

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):	Waikato District Council
NZ Transport Agency Investment (2015 - 2018 NLTP)	\$52,641,142 (budgeted programme value)
Date of investment audit:	29 November - 2 December 2016
Investment Auditor:	Glenn McGregor
Report No:	IAGMI 1683

OBJECTIVE

The objective of this audit is to provide assurance that the Transport Agency's investment in Waikato 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

Waikato District Council has good contract management practices in place for land transport activities being delivered principally through the Waikato District Alliance.

Claims for funding assistance for the two years ending 30 June 2016 were successfully reconciled to Waikato DC's financial records. The two issues identified are the way administration costs are being treated and the management of the contract retentions account.

All contracts reviewed as part of the review of procurement procedure compliance conformed. Council's procurement strategy clearly reflects Council's procurement procedures including the Waikato District Alliance (with Downer NZ). Council no longer has an in-house professional services business unit but it does retain an asset management capability. Waikato DC needs to establish multiparty agreements with its neighbouring road controlling authorities for the management and funding of boundary roads and bridges.

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	Risk Assessment*
Q.1	Previous audit issues	Low
Q.2	Financial management	Medium
Q.3	Procurement	Low
Q.4	Contract Management	Low
Q.5	Professional Services	Low

*Key to risk assessment – refer Appendix B

RECOMMENDATIONS SUMMARY

That Waikato District Council:

Q.2	Allocates administration costs to individual work categories.
Q.2	Reviews its process for the release of contract retentions and ensures that it is followed.

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Question 1:	What issues, if any, remain unresolved from the previous procedural audit?	Low
Findings	There were four recommendations resulting from the October 2014 procedural audit. They related to a financial over claim, the allocation of professional services costs, road safety audits and the accuracy of TIO information. These have all been addressed.	
Waikato District Council response		

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Question 2:	Does Waikato District Council have good financial systems in place to effectively manage the Transport Agency's investment in the delivery of its land transport programme?	Medium
Findings	<p>Claims for funding assistance for the two years ending 30 June 2016 were successfully reconciled to Waikato DC's financial records. The one issue identified is the way administration costs are being treated. At the time of the audit, administration costs were being charged to work category 151. As of 1 July 2016 all administration costs must be allocated to each Transport Agency work category in a proportion that reflects the estimated administration expenditure. For the 2015/16 financial year it was acceptable to charge administration costs to work category 151.</p> <p>All invoices selected for review, were eligible for financial assistance and appropriately coded to Council's subsidised accounts.</p> <p>There are good systems in place to ensure expenditure is categorised to appropriate work categories and good supporting information was available to assist the reconciliation process.</p> <p>The management of the contract retentions account needs attention. Council has a process for releasing retentions but it is not being followed, resulting in the late or potential incorrect release of retentions.</p>	
Recommendation	<p>That Waikato District Council:</p> <ul style="list-style-type: none"> a) Allocates administration costs to individual work categories and b) Reviews its process for the release of contract retentions and ensures that it is observed. 	
Waikato District Council response		

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<p>Question 3:</p>	<p>Has Waikato District Council acted in accordance with its endorsed procurement strategy and the NZ Transport Agency's procurement requirements?</p>	<p>Low</p>
<p>Findings</p>	<p>Council's procurement strategy (as endorsed by the Transport Agency) clearly reflects Council's procurement procedures including the Waikato District Alliance (with Downer NZ).</p> <p>Eight physical works contracts including the key road network maintenance contract, were examined for compliance with the Transport Agency's procurement requirements and Council's procurement strategy. Four professional services contracts were also reviewed. All contracts reviewed complied. There was clear documentation showing the process used.</p>	
<p>Waikato District Council response</p>		

<p>Question 4:</p>	<p>Has Waikato District Council contract management practices in place to ensure contracts are managed effectively?</p>	<p>Low</p>
<p>Findings</p>	<p>Council has good contract management practices in place for activities being delivered principally through the Alliance. The Waikato District Alliance was established on 1 July 2015. There is good reporting and management minutes on file. There is a good working relationship between Council and the Alliance staff. Value for money is being delivered as measured against previous contract performance and Council's key performance indicators. Both parties believe the arrangement is working well and already delivering benefits to Council.</p> <p>Going forward it is important that Council retains an in-house resource to maintain its current 'smart buyer' capability.</p> <p>Contract variations seen were approved with good supporting explanations on file.</p> <p>Road safety audits which was an identified issue during the last audit are now being carried out and documented as required by the Transport Agency. Exemption declarations are also being prepared.</p> <p>Multiparty agreements with neighbouring road controlling authorities are necessary for the management and funding of boundary roads and bridges. Waikato DC needs to address agreements with the following authorities:</p> <ul style="list-style-type: none"> • Auckland Transport - to be developed • Matamata-Piako DC - to be updated. There is a November 1989 letter describing the arrangement between the two councils. • Hamilton CC - to be formalised. There is an unsigned August 2014 agreement <p>Council also has a signed funding agreement with the Transport Agency</p>	

