

7.1 INTERNAL AUDIT UPDATE

File Number: COU1-1408

Author: Bronda Smith, Group Manager, Corporate Support and Services

Authoriser: Monique Davidson, Chief Executive

Attachments: 1. Sensitive Expenditure Audit Report

The Council is satisfied that, pursuant to s48(1)(a)(i) of the *Local Government Act 2002*, the information to be received, discussed or considered in relation to this agenda item is:

s7(2)(a) the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons.

PURPOSE

The purpose of this report is to update the Risk and Audit Committee on the progress of the Internal Audit Programme.

RECOMMENDATION

- a) That, having considered all matters raised in the report, the report be noted and;
- b) That this report be released as publicly available information following the meeting

SIGNIFICANCE AND ENGAGEMENT

This report is provided for information purposes only and has been assessed as being of some importance.

DISCUSSION

Contract Management

Following the adoption of the Procurement and Contract Management Policy by Council, work has continued on the development of a Contract Management Manual by Officers. A working group has been initiated to develop the Manual from Officers across the Council. Following the completion of the manual, the working group will initiate a virtual team of Contract Managers to assist with the training and roll out of the manual and to increase the capability of the officers to deliver on the contract management principles contained within the Procurement and Contract Management Policy.

Sensitive Expenditure

Crowe Howarth has recently completed a review of Council's Sensitive Expenditure including the relevant policies. Council will recall that the Chief Executive requested this internal audit be prioritised over other areas. A copy of the report is attached as Attachment 1.

A total of \$240,729 of expenses were selected for testing across a number of types of Sensitive Expenditure including fuel cards, accommodation and reimbursements, entertainment and hospitality and credit card expenditure.

There are 12 recommendations included in the report, 3 Medium, 4 Low and 5 Process Improvement as detailed in the report.

The 3 Medium level recommendations included in the report have already been completed as at the date of report writing and the remaining recommendations are in the process of being completed.

All actions will be added to the Audit Action list and formally reported to the Risk and Audit Committee on a quarterly basis. The Audit Action list is due to be reported to the next Risk and Audit Committee.

Internal Audit Programme

The current Internal Audit Programme has been completed. Prior to the end of the financial year the Internal Audit Programme will be reviewed and updated. The next Internal Audit will be completed in the 2019/20 financial year.

FINANCIAL AND RESOURCING IMPLICATIONS

Any financial and resourcing implications resulting from the internal audit programme that are outside staff delegations will be reported and require approval from the Council before being incurred. No such implications have been identified to date.

IMPLICATIONS ASSESSMENT

This report confirms that the matter concerned has no particular implications and has been dealt with in accordance with the Local Government Act 2002. Specifically:

- Council staff have delegated authority for any decisions made;
- Council staff have identified and assessed all reasonably practicable options for addressing the matter and considered the views and preferences of any interested or affected persons (including Māori), in proportion to the significance of the matter;
- Any decisions made will help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses;
- Unless stated above, any decisions made can be addressed through current funding under the Long-Term Plan and Annual Plan;
- Any decisions made are consistent with the Council's plans and policies; and
- No decisions have been made that would alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of the Council, or would transfer the ownership or control of a strategic asset to or from the Council.

RECOMMENDATION

- a) That, having considered all matters raised in the report, the report be noted and;**
- b) That this report be released as publicly available information following the meeting**



Crowe Horwath[®]
PART OF FINDEX

Central Hawke's Bay District Council

Internal Audit – Sensitive Expenditure

Audit Report
October 2018

Confidential

Prepared for: Bronda Smith, Group Manager – Corporate Support and Services

Prepared by: Phil Sinclair, Senior Partner – Audit & Assurance
Martyn Solomon, Associate Partner – Audit & Assurance

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1 Executive Summary

1.1 Objective and scope

Applying the guidance of the Office of the Auditor General's (OAG) publication Controlling Sensitive Expenditure: Guidelines for Public Entities, the objectives of this audit were to:

- Assess the adequacy sensitive expenditure policies and procedures;
- Assess the adequacy of controls and processes over the approval of sensitive expenditure; and
- Assess the quantum of expenditure by the Council in the current financial year to date and to identify the general principles followed with regards to its incurrence and approval and general level of compliance with relevant policies.
 - Donations
 - Sponsorship of staff or others
 - Travel & Accommodation
 - Entertainment and hospitality
 - Conducting business overseas
 - Training
 - Sale of surplus assets to staff
 - Private use of company assets
 - Private use of company services
 - Company use of private assets
 - Private use of company's suppliers
 - Loyalty reward scheme benefits
 - Clothing and grooming
 - Farewells and retirements

The review was conducted primarily by applying discussion, observation and testing on a sample basis. Detailed testing was undertaken through visual analytics and selection of anomalies and outliers from expenditure data for the 12 months to 30 June 2018.

