

Chairperson and Committee Members
AUDIT AND RISK COMMITTEE

10 AUGUST 2017

Meeting Status: **Public**

Purpose of Report: For Information

NZTA FUNDING AUDIT

PURPOSE OF REPORT

- 1 This report is to inform the Committee about the audit recently carried out by the New Zealand Transport Agency (NZTA) with regard to the performance of the Access and Transport activity area and the funding claimed by Council.

DELEGATION

- 2 *This Committee will monitor the Council's financial management and reporting mechanisms and framework and review the audit and risk function, ensuring the existence of sound internal systems. Key responsibilities will include;*

Obtaining from external auditors any information relevant to the Council's financial statements, and assessing whether appropriate action has been taken by management in response to the above.

BACKGROUND

- 3 For the management of Council's roading network it is essential to obtain NZTA subsidy. Council would need to significantly increase rates or significantly reduce its core levels of service if it was not able to secure subsidy. For example, for the first 2 years of the LTP 2015-2018 period Council has claimed and received \$7.8 million from NZTA to deliver its maintenance contract, minor safety improvements, road safety education, business unit and network management, asset management planning and construction of shared paths under the Urban Cycle Way Programme.

NZTA's investment assistance funding rate for Council was 48% in the 2016/17 year, which will increase to 49% for this financial year, to 50% in the 2018/19 and reach the maximum rate of 51% in 2019/20. In addition to funding the day to day management, NZTA provides increased funding assistance for selected capital projects, such as streetlights LED conversion (85%) and the Urban Cycle Way Programme (66%).

- 4 The NZTA carries out regular investment audits to provide assurance that their investment in Council's land transport programme is being well managed and delivering value for money. The focus is also on the effective management of risk.
- 5 Most approved organisations are audited every four years, with those receiving a higher level of funding on a two-yearly cycle. When planning audits NZTA also considers any known issues/risks, levels of funding and length of time since the previous audit.

- 6 Recommendations from audits are followed up by NZTA's Planning and Investment staff. A consequence of an audit can be that any over-claimed expenditure is recovered from the approved organisation and can potentially impact on future claims.
- 7 The last three audits in Kapiti took place in 2008, 2011 and 2013. The audit in 2013 found that one aspect of council's procurement process was not in accordance with Council's roading procurement strategy and that improvement was needed. This resulted in a change in the procurement process to ensure alignment with the strategy.

CONSIDERATIONS

- 8 The investment audit took place from 29 May to 1 June 2017 during which time the auditor spoke to roading staff as well as finance staff. Eight contracts were audited and the audit reviewed:
 - Previous audit issues
(what issues, if any, remain unresolved from the previous procedural audit?)
 - Financial management
(does Council have good financial systems in place to effectively manage NZTA's investment in the delivery of its land transport programme?)
 - Procurement
(has Council acted in accordance with its endorsed procurement strategy and NZTA's procurement requirements?)
 - Contract Management
(has Council contract management practices in place to ensure contracts are managed effectively?)
 - Professional services
(are Council's professional services providing value for money?)
- 9 The auditor scored the risk assessment for the issues set out above as 'effective' for all issues, no issues were scored as needing improvement.
- 10 The auditor made two suggestions during the audit and the close out meeting:
 - All tender documentation should all be stored at Council offices
 - Access and Transport staff should be more directly involved in preparing final claims for funding from the Transport Agency.
- 11 Both suggestions were supported by staff and have been actioned. The audit report is attached as Appendix 1 to this report.

Legal considerations

- 12 To obtain NZTA funding for Council's Access & Transport Activity, Council has to follow the legal planning process as set out in the Land Transport Management Act 2003 and meet NZTA's Investment Assessment Criteria.

Financial considerations

- 13 Prudent management as required by the Local Government Amendment Act 2012 means that for the management of roading assets funding is secured at the level available from NZTA.

SIGNIFICANCE AND ENGAGEMENT

Degree of significance

- 14 This audit report in itself has a low level of significance under Council policy.

Publicity

- 15 No further publicity is sought for the result of this audit.

RECOMMENDATIONS

- 16 That the Audit and Risk Committee receives the IS 17-268 report.

Report prepared by	Approved for submission	Approved for submission
Nienke Itjeshorst	Kevin Currie	Sean Mallon
Access and Transport Manager	Group Manager Regulatory Services	Group Manager Infrastructure Services

ATTACHMENT

Appendix 1 NZTA Audit Report

July 2017

NZ TRANSPORT AGENCY INVESTMENT AUDIT REPORT

Monitoring Investment Performance

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

Approved Organisation (AO):	Kapiti Coast District Council
NZ Transport Agency Investment (2015 - 2018 NLTP)	\$8,537,968 (budgeted programme value)
Date of investment audit:	29 May - 1 June 2017
Investment Auditor:	Glenn McGregor
Report No:	IAGMI -1635

OBJECTIVE

The objective of this audit is to provide assurance that the New Zealand Transport Agency's investment in Kapiti Coast District Council's land transport programme is being well managed and delivering value for money. We also sought assurance that the Council is appropriately managing risk associated with the Transport Agency's investment. We recommend improvements where appropriate (for audit programme refer appendix A).

