



Auditor-General's inquiry into certain types of expenditure in Vote Ministerial Services – Part 1

This is an independent
assurance report about an
inquiry carried out under
sections 16 and 18 of the
Public Audit Act 2001.

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Auditor-General's inquiry into certain types of expenditure in Vote Ministerial Services

On 2 March 2010, the Auditor-General, Lyn Provost, released terms of reference for an inquiry into certain types of expenditure in Vote Ministerial Services that provide or have the potential to provide private benefit to a Minister. The inquiry was initiated by the Auditor-General after separate requests from the Prime Minister, Mr Phil Heatley MP, and the Department of Internal Affairs.

The purpose of the inquiry was to:

- audit the expenditure incurred by Mr Heatley's ministerial office from when he became a Minister in November 2008 until he resigned from his ministerial portfolios for Housing and Fisheries on 25 February 2010;
- review the rules, policies, and procedures to see whether they are appropriate and effective, and identify any improvements that can be made; and
- consider any other matters that the Auditor-General considers relate to, or arise from, the above.¹

This report addresses the first part of our inquiry's terms of reference. We summarise the general principles that apply to public expenditure where there could be private benefit and our overall findings and conclusions, followed by a detailed report about our audit of Mr Heatley's ministerial office's expenditure. We intend to report separately on the remaining parts of our terms of reference.

General principles: public expenditure where there could be private benefit

The public rightly expect all those who spend public money to recognise that it is public money. There is heightened sensitivity when public money is spent on items that have the potential or can be seen to give private benefit to a person. There is even greater sensitivity for Ministers and members of Parliament, who must manage the line between ministerial, parliamentary, party political, and personal spending.

The expenditure needs to be reasonable and managed with extra care so that it can withstand public scrutiny. That means considering how an outside observer may reasonably perceive the expenditure. It is sensible to take a conservative approach in managing these boundaries and to apply careful judgement.

It is also important that the rules and administrative processes supporting the rules are clear, practical, and align with common sense.

¹ Our full terms of reference can be found on our website, www.oag.govt.nz

Although the sums of money involved in such issues and discussed in this report are often small, the principles involved are important and the consequences of mistakes can be significant.

Overall findings and conclusions

Mr Heatley's overall ministerial office expenditure was reasonable compared to expenditure incurred by other ministerial offices for the period we looked at. We found that a total of \$1,402 of Mr Heatley's expenditure – \$608 in Vote Ministerial Services and \$794 in Vote Parliamentary Service – was outside the rules. In all cases, Mr Heatley thought that the expenditure was within the rules, but he did not understand the rules correctly. In the case of the expenditure in Vote Parliamentary Service, the Parliamentary Service was also administering a rule incorrectly for members of Parliament, and Mr Heatley is not the only member who will have been affected.

We found that Mr Heatley generally took care to account for his expenditure appropriately. His Senior Private Secretary took her responsibilities seriously in managing the ministerial office expenditure. On occasion, Mr Heatley's ministerial office received a reminder from Ministerial Services to submit a late reconciliation of his expenses or invoices or receipts; these were standard reminders that are sent by Ministerial Services to many ministerial offices. The problematic expenditure that we discuss in this report was approved by the relevant officials and was never queried with Mr Heatley or his Senior Private Secretary. For some items of expenditure, it was not clear from the supporting documentation provided that it was outside the rules, but it was for others.

We accept that the expenditure outside the rules was not deliberate on the part of Mr Heatley or his ministerial office, and that he had repaid a sum of money before we started our inquiry. He has also personally paid for expenses that are allowed under the rules.

Mr Heatley's incorrect understanding of the rules suggests that the rules may not be clear or clearly understood by those who incur expenditure. We intend to explore this matter further in the remaining parts of our inquiry. We note that the expenditure that was outside the rules was for relatively small amounts. However, small amounts add up, and even mistakes involving small sums can have major consequences. The rules need to be clear and the way they are administered needs to support Ministers to make good judgements about expenditure.

Notwithstanding deficiencies in rules or the systems for administering them, everyone spending public money – in this case Mr Heatley – has a personal responsibility to manage their expenditure appropriately with good judgement. In our view, even though Mr Heatley was sometimes operating under an incorrect understanding of the rules – for example, when his wife and family accompanied him on ministerial business – a more conservative approach that took greater account of how others might perceive his use of public money would have served him better.

