

**INTERNAL AUDIT/REVIEW OF SENSITIVE
EXPENDITURE FOR THE PERIOD**

01 July 2016 – 31 December 2016

1. OVERVIEW

This is the 6 monthly review of sensitive expenditure incurred by the Taupo District Council during the period 01 July 2016 – 31 December 2016. These reviews are completed in response to matters raised by Audit New Zealand in the past and aim to ensure that the current Sensitive Expenditure Policy is being implemented consistently across the Council, records of implementation are created and stored correctly and identify areas where improvements can be made.

The current Sensitive Expenditure Policy adopted on 28 July 2015 defines sensitive expenditure as any Council expenditure where there may be a perceived personal benefit to elected members or staff. Expenditure that could be considered unusual for a Council is also deemed to be sensitive expenditure.

Sensitive expenditure will have one or more of the following attributes:

- Results in a perceived or real private benefit to the individual.
- May be an unusual expenditure item for Council.
- Does not directly align with the core business of Council or has a poor link to the business purposes of Council.
- Usually a discretionary expenditure item.
- Could be difficult to justify to the public.
- May involve a conflict of interest [legal or ethical].
- May be considered an extravagant or immoderate expenditure.

In addition to this definition it specific areas of sensitive expenditure as:

- Council Credit Cards
- Travel & Accommodation
- Entertainment & Hospitality
- Goods and Services
- Staff Support
- Other

2. SCOPE OF AUDIT/REVIEW

This audit/review was completed by reviewing records of sensitive expenditure authorised by sensitive positions (Those positions with over \$25,000 delegated financial authority) completed using the Electronic Purchase Order (EPO) systems, reimbursements claims through the payroll system for sensitive expenditure and all credit card purchases made on council credit cards (not including DGLT).

3. OBSERVATIONS

3.1 Section 7 - Council Credit Cards

While permitted by the current policy, the Chief Executive and Mayor have not been issued with Council credit cards. The Council has only 3 credit cards issued to staff under the provisions of section 7.3 of the policy and the use of these cards is strictly controlled and monitored as required by the current policy. All credit card purchases are monitored and reviewed by the Group Accountant and their team to ensure that the use of credit cards is in accordance with the policy with full monthly breakdowns of credit card purchases prepared and reviewed.

During the 6 months covered by this audit/review a total of 271 transactions were made on council credit cards with 91 of these directly related purchases that fall within the definition of sensitive expenditure. The balance of 180 transactions consist of day to day business expenses such as road user charge payments, radio licenses, Facebook charges etc. which payment by credit card is the most effective way of payment.

No variations from the policy were observed.

3.2 Section 8 – Travel & Accommodation

135 incidents of expenditure were identified and reviewed for accommodation and travel. These consisted of 52 using the EPO system, 32 staff reimbursements through the payroll system and 51 were made using council credit cards and reviewed under that section.

Generally, all travel and accommodation is being booked through Customer Services with payment through the EPO system or council credit card and appears to meet the requirements of the policy. There were 3 incidents where payments were made by individuals and reimbursed through the payroll system but these were justifiable under the circumstances that they occurred.

Staff reimbursements to staff for travel & accommodation mostly related to reimbursements of taxis and shuttles for staff and elected representatives while attending training courses or meetings in other towns and are generally unavoidable and acceptable. The current policy does require shuttles to be used where practical in lieu of taxis. The majority of reimbursements involved travel from Wellington airport to Wellington City and the reimbursement records would indicate taxis as the preferred mode of transport. Unless a taxi is being shared, based on published fares, a taxi would be more expensive each way. In one situation we had 2 staff members from different departments attending the same training course with each being reimbursed for a taxi fare from the airport to the venue and back again. With greater communication this could have been avoided.

The providing of meals is covered in the policy under travel and accommodation and would seem to apply to meals where a person is required to stay overnight. In these situations staff reimbursements were consistent with the policy. However the policy is silent on the matter of providing meals and refreshments for staff that are required to travel out of Taupō for no more than one day and accommodation is not required. For the purposes of this review these are under other miscellaneous and other expenditure.

Two reimbursements for staff using private vehicles were identified with no details as to why the staff members were required to use their own private vehicles. Staff are expected to always use a Council vehicle if one is available and any claim for the use of a private vehicle requires pre-approval in all instances. No evidence of pre-approval was recorded but subsequent investigation identified that use was preapproved and related to Council business.

3.3 Section 9 – Entertainment & Hospitality

30 incidents of expenditure were identified and reviewed for entertainment & hospitality. These consisted of 10 using the EPO system, 4 staff reimbursements through the payroll system and 16 were made using council credit cards and reviewed under that section.

No variations of the policy were identified.

3.4 Section 10 – Goods and Services Expenditure

No records of expenditure within this category were identified.

3.5 Section 11 - Staff Support & Welfare Expenditure

46 purchases for staff support and welfare were identified and reviewed. These were broken into 22 made using the EPO system, 6 staff reimbursements through the payroll system and 18 made using council credit cards and reviewed under that section.

No variations from the policy were observed.

3.6 Section 12 – Other Types of Expenditure (Donations, Koha & Gifts)

Due to the broad description in the policy for donations and koha, sponsorships and grants were included and reviewed. 25 purchases were identified with 20 being made using EPOs, 1 staff reimbursement through the payroll system and 4 made using council credit cards and reviewed under that section.

2 purchases of gifts made using the EPO system did not identify who the recipients were and simply identified them as delegations. Further investigation of these purchases confirmed that they related to gifts obtained from a local business's purchased and held at the Council offices and given out when required.

No record of who has received these gifts and when they received them is recorded. A register of gifts purchased in advance and when and to who they are presented should be maintained.

No other variations from the policy were identified.

3.7 Other Miscellaneous

While not a specific section in the policy the principles detailed in part 1 (sections 1 – 6) were considered and using these principles. 30 purchases made using the EPO and 15 staff reimbursements were reviewed.

By far the single most common expenditure or reimbursement was for food and refreshments which equated to 23 EPOs and 14 reimbursements.

This miscellaneous expenditure was predominately associated with council committee meetings and workshops (7), in-house staff training and meetings (7) and general staff related occasions. For council committee meetings and in-house staff training, compliance with the policy was demonstrated. The other general staff related occasions could not demonstrate compliance and in 11 of these expenditures no reasons for the expenditure were given.

The staff reimbursements identified related to meals and refreshments staff consumed while undertaking council work. As mentioned earlier, providing of meals is covered in the current policy under travel and accommodation and would seem to apply to meals where a person is required to stay overnight. However the policy is silent on the matter of providing meals and refreshments for staff that are required to travel out of Taupō for no more than one day and accommodation is not required. In these circumstances all 15 reimbursements related to these situations.

While sensitive expenditure by definition, the current policy provides no guidance as what is considered appropriate or not in these situations and results in a degree of subjectivity and variance within the Council. For the purposes of this report they have been identified but no decisions on their compliance or with the current sensitive expenditure policy can be made.

4. SUMMARY

The current systems in place for credit cards and electronic purchase orders appear to still be working well and those in sensitive positions demonstrate a good knowledge of the requirements of the current policy.

Reimbursements through the payroll system is an area which could benefit from some procedural improvements and guidance to improve the understanding of what is considered to be sensitive expenditure, when it can be considered justified and the evidence required to be provided with every claim to demonstrate this.

The recording of gifts purchased in advance for giving to guests and delegations needs to be implemented and for audit purposes compliance with the policy in these instances cannot be established.

Reimbursement for the use of private vehicles in the two incidents covered in this report did not provide adequate reasons and compliance with the policy could not be established at the time of the review but subsequent investigations confirmed compliance with the policy.

Recommendation 1 – Purchasing of gifts for delegations or guests of the Council.

That for the Council maintains a register of gifts it has purchased in advance and presented to guests of the Council. This register should identify the type of gift, it's value, how and when the gift was purchased, the date and reason and to whom the gift was given.

Management Response

Agreed. A process will be put in place.

Recommendation 2 – Reimbursements for the use of private vehicles

That the organisation adopts a system where private vehicles are used that clearly identifies prior approval being obtained, the reasons why a private vehicle is being used and why other travel means (including Council owned vehicles) is not practical or cost effective. This information should be included with the approval for reimbursement and staff with delegated financial authority made aware of this requirement.

Management Response

Agreed. Use of Council vehicles is always the preferred option

Recommendation 3 – Use of taxi's and shuttles

The expectation is that, where available and suitable, public transport or shuttle bus services should be used. Taxi services should not be used unless there are no other suitable services available or where it is shared and the costs are cheaper than alternatives with the reimbursement demonstrating that they are the only viable or the most cost effective transport option available at the time the trip was made.

Management Response

Agreed.

Recommendation 4 – Update the reimbursement through payroll system

That the reimbursement of expenses through the payroll system is updated to provide greater guidance on

- what expenditure is considered sensitive expenditure, and
- the information required in support of each reimbursement claim.

Where the required information is not provided or compliance with the sensitive expenditure policy cannot be clearly demonstrated, reimbursements of expenditure should be declined.

Management Response

Agreed.

Recommendation 5 – Providing meals and refreshments while on Council business

As previously recommended, this will need to be considered when the Sensitive Expenditure Policy is reviewed in 2018.

Management Response

Agreed. To be considered at the review of this policy later this year.

Signed: _____ Reviewed: _____
Risk Manager Date Group Manager Date
Corporate & Community