1.2 Audit conclusion

Overall, the level of expenditure in the areas listed above at Central Hawke's Bay District Council was within levels we would expect to see in comparison with other Councils. Review and approval processes are in place to ensure that sensitive expenditures are subject to scrutiny. Sensitive expenditures were typically approved by senior management which ensures that expenditure decisions, where the appropriateness of the expenditure may be subjective, are made at the right level.

The following were our key conclusions with respect to the audit objectives:

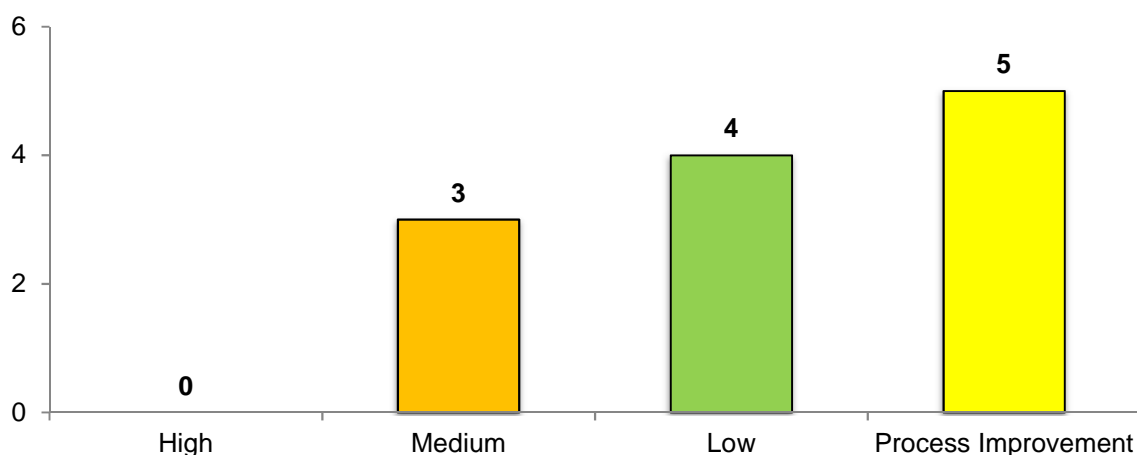
- We performed a gap analysis of the Council's policies and procedures against the Office of the Auditor General's (OAG) publication Controlling Sensitive Expenditure: Guidelines for Public Entities and have included in Section 2 of this report a number expectations included in the guidance that are not included in the Council's policies and procedures.
- We assessed the quantum of sensitive expenditure by the Council in the year to 30 June 2018 and this is summarised below in Section 1.3. The expenditure identified did not appear excessive and from discussions with management and review of supporting documentation, expenditure was in most cases reviewed by us appropriately supported, pre-approved and for a justifiable business purpose (exceptions are included in Section 3 of this report).
- We assessed the adequacy of controls and processes over sensitive expenditure. Our key findings per

Section 3 of this report were:

- A number of findings reflect that current pre-approval practices no longer reflect the documented Sensitive Expenditure Policy and associated procedures. The Chief Executive is no longer required to authorise all potentially sensitive expenditures. The Sensitive Expenditure Policy and associated procedures should be updated to reflect pre-approval processes consistent with the Office of the Auditor General’s guidelines, including pre-approval within existing delegations of authority on a “one-up” basis, with limits for certain types of expenditure where escalation to a General Manager or the Chief Executive is required.
 - Monitoring controls over fuel card usage were not sufficient to identify potential private use of motor vehicles;
 - The Chief Executive’s credit card expenditure is not currently reviewed by the Mayor as required per the Delegations Register;
 - Whilst the policy for the sale of surplus assets is consistent with OAG guidance, we did not identify any procedures to ensure compliance with the policy (such as a register of asset sales to staff).
- We obtained system extracts from the payroll and accounts payable systems to match employee and vendor bank accounts and addresses. The relationships identified are summarised in Section 4 of this report. We reviewed the results with management and no undisclosed conflicts of interest or segregation of duties risks were identified.

