



## **Internal Audit**

# **Review of Planning Services Revenue Process**

*October 2016*

## **1 This Review**

### **1.1 Background**

The Planning Service Revenue Process review is part of the 2016/17 Internal Audit Plan approved by the Audit and Risk Committee.

As stated in the Council's 10 Year Plan that 'The Council provides planning services and information so people and businesses can develop land and other resources in a way that fits with the surrounding community and environment. It does this by ensuring the developments are in accordance with the District Plan and the Resource Management Act 1991. Resource consent applications are carefully assessed to identify and mitigate the potential adverse effects of proposed developments.'

'Monitoring of consents is undertaken to ensure compliance. Mediation and enforcement action is undertaken to resolve any non-compliances and environmental matters.'

The Council has a statutory timeframe to meet when processing consent applications. For the 2015/16 financial year the Council processed 97% (or 408 consents) of its 421 consents within the statutory timeframe compared to the target of 'at least 96%'.

### **1.2 Objectives & Scope**

The objective of this review was to ensure appropriate internal controls are in place and working as intended for the Planning Services revenue process. We focused on controls that will ensure revenue transactions are complete and efficient and are recorded and reported accurately, appropriately and in a timely manner.

We reviewed the processes for:

1. Capturing, calculating, recording, invoicing and reporting revenue.
2. Issuing credit notes, refunds and writing off debts.

This review excluded the following areas:

1. Resource consent application process.
2. Resource consents involving development contributions. A review of the Development Contribution process is another project in the 2016/17 Internal Audit Plan.

### **1.3 Approach**

Our approach was as follows:

- Obtain an understanding of processes and controls in place over rental billing processes through discussion with staff and review of available documentation
- Review current practices against expected controls
- Interview staff and observe their application of controls
- Trace, on a sample basis, to confirm Council policies and guidelines are followed
- Identify gaps and weaknesses, if any, and make appropriate recommendations.

## 1.4 Overview

This review was carried out in compliance with the International Standards for the Professional Practice of Internal Auditing.

The officers from the Planning Services Division have a major role to play in processing resource consents, the main source of this Division's revenue. Officers from Support Services Division and other Units also contribute to the resource consent revenue process but not all input from other Units is considered as chargeable. For example, the input to the resource consent process from the City Future Unit that is perceived as contributing to the implementation of the Urban Design Strategy is currently not chargeable. External consultants are also being called on from time to time to provide technical input. Where appropriate the external consultant costs are on billed to the resource consent applicants.

The resource consent fees and charges are imposed under the Resource Management Act 1991 to enable the Council to recover the resource consents processing related cost. These fees and charges are subject to the Council approval and public consultation. The latest fee increases were effective 1 October 2016.

The accuracy, completeness and timeliness of the planning service revenue process depend on all parties fulfilling their responsibilities. The administrator who is responsible in ultimately generating the invoices has a significant role to ensue all the time and costs from the various parties who have a part to play in the resource consent process are reflected in the invoices to the resource consent applicants.

In general, the revenue process runs smoothly even though there are a lot of human interventions along the process. Areas of improvement noted are narrated in the next section of this report which also includes Management's response to the audit recommendations.

We would like to take this opportunity to express our appreciations to the staff who have assisted us in this review. They are as follows:

- Head of Planning Services
- Senior Planner
- Planner
- Monitoring and Enforcement Officer
- Senior Transportation Engineer
- Developments Team Leader
- Subdivision Engineer
- Traffic Engineer – Developments
- Management Accountant
- Business Support Officer

## 1.5 Summary of Recommendations

The table below summarises the audit issues and the related recommendations made in this report. Detail observations and recommendations and the management comments are included in Section 2 of this report.

Audit Issue and Recommendation		Risk Rating		
		High	Medium	Low
1.	<p>Chargeable and non-chargeable time and costs not clearly defined</p> <ol style="list-style-type: none"> <li>1. Management should make a clearer distinction between the chargeable and non-chargeable time for processing a resource consent.</li> <li>2. Staff should be informed of the decision on the distinction between the chargeable and non-chargeable.</li> <li>3. The chargeable and the non-chargeable time from various Units should be recorded to the different job numbers set up for these purposes.</li> <li>4. All other resource consent related external consultants and legal costs should also be recorded against the chargeable and non-chargeable job numbers.</li> </ol>		■	
2.	<p>Staff time captured for resource consents fragmental</p> <ol style="list-style-type: none"> <li>1. Management is advised to put a system in place to enable all chargeable time from other Units and/or Divisions of the Council devoted to processing a resource consent is centrally recorded, to ensure a more complete and accurate and efficient recovery of the fees receivable by the Council.</li> </ol>		■	
3.	<p>Initial monitoring and inspection fees not invoiced</p> <ol style="list-style-type: none"> <li>1. All resource consent holders should be billed retrospectively on the past monitoring fees omitted from the invoices.</li> <li>2. Management should consider recording the monitoring and the all the monitoring notes in the Resource Consent Module under the relevant resource Consent.</li> </ol>		■	

Audit Issue and Recommendation		Risk Rating		
		High	Medium	Low
4.	<p>The monitoring and inspection fees and the related inspections process disjointed</p> <ol style="list-style-type: none"> <li>1. Liaise with the Management Accountant to devise a system so that inspections fees and the related inspections can be tracked to the relevant resource consents and to the balance of fees recorded in the Balance Sheet.</li> <li>2. All relevant addition inspections since a resource consent was granted should be invoiced now where appropriate. .</li> <li>3. All additional inspections should be invoiced regularly and in a timely manner from now on.</li> </ol>		■	
5.	<p>Extension of a resource consent time limits inadequately documented</p> <ol style="list-style-type: none"> <li>1. The organisation should keep adequate documentation as evidence for all future extension of time limits pertaining to the specific resource consent files.</li> </ol>		■	
6.	<p>Credit Notes and refunds were not authorised by the appropriate budgeter</p> <ol style="list-style-type: none"> <li>1. All credit notes and refunds for the Planning Services should be authorised by the Head of the Planning Services and/or the General Manager of Customer Services.</li> </ol>			■
7.	<p>Subdivision bonds deposits lack completeness</p> <ol style="list-style-type: none"> <li>1. Monthly reconciliation for the subdivision bonds ought to make reference to the source document for completeness.</li> </ol>			■

Audit Issue and Recommendation		Risk Rating		
		High	Medium	Low
8.	<p>Treatment of Subdivision Bonds inconsistent</p> <ol style="list-style-type: none"> <li>1. Management should consider if the organisation is satisfied with a bank guarantee for any future subdivision bonds.</li> <li>2. If management considered it is appropriate to have some subdivision bonds to be by way of a bank guarantee then it should determine a threshold for triggering a bank guarantee.</li> </ol>			■

## 2 Detailed Findings & Recommendations

Audit Issue	Risk	Recommendation	Management Comment
<p><b>1. Chargeable and non-chargeable time and costs not clearly defined</b></p> <p>In 2015/16 the Planning Services has a revenue budget of \$0.62 million and this revenue related expenses of \$0.6 million and similar figures in both revenue and expenses for 2016/17. These figures are for the part of the Planning services that is not rate funded.</p> <p>In 2015/16 the Council's Annual Report showed that for the part of the Planning Services that was not rate funded, it was budgeted to have a net surplus of \$18k, the actual results at year end showed a deficit of \$79k.</p> <p>For the 3 months to September quarter in 2016/17, the revenue was 4% behind the budget and the related expenses were 6% higher than the budget. Overall it was \$16k more expenses than revenue.</p> <p>One of the causes was that though the Officers from other Unit's recorded their time to the chargeable consent related job numbers, not all of these time were then on charged to the relevant consent applicants. We are unsure if some of these Officers' time could be deemed rate funded. The rate funded time spent, if any, on a resource consent should be recorded to a rate funded job number. Same principle should apply to the external consultants and legal fees relating to a resource consent.</p> <p>Without making a distinction of recording rate funded and non-rate funded time and the external costs spent on a resource consent, the reporting of the Planning Services financials may not be as accurate as they ought to be.</p>	<p><i>Medium</i></p>	<ol style="list-style-type: none"> <li>1. Management should make a clearer distinction between the chargeable and non-chargeable time for processing a resource consent.</li> <li>2. Staff should be informed of the decision on the distinction between the chargeable and non-chargeable</li> <li>3. The chargeable and the non-chargeable time from various Units should be recorded to the different job numbers set up for these purposes.</li> <li>4. All other resource consent related external consultants and legal costs should also be recorded against the chargeable and non-chargeable job numbers.</li> </ol> <p>Responsible person: Head of Planning Services Timeframe: 23 December 2016</p>	<p>Agree and will implement</p>

Audit Issue	Risk	Recommendation	Management Comment
<p><b>2. Staff time captured for resource consents fragmental</b></p> <p>Ideally, all staff who are involved in the resources Consent process should capture their chargeable time in a central depository to ensure the eventual inclusion for invoicing purposes.</p> <p>Currently the planners record their resource consent processing time in the Resource consent Time Costing system. This Time Recording system is linked to invoicing system. This is a good practice.</p> <p>When an engineer's advice is required for a particular Resource consent, the engineer concerned is given a purple form to manually fill in the time spent on the resource consent for providing the advice. The purple form is then used by the support staff who manually include the engineer's time for invoicing.</p> <p>We noted in our sample that not all engineer's time spent on a Resource consent was captured on the purple form, resulting in the relevant consent applicant being under charged.</p> <p>The reason for this was that sometime the engineer's spent time on a resource consent after the purple form had been returned to the support staff for invoicing. The time spent was not retrospectively charged to the applicant.</p> <p>A more intrinsic cause of this audit issue is that not all staff's chargeable time to a particular resource consent is captured in the same depository for invoicing purposes.</p> <p>The organisation missed out on some of the revenue relating to the processing of the resource consents.</p>	<p><i>Medium</i></p>	<p>Management is advised to put a system in place to enable all chargeable time from other Units and/or Divisions of the Council devoted to processing a resource consent is centrally recorded, to ensure a more complete and accurate and efficient recovery of the fees receivable by the Council.</p> <p>Responsible person: Head of Planning Services</p> <p>Timeframe: 23 December 2016</p>	<p>Agree and will implement</p>



Audit Issue	Risk	Recommendation	Management Comment
<p><b>3. Initial monitoring and inspections fees not invoiced</b></p> <p>All chargeable inspection fees on all relevant notified (2 hours of inspections) and non- notified (4 hours of inspections) resource consents should be invoiced when a resource consent is granted.</p> <p>The process is in place that all chargeable inspections required for a resource consent are to be included in the invoice when that resource consent is granted.</p> <p>We noted, however, from our samples that for some resource consents though a total amount of inspection fee was stated on the document for on charging to the consent applicants, the fee was omitted from the invoices.</p> <p>The number of inspections required for a resource consent is manually registered on a spreadsheet. These inspections are not recorded in the Resource Consent Module.</p> <p>One of the other possible causes for the inspection fees not being invoiced was that a temporary staff member who was put in charge of the invoicing process might not have been adequately trained for the task.</p> <p>The Council's fees and charges receivable are incomplete.</p>	<p><i>Medium</i></p>	<ol style="list-style-type: none"> <li>1. All resource consent holders should be billed retrospectively on the past monitoring fees omitted from the invoices.</li> <li>2. Management should consider recording the inspections and all the inspections notes in the Resource Consent Module under the relevant resource Consent.</li> </ol> <p>Responsible Person: Head of Support Services Timeframe: 30 November 2016</p>	<p>Agree and will implement</p>
<p><b>4. The monitoring and inspection fees and the related inspections process disjointed</b></p> <p>The inspection fees invoiced should be recorded in the Council's Balance Sheet waiting for the appropriate time to drawdown from it once the actual inspections have been carried out. The balance of the fees left for drawing down should be easily tracked to the number of inspections</p>	<p><i>Medium</i></p>	<ol style="list-style-type: none"> <li>1. Liaise with the Management Accountant to devise a system so that inspections fees and the related inspections can be tracked to the relevant resource consents and to the balance of fees recorded in the Balance Sheet.</li> <li>2. All relevant additional inspections since a resource consent was granted should be</li> </ol>	<p>Agree and will implement</p>

Audit Issue	Risk	Recommendation	Management Comment
<p>invoiced but yet to be carried out.</p> <p>We noted that a number of inspections (in addition to those that have been invoiced previously when a resource consent was granted) though have been carried out many months ago, some more than 3 years old, but the consent holders have not yet been invoiced.</p> <p>Even though the consent holders have not been invoiced and therefore the related inspection fees have not been credited to the Balance Sheet, the Balance Sheet was drawn down for those inspections carried out.</p> <p>There is no formal monitoring of number of inspections invoiced, the number of additional inspections to be invoiced and the number of inspections left to be carried out to that of the related fund left in the Balance Sheet.</p> <p>The inspection fees deposited into the Balance Sheet were not tracked to the relevant individual resource consents until a few months ago in March 2016.</p> <p>The disjointed process mentioned above has resulted in the relevant Balance Sheet account occasionally falling into a debit balance i.e. hours of inspections drawn down is greater than the hours of inspections invoiced. The revenue is incomplete.</p>		<p>invoiced now where appropriate. .</p> <p>3. All additional inspections should be invoiced regularly and in a timely manner from now on.</p> <p>Responsible person: Head of Support Services</p> <p>Timeframe: 30 November 2016</p>	

Audit Issue	Risk	Recommendation	Management Comment
<p><b>5. Extension of a resource consent time limits inadequately documented</b></p> <p>Under Section 37 of the Resource Management Act 1991, the organisation has the power to extend the statutory timeframe required to process a resource consent if certain specified criteria are met.</p> <p>We noted in our sample that though a number of resource consents have had their procession time extended, there was inadequate documented evidence that these extension of time limits have met the statutory criteria.</p> <p>Failure to document the evidences for the extension of time limits may negatively affect the Council's image if and when the interest of the related community is not perceived as well served.</p> <p>A discount may be due to the applicants if the Council has exceeded the statutory timeframe but no evidence of Section 37 being invoked.</p>	<p><i>Low</i></p>	<p>The organisation should keep adequate documentation as evidence for all future extension of time limits pertaining to the specific resource consent files.</p> <p>Responsible person: Head of Planning Services Timeframe; 30 November 2016</p>	<p>Agree and will implement</p>
<p><b>6. Credit Notes and refunds were not authorised by the appropriate budgeter</b></p> <p>All resource consent credit notes and refunds should be authorised appropriately. Credit notes and refunds are in effect an expense to the organisation so they need to be treated as such.</p> <p>We noted that resource consent credit notes raised for refunds were authorised in Ozone by an authoriser who has no relevance to the activity where the credit note is raised for.</p>	<p><i>Low</i></p>	<p>All credit notes and refunds for the Planning Services should be authorised by the Head of the Planning Services and/or the General Manager of Customer Services.</p> <p>Responsible person: Head of Support Services Timeframe: 10 November 2016</p>	<p>Agree and will implement</p>

Audit Issue	Risk	Recommendation	Management Comment
<p>The reason for this is that traditionally it has always been done this way though it is not a proper way.</p>			
<p><b>7. Subdivision bonds deposits lack completeness</b></p> <p>All subdivision bonds received and refunded are recorded in the Council's financial system and should be regularly reconciled to the source data.</p> <p>We noted that the reconciliation of the subdivision bonds currently is a list of transactions from the financial system.</p> <p>This list is a standalone list and is not being reconciled to the source subdivision bond records maintained by the engineers.</p> <p>The source list for the subdivision bonds is a spreadsheet where the Engineers record the relevant resource consents with the related subdivision bonds details. We noted some discrepancy exists in the number of bonds and the related bond amounts between these two sources of bond records e.g. a \$135k bank guaranteed bond and a \$10k cash bond were recorded on the spreadsheet but not noted on the financial records. The \$10k had been refunded to the relevant developer.</p> <p>The staff member who perform the reconciliation was unaware the existence of the source data list. This could result in the organisation not maintaining a complete record of the subdivision bonds which can create problems when bonds have to be refunded in the future.</p>	<p><i>Low</i></p>	<p>Monthly reconciliation for the subdivision bonds ought to make reference to the source document for completeness.</p> <p>Responsible person: Finance Manager and General Manager City Networks</p> <p>Timeframe Implemented and ongoing monthly</p>	<p>Agree and will implement</p>

Audit Issue	Risk	Recommendation	Management Comment
<p><b>8. Treatment of Subdivision Bonds inconsistent</b></p> <p>A subdivision bond is to give the Council the assurance that if the developer failed to fulfil the subdivision conditions the Council imposed, the Council can then use the bond to make good the conditions imposed.</p> <p>We noted that one of the subdivision bonds for \$135k is by way of a bank guarantee while the others bonds are an actual cash deposit in the Council's Balance Sheet.</p> <p>The reason for not depositing this bond in the Council's Balance Sheet is that this is a large bond and therefore the organisation is satisfied with a bank guaranteed bond; no cash deposit is collected by the Council.</p> <p>Method of collecting a subdivision bonds should be consistent so that all developers can perceive as being fairly treated.</p>	<p><i>Low</i></p>	<ol style="list-style-type: none"> <li>1. Management should consider if the organisation is satisfied with a bank guarantee for any future subdivision bonds.</li> <li>2. If management considered it is appropriate to have some subdivision bonds to be by way of a bank guarantee then it should determine a threshold for a bank guarantee.</li> </ol> <p>Responsible person: General Manager City Networks</p> <p>Timeframe: On going</p>	<p>Management is satisfied that either a cash bond or a bank guaranteed bond is a secured guarantee.</p> <p>Given the comment above, management believes there is no threshold requirement for a bank guarantee provided that all the administrative costs associated with setting up a bank guarantee are met by the developer.</p>