New Zealand Trade and Enterprise: Administration of the Visiting Investor Programme

December 2004

This is the report of a performance audit we carried out under section 16 of the Public Audit Act 2001.

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Foreword

In May 2004, the Commerce Committee of the House of Representatives asked me to look at the Visiting Investor Programme. The Visiting Investor Programme is administered by Investment New Zealand, which is a business unit within New Zealand Trade and Enterprise.

At the time of the Committee's request, I was conducting a performance audit of the administration of grants by New Zealand Trade and Enterprise. I agreed to also examine the Visiting Investor Programme.

Since 1998, the Visiting Investor Programme has brought potential investors to New Zealand to meet with Ministers, leaders and decision-makers in business, and in local and central government. The investors come to New Zealand as guests of the Government, and are hosted accordingly.

In this audit, I looked at the establishment of the Visiting Investor Programme, the policies and procedures governing it, how it has operated, and its evaluation. I also examined the expenditure incurred under the Visiting Investor Programme, and considered whether or not it was appropriate.

Specifically, I examined visits made by potential investors during the 2002-03 and 2003-04 financial years. For some of those visits, and particularly those during 2002-03, the standard of documentation was poor.

In the 2003-04 year, in cases where the supporting documentation was clear, the expenditure incurred was appropriate given the nature of the Visiting Investor Programme. However, I was concerned that there were no policies setting out appropriate types and levels of expenditure.

New Zealand Trade and Enterprise has already responded to the findings of the audit, setting out how it intends to implement each of the recommendations in this report.

I thank the Board and staff of New Zealand Trade and Enterprise for their assistance during the audit.

K B Brady
Controller and Auditor-General

1 December 2004

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Introduction

The Visiting Investor Programme (VIP) is a managed visit programme for companies and individuals who are considering New Zealand as a location for establishing all or part of their operations. Investors are brought to New Zealand to meet with local business leaders, Ministers, central and local government executives, and service providers such as commercial real estate companies.

Established in 1998, the VIP was originally administered by Trade New Zealand. Responsibility for administering the VIP was transferred to Investment New Zealand (then a business unit within Industry New Zealand) from 1 July 2002. Investment New Zealand became a business unit within New Zealand Trade and Enterprise (NZTE) from 1 July 2003, and continued to administer the VIP.

The Commerce Committee of the House of Representatives asked the Auditor-General to examine the VIP, because the Committee was concerned about the use of public money allocated to the VIP.

We examined the files for 23 visits in 2002-03, and the files for 18 visits in 2003-04. We were unable to include visits in earlier years because of poor record-keeping by Trade New Zealand.

What did we find?

Investment New Zealand did not have comprehensive and clearly established policies and procedures for administering the VIP. It had a 3-page document describing its general policy for administering the VIP, a one-page document for visiting investors, and an expenditure request form for Investment Managers to complete.

We expected there to be a standard selection process for all visiting investors. Between 1 July 2002 and 30 June 2003, when Investment New Zealand was part of Industry New Zealand, no such process existed. From 1 July 2003, Investment New Zealand created an expenditure request form and required the form to be authorised.

We expected there to be a standard assessment process to determine whether an investor should be brought to New Zealand under the VIP. Between 1 July 2002 and 30 June 2003, there was no standard assessment and approvals process. From 1 July 2003, the Director New Zealand authorised the expenditure request forms.

We expected the Director who authorised the form to follow a clearly defined decision-making process, including a set of guidelines against which decisions would be made. We found no such process or guidelines.

We expected that all expenditure incurred under the VIP would comply with appropriate policies, be well documented, and be approved by the relevant authority. However, there were no policies governing what types and levels of expenditure were appropriate under the VIP as a whole, and no procedures for applying the policies when preparing itineraries for specific visits.

We also expected Investment New Zealand to effectively monitor the visits and to record the investment outcomes. Only 4 of the 23 files in the 2002-03 year contained information describing what had occurred or the outcomes of the visit. The files for the 2003-04 year were better; 14 of the 18 files we examined contained information describing what had occurred or the outcomes of the visit.

Operation of the Visiting Investor Programme

The length of visits varied, from a single day of meetings to visits lasting more than a week.

The visiting investors generally spent their time in meetings. Of the 41 visits we examined, 16 visits involved no additional recreational activities, 4 had 2 days of organised recreational activities, and the recreational time for the remainder ranged from half a day to one and a half days.

Spending under the VIP – for international flights, accommodation, meals, recreational activities, and transport within New Zealand – varied considerably for each visit, from a few hundred dollars to more than $20,000.

There were invoices or receipts for all expenditure during the 2 years we examined. However, some of the invoices were insufficiently detailed for us to ascertain the purpose of the spending, or to determine whether it was consistent with the purpose of the visit.

For those visits where the supporting documentation was clear, the expenditure we saw was appropriate, given the nature of the VIP and the standing of the visitors involved.

The main evaluation of the VIP to date has been a joint Ministry of Economic Development and Ministry of Foreign Affairs and Trade review of Investment New Zealand. The review, *The Evaluation of the Implementation of Investment New Zealand,* briefly considered the VIP, and noted that a full review was scheduled for December 2006.

Our recommendations

Our recommendations focus on the need to establish robust policies and processes for the administration of the VIP, in order to minimise the risk of inappropriate expenditure, ensure adequate record keeping, and improve transparency.

1. We recommend that Investment New Zealand require an expenditure request form to be completed for all visits, before an invitation to visit is extended. All forms must be completed in full, explicitly assess the likelihood of investment in New Zealand, and include sufficient information for an informed decision to be made.

2. We recommend that Investment New Zealand establish clear and transparent assessment processes for all proposed visits under the Visiting Investor Programme, and document all decisions with reference to established guidelines.

3. We recommend that New Zealand Trade and Enterprise create guidance that sets out clearly the types and levels of expenditure acceptable under the Visiting Investor Programme, and enable expenditure to be incurred on a basis that is appropriate in each particular case, having regard to the purpose of the visit and the desired investment outcome. Such guidance should also specify the appropriate expenditure for officials when accompanying visiting investors.

4. We recommend that New Zealand Trade and Enterprise require all expenditure under the Visiting Investor Programme to be supported by documentation that shows the nature of the expenditure, and how it relates to the purpose of the visit as identified in the approved expenditure request form.

5. We recommend that Investment New Zealand require the Investment Manager to always write a comprehensive report at the end of a visit, describing:
   - what occurred during the course of the visit;
   - the follow-up actions that are likely to occur as a result of the visit;
   - an assessment of the likely investment possibilities; and
   - the further steps needed to realise such possibilities.

Part 1 – Introduction

1.1 The Visiting Investor Programme (VIP) is a managed visit programme for companies and individuals who are considering New Zealand as a location for establishing all or part of their operations. This may include a new operation, a joint venture or partnership with an existing New Zealand company, or a substantial investment in one or more existing New Zealand companies.

1.2 The VIP targets investment that will create jobs (particularly higher value jobs), provide profitable and sustainable export market access, and introduce new technology and management expertise. It focuses on 6 key sectors:

- information and communication technology;
- biotechnology;
- creative (particularly the screen production industry);
- wood processing;
- niche manufacturing; and
- food and beverage.

1.3 The VIP is used to either generate initial interest in New Zealand or facilitate the closing of deals by likely investors. Investors are brought to New Zealand to meet with local business leaders and decision-makers, Ministers, and the executives of central and local government bodies.

1.4 The visiting investors are treated as guests of the Government. VIP funds are used to cover costs such as food, accommodation, travel, and recreational activities.

Why we decided to look at the Visiting Investor Programme

1.5 Earlier in 2004, the Commerce Committee of the House of Representatives reviewed financial information relating to Industry New Zealand (the entity then administering the VIP). The Committee raised concerns –

> *… over the use and spending of monies allocated to the Visiting Investor Programme, particularly in regard to the lack of disclosure on the use of monies because of commercial sensitivity.*[1]

1.6 As a result, the Committee invited the Auditor-General to examine the VIP. At that time, we were already conducting a performance audit on the administration of grants by New Zealand Trade and Enterprise (NZTE). We agreed to examine the Visiting Investor Programme.

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1 Report of the Commerce Committee (2004), *2002/03 Financial review of Industry New Zealand*, House of Representatives, Wellington.

1.7 We agreed with the Committee that we would examine payments made under the VIP to determine whether:

- robust and appropriate policies and procedures were in place to ensure payments made under the VIP were provided in accordance with programme policy objectives;
- these policies and procedures were being complied with; and
- there was appropriate monitoring and evaluation of payments.

What we examined

1.8 When the Commerce Committee asked us to examine the VIP, we asked Investment New Zealand for a list of all the visiting investors that had been brought to New Zealand, and the expenditure incurred for each visit.

1.9 Investment New Zealand was unable to provide us with complete information for the 2000-01 and 2001-02 financial years, when Trade New Zealand was the entity administering the VIP. For those years, it was not possible to obtain a breakdown of expenditure for each visit.

1.10 Investment New Zealand was able to provide us with the expenditure for each visit for both the 2002-03 and 2003-04 financial years.

1.11 We decided that we would examine:

- for the 2002-03 year, all files and associated costs for visits that had incurred expenditure of more than $1,000 (23 visits totalling $243,165); and
- for the 2003-04 year, all files and associated costs for visits (18 visits totalling $109,053).

Another issue arising from our audit

1.12 The figures above are based on the files provided to us by Investment New Zealand, which are derived through its system of coding invoices. There is some discrepancy between this information and the information provided to a Member of Parliament in response to a Parliamentary Question.[2]

[2] Question for written answer 13277 (2003).

1.13 The Member of Parliament had been told that in the 2002-03 financial year, expenditure of $232,403 was incurred for 21 visiting investors. When the Member of Parliament was provided with the response, it was noted that the information:

- had been compiled by adding together all the expenditure coded to the VIP for that year; and
- had not been physically matched to the invoices for the individual visits.

1.14 We examined files for the same period, but looked only at visits that had incurred expenditure of more than $1,000. We found 23 visits totalling $243,165. We did examine individual invoices for each visit, and matched them to the coded expenditure entries.

Structure of our report

1.15 Our report is divided into 3 further parts:

- Part 2 describes the origin and administration of the VIP.
- Part 3 describes the operation of the VIP.
- Part 4 describes how the VIP is evaluated.

Part 2 – Origin and administration of the Visiting Investor Programme

Establishment of the Visiting Investor Programme

2.1 The VIP was originally Trade New Zealand's Special Investment Project, a "red carpet" visitors' programme. This Project was part of a package of trade and investment initiatives launched by the Government in 1998.

2.2 The Special Investment Project promoted New Zealand as a competitive destination for new investments. It introduced selected guests to "pre-qualified" business opportunities, business networks, and New Zealand's investment climate. The visitors were treated as guests of the Government.

2.3 In 2000, the Special Investment Project was renamed the VIP, but the intent remained largely unchanged. The VIP is one of a range of options that Investment New Zealand uses, in its engagement with clients, to promote New Zealand to overseas investors.

2.4 From its establishment until the end of the 2002-03 financial year, the VIP was funded through *Vote Foreign Affairs and Trade*. The Estimates of Appropriations for 2002-03[3] described the VIP as a scheme aimed at facilitating visits to New Zealand by investment decision-makers. The VIP was said to be one of several such "facilitation services" aimed at increasing direct foreign investment – for which the performance objective, for all the services, was to create 450 jobs for given investments and $90 million in foreign exchange earnings in the 2002-03 financial year.

2.5 When NZTE was established on 1 July 2003, funding for the VIP was moved to *Vote Economic, Industry and Regional Development*, and to a non-departmental output class (O2) entitled Enabling Services – Promotion of New Zealand Business. The Estimates of Appropriations for 2003-04 stated in relation to this output class –

> *The Minister for Industry and Regional Development will purchase from NZTE services to promote New Zealand's products and services both on and offshore to attract investors and to support the development of international trade by New Zealand businesses. Services purchased will also be aimed at building a supportive business environment in New Zealand, by fostering and supporting a culture of entrepreneurship and business success and by promoting the benefits of internationalisation and global connectedness.*[4]

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3 *The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2003*, Parliamentary Paper B.5 Vol I, Wellington, ISBN 0-478-11828-7, pages 588-589.

4 *The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2004*, Parliamentary Paper B.5 Vol I, Wellington, ISBN 0-478-11845-7, page 389.

2.6 No specific mention was made of the VIP, which was not surprising given its size relative to the total amount of funds appropriated under this output class ($21,866,000). However, the Estimates also noted that the performance measures for the output class would be specified in the NZTE Output Agreement[5] for 2003-04 – a statement repeated in 2004-05.

2.7 We found that the 2003-04 Output Agreement between NZTE and the Minister for Industry and Regional Development made no specific mention of the VIP. The VIP is a stand-alone programme with a specific objective. Because of the way participants are selected, and the type of expenditure that is involved, we expected the VIP to be clearly identified in the Output Agreement, with a specific set of performance expectations and measures.

2.8 We note that NZTE's 2004-05 Output Plan corrects this omission, and makes specific reference to the VIP (an appropriation of $671,652).

Administration of the Visiting Investor Programme

2.9 The VIP was administered by Trade New Zealand from its inception in 1998 until 30 June 2002. From 1 July 2002, it was administered by Investment New Zealand, a newly established business unit within Industry New Zealand. From 1 July 2003, the VIP was administered by Investment New Zealand as part of NZTE.

2.10 NZTE was established on 1 July 2003, by the merger of Industry New Zealand (the Government's economic development agency) and Trade New Zealand (the Government's trade promotion agency).

2.11 The organisational structure of NZTE changed during our audit. Between 1 July 2003 and 30 June 2004, Investment New Zealand's Chief Executive reported directly to the NZTE Board. From 1 July 2004, the Chief Executive of Investment New Zealand reported to the Chief Executive of NZTE.

Guidance and processes

2.12 Investment New Zealand has prepared an internal briefing document, setting out how it administers the VIP. This is attached as Appendix 1. The document describes:

- how a decision is made to invite a potential investor;
- how an invitation should be extended to a potential investor;

5 Output Agreements, or Output Plans, are formal documents that record the details of outputs and performance expectations agreed between entities and the Minister or Ministers responsible for the Vote (in this case, the Minister for Industry and Regional Development and the Minister for Trade Negotiations).

- how an application is to be made to the Director New Zealand[6] of Investment New Zealand for approval to incur expenditure under the VIP; and
- how the programme for the potential investor is to be determined.

2.13 Investment New Zealand has also produced a one-page document for visiting investors, describing the purpose of the VIP and how it might be of use. This is attached as Appendix 2.

2.14 We did not find any guidance on acceptable levels of expenditure, or any guidance on appropriate types of expenditure. For example, Investment New Zealand did not have guidelines on the appropriate standards and costs for hotel accommodation and meals – for either the visitors or Investment New Zealand staff accompanying the visitors, and it did not set out its expectations regarding the entertainment of visiting investors.

2.15 We expected such guidance to be in place, particularly given the sensitive nature of the expenditure incurred under the VIP. We discuss this further, and make recommendations for improvement, in Part 3.

[6] The Director New Zealand is responsible for Investment New Zealand's operations in New Zealand, and reports to the Chief Executive Investment New Zealand, who is responsible for Investment New Zealand's global operations.

Part 3 – Operation of the Visiting Investor Programme

3.1 In this Part, we discuss how potential visiting investors were identified, selected and assessed. We also describe the activities of the investors, and the expenditure for visits under the VIP.

How visiting investors became involved

3.2 The Commerce Committee of the House of Representatives, in its 2004 financial review of Industry New Zealand, noted that –

> *Candidates for visits are assessed from a list that is generated from both proactive, research-based targeting of businesses/individuals by Investment New Zealand and in response to parties that may approach Investment New Zealand with an interest in exploring investment. Visitors will typically be business owners and decision-makers and/or their trusted advisors.*[7]

3.3 If an interested investor approached Investment New Zealand, he or she would be assigned an Investment Manager. The Investment Manager would work with the investor to determine whether the VIP was appropriate.

3.4 When the VIP was established, visiting investors were expected to be the Chairpersons or Chief Executives of pre-qualified companies. From 1 July 2004, the VIP was expanded to include technical and advisory personnel.

3.5 In the files we examined, visiting investors were identified in a range of countries and regions, and usually came from Australia, Europe, or North America. There had often been contact between the visiting investor and staff in NZTE's offshore offices.

How Investment New Zealand identified and selected potential investors

3.6 We expected there to be a standard process for all visiting investors brought to New Zealand. Once potential visiting investors had been identified, we expected that a designated decision-maker or decision-makers would consider:

- information about the proposed visiting investor;
- information about the company the visiting investor was representing;

[7] Report of the Commerce Committee (2004), *2002/03 Financial review of Industry New Zealand*, House of Representatives, Wellington.

- information about the visiting investor's areas of interest in New Zealand, and whether New Zealand's investment interests were complementary;
- an assessment of the likely prospects of investment in New Zealand;
- information about the proposed timing and programme for the visit; and
- a budget.

Selection process from 1 July 2002 to 30 June 2003

3.7 From 1 July 2002 to 30 June 2003, when Investment New Zealand was part of Industry New Zealand, there was no standard selection process to bring visiting investors to New Zealand. In the files we examined, it was often unclear why a visiting investor had been brought to New Zealand, and what the likely prospects were of future investment in New Zealand. There were no budgets on file for any of the investors brought to New Zealand during this time.

3.8 The lack of transparency around why visiting investors were brought to New Zealand, and the lack of a clearly defined process, was poor practice.

Selection process from 1 July 2003

3.9 From 1 July 2003, the preparatory work of Investment Managers to identify potential investors culminated in the submission of an "expenditure request" form to the Director New Zealand for approval.

3.10 This form required Investment Managers to provide:

- the name and position of the client;
- background information on the company;
- a description of the client's investment interest in New Zealand;
- the client's proposed programme; and
- anticipated costs.

3.11 The form was used for 15 of the 18 visits from 1 July 2003. The information provided in the form was often brief, and sometimes incomplete, and did not explicitly assess the likelihood of the company investing in New Zealand.

3.12 Investment New Zealand told us that this form was required to be completed before an invitation to the visiting investor was issued. Only 6 of the expenditure request forms for the 2003-04 year were dated, and 2 of the trips were approved after the visit had been scheduled to begin.

Recommendation 1

We recommend that Investment New Zealand require an expenditure request form to be completed for all visits, before an invitation to visit is extended. All forms must be completed in full, explicitly assess the likelihood of investment in New Zealand, and include sufficient information for an informed decision to be made.

How Investment New Zealand assessed potential investors

3.13 We expected that there would be a standard assessment process to determine whether a potential investor should be brought to New Zealand under the VIP.

3.14 As set out in Appendix 1, Investment New Zealand has stated that –

> *An invitation is only offered after analysis of potential investor interests and qualification over whether New Zealand is able to provide suitable opportunities to meet those interests.*
>
> *Discussions with the offshore company/investor need to ascertain the seriousness of the investors' consideration of New Zealand as a location. VIP should not be offered unless New Zealand is on a short list of potential locations, either for establishing a part of the value chain here, or for investment.*
>
> *As these factors are complex and layered, these are not hard-and-fast rules. There is a high reliance on the in-market representatives' investment-related expertise and most importantly their understanding and dialogue with the investor and the dialogue with the appropriate Investment New Zealand sector manager in New Zealand and the Director New Zealand, Investment New Zealand who must approve all VIP trips.*
>
> *Conversely, the potential investor will be making their decision as to whether to come to New Zealand for such a visit. This will be built up through the same dialogue and the provision of information on relevant investment opportunities that relate to their interests.*

Assessment process from 1 July 2002 to 30 June 2003

3.15 From 1 July 2002 to 30 June 2003, there was no standard process for assessing and approving visits by potential investors. We found no evidence at all of assessments or approvals – some files merely contained an itinerary indicating that a visiting investor had been brought to New Zealand.

Assessment process from 1 July 2003

3.16 With the introduction of the expenditure request form, all forms were required to be assessed and authorised by the Director New Zealand. All 15 expenditure request forms that we sighted were signed by the Director New Zealand.

3.17 We expected there to be a clearly defined decision-making process, including a set of guidelines upon which the Director New Zealand would base his decisions. Further, we expected that there would be clear documentation setting out the rationale behind the decisions. We found neither.

Were the selection and assessment procedures satisfactory?

3.18 From 1 July 2002 to 30 June 2003, the selection and assessment procedures were unsatisfactory. There was neither documentation setting out the rationale for bringing a visiting investor to New Zealand, nor any form of approval process.

3.19 Investment New Zealand's selection procedures improved significantly from 1 July 2003, with the introduction of an expenditure request form. The form required Investment Managers to provide basic information about the visiting investor and the purpose of his or her visit. However, the brevity of the information in the forms concerned us.

3.20 In addition, we expected assessments to be made against appropriate guidelines to ensure that the rationale behind the decision to bring the visiting investor to New Zealand was both clear and transparent, and in accordance with the objectives of the VIP. We did not see any evidence of this.

Recommendation 2

We recommend that Investment New Zealand establish clear and transparent assessment processes for all proposed visits under the Visiting Investor Programme, and document all decisions with reference to established guidelines.

Hosting the visiting investors

Organisation of the visit

3.21 Once a visiting investor had been invited to New Zealand, an itinerary was agreed with the investor. The preparation of the schedule and the logistical arrangements were often outsourced to a programme co-ordinator.

3.22 The responsibilities of the programme co-ordinator generally included:

- building a personal preference profile in consultation with the visitor – for example, dietary requirements or leisure preferences;
- booking accommodation and travel;

- in some instances, meeting the visitor at the airport and escorting the visitor to his or her accommodation;
- arranging meetings;
- preparing a schedule for the visit; and
- making any changes to bookings and meetings, if required, during the visit.

3.23 An Investment New Zealand manager was responsible for ensuring that a formal programme was prepared in consultation with all parties. This included the visiting investor, offshore representatives who had been working with the investor, the organisations and Ministers who would be visited, and the programme co-ordinator.

Activities undertaken during the visit

3.24 In the files we examined, the length of visits varied greatly, from a single day of meetings through to several days or even a week. The longest visit we examined lasted 9 days.

3.25 The size of groups brought to New Zealand under the VIP also varied. Sometimes visiting investors came on their own, sometimes in groups of 2 or 3, and in one instance there were 6 people in the group. On at least 3 occasions, there was more than one visit under the VIP by the same investors, or by representatives from the same companies.

3.26 The visiting investors predominantly spent their time in meetings with decision-makers in local businesses, central and local government bodies, and on some occasions, they met with senior representatives of service agencies (such as law firms and commercial real estate agents).

3.27 Of the 41 visits we examined, 25 included recreational activities. In 4 of the visits, the potential investors spent 2 days in organised recreational activities. The recreational time for the remainder of the visitors ranged from half a day to one and a half days. Recreational activities included sightseeing, yachting on Auckland Harbour, and playing golf. On some occasions, visiting investors had opted for free days where no activities had been arranged on their behalf.

Discretionary expenditure for visits

3.28 A 1996 publication produced by The Institute of Internal Auditors NZ Inc[8] clearly sets out the principles that should be applied to the approval of discretionary expenditure. In particular, it notes that there are 4 tests to apply when considering the approval of discretionary or sensitive expenditure:

[8] The Institute of Internal Auditors NZ Inc (1996), *A Management Guide to Discretionary Expenditure: An Aid to Corporate Governance for Chief Executives, Managers, Directors, Audit Committee Members and Internal Auditors,* ISBN 0-9583507-0-1.

1. Does the expenditure support the goals of the organisation?
2. Could the organisation confidently justify this expenditure to a taxpayer, shareholder or other interested party?
3. Would publicity adversely affect the organisation?
4. Does the frequency or significance of the activity warrant the development of a specific policy?

3.29 In another of our inquiries, *Certain Matters Arising from Allegations of Impropriety at Transend Worldwide Limited*,[9] we stated that expenditure should comply with appropriate policies and be prudent, sensible, and demonstrably for business purposes.

3.30 Investment New Zealand had established no guidance on acceptable levels or appropriate types of expenditure under this Programme.

Discretionary expenses incurred by the visiting investors

3.31 In February 2004, the Ministry of Economic Development (MED) and the Ministry of Foreign Affairs and Trade (MFAT) conducted a review of Investment New Zealand (*Evaluation of the Implementation of Investment New Zealand)* and noted –

> *All costs are expected to be 'reasonable', but in line with the 'red carpet' nature of the programme. Accommodation is therefore likely to be in suites rather than ordinary rooms and restaurant meals may be at the top end. The form of assistance provided is however dependent on the potential investor, and could therefore include coverage of all domestic costs as opposed to international travel or other selected costs.*

3.32 Expenditure incurred under the VIP was mainly for international flights, accommodation, meals, and transport within New Zealand. For some visiting investors, Investment New Zealand paid only for costs incurred while the investor was in New Zealand. In other cases, Investment New Zealand covered all costs associated with the visit, including international airfares.

3.33 In the files we examined, expenditure for visits during the 2002-03 financial year ranged from $1,194 to $40,850. In the 2003-04 year, expenditure for the visits ranged from $470 to $27,352. Examples of specific items of expenditure included:

- $185 for a night's accommodation at the Stamford Plaza in Auckland;
- $349 for 5 people to have dinner at the Kermadec Ocean Fresh Restaurant;
- $260 for the hire of golf clubs, green fees, and lunch at the Gulf Harbour Country Club; and

9 Report of the Controller and Auditor-General (2002), ISBN 0-478-18103-5, page 59.

- $2,617 for two people to stay at the Tongariro Lodge for 2 nights, including all meals, transfers to and from Taupo, and a fishing licence.

3.34 The VIP exists to enable international investors to visit and explore investment opportunities as guests of the Government. We would therefore expect the expenditure incurred on travel, accommodation, and entertainment under the VIP to be of a higher standard than that usually considered appropriate when purchased with public funds.

3.35 However, the nature and level of expenditure in each case should be tailored to the visitor in question, and the nature and size of the potential investment. We expected there to be:

- policies governing what types and levels of expenditure were appropriate for visitors under the VIP, and procedures for applying that guidance when preparing itineraries for specific visits;
- documentation of the purpose of each visit, the desired investment outcomes, the approved itinerary designed to address those objectives, the types and levels of expenditure on travel, accommodation, meetings, and entertainment; and
- approval by the relevant authority of all expenditure before it was paid or reimbursed, and given on the basis of supporting documentation clearly linking the expenditure to the purpose of the visit.

3.36 We were provided with invoices or receipts for all of the expenditure identified by Investment New Zealand as incurred under the VIP in the 2002-03 and 2003-04 financial years. However, invoices had insufficient information for 11 out of 23 visits in 2002-03, and for 9 out of 18 visits in 2003-04. For example, some of the costs incurred were paid by a third party, such as a travel agent, and then charged to NZTE without the original invoice. It was impossible to ascertain the purpose of the original spending, or whether it was consistent with the purpose of the visit.

3.37 This was particularly problematic for visits in the 2002-03 financial year. The documentation that year was not sufficient to enable us to ascertain the purpose and appropriateness of each visit and, hence, the purpose and appropriateness of specific expenditure items.

3.38 The introduction of the expenditure request form in 2003-04 year, after Investment New Zealand had been merged into NZTE, led to a distinct improvement in the standard of documentation and made it easier for us to form a judgement about the purpose of specific expenditure items.

3.39 For those visits where the supporting documentation was clear, and allowed us to determine what the expenditure was for, the expenditure we saw was appropriate, given the nature of the VIP and the standing of the visitors involved. However, we were not able to form any such judgement for other visits because of a lack of adequate documentation.

3.40 It was standard practice for Investment New Zealand officials to accompany visiting investors within New Zealand. Some expenditure incurred by officials, such as for meals, was of a higher standard than we would usually consider appropriate when purchased with public funds. Because of the lack of adequate documentation for some of the visits, we were unable to determine the appropriateness of the officials' expenditure. During the preparation of itineraries for the visiting investor, Investment New Zealand should have guidelines on, and consider, appropriate expenditure for officials.

Recommendation 3

We recommend that New Zealand Trade and Enterprise create guidance that sets out clearly the types and levels of expenditure acceptable under the Visiting Investor Programme, and enables expenditure to be incurred on a basis that is appropriate in each particular case, having regard to the purpose of the visit and the desired investment outcome. Such guidance should also specify the appropriate expenditure for officials when accompanying visiting investors.

Recommendation 4

We recommend that New Zealand Trade and Enterprise ensure that all expenditure under the Visiting Investor Programme is supported by documentation that shows the nature of the expenditure, and how it relates to the purpose of the visit as identified in the approved expenditure request form.

How the visits were monitored

3.41 We expected Investment New Zealand to have effectively monitored the visits, recorded what occurred during the visit, and identified any follow-up actions that would further encourage or support the potential investor. We also expected to find an assessment, based on the meetings and other activities that took place during the visit, of the visitor's likelihood of investing in New Zealand.

3.42 An Investment Manager accompanied the visiting investor to all meetings, and at the end of the visit was required to complete a report about what happened.

3.43 For the visits examined between 1 July 2002 and 30 June 2003, when Investment New Zealand was part of Industry New Zealand, only 4 of the 23 files described what had occurred at the meetings and the outcomes of the visit.

3.44 For the visits examined between 1 July 2003 and 30 June 2004, 14 of the 18 files contained information describing what had occurred during the visit.

Recommendation 5

We recommend that Investment New Zealand require the Investment Manager to always write a comprehensive report at the end of a visit, describing:

- what occurred during the course of the visit;
- the follow-up actions that are likely to occur as a result of the visit;
- an assessment of the likely investment possibilities; and
- the further steps needed to realise such possibilities.

Part 4 – Evaluation of the Visiting Investor Programme

4.1 Programme evaluation plays a key role in understanding the effectiveness of Government programmes. MED and MFAT are jointly responsible for monitoring and evaluating NZTE's services, including the VIP. MED's Research, Evaluation and Monitoring Team is responsible for undertaking the evaluation.[10]

4.2 MED and MFAT have 2 main evaluation mechanisms for the VIP:

- an annual review of all industry and regional development programmes; and
- in-depth reviews of specific programmes.

4.3 The VIP is included in the annual MED review, which provides an assessment of the performance of industry and regional development programmes. The 2003 review briefly described the purpose and operation of the VIP.[11]

4.4 In February 2004, MED and MFAT completed a review of Investment New Zealand – *The Evaluation of the Implementation of Investment New Zealand* – in consultation with NZTE and the Treasury.

4.5 The review briefly considered the VIP, and noted that a full efficiency and evaluation review of Investment New Zealand was scheduled for December 2006. The review identified some examples of VIP clients investing in New Zealand, but considered it "problematic and too early to assess the merits of the VIP".

4.6 The authors of the review considered an assessment of the outcomes of the VIP to be difficult because it is not always possible to attribute any investment to the VIP. Other factors identified by the authors as influencing investment decisions included:

- the effectiveness of industry partners after VIP candidates have visited New Zealand;
- the results of any feasibility work undertaken by the potential investor; and
- the VIP might be only one step in the investment decision-making process.

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10 For more information about the evaluation of NZTE's programmes, and in particular its grant programmes, see Part 8 of our report: *New Zealand Trade and Enterprise: Administration of grant programmes*, December 2004, ISBN 0-478-18124-8.

11 Ministry of Economic Development, (September 2004, unpublished), *Industry, Regional and Economic Development Policy: Programme Review 2003*.

4.7 The review recommended that a follow-up survey of clients assisted under the VIP be incorporated into the full efficiency and evaluation review of Investment New Zealand scheduled for 2006.

Implementation of findings identified through evaluation

4.8 The review recommended that the VIP be extended to allow visits by technical and advisory personnel, as well as by those responsible for investment decision-making. This extension was accepted and took effect for the 2004-05 financial year.

4.9 After the more thorough review scheduled for December 2006, we expect that any findings will be considered and that the VIP will be adjusted accordingly.

Appendices

Appendix 1: *Investment New Zealand's document* – Visiting Investor Programme

Appendix 2: *Investment New Zealand's document* – New Zealand's Visiting Investor Programme