



Good practice guide

Controlling
sensitive
expenditure:
Guidelines for
public entities

Controlling sensitive expenditure: Guidelines for public entities

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These guidelines are our view of good practice that public entities should use to control sensitive expenditure. The guidelines outline expectations and guidance that we may use when carrying out performance audits or inquiries under section 16 or section 18 respectively of the Public Audit Act 2001, or in annual financial audits. The expectations and guidance are neither exhaustive nor exclusive.

Acknowledgements

We thank those organisations whose publications, reports, policies, and views we examined, or discussed with them, before we published these guidelines. The organisations include:

- Audit Office of New South Wales
- Office of the Auditor General of Canada
- Australian National Audit Office
- Cabinet Office
- Crown Company Monitoring Advisory Unit
- Government Accountability Office (United States of America)
- Independent Commission on Good Governance in Public Services (United Kingdom)
- New Zealand Institute of Chartered Accountants
- Institute of Internal Auditors New Zealand Incorporated
- Ministry of Education
- Ministry of Justice
- National Audit Office (United Kingdom)
- Public Audit Forum (United Kingdom)
- Queensland Audit Office
- State Services Commission
- Te Puni Kōkiri
- Treasury Board of Canada Secretariat.

While we considered material from, and the views of, these organisations, the content of these guidelines is our own.

We also thank those organisations who commented on an earlier draft of these guidelines. In particular, we would like to thank the Institute of Internal Auditors New Zealand Incorporated and the State Services Commission.

Auditor-General's foreword

Spending by a public entity that could be seen to give some private benefit to a staff member, such as overseas travel, can be controversial. We call this type of spending "sensitive expenditure". Although it may be perfectly justified, its potential sensitivity means that careful decision-making is needed.

Public entities' sensitive expenditure decisions have featured in a number of past reports by Auditors-General, as well as in the many queries my Office receives. There is a need for general guidelines to help public sector leaders and senior managers. These people, who should "set the tone at the top", have a major influence on an entity's sensitive expenditure.

This guide outlines the principles applicable to sensitive expenditure, and an organisational approach that embraces leadership from the top of the organisation and having suitable sensitive expenditure policies and procedures. It also provides practical guidance on specific types of sensitive expenditure.

The guidelines are grounded in general public sector norms, and summarise my view of good practice. I may use aspects of them when conducting performance audits or inquiries under section 16 or section 18 respectively of the Public Audit Act 2001, or in annual financial audits.

For those working close to the centre of government and political debate, this guide may simply draw together material on the types of judgements they make every day. For others, who work in a range of entities spread across the public sector (including local government), these issues may arise less frequently. I hope that this guide will become a useful source of advice for both groups.

Ultimately, public entities are responsible for their own sensitive expenditure controls and decisions, with good judgement required when making decisions. Good controls and good judgement should enable entities' sensitive expenditure to withstand Parliamentary and public scrutiny.

A handwritten signature in blue ink, consisting of a series of loops and a long horizontal stroke, identifying the Controller and Auditor-General.

K B Brady
Controller and Auditor-General

5 February 2007



Foreword from the State Services Commissioner

Earning and nurturing the trust of the public is of critical importance to the successful operation of New Zealand's State Services.

The agencies of the State Services exercise special powers or influence over people's lives, and with this power comes responsibility. The responsibility to perform our duties in a manner that honours the trust that New Zealanders lend us, and the responsibility to ensure that our management of that trust is always accountable and transparent.

I welcome these Guidelines from the Controller and Auditor-General. The principles, guidelines and examples contained in this document provide further guidance for senior managers and staff across the State Services, reinforcing the importance of ensuring that we perform at all times in a manner that stands up to rigorous parliamentary and public scrutiny.

As well as the general principles, this document includes illustrative examples which apply the principles. These illustrations are not intended as a definitive guide. That would not be appropriate. The essential point is that senior public servants should use their judgement carefully in this area, and expect to be held to account for these judgements.

The range of examples is deliberately wide, because the Auditor-General's ambit is wide; but some things which may be possible in some commercially focussed areas of work (such as use of a corporate box, as outlined in this document) could be inappropriate in the State Services. It is our job to understand such distinctions, and make the right judgements.

Senior public servants, as this document suggests, need to model the behaviour that they want to see from their agencies. I expect that those public servants will continue to make their decisions based on the good judgement they have exhibited to date and informed by the principles outlined here.

Mark Prebble
State Services Commissioner

5 February 2007

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Glossary

Conflicts of interest exist when staff duties or responsibilities to an entity could be, or could be perceived to be, affected by some other separate interest or duty. Conflicts of interest can have both legal and ethical dimensions.¹

Controls are the means to promote, direct, restrain, govern, and check on various activities.

Credit card has the normal meaning, but should also be read as applying to vehicle fleet cards, purchase cards, and equivalent cards used to obtain goods and services before payment is made.

Leaders and senior managers means the members, office holders, and senior employees of a public entity.

Proper and prudent behaviour, in relation to expenditure, includes identifying and managing conflicts of interest (or situations with the potential to be perceived as conflicts of interest); being fair, honest, transparent, circumspect, and careful to avoid undesired consequences; and being accountable for complying with organisational controls over expenditure.

Public entity and **entity** have the same meaning as in section 5 of the Public Audit Act 2001. As provided in that Act, the term includes any subsidiary or other controlled entity of the principal entity.

Public sector means all public entities.

Sensitive expenditure is expenditure by a public entity that provides, has the potential to provide, or has the perceived potential to provide a private benefit to an individual staff member of a public entity that is additional to the business benefit to the entity of the expenditure. It also includes expenditure by a public entity that could be considered unusual for the entity's purpose and/or functions.²

Staff means all members, trustees, office holders, managers, and employees of a public entity.

We, us, and our mean the Office of the Auditor-General, and includes the Auditor-General's appointed auditors.

