>Entertainment and hospitality expenditure</p> <ul style="list-style-type: none"> • Group Manager pre-approval did not support entertainment and hospitality expenditure incurred. Several documents reviewed provided a brief description of the event but excluded the names of the attendees or which of the five business purposes the expenditure was incurred. • Where the attendees names or initials were not recorded I was unable to validate whether the expenditure was appropriate, whether the most senior person did approve the purchase as being appropriate or whether the ‘one up’ authorisation applied to the maximum extent possible. <p>Koha Policy</p> <p>I identified one Koha petty cash reimbursement of \$20. This reimbursement had no supporting documentation or evidence of authorisation by Group Manager. This reimbursement did not comply with the payment administration procedures detailed in the Koha policy and could not provide evidence to confirm that the payment was made.</p> <p>Expenditure Coding</p> <ul style="list-style-type: none"> • My review identified that coding of expenditure is in instances miscoded. Examples include, gifts, bank charges, stationery and travel related expenditure misallocated to sundry expenses.
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Travel and accommodation

- Group Managers credit cards are used to book and pay for staff accommodation through card not presented transactions (i.e. credit card details provided to either make payment over the phone, e-mail or fax). To facilitate these bookings customer services have made photocopies of the front and back of each Group Managers credit card. Misuse of the details contained on the photocopies could financially prejudice Council and adversely affect Councils reputation if inappropriate purchases made.
- Council's travel and training request booking system is available to MDC staff but not for infrastructure staff based on RDC, consequently travel bookings are made through a combination of electronic and e-mail requests. Amendments to travel requests cannot be processed through the intranet.
- It is my understanding that Human Resources collate training and travel costs based on bookings made by Customer Services. These costs may not be accurate due to the miscoding of expenditure and payment of training and associated travel through other disbursement channels. For example: travel using an MDC vehicle is not coded to training and development.

General

- Activity managers ability to monitor sensitive expenditure through Ozone is limited due to vague narrations captured into Ozone. Examples included Petty Cash Reimbursement, BNZ Visa September 2013, farewell Joe Bloggs.
- The use of vague narrations as identified above also make it difficult for activity managers to identify if the expense has been previously paid /claimed.
- Ten reimbursements had been approved and processed based on the submission of EFTPOS slips, generally for less than \$50, which included a reason for the event but did not provide a breakdown of items purchased. Thus the appropriateness of the purchase could not be reviewed.
- Twelve payments reviewed required pre approval of Group Manager but such evidence was not attached to the payment processed.
- Three of fourteen expense claims reviewed had not been submitted within one month of expenditure being incurred.
- The majority of one of Councils five credit cards supporting documentation for the months of May and June 2013 excluded details of why the expenditure was incurred and/or names of recipients if the expense was related to entertainment and hospitality.
- A conference booked for Councillors through a Council credit card was not referenced to Council's minutes.

Risk

Non-compliance with Councils policies and control weaknesses identified could expose the Council to reputational and integrity risks associated with the inappropriate use of public money.

Recommendation

- Staff be advised of Councils policies and compliance therewith.
- Travel and booking system be made available to council staff employed at both MDC and RDC and the system includes a link to Councils travel related policies.
- Consideration be given to staff updating their travel / training request with actual costs incurred.
- Consideration be given to providing a debit card to Finance to facilitate travel and accommodation payments.
- Photocopies of Council credit card details be destroyed. Similarly, for faxes and e-mails prepared for card not presented transactions.
- Expense claims include a requirement that expenses be reimbursed within 30 days of expenses being incurred.
- Expenditure narrations captured into Ozone be more reflective of the nature of the expenditure incurred.
- Sensitive expenditure at a macro level be reviewed periodically to ensure Council can justify such expenditure.

Management response

- The above will be included in the education for staff in the policy review meetings.
- 3G2G agree that a Council debit card be assigned to the Customer Services Manager for the use of travel and accommodation costs only.
- Aimee will destroy copies of council credit card details once the debit card has been received.
- Expense claims where possible will be reimbursed within 30 days of expenses being incurred.
- Staff will receive education on the importance of expenditure narrations captured into Ozone at the policy review meetings.

<p>Compliance with tax legislation</p>	<p>GST Generally, GST is correctly accounted for. However, a small number of documents identified invalid GST input tax claimed. Examples include, GST claimed on gifts, credit card bank charges.</p> <p>It is acknowledged that Council's Accounts Payable staff has appropriate GST knowledge and that when they identify an error that they correct the GST treatment. However, brief descriptions about the nature of purchase can influence how they apply GST.</p> <p>Risk Legislative non-compliance could result in Council incurring penalties. Council when entitled may not claim GST.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Council provides guidance to staff about GST, including what constitutes a valid tax invoice. This could form part of the purchase order training. • Consideration be given to setting up GST exclusive posting codes for items that are GST exclusive, for example gift vouchers. <p>Fringe Benefit Tax (FBT) - Gifts Council issues gifts to staff either as a STAR (show thanks, award and recognise) award or as a farewell gift, these gifts attract FBT.</p> <p>Finance, when preparing FBT returns review the STAR Awards / Gifts posting code in the general ledger but do not attach evidence of such review with the FBT return working papers. My review also identified instances of STAR awards and gifts being miscoded to other posting codes.</p> <p>Consequently, Council would be unable to assess whether the de minimis threshold of \$300 per employee per quarter or \$22,500 per employer per annum had been exceeded. It is acknowledge that Tax Team have already raised this as a finding from their taxation review undertaken in June 2013.</p> <p>Risk Council does not account for Fringe Benefit Tax correctly and could incur penalties.</p>
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	<p>Recommendation It is recommended that:</p> <ul style="list-style-type: none">• Each quarter, Finance Team documents the process it has undertaken to ensure that gifts /benefits provided do not exceed the de minimis threshold and that this documentation is included with the FBT return work papers.• Staff be trained to correctly code STAR awards and gift expenditure to the posting code 1014. <p>Management response New employees will receive this education as part of induction, with existing staff receiving information in the February Policy Review meetings.</p>
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Audit and Risk Committee

Meeting of 01 September 2016

Business Unit: Corporate and Regulatory

Date Created: 25 August 2016

Internal Audit Programme 2016 - 2017

Purpose

The purpose of this report is to present to the Audit and Risk committee, the Executive Team's recommendation for the 2016 – 2017 internal audit programme.

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 approve the following audits as the 2016 – 2017 Internal Audit Programme:

Review	
Legislative Compliance and Conflict Interest review	<p>Review process to ensure that there is a formal process in place to ensure compliance with legislation, with an emphasis on training for new and existing employees.</p> <p>Review the process surrounding Conflict of Interest in MDC and providing the assurance that Conflicts of Interests are managed appropriately</p>
Cash receipting – Reception, Library, pools, solid waste	<p>Cash is received, controlled, accounted for, deposited in a timely manner and in compliance with applicable policy. Cash receipting practices of agents at Feilding Transfer Station are appropriate and all cash is received, controlled, accounted for, deposited in a timely manner. Petty cash is properly accounted for, adequately safeguarded and is used for their intended purpose. New receipting software is to be installed at the Library and Makino and it is important to test the internal controls.</p>
Business Continuity and Disaster Recovery Plan	<p>The objective of the audit is to identify the controls the Council has in place over the Business Continuity and Disaster Recovery plan and provide the assurance over the recovery options for IT systems to ensure they are in line with Council service recovery objectives.</p>

Asset Revaluations Review	Reviewing the valuation process. The methodology used to calculate unit rates, the integrity of the formula driving the valuation model, timeliness and reliability of data entered into Asset Management System and quality assurance.
Feilding Waste Water Treatment	The review of the internal process in the governance and management of WWTP. 1 July 16/17 \$6 million to spend
Post Implementation Review – Makino Pool	A post implementation review
Follow up review from previous audit finding Pool and Library	Follow up review from previous audit finding Pool and Library
Payroll Review	A review of our payroll system, processes and procedures

Report prepared by:
Shayne Harris
General Manager - Corporate and Regulatory

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 Manawatu – the best rural lifestyle in New Zealand

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

2 Background

2.1 Each year the Council undertakes a number of internal audits. For this to occur an audit programme needs to be agreed by the Audit and Risk committee.

2.2 The list produced this year for the executive team to consider was derived from recommendations made in the External Audit Management report and from conversation held between the internal auditor and council managers.

- 2.3 The recommendations were then considered by the Executive Team, and ranked A,B,C. A was top priority and recommended to be included in the 2016 – 2017 programme. B was the next priority, these audits would be undertaken if time permitted, but in any case following the A ranked audits, C was those audits that could wait for another time.
- 2.4 Council’s Internal Auditor undertakes audits for Manawatu District Council, Horizons Regional Council, Horowhenua District Council and Rangitikei District Council. Therefore the hours available to MDC for our internal audit are 450 hours.

3 Discussion and Options considered

- 3.1 The projects marked A in the accompanying schedule are mostly issues that were raised in the 2015 External Audit report. It is important to follow up on the recommendations made in the report to ensure we have made the necessary changes.

Other suggested audits marked A, are major projects either recently completed or due for review. We have also included payroll as an A as we have recently introduced a new payroll system.

- 3.2 If the auditor completes the A programme, it is intended that we would commence on those audits marked B.
- 3.3 The options available to the Audit and Risk committee are not to adopt the Executive Team recommendations and to add or subtract from the suggested list.

4 Financial implications

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

5 Conclusion

- 5.1 There is sound reasoning as to the audits that have been ranked as A. It is important that we are seen to be giving effect to the recommendations that are agreed in the External Audit report.
- 5.2 It is good practice to audit the completion of major Council projects, this will be the case for the Makino Aquatic centre project and the Feilding Wastewater plant upgrade and discharge.

6 Attachments

- Schedule of suggested internal audit projects

Appendix 1

Manawatu District Council's Proposed Audit Plan

	Approach	Audit Hours	Priority	The Month in which the Audit is carried out for the A's
Corporate & Regulatory				
Legislative Compliance and Conflict Interest review	<p>Review process to ensure that there is a formal process in place to comply with legislation, with an emphasis on training for new and existing employees.</p> <p>Review the process surrounding Conflict of Interest in MDC and providing the assurance that COI is managed appropriately</p>	64 hours	A	November 16
Risk Management Review	<p>The objective of the review is to evaluate the process by which risks are identified, evaluated, reported and managed in MDC. The review focus will be primarily on the structures and processes used rather than being an assessment of the outcomes achieved in applying the risk management processes.</p>	40 hours	C	

Procurement Tender	<p>The process for determining the need for the particular procurement is valid.</p> <p>The award procedure is as per MDC's policy and resources being spent in line with applicable criteria.</p> <p>Description of performance, calculation of contract value, award criteria, award procedure, notification and assessment of tenders.</p>	64 hours	B - Probity of future procurement	
Cash receipting – Reception, Library, pools, solid waste	Cash is received, controlled, accounted for, deposited in a timely manner and in compliance with applicable policy. Cash receipting practices of agents at Feilding Transfer Station are appropriate and all cash is received, controlled, accounted for, deposited in a timely manner. Petty cash is properly accounted for, adequately safeguarded and is used for their intended purpose.	80 hours	A	November 16
Business Continuity and DR Plan	The objective of the audit is to identify the controls the Council has in place over the Business Continuity and Disaster Recovery plan and provide the assurance over the recovery options for IT systems to ensure they are in line with Council service recovery objectives.	40 hours	A	January 17
IT Reviews	<p>IT Performance Management – Third Parties</p> <p>High-level assessment of the controls and governance structures in place over the</p>	80 hours	C	

	<p>general computer environment and infrastructure including:</p> <ul style="list-style-type: none"> • IT operational and security administration management • Change management (upgrades and enhancements) • Patch management • Problem management • Virus and incident detection 			
Infrastructure				
Asset Revaluations Review	Reviewing the valuation process. The methodology used to calculate unit rates, the integrity of the formula driving the valuation model, timeliness and reliability of data entered into AMS and quality assurance.	80 hours	A	October 16
Asset Management	To review if the work line up with the Asset/Activity Management plan. To evaluate the cost i.e. budget vs actual and the claim. The audit will also focus on MDC's systems and procedures for managing the delivery of transport outcomes.	80 hours	C	
Feilding Waste Water Treatment	The review of the internal process in the governance and management of WWTP. 1 July 16/17 \$6 million to spend	80 hours	A	February 17

Projects – Sanson Water Treatment Plant Resource Recovery Centre	Walk through process and report on project.	80 hours	C	
Projects – Transparency and Access to Financial Information	A review of the current issue of Infrastructure in obtaining Financial Information for projects	40 hours	C	
Community and Strategy				
Post Implementation Review – Makino Pool	A post implementation review-	64 hours	A	October 16
Parks and Property	To perform a risk assessment of this activity and to review the processes and controls in place to manage this area. Key areas of concern are: <ul style="list-style-type: none"> • Maintenance contract management and the related maintenance contract management plans. • Customer service request management and systems, including close out of customer requests for service. 	80 hours	C	

Native Plant Nursery	<p>A review in Native Plant Nursery unit.</p> <ul style="list-style-type: none"> • Reviewing the original business case against what it is current activity • Reviewing the purpose of the nursery as the volume had not originally been anticipated (strategy forward) 	80 hours	B	
Follow up review from previous audit finding Pool and Library	Follow up review from previous audit finding Pool and Library	40 hours	A	January 17
People and Culture				
Health and safety review	Review of Health and Safety and to identify and provide the assurance that the updates in the Act is reflected in MDC's practices	80 hours	C	
Payroll Review	A review of our payroll system, processes and procedures	64 hours	A	March 17
Total Hours		1136 hours		

A = Approved Audits by Exec Team to be carried out in 16/17 **(512 hours)**

B = Approved Audits Exec Team advised if could fit in they will approve for it be carried out **(144 hours)**

C = Audits to be carried out some time in the future i.e. in the next 3 years **(480 hours)**

Audit and Risk Committee

Meeting of 01 September 2016

Business Unit: Corporate and Regulatory

Date Created: 25 August 2016

Fourth Quarter Report to 30 June 2016

Purpose

To provide a summary to 30 June 2016 of the Council's performance against the first year of the 2015/25 Long Term 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 receive the Fourth Quarter Report to 30 June 2016.