Appropriation issues

All public spending must be authorised by Parliament through an appropriation. In the particular circumstances of the Vote Ministerial Services and Vote Parliamentary Service appropriations, any breach of the rules results in unappropriated expenditure. The expenditure outside the rules is unlawful and requires remedial processes to correct the problem and validate the expenditure.

Some lessons from our inquiry

Our inquiry highlights the need for careful decision-making and good judgement when public money is spent on items that have the potential or can be seen to give private benefit to a person.

The boundaries between business and personal expenditure need to be well understood and managed. For Ministers and members of Parliament, the boundaries between parliamentary, ministerial, party political, and personal expenditure may be difficult to manage in practice. This places an even greater responsibility on Ministers and members of Parliament to manage their expenditure with care and appropriately. Any accusation of inappropriate spending by a Minister or member of Parliament, no matter how small the amount, can undermine the public's trust in the integrity of government and Parliament.

From the work we have done in the first part of our inquiry, we consider that there are some general lessons to be learned by the administering agencies about how the knowledge and understanding of rules and policies, and their implementation in practice, can be improved.

As we have said in our previous reports on parliamentary and ministerial entitlements, in our view, the rules are not simple to understand or administer. The rules need to be able to be understood not only by those administering the system and receiving entitlements, but also by the public who fund the entitlements. The rules also have to be able to work in practice, and to align with common sense. We will explore these matters further when we address the remaining parts of our terms of reference.

Acknowledgements

We acknowledge the co-operation we received from Mr Heatley and his Senior Private Secretary and the openness with which they responded to our enquiries. We would also like to thank Ministerial Services and the Parliamentary Service for the information and assistance they provided.

We will not be commenting further publicly until we publish our report on the remaining parts of our terms of reference.

DETAILED FINDINGS AND CONCLUSIONS

1. We set out in this part of our report:

- principles that apply to public expenditure that provides or has the potential to provide private benefit;
- the arrangements for support services for Ministers;
- how we carried out our inquiry, including the expenditure that we examined;
- findings and conclusions from our audit of Mr Heatley's ministerial office's expenditure from November 2008 to 25 February 2010; and
- our views on appropriation and other issues.

Principles that apply to public expenditure that can provide private benefit

2. The public rightly expect all those who spend public money to recognise that it is public money. Any such spending that provides or can be seen to provide private benefit to an individual can be controversial. Although the spending may be justified, the potential for sensitivity means that careful decision-making and judgement is needed to manage the expenditure appropriately.
3. Everyone who spends or administers public money needs to recognise this sensitivity and to take extra care to ensure that the expenditure is reasonable and able to stand up to public scrutiny. That means considering how an outside observer may reasonably perceive the expenditure. Individuals making decisions about such expenditure need to be guided by the concepts of integrity, honesty, transparency, impartiality, and openness.
4. It is also important that the rules and administrative processes supporting them are clear, practical, and align with common sense.
5. The amounts of money involved could be small, but any spending outside the rules can have a damaging effect if left unchecked. Any suggestion of inappropriate spending of public money on matters that give private benefit to a person, no matter how small the amount, can undermine the public's trust in government and Parliament, and should therefore be carefully guarded against.
6. Everyone spending public money needs to appropriately manage the boundaries between business and personal expenditure. It is sensible to take a conservative approach in managing these boundaries and to apply careful judgement.

The arrangements for support services for Ministers

The rules for entitlements and allowances

7. Ministers of the Crown are entitled to financial resources and support services to fulfil their responsibilities as Ministers. Their entitlement to these resources and support services is specified in the *Executive Travel, Accommodation, Attendance and Communications Services Determination (No 2) 2009* (the Executive Determination). The Executive Determination is made by the Minister responsible for Ministerial Services² under section 20A of the Civil List Act 1979 and is administered by the Department of Internal Affairs (DIA). Parliament authorises appropriations for these resources and services in Vote Ministerial Services, which is administered by the DIA.
8. A Minister is also eligible for entitlements as a member of Parliament. These entitlements are available to members under the *Parliamentary Travel, Accommodation, Attendance and Communications Services Determination 2008* (the Parliamentary Determination). The Parliamentary Determination is made by the Speaker under the Civil List Act and the Parliamentary Service Act 2000, and is administered by the Parliamentary Service. Parliament authorises appropriations for these resources and services in Vote Parliamentary Service, which is administered by the Parliamentary Service.
9. The entitlements that a Minister receives under the Executive Determination “are either additional or alternative to” their entitlements as a member of Parliament. A Minister is not entitled to receive duplicate entitlements.
10. The Executive and Parliamentary Determinations both contain guiding principles to be used in the interpretation and practical application of the determinations.
11. The Executive Determination includes principles about expenditure. For example, the determination says that expenditure needs to be:
 - reasonable for the circumstances and able to withstand taxpayer scrutiny;
 - for official ministerial purposes;
 - cost-effective; and
 - value for money.
12. The Parliamentary Determination also includes principles about cost-effectiveness and value for money, as well as principles of accountability, appropriateness, openness, and transparency.