1 Members of local authorities should refer to our publication *Conflicts of Interest: A guide to the Local Authorities (Members' Interests) Act 1968 and non-pecuniary conflicts of interest* for further guidance (August 2004, ISBN 0-478-18121-3).

2 We acknowledge there are other types of expenditure by an entity that, while not within this definition, may also be considered sensitive by nature (for example, because of having a large social, economic, or environmental effect that is of public interest).

Part 1

Introduction

Why we have prepared these guidelines

- 1.1 Every public entity spends public money, and all such spending must meet standards of probity that will enable it to withstand Parliamentary and public scrutiny.
- 1.2 All public entities incur expenditure, including sensitive expenditure, to help them achieve their objectives. The public expects that decisions to commit to, and make payments for, goods and services should be subject to proper authorisation and controls.
- 1.3 “Sensitive expenditure” is expenditure by a public entity 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. Travel, accommodation, and hospitality spending are examples of areas where problems often arise. It also includes expenditure by a public entity that could be considered unusual for the entity’s purpose and/or functions.
- 1.4 There is heightened public sensitivity when individuals in the public sector are perceived to benefit personally, or do directly benefit, from sensitive expenditure incurred during the conduct of a public entity’s business.
- 1.5 The Public Audit Act 2001 allows the Auditor-General to examine and report on any act or omission that shows, or appears to show, waste or a lack of probity or financial prudence by a public entity or one or more of its members, office holders, or employees. A list of our past reports that include discussion on poor sensitive expenditure practices is provided in Appendix 1.
- 1.6 From these reports, and the questions asked of us by entities, we identified some themes that have been apparent from time to time in sensitive expenditure decision-making by public entities. The most frequently occurring problems (or issues that cause entities difficulty or concern) arise with expenditure that is:
 - of a nature that is, or could be regarded as, extravagant or immoderate for the public sector;
 - incurred without there being a justifiable and adequately documented business purpose;
 - subject to poorly defined policies and procedures;
 - not adequately substantiated by invoices, receipts, or other relevant documentation to support claims or payments;
 - committed before appropriate authority has been obtained; and
 - made without proper scrutiny to ensure compliance with an entity’s policies and procedures.

1.7 For these reasons, we are bringing together updated guidance for public entities in relation to sensitive expenditure.

1.8 These guidelines provide a hierarchy of three levels:

- the basic principles or ground rules that derive from general public sector norms and principles (Part 2);
- the components of a strong organisational approach to managing sensitive expenditure (Part 3); and
- guidance on specific issues (Parts 4-8).

Purpose of these guidelines

1.9 The purpose of these guidelines is to help public entities improve, where necessary, their organisational approach to, and control of, sensitive expenditure.

1.10 In practice, this responsibility rests with the leaders and senior managers of the public sector. The guidelines aim to assist these people, and any others who have responsibility for sensitive expenditure policies, procedures, and other controls.

1.11 This guide outlines the principles applicable to sensitive expenditure, and an organisational approach that embraces leadership from the top of the organisation and having suitable sensitive expenditure policies and procedures. It also provides practical guidance on specific types of sensitive expenditure.

Using these guidelines

1.12 These guidelines represent our view of good practice for controlling sensitive expenditure. We may use the guidelines when undertaking future audits or inquiries, including annual financial audits. We intend to review these guidelines from time to time, and publish any changes on our website (www.oag.govt.nz).

1.13 These guidelines are intended to complement, not repeat, the advice that has already been published by other organisations. The titles, sources, and a brief description of other advice are listed in Appendix 2.

1.14 We expect entities to build the principles outlined in these guidelines into their systems, and to have an organisational approach that adapts the components suggested here into their own working environment. We expect entities to carefully consider the advice in Parts 4-8 and to have thought carefully about the justification and principles before taking a different approach.

1.15 Regardless of the advice in these guidelines, entities remain responsible for sensitive expenditure that is appropriate in their circumstances. Entities are also responsible for ensuring that their sensitive expenditure policies, procedures, and decisions will withstand Parliamentary and public scrutiny.

- 1.16 These guidelines do not replace any legislative requirements that an entity has to meet for sensitive expenditure. For instance, the remuneration, expenses, and allowances payable to elected members of territorial and regional councils are those set out in the Local Government Elected Members Determinations, and actual and reasonable expenses are outlined in council policies that have been formally approved by the Remuneration Authority (but subject to the provisions in the Determinations).

Exclusions

- 1.17 The following topics are not covered by these guidelines:
- items of sensitive expenditure specifically provided for by employment agreements;
 - severance payments;¹ and
 - the tax implications, if any, of either private or organisational benefits obtained from sensitive expenditure.
- 1.18 Nevertheless, the principles articulated here are generic, and are likely to be useful to consider in these other situations. Such expenditure will also need to adhere to public sector norms and be able to withstand Parliamentary and public scrutiny.
- 1.19 These guidelines do not cover members of Parliament or the judiciary.

¹ Refer to our report *Severance Payments in the Public Sector* (May 2002, ISBN 0-477-02895-0) for advice on severance payments.

Expectations we will apply

Parts 2 and 3 outline the ground rules and organisational approach we expect entities and individuals to follow when designing and implementing sensitive expenditure policies and procedures, and when making sensitive expenditure decisions.

Our expectations are principles-based. They do not tell entities and individuals what decisions to make.

The principles we provide are not a substitute for good judgement in designing and implementing sensitive expenditure policies, procedures, and decisions. However, the principles should support good judgement.