Our review resulted in 12 findings. We have weighted the findings using a scale of high, moderate, low or process improvement, in order to indicate the priority with which we consider these observations should be treated. More detail on the rating scale is provided in the table in Appendix 2.

A summary of the risk ratings we have applied to our recommendations is detailed below:

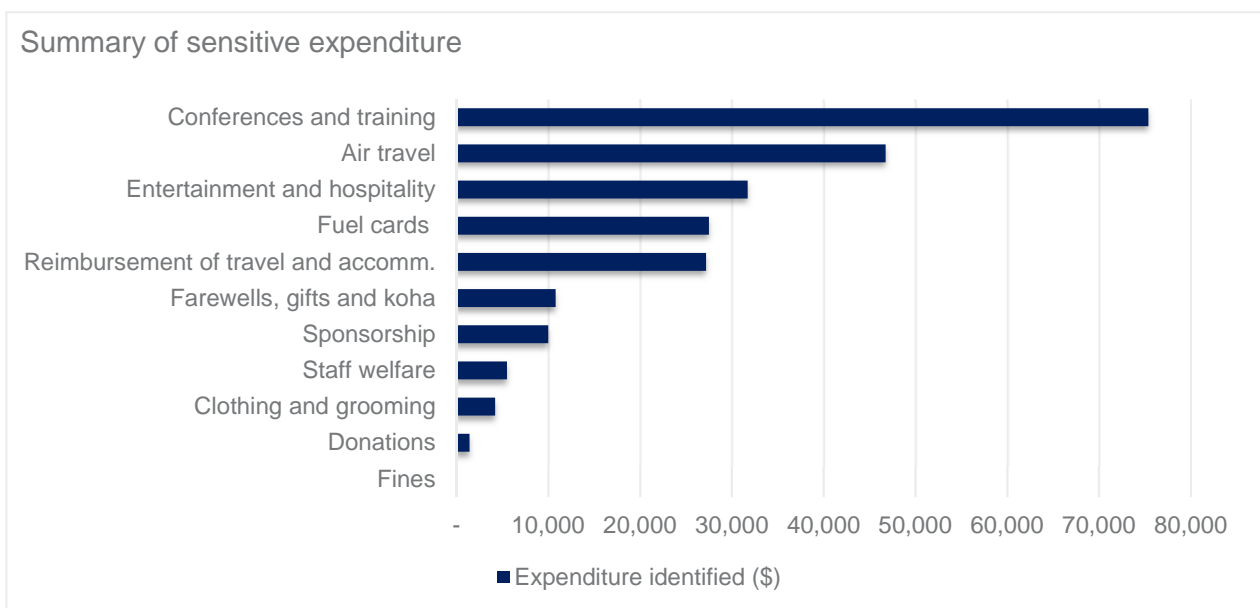


We have provided, in Sections 2 – 4 detailed findings and practical recommendations for improvement across the identified areas.

1.3 Summary of sensitive expenditure

We obtained transactional data from the finance application systems for the period 1 July 2017 to 30 June 2018 and performed data analytics techniques to identify expenditure with the potential to be sensitive (expenditure that could be seen as giving some private benefit to an individual staff member that is additional to the business benefit to the entity of the expenditure). The results are summarised below.

To test compliance with the Council's policies, processes and controls and good practice per the OAG, we selected and tested expenditures on a sample basis. Detailed testing was undertaken through visual analytics and selection of anomalies and outliers from expenditure data for the year to date. Our findings are included in Sections 2-4 of this report. A summary of findings, including those where no exceptions have been included in this report, is included in Appendix 1.



1.4 Basis and Use of this Report

This report has been prepared in accordance with the Brief of Work dated 30 July 2018 and subject to the limitations set out in Appendix 4 - Basis and Use of the Report.