	relating to the Waikato Expressway development.
Suggestion	That Waikato District Council establishes multiparty agreements with its neighbouring road controlling authorities for the management and funding of boundary roads and bridges.
Waikato District Council response	

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Question 5:	Are Waikato District Council's professional services providing value for money?	Low
Findings	<p>With the establishment of a shared risk delivery model for land transport activities with Downer NZ (through the Waikato District Alliance in July 2015) Council no longer has an in-house professional services business unit. It retains an asset management capability.</p> <p>Professional services contracts now being let by Council are of low financial value as many of these functions are now being provided by the Alliance.</p>	
Waikato District Council response		

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Audit Programme

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

RISK ASSESSMENT TABLE

Low	<ul style="list-style-type: none"> • Sound processes and procedures. • Reliable management practices • Quality systems (assurance) in place. • NZ Transport Agency requirements met.
Medium	<ul style="list-style-type: none"> • Error and omission issues to be addressed. • Limited risk to the NZ Transport Agency.
High	<ul style="list-style-type: none"> • Systemic and significant issues to be addressed. • Substantial risk to the NZ Transport Agency.
Critical	<ul style="list-style-type: none"> • Serious issues that must urgently be addressed. • Serious risk to the NZ Transport Agency.

APPENDIX C

(From Question 3)

CONTRACTS AUDITED

Contract ID/No.	Tenders Received	Date Let	Description	Contractor		
Physical Works						
14/010	3	Jul 2014	District reseals	Downer NZ	Estimate Let Price Final Cost	\$4,636,335 \$4,265,158 \$4,841,119
14/045	4	Oct 2014	Miranda area pavement treatments	Transfield Services	Estimate Let Price Final Cost	\$765,886 \$889,878 \$828,353
14/107	2	Dec 2014	Port Waikato Waikaretu Rd pavement rehabilitations	Schick Construction and Cartage	Estimate Let Price Final Cost	\$1,520,925 \$1,482,243 \$1,442,829
14/314	6	May 2015	District wide network management alliance contract	Downer NZ	Estimate Let Price Final Cost	\$150,000,000* \$150,000,000* Ongoing
14/331	1	Apr 2015	Rural network safety improvements 2014/15	Fulton Hogan	Estimate Let Price Final Cost	\$314,800 \$240,889 \$342,083
14/337	4	Mar 2015	Te Ohaki Rd 11 rehabilitation	Schick Construction and Cartage	Estimate Let Price Final Cost	\$465,000 \$499,000 \$497,374
15/001	3	Jun 2014	District wide road marking	Roadmarkers NZ	Estimate Let Price Final Cost	\$1,173,937 \$1,178,365 \$1,161,442
15/294	4	May 2016	Te Awa river ride - eastern path	Fulton Hogan	Estimate Let Price Final Cost	\$800,000 \$991,785 Ongoing
Professional Services						
14/197 PSP	1	Aug 2014	Port Waikato Waikaretu rehabilitation slip and guard rail design	Opus	Estimate Let Price Final Cost	\$28,136 \$28,136 \$28,136
14/335 SFA	1	Feb 2015	Ruakiwi Rd rehabilitation - slip repair investigation and assessment	Opus	Estimate Let Price Final Cost	\$12,950 \$12,950 \$12,315
15/033 SFA	1	May 2015	Te Akau Rd South detailed geotech design	GHD	Estimate Let Price Final Cost	\$27,000 \$26,927 \$18,164
15/214 SFA	2	Feb 2016	Taupiri access safety project	Beca	Estimate Let Price	\$90,000 \$123,000

					Final Cost	Ongoing
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*Over five years

APPENDIX D

(Leave blank for Insertion of Council's Response to Draft Report)

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Investment Audit of Waikato District Council

Report Number: IAGMI 1683

December 2016

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