Part 2

Principles applicable to sensitive expenditure

Taking a principles-based approach

- 2.1 Entities are responsible for taking a principles-based approach to sensitive expenditure. This approach provides more flexibility and is more enduring than prescriptive rules. Public entities may also find it more practical to administer principles than rules. In this Part, we set out our summary of the principles that are likely to be relevant.
- 2.2 We recognise that, for valid reasons, individual entities may make differing decisions as to what is appropriate sensitive expenditure. For example, a state-owned enterprise may make quite different judgements from a central government department, or a local authority. However, all public entities need to take into account the same principles when determining their organisational approach (or attitude) to sensitive expenditure decisions.
- 2.3 The most fundamental fact applicable to all expenditure by a public entity is that the entity is spending **public money** – it is not the property of staff (including members, office holders, managers, and employees) of the entity to do with as they please. Consequently, the expenditure should be:
 - subject to the standards of **probity** and financial **prudence** that are to be expected of a public entity; and
 - able to withstand Parliamentary and public **scrutiny**.
- 2.4 Those standards apply the principles that expenditure decisions:
 - have a justifiable **business purpose**;
 - preserve **impartiality**;
 - are made with **integrity**;
 - are **moderate** and **conservative**, having regard to the circumstances;
 - are made **transparently**; and
 - are **appropriate** in all respects.
- 2.5 In practice, a properly authorised individual will make the decision on each item of sensitive expenditure. Each individual making such decisions will need to exercise careful judgement in accordance with these principles. The question will always be about the balance in the particular context.
- 2.6 These principles are to be applied as a set. None should be applied alone, and none should be treated as more important than another.
- 2.7 For example, an employee may ask permission to take personal leave in conjunction with business travel. The proposal may raise issues of dominant purpose, impartiality, and transparency. The entity, if it were to permit the

leave, would need to be satisfied that the primary purpose of the trip was a business one, that there would be no additional cost to the entity, and that the arrangement did not give rise to any perception of inappropriateness.

Deciding when sensitive expenditure is appropriate

- 2.8 The quantity of money spent on an item of sensitive expenditure may be small in the context of an organisation's total expenditure. However, each sensitive expenditure decision is important, because improper expenditure could harm the reputation of, and trust in, the entity as well as the public sector generally.
- 2.9 The decisions that public entities make to determine "appropriate" types and amounts of sensitive expenditure are likely to differ, to some degree, from entity to entity because of the wide range of public entities and the varying nature of their functions and activities. For example, Crown entities that are involved in national or international commercial activities may make different decisions to those made by a small local authority.
- 2.10 However, we expect all public entities to behave in such a way as to support the public's trust in government generally and in public entities in particular.
- 2.11 For all public entities, deciding what appropriate sensitive expenditure is needs to take account of both individual transactions and the total amount of sensitive expenditure.
- 2.12 Even when sensitive expenditure decisions can be justified at the item level, the combined amount spent on a category of expenditure may be such that, when viewed in total, the entity could be criticised for extravagance and waste. Or, put another way, the entity has failed to ensure the proper and prudent expenditure of public money.

Responsibilities of leaders and senior managers

Setting the tone at the top

- 2.13 To be most effective, sensitive expenditure policies, procedures, and other controls should be embedded in the entity's philosophy, practices, and business processes, rather than be viewed or practised as a separate activity. When they are embedded, everyone in the organisation becomes involved in the proper and prudent management of sensitive expenditure.
- 2.14 In our view, responsibility rests with those "at the top" of the entity – the leaders and senior managers – to make it clear to staff what is and is not acceptable sensitive expenditure for that entity, and to model that behaviour to the highest standard.

- 2.15 Leaders and senior managers, from the perspectives of both corporate governance and management, need to ensure that their public entities encourage public trust and respect in the integrity of government.
- 2.16 For the New Zealand Public Service, the sorts of behaviours that should support public trust and respect in the integrity of government are outlined in the *New Zealand Public Service Code of Conduct* (2005) produced by the State Services Commission.

Good controls and judgement

- 2.17 The responsibilities of those holding positions as leaders and senior managers of public entities include being accountable for properly and prudently spending the public money under their control, including sensitive expenditure, and for the internal controls to support this.
- 2.18 While having good controls will assist good sensitive expenditure decisions, good judgement will also be required. This is because it is not possible or desirable to set rules for every possible situation that may arise. In the absence of specific rules for a given situation, we expect the entity to exercise good judgement by taking the principles in these guidelines into account in the context of the given situation.
- 2.19 Leaders and senior managers have a particular responsibility to ensure that sensitive expenditure is appropriate for the environment in which their entity functions.
- 2.20 We expect leaders and senior managers to ensure transparency in both sensitive expenditure and remuneration systems, and to avoid any trade-off between the two. Items of expenditure that may not be justifiable under the principles for sensitive expenditure should not be included as part of an employee's remuneration for the purpose of avoiding scrutiny against the sensitive expenditure principles.

Part 3

Drawing up suitable policies and procedures

- 3.1 Leaders and senior managers can make sensitive expenditure decisions that Parliament and the public respect by dealing with sensitive expenditure properly and prudently. This requires:
- a principles-based approach;
 - leading proper and prudent practices by example;
 - approving and implementing suitable policies and procedures;
 - procedures that consistently support all staff to follow proper and prudent practices; and
 - appropriate training and monitoring of activities to ensure effective control of sensitive expenditure.

Scope of policies and procedures

- 3.2 This Part outlines our view of the components of a strong management approach in relation to:
- the generic content of policies and procedures for sensitive expenditure;
 - approving sensitive expenditure;
 - claims relating to sensitive expenditure;
 - using credit cards for sensitive expenditure; and
 - using cash advances.
- 3.3 Where entities diverge from the broad approach outlined in this Part, we expect them to be able to justify their decisions with respect to the principles discussed in paragraphs 2.1-2.7.

Generic content of policies and procedures

- 3.4 Policies and procedures relating to sensitive expenditure need to:
- make clear what types of expenditure are and are not permitted;
 - outline clear approval processes that are specific about who approves what, including arrangements for when the usual approver is unavailable;
 - set spending limits or boundaries, including explaining what is meant by “actual and reasonable” when these terms are used, and specifying dollar limits and defined boundaries, where practicable, of what is “reasonable”;
 - allow a manager discretion to grant an exception (“management override”) to a policy or procedure only in exceptional circumstances;
 - specify the monitoring and reporting regime and, where applicable, any internal audit checks that may be applied; and
 - specify the process for amending the policies and procedures.

