

**INTERNAL AUDIT/REVIEW OF SENSITIVE
EXPENDITURE FOR THE PERIOD
01 January 2017 – 30 June 2017**

1. SCOPE OF AUDIT/REVIEW

This audit/review was completed by analysing records of sensitive expenditure approved by staff in sensitive positions (those with over \$25K delegated financial authority as agreed with Audit NZ) during the last 6 months of the 2016/17 financial year. It was completed using information contained within the Electronic Purchase Order (EPO) system, claims for reimbursements through the payroll system and credit card purchases made on council credit cards.

The review looks at expenditure incurred within the categories identified in the current Sensitive Expenditure Policy adopted on 28 July 2015 being;

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

2. OBSERVATIONS

2.1 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 207 transactions were made on council credit cards with 63 of these directly related purchases that fall within the definition of sensitive expenditure. The balance of 144 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

214 incidents of expenditure were identified and reviewed for accommodation and travel. These consisted of 108 using the EPO system, 53 staff reimbursements through the payroll system and 53 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.

Staff reimbursements to staff for travel & accommodation mostly related to reimbursements of taxis or shuttles and meals for staff and elected representatives while attending training courses or meetings in other towns and is generally unavoidable and acceptable.

The current policy does require shuttles to be used where practical in lieu of taxis. This requirement does not appear to be widely understood and followed and taxis appear to take preference over There still appears to be a strong preference for using taxis rather than shuttles by the majority of staff.

Two reimbursements were made for staff members for the use of private vehicles that did not appear to be consistent with the current Sensitive Expenditure Policy and the current Vehicle User Policy in that

no record of prior approval was recorded and the reasons identified were not consistent with the accepted reasons for using their own private vehicle.

3.3 Section 9 – Entertainment & Hospitality

39 incidents of expenditure were identified and reviewed for entertainment & hospitality. These consisted of 12 using the EPO system, 10 staff reimbursements through the payroll system and 17 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

85 purchases for staff support and welfare were identified and reviewed. These were broken into 52 made using the EPO system, 15 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. 32 expenditures were identified with 24 being made using EPOs, 6 staff reimbursements through the payroll system and 2 made using council credit cards and reviewed under that section.

Three purchases of gifts made using the EPO system and one staff reimbursement for gifts did not identify who the recipients were and simply identified them as delegations. While the giving of gifts to various delegations is consistent with the activity involved, for audit purposes compliance with the policy could not be confirmed on the information obtained.

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. 31 expenditures were identified with 14 purchases made using the EPO system, 16 staff reimbursements made through the payroll system and 1 expenditure made using council credit cards and reviewed under that section.

By far the single most common expenditure or reimbursement was for food and refreshments which equated to 12 of the EPOs and 14 reimbursements. No issues were identified with expenditure completed using the EPO system and Council credit cards.

However a number of issues were identified with staff reimbursements particularly relating to the requirements of the policy that require expenditure decisions to;

- Have a justifiable business purpose.
- Be moderate and conservative, having regard to the circumstances.
- Be made transparently.
- Be appropriate in all respects [ie are justified and preserve Council's good reputation].

It is difficult to consider reimbursements for lunches, drinks (coffees, teas, water etc.) while outside the district for activities such as viewing facilities and systems of other Councils as being appropriate, conservative and moderate or having a justifiable business purpose. Most of these incidences are minor but never the less demonstrated poor judgement and most certainly would fail the appropriateness test.

3. SUMMARY

Apart from some minor issues with descriptions on electronic purchase orders, these and credit card purchases appear to be working well and the outcomes are consistent with the sensitive expenditure policy.

Reimbursements through the payroll system are continuing to provide inconsistencies with the current policy. While the these reimbursements are required to be approved by persons in sensitive positions in most cases and the Sensitive Expenditure Policy Part 3.1 states, "Overall responsibility for this policy rests with the Mayor, Councillors and the Senior Leadership Group [SLG], this group must make it clear to staff what is and is not acceptable sensitive expenditure and model those behaviours to the highest standard." There would appear some work needed to ensure all staff are aware of their responsibilities.

Recommendations from previous reports do not appear to have been implemented and variations from the policy are still occurring.

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

As raised in earlier reports it is **strongly recommended** that 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, its value, how and when the gift was purchased, the date and reason the gift was given.

Management Response

Agreed. Staff have been instructed to establish a gift register to record gifts given as well as those received.

Strong Recommendation 2 – Reimbursements for the use of private vehicles

As raised in earlier reports it is **strongly recommended** that the organisation adopts a system where all the requirements of the policy for the reimbursements where private vehicles are used 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.

All staff with delegated financial authority need to be aware of the requirements around reimbursements for the use of private vehicles.

Management Response

Agreed. The processes for approval and reimbursement for private use of vehicles are being reviewed and updated. Additional training has been given to all second and third tier managers.

Strong Recommendation 3 – Use of taxi's and shuttles

As raised in earlier reports it is now **strongly recommended** that all staff be made aware of the expectation 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.

Reimbursements should only be made for the cost of the cheapest suitable option.

Management Response

Agreed. Additional training has been given to all second and third tier managers. Currently reviewing current processes to improve how this is managed.

Strong Recommendation 4 – Providing meals and refreshments while on Council business

As raised in earlier reports it is now strongly recommended that the Council review its current practices and policies on supplying staff with food and refreshments or reimbursing staff for supplying their own when they are working either in or out of the district. The review should consider and identify when food and refreshments are justifiable and the what type of food and refreshments meet the requirements of the policy in that they

- Have a justifiable business purpose.
- Be moderate and conservative, having regard to the circumstances.
- Be made transparently.
- Be appropriate in all respects [ie are justified and preserve Council's good reputation].

Management Response

Agreed. Recommended changes to Sensitive Expenditure for meals/food and refreshments to have been developed and will be put to the Audit and Risk Committee to consider

Strong Recommendation 5 – Provide additional training for staff on the Sensitive Expenditure Policy

Complete new or refresher training to all staff on what is sensitive expenditure and the procedures they must follow when undertaking any sensitive expenditure within the next 3 months.

Management Response

Agreed. Refresher training for second and third tier managers planned. Proposed updates to current policy will be communicated to staff once approved.

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