2 Findings and Recommendations – Policies and procedures

1. Policies and procedures – code of conduct and protected disclosures		Rating of finding: Process Improvement
Finding: Code of Conduct and Protected Disclosures	Recommendations	Agreed Management action(s)
<p>Protected Disclosures</p> <p>A Protected Disclosure Policy promotes public interest by facilitating the disclosure and investigation of serious wrongdoing in or by an organisation and protecting employees who make disclosures of information about serious wrongdoing in or by an organisation in accordance with the Protected Disclosure Act 2000.</p> <p>We performed a gap analysis of the Council's Protected Disclosure procedure against the standard on Whistle-blower Protection Programs for Entities (AS 8004-2003) and observed that the documented included all relevant sections except for a statement of commitment to reporting corrupt and illegal practices.</p> <p>Code of Conduct</p> <p>We performed a gap analysis of the Council's staff Code of Conduct against the standard on Organisational Codes of Conduct (AS 8002-2003) and observed that the document included all relevant sections except for a requirement for staff to act lawfully in carrying out their duties.</p>	<p>Protected Disclosures</p> <p>The Protected Disclosure procedure should include a statement of commitment to effective reporting of corrupt and illegal practices, and all behaviour that is contrary to the Code of Conduct, by people of all levels within the Council.</p> <p>Code of Conduct</p> <p>The staff Code of Conduct should include a requirement for staff to act lawfully in carrying out their duties.</p>	<p>The Protected Disclosure and Code of Conduct procedures will be updated to include the guidance from the standards.</p> <p>Responsible Person</p> <p>Group Manager – Corporate Support and Service</p> <p>Date of Implementation</p> <p>28 February 2019</p>

2. Policies and procedures - gap analysis against OAG guidance		Rating of finding: Process Improvement
Finding: Travel and accommodation	Recommendations	Agreed Management action(s)
<p>Travel and accommodation expenditure is governed by the Sensitive Expenditure Policy and Attendance at Seminars and Conferences Procedure.</p> <p>The Office of the Auditor General's Controlling Sensitive Expenditure guideline includes guidance that is not currently reflected in the Council's policy and procedures (refer to the recommendation).</p>	<p>The Office of the Auditor General's Controlling Sensitive Expenditure guideline includes the following guidance that is not currently reflected in the Sensitive Expenditure policy and Attendance at Seminars and Conferences Procedure:</p> <p>Meals and alcohol while travelling</p> <ul style="list-style-type: none"> - "that separate meal expenses may not be claimed if a meal is provided as part of another package paid for by the entity." <p>Accommodation while travelling</p> <ul style="list-style-type: none"> - "costs that may be paid, if any, for when staff stay with a friend or relative rather than in commercial accommodation" <p>Rental cars</p> <ul style="list-style-type: none"> - "The most economical type and size of rental car to be used, consistent with the requirements (including the distance and number of people) of the trip." - "Private use of a rental car should not be permitted except in exceptional circumstances (such as reasonable weekend use when the driver is away from home and undertaking work for the entity before and after the weekend) and the employee reimburses the entity for any additional cost." <p>Taxis</p> <ul style="list-style-type: none"> - "The use of taxis is moderate, conservative, and cost-effective relative to other forms of transport available to the entity." 	<p>The Sensitive Expenditure procedure and Attendance at Seminars and Conferences Procedure will be updated to include the guidelines from the Office of the Auditor General.</p> <p>Responsible Person</p> <p>Group Manager – Corporate Support and Service</p> <p>Date of Implementation</p> <p>31 January 2019</p>