Approval

- 3.5 Approval of sensitive expenditure should be:
- given only when the person approving the expenditure is satisfied that a justified business purpose and other principles have been adequately met;
 - given before the expenditure is incurred, wherever practical;
 - made within any statutory limits on an entity's delegations;
 - made only when budgetary provision and delegated authority exist; and
 - given by a person senior to the person who will benefit or who might be perceived to benefit from the sensitive expenditure, wherever possible. Where this is not possible, this fact should be recorded, and any such expenditure should be subject to some form of monitoring.
- 3.6 In the case of people in very senior positions, the principle of approval by a more senior person (the "one-up" principle) should be applied to the maximum extent possible. However, there will be some instances where an alternative approach will be required because there is no more senior person. In such instances, it is essential that there should be no reciprocal arrangement for approving sensitive expenditure (that is, with a person approving expenditure having their own expenditure approved by the person whose expenditure they are approving). An arrangement involving three persons is one way to avoid this problem (for example, A approves B's expenditure, B approves C's expenditure, and C approves A's expenditure).

Claims

- 3.7 Claims relating to sensitive expenditure need to:
- clearly state the business purpose of the expenditure – in instances where the business purpose is not clear from the supplier documentation supporting the claim, a written statement of the purpose should be included as part of the claim;
 - be accompanied by adequate original (not photocopied) supporting documentation, such as tax invoices or other validating documentation – credit card statements do not constitute adequate documentation for reimbursement;
 - document the date, amount, description, and purpose of minor expenditure when receipts are unavailable (for example, for tips or from vending machines); and
 - be submitted promptly after the expenditure is incurred.

Using credit cards

3.8 Using credit cards is not a type of sensitive expenditure, but is a common method of payment for such expenditure. Specific policies and procedures are needed for using credit cards to minimise some of the risks associated with them. These risks include credit cards being used:

- for inappropriate business-related expenditure (in both quantity and type);
- to obtain cash for a business purpose, with subsequent expenditure being poorly documented or justified; and
- for personal benefit, by obtaining cash or paying for personal items.

3.9 Entities that permit the use of credit cards should have suitable policies and instructions governing use of the cards, and controls to ensure that those policies and instructions are observed.

3.10 Credit card policies and procedures need to set out:

- who is eligible for a business credit card;
- the person or people responsible for authorising card issue, managing the acquisition of cards, and monitoring and reporting on their use;
- the process for cancelling and destroying cards;
- 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;
- a prohibition on using cards for private expenditure or credit;
- the need to have acceptable original documentation to explain and corroborate transactions;
- how credit card transactions are to be reviewed and approved by a person senior to the card holder; and
- the consequences of unauthorised use, and who is responsible in the case of misuse of the card.

Credit card cash advances

3.11 Business credit cards should not be used to obtain cash advances unless:

- 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.

Internet purchases using credit cards

- 3.12 Credit card payments over the Internet need to reflect good security practice, such as purchasing from only established reputable companies known to the entity. The card holder needs to keep a copy of any online order forms completed when purchasing, and purchasing by credit card over the Internet needs to be consistent with the entity's normal purchasing controls.

Cash advances

- 3.13 In instances where an individual does not have an entity credit card, but is required to travel overseas to undertake entity business, it may be necessary to provide the individual with a cash advance. The entity's policies and procedures should allow for this. In these instances, expenditure of the cash advance should be properly documented and accounted for.

Guidance

Parts 4-8 provide guidance material only. They outline the areas of sensitive expenditure we think all entities, and individuals making sensitive expenditure decisions, should consider.

These Parts are not an exclusive list of all the areas of sensitive expenditure or a set of rules. Rather, they list issues in the main areas of sensitive expenditure as we see them.

The guidance provided in these Parts is intended to assist entities and individuals to design and implement suitable policies and procedures, and to enable them to exercise good judgement in sensitive expenditure decisions.

Part 4

Travel and accommodation expenditure

- 4.1 Public entity staff may need to incur travel and accommodation costs while conducting the entity's business elsewhere in New Zealand or overseas.

Issues and principles

- 4.2 Expenditure on travel and accommodation, especially by leaders and senior managers, is one of the types of sensitive expenditure most often brought to our attention. The principles of a justified business purpose, and moderate and conservative expenditure, are particularly relevant.
- 4.3 Travel and accommodation expenditure should be economical and efficient, having regard to purpose, distance, time, urgency, and personal health, security, and safety considerations.

Guidance

- 4.4 Entities should have travel policies and procedures that:
- cover both domestic and international travel;
 - require at least all international travel to have prior written approval;
 - include guidance on taking annual leave, staying away over weekends, stopovers, travelling with spouses, and class of travel; and
 - outline the monitoring and reporting arrangements.

Air travel

- 4.5 We expect entities to ensure that:
- to the extent practical, air travel is booked well ahead of the actual travel, so the expenditure is the most cost-effective possible;
 - discounted economy or economy class is used for journeys of up to a specified number of hours (at least four) of uninterrupted flight duration, except where the distance or hours travelled, work schedule on arrival, or personal health, safety, or security reasons make business class preferable;
 - they have a clearly explained rationale whenever they pay for first class travel (and that such cases are extremely rare); and
 - they have policies on membership of airline clubs, with any membership of such clubs supported by a clear business purpose.

Air points and other travel-related loyalty schemes

- 4.6 Guidance on loyalty reward schemes is given under "goods and services expenditure" (see paragraphs 6.6-6.9).

Meals and accommodation while travelling

- 4.7 With meals and alcohol, we expect entities to:
- have policies about the value of meals they will pay for;
 - include in their policies guidance on whether the entity will pay for alcohol, and, if so, include limits on what will be paid for;
 - prohibit reimbursement of mini-bar expenses; and
 - state in their policies that separate meal expenses may not be claimed if a meal is provided as part of another package paid for by the entity.
- 4.8 With accommodation, we expect entities to:
- ensure that accommodation is cost-effective, taking into account the geographic location of the accommodation relative to where staff are working, the standard of accommodation, and safety and security issues; and
 - have a policy relating to costs that may be paid, if any, for when staff stay with a friend or relative rather than in commercial accommodation.

Motor vehicles

- 4.9 We expect 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. We expect the driver, and not the entity, to pay any fines (parking or traffic offences) incurred while using a rental vehicle on entity business.
- 4.10 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.
- 4.11 We expect the use of **taxis** to be moderate, conservative, and cost-effective relative to other forms of transport available to the entity. Entity-funded taxis ought not to be used for travel between home and office, unless the reason for the travel is because of work past a reasonable hour, a safety concern, or similar justification, and prior approval for the travel has been given where practicable.
- 4.12 We expect all **taxi cards** to be issued in an individual's name to support transparency about who used a taxi card and for what purpose.
- 4.13 **Corporate vehicles** (provided outside remuneration arrangements) should not generally be used for private purposes. We expect the driver, and not the entity, to pay any fines (parking or traffic offences) incurred while using a corporate vehicle unless the fines relate to an aspect of the condition of the vehicle outside the driver's control.

- 4.14 We expect entities to ensure that they do not pay for travel by **private motor vehicle** where travel by other means is more practical and cost-effective. Generally, pre-approval to use a private motor vehicle for entity business must be obtained. We expect the driver, and not the entity, to pay any fines (parking or traffic offences) incurred while using a private vehicle on entity business.
- 4.15 We expect entities to require a completed and signed claim based on distance travelled when reimbursing staff for use of a private vehicle, and the rates of reimbursement for private motor vehicle use to be in line with public sector rates or be an appropriate rate set by the entity.

Tipping

- 4.16 The probity issue associated with tipping is that it is discretionary, and usually undocumented, expenditure. Tipping should not in any circumstances be extravagant. The principle of moderate and conservative expenditure is particularly relevant.
- 4.17 We expect entities to not meet the costs of tipping by staff while they are on entity business in New Zealand, and to pay for tips during international travel only in places where tipping is local practice.

Other travel issues

Using telecommunications equipment

- 4.18 We expect the use of telecommunications equipment while travelling on entity business to be consistent with the guidance given under “communications technology” (see paragraphs 8.13-8.18).

Private travel linked with official travel

- 4.19 Staff may be allowed to undertake private travel before, during, or at the end of travel paid for by their entity, provided that there is no additional cost to the entity and the private travel is only incidental to the business purpose of the travel.

Travelling spouses, partners, or other family members

- 4.20 As a general principle, travel costs of accompanying spouses, partners, or other family members should not be paid by an entity. In the rare circumstances that involvement of a spouse directly contributes to a clear business purpose, we expect the spouse’s travel to be pre-approved.

Stopovers

- 4.21 We expect the cost of any stopover paid for by the entity to have a clear business purpose and to be pre-approved.

Part 5

Entertainment and hospitality expenditure

- 5.1 Entertainment and hospitality can cover a range of items from tea, coffee, and biscuits to catering, such as meals and alcohol. It also includes non-catering-related items, such as entity-funded entry to a sporting or cultural event.

Issues and principles

- 5.2 Expenditure on entertainment and hospitality is sensitive because of the range of purposes it can serve, the opportunities for private benefit, and the wide range of opinions as to what is appropriate.

- 5.3 In its 1996 publication *A Management Guide to Discretionary Expenditure*,¹ the Institute of Internal Auditors New Zealand Incorporated identified five business purposes for expenditure on entertainment and hospitality:

- building relationships;
- representing the organisation;
- reciprocity of hospitality where this has a clear business purpose and is within normal bounds – acceptance of hospitality is expected to be consistent with the principles and guidance for provision of hospitality;
- recognising significant business achievement; and
- building revenue.

- 5.4 Supporting internal organisational development may, in occasional circumstances, also be a legitimate business purpose for moderate expenditure.

- 5.5 It is important to recognise that, given the non-commercial functions of most public entities, there is likely to be only limited justification for some of the purposes outlined in paragraph 5.3 being legitimate reasons for expenditure on entertainment. For example, building revenue is unlikely to be a legitimate purpose for most public entities, given that their revenue is obtained directly from the Government.

- 5.6 The principles of a justified business purpose, and moderate and conservative expenditure, are particularly relevant. We expect expenditure to be subject to controls for monitoring and reporting.

Guidance

- 5.7 We expect entertainment and hospitality paid for by an entity to be:
- subject to policies that include clear guidance on whether alcohol will be paid for by the entity, and, if so, the circumstances and limits that apply;

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- subject to policies that provide clear guidance about what is an acceptable level of expenditure, if any, on seasonal occasions such as a Christmas event;
- provided only when it is cost-effective and appropriate for the occasion; and
- pre-approved, with clear and appropriate limits on quantities and use of alcohol, if any, and is substantiated by appropriate documentation that includes receipts, names of parties entertained, and the reasons for the entertainment and hospitality.

Part 6

Goods and services expenditure

- 6.1 This Part applies to obtaining, disposing of, or using goods and services that are not covered by terms and conditions of employment.

Sale of surplus assets to staff

- 6.2 As part of normal business, entities will from time to time dispose of assets. Typically, this is when the assets have become obsolete, worn out, or surplus to requirements. The procedures that entities follow when disposing of the assets need to be transparent and fair.

Issues and principles

- 6.3 We expect entities not to sell assets at a discounted rate to staff if a greater value could be realised by an alternative method of disposal.
- 6.4 The principles of preserving impartiality and integrity are particularly relevant. We expect staff disposing of assets not to benefit from the disposal. Disposal ought not to benefit staff such that their personal judgement or integrity is compromised.

Guidance

- 6.5 We expect entities to:
- recognise the value of the asset and any potential for actual or perceived undue benefit by staff;
 - maximise the return to the entity if disposing of assets to staff; and
 - ensure that all assets identified for disposal to staff are valued and subject to a tender or other process that is appropriate to the value of the asset.

Loyalty reward scheme benefits

- 6.6 Loyalty reward schemes provide a benefit to the customer for continuing to use a particular supplier of goods or services. Generally, the rewards tend to be given in the name of the individual who obtains the goods or service, regardless of who has paid for them.
- 6.7 Prizes received from a free competition entry obtained while undertaking an entity's business are also considered a loyalty or reward scheme for the purposes of the following advice. So are air points schemes. In situations where receiving a prize or loyalty reward could be perceived as inappropriate, even if the entity rather than the individual would benefit from it, we expect the prize or reward to be declined.

Issues and principles

- 6.8 The principles of preserving impartiality and integrity are particularly relevant. We expect that staff making procurement decisions would not personally receive any loyalty rewards as a result of those decisions. Controls and clear guidance about expectations are necessary for all involved, so that to the maximum extent possible the entity as payer for the goods or services benefits from the rewards.

Guidance

- 6.9 We expect entities, to the extent that it is practically possible within the requirements of the law, to:
- treat loyalty rewards accruing to staff carrying out their official duties as the property of the entity;
 - apply, as far as practicable, those loyalty rewards only for the benefit of the entity;
 - ensure that staff keep a record of loyalty rewards accrued and applied for the benefit of the entity, and regularly supply the entity with a report of this record; and
 - require staff leaving an entity with unapplied loyalty rewards to transfer the benefits to the entity or buy the unapplied rewards from the entity at the market rate. Where neither of these is practical, we expect arrangements to be made with the supplier to cancel the unapplied rewards.

Private use of entity assets

- 6.10 Any physical item owned, leased, or borrowed by an entity is considered an asset for the purpose of the guidance below. This includes photocopiers, telephones, cellphones, means of accessing the Internet, and stationery.

Issues and principles

- 6.11 The principles of transparency, and moderate and conservative expenditure, are particularly relevant. Private use for personal purposes may be permitted in defined limited circumstances.

Guidance

- 6.12 We expect entities to have policies that identify what, if any, private use of entity assets is acceptable, the level of use (defined in terms of quantity), and the circumstances under which costs will be recovered. Generally, costs of private use should be recovered, unless it is impractical or uneconomic to separately identify

those costs.¹ We expect the use of entity assets in any private business that any employee may operate to be prohibited.

- 6.13 Guidance on personal calls on an entity cellphone and use of access to the Internet at work is given under “communications technology” (see paragraphs 8.13-8.18).

Entity use of private assets

- 6.14 Sometimes an entity decides that reimbursing staff for use of private assets is appropriate for reasons such as cost, convenience, or availability. An entity may decide to do this in circumstances where it would not fully use an asset of the same type if it acquired it directly. Examples include private motor vehicles, private cellphones, and private computers.

Issues and principles

- 6.15 The main issue associated with an entity’s use of private assets is the risk of the entity paying or reimbursing amounts that inappropriately benefit the provider of those assets.
- 6.16 The principles of a justified business purpose, and preserving impartiality and integrity, are particularly relevant.

Guidance

- 6.17 Staff members must not approve or administer payments to themselves for the entity’s use of their private assets. We expect public entities to have controls, and monitoring and reporting, to ensure that this is the case.

¹ The Crown Company Monitoring Advisory Unit’s *Crown Company Directors’ Fees and Reimbursement Guidelines* provides further information in relation to directors of Crown companies.

Private use of an entity's suppliers

- 6.18 If an entity enables staff to obtain goods or services from a supplier on the same or similar basis to the entity, and staff are thus able to obtain the goods or services at a discounted price not otherwise available to them, this is private use of official procurement processes.

Issues and principles

- 6.19 If staff have access to an entity's suppliers on the same basis as the entity, they may receive preferential access to goods or services, and potentially at a preferential price, that is not available to the public. The risk is that the availability of the discount to staff will influence the choice of suppliers to the entity. Private use of suppliers must not be taken into account when choosing suppliers.
- 6.20 The main issue is that staff should be moderate in their use of any preferential access to goods or services through an entity's supplier.

Guidance

- 6.21 We expect entities to have a policy regarding staff use of preferential purchasing. Entities should ensure that the selection of suppliers is in the entity's interest, and is not affected by the availability or possibility of purchasing privileges for staff.
- 6.22 Entities that allow staff purchasing directly from suppliers should set value and quantity limits, and monitor their use to avoid any risks to future procurement decisions involving that supplier.
- 6.23 The entity's policy should state that staff cannot use purchasing privileges on behalf of any third party, such as family members or friends, staff pay in full, and an entity must not be used as a source of credit by the entity's staff.

Part 7

Staff support and welfare expenditure

- 7.1 Entities may provide for staff support and welfare in a range of ways. The resulting benefits should be to both the entity and the staff.
- 7.2 For example, an entity may decide to make payments to meet its “good employer” obligations. Or an entity may decide to meet costs for less specific purposes that generally contribute to a good relationship between it and its workforce or among its workforce. Examples are a contribution to a social club or to a sports team representing the entity.
- 7.3 However, an entity also needs to bear in mind that payments for staff support or welfare that could be seen to meet what are ordinarily a staff member’s personal and private expenses can amount to additional remuneration for the staff member. In those circumstances, the entity needs to consider the implications for such matters as tax liability and relevant employment agreements.

Clothing and grooming

- 7.4 “Clothing” includes outerwear, footwear, and other items worn while at work. It also includes uniforms that are worn in the workplace. Uniforms typically identify an entity by displaying the entity’s logo, name, or style. “Grooming” includes dry cleaning of clothing, hairdressing, and other personal appearance treatments.

Issues and principles

- 7.5 The main issue with paying for clothing or grooming is the risk of the resulting benefit to the staff member being disproportionately larger than that received by the entity.
- 7.6 The principles of a justified business purpose, and moderate and conservative expenditure, are particularly relevant.

Guidance

- 7.7 We expect payments for clothing and grooming to:
- support a business purpose of the entity;
 - be moderate and conservative; and
 - as a rule, be of no more than incidental benefit to the staff member.
- 7.8 Other than uniforms and health and safety-related clothing, staff should not normally be clothed or groomed at public expense when they are engaged in normal business activity (whether at home or abroad), except as part of remuneration arrangements.

Care of dependants

- 7.9 A staff member may be responsible for the care of a dependant. Unless the cost is wholly or partly the subject of a component of their remuneration under an employment agreement, it is a personal and private expense of the staff member.

Issues and principles

- 7.10 The principle of moderate and conservative expenditure is particularly relevant.

Guidance

- 7.11 We expect payments for the care of dependants, other than under employment agreements, to be made only in exceptional circumstances – such as when the staff member is unexpectedly required to perform additional duties at very short notice, or a dependant unexpectedly requires additional care that the staff member cannot provide because of the essential nature of their duties at the time.

Financing the activities of a social club

- 7.12 Many entities have staff social clubs. These typically provide the opportunity for staff to have social interaction with both immediate work colleagues and other people within the entity with whom they would not normally have contact. Social clubs may also assist staff to gain a better understanding of the wider roles and functions of the entity.
- 7.13 Employers commonly make a monetary contribution to a social club. The contribution may be in the form of an all-purpose grant towards the club's annual budget, or it may be a grant or subsidy for a specific event.

Issues and principles

- 7.14 It is important that there is a justified business purpose for any contributions an entity may provide to a social club. This purpose would typically be connected with organisational development and staff welfare.

Guidance

- 7.15 We expect contributions to social clubs to be prudent and reasonable in terms of the benefit obtained by the entity.

Farewells and retirements

- 7.16 Expenditure on farewells and retirements includes spending on functions, gifts, and other items when staff are leaving or retiring from an entity.

Issues and principles

- 7.17 Expenditure on farewells and retirements should not be extravagant or inappropriate to the occasion.
- 7.18 The principle of moderate and conservative expenditure is particularly relevant.

Guidance

- 7.19 We expect any expenditure on farewells or retirements to be pre-approved at an appropriate level of management, and to be moderate and conservative.

Sponsorship of staff or others

- 7.20 Staff taking part in an activity that is not part of their job, such as a sporting event, may be sponsored by their entity through the provision of, or payment for, goods or services (for example, a t-shirt or an entry fee).

Issues and principles

- 7.21 Sponsorship should have a justified business purpose, which could include both publicity for the entity and its objectives, and organisational development. The cost to the entity should be moderate and conservative.
- 7.22 If the entity's sponsorship does not have a justified business purpose, the cost is a donation (see paragraphs 8.5-8.8).

Guidance

- 7.23 Sponsorship may be provided directly to the staff member, but it is probably better provided through a social club. We expect sponsorship of people who are not staff to be undertaken in a manner that is transparent. It is also preferable that, if non-staff are sponsored, the sponsorship is of an organisation they belong to, rather than directly of the individual.
- 7.24 People who are not staff may also be sponsored in instances where providing sponsorship is the core business of the entity and the sponsorship is subject to appropriate controls.

Part 8

Other types of expenditure

Corporate boxes – acquisition and use

- 8.1 Corporate boxes are facilities used for entertainment purposes at locations other than those occupied by entities. They are frequently at venues that host sporting events.

Issues and principles

- 8.2 Expenditure on corporate boxes may be appropriate in some circumstances, such as to promote the existence and purpose of the public entity in the context of revenue generation. However, corporate boxes have the potential to benefit not only the entity by contact with its customers or clients but also the entity's staff.
- 8.3 The principles of a justified business purpose, and moderate and conservative expenditure, are particularly relevant. It is also important to recognise that corporate boxes are very visible to the public. While this should not alter an entity's approach, it does mean the risk of perception of private benefit to staff is greater than in other situations. It is therefore especially important that an entity takes all reasonable steps to minimise the risks of perceived private benefit for staff.

Guidance

- 8.4 We expect the acquisition and use of a corporate box to be:
- subject to rigorous assessment based on a full business case;
 - justified on the basis of business advantage, building stakeholder relationships, or charitable purposes; and
 - subject to a clear policy and controls on its use.

Donations

- 8.5 A donation is a payment (in money or by way of goods or services) made voluntarily and without expectation of receiving goods or services in return.

Issues and principles

- 8.6 We expect entities to ensure that:
- donations are for purposes that are consistent with the business of the entity making the donation; and
 - the size of the donation is appropriate in the circumstances.

- 8.7 The principles of preserving impartiality and integrity, and moderate and conservative expenditure, are particularly relevant. Making a donation should not result in any counterpart obligation on individuals or entities, other than to apply the donation to the purposes of the recipient.

Guidance

- 8.8 We expect donations to be:
- lawful in all respects, including complying with Parliamentary appropriations;
 - disclosed in aggregate (where required);
 - made to a recognised organisation by normal commercial means – not to an individual and not in cash; and
 - non-political.

Koha

- 8.9 Koha is a gift, a token, or a contribution given on appropriate occasions.

Issues and principles

- 8.10 The issue associated with giving koha is that it is not a transaction in the usual sense – for example, there is often no written acknowledgement of receipt.
- 8.11 The principle of a justified business purpose is particularly relevant. Entities need to have a policy on, and controls over, giving koha.

Guidance

- 8.12 We expect entities to ensure that:
- their policy on koha includes the means of determining the size of any koha;
 - a koha reflects the occasion;
 - koha are not confused with any other payments that an entity makes to an organisation; and
 - koha are approved in advance at an appropriate level of authority.

Communications technology

- 8.13 Communications technology – such as cellphones, telephones, and e-mail and other access to the Internet – is widely used in the workplace. While some level of personal use of this technology may be unavoidable (such as for dealing with a family emergency during work hours), excessive use incurs costs that are a diversion of public money from the business purposes of the entity. Such costs

include lost productivity (including from incoming personal e-mails and phone calls) and the direct cost of the technology.

Issues and principles

- 8.14 The risk associated with personal use of an entity's communications technology is the cost to the entity of it being used excessively. An entity should not install communications technology exclusively or predominantly for personal use by staff.
- 8.15 A further risk includes the technology being used for purposes that are not consistent with the entity's goals. An example would be use of Internet access for downloading or e-mailing unacceptable material.
- 8.16 The principles of a clear business purpose, and moderate and conservative expenditure, are particularly relevant. Any personal use of communications technology must be well managed through adequate controls and regular monitoring and reporting.

Guidance

- 8.17 We expect entities to:
- have policies on personal use of communications technology and ensure that staff are well informed of them; and
 - where it is administratively possible and cost-effective for them to do so, require reimbursement of personal use of communications technology.
- 8.18 Refer also to guidance on private use of entity assets (see paragraphs 6.10-6.13) and entity use of private assets (see paragraphs 6.14-6.17).

Gifts

- 8.19 A gift is usually given as a token of recognition of something provided by the recipient.
- 8.20 Gifts may be given by a public entity – such as to an employee for long or outstanding service, or in international relations when the giving of gifts is customary – or may be given by another organisation to a public entity or an entity staff member.
- 8.21 Gifts usually take the form of some tangible object, but might also be in the form of, for example, free use of a corporate box at a sporting event or privileged access to goods or services.

Issues and principles

- 8.22 The major risks with gifts include that:
- the value or nature of a gift is inappropriate or excessive to the occasion or the reason for it being given;
 - the gift is given in explicit or implicit expectation of favour in return; and
 - the gift is given in substitution for legitimate payment or remuneration.
- 8.23 The principles of a justified business purpose, moderate and conservative expenditure, and acting with integrity and preserving impartiality are particularly relevant.

Guidance

- 8.24 We expect entities to have a policy on giving gifts, including specifying the purposes for which and occasions on which it is acceptable, and the nature and value of gifts that are appropriate to particular occasions.
- 8.25 We recognise that receiving a gift is not strictly an issue of sensitive expenditure. This is because it does not involve expenditure on the part of the organisation or individual receiving a gift. Receiving a gift is nevertheless a sensitive issue, and one that entities need to manage carefully. It is especially important that receiving a gift does not alter an entity's or individual's decision-making, as this could be perceived as acting without impartiality or integrity.
- 8.26 We expect entities to:
- require receipt of gifts, except for inexpensive gifts that are openly distributed by suppliers and clients, to be disclosed, to be recorded in a gifts register, and to remain the property of the entity;
 - allow staff to personally acquire only infrequent and inexpensive gifts that are openly distributed by suppliers and clients (for example, pens, badges, and calendars); and
 - have policies defining "infrequent" and "inexpensive" in relation to receiving gifts.

Appendix 1

Our reports covering aspects of sensitive expenditure

- 1994, *Report on expenditure on the Base Commander's residence at RNZAF Ohakea*
- 1995, *Financial management by Te Mangai Paho*
- 1997, *Follow-up inquiry into financial management by Te Mangai Paho*
- 1999, *Inquiry into events surrounding the chartering of aircraft by the Department of Work and Income*
- 2000, *Waitakere City Council: Payments and associated issues relating to certain staff redundancies.*
- 2002, *Cambridge High School's management of conflicts of interest in relation to Cambridge International College (NZ) Limited*
- 2002, *Certain matters arising from allegations of impropriety at Transend Worldwide Limited*
- 2002, *Severance payments in the public sector*
- 2003, *Inquiry into expenses incurred by Dr Ross Armstrong as Chairperson of three public entities*
- 2003, *Inquiry into public funding of organisations associated with Donna Awatere Huata MP*
- 2004, *Conflicts of interest: A guide to the Local Authorities (Members' Interests) Act 1968 and non-pecuniary conflicts of interest*
- 2004, *New Zealand Trade and Enterprise: Administration of the Visitor Investing Programme*
- 2005, *Central government: Results of the 2003-04 audits, Part 6 – Board chairpersons' expenses*
- 2005, *Inquiry into certain aspects of Te Wānanga o Aotearoa*

Appendix 2

Other sources of advice

- Cabinet Office Circular CO(06)8, *Fees Framework for Members of Statutory and Other Bodies Appointed by the Crown*, available at www.dpmc.govt.nz/cabinet/circulars/co06/8.html.
 - The *Fees Framework* sets out the approach and expectations for setting fees and allowances for members of all statutory bodies, non-statutory bodies, and committees in which the Crown has an interest.
- Crown Company Monitoring Advisory Unit, 2004, *Crown Company Directors' Fees and Reimbursement Guidelines*, Wellington, available at www.ccmau.govt.nz.
 - This document sets out the shareholding Ministers' expectations for the payment of directors' fees and expenses. The advice is intended to be used by chairpersons, directors, and managers of Crown entity companies and State Owned Enterprises.
- Institute of Internal Auditors New Zealand Incorporated, 1996, *A Management Guide to Discretionary Expenditure*, Auckland.
 - This document outlines areas of potential risk and provides ideas and examples of good discretionary expenditure practice.
- Ministry of Education, 2005, *Financial Information for Schools Handbook*, Wellington, available at www.minedu.govt.nz.
 - This handbook is intended to be a single reference point for school trustees, principals, and administrators, and covers some aspects of sensitive expenditure.
- State Services Commission, 2005, *New Zealand Public Service Code of Conduct*, Wellington, available at www.ssc.govt.nz.
- State Services Commission, 2006, *Board Appointment and Induction Guidelines*, Wellington, available at www.ssc.govt.nz/board-appointment-guidelines.

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