2 Ministerial Services is a business unit within the Executive Government Support Group of the Department of Internal Affairs that provides Ministers with a range of support services. It is responsible for employing all staff in ministerial offices.

13. The inclusion of these principles highlights that judgement is needed in making decisions about expenditure, recognising that some of the provisions in the determinations are defined quite broadly and that some entitlements have no restriction on purpose.
14. The Remuneration Authority also makes determinations about the salaries and allowances payable to Ministers and members of Parliament. The current one is the *Parliamentary Salaries and Allowances Determination 2009* (the Remuneration Authority Determination). Under the Remuneration Authority Determination, all members of Parliament get an expense allowance (currently \$14,800 each year) to reimburse them for “expenses that arise from the recipient’s official and parliamentary duties” that are not covered under the other determinations. This is intended to cover out-of-pocket expenses for parliamentary business, such as “entertainment of visitors, staff, constituents and officials, memberships, sponsorships and fees, donations and raffle tickets”.
15. In this report, we refer to these three determinations – the Executive Determination, the Parliamentary Determination, and the Remuneration Authority Determination – as “the rules”.

Administrative and support services for Ministers and ministerial offices

16. The Ministerial Office Handbook is an administrative guide issued by Ministerial Services to Ministers and ministerial office staff. It sets out guidance on the administrative and support services available to them, including the financial policies and procedures for ministerial office expenditure.
17. The Assistant General Manager, Ministerial Services, is responsible for, among other things, the financial management of ministerial offices. This includes responsibility for compliance with the relevant legislation, rules, and policies.
18. Each ministerial office has a Senior Private Secretary who assists in managing the ministerial office expenditure.

Expenditure processes for Ministers and ministerial offices

19. Expenditure by Ministers and their ministerial offices can be paid in three ways – through the DIA’s invoice payment system, by credit card, or through payments made from an imprest account.³ All expenditure is certified as correct by a Minister’s Senior Private Secretary and is approved for payment by the Assistant General Manager, Ministerial Services. In the case of credit cards, reimbursements, and travel reconciliations, the cardholder, claimant, or traveller also certifies the expenditure.

³ Ministerial Services provides each ministerial office with a cheque account called an imprest account, which is to be used when the payment needs to be made directly to a supplier rather than through Ministerial Services. The Minister’s Senior Private Secretary is authorised to operate the account. The float balance of the imprest account is small.

How we carried out our inquiry

20. We obtained a list of all expenditure incurred by Mr Heatley's ministerial office from when he became a Minister in November 2008 until he resigned from his ministerial portfolios on 25 February 2010.
21. We selected for detailed examination expenditure that provides or has the potential to provide a Minister or ministerial office staff with private benefit. This included domestic and overseas travel,⁴ accommodation and other associated costs, entertainment, hospitality, and other miscellaneous ministerial office expenditure.
22. We examined all transactions paid by credit card (by Mr Heatley and by his Senior Private Secretary) and from the ministerial office's imprest account.
23. For each item of expenditure, we examined whether it was in keeping with the rules and relevant policy guidance. We also looked at whether the expenditure was:
 - for official ministerial business (where relevant);
 - reasonable;
 - properly documented (with tax invoices or receipts); and
 - certified and approved in keeping with the policies.
24. We did not look at the costs of the chauffeur-driven VIP Transport Service that is charged to ministerial offices because there is no restriction on the use of VIP transport. A Minister, and his or her spouse or partner, are entitled to use VIP transport at any time and for any purpose at the Minister's discretion. We also did not look at Wellington accommodation payments for Ministers because a new system was introduced last year. Under the new system, Ministers make their own accommodation arrangements and are paid a fixed sum to cover this.
25. We interviewed Mr Heatley, his Senior Private Secretary, and staff from Ministerial Services.
26. We also talked to staff from the Parliamentary Service and obtained some information about the related travel costs met by Vote Parliamentary Service.