4. Policies and procedures - gap analysis against OAG guidance		Rating of finding: Process Improvement
Finding: Credit cards	Recommendations	Agreed Management action(s)
<p>Credit card expenditure is governed by the Delegations Register and Credit Card Operation procedure.</p> <p>The Office of the Auditor General's Controlling Sensitive Expenditure guideline includes guidance that is not currently reflected in the Council's Credit Card Operation procedure (refer to the recommendation).</p> <p>We observed the following credit cards that have been issued;</p> <ul style="list-style-type: none"> - Chief Executive [limit \$10,000] - Group Manager of Corporate Support and Services [limit \$15,000]. <p>The Delegations Register and Credit Card Operation procedure have not been updated to reflect a second credit card has been issued in the name of the Group Manager of Corporate Support and Services [limit \$15,000].</p>	<p>The Credit Card Operation procedure should be updated to reflect the additional credit card and relevant controls (authorisation of expenditure, supporting documentation etc.).</p> <p>The Office of the Auditor General's Controlling Sensitive Expenditure guideline includes the following guidance that is not currently reflected in the Credit Card Operation procedure:</p> <ul style="list-style-type: none"> - "how credit card transactions are to be reviewed and approved by a person senior to the card holder; - the consequences of unauthorised use, and who is responsible in the case of misuse of the card; - the process for cancelling and destroying cards; and - the need to have acceptable original documentation to explain and corroborate transactions. - Business credit cards should not be used to obtain cash advances unless: <ul style="list-style-type: none"> - cash is required in an emergency (usually related to travel for the entity); or - cash is required for official purposes (in rare circumstances); and these situations are allowed for in the entity's policy. - that credit limits are to be set by the entity (not by the card holder) at the minimum necessary to enable the card holder to undertake their duties for the entity." 	<p>The Credit Card Operation procedure will be updated to reflect the additional credit card and relevant controls required based on the Guidance of the OAG.</p> <p>Responsible Person</p> <p>Group Manager – Corporate Support and Service</p> <p>Date of Implementation</p> <p>31 January 2019</p>

3 Findings and Recommendations – Control design and effectiveness

6. Attendance at Seminars, Conferences and workshops procedure		Rating of finding: Low
Finding: Pre-approval processes	Recommendations	Agreed Management action(s)
<p>Total expenditure on training identified was \$75,389.</p> <p>Policies and procedures</p> <p>The Attendance at Seminars, Conferences and Workshops procedure states that all expenditure shall be pre-approved by the Chief Executive.</p> <p>Per the Council's procedure, a Request for Attendance Form is required to be completed for seminars, conferences and training workshops.</p> <p>Design of controls</p> <p>A change occurred during the period, managers now pre-approve the training and conference expenditure within their delegated level of authority (pre-approval by the Chief Executive is no longer required). The attendance at Seminars and Conferences procedure has not been updated to reflect this change.</p> <p>Testing</p> <p>For 6 of 15 transactions tested the training request form could not be located (in some cases a purchase order had been used as an alternative form of pre-approval).</p> <p>For one transaction, no supporting documentation could be located (\$1,701.74 GST EX, Order of St John for First Aid training).</p>	<p>Staff should be reminded of the requirement to use the request for attendance form and compliance should be monitored by finance.</p> <p>Consider updating the Attendance at Seminars, Conferences and Workshops Procedure, to state that an authorised purchase order is sufficient for pre-approval purposes.</p> <p>The Attendance at Seminars, Conferences and Workshops procedure should be reviewed and updated to require pre-approval within existing delegations of authority consistent with the "one-up" principle, with escalation to general managers for amounts over set limits.</p>	<p>The Sensitive Expenditure procedure and Attendance at Seminars and Conferences Procedure will be updated to include the guidelines from the Office of the Auditor General.</p> <p>Responsible Person</p> <p>Group Manager – Corporate Support and Service</p> <p>Date of Implementation</p> <p>31 January 2019</p>

