



Central Hawkes Bay District Council

Follow Up Audit

August 2019

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1. Executive summary

1.1. Audit objectives

The objective of the assignment was to review whether management actions relating to previous audit recommendations have been effectively implemented in line with agreed implementation dates or that senior management has accepted the risk of not taking action.

The following audits were reviewed during the assignment:

- Contract Management, April 2018
- Sensitive Expenditure, October 2018

1.2. Approach

The recommendations and action plans reviewed resulting from the audits listed above are presented below.

| Audit | Date | Audit Findings & Risk Ratings | | | | |
|-----------------------|--------------|-------------------------------|-----------|----------|---------------------|-----------|
| | | High | Medium | Low | Process improvement | Total |
| Contract Management | April 2018 | 6 | 8 | 2 | - | 16 |
| Sensitive Expenditure | October 2018 | - | 4 | 4 | 4 | 12 |
| Total | | 6 | 13 | 6 | 4 | 28 |

A schedule of internal audit recommendations and their implementation status is maintained by the Group Manager Corporate Support and Services. Our approach was to review this schedule and incorporate the following steps for high and medium risk-rated audit recommendations:

- The schedule was compared against audits undertaken to ensure its completeness.
- Where defined action plans for high and medium rated risks were indicated as being fully implemented in the schedule, verification of the implementation was undertaken to ensure that the action plan had been implemented as documented.
- Where management had accepted the risk of not taking action, an assessment of the appropriateness of this risk acceptance was undertaken and a verification of the appropriate levels of management approval were reviewed.
- Where the action finding and recommendation were no longer relevant (e.g. due to changes in business processes, systems or operations), verification of the fact that the risk was no longer relevant was undertaken.
- If actions recorded as closed were considered by us to require further action to remediate the risks identified, new recommendations will be provided.
- In cases where the audit finding has been raised in more than one audit or the same management action plan exists to mitigate multiple risks, the recommendations have been consolidated to remove duplication of any outstanding actions.

1.3. Conclusion

We observed a significant improvement in policy, processes and practices across the areas of previous internal audits. The majority of recommendations have been closed and the remaining recommendations are in progress.

We were satisfied that the actions in progress will adequately address the remaining findings and recommendations.

The following is a high-level summary of status of prior recommendations resulting from our review.

| Conclusion per Crowe review | High | Medium | Low | Process improvement | Total | % |
|-----------------------------------|----------|-----------|----------|---------------------|-----------|-------------|
| Closed | | | | | | |
| Implemented | 4 | 12 | 6 | 4 | 26 | 93% |
| Sub-total | 4 | 12 | 6 | 4 | 26 | 93% |
| Open | | | | | | |
| In progress/partially implemented | 2 | - | - | - | 2 | 7% |
| On hold | - | - | - | - | - | |
| Sub-total | 2 | | - | | 2 | 7% |
| Total | 6 | 12 | 6 | 4 | 28 | 100% |

In Section 2, we have provided the detailed status and remaining outstanding actions for the recommendations identified above as In Progress / Partially Complete.

The following table is a high-level review of the current status of individual recommendations.

| Original report finding | Area | Original risk rating | Status | New date for completion | Reference (Section 2) |
|----------------------------|---|----------------------|-------------------------------------|-------------------------|-----------------------|
| Contract Management | | | | | |
| 1 | Contract management policy and procedures | High | Implemented | N/A | |
| 2 | Contract risk management | Medium | Implemented | N/A | |
| 3 | Contract management plans | High | In progress / partially implemented | 30/11/2019 | Page 6 |
| 4 | Contract management systems | Medium | Implemented | N/A | |
| 5 | Records management | Medium | Implemented | N/A | |
| 6 | Performance monitoring | High | In progress / partially implemented | 30/11/2019) | Page 6 |
| 7 | Requests for service | Low | Implemented | N/A | |
| 8 | Contract evaluation | Medium | Implemented | N/A | |
| 9 | Variation orders | High | Implemented | N/A | |
| 10 | Governance | High | Implemented | N/A | |

| Original report finding | Area | Original risk rating | Status | New date for completion | Reference (Section 2) |
|------------------------------|---|----------------------|-------------|-------------------------|-----------------------|
| 11 | Programme review | High | Implemented | N/A | |
| 12 | Outstanding works | Medium | Implemented | N/A | |
| 13 | Monitoring compliance | Medium | Implemented | N/A | |
| 14 | Service level monitoring and reporting | Medium | Implemented | N/A | |
| 15 | RAMM permissions | Medium | Implemented | N/A | |
| 16 | Asset information | Low | Implemented | N/A | |
| Sensitive Expenditure | | | | | |
| 1 | Code of conduct and protected disclosures | Medium | Implemented | N/A | |
| 2 | Travel and accommodation | Process improvement | Implemented | N/A | |
| 3 | Entertainment and hospitality | Process improvement | Implemented | N/A | |
| 4 | Credit cards | Process improvement | Implemented | N/A | |
| 5 | Clothing and grooming | Process improvement | Implemented | N/A | |
| 6 | Pre-approval processes | Low | Implemented | N/A | |
| 7 | Motor vehicles | Medium | Implemented | N/A | |
| 8 | Authorisation of expenditure | Medium | Implemented | N/A | |
| 9 | Farewell functions | Low | Implemented | N/A | |
| 10 | Catering and entertainment expenditure | Low | Implemented | N/A | |
| 11 | Sale of surplus assets | Medium | Implemented | N/A | |
| 12 | Accommodation and reimbursement of expenditure incurred (meals, mileage etc.) | Low | Implemented | N/A | |

A significant amount of work is currently underway with regard to contract management and procurement planning. Based on the current plans and strategies for contract management, the full implementation of the plans that are currently in progress would meet the requirements of our recommendations.