EXECUTIVE SUMMARY

Kapiti Coast District Council has good management practices in place to ensure value for money outcomes for its land transport programme. The programme is predominantly road maintenance based, however the capital works programme is higher than usual due to changing travel patterns resulting from the opening of the Kapiti Expressway. Council staff believe it is through their close contract supervision that good network outcomes are being achieved. Good procurement processes are in place. Claims for funding assistance were also successfully reconciled to Council's financial records.

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.

RISK ASSESSMENT

	Issue	Rating Assessment*
Q.1	Previous audit issues	Effective
Q.2	Financial management	Effective
Q.3	Procurement	Effective
Q.4	Contract management	Effective
Q.5	Professional services	Effective

* Key to risk assessment – refer appendix C

Note: Before being finalised this report was referred to Kapiti Coast District Council for comment. Council's responses are included in the body of the report.

FINDINGS

Question 1:	What issues, if any, remain unresolved from the previous procedural audit?	
Findings	There were no outstanding issues from the previous October 2013 audit. The three recommendations resulting from that audit related to how road safety audit recommendations were being addressed, the need for Qualified Proposal Evaluators and the need to quality check Requests for Proposals before release.	

Question 2:	Does Kapiti Coast District Council have good financial systems in place to effectively manage the NZ Transport Agency's investment in the delivery of its land transport programme?	
Findings	All claims for funding assistance for the three financial years to 30 June 2016 were successfully reconciled to Council's general ledger records. One process suggestion would be for claims to the Transport Agency, as prepared by the Finance team, to be confirmed by the Access and Transportation team before submission. This helps avoid the risk of any miscoding and can ensure the claim is as up to date as possible. Transaction testing was also successful. The retentions account is well managed with good processes in place to ensure there are no old or incorrect retentions being held.	
Suggestion	That Kapiti Coast District Council considers including the Access and Transportation team in the final process of preparing claims to the Transport Agency for funding assistance.	
Kapiti Coast DC response	Per 1 July 2017 the claim will be approved by the Access and Transport Manager or the Network Performance Team Leader before it is lodged with NZTA.	

Question 3:	Has Kapiti Coast District Council acted in accordance with its endorsed procurement strategy and the NZ Transport Agency's procurement requirements?	
Findings	Six physical works contracts and two professional services contracts (refer Appendix B) were reviewed for compliance with the Transport Agency's approved procurement procedures. All contracts reviewed complied. With the Transport Agency's agreement Council chose to let one contract by direct appointment rather than put it out to open tender. Council approved a budget of \$500,000 for the Otaki Gorge Blue Bluff slip repairs. They appointed Goodmans Contractors to do the work. Council	

	<p>believed this contractor had a unique ability to carry out this work to the required standard given the sensitivity of the environment and Goodmans' previous experience working in the Otaki Gorge. The project was also associated with emergency works and there was an urgency to get the work done. The final cost of the work was \$574,038 with Transport Agency funding assistance of 47%. The process used was robust and designed to deliver good outcomes. Council believe they received value for money from the investment.</p> <p>Council does not hold contract tender files for NZ Transport Agency funded contracts. This is very unusual. Some of the key documents required to conduct the procurement audit were held by consultants. I suggest Council considers establishing tender files (hard or soft copy) for the purpose of holding key documents from the tender process.</p> <p>Council's revised Procurement Strategy is with the Transport Agency awaiting endorsement. The Strategy clearly specifies procurement methods approved by the Transport Agency.</p>
Suggestion	That Kapiti Coast District Council establishes tender files for the purpose of holding key documents from the tender process.
Kapiti Coast DC response	<p>Council agrees improvement is required and complete tender files will be kept in the Council office going forward.</p> <p>Council has still not received formal endorsement of the procurement strategy but has received confirmation by email that the procurement strategy meets NZTA's requirements.</p>
Auditor response	I have been advised that the Transport Agency is addressing this outstanding issue and will respond shortly.

