
2 Review of the Previous Chief Executive's expenses

In July 2017, we were asked by the DHB's Chairman to carry out an investigation into the previous Chief Executive's management of his expenses and any related matters. This investigation was to include consideration of the previous Chief Executive's compliance with statutory obligations, the DHB's policies, and any other relevant matters that may arise during the investigation. We agreed to undertake the review as part of our 2016/17 annual audit by extending the scope of our normal testing approach to focus on the concerns raised. The scope and extent of the work would be more detailed than we would normally conduct to complete our audit.

The objective of our audit was to assess the appropriateness of the expenses claimed by the DHB's previous Chief Executive. We would do this by testing the expenses in the period the Chairman specified against the DHB's policies and guidance; any contractual agreements, statutory requirements and the Office of the Auditor-General's good practice guide: *Controlling Sensitive Expenditure: Guidelines for public entities*. We would provide a formal report at the conclusion of the process to the Chairman setting out our findings and any recommendations.

On 7 August 2017, part way through the completion of our extended work, the Chairman asked us to suspend our work following the Board's Remuneration Committee having met and deciding to employ a Barrister to undertake further investigation into the matter and to continue our work once the Barrister's work was complete.

Our work at that stage was incomplete as we were still reviewing, assessing and seeking explanations of the expenses that we had reviewed, but we had identified that there were a number of concerns around compliance with the DHB's policies and guidance. This put us on enquiry as we needed to understand the nature and extent of the problems that we had encountered and assess the impact on the financial statements and any other probity concerns. Therefore, in order to complete the audit, it was necessary for us to continue the work we had begun.

In completing our work on the previous Chief Executive's expenses as described above, we sought explanations and clarification on a number of issues. We were told by DHB staff that some of this information would need to be provided by the previous Chief Executive as the DHB did not hold this information as in some instances the previous Chief Executive made the travel bookings himself. Therefore whilst we received some information from DHB staff, we have not received all the information requested.

Our work has also been delayed by the many requests for information that the DHB has received in relation to this matter, making it difficult for us to obtain information and explanations.

We have been advised the Board is still in the process of negotiation with the previous Chief Executive seeking explanations for particular travel undertaken and the recovery of the cost of unauthorised travel.

As we set out above, we were not able to complete all the work we intended to carry out on the previous Chief Executive's expenses. In particular, we have not been able to seek clarification or explanations about particular expenses from the previous Chief Executive. We did not receive all the information we sought from management staff at the DHB. We were told that some of the information we had sought could only be provided by the previous Chief Executive. Subsequent to our review of the information provided to us by the DHB to support the previous Chief Executive's expenses, the DHB has made available on its website all the information concerning the previous Chief Executive's expenses. We have reviewed this information to ensure that it is comparable to the information that we were given. As a result of this work we have identified that there were some minor differences in the information provided to us. Since we completed our work on the previous Chief Executive's expenses, the DHB has further investigated those expenses and identified additional relevant information, and some discrepancies in the information initially provided to us. As a result, our work on the previous Chief Executive's expenses is incomplete, and it is possible that there may be other information held by these parties which could change our findings and conclusions. As a result only limited assurance can be taken from our work.

2.1 Approach

Our testing was aimed to confirm that the DHB's policy and processes had been complied with and that good practice with regards to public entity sensitive expenditure was also achieved. We reviewed a range of the DHB's policies. These included the *Staff Travel and Accommodation Policy (2013)*; *Delegations of Authority (2014)*; and *Purchasing Card Policy (2015)*.

We assess good practice against the guidance contained in the Office of the Auditor-General's (OAG's) good practice guide: "*Controlling sensitive expenditure: Guidelines for public entities*". Where relevant, we sought to confirm the expenses to relevant contractual requirements. This related primarily to the relocation expenses.

We were provided with a summary of all the previous Chief Executive's travel and expenses in the form of the State Services Commission returns for 2014/15; 2015/16; and 2016/17.

In undertaking the testing, we traced expenses from the State Services Commission request forms, Tandem's booking confirmations and other supporting approval documentation. There is a possibility that expenses have been incurred by the previous Chief Executive that are not listed on the returns and these have not been tested.

The work completed to date, however, has raised a number of concerns which are summarised below.

2.2 Policy

We noted that the staff travel and accommodation policy was due for renewal on 1 April 2016. We have sighted the draft policy which is in development.

We have previously recommended in our interim management report that policies are reviewed before they are due to for review and renewal so that they continue to remain relevant and up to date.

Our testing of the previous Chief Executive's expenses has highlighted areas where the DHB may wish to strengthen its sensitive expenditure policies as part of any review process undertaken.

2.3 Approval

One of the tests we undertook was to establish whether the expenditure had been approved by a person with the appropriate delegated authority.

The policy covering delegations of authority stipulates that

“the Board Chairman shall approve the Chief Executive's budgeted expenses. When the Chairman is unavailable 1) the Deputy Chair or 2) Chair of the Audit & Risk Committee shall be authorised to approve expenses.”