Findings and conclusions from our audit of Mr Heatley's ministerial office expenditure

27. The total expenditure incurred by Mr Heatley's ministerial office in the period from November 2008 to February 2010 was \$645,448. The major cost was for the salaries

⁴ Under the Parliamentary Determination, all members of Parliament (including Ministers) are entitled to travel anywhere in New Zealand with no restriction on purpose. Therefore, we reviewed travel expenditure mainly to confirm the related travelling expenses.

(\$389,926)⁵ of ministerial office staff, and the second highest amount was for VIP transport (\$81,174).

28. Mr Heatley's overall ministerial office expenditure was reasonable compared to expenditure incurred by other ministerial offices. In fact, he was the fifth lowest spending Minister for the period we looked at.
29. After excluding expenditure by Mr Heatley and his ministerial office that did not provide or have the potential to provide the Minister or his ministerial office staff with private benefit, we audited 173 transactions totalling \$107,566. Table 1 shows the breakdown of the expenditure we audited by expenditure type.

Table 1: Expenditure incurred by Mr Heatley's ministerial office from November 2008 to 25 February 2010 and the amount of the transactions we audited

Expenditure type	Total expenditure (GST excl)	Amount of audited transactions (GST excl)
Personnel costs of ministerial office staff, including salaries	\$416,295	–
Ministerial office operating costs	\$46,551	\$6,822
Travel costs: Minister, and staff accompanying the Minister	\$182,602	\$100,744
Total expenditure	\$645,448	\$107,566

30. We concluded that expenditure totalling \$107,026 (GST-exclusive) that we examined in Vote Ministerial Services was within the rules. We concluded that expenditure totalling \$608 (GST-inclusive) in Vote Ministerial Services was outside the rules.
31. We also concluded that expenditure of \$794 (GST-inclusive) in Vote Parliamentary Service was outside the rules.
32. In all instances, Mr Heatley and his Senior Private Secretary thought that this expenditure was allowed. In the case of the Vote Parliamentary Service expenditure, the Parliamentary Service was also administering a rule incorrectly for all members of Parliament.
33. Before we started our inquiry, Mr Heatley had already repaid some costs when concerns arose. Only some of the expenditure he repaid had been outside the rules. We have identified some other expenditure that was outside the rules.
34. We summarise these transactions in Table 2 and discuss them further in this report.

5 The remuneration paid to Ministers is not included in ministerial office costs – they are charged to a different cost centre.

Table 2: Relevant expenditure incurred by Mr Heatley's ministerial office from November 2008 to 25 February 2010*

Description	Total expenditure (GST-incl)	Expenditure outside the rules (GST-incl)	Costs reimbursed by Mr Heatley, when concerns arose (GST-incl)
<i>Vote Ministerial Services</i>			
Travel, accommodation, and meal costs when Mr Heatley's family accompanied him on ministerial business			
• two visits to Auckland and one to Queenstown	\$929	\$287	-
• a visit to Picton and Kaikoura	\$2,677	\$251	\$2,677
National Party conference			
• wine	\$70	\$70	\$70
• accommodation	\$201	-	-
• meals	\$154	-	\$105
Total (Vote Ministerial Services)	\$4,031	\$608	\$2,852
<i>Vote Parliamentary Service</i>			
Air travel costs for one child between Wellington and Queenstown	\$692	\$692	-
Rail and ferry travel costs for one child between Wellington and Kaikoura	\$102	\$102	-
Total (Vote Parliamentary Service)	\$794	\$794	-
Total	\$4,825	\$1,402	\$2,852

* Figures are rounded to the nearest dollar.

Domestic travel where Mr Heatley was accompanied by his wife

35. Under the Parliamentary Determination, all members of Parliament (including Ministers) are entitled to travel anywhere in New Zealand (by air, rail, ferry, and non-urban bus) with no restriction on purpose. A member's spouse or partner has the same travel entitlement with one restriction – air travel cannot be for private business purposes. The costs of a Minister's travel (for any purpose) are met from Vote Ministerial Services, and costs for their spouse or partner are met from Vote Parliamentary Service.