7. Private use of Council assets		Rating of finding: Medium
Finding: Motor vehicles	Recommendations	Agreed Management action(s)
<p>Policy and procedures</p> <p>The Council has a fleet of Motor vehicles (and fuel cards) that are available for staff use for Council purposes. The use of motor vehicles is governed by the Sensitive Expenditure Policy and Motor Vehicle Use Procedure.</p> <p>The Sensitive Expenditure policy states that “Council vehicles should not <u>usually</u> be used for private purposes (outside of formal employment arrangements).”</p> <p>Control design</p> <p>Fuel card usage should be monitored to identify private usage of Council fuel cards.</p> <p>Fuel cards generate data that can be used to report on potential exceptions such as:</p> <ul style="list-style-type: none"> - Fuel purchased that does not match the vehicle registration; - Vehicles filled on the weekend; - Multiple fills in one day; - Petrol purchased (when vehicle is diesel etc.); - Excessive fuel consumption (staff are required to submit odometer readings when filling the vehicle at the petrol station). <p>Limited analysis of fuel card usage is currently completed. Staff currently submit via email their kilometres for the month to finance. This is time consuming for staff to prepare, analyse and is prone to errors. As odometer readings are required to be entered when purchasing fuel at the pump, odometer data should be readily available from the fuel card provider.</p>	<p>Exception reports should be reviewed to identify private use of Council fill cards, such as:</p> <ul style="list-style-type: none"> - Fuel purchased that does not match the vehicle registration; - Vehicles filled on the weekend; - Multiple fills in one day; - Petrol purchased (when vehicle is diesel etc.); - Excessive fuel consumption (staff are required to submit odometer readings when filling the vehicle at the petrol station). <p>Exceptions should be followed up with the staff involved and the resolution documented.</p> <p>In accordance with the guidance of the OAG, the monthly review of fuel card purchases (a monitoring control) should be recorded in the Motor Vehicle Use Procedure.</p>	<p>The fuel provider will be contacted to review the reporting available and procedures developed based on the reporting available.</p> <p>The monthly review of fuel card purchases (a monitoring control) will be updated in the Motor Vehicle Use Procedure.</p> <p>Responsible Person</p> <p>Group Manager – Corporate Support and Service</p> <p>Date of Implementation</p> <p>31 January 2019</p>

8. Credit cards		Rating of finding: Medium
Finding: Authorisation of expenditure	Recommendations	Agreed Management action(s)
<p>Total credit card expenditure identified was \$53,388.</p> <p>Policy and procedures</p> <p>The Delegations Register states that review and authorisation of the Chief Executive's credit card expenditure is assigned to the mayor or in the mayor's absence, the deputy mayor.</p> <p>Control design</p> <p>The Chief Executive's expenditure is not currently being reviewed by the mayor as required by the Delegations Register (and good practice according to the OAG guidance, which requires that the expenditure of people in senior positions to be approved by a more senior position, the "one-up" principle).</p>	<p>As per the OAG guidance and the Council's Delegations Register, the Chief Executives expenditure should be reviewed by the Mayor (or Deputy Mayor).</p>	<p>The credit card had previously been used as a business expense payment card where a credit card was required as the payment option.</p> <p>The CE has now starting using the credit card for expenses. Following this a new credit card has been issued to the Group Manager – Corporate Support and Services and over August and September, all the business expenses have been moved to the new business credit card.</p> <p>As of October 2018, the CE credit card will be used for CE expenses only and will be approved by the Mayor as per the delegations.</p> <p>Responsible Person</p> <p>Group Manager – Corporate Support and Services</p> <p>Date of Implementation</p> <p>Completed</p>

9. Entertainment and hospitality		Rating of finding: Low
Finding: Farewell functions	Recommendations	Agreed Management action(s)
<p>Total expenditure identified on farewell gifts and functions was \$3,486.</p> <p>Policy and procedures</p> <p>The Sensitive Expenditure policy states:</p> <ul style="list-style-type: none"> - that Council do not contribute funding towards a function or gift when an employee resigns, retires or is made redundant; and - prior authorisation for any entertainment or hospitality expenses must be given by the Chief Executive. <p>Control design</p> <p>In all 5 cases tested, there was no documented evidence that the Chief Executive had pre-authorized the expenditure. Per discussions with management, the policy changed during the year (email to staff) and that pre-authorization was no longer required by the Chief Executive. However, the Sensitive Expenditure Policy has not been updated.</p> <p>Testing</p> <p>Our observations:</p> <ul style="list-style-type: none"> - We identified \$3,486 of expenditure on farewell gifts and functions during the year (non-compliance with the policy above); - Whilst the expenditure was not consistent with the Sensitive Expenditure Policy, the expenditure did not appear unreasonable (relative to the OAG guidance principle that expenditure is moderate and conservative). 	<p>The Sensitive Expenditure Policy should be updated to reflect current practice, including pre-approval of expenditure on farewells or retirements within existing delegations of authority consistent with the “one-up” principle, with escalation to general managers for amounts over set limits.</p> <p>Guidance should be included in the Sensitive Expenditure Policy on the level of expenditure on farewell functions and gifts that is considered acceptable.</p>	<p>The Sensitive Expenditure Policy will be updated to reflect current practice, including pre-approval of expenditure on farewells or retirements within existing delegations of authority consistent with the “one-up” principle, with escalation to general managers for amounts over set limits.</p> <p>Guidance should be included in the Sensitive Expenditure Policy on the level of expenditure on farewell functions and gifts that is considered acceptable.</p>
		Responsible Person
		Group Manager – Corporate Support and Service
		Date of Implementation
		31 January 2019