Report prepared by:
Colleen Morris
Chief Finance 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:

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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 2015/16. The Annual Report accounts for how Council performed against the first year of the Long Term Plan 2015/16, including the Council's financial performance and position, progress on major 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.
- 3.2 The new Health and Safety at Work Act came into force on 4 April 2016. Considerable time and effort has been put into educating staff, managers and contractors on their duties and responsibilities under the reformed legislation.
- 3.3 A complete review of our current health and safety system has been undertaken. A new 'Contractors' module has been implemented that provides updated forms and processes to improve communication and knowledge of health and safety requirements across all duty holders when engaging contractors.
- 3.4 Implementation of a revised risk module and a reporting module are planned over the coming months.
- 3.5 Regulations on worker engagement and participation were released in February 2016. These provided further information and assistance on what is required to meet the legal requirements of the Health and Safety at Work Act.

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 is audited against 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 Long Term Plan.

11 Attachments

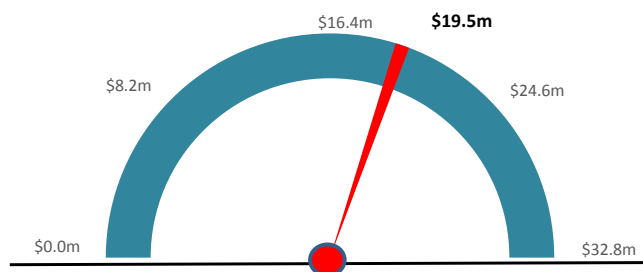
- Quarter Four Report
- Capital Expenditure Report



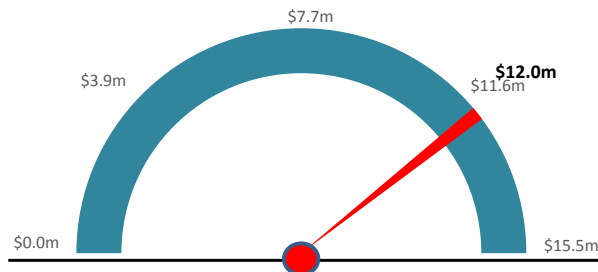
Key Indicators

For the period ended 30 June 2016

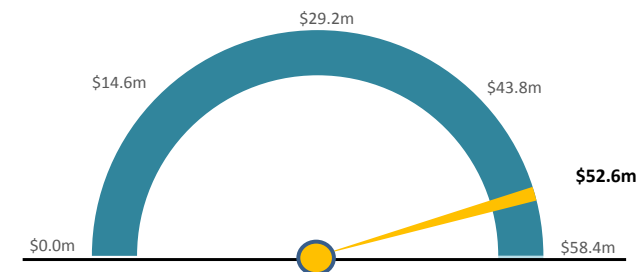
Capital Expenditure



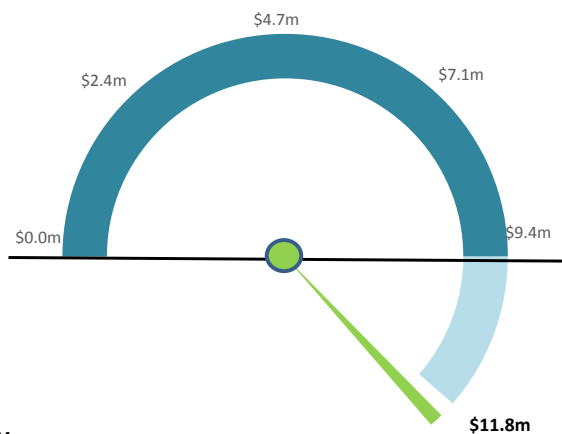
Loans Raised



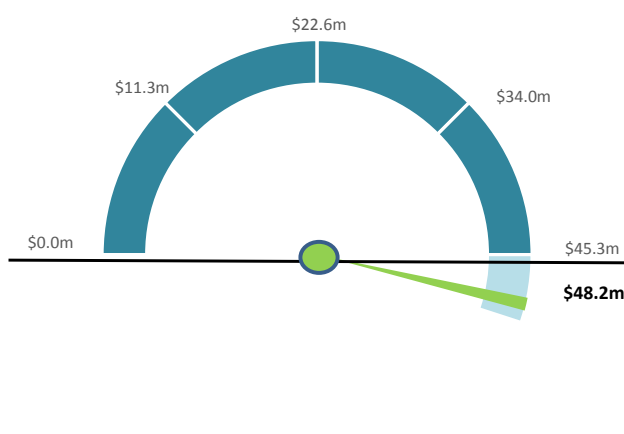
Total External Debt



Total Operating Revenue (excluding rates)



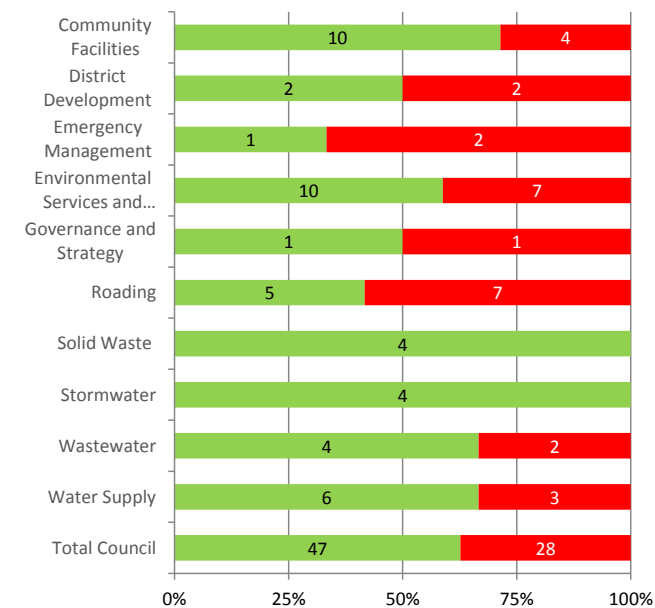
Total Operating Expenses



Key

- Annual Plan
- YTD Budget
- Actual - On Track
- Actual - Needs Monitoring
- Actual - Not achieving

Key Performance Indicators

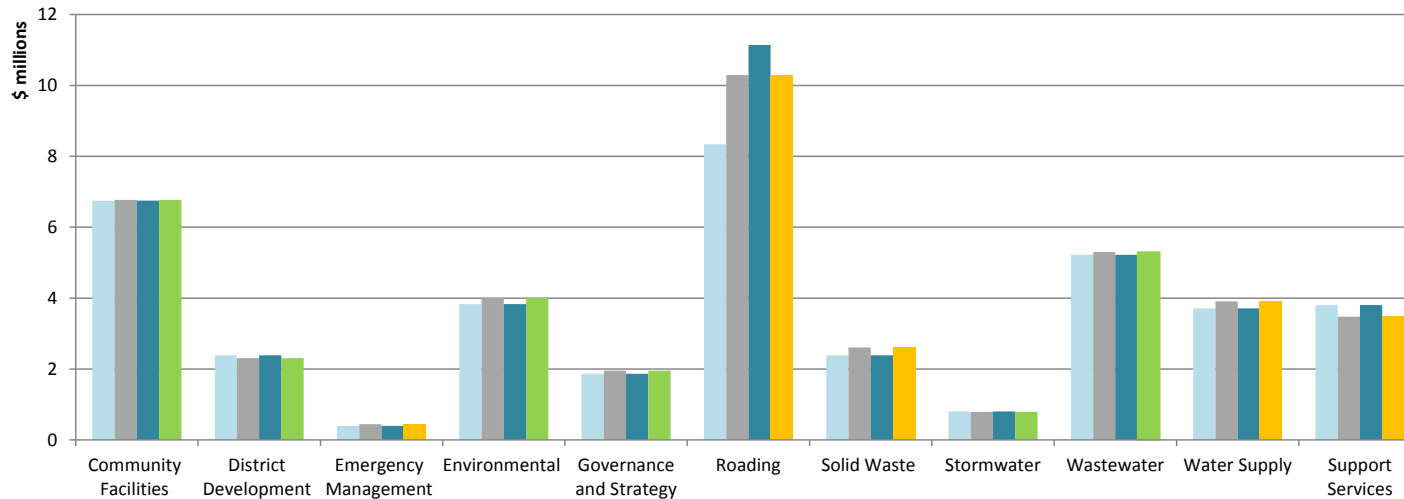


Overall Council Summaries

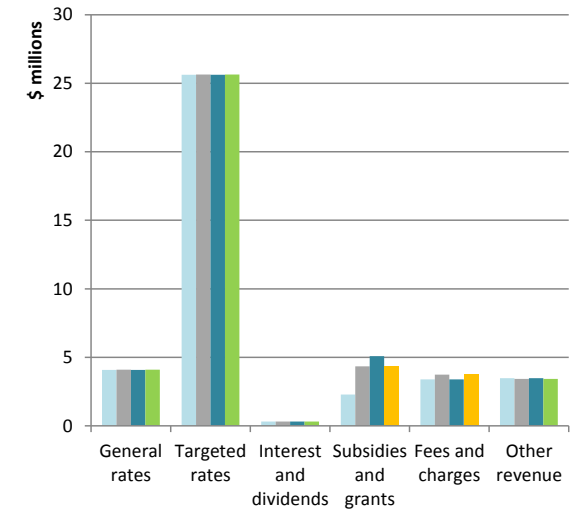
For the period ended 30 June 2016



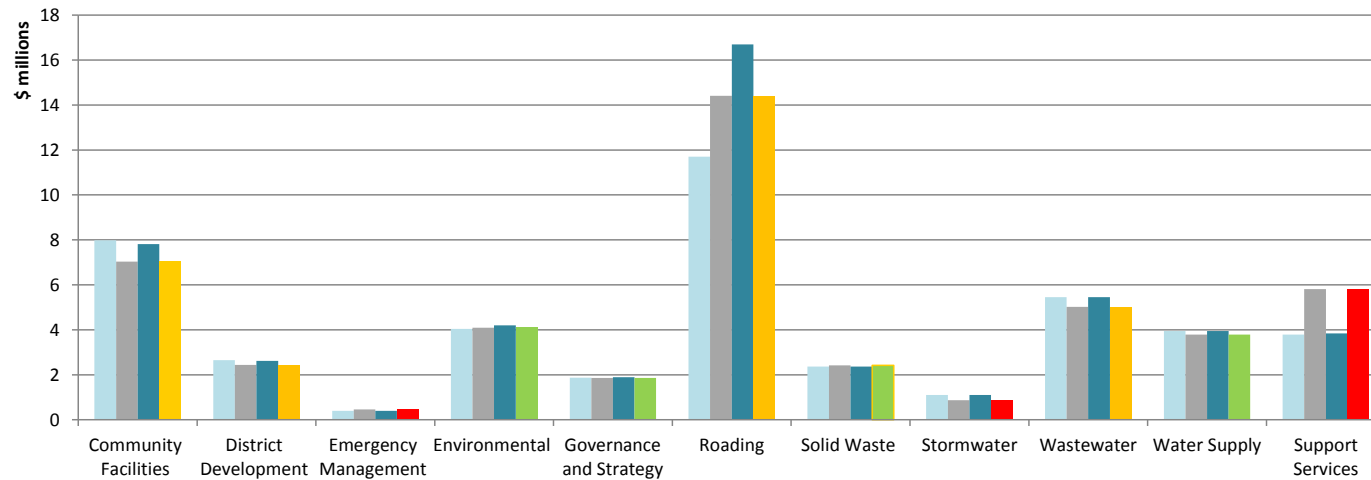
Operating Revenue - by activity



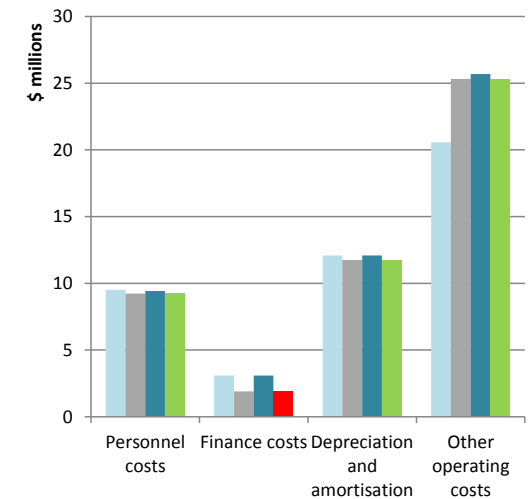
Operating Revenue - by type



Operating Expenditure - by activity



Operating Expenditure - by type



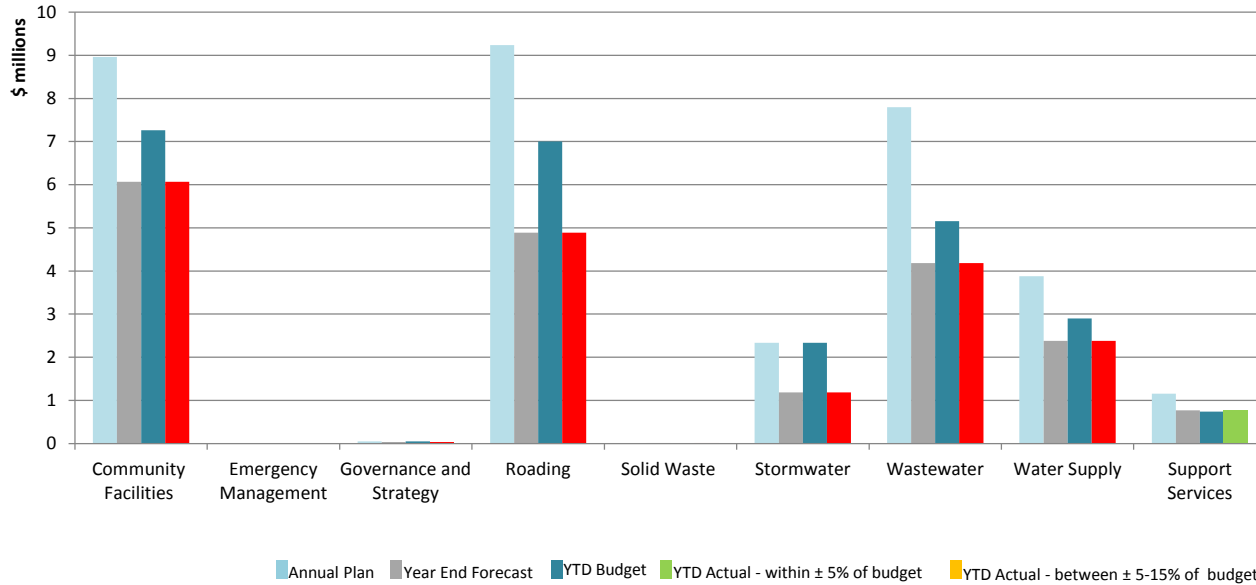
Key
 Annual Plan (light blue) | Year End Forecast (grey) | YTD Budget (dark blue) | YTD Actual - within ± 5% of budget (green) | YTD Actual - between ± 5-15% of budget (yellow) | YTD Actual - greater than ± 15% of budget (red)

Overall Council Summaries

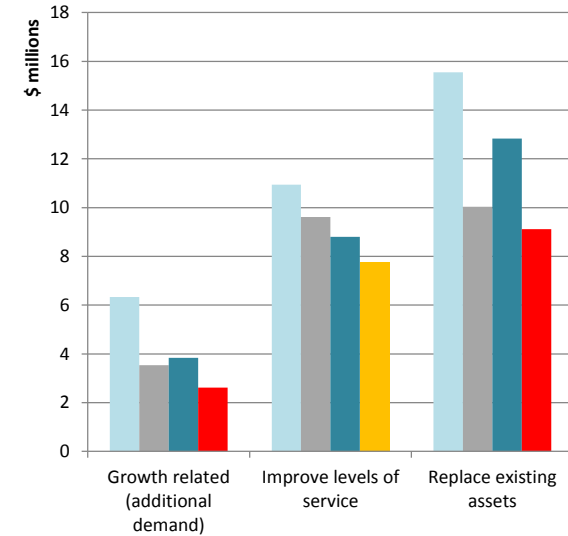
For the period ended 30 June 2016



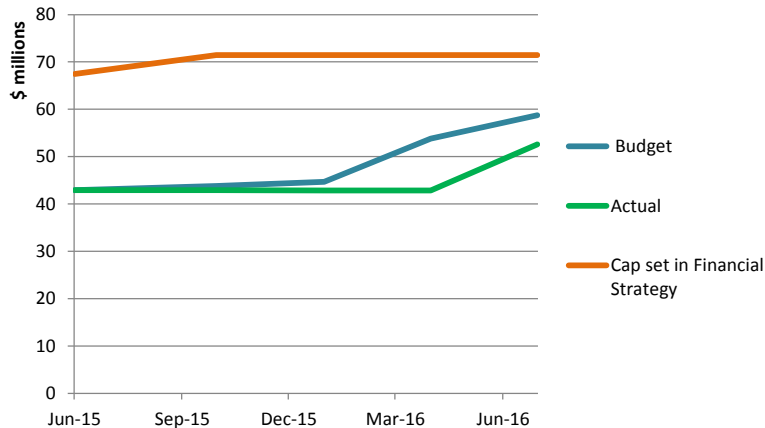
Capital Expenditure - by activity



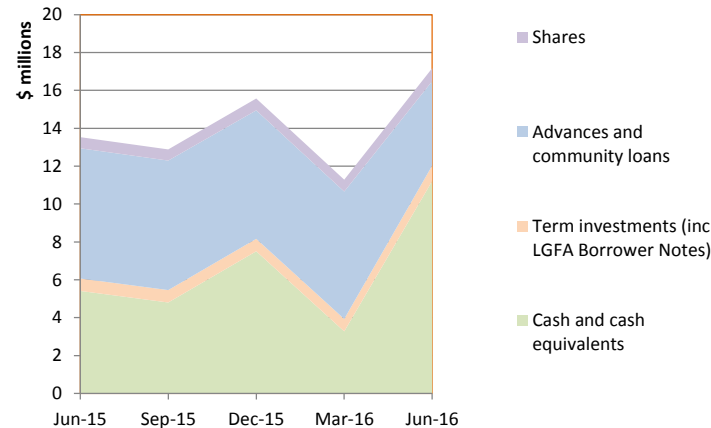
Capital Expenditure - by type



External Borrowings



Investments - by type



Comments:

In April 2016 we borrowed \$2m short term from the BNZ. This was repaid May after rates had been received.

\$10m was borrowed from the LGFA in June 2016 for a term of nine years. This is to fund the capital programme for the year. Until then cash investments were used to fund the capital expenditure.

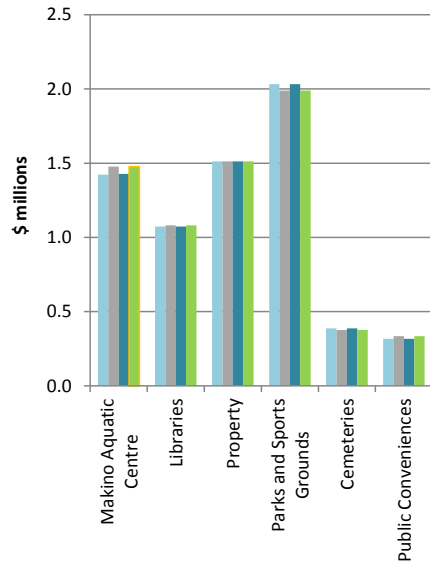
Cash investments were higher than expected as year end capital expenditure was not at the forecasted level. The reduction in the community loans was the writing down of the loan to Manfeild Park Trust, subject to a Council decision in September 2016.

Community Facilities

For the period ended 30 June 2016



Operating Revenue

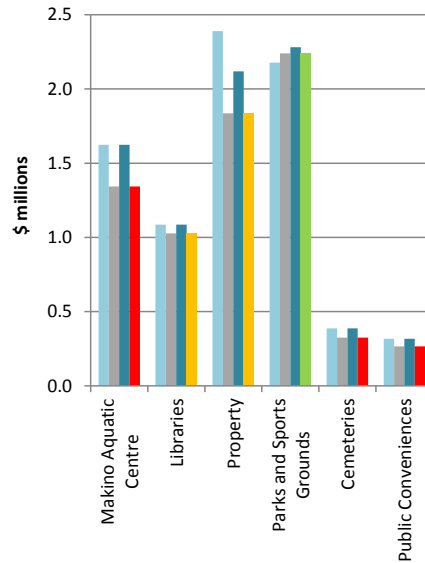


Revenue has increased over the fourth quarter.

Higher income than projected at the MAC and Library for the first three quarters.

MAC revenue budget was very conservative due to the capital project. The Makino was closed for the fourth quarter.

Operating Expenditure

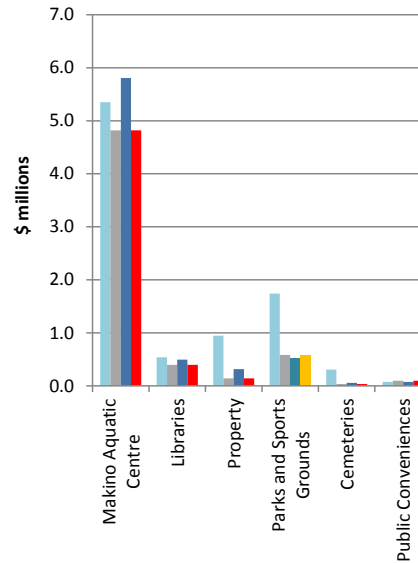


Expenditure is below budget for all activities.

Due to impact of delays in the Capital programme, loan servicing is lower than budgeted.

Expenditure is slightly down in the property and parks activities, due to low staffing for the year, however operating expenses were delivered on budget.

Capital Expenditure



Scoping work is being carried out for many of the projects and physical work will commence once scoping has been completed.

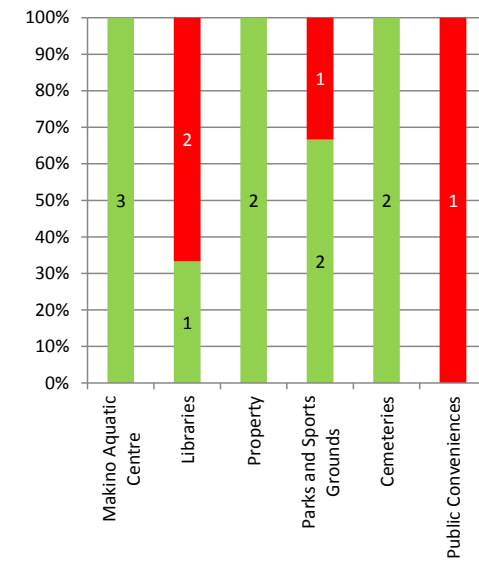
The MAC redevelopment is on target to be completed in July 2016.

Strengthening work on the Community Centre is complete.

Kimbolton toilets have been completed and the Vinegar Hill toilets were completed in May. No work has been planned for the South Street/Kawakawa Road land development (budget \$459k).

The Capital Expenditure report contains a detailed list of the progress of projects.

Key Performance Indicators



Libraries - Issues for the year were 291,431, representing 10.23 issues per capita (Target 11). E-book issues are recorded in this measure for the first time, however Community library loans are no longer included in this measure.

The shortfall of 116 events against the target of 480 was partly caused by the late recruitment of key personnel and not having effective event programmes in place.

Continued on page 15.

Key
 ■ Annual Plan ■ Year End Forecast ■ YTD Budget ■ YTD Actual - within ± 5% of budget ■ YTD Actual - between ± 5-15% of budget ■ YTD Actual - greater than ± 15% of budget

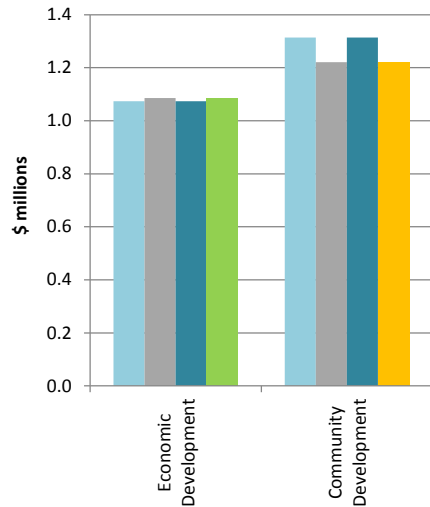
Key
 ■ On Track ■ Needs Monitoring ■ Not achieving

District Development

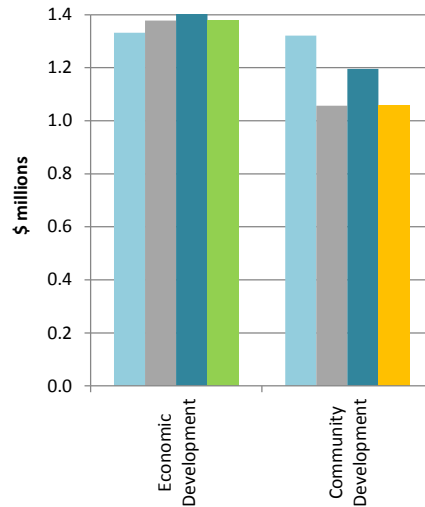
For the period ended 30 June 2016



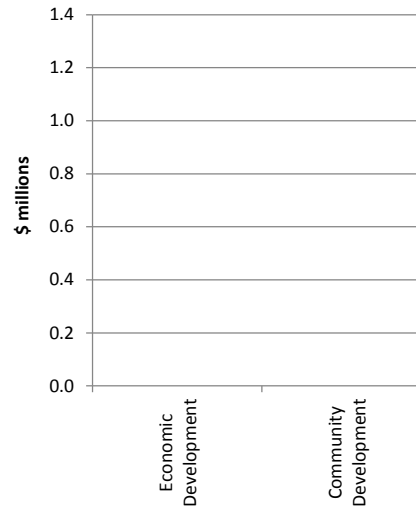
Operating Revenue



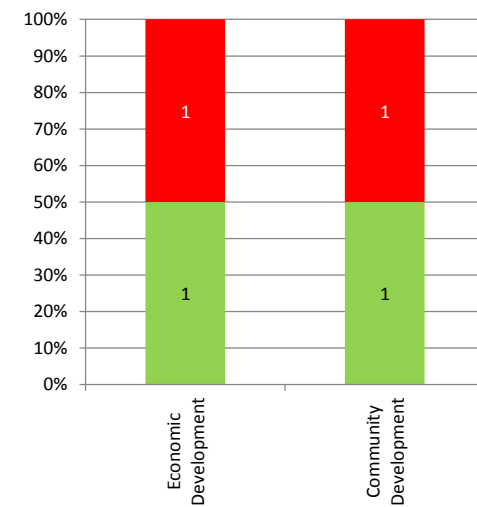
Operating Expenditure



Capital Expenditure



Key Performance Indicators



Income is primarily from rates.

The budget included a grant from the Ministry of Youth Affairs (MYA) for youth related projects. No grant has been received from MYA this year.

Expenditure for the implementation of the village community plans has been prioritised and a portion has been carried forward to next year. Other projects linked to the completion of a Spatial Plan will also be carried forward. The budget over run based on the Annual Plan (\$130k) in the Economic Development activity relates to costs associated with the Central Economic Development Agency. This additional expenditure has been approved by Council.

There is no capital expenditure for this activity.

Public Voice June survey showed respondents 70% satisfied with Economic development services (Target 80%), and 51% satisfied with Community Funding and Development services (Target 90%).

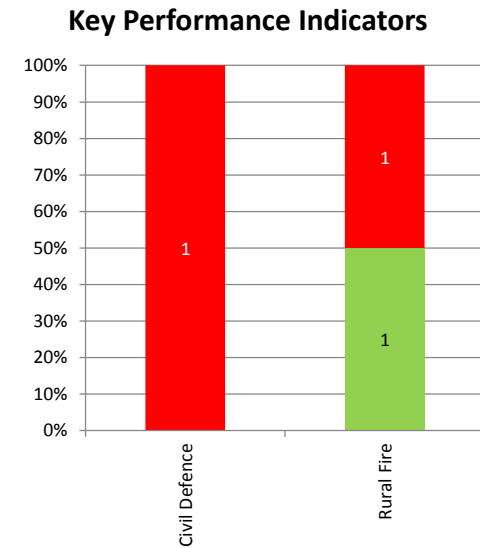
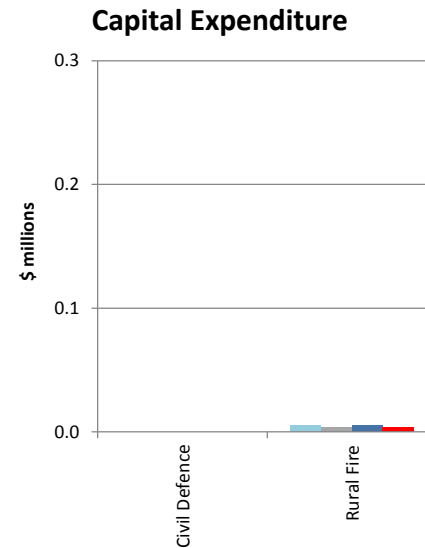
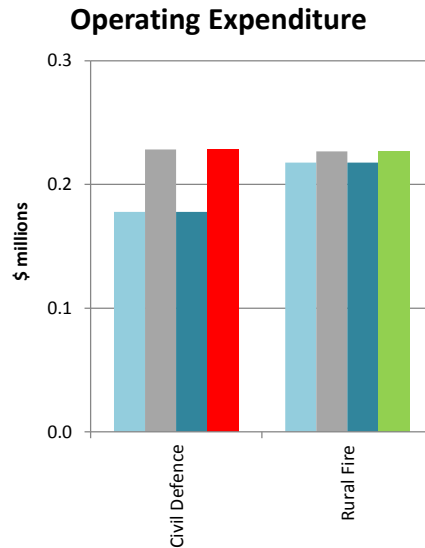
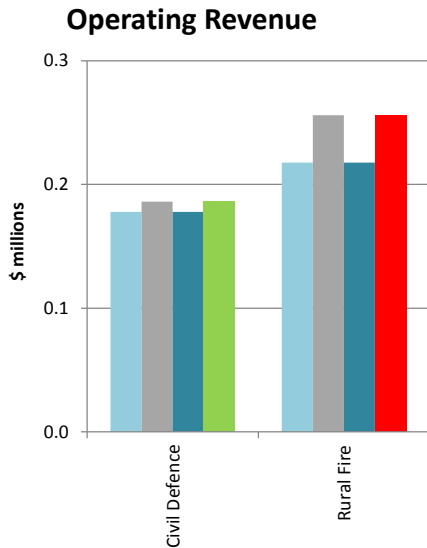
These figures exclude the 46% replied 'don't know/didn't use' Economic Development and 20% for Community Funding and Development.

Key
 Annual Plan Year End Forecast YTD Budget YTD Actual - within ± 5% of budget YTD Actual - between ± 5-15% of budget YTD Actual - greater than ± 15% of budget

Key
 On Track Needs Monitoring Not achieving

Emergency Management

For the period ended 30 June 2016



Income is primarily received through rates.

Rural cost recoveries totalling \$36k were recovered for the Taikorea Road, Kakariki Road and Reu Reu Road fires.

An additional \$91k of expenditure for Civil Defence is for costs associated with the June 2015 flooding.

There was an additional cost of \$24k in relation to Fire Service assistance for the Kellow Road fires.

Capital expenditure for the year is \$5k, for equipment renewals which have been completed and were under budget.

Public Voice May 2016 survey showed 53% respondents satisfied with civil defence information services (Target 90%), and 48% satisfied with rural fire risk information services (Target 90%).

24% replied 'don't know/didn't use' civil defence information services and if these respondents are excluded satisfaction rate would be 53%. 26% replied 'don't know/didn't use' rural fire information services and if these respondents are excluded satisfaction rate would be 65%.

There has been 100% response to rural fire callouts for the year to date.

Key
 Annual Plan Year End Forecast YTD Budget YTD Actual - within ± 5% of budget YTD Actual - between ± 5-15% of budget YTD Actual - greater than ± 15% of budget

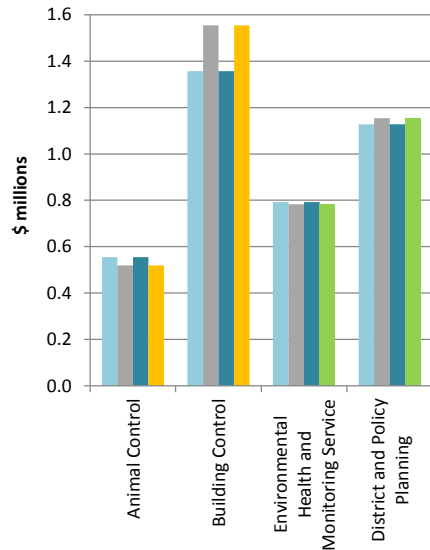
Key
 On Track Needs Monitoring Not achieving

Environmental Services and Monitoring

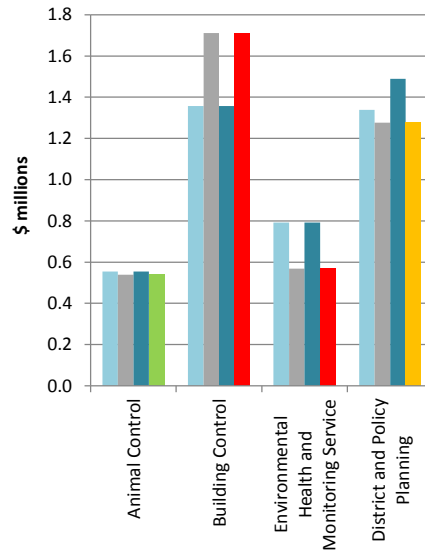
For the period ended 30 June 2016



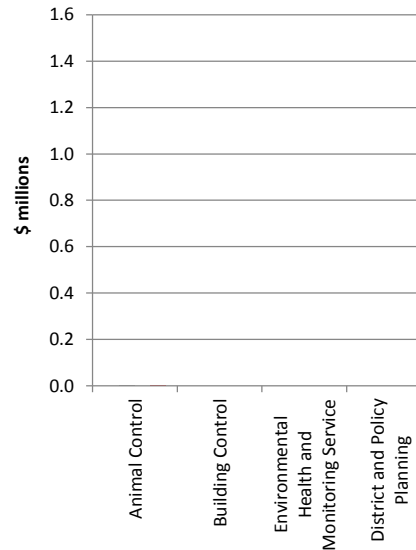
Operating Revenue



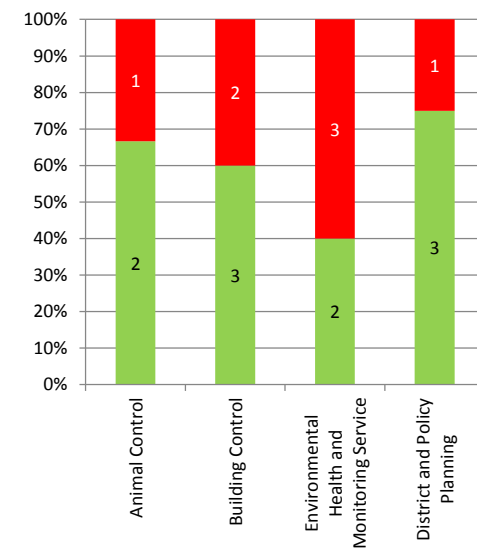
Operating Expenditure



Capital Expenditure



Key Performance Indicators



Building Control revenue is greater than anticipated as a result of on-charging consultants costs to customers. There is a timing difference between when the costs are incurred and when they are billed to the customer. The increase in revenue also reflects the increase in building activity in the district.

Dog registration fees are \$55k lower than budgeted. The budget was over optimistic and registrations in the later part of the year were not as high as expected.

Building Control expenditure is higher than the budget for consultants. Consultant fees are on-charged to customers. Additional costs were incurred due to a weathertight home claim.

Staff costs are lower than budgeted for Environmental Health and Monitoring and District Planning due to staff vacancies. Positions have now been filled.

\$151k of the District Plan budget was brought forward from the 2016/17 year. This was underspent by \$70k and will now be requested to carry forward.

There is no capital expenditure planned for this activity.

The replacement of the roof at the pound was carried forward from last year and was completed at a cost of \$4k.

Animal Control - The target not met related to response times for routine (next working day) animal control issues with 77% responded to within the timeframe set (90% target). Delays in response time relate to difficulties in contacting (or being able to make appointments with) the dog owners (47%) and staff having to visit locations over a period of days to in an attempt to locate barking dogs (25%).

Building Control - 350 fixed fee building consents were issued, of which 92% were issued within the 10 working day timeframe. 636 building consents have been processed during the year and 94% were issued within the target timeframe. The primary reason for not meeting timeframes was due to staffing constraints and the increasing number of building consents received.

Continued on page 15.

Key
 Annual Plan Year End Forecast YTD Budget YTD Actual - within ± 5% of budget YTD Actual - between ± 5-15% of budget YTD Actual - greater than ± 15% of budget

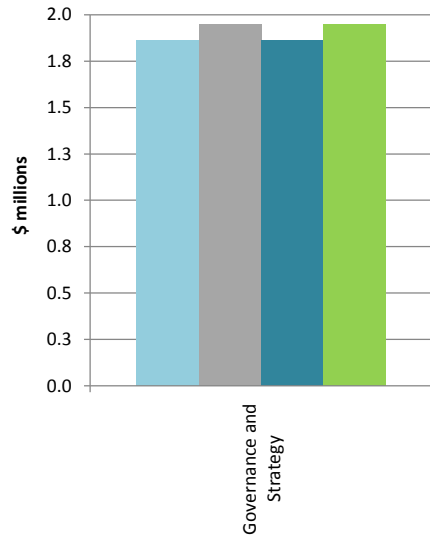
Key
 On Track Needs Monitoring Not achieving

Governance and Strategy

For the period ended 30 June 2016

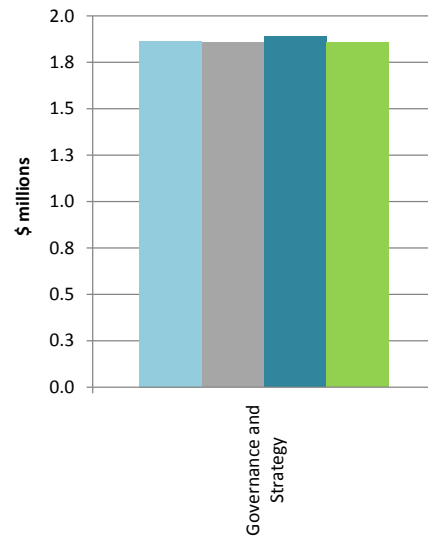


Operating Revenue



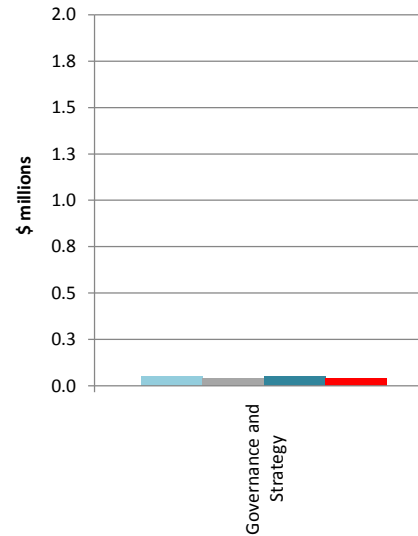
Income is received through rates.

Operating Expenditure



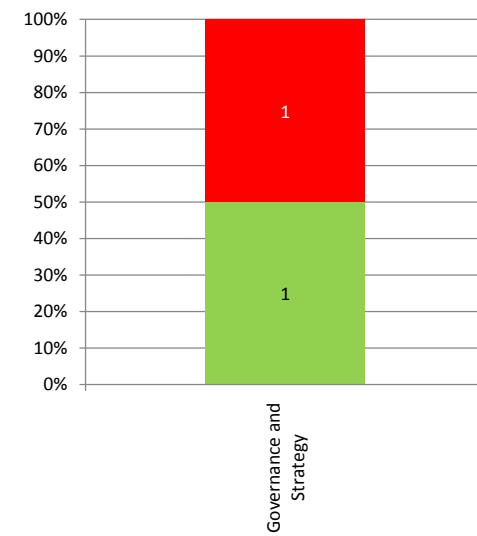
There was an additional \$80k expenditure for grants funded from the Mayoral Relief Fund and the Regional Disaster Trust. This is offset by under expenditure in the election costs to date and support services costs.

Capital Expenditure



The only capital expenditure planned for the year is \$51k for upgrade to the Council wing. To date \$38k has been spent with additional furniture arriving in July 2016 (the new financial year).

Key Performance Indicators



There have been no breaches of the rating or debt levels set in the financial strategy.

The Public Voice survey in June 2016 showed 48% were satisfied with the opportunity to participate in decision making. 18% replied 'don't know/didn't use' and if these respondents are excluded satisfaction rate would be 58%.

Key

■ Annual Plan
 ■ Year End Forecast
 ■ YTD Budget
 ■ YTD Actual - within ± 5% of budget
 ■ YTD Actual - between ± 5-15% of budget
 ■ YTD Actual - greater than ± 15% of budget

Key

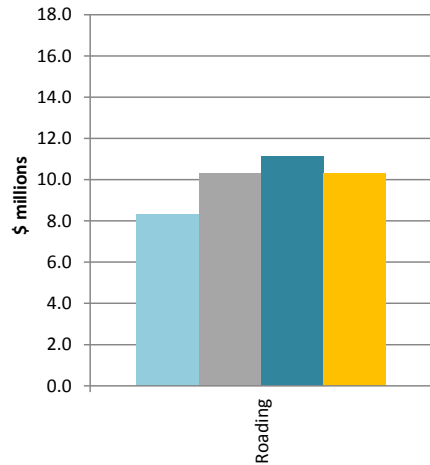
■ On Track
 ■ Needs Monitoring
 ■ Not achieving

Roading

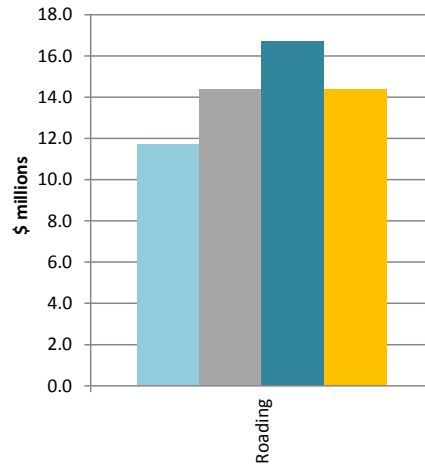
For the period ended 30 June 2016



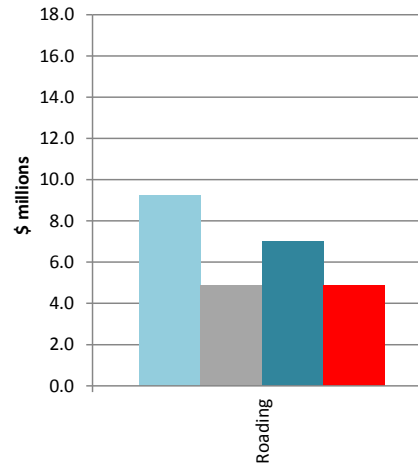
Operating Revenue



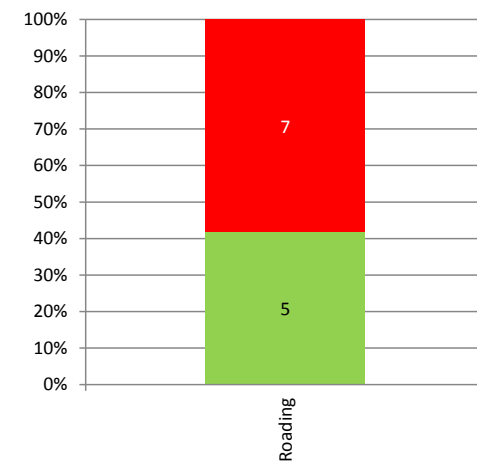
Operating Expenditure



Capital Expenditure



Key Performance Indicators



Revenue is received through rates and NZTA subsidy.

Additional subsidy was received to fund flood related costs. However, as the flood work has impacted on the capital work programme the associated subsidy is below budget.

NZTA claims for flooding are at a higher rate than the normal funding assistance rate.

\$79k received from Central Energy Trust for street lighting for the CBD redevelopment (not included in budget).

The total flood damage was budgetd for \$6.1m of which \$2m has been carried forward to 2016/17 and the budget figure has been amended to include this. Expenditure for the year was \$2.9m for flood repairs.

This year's CBD redevelopment proeject has been deferred to align it with the Makino Precinct Project. As a result, the interest expenditure is below budget.

Flood repairs have taken priority and the capital programme has not progressed as planned. Projects are now underway.

The Capital Expenditure report contains a detailed list of the progress of projects.

The Public Voice survey in May 2016 showed 85% were satisfied that roads will get them safely to their destination (target 90%).

The survey in May also showed 76% were satisfied that roads are in good condition and quality of ride is what they expect (target 90%).

86% were satisfied with road signage and ease of navigation (target 90%).

The four targets relating to response times were not met as we were not received and/or recorded from the contractor. Change in reporting occurred in May 2016.

Key
 Annual Plan (light blue) Year End Forecast (grey) YTD Budget (dark blue) YTD Actual - within ± 5% of budget (green) YTD Actual - between ± 5-15% of budget (yellow) YTD Actual - greater than ± 15% of budget (red)

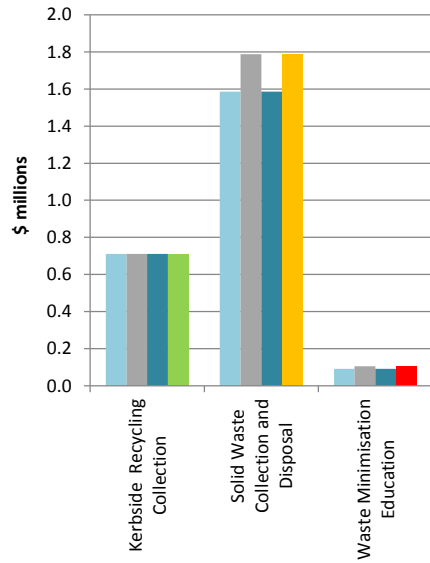
Key
 On Track (green) Needs Monitoring (yellow) Not achieving (red)

Solid Waste

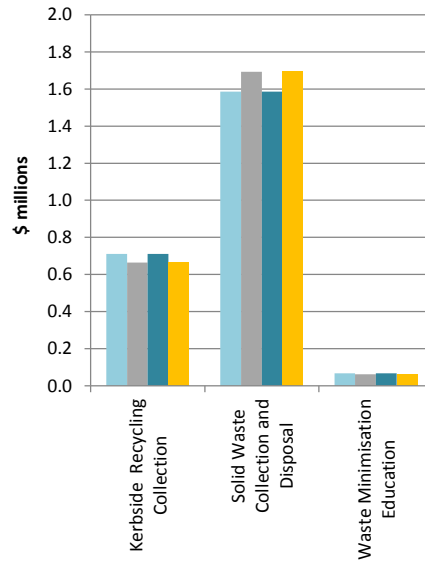
For the period ended 30 June 2016



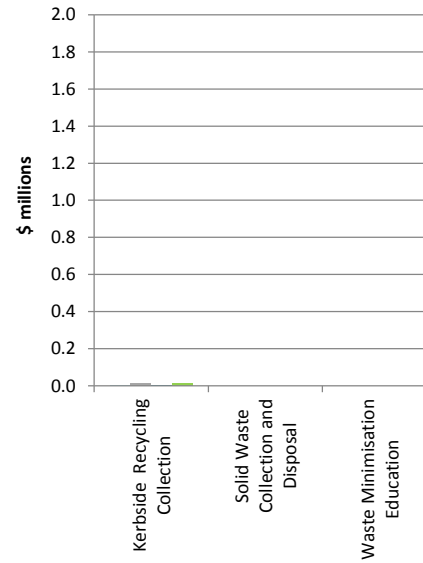
Operating Revenue



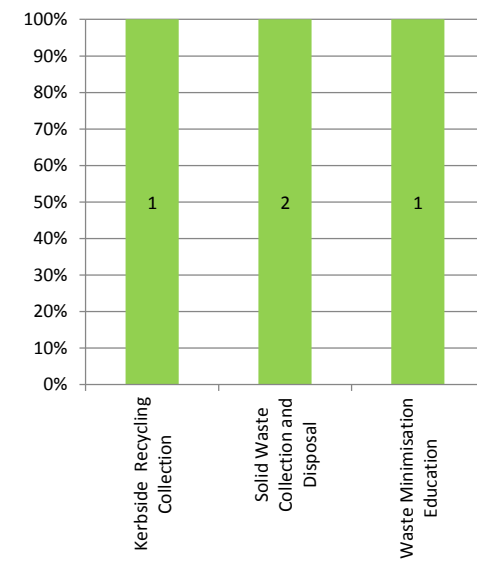
Operating Expenditure



Capital Expenditure



Key Performance Indicators



Council is accepting Budget Waste refuse (approximately 110 tonnes per month), increasing the gate takings at the refuse stations.

Budget Waste's refuse is now being received at the Transfer Station. There is an additional cost of disposing of this waste, which is offset by the additional revenue.

The only capital expenditure for this activity is new recycling bins.

All targets have been met.

Feilding kerbside recycling costs are slightly lower than budget as less staff time was charged to this activity than anticipated.

Key

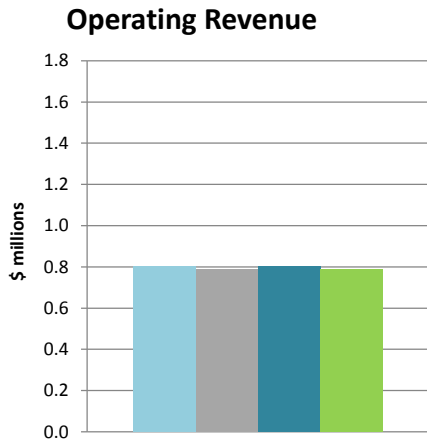
■ Annual Plan
 ■ Year End Forecast
 ■ YTD Budget
 ■ YTD Actual - within ± 5% of budget
 ■ YTD Actual - between ± 5-15% of budget
 ■ YTD Actual - greater than ± 15% of budget

Key

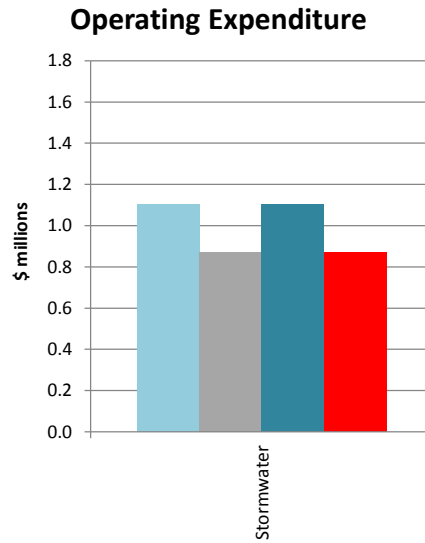
■ On Track
 ■ Needs Monitoring
 ■ Not achieving

Stormwater

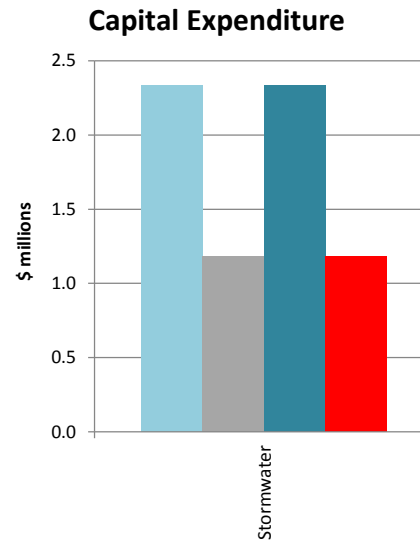
For the period ended 30 June 2016



All revenue is sourced from rates.

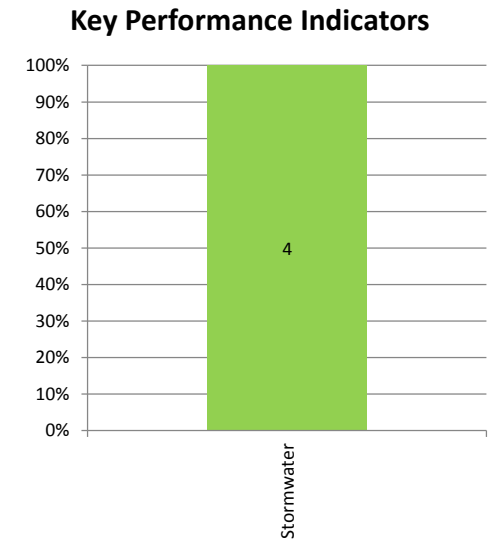


Interest costs are below budget as a number of growth projects were carried forward to 2015/16 and the loan has not been raised yet.



Physical works for Precinct 4 (Pharazyn Street and Port Street) are due to start. Additional work is currently being designed for Root Street. Work is now completed on stormwater pipe laying, road reinstatement to follow.

The Capital Expenditure report contains a detailed list of the progress of projects. There are carry forwards for 2016/17 of \$900k



All targets have been met. There were no calls relating to flooding this quarter.

Key

■ Annual Plan
 ■ Year End Forecast
 ■ YTD Budget
 ■ YTD Actual - within ± 5% of budget
 ■ YTD Actual - between ± 5-15% of budget
 ■ YTD Actual - greater than ± 15% of budget

Key

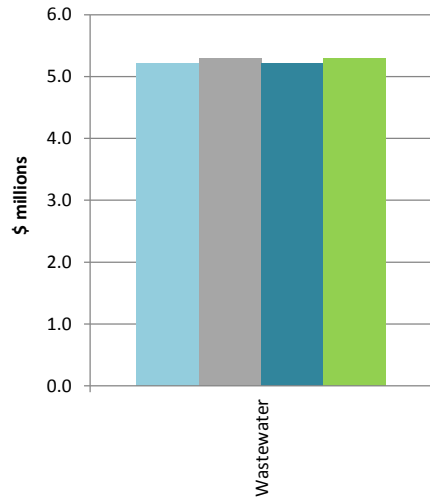
■ On Track
 ■ Needs Monitoring
 ■ Not achieving

Wastewater

For the period ended 30 June 2016



Operating Revenue

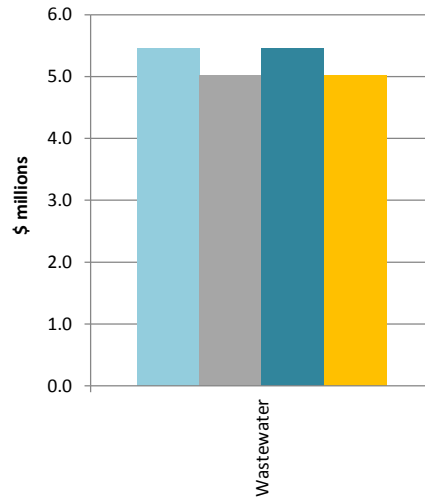


Revenue is from rates, tradewaste charges and volumetric charges.

Rates revenue is slightly higher than budgeted as additional properties have connected between confirming the rate and year end.

Volumetric charges and trade waste are slightly higher than expected.

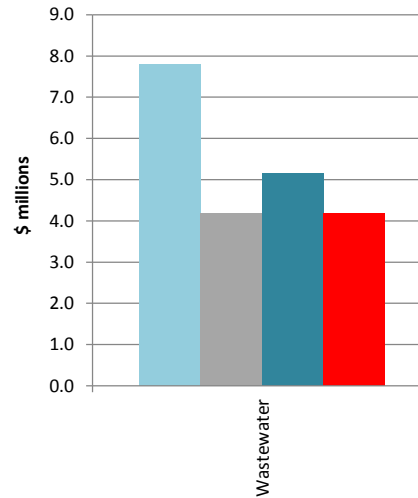
Operating Expenditure



Delays in the capital programme has impacted on the level of loans raised and consequently interest expense is below budget.

Savings were possible in the summer months due to fine weather and reduced overflow volumes.

Capital Expenditure



The final stages of the Feilding WWTP upgrade is underway.

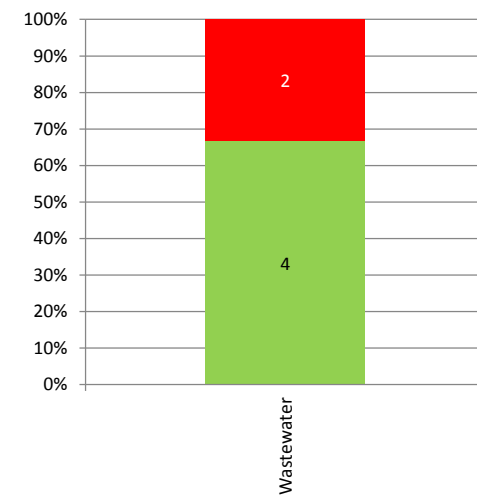
Work has been completed on desludging oxidation ponds in Rongotea and Halcombe. Sanson will commence in 2016/17.

The Halcome and Cheltenham WWTP discharge consent has been lodged, now going through extra consultation.

The reticulation renewal programme is complete, using pipe lining techniques rather than full replacement.

The Capital Expenditure report contains a detailed list of the progress of projects.

Key Performance Indicators



Target for median attendance to sewerage overflows is within two hours. There were 15 overflows during year. Accurate data only available for three instances with a median resolution time 53 minutes.

Target for median resolution of blockage or other faults is within five hours. There were 15 overflows during year. Accurate data only available for eight instances with a median resolution time 23 hours.

Key

Annual Plan Year End Forecast YTD Budget YTD Actual - within ± 5% of budget YTD Actual - between ± 5-15% of budget YTD Actual - greater than ± 15% of budget

Key

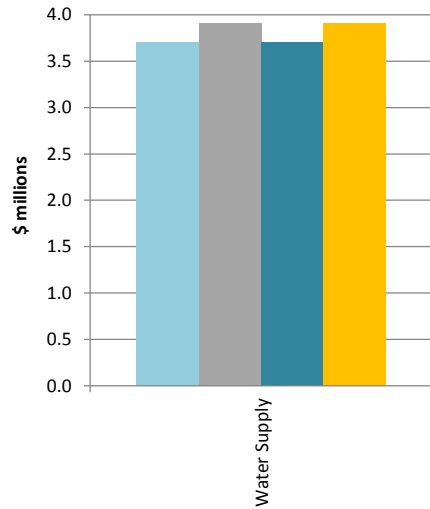
On Track Needs Monitoring Not achieving

Water Supply

For the period ended 30 June 2016

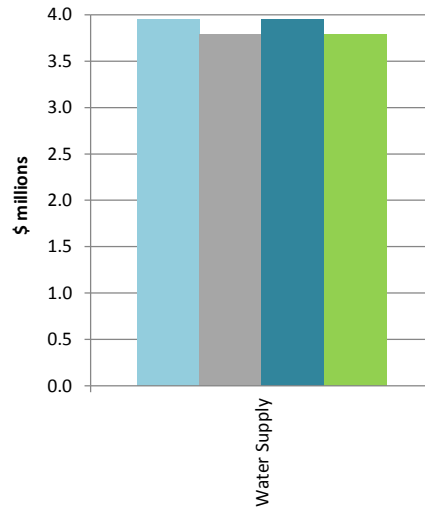


Operating Revenue



Revenue is from rates and metered water. Water by meter revenue is (extraordinary and volumetric) \$66k higher than budget.

Operating Expenditure

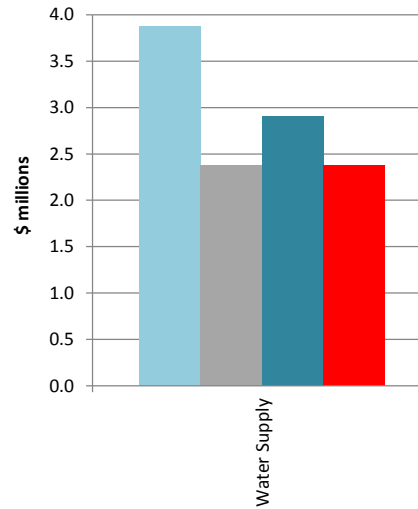


Expenditure is on track to date.

Delays in the capital programme have impacted on the level of loans raised and consequently interest expense is below budget.

More electricity is being used, as bore water is being used in preference to extracting from the river in low flow.

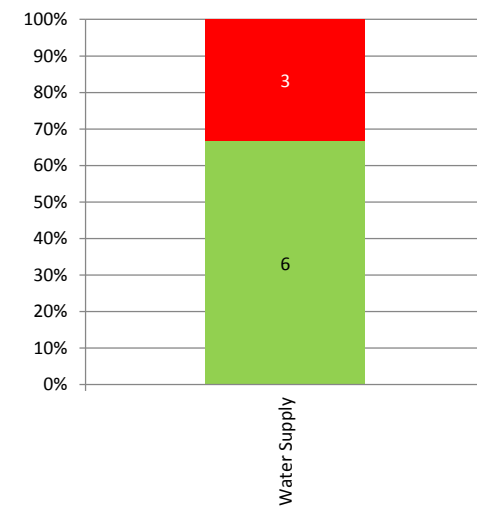
Capital Expenditure



Some physical work has commenced in the fourth quarter. Note carry forwards in 2016/17.

The Capital Expenditure report contains a detailed list of the progress of projects.

Key Performance Indicators



We had technical non compliance for bacteria levels as we did not complete the required number of samples. All samples tested complied.

Urgent request response and resolution times were not accurately recorded for the the first nine months and consequently we are unable to confirm compliance.

Key

■ Annual Plan
 ■ Year End Forecast
 ■ YTD Budget
 ■ YTD Actual - within ± 5% of budget
 ■ YTD Actual - between ± 5-15% of budget
 ■ YTD Actual - greater than ± 15% of budget

Key

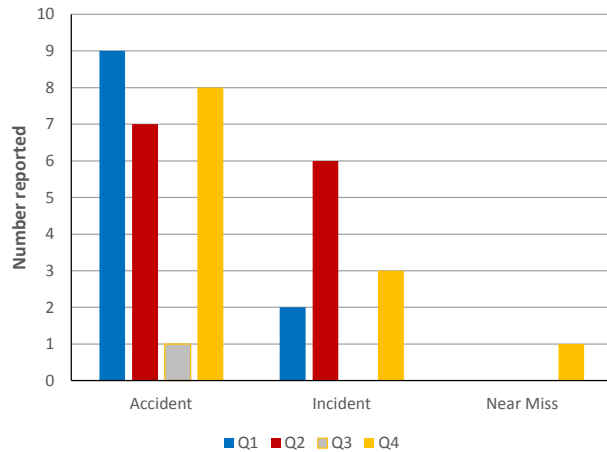
■ On Track
 ■ Needs Monitoring
 ■ Not achieving

Health and Safety

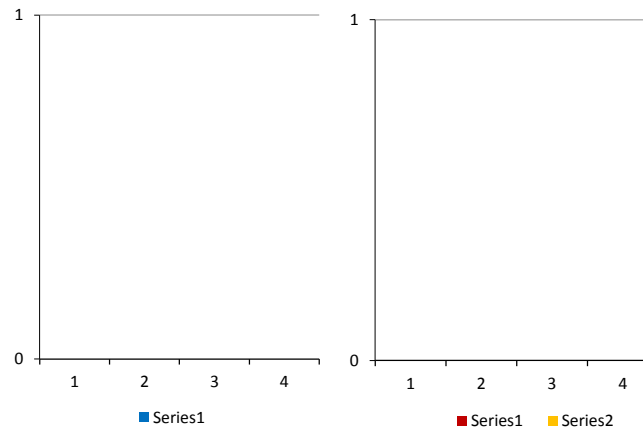
For the period ended 30 June 2016



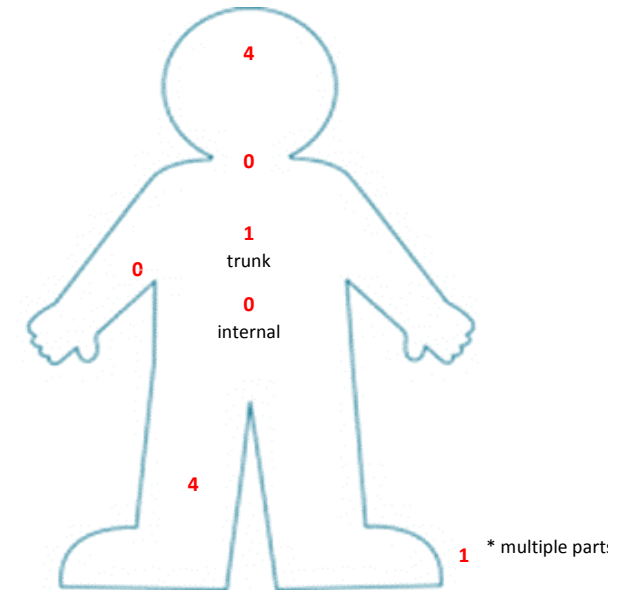
Events reported



Hazards and injuries



Injuries sustained



Notifiable events this quarter

Notifiable: 0 Not Notifiable: 14

Status of hazards this quarter

Open: 1 Resolved: 1

Training this quarter

No training has been carried out this quarter

Policy and procedures this quarter

No new policies or procedures were introduced this quarter

Wellness initiatives this quarter

These initiatives are designed to support staff and promote wellness in the workplace.

Initiatives undertaken:

- Hepatitis vaccinations for Infrastructure staff

Inductions this quarter

Inductions completed for:
- 5 new staff

Lost time (days) this quarter



75

Communication and education this quarter

- Contractors update on legislation changes and new MDC Induction processes and documentation
- Health and Safety Roadshow provided by SOLGM

Comments Continued



Community Facilities (from page 4)

Parks and sports grounds - There have been two incidents during the year (target nil), both relating to assets at Kowhai Park. Following these incidents the bridge has been removed and rotten sections of the boardwalk have been repaired.

Public Conveniences - 45 complaints have been received (target less than 35). Since the new open spaces contract was let, there has been a dramatic reduction in the number of complaints (three in the last quarter of the year compared with 21 in the first quarter). The three complaints related to taps and water that will be addressed with more proactive maintenance of assets. This contrasts with early in the year where complaints were largely due to poor cleaning.

Environmental Services and Monitoring (from page 7)

Environmental Health and Monitoring - The targets not achieved relate to the response time for food hygiene complaints.

Of the 125 registered food premises, 114 inspections (91.2%) have been completed (Target 100%).

Of the nine complaints received where there were issues relating to endangering public health, six were responded to within one day and three (66%) responded to within two days. (Target one day). Two of these complaints were responded by staff in lieu of an appointed EHO and one complaint was referred to Mid Central Health for investigation and advice.

The Environmental Health Officer (EHO) appointed in March has inspected all high risk premises.

447 other requests for service were received and 82.2% were responded to within the required 48 hours (Target 90%).

District Planning and Policy - All targets have been met.

Attachment 2
Capital Expenditure
For the period ended 30 June 2016

	Actual YTD \$000	Budget YTD \$000	Variance YTD \$000	Variance YTD %	Annual Plan 2016 \$000	Annual Plan Used %	Commitments \$000	Notes
Community Facilities								
Feilding Cemetery Extension	11	3	8	308% ◆	275	4%	27	Design in progress. Works proposed to be bundled with the Timona Park and Kowhai Park carpark projects to obtain project management and procurement efficiencies in the 2016/17. Balance of funds are carried over as part of the Annual Plan for 2016/17.
Halcombe Cemetery Extension Ground Works	15	44	(29)	-66% ●	44	35%	0	The roadway formed. A carry over has been approved for the balance of funds to allow sealing once the ground has consolidated.
Cemetery Renewal Works	8	10	(2)	-20% ●	10	81%	0	Project complete.
Feilding Little Theatre - Roof	0	0	0	n/a	20	0%	0	To be done in conjunction with the earthquake strengthening project on the Theatre. A revised seismic assessment showed strengthening work required is not as significant as initially proposed. Completion of the project in the 2016/17 financial year is dependent on the Theatre sourcing additional external funding. Balance of funds are carried over as part of the Annual Plan for 2016/17.
Library Collection Purchases	190	193	(3)	-2% ●	193	98%	0	Project complete.
Library Review	314	303	12	4% ●	348	90%	0	Project complete.
Makino Redevelopment	4,782	5,764	(982)	-17% ●	5,362	89%	979	The balance of unspent funds carried over as part of the Annual Plan to 2016/17. The project is due for completion in July 2016.
MAC Outdoor Play Equipment	30	34	(4)	-12% ●	13	233%	0	Project complete.
MAC General Renewals	8	8	0	0% ●	8	99%	0	Project complete.
Public Conveniences Renewals	26	25	1	4% ●	25	102%	0	Project complete.
Kimbolton Public Toilets	72	51	21	41% ◆	51	140%	0	Project complete.
Strengthen Earthquake Prone Buildings	140	276	(136)	-49% ●	459	30%	59	Strengthening of the Feilding Community Centre is complete. The balance of funds relates to the Feilding Theatre. A seismic assessment review showed the extent of strengthening work is not as significant as initially proposed. Completion of this project in the 2016/17 financial year will be dependent on the Theatre sourcing additional third party funding. Balance of funds carried over as part of the Annual Plan to 2016/17.
Manfeild Park Development	0	8	(8)	-100% ●	428	0%	3	Balance of funds are carried over as part of the Annual Plan for 2016/17.
Property Renewal Projects	0	25	(25)	-98% ●	36	0%	0	The general property project portion is complete. CBD lighting works have been scoped and is to be bundled together with additional funding proposed for the 2016/17 financial year. Balance of funds are carried over as part of the Annual Plan for 2016/17.
View Shafts on South Street	16	20	(5)	-25% ●	20	77%	0	Project complete.
Property - Feilding Depot	0	5	(5)	-98% ●	5	9%	0	Project complete.
Vinegar Hill Toilets Renewal	127	121	6	5% ●	158	81%	0	Project complete. The balance of funds are carried over towards a new project for the replacement of toilets at Raumai Reserve.
Parks and Reserves - Kowhai Park	11	15	(5)	-32% ●	127	9%	8	Work has commenced on carpark design. Works are proposed to be bundled and completed in the 2016/17 financial year with the Timona Park carpark and Feilding Cemetery development projects to obtain project management and procurement efficiencies. Balance of funds are carried over as part of the Annual Plan for 2016/17.
Parks and Reserves - New Projects	36	57	(21)	-37% ●	77	46%	0	Project covers renewal of Bartlett's Ford Toilets, Mt Stewart works, and supporting the implementation of Community Planning Projects. The Bartlett's Fords Toilets completed. It was confirmed as part of the Annual Plan that unspent funds of \$20.9k are carried forward and reallocated to a new project being the replacement of toilets at Raumai Reserve, where there are significant issues with water supply and the standard of toilets. Mount Stewart work is complete. The funding for community planning relates to signage for Himatangi Beach, that was expected to be completed by 30 June 2016. The funds require a carry over and approval from the General Manager for Community and Strategy has been given.
Parks and Reserves - Refurbish Victoria Park	28	1	27	2430% ◆	31	91%	0	The project is waiting on Makino Rotary to undertake their contribution to the project, being the replacement equipment. Ground works are ready for the new equipment installation. Balance of funds are carried over as part of the Annual Plan for 2016/17.
Parks and Reserves - Timona Park	7	1	6	811% ◆	176	4%	3	Works are for the installation of a new carpark at Timona Park. Work has commenced on the design. Works are proposed to be bundled with the Kowhai Park carpark and Feilding Cemetery development projects and completed in the 2016/17 financial year to obtain project management and procurement efficiencies. Balance of funds are carried over as part of the Annual Plan for 2016/17.
Parks and Reserves - Walkway / Linkages	56	31	25	81% ◆	176	32%	2	Lethbridge Reserve walkway connection pathway is installed. The bridge is ordered and installation is waiting on receipt of consents. Reserve planting is planned for August 2016. Balance of funds are carried over as part of the Annual Plan for 2016/17.
Parks and Reserves - Playground Renewal	0	8	(8)	-105% ●	8	0%	0	Project complete.
Feilding CBD Park Benches	0	0	0	n/a	20	0%	0	A schedule of replacement priorities has been identified. It is proposed that this work will be bundled with additional funding proposed in the 2016/17 year to obtain project management efficiencies. Balance of funds are carried over as part of the Annual Plan for 2016/17.
Kitchener Park Capital Works	54	52	2	4% ●	105	51%	0	The project is comprised of a grant for \$50k to the Trust for flood protection and \$50k for the replacement of the northern section of the boardwalk. The grant is yet to be uplifted by the Kitchener Park Trust and the Trust met with Horizons seeking a short-term solution to flooding issues. The replacement of the northern section of boardwalk is complete. Balance of funds are carried over as part of the Annual Plan for 2016/17.

	Actual YTD \$000	Budget YTD \$000	Variance YTD \$000	Variance YTD %	Annual Plan 2016 \$000	Annual Plan Used %	Commitments \$000	Notes
Makino Park Playground and Skate Park	6	6	0	0%	104	5%	0	Budget YTD has been reduced to reflect the amount carried forward to 2016/17 in the annual plan The project is on hold with the skate park being bundled and undertaken as part of the Makino Precinct Plan project. Further funding is provided in the 2016/17 and 2017/18 years for this project. External funding towards this project will also be sourced. Balance of funds are carried over as part of the Annual Plan for 2016/17.
Mt Lees Trails	35	18	17	95%	33	105%	0	Project complete.
Walkway Linking	38	0	38	n/a	0	n/a	0	Sanson walkway complete.
Railway Land Beautification	10	34	(25)	-73%	173	5%	17	The project is on hold with the work being bundled as a complete package of works to obtain project management and procurement efficiencies. The work will be undertaken in conjunction with additional funding available in 2016/17. Balance of funds are carried over as part of the Annual Plan for 2016/17.
Refurbishment Rangiwahia Walkway	5	5	0	0%	5	95%	0	Project complete.
Himatangi Walkway	6	8	(2)	-24%	0	n/a	0	Project complete.
Himatangi Beach Access Carpark	111	52	59	114%	0	n/a	0	Project complete.
Parks and Reserves - Renewal Projects	41	90	(49)	-55%	156	26%	0	The project comprises Makino Precinct paths, refurbishment of Rongotea Park, and fencing at Johnston and Timona Parks. The Makino precinct paths formed part of the Makino Aquatic Centre redevelopment and is complete. Rongotea Park work is scoped in conjunction with the Rongotea Community Committee and completion is planned for August 2016. This funding is carried forward. Work at Johnston Park is complete. The Timona Park fencing is proposed to be carried over and undertaken in conjunction with the Timona Park Carpark in 2016/17. It is proposed that unspent funds be carried forward to 2016/17.
Parks and Reserves - Railway Reserve	0	0	0	n/a	371	0%	0	It is proposed that this work is bundled as a complete package of works to obtain project management and procurement efficiencies. The work will be undertaken in conjunction with additional funding available in 2016/17. Balance of funds are carried over as part of the Draft Annual Plan for 2016/17.
Total Community Facilities	6,178	7,266	(1,087)	-15%	9,017	69%	1,097	
Emergency Management								
Rural Fire - Equipment Renewal	4	5	(1)	-26%	5	74%	0	Project complete.
Total Emergency Management	4	5	(1)	-26%	5	74%	0	
Environmental Services and Monitoring								
Dog Pound Roof Replacement	4	0	4	n/a	0	n/a	0	Project complete.
Total Emergency Management	4	0	4	n/a	0	n/a	0	
Governance and Strategy								
Council Chamber Asset Purchase	38	51	(13)	-26%	51	74%	0	This stage of the project included the audio and visual equipment. Tables and chairs were replaced in July 2016.
Total Governance and Strategy	38	51	(13)	-26%	51	74%	0	
Roading								
CBD Redevelopment Projects	31	111	(80)	-72%	111	28%	119	The Stafford Street project will not proceed in the current financial year, as it will be aligned to the Makino Precinct project. The funding will be carried forward to 2016/17, or further into the LTP, depending on timing of the Makino Precinct project - possibly up to 5 years.
Sub Unsealed Road Metalling	386	519	(132)	-26%	616	63%	0	Programmed work includes \$62k for Makoura Road Stage 1. As a result of additional work required for flood work on the Makoura Road Stage 2 project, a forecast \$390k revised carry over proposed for 2016/2017.
Sub Sealed Road Resurfacing	1,826	1,899	(73)	-4%	1,899	96%	378	Project complete.
Sub Cycle Facilities	0	2	(2)	-100%	40	0%	0	Design work for the cycleway between PN and Feilding, project in preliminary stages, costs will be recovered at FAR and is dependent on NZTA acceptance.
Sub Minor Improvements	0	51	(51)	-100%	51	0%	3	Minor improvement projects are deferred.
Roading Growth	89	580	(491)	-85%	1,381	6%	437	Growth Precinct 4 (Pharazyn Street) physical work was not completed as expected. Growth Precinct 5 (Turners Road) in planning stage with the remainder of the funding to be carried forward to the 2016/17 financial year.
Sub Drainage Renewals	466	290	176	61%	300	156%	3	Overspend due to minor improvement / rehabilitation projects being ahead of schedule for the 2016/2017 financial year.
Sub Structures Renewals	233	282	(49)	-17%	282	83%	75	Two parts of the project are deferred.
Sub Traffic Services Renewal	81	231	(150)	-65%	231	35%	180	Under spend due to delay in delivery of the pavement marking contract. Carry over to be requested for 2016/17.
Sub Associated Improvements	12	51	(39)	-76%	51	24%	0	Minor improvement projects deferred. Carry over to be requested for 2016/17.
Sub Pavement Rehabilitation	1,577	2,374	(797)	-34%	2,823	56%	1,592	Not achieved due to delays, project has been deferred. Carry over to be requested for 2016/17.
Sub Minor Improvement New	1	270	(269)	-100%	535	0%	0	Minor improvement projects deferred. Carry over of balance to be requested for 2016/17.
Non-Sub Cycle Lane/Fac Renew	0	0	0	n/a	51	0%	0	
Non Sub Environmental Renewals	0	0	0	n/a	10	0%	0	
Non Sub Road Reconstruction	31	0	31	n/a	540	6%	36	Projects deferred.
Non Sub Seal Extension	75	80	(5)	-6%	100	75%	5	
Non Sub Roothing New Footpaths	51	50	1	3%	100	51%	23	\$50k deferred for 2016/2017 projects.

	Actual YTD \$000	Budget YTD \$000	Variance YTD \$000	Variance YTD %	Annual Plan 2016 \$000	Annual Plan Used %	Commitments \$000	Notes
Non Sub Footpath Renewals	25	106	(80)	-76%	75	34%	35	Urban renewal projects (Wellington St and Seddon St). Carry over of balance to be requested for 2016/17.
Non-sub Drainage Renewals	0	10	(10)	-98%	35	1%	0	Non-subsidised projects were not required during current year.
Non Subsidised Roading Renewal	4	95	(92)	-96%	0	n/a	0	Urban renewal projects (Wellington St and Seddon St). Carry over of balance to be requested for 2016/17.
Total Roading	4,890	7,002	(2,112)	-30%	9,234	53%	2,886	
Solid Waste								
Purchase of New Recycling Bins	7	5	2	46%	5	146%	0	Additional wheelie bins from inventory to serve new properties.
Recycling Inventory	7	0	7	n/a	0	n/a	0	
Total Solid Waste	14	5	10	201%	5	301%	0	
Stormwater								
Stormwater Growth Feilding	1,143	1,989	(847)	-43%	1,989	57%	187	Physical works completed in Pharazyn Street and Port Street but road reinstatement and subsequent phases of work in Growth Precinct 4 to be deferred to 2016/17. The balance of the growth budget (approximately \$1m) required to be carried forward for 2016/17.
Stormwater New Work Feilding	20	0	20	n/a	0	n/a	0	
Stormwater Unplanned Renewal	19	349	(331)	-95%	349	5%	0	Replacement culvert in West Street delayed while design options priced by suppliers. Projects relating to stormwater improvements following the 2015 floods have been designed and are weather dependent. It is proposed to adjust the 2016/2017 carry over to match actual spend.
Rongotea Stormwater New Work	1	0	1	n/a	0	n/a	0	
Total Stormwater	1,182	2,339	(1,156)	-49%	2,339	51%	187	
Wastewater								
Desludging Oxidation Ponds	329	333	(4)	-1%	471	70%	20	Work essentially completed. Two out of three (Rongotea and Halcombe) oxidation ponds de-sludged. Third pond (Sansons) to be de-sludged in 2016/2017.
Feilding WWTP Asset Renewal	477	579	(102)	-18%	799	60%	203	Physical works include replacement of the inlet flow meter (underway) and renewal of the primary sedimentation tanks (final planning stages). Design is underway for refurbishment of the digester planned for 2016/2017.
Feilding Reticulation Renewals	845	990	(146)	-15%	990	85%	109	Renewal programme well advanced utilising pipe lining technology. Physical works include Russell Street, South Street, West Street and Church Street in Feilding.
Feilding WWTP Upgrade	683	785	(102)	-13%	785	87%	110	Additional costs associated with Resource Consent renewal process. Completion of the aeration pond process systems underway, remainder of the expenditure on new process control systems, septic tank dumping site and high flow management systems to be completed in late 2016. Carry over of remainder of budget requested to cover commitments for work not quite finished in 2015/2016.
Feilding WWTP - Irrigation	48	297	(249)	-84%	1,047	5%	0	Irrigation design commenced in line with Resource Consent requirements, project delayed pending outcomes from the Environment Court process. Physical works are deferred to the 2016/2017. The balance of the irrigation budget (approximately \$1m) requested to be carried forward to 2016/2017.
Feilding WWTP Growth	625	485	140	29%	785	80%	59	New Inlet screen installed and modifications made to inlet channels, duplicate sedimentation tanks in design phase for procurement and installation in 2016/2017.
Feilding Wastewater Growth	421	491	(70)	-14%	691	61%	440	The new deep sewer in Church Street project delayed due to poor ground conditions at depth. Project was forecast to be completed in the 2016/2017 year. All unspent money is requested to be carried over to meet commitments and allow for new developments to connect.
Feilding WWTP Nursery New Work	194	214	(20)	-9%	270	72%	2	Expenditure to date has seen the purchase of pots, the completion of building works, work benches and the purchase of a row by row seeder. These projects are complete. The balance of \$56k to be carried over for a ute and pot filling machine in 2016/2017.
Wastewater New Connections	45	0	45	n/a	0	n/a	5	No budget included. The works are funded from connection fees received.
Rongotea Renewals	51	109	(58)	-53%	359	14%	0	Planned renewal of aeration at Rongotea WWTP ponds installed. Due to de-sludging, remainder of renewals in Rongotea deferred to 2016/2017.
Sansons Renewals	23	150	(126)	-84%	531	4%	13	Repairs to Sansons' WWTP irrigation system is underway, and needs to be functional for the consent renewal application in 2016/2017. Unspent funds are requested for carried over in 2016/2017, to assist with the consent renewal process.
Himatangi Sewerage New Work	32	0	32	n/a	0	n/a	0	New connections as the works are demand driven.
Cheltenham Wastewater Renewal	40	31	9	30%	264	15%	0	Consent renewal process initiated. The balance of the renewal budget (approximately \$220k) will be requested to be carried forward to 2016/2017.
Rongotea Wastewater Reticulation	91	393	(301)	-77%	393	23%	204	Rising main replacement in Rongotea was affected by poor ground conditions and delayed the project. A slightly smaller pipe was laid, as a duplication of the existing main, by drilling. This achieves the same outcome for flow capacity and delivers a project cost saving. The old rising main is half way through the design life and remains to provide the required capacity. It is requested that \$250k of the remaining budget be carried over to 2016/2017 year to cover the contract.

	Actual YTD \$000	Budget YTD \$000	Variance YTD \$000	Variance YTD %	Annual Plan 2016 \$000	Annual Plan Used %	Commitments \$000	Notes
								Budget YTD has been reduced to reflect the amount carried forward to 2016/17 in the annual plan
Awahuri WWTP Renewals	0	54	(54)	-100% ●	54	0%	0	
Kimbolton WWTP New Works	14	0	14	n/a	2	723%	148	
Kimbolton - Wastewater Treatme	3	2	1	33% ◆	0	n/a	0	
Halcombe WWTP Discharge Consent	98	148	(50)	-34% ●	262	37%	25	Consent renewal process initiated. The balance of the renewal budget (approximately \$150k) will be requested to be carried forward to 2016/2017.
District Pump Station Telemetry	0	94	(94)	-100% ●	94	0%	0	The project was reviewed to ensure telemetry fits with the overall telemetry strategy in development. It is requested that \$50k of the remaining budget be carried over to 2016/2017, to allow for the telemetry strategy to be implemented for wastewater pump stations.
WW Unplanned renewals-Villages	16	0	16	n/a	0	n/a	0	
Total Waste	4,034	5,155	(1,121)	-22% ●	7,798	52%	1,337	
Water								
Feilding WTP Renewals	192	405	(213)	-53% ●	405	47%	34	Intake works completed, including replacement pumps and flow meters. Seismic assessment of clarifier identified that strengthening is required, therefore renewal of equipment associated with the clarifier has been delayed, pending a more detailed structural assessment. \$43k requested to be carried over to cover commitments. Remainder of unspent budget (\$170k) requested as a carry over to 2016/2017, to assist with seismic strengthening.
Feilding Reticulation Renewals	992	896	96	11% ▲	896	111%	386	Water mains renewals in Feilding include a section of the trunk main in Kimbolton Road, near Norfolk Crescent. Two of the three water main packages are completed with the third, in West Street due to complete early August.
Feilding Water Supply Growth	404	747	(343)	-46% ●	1,136	36%	343	Mains in South Street and West Street have been replaced with larger sized mains to provide for growth. Water main in West Street currently being installed. Balance of growth budget requested to be carried forward to 2016/2017.
Feilding Water Pressure Zones	53	193	(140)	-73% ●	293	18%	3	Design delays mean the pressure zone improvements are yet to be procured. An additional \$140k is requested for carry over to 2016/2017, to cover construction costs (estimated at \$240k).
Feilding Water Metering/Backflow	8	40	(32)	-80% ●	40	20%	0	Meter and backflow prevention device installation is progressing slowly, when properties are identified, and sprinkler systems checked for compatibility with proposed changes.
Almadale WTP Optimisations	150	157	(7)	-5% ●	157	95%	4	Physical works on the UV system are complete, procurement underway for pH correction systems.
Water Supply New Connections	108	0	108	n/a	0	n/a	0	No budget included. The works are funded from connection fees received.
Himatangi Water Asset Renewals	33	50	(16)	-33% ●	385	9%	18	Geotechnical investigation and design of reservoir site completed. Reservoir to be purchased and installed before end of December 2016. Remainder of budget was requested to be carried over to 2016/2017 for purchase and construction of reservoir.
Himatangi Water Supply New Work	30	50	(20)	-41% ●	73	41%	10	Reservoir access legalisation delayed this project, preventing the erection of the boundary fence. Overall \$43k requested as carry over for this project.
Sanson Water Asset Renewal	1	17	(16)	-94% ●	17	6%	0	
Sanson WTP New Works	12	80	(67)	-85% ●	220	6%	4	Ministry of Health funding for new supply approved in December 2015. Site of new treatment plant identified beside swimming pool in Sanson. Procurement underway for construction of bore. Application drafted for resource consent for proposed reservoir. All remaining budget requested to be carried over so that the new bore, reservoir and connecting pipework can be constructed in 2016/2017.
Rongotea Water Scheme	139	0	139	n/a	0	n/a	13	Rongotea water scheme project complete.
WS Unplanned Renewals-Villages	23	0	23	n/a		n/a		
Stanway/Halcombe WTP New Works	11	74	(63)	-85% ●	168	7%	0	Improvements to bore underway with variable speed drives (VSD's) to be fitted to pumps in 2016/2017 to improve flows. Carry over requested for installation of VSD's and PLC upgrade to suit new VSD's in 2016/2017.
Stanway/Halcombe RWS Renewals	55	17	38	231% ◆	17	331%	0	
Stanway/Halcombe RWS Intake and Capacity Improvements	164	108	56	52% ◆	108	152%	0	Pipeline to Pryce's Line complete and flow meters installed.
Waituna West RWS Renewals	6	71	(65)	-92% ●	71	8%	0	
Total Water	2,381	2,904	(523)	-18% ●	3,985	60%	816	
Support Services and Other								
Administration Building New Assets	9	25	(16)	-63% ●	25	37%	0	
Motor Vehicle Purchases	137	264	(126)	-48% ●	264	52%	0	Extended some of the existing vehicles mileage. The balance will be requested for carried forward to 2016/2017.
Hardware	242	269	(27)	-10% ●	159	152%	0	
Software - Document Management	8	8	0	0% ●	615	1%	0	Approval through Annual Plan process to carry forward for 2016/2017.
Other Information Management Renewal Projects	50	47	2	5% ●	0	n/a	0	
Other Information Management New Projects	25	32	(7)	-23% ●	0	n/a	0	
Software Replacement	0	51	(51)	-100% ●	51	0%	0	Requesting a carry forward for 2016/2017.
Establishment of the Three Waters Reticulation Team	277	538	(261)	-48% ●	0	n/a	109	
General Renewals	4	22	(19)	-84% ●	22	16%	0	
General New Assets	16	22	(6)	-26% ●	22	74%	3	
Total Support Services and other	768	1,278	(510)	-40% ●	1,159	66%	111	
TOTAL CAPITAL EXPENDITURE	19,494	26,004	(6,510)	-25% ●	33,593	58%	6,434	

Key: ◆ Greater than 15% of budget ▲ Between 5-15% greater than budget ● Less than 5% greater than budget

Audit and Risk Committee

Meeting of 01 September 2016

Business Unit: Corporate and Regulatory

Date Created: 25 August 2016

Annual Report to 30 June 2016

Purpose

To present the Annual Report for the year ending 30 June 2016 and advise on the process followed to prepare the Annual Report.

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 Annual Report 2015-16.

Report prepared by:
Colleen Morris
Chief Finance 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 Manawatu – the best rural lifestyle in New Zealand

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

2 Background

- 2.1 The Annual Report is prepared under section 98 of the Local Government Act 2002, and includes the provisions of schedule 10, part 3. It compares Manawatu District Council's actual performance against what was forecast in year one in the 2015-2025 Long Term Plan.
- 2.2 As well as reporting against the Council's key activities, performance indicators and budgets outlined in the 2015-2025 Long Term Plan, the Annual Report also reports against the Funding Policy and Borrowing Management and Investment Policies.
- 2.3 The Annual Report outlines how Council has spent money collected from ratepayers, residents, financial institutions and government agencies and includes both financial and non-financial information.

3 Discussion and Options considered

- 3.1 The Annual Report is externally audited on behalf of the Auditor General against the statutory requirements of the Local Government Act 2002 and is therefore a key accountability document for the community.
- 3.2 Audit New Zealand is currently finalising the audit of the Annual Report. The audit opinion will be included in the final version of the Annual Report that is scheduled to be presented for adoption by Council at its final meeting of the triennium, scheduled for 6 October 2016.
- 3.3 Once the Annual Report has been adopted, the document will be formatted for electronic and hard copy publication and will be available to the public. A summary of the information contained in the Annual Report will also be publicly available.
- 3.4 A summary of the financial and non-financial highlights are presented in section 1 of the report.

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 There are no unbudgeted financial implications associated with this paper.

6 Statutory Requirements

- 6.1 Section 98 of the Local Government Act 2002 sets out the requirements for preparing and adopting the Annual Report.
- 6.2 The Annual Report (including the Audit opinion) must be completed and adopted, by resolution, within four months after the end of the financial year to which it relates, i.e. by 31 October 2016.

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).

7.2 Under Clause 32 of Schedule 7, the Council is not able to delegate the authority to adopt the Annual Report.

8 Consultation

8.1 There are no consultation requirements associated with adoption of the Annual Report.

9 Cultural Considerations

10 There are no cultural considerations associated with this matter.

11 Conclusion

11.1 The Annual Report to 30 June 2016 has been finalised and will be presented in draft to Council on 15 September 2016 and then for adoption by Council at its 6 October 2016 meeting.

12 Attachments

- Annual Report to 30 June 2016 (appended separately)