36. Under the Executive Determination, a Minister is entitled to have their accommodation, meals, and incidental expenses paid when they are travelling in New Zealand on ministerial or parliamentary business away from Wellington and more than 80km from their primary place of residence. Actual and reasonable costs are paid up to a daily maximum of \$350 for all these expenses when the Minister is travelling alone, and up to \$500 if the travel involves the Minister attending an official function and it is necessary for their spouse or partner to attend the function.
37. Mr Heatley's wife travelled with him on occasion when he was on ministerial or parliamentary business. Her travel costs were met from Vote Parliamentary Service, and her accommodation and meal costs were met from Vote Ministerial Services.
38. Mr Heatley told us that he was aware of the daily limit on expenditure when his wife travelled with him but was not aware that the Executive Determination specified that her accommodation and meal costs would be met only if it was necessary for her to attend an official function. He believed that she could travel with him whenever he was out of Wellington and away from his electorate in Whangarei on ministerial business, and that her accommodation and meal costs would be met. In practice, this did not happen often.
39. Ministerial Services staff told us that they approve the costs for a spouse or partner based on the Minister's judgement that it was necessary for their spouse or partner to accompany them, along with the certification from the Senior Private Secretary that the expenditure is correct.
40. It was clear from our discussions with Mr Heatley's Senior Private Secretary that she was not aware of the requirement that his wife's accommodation and meal costs would be paid only where it was necessary for his wife to attend an official function. At one of their regular training and development days, Senior Private Secretaries were told that it was one of their responsibilities to enable Ministers to maintain a good work-family life balance where possible because of the work pressures that Ministers face. Mr Heatley's Senior Private Secretary actively managed his diary to aim for this balance.
41. In considering whether Mrs Heatley's travel costs when she accompanied Mr Heatley were reasonable, we interpreted the rule to mean that it would be reasonable for her accommodation and meal costs to be met from Vote Ministerial Services when she attended an official function and/or meeting with him. In other words, the principle we applied was that, if a Minister wished for their spouse or partner to join them for personal reasons when they were out of Wellington, then the Minister should pay for these costs personally.
42. Mrs Heatley accompanied Mr Heatley when he was on ministerial or parliamentary business on eight occasions during the 15-month period we looked at. For four of these trips, we concluded that it was reasonable for Mrs Heatley's accommodation and meal costs to be

met because she attended meetings and/or functions with him. For example, on one occasion, in October 2009, she attended the sod-turning ceremony at a new housing development in Hobsonville with Mr Heatley.

43. On another occasion, in November 2009, Mrs Heatley travelled with Mr Heatley on a visit to the Chatham Islands as part of his fisheries portfolio responsibilities. Mr Heatley paid personally for his wife's return air travel costs from Christchurch to the Chatham Islands even though these costs were allowed to be met from Vote Parliamentary Service. Mr Heatley told us that he paid these costs because the travel costs were not insubstantial and he took into account the difficult economic environment. He informed the Prime Minister that he would be taking this approach. We concluded that it was reasonable for Mrs Heatley's accommodation and meal costs to be met from Vote Ministerial Services for this trip because she attended various functions and meetings with Mr Heatley.
44. However, we concluded that on four other occasions Mrs Heatley's accommodation and meal costs should not have been met from Vote Ministerial Services. On these occasions, Mr Heatley was joined by his wife and children while he was on ministerial business. Mrs Heatley did not attend any official functions or meetings. Therefore, we concluded that her accommodation and meal costs should not have been met from Vote Ministerial Services. We discuss these occasions below.
45. It is important that the rules and supporting administrative guidance for spouse or partner travel give sufficient guidance to ensure that they are consistently understood and implemented. The rules and the way they are administered need to support Ministers making good judgements about the boundary between business and personal expenditure. We will explore these issues further when we address the remaining parts of our terms of reference.

National party conference expenses

46. Mrs Heatley accompanied Mr Heatley to the National Party annual conference in August 2009.
47. We concluded that Mr and Mrs Heatley's accommodation and meal costs could be met from Vote Ministerial Services. The Executive Determination allows the accommodation and meal costs of a Minister travelling on parliamentary business (rather than ministerial business) to be met. The determination defines parliamentary business to include attending party meetings, which we interpreted to include party conferences.
48. Mr Heatley reimbursed Ministerial Services for the meal costs for himself and his wife when the matter arose in the public domain – even though these costs are allowed for under the rules.

