

## Audit Committee



<b>Reference No &amp; Subject:</b>	<b>AC-004/20</b>	<b>Report Addressing the Significant Matter raised in the Focus Audit - Contract Renewals of Extensions and Variations Focus Audit</b>
File No:	CPM/109	
Proponent/s:		
Author:	Mr John Pearson, Director Corporate Services	
Other Contributors:		
Date of Committee Meeting:	17 March 2020	
Previously before Council:		
Disclosure of Interest:		
Nature of Council's Role in this Matter:	Executive	
Site:		
Lot Area:		
Attachments:	Confidential - Focus Audit - Local Government Management of Contract Renewals or Extensions and Variations	
Maps/Diagrams:		

### Purpose of Report

To endorse the report addressing the significant matter raised in the Focus Audit - Local Government Management of Contract Renewals or Extensions and Variations.

### Background

On 12 February 2020 the City received a management letter related to the Focus Audit – Local Government Management of Contract Renewals or Extensions and Variations. One significant matter was determined by the Office of the Auditor General (OAG).

The audit was performed by the OAG in July 2019.

The significant matter is regarding variations to contracts not being performed in accordance with the Executive Policy – Contract Management.

### Details

The City's Executive Policy – Contract Management requires variations to be approved as follows:

1. Any variations for the 'benefit of the principle' should be approved by the Divisional Director, regardless of dollar value change.

2. Other variations above \$20,000 or 15% of total contract considerations should be approved by the Divisional Directors.

The audit concluded that there were 6 instances out of 7 contacts sampled which were not approved in accordance with policy requirements. It was further noted that 2 of the 6 variations were not supported by detailed descriptions of the nature of the variation with associated cost, time and implications as required by associated procedures.

### Implications to Consider

**a. Consultation with the Community**

It is a requirement to publish a copy of the report addressing the significant matters raised in the management letter on the City's website following its submission to the Minister (note Legal and Statutory implications).

**b. Consultation with Government Agencies**

The City is to prepare a report addressing any matters identified as significant by the auditor and state what action the local government has taken or intends to take with respect to each of those matters and give a copy of that report to the Minister within 3 months after the audit report is received by the local government.

**c. Strategic**

Community Plan

This item addresses the Community's Vision for the future and specifically the following Aspiration and Strategic Objective(s) contained in the Strategic Community Plan 2019-2029:

**Aspiration 4:** *Deliver Quality Leadership and Business Expertise*

**Strategic Objective:** *Effective governance: Apply systems of governance which empower the Council to make considered and informed decisions within a transparent, accountable. Ethical and compliant environment.*

**d. Policy**

Nil

**e. Financial**

Nil

**f. Legal and Statutory**

Section 7.12A (4) of the Local Government Act 1995 requires a local government to;

- (a) Prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and
- (b) Give a copy of that report to the Minister within 3 months after the audit report is received by the local government.

Section 7.12A (5) requires that within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.

**g. Risk**

**All Council decisions are subject to risk assessment according to the City's Risk Framework.**

Implications and comment will only be provided for the following assessed risks.

*Customer Service / Project management / Environment: High and Extreme Risks  
Finance / Personal Health and Safety: Medium, High and Extreme Risks*

Nil

## Comments

The following significant matter was raised by the OAG:

*“Rating: Significant*

*Implication*

- *Contract variations have not been properly approved in accordance with established delegated authorities. Non-compliance with the approval limits set out in the Executive Policy - Contract Management increases the risk that inappropriate variations may be approved. There is also the possibility that a lower level of scrutiny than mandated may be applied to the evaluations of proposals for contract variations.*
- *In the absence of detailed variation proposals, there is a risk that inappropriate variations may be approved due to insufficient information provided to the approvers.*

*Recommendation*

*All contract variations should be approved by Officers within their delegated authorisation limits. Further contract variations should be supported by detailed proposals, to ensure that they are approved based on adequate analysis of their cost, time and scope implications”.*

The issue of variations occurring to contracts in breach of policy is unacceptable and the significant finding on this matter from the OAG is appropriate.

Explanations were sought from the relevant Directors and their responses included:

- Lack of understanding of policy requirements.
- Innocent mistakes and will learn from the experience of making the mistake.
- A cumbersome process which does not match operational business need.

In response to the significant matter:

1. All Executives have been advised by the Chief Executive Officer of their responsibilities and the requirements that the approved policy must be followed.
2. All Contract Managers, through their Director, were offered further contract management training to better understand contract management policy and procedure requirements.
3. An extra template was made easily available to assist Contract Managers with documenting and seeking appropriate approvals for contract variations.
4. All relevant policies and associated procedures are being reviewed to determine if any changes are required to improve contract management variation performance.

A review of instances where correct approval procedure was not performed as policy requires demonstrated that all variations were made in accordance with the relevant contract requirements (i.e. schedule of rates were charged correctly). This significant matter relates to the process of approval not following the requirements of policy.

## Voting Requirements

Simple Majority

## Officer Recommendation

That Council **ENDORSES** the following report addressing the significant matter raised in the 2019 Focus Audit – Local Government Management of Contract Renewals or Extensions and Variations.

**Report on the Significant Matter Raised in the 2019 Focus Audit – Local Government Management of Contract Renewals or Extensions and Variations.**

The following significant matter was raised:

*“Rating: Significant*

*Implication*

- *Contract variations have not been properly approved in accordance with established delegated authorities. Non-compliance with the approval limits set out in the Executive Policy - Contract Management increases the risk that inappropriate variations may be approved. There is also the possibility that a lower level of scrutiny than mandated may be applied to the evaluations of proposals for contract variations.*
- *In the absence of detailed variation proposals, there is a risk that inappropriate variations may be approved due to insufficient information provided to the approvers.*

#### *Recommendation*

*All contact variations should be approved by Officers within their delegated authorisation limits. Further contract variations should be supported by detailed proposals, to ensure that they are approved based on adequate analysis of their cost, time and scope implications”.*

In response to the significant matter the following actions were taken:

1. All Executives have been advised by the Chief Executive Officer of their responsibilities and the requirements that the approved policy must be followed.
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### **Committee Recommendation**

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Committee Voting (Carried) – 4/0

### The Committee's Reason for Varying the Officer's Recommendation

Not Applicable

### Implications of the Changes to the Officer's Recommendation

Not Applicable

### Council Resolution

That Council **ENDORSES** the following report addressing the significant matter raised in the 2019 Focus Audit – Local Government Management of Contract Renewals or Extensions and Variations.

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**Carried en bloc**

### The Council's Reason for Varying the Committee's Recommendation

Not Applicable