1.4. Basis and use of this report

This report has been prepared in accordance with our internal audit plan and engagement letter and subject to the limitations set out in Appendix 2 - Basis and Use of the Report. The report is written on an exceptions basis and therefore only areas requiring management consideration and action are included in this report.

2. Detailed status reports and recommendations

The following section includes recommendations that are identified in the status table on pages 4 – 5 that are new or in progress / partially implemented:

| Findings: Contract Management Audit | | Risk rating: Medium |
|--|--|---|
| August 2019 Status: In progress / partially implemented | August 2019 recommendation | Agreed Management action(s) |
| <p>The two recommendations that are outstanding (in progress) from the Contract Management Audit are:</p> <ul style="list-style-type: none"> • Contract management plans; and • Performance monitoring. <p>The Procurement and Contract Management manual was provided to us during our Follow Up review.</p> <p>The manual includes contract management controls in accordance with standard frameworks including Office of the Auditor General's guidance on contract management.</p> <p>We observed:</p> <ul style="list-style-type: none"> - The Procurement and Contract Management manual includes expectations with respect to: <ul style="list-style-type: none"> o assessing contract risk; o defining contract management plans; and o ensuring performance monitoring processes and mechanisms are in place. - Implementation of the Procurement and Contract Management manual should close the remaining recommendations. <p>Other observations:</p> <ul style="list-style-type: none"> - Wider risk management improvements including implementation of a risk framework, strategic risk register and group risk registers are being developed. - Improvement to records management through the implementation of an enterprise records management system incorporating a contract register. <p>Milestone dates including renewals and expiry dates can be recorded. Reporting on key milestone dates including renewals and expiry dates has not yet been implemented however is planned.</p> | <p>New completion dates should be set for implementing the contract management plans and performance monitoring processes.</p> | <p>Contract Management Plans for Strategic Partners will be implemented by 30 September 2019.</p> <p>Other contract management plans (for smaller/lower risk contracts) will be in place by 30 November 2019.</p> <p>Performance monitoring will be introduced as per the requirements determined in the plans.</p> |

Appendix 1 – Classification of Internal Audit Findings

Risk ratings are based on the use of professional judgement to assess the extent to which deficiencies could have an effect on the performance of systems and controls of a process to achieve an objective.

| Rating | Definition | Guidance | Action required |
|----------------------------|---|---|--|
| High | <ul style="list-style-type: none"> Issue represents a process or control weakness, which could cause or is causing a major adverse effect on compliance. | <ul style="list-style-type: none"> Material errors and departures from the organisation's policies and procedures Material non-compliance with governing legislation and regulations may result in fines or other penalties Collective impact of many moderate or low issues | <ul style="list-style-type: none"> Requires significant senior management intervention and may require significant resource, including external assistance. Requires high priority to immediate action |
| Medium | <ul style="list-style-type: none"> Issue represents a control weakness, which could cause or is causing moderate adverse effect on compliance. | <ul style="list-style-type: none"> Moderate non-compliance with governing legislation and regulations may result in fines or other penalties Departures from best practice management procedures, processes | <ul style="list-style-type: none"> Requires substantial management intervention and may require possible external assistance. Requires prompt action. |
| Low | <ul style="list-style-type: none"> Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve compliance. | <ul style="list-style-type: none"> Minor non-compliance with governing legislation and regulations may result in fines or other penalties Departures from management procedures, processes, however, appropriate monitoring and governance generally mitigates these risks. | <ul style="list-style-type: none"> Requires management attention and possible use of external resources. Requires action commensurate with the process objective. |
| Process Improvement | <ul style="list-style-type: none"> Audit recommendation is for improving already existing processes and controls. | <ul style="list-style-type: none"> Potential improvements in efficiency and effectiveness of existing process and controls which already demonstrate compliance with procedures and legislation | <ul style="list-style-type: none"> Recommendations made for management consideration and implementation as determined by management. |

Appendix 2 – Basis and Use of this Report

This report is prepared on the basis of the limitations set out below:

- Our procedures were performed according to the standards and guidelines of The Institute of Internal Auditors' International Professional Practices Framework. The procedures were not undertaken in accordance with any auditing, review or assurance standards issued by the External Reporting Board (XRB).
- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout a specified period and any tests performed were on a sample basis.
- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.
- The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.
- Recommendations for improvement should be assessed by management for their full commercial impact, before they are implemented.
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