49. Mr Heatley also reimbursed the \$70 cost of two bottles of wine that he purchased at the conference.
50. Mr Heatley told us that he bought the wine for the table of eight to ten people where he was sitting at dinner. He believed at the time that it was reasonable for him to do so, because he saw himself attending the conference as a Minister of the Crown, and the costs were therefore for ministerial business.
51. He later wrote “food and beverage” on the eftpos receipt. This was his usual practice when it was not lunch or dinner – it was not necessarily a payment for food and beverage; merely his way of categorising food and beverage-related costs that were not technically lunch or dinner. His Senior Private Secretary assumed that the costs were for dinner and wrote “Minister and spouse – dinner” on the credit card reconciliation form. Mr Heatley certified this form as the card-holder. His Senior Private Secretary told us that there was no intention to misrepresent the situation on the reconciliation form – she had assumed that it was for dinner from what he had written and she did not check it with him. Mr Heatley told us that he did not read the form carefully before he signed it and that it was a careless rather than dishonest act.
52. When the matter arose in the public domain, Mr Heatley initially reimbursed the expenditure and later offered his resignation to the Prime Minister. He noted in his resignation statement that he accepted that his description of the expense could be viewed as inaccurate because the purchase did not include food and that “this was one step too far”.
53. From our review of Mr Heatley’s expenditure documentation, we can confirm his practice of categorising expenditure on his receipts as “food and beverage” when they were only for beverages such as coffee. However, in our view, Mr Heatley should have taken greater care in ensuring that the description of his expenditure was accurate.
54. We carefully considered whether it was reasonable for the costs of the wine to have been met from Vote Ministerial Services. Our focus was on how the costs should have been met in these circumstances, not on whether the wine should have been purchased. Mr Heatley considered that he was attending as a Minister of the Crown and that this was an incidental travel cost of ministerial business. However, in our view, he was on parliamentary business when he was attending a party conference.
55. We have already outlined that all members of Parliament get an expense allowance of \$14,800 each year under the Remuneration Authority Determination to reimburse them for “expenses that arise from the recipient’s official and parliamentary duties” that are not covered under the other determinations. The explanatory notes say it is intended to cover out-of-pocket expenses from parliamentary business, such as “entertainment of visitors, staff, constituents and officials”.

56. In our view, the two bottles of wine that Mr Heatley purchased for his table were more in the nature of entertainment costs incurred in the course of parliamentary business. We therefore concluded that the cost of the wine should not have been charged to Vote Ministerial Services. It would have been better to regard it as covered by the expense allowance.
57. The amount of expenditure in this instance may seem trivial but, in our view, it highlights some important principles. There is always heightened sensitivity when public money is spent on items that have the potential or can be seen to give private benefit to a person. The expenditure needs to be managed with extra care because the expenditure must be able to withstand public scrutiny.
58. For Ministers and members of Parliament, the sensitivity about expenditure is even greater because they must manage the boundaries between ministerial, parliamentary, party political, and personal business. This can be challenging in practice because the roles blur into one another and activities will often have multiple purposes. This places an even greater responsibility on Ministers and members of Parliament to manage their expenditure with care and appropriately, because any accusation of inappropriate spending by a Minister or member of Parliament can undermine the public's trust in the integrity of government and Parliament. It also carries personal risk for the individual.
59. We make some further observations about the expense allowance later in this report.

Family travel costs

60. Under the current Parliamentary determination, children of a member of Parliament may make up to four return trips between the primary place of residence⁶ and Wellington to be with the member when the member is on parliamentary business. There is no limit to the number of trips between a primary place of residence and Wellington for members' children under five years. Until 2007, the costs of any travel within New Zealand were met for members' children under five.
61. The Speaker may approve travel elsewhere for a member's child if it costs the same or less than travel between Wellington and the primary place of residence.
62. The costs are met from Vote Parliamentary Service. The accommodation and meal costs of children travelling with a Minister or a member of Parliament are not covered by the determinations (the member is to pay for these costs personally).
63. Mr Heatley told us that he understood the rule about the costs of family travel as follows:

6 The Speaker approves a member's declaration of their children's primary place of residence, a similar process to the Speaker's approval of a member's declaration about their own primary place of residence. We discuss issues relating to the primary place of residence in our report *Auditor-General's Decision on Parliamentary and Ministerial accommodation entitlements* in October 2009, available on our website (www.oag.govt.nz).