* * *

Question 4:	Has Kapiti Coast District Council contract management practices in place to ensure contracts are managed effectively?	
Findings	<p>There are good processes and supporting documentation in place to ensure Council is getting value for money from its land transport investments. Council also has a strong culture of onsite inspections by its engineering staff. Consultants Opus and MWH are used for specialist advice. RAMM data is used as the basis for the monthly claims to the Transport Agency.</p> <p>The reasons for contract variations were well documented.</p> <p>Road safety audits are being carried out with actions being taken to address the audit recommendations. This was an identified issue from the previous audit.</p> <p>There are good processes in place for the development and delivery of the minor improvements programme with close supervision of the work being carried out.</p>	

Kapiti Coast DC response	Agree with findings.
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Question 5: Are Kapiti Coast District Council's professional services providing value for money?	
Findings	Council has good processes in place to ensure that it is getting value for money from its delivery of professional services. Council has a signed in-house professional services agreement in place with its business unit. The Procurement Strategy has been updated to reflect this arrangement and is with the Transport Agency for endorsement. The annual cost versus income for the business unit is close to breakeven as recommended by the Transport Agency. Overheads associated with individual staff charges are also within acceptable parameters for in-house professional services activities.
Kapiti Coast DC response	Agree with findings.

My thanks to all staff for their assistance during the audit.

APPENDIX A

Audit Programme

1. Previous audit October 2013
2. Land Transport Disbursement Account
3. Final Claims for 2013/14, 2014/15, and 2015/16
4. Transactions (accounts payable) – 2015/16
5. Retentions Account
6. Procurement Procedures
7. Contract Management & Administration
8. Contract Variations
9. Professional Services
10. Transport Investment On-line (TIO) Reporting
11. Other issues that may be raised during the audit
12. Close out meeting

APPENDIX B

(From Question 3)

CONTRACTS AUDITED

Contract Number	Tenders Received	Date Let	Description	Contractor		
			Physical Works			
C021	3	Mar 2014	Kapiti Rd & Te Roto Drive/Milne Drive construction works.	Downer NZ	Estimate Let Price Final Cost	\$1,881,349 \$1,809,616 \$2,223,231
C022	1	Aug 2014	Walls for drop out sites in Otaki Gorge	Darlington Drilling & Piling	Estimate Let Price Final Cost	\$180,000 \$174,424 \$240,200
C026	4	May 2015	Road Maintenance 2015-18	Downer NZ	Estimate Let Price Final Cost	\$11,548,980 \$8,824,047 Ongoing
C102	3	Dec 2016	Raumati Corridor improvements	Downer NZ	Estimate Let Price Final Cost	\$1,326,412 \$1,209,687 Ongoing
C131	3	Mar 2017	Poplar Ave shared pathway contract	Higgins	Estimate Let Price Final Cost	\$557,961 \$636,034 Ongoing
None allocated	1	Apr 2016	Otaki Gorge Blue Bluff slip repairs	Goodmans Contractors	Estimate Let Price Final Cost	\$500,000 \$496,100 \$574,038
			Professional Services			
C026	2	Dec 2014	Traffic Counting 2014/17	Assoc. Environmental services	Estimate Let Price Final Cost	\$143,471 Ongoing
C083	4	Jan 2016	Strategic cycle network	MWH	Estimate Let Price Final Cost	\$500,000 \$407,695 Ongoing

APPENDIX C

AUDIT RATING TABLE

Rating	Definition
Effective	<p>Investment management – effective systems, processes and management practices used.</p> <p>Compliance – Transport Agency and legislative requirements met.</p> <p>Findings/deficiencies – opportunities for improvement may be identified for consideration.</p>
Some improvement needed	<p>Investment management – acceptable systems, processes and management practices but opportunities for improvement.</p> <p>Compliance – some omissions with Transport Agency requirements. No known breaches of legislative requirements.</p> <p>Findings/deficiencies – error and omission issues identified which need to be addressed</p>
Significant improvement needed	<p>Investment management – systems, processes and management practices require improvement.</p> <p>Compliance – significant breaches of Transport Agency and/or legislative requirements.</p> <p>Findings/deficiencies – issues and/or breaches must be addressed or on-going Transport Agency funding may be at risk.</p>
Unsatisfactory	<p>Investment management – inadequate systems, processes and management practices.</p> <p>Compliance – multiple and/or serious breaches of Transport Agency or legislative requirements.</p> <p>Findings/deficiencies – systemic and/or serious issues must be urgently addressed or on-going Transport Agency funding will be at risk.</p>

July 2017

Investment Audit of Kapiti Coast District Council

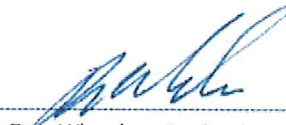
Report Number: IAGMI –1635

Prepared by:



Glenn McGregor, Senior Investment Auditor

Reviewed by:



Ron Wheeler, Senior Investment Auditor

Approved by:



Jenny Fildes, Practice Manager Audit and Assurance