10. Entertainment and hospitality		Rating of finding: Low
Finding: Catering and entertainment expenditure	Recommendations	Agreed Management action(s)
<p>Total expenditure on catering entertainment identified was \$32,716.</p> <p>Policy and procedures</p> <p>The Sensitive Expenditure policy states that prior authorisation for any entertainment or hospitality expenses must be given by the Chief Executive.</p> <p>Testing</p> <p>We tested a sample of 10 transactions. For 2 of 10 transactions tested we could not identify evidence of pre-approval by the Chief Executive (or the Chief Executive’s assistant, which was assumed to consistent with the Chief Executive’s direction).</p> <p>In all cases:</p> <ul style="list-style-type: none"> - the purpose of the expenditure was noted and appeared consistent with the types of expenditure consistent with the OAG’s expectation of a justifiable business purpose); - the names of parties entertained were recorded (either individually or collectively); and - the expenditure did not appear excessive. 	<p>The entertainment and hospitality section of the Sensitive Expenditure should be updated to require pre-approval within existing delegations of authority, consistent with the “one-up” principle, with escalation to general managers for amounts over set limits.</p>	<p>The entertainment and hospitality section of the Sensitive Expenditure will be updated to require pre-approval within existing delegations of authority, consistent with the “one-up” principle, with escalation to general managers for amounts over set limits.</p> <p>Responsible Person</p> <p>Group Manager – Corporate Support and Service</p> <p>Date of Implementation</p> <p>31 January 2019</p>

11. Goods and services		Rating of finding: Medium
Finding: Sale of surplus assets	Recommendations	Agreed Management action(s)
<p>Policy and procedures</p> <p>The Council has the following policy on the sale of surplus assets:</p> <p>"Where practical, the Council's assets for disposal should:</p> <ul style="list-style-type: none"> - Be offered for internal use elsewhere in the organisation, then - Use of Trademe to ensure public transparency - Be offered to staff to purchase via internal tender (highest bidder wins) - If not sold, offer to a community group or charitable organisation that the Council has a relationship with - Arrange recycling or disposal of goods if none of the above options is met." <p>Control design</p> <p>There is currently no documented process to monitor compliance with this policy, i.e. register of surplus assets sold (or gifted) to staff.</p> <p>Management were not aware of any assets that were disposed of during the period to staff.</p> 	<p>The disposal of surplus assets to staff should be documented. To evidence compliance with the sale of surplus assets policy. For example, maintaining a register of asset disposals.</p>	<p>The disposal of surplus assets to staff will be documented to evidence compliance with the sale of surplus assets policy.</p> <p>Responsible Person</p> <p>Group Manager – Corporate Support and Service</p> <p>Date of Implementation</p> <p>From 30 November 2018</p>

12. Travel and accommodation		Rating of finding: Low
Finding: Accommodation and reimbursement of expenditure incurred (meals, mileage etc.)	Recommendations	Agreed Management action(s)
<p>Total expenditure on accommodation and reimbursements (meals, mileage etc.) identified was \$27,183.</p> <p>Testing</p> <p>Our observations from testing a sample of transactions against the Council's policies and procedures and OAG guidance:</p> <ul style="list-style-type: none"> - For 2 of 10 transactions tested the business purpose was not evidenced on the documentation; - For 1 of 10 transactions tested the supporting documentation could be located; - 3 of the 10 transactions were mileage claims of which: <ul style="list-style-type: none"> - For 1 mileage claim, no supporting documentation could be located; - For 1 mileage claim, the standard form was not used, the wrong rate was used (\$0.74 rather than \$0.73); and - For 1 mileage claim, no workings were provided to support the kilometres claimed. 	<p>Staff should be reminded of the expectations for reimbursement claims. Requests for reimbursement that do not comply with policy and procedures should not be paid.</p>	<p>Staff will be reminded of the expectations for reimbursement claims. Requests for reimbursement that do not comply with policy and procedures should not be paid.</p> <p>Responsible Person</p> <p>Group Manager – Corporate Support and Service</p> <p>Date of Implementation</p> <p>From 30 November 2018</p>

4 Findings and Recommendations – Cross matching of data between accounts payable and payroll systems

Detailed results have been supplied to management.

No.		Number of Records	Risk Rating	Comments and Recommendations
1	Vendors with matching employee address	7	Low	<p>1 of 7 vendors were identified with the same address as an employee (and the vendor name is not the employee name) and total payments to the vendor was more than \$1,000.</p> <p>CONCLUSION We reviewed the results with management and all records highlighted were genuine vendors and transactions were appropriate.</p>
2	Vendors with matching employee bank account	4	Low	<p>4 vendors were identified with the same bank account as an employee (and the vendor name is not the employee name). 3/4 matches were also identified as an address matches were identified above. 1 vendor / employee match was identified (in addition to those already included above). Total payments to the vendor were not material (less than \$100).</p> <p>CONCLUSION We reviewed the results with management and all records highlighted were genuine vendors and transactions were appropriate.</p>
3	Summary of payments to employees through AP (includes current and ex-employees)	38	Low	<p>A total of \$28,088 was paid to 38 employees through accounts payable. A summary is provided of total employee reimbursement claims for the period from highest (\$3,350) to lowest.</p> <p>CONCLUSION We reviewed the results with management and all records highlighted were genuine vendors and transactions were appropriate.</p>

No.		Number of Records	Risk Rating	Comments and Recommendations
4	Payments to vendors with Masterfile links to an employee, authorised by that employee.	N/A	N/A	We were unable to complete this test because approvals are not electronic.
5	Payments to employees through accounts payable authorised by that employee	N/A	N/A	We were unable to complete this test because approvals are not electronic.

Appendices

Appendix 1 – High Level Summary of Test Results

Detailed results of tests performed are indicated below by a red or green icon. A red cross indicates that a finding has been included in sections 2 or 3 of this report. A green tick indicates that based on our high-level analysis, enquiry of management and review of documentation, procedures were appropriate.

Sensitive expenditure types identified	Quantum (\$)	Sample size	Policy	Control design	Compliance
Fuel cards	27,509	1	✓	✗	N/A
Training and conference expenditure	75,390	10	✗	✓	✗
Accommodation and reimbursements	27,183	10	✗	✓	✗
Air travel	46,768	7	✓	✓	✓
Clothing and grooming	4,425	3	✗	✓	✓
Staff welfare	5,502	No amounts significant or unusual.	✓	✓	✓
Entertainment and hospitality	31,716	10	✗	✓	✗
Sponsorship	10,000	2	✓	✓	✓
Donations	1,430	1	✓	✓	✓
Farewells, gifts and koha	10,806	5	✗	✓	✗

Appendix 2 – 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 control weakness, which could cause or is causing major disruption of the process or major adverse effect on the ability of the process to achieve its objectives. 	<ul style="list-style-type: none"> Material errors and departures from the organisation's policies and procedures Financial management / accountability / probity concerns 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 mobilisation of resources, including external assistance. Ongoing resource diversionary potential. 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 the ability of the process to meet its objectives. 	<ul style="list-style-type: none"> Events, operational, business and financial risks that could expose the organisation to losses that could be marginally material to the organisation 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 process objectives. 	<ul style="list-style-type: none"> Events, operational and business risks that could expose the organisation to losses which are not material due to the low probability of occurrence of the event and insignificant impact on the operating capacity, reputation and regulatory compliance 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 3 – 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.
- This Report is not to be used by any other party for any purpose nor should any other party seek to rely on the opinions, advice or any information contained within this Report. In this regard, we recommend that parties seek their own independent advice. Crowe Horwath disclaims all liability to any party other than the client for which it was prepared in respect of or in consequence of anything done, or omitted to be done, by any party in reliance, whether whole or partial, upon any information contained in this Report. Any party, other than the client for which it was prepared, who chooses to rely in any way on the contents of this Report, does it so at their own risk.

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Contact Us

Crowe Horwath
211 Market Street
Level 1, Farming House
Hastings 4122
Tel +64 6 872 9200
www.crowehorwath.co.nz

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