- his child aged under five could travel anywhere in New Zealand with no limit on the number of trips or the places travelled – he gained this understanding from his time as a member of Parliament;
- any additional accommodation costs for his children would be met from Vote Ministerial Services as long as it did not exceed the \$500 daily limit for him and his wife; and
- he was personally responsible for all other travel costs for his children; that is, meal costs for all of his children and the travel costs for his children older than five years when they were not travelling between the primary place of residence and Wellington (he was aware of the restriction on the number of trips).

64. As noted earlier, Mr Heatley's Senior Private Secretary actively managed his diary to aim for a balance between his work and family life and to make the best use of his time. She would normally discuss with Mr Heatley whether his wife or family would accompany him on any trips and he would make the final decision. She was operating under the same understanding of the rules as Mr Heatley.

65. Mr Heatley's family stayed with him on four occasions when he was on ministerial business. On three occasions, it was at the start or at the end of a family holiday (two visits to Auckland and one to Queenstown).

66. The fourth occasion was a visit to Picton and Kaikoura during a weekend in March 2009. Mr Heatley told us that he had been invited to attend a fisheries conference in Waikawa on the Saturday morning. He had previously been invited to go on a whale-watching trip by a fishing company director with interests in a tourist whale-watching operation in Kaikoura. He considered this to be ministerial business associated with his fisheries portfolio responsibilities. His family had also been invited on the whale-watching trip.

67. Mr Heatley's wife and family travelled from Wellington to Picton by ferry with Mr Heatley's "self-drive" car.⁷ Mr Heatley had initially planned to travel with them but had to fly to Blenheim to join them because of some unexpected business. Mr Heatley used the VIP Transport Service for his travel between Blenheim, Picton, and Waikawa. After the conference, he and his family travelled by train to Kaikoura. VIP Transport Service provided a driver to drive Mr Heatley's car to Kaikoura. A VIP Transport Service car was also sent to Kaikoura to provide return transport for the driver of Mr Heatley's car.

68. For practical reasons, the ferry and rail costs for two of Mr Heatley's children were initially paid as part of his ministerial booking, but he appropriately reimbursed those costs immediately after the trip. When the matter was raised in the public domain, he reimbursed Ministerial Services for all the other costs of the visit to Picton and Kaikoura, including his own.

⁷ Under the Executive Determination, a Minister is entitled to a self-drive car up to an agreed maximum value for use at their discretion.

69. On all four occasions when his family joined him, Mr Heatley personally paid for the meal costs of his children. He also paid for the travel costs of his two children who were older than five years. Based on his understanding of the rules, he charged his wife's meal costs and the additional accommodation costs associated with his children to Vote Ministerial Services.
70. In our view, he was entitled to have his own travel costs met from Vote Ministerial Services because the visit was on ministerial business. His wife's travel costs were also appropriately met by Vote Parliamentary Service. However, we concluded that the additional accommodation costs arising from his wife and children accompanying him and his wife's meal costs should not have been met from Vote Ministerial Services because they are not allowed under the rules.
71. We do not read the rules as extending to cover the accommodation costs of children, no matter how small the additional charge. Ministerial Services also agrees that any additional costs are not met from Vote Ministerial Services, and, for the instances where the additional costs were apparent from the supporting documentation, the approval of the costs was an oversight. We also regarded his wife's presence on the trip as being for personal reasons rather than because she was attending an official function with him. Therefore, her accommodation and meal costs were personal.
72. Notwithstanding deficiencies in rules or the systems for administering them, everyone spending public money – in this case, Mr Heatley – has a personal responsibility to manage their expenditure appropriately with good judgement. In our view, even though Mr Heatley was operating under an incorrect understanding of the rules when his wife and family accompanied him on ministerial business, a more conservative approach that took greater account of how others might perceive his use of public money would have served him better.

The Parliamentary Service: payments for travel costs for members' children

73. We also reviewed the travel expenditure met by Vote Parliamentary Service for Mr Heatley's family.
74. We found that the Parliamentary Service had paid for the air travel costs of one of his children (who was aged under five years) from Wellington to Queenstown, and the rail and ferry costs for the trip to Kaikoura. The rules allow only for travel between the child's primary place of residence (in this case Whangarei) and Wellington unless the Speaker approves the other travel. The Speaker did not approve this travel and therefore, in our view, these costs should not have been met.
75. When we questioned this expenditure with Parliamentary Service staff, they agreed that it was not covered but said that in practice it has paid for travel for members' children under

five between any locations in New Zealand. This has been a long-standing practice and was allowed under previous rules. The current narrower rule in the Parliamentary Determination has been in place since December 2007 but it has not been properly implemented.

