



# INVESTMENT AUDIT REPORT

## Procedural Audit of Far North District Council

### Monitoring Investment Performance

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

TONY PINN

2 MARCH 2021

FINAL

<b>Approved Organisation (AO):</b>	Far North District Council
<b>Waka Kotahi NZ Transport Agency Investment (2018 – 2021 NLTP):</b>	\$66,015,400 (budgeted programme value)
<b>Date of Investment Audit:</b>	30th November – 3 <sup>rd</sup> December 2020
<b>Auditor:</b>	Tony Pinn
<b>Report No:</b>	RATPI – 2019

**Prepared by:**



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Tony Pinn, Senior Investment Auditor

**Approved by:**



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Yuliya Gultekin, Practice Manager Audit & Assurance

2/03/2021

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Date

#### **DISCLAIMER**

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

## EXECUTIVE SUMMARY

Council has sound financial management systems in place with clear trail between claims for funding assistance and the general ledger. There are also strong links in place between the Transport and Finance sections and we encourage this to continue to ensure deferred expenditure is captured and recognised within the three-year programme.

Council manages the land transport programme for a Special Purpose Road on behalf of the Waitangi Trust. We reconciled three years claims made by the Trust.

Transactions tested during the audit were all eligible for funding assistance and claims made by contractors as a direct result of the COVID-19 pandemic were valid, expenditure was reasonable and well documented.

A review of the retentions account revealed a few outstanding retentions. These need to be investigated further to ensure they are still valid.

Procurement processes are generally sound, but Council needs to ensure a qualified tender evaluator is used when required and notices of award meet Waka Kotahi procurement rules. Council procures significantly more contracts than other Approved Organisations of a similar size. We suggest Council considers value for money options when procuring suppliers for financially assisted activities.

Council has a good understanding of road safety audit requirements and this area has improved significantly since the last audit in May 2018. However, audit reports were not always complete, and we recommend that decision tracking forms are included to address any safety concerns raised in the reports.

Council has two conditions of approval registered in Transport Investment Online (TIO) which now appear outdated. We have asked the Waka Kotahi Investment Advisor to investigate and close out any conditions which have been met.

## AUDIT RATING ASSESSMENT

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

\* Please see Introduction for Rating Assessment Classification Definitions

Before being finalised this report was referred to Far North District Council for comment. Its responses are included in the body of the report.

## RECOMMENDATIONS

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

We recommend that Far North District Council:		Implementation Date
R2.1	Investigates contract retentions older than three years to ensure that they are still valid.	30 June 2021
R3.1	Ensures tender notifications disclose the minimum requirements as set out in the Waka Kotahi Procurement Manual (section 5.5).	Effective Immediately
R3.2	Ensures there is a Qualified Proposal Evaluator on the tender evaluation team for all Waka Kotahi financially assisted contracts with an estimated value exceeding \$200,000.	Effective Immediately
R4.1	Completes decision tracking forms recording decisions made from concerns raised in road safety audit reports.	<p>An indicative time frame for completion:</p> <ul style="list-style-type: none"> <li>PMs to send all Safety Audits to NTA Safety Team by 1 March 2021</li> <li>Depending on volume, Safety team to review by 30 April 2021 at the latest</li> <li>Client decisions to be provided by mid May 2021</li> <li>Implementation of changes/safety interventions by 30 June 2021.</li> </ul>
R4.2	Investigates the two conditions of approval registered in Transport Investment Online to ensure they are still current.	Cannot close out as it is the old LTP Online system. TIO Team are investigating and will close this out.

## 1.0 INTRODUCTION

### 1.1. Audit Objective

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

### 1.2. Assessment Ratings Definitions

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

## 2.0 ASSESSMENT FINDINGS

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

1. Previous Audit Issues	
There were two recommendations resulting from the May 2018 investment audit. They related to road safety audits and fare revenue protection on the Hokianga Ferry. Both recommendations were addressed.	
Far North District Council's comment	<p>These recommendations have been addressed as follows:</p> <ol style="list-style-type: none"> <li>1. The Safety Team within the Northland Transportation Alliance (NTA) have made improvements with the Road Safety Audits for Far North by streamlining process across the Region;</li> <li>2. Council awarded the new Ferry Maintenance and Renewal contract to Fullers in 2020.</li> </ol> <p>The protection of the fare revenue has and will continue to be improved via a number of methods through the new Contract:</p> <ul style="list-style-type: none"> <li>• Introduction of an electronic ticketing system - planned to be completed prior to 30 June 2021.</li> <li>• Installation of CCTV on the vessel - planned to be installed prior to 30 June 2021.</li> <li>• The introduction of 1 and 2 above will enable greater future visibility and auditing potential.</li> <li>• Clarity of risk allocation has been improved - new in Contract.</li> <li>• The security of cash and ticket storage in the deckhand's office door has been addressed with the installation of a keypad lock and pin.</li> </ul>

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2. Financial Processes	Effective
<p>Claims for funding assistance for three years ended June 2020 were confirmed against general ledger expenditure records. The structure of the Land Transport Disbursement account provided a clear audit trail to claims. In the 2019/20 year, we noted expenditure in structures replacement and low cost, low risk was significantly underspent compared to Council's allocated funding. Council explained that work planned in these activities had been delayed. This area needs close management to ensure deferred expenditure is carried over and recognised within the three-year programme (ended June 2021).</p> <p>With tight end of year close off times there is also a potential for late transactions not being claimed. We suggest a worksheet is created to reconcile the general ledger after close off to the final claim. This would also identify and ensure all eligible expenditure is captured and claimed.</p>	



A sample of invoices and journals was selected for review from the 2019/20 year. All were eligible for financial assistance and correctly coded. We could not identify whether urban street cleaning was being claimed as this work is managed by a different area of Council. Waka Kotahi allows funding assistance at 30% if claimed under work category 113 Drainage Maintenance. We suggest this is investigated to identify if it meets Waka Kotahi requirements for funding assistance.

Retentions are posted as deferred Accounts Payable. We examined a report extracting those transactions relating to financially assisted contracts. All appeared reasonable, but some are now outdated (i.e. relate to 2015 – 2018 NLTP funding round). We recommend these are investigated and credited to financially assisted accounts if no longer valid.

Council manages the land transport programme for a Special Purpose Road on behalf of the Waitangi Trust. We reconciled three years claims made by the Trust. A sample of invoices was also included in our transaction testing. All expenditure tested was valid.

Recommendation	R2.1 That Far North District Council investigates contract retentions older than three years to ensure that they are still valid.
Suggestions	That Council considers: <ol style="list-style-type: none"> <li>1. Creating a worksheet reconciling final claims to its general ledger to ensure all eligible expenditure is claimed.</li> <li>2. Investigating urban street cleaning funding eligibility.</li> </ol>
Far North District Council's comment	<p>Council provides the following comments to the recommendation above:</p> <p><b>R2.1</b> - Council agrees to investigate contract retentions older than three years and will implement these by 30 June 2021.</p> <p>The current process is that Council's Accounts Payable team at each month end send out the latest retentions report requesting staff to review and advise if any changes to the retention dates are to be made, if there are, these changes are reflected back in Techone.</p> <p>Council provides the following comments to the suggestions made:</p> <p><b>1.</b> - Council agrees to create a worksheet for reconciling final claims to its general ledger. This will be carried out in Claim 1 of the new Financial Year July 2021.</p> <p><b>2.</b> - Council will investigate the street cleaning funding and implement by 30 June 2021.</p>

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### 3. Procurement Procedures

#### Some Improvement Needed

Council has an endorsed Procurement Strategy in place which covers the Northland Transport Alliance (NTA). This is made up of Whangarei, Kaipara and Far North District Councils and Northland Regional Council.

Seven physical works contracts and one professional services contract were examined for compliance with the Waka Kotahi procurement requirements and Council's Procurement Strategy (refer appendix C for list of reviewed contracts).

All contracts complied, except for the following:

Contract 7 18 101 Roothing Maintenance and Renewals FNDC South

The letters of decline/acceptance gave all tenderers' names together with their submitted prices and scores even though there were only two tenderers. Knowledge of competitors' costs and non-price attribute scores could influence the successful tenderer's contract tender pricing in the future. This was relevant given the supplier quality premium calculated that Council was prepared to pay \$3.7M more for one tenderer over the other. We recommend tender notifications disclose only the minimum requirements as set out in the \*Waka Kotahi Procurement Manual (section 5.5 [p.72]).

#### Contract 7-20-104 West Coast Slip Remediation

For contracts with an estimated total value exceeding \$200,000, Approved Organisations must ensure that at least one member of the tender evaluation team is a qualified proposal evaluator. We could not identify a qualified proposal evaluator in this tender evaluation.

Contracts otherwise met all Waka Kotahi procurement requirements and was consistent with the endorsed Northern Transport Alliance Procurement Strategy.

Council has procured a large number of contracts over the period audited (over 100) which is significantly more than other Approved Organisations of a similar size. We suggest Council considers value for money options to ensure this is still the most efficient way of procuring financially assisted activities. For example, this could include bundling similar scoped works such as low cost, low risk or varying existing contracts where appropriate.

Recommendations	<p>That Far North District Council:</p> <p>R3.1 Ensures tender notifications disclose the minimum requirements as set out in the Waka Kotahi Procurement Manual (section 5.5).</p> <p>R3.2 Ensures there is a Qualified Proposal Evaluator on the tender evaluation team for all Waka Kotahi financially assisted contracts with an estimated value exceeding \$200,000.</p>
Suggestion	That Council considers value for money options when procuring financially assisted activities.
Far North District Council's comment	<p>Council provides the following comments:</p> <p><u>Contract 7-18-101 Roothing Maintenance and Renewals FNDC South</u></p> <p>This contract was let as part of a package of 5 maintenance contracts across the Northland Region. Letters of decline/acceptance for this contract were developed as a template across the package.</p> <p><u>Contract 7-18-101 Roothing Maintenance and Renewals FNDC South</u></p> <p>Tender published on 22 January 2020 and closed on GETS on 26 February 2020, the RFT, contract was managed by Chris Liebert (Project / Contract Manager).</p> <p>Council provides the following comments to the recommendations above:</p> <p><b>R3.1</b> - Council agrees that if it receives less than three tender submissions it should ensure tender notifications only disclose the minimum requirements as set out in the Waka Kotahi Procurement Manual (section 5.5).</p> <p><b>R3.2</b> - Council will ensure that a tender evaluator or the Tender Chair must have the NZTA Evaluator Accreditation (therefore one resource within the TET) – as this is requirement by NZTA for any projects that are funded by NZTA.</p> <p>To ensure this requirement is fulfilled this is to be identified when completing a procurement plan and FNDC will ensure the process is followed, therefore when we list the evaluators and the Chair within the procurement plan, it needs to be identified who within the team has the accreditation.</p> <p>Council's response to NZTA's comments above that <i>'Council has procured a large number of contracts over the period audited (over 100) which is significantly more than other Approved Organisations of a similar size. We suggest Council considers value for money options to ensure this is still the</i></p>



	<p><i>most efficient way of procuring financially assisted activities. For example, this could include bundling similar scoped works such as low cost, low risk or varying existing contracts where appropriate’.</i></p> <p>There are opportunities to packaging contracts together although realising some resources have a preference for smaller sized suppliers to gain opportunities of delivering work for FNDC. As this increases the suppliers potential through development of capabilities and track record – within our District, however <u>there is a long term opportunity of creating / implementing panels, as to gain benefits, efficiencies, best value for money for both FNDC and our suppliers – this would be the best solution going forward.</u></p>
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4. Contract Management	Some Improvement Needed
<p>We found evidence of regular meetings between Council staff and its contractors. All minutes were recorded together with follow up actions in contract files.</p> <p><u>COVID-19 Claims</u></p> <p>As a result of the COVID pandemic, New Zealand went into lockdown for four weeks commencing 25<sup>th</sup> March 2020. Two claims were made to Council as a result of this, one from the Southern area maintenance contractor covering additional cleaning costs and PPE, and one from the Hokianga Ferry operator claiming lost revenue of which they share a portion. Both claims appeared reasonable and were well documented.</p> <p><u>Road Safety Audits</u></p> <p>Council has a good understanding of road safety audit requirements and this area has improved significantly since the last audit in May 2018. We reviewed several road safety audit reports over a number of projects. We noted that most had been completed, although no decision tracking form was included or any evidence that the recommendations had been considered. We recommend this area is urgently addressed given the safety concerns raised in the reports.</p> <p><u>Hokianga Ferry Contract</u></p> <p>The previous audit report recommended that Council implements effective processes to protect fare revenue generated by the Hokianga Ferry service. Council subsequently carried out an internal audit of the revenue collection process in November 2018.</p> <p>The audit found several areas to address, and these were actioned within the existing contract or when the new contract commenced in 2020.</p> <p><u>Conditions of Approval</u></p> <p>Funding that is approved subject to special conditions is recorded in Transport Investment Online (TIO). Monitoring the status of conditions by Waka Kotahi is necessary to ensure funding is not released prior to sign-off if the conditions have not been met.</p> <p>There were two outstanding conditions of approval recorded in TIO for Council at the time of the audit which appeared dated i.e. Mangamuka Road 2009/10 and Regional Development Forward Design Fees 2006. We recommend Council investigate these conditions and close these out where appropriate with the regional Waka Kotahi Investment Advisor.</p>	
Recommendations	<p>That Far North District Council:</p> <p>R4.1 Completes decision tracking forms recording decisions made from concerns raised in road safety audit reports.</p>

	R4.2 Investigates the two conditions of approval registered in Transport Investment Online to ensure they are still current.
Far North District Council's comment	<p>Council acknowledges the comments made under the <u>Road Safety Audits</u> above. Further iterations of the Safety Audit process have been provided to the project managers. Reviews of incomplete Safety Audits will be undertaken, and documents/construction changes completed as funds are next available.</p> <p>Council provides the following comments to the recommendations above:</p> <p><b>R4.1</b> – Council agrees to complete decision tracking forms for road safety audits. The Project Management staff to provide copies of audits to the NTA safety team for input.</p> <p><b>R4.2</b> - Council has investigated and contacted Waka Kotahi regarding the two outstanding conditions of approval. Council was advised that these cannot be closed out easily as they are in the old LTP Online system. The Transport Investment Online (TIO) Team are investigating and will close these out in due course.</p>

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5. Professional Services		Effective
<p>Professional services are procured internally through the NTA and services are sourced through a shared services business unit which draws from a pool of NTA staff.</p> <p>Charges are based on uniform rates allocated to the various roles and agreed to by the four Northland Councils. The NTA is based in Whangarei and the testing of chargeable hours and rates is included as part of the Kaipara and Whangarei District Council's procedural audit programmes.</p>		
Far North District Council's comment	Agree	

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## 3.0 APPENDICES

### APPENDIX A

#### Audit Programme

1. Previous audit – Procedural May 2018
2. Land Transport Disbursement Account
3. Final claims for 2017/18, 2018/19 and 2019/20
4. Transactions (accounts payable)
5. Retentions Account
6. Reconciliation between ledgers supporting final claim and the audited financial statements
7. Procurement Procedures
8. Contract Variations
9. Contract Management and Administration
10. Professional Services
11. Transport Investment On-line (TIO) Reporting
12. Other issues that may be raised during the audit
13. Close-out meeting

## APPENDIX B

## Contracts Audited

Contract Number	Tenders Received	Date Let	Description	Contractor		
			Physical Works			
7 18 101	2	Jul 18	Roading Maintenance and Renewals FNDC South	Broad Spectrum	Estimate Let Price Final Cost	\$41.924M \$39.010M Ongoing
7 18 200	1	Jun 18	Otaua Road Bridge Replacement	United Civil	Estimate Let Price Final Cost	\$583,870 \$805,092 ongoing
7 19 187	1	Feb 20	Hokianga Ferry Service	Fullers	Estimate Let Price Final Cost	\$6.470M \$5.506M Ongoing
7 20 104	4	Mar 20	West Coast Road Slip Remediation	Kaitaia Contractors	Estimate Let Price Final Cost	\$354,200 \$274,965 Ongoing
7 20 196	4	Oct 18	Supply of LED Luminaries	Techlight	Estimate Let Price Final Cost	* \$286,927 ongoing
7 19 111	5	Oct 19	Mission Road Footpath Kerikeri	Recreational Services Ltd	Estimate Let Price Final Cost	\$131,785 \$138,228 ongoing
7 19 106	6	May 20	Kaitaia North Park Drive to Whangatane Drive	Tarmac	Estimate Let Price Final Cost	\$256,027 \$229,650 ongoing
			Professional Services			
Short Form Agreement	3 (Closed Contest)	Oct 18	Otaua Rd Bridge Design	Structural Sense Ltd	Estimate Let Price Final Cost	\$25,000 \$27,380 ongoing

\*Estimates were based on unit rates for various types of luminaires. Whole of life costs were then calculated based on technical specifications submitted.