Furthermore, the policy covering staff travel and accommodation requires authorisation to be obtained before bookings are made. This is in relation to travel and/or accommodation for a course, conference or business-related travel and all overseas travel.

Our testing found:

- A number of instances of travel were not approved. These occurred in 2016/17.
- One instance of travel which was approved by the Chief Financial Officer who does not have delegated authority to approve the previous Chief Executive's travel requests.
- A number of instances of travel each year were retrospectively approved. In some cases, the approval may have been around the time of the travel, albeit after the travel was booked. For a number of instances of travel, there is evidence that this was provided some time after the booking was made to enable the State Services Commission returns to be compiled.
- A number of instances of travel where amendments to the travel arrangements resulted in a different cost of travel. We found some of these changes have been retrospectively approved by the Chairman, however, some have not. In some instances it is hard to tell whether the amendments have been approved or not. We accept that some changes may be inevitable, however, where the travel requires additional flights, accommodation or car rental, good practice suggests these should be approved before they are booked.
- Two travel request forms which have been approved state “see attached” for the details of the travel arrangements. It is therefore not clear what arrangements were approved as in these examples the travel plans were amended on a number of occasions resulting in different costs. We noted a further example where the travel request form did not specify the time

period for the travel and therefore it is not clear about the duration of the accommodation approved.

We recommend the DHB ensures compliance with the DHB's policies for approval of travel arrangements. All travel requests should be authorised by a person with the appropriate delegated authority.

We also recommend the DHB clarifies its expectations for the authorisation of changes to travel arrangements. This should be incorporated into the policy for staff and accommodation and procedures should be established to ensure the policy is adhered to.

Management comment

We are communicating requirements for compliance to policy and are actively monitoring compliance. We will address the expectation for authorisation of changes to travel in our next policy review.

2.4 Business purpose

The OAG's good practice guide: "Controlling sensitive expenditure: Guidelines for public entities" (the Sensitive Expenditure Guidelines) states that expenditure decisions should have a justifiable business purpose. Our testing has therefore sought to confirm that a business purpose has been included for each expense.

We expect that where relevant there should be sufficient documentation to evidence the business purpose. For example this could include agendas or conference programmes.

We found:

- A number of the travel request forms in 2016/17 did not include the stated business reason for travel.
- A number of the travel request forms had a business purpose that was retrospectively completed.
- A number of travel bookings had a stated purpose but it did not explain why each element of the travel was required. This related mainly to international trips. For domestic trips, we noted instances where extra nights were booked, including some into the weekend without explanation.
- Agendas or other similar evidence was not provided for most travel requests including those which were amended and incurred significant additional cost. We accept that for many regular meetings, the context for the meeting may be sufficient. However, there were some more complex travel requests which resulted in significant costs, with no evidence provided to support the business need.
- A number of instances of travel where amendments to the travel arrangements have resulted in a different cost of travel but there is no explanation or business justification noted for the change.

- We found two instances of travel where the travel request form stated one purpose but the expense claims relating to the same travel period have a different stated purpose.

We recommend the DHB ensures that the business purpose for the travel is clearly set out in the approval requests, and that appropriate documentation, such as meeting agendas, are provided to support the request.

Management comment

We agree that the travel purpose should be explicit and meaningful and supported by evidence when practical. We will communicate and monitor our expectations.

2.5 Consideration of personal leave

The OAG's Sensitive Expenditure Guidelines state:

"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."

Furthermore, the DHB's Staff Travel and Accommodation Policy states:

"Waikato DHB shall not pay for any expenses relating to personal travel or accommodation."

- Our testing identified a range of instances where a question of personal cost or benefit is raised:
 - we noted a number of domestic trips where the trip started or ended at the weekend with no evidenced business justification. In these instances, we would expect the costs to be picked up by the individual in line with the policy. To be included within the DHB costs, there should be a clear business need.
- We noted some instances where there was a stated business purpose for the extension but there was no evidence to support this. In these instances, the DHB needs to ensure that there is a clear business need and that this is set out in the travel request for approval.
 - One such example was one of the international trips which crossed over the weekend. This type of expense is reasonable but should remain within appropriate expenditure limits. We also found, for another international trip, that additional costs were incurred and do not appear to be supported by a business justification. In accordance with the policy, such costs should not be incurred by the DHB.
- Testing also found some instances where charges which were personal have been charged to the DHB and subsequently refunded or flagged for refund.

We recommend the DHB reinforces and reminds staff that the DHB's policy does not provide for the DHB to pay for any expenses relating to personal travel or accommodation.

Management comment

We agree – this will be done in communications and we will monitor to ensure staff are complying.

2.6 Process

The Staff Travel and Accommodation Policy sets out the process to be applied for travel bookings. The DHB requires staff (with some exceptions) to book travel, accommodation and rental cars via a Travel Co-ordinator. The policy provides that some Executive Assistants can operate as Travel Co-ordinators for their managers. Travel Request forms are completed, which are then authorised and sent to the Travel Co-ordinator for booking. We understand that the EA to the Chief Executive has the ability to book travel for the Chief Executive and therefore acts as the Travel Co-ordinator in this instance.

Our testing found:

- A number of instances of travel where a travel request form was not completed at the time of travel. We found that in many instances, the travel request form was completed retrospectively, some around the time of travel but some significantly after the event.
- A number of travel bookings were initiated with the external travel supplier by the previous Chief Executive. The booking process should have been instigated by the Travel Co-ordinator to ensure the process and policy are applied correctly and maximum benefits are obtained for the DHB.
- Our testing also found that there were some occasions where insurance was taken up with the international travel booking. We note that the DHB has an organisation-wide policy and that this type of individual insurance is not necessary.

We recommend the DHB ensures compliance with the DHB's processes. Consideration should be given to controls to prevent override. Liaising with external travel supplier may assist to reinforce expectations and identify potential further controls.

Management comment

Addressed in management comments above.

2.7 Supporting documentation for expense claims

The Staff Travel and Accommodation Policy requires that claim forms and all supporting documentation (original invoices) are required to be sent for processing. It also notes that for expenses relating to course and conference travel a copy of the pre-approved Course and Conference form should be part of the supporting documentation.

- During our initial testing, we made enquiries to obtain the receipts to support the expense claims made by the previous Chief Executive. At the time of our onsite visit, these had not been provided (or located). We subsequently received a number of expense claims that covered periods of the previous Chief Executive's employment. In one instance an expense claim did not have a copy of supporting documentation although you advise this has been misplaced.

We recommend the DHB ensures compliance with the DHB's policy.

Management comment

Addressed in management comments above.

2.8 Non-compliance with policy

The Staff Travel and Accommodation Policy states "accommodation is booked on a "room only" basis or "room plus breakfast" basis. The employee is responsible for the payment of all incidentals upon vacating the room."

- Our testing found three bookings where "full chargeback" or "chargeback meals" was set up on the booking. We noted that the costs incurred on these occasions are significantly larger than the quoted nightly rate and it is possible that some costs have been incurred contrary to policy. We have however been unable to confirm this.
- In addition, our testing found some instances where the amount quoted by Tandem as the accommodation rate was significantly different to the rate charged. We have been unable to obtain explanations for this difference.
- We noted one instance where an international leg of a long-haul flight was booked as "business class". The policy states that all long-haul flights should be limited to premium economy. It is possible that the business class noted is the equivalent for the relevant airline.
- We noted in one instance, items included in the accommodation invoice which are not considered in line with policy.

We recommend the DHB ensures compliance with the DHB's policy.

Management comment

Addressed in management comments above.

2.9 Sensitive expenditure

The OAG guidance on sensitive expenditure in the public sector is based on a principle that expenditure in the public sector should be moderate and conservative, having regard to the circumstances.

As a result of the work we have been able to complete to date we make the following observations relating to whether the expenditure is appropriate for a public

sector entity. This is a more subjective view and therefore we raise the following as areas the DHB may wish to clarify its policy and practices:

- We noted a number of nights where the nightly rate for accommodation was in excess of \$250. The DHB may wish to consider whether it sets an organisation-wide threshold for accommodation over which specific one-up approval must be sought in advance of the booking being confirmed.
- We have noted that some international trips appear to have been driven by a particular scheduled meeting. The DHB may wish to consider the value for money in such meetings and how it ensures, where appropriate, whether sufficient consideration is given to alternative means for the meeting, for example video conference.
- We have noted a large number of amendment fees and cancellation fees which have been incurred as a result of cancelled or amended trips. Some of these occur late and therefore result in greater amendment fees. We realise circumstances can arise meaning changes to bookings are required, nevertheless, the DHB may wish to consider whether staff are aware of more cost effective methods of making amendments or booking the right type of ticket initially if amendments may be likely.
- We noted through the testing that there was an indication that hospitality had been potentially offered on some of the international trips but have not noted any declared hospitality received. Whilst we have not been able to confirm whether there was any actual offer/receipt of any gifts or hospitality, we encourage the DHB to reiterate to all staff the need to ensure all gifts and hospitality have been declared and the policy applied.
- We noted two trips to Australia within a five day period. There was no explanation as to the rationale of the two trips. This would have been useful given it is unusual and international travel. It raises the question of value for money.
- We noted two instances of international travel which when corroborated with the previous Chief Executive's diary showed he was on sick leave. As noted in this section, we have not been able to discuss with the previous Chief Executive issues about his expenses, and so are unable to determine whether the entries in his diary for those dates were accurate.

We recommend the DHB ensures travel complies with the OAG guidance on sensitive expenditure in the public sector.

Management comment

Addressed in management comments above.