76. The Parliamentary Service told us it has been providing incorrect advice since 2007 to members of Parliament that their children under five have unlimited travel between any locations in New Zealand. Mr Heatley is not the only member affected by this incorrect advice from the Parliamentary Service. The Parliamentary Service has advised us that there are 16 members in this current Parliament who have children under the age of five who could be affected.
77. We understand that the Speaker started a process in February 2010 to make changes to the entitlements in the Parliamentary Determination, including changes to travel entitlements for members' children. The proposed changes will remove the restrictions on travel for members' children between the primary place of residence and Wellington. The changes were expected to come into effect from 1 July 2010. We understand that, now that this anomaly between the rule and the operating practice has been identified, the Speaker intends to make the change to the travel entitlement for members' children before 1 July 2010.
78. The Parliamentary Service has taken steps to ensure that no further inappropriate expenditure on children's travel is incurred and will put in place temporary arrangements until the rules are changed.
79. The Parliamentary Service has also told us it is starting a process to identify whether there are any other anomalies between operational practice and the rules. In our view, this review is essential.

Expense allowance for members of Parliament

80. As we discussed earlier, all members of Parliament receive a fixed expense allowance each year to reimburse them for certain expected costs. The allowance is paid to them as part of their salaries.
81. Under the Executive Determination, Ministers are provided "operational resources" to assist them to carry out ministerial business, including operating a ministerial office.
82. Operational resources cannot be used, among other things, if the cost is already covered by the Remuneration Authority Determination or another part of the Executive Determination.
83. The list of incidental expenses covered under operational resources overlaps with the list in the Remuneration Authority Determination. It therefore is to be interpreted as covering additional costs arising as a Minister. We consider that the overlapping nature of the entitlements under the expense allowance and operational resources is difficult to

understand and would not be simple to administer. There is often no clear distinction between parliamentary and ministerial activities. This point is recognised in other parts of the rules but not in relation to these costs.

84. We use the following example from Mr Heatley's expenditure to illustrate how difficult it can be to distinguish between and administer the two entitlements.
85. When Mr Heatley was travelling in Hamilton in November 2009, his briefcase, laptop, wallet, and a small toiletries bag were stolen from his rental car. When he arrived back in Wellington, his Senior Private Secretary told him that under the rules he was allowed to purchase luggage for ministerial purposes. He bought some luggage to replace what had been stolen. He paid for all the items on his ministerial credit card, including the wallet, which he intended to reimburse later (which he did) because he considered the wallet to be an item of personal expenditure. His Senior Private Secretary's advice was correct because the Executive Determination lists "briefcases and luggage for ministerial use" as an example of expenditure allowed as "operational resources". We note that the expense allowance provided to all members of Parliament also covers expenditure on "briefcases and luggage".

Personal expenditure on credit cards

86. Another area we looked at in our inquiry was whether Ministerial Services' credit cards were used for personal expenditure. The two credit card holders in Mr Heatley's ministerial office were Mr Heatley and his Senior Private Secretary.
87. The Ministerial Office Handbook is clear that the credit cards are to be used for official expenditure and that use of a credit card for personal expenditure (regardless of the intent to reimburse) is not permitted. However, the credit card agreement between DIA and the cardholder allows personal use of the credit card in emergencies, with the costs required to be reimbursed.
88. We found six items of personal expenditure paid using Mr Heatley's and his Senior Private Secretary's credit card (this does not include his wife and family's travel-related costs that we discuss above; he used his credit card to pay for those costs on his understanding that the expenditure was permitted). One of these occasions was an oversight on Mr Heatley's part when he inadvertently used the wrong credit card for a visit to the movies with his family. He reimbursed the costs the next day.
89. On four other occasions (including the wallet purchase that we discuss above) the personal expenditure items were put on the credit card generally for practical reasons with the intention of reimbursement later, which happened. The final item was the cost of a lunch with his wife and his Senior Private Secretary to discuss how to achieve a balance between his work and family life. His Senior Private Secretary later asked Ministerial Services

whether this expenditure was allowed and was told that it was not permitted. Mr Heatley repaid the costs.

90. In our view, circumstances can arise from time to time where it may be sensible to put items of personal expenditure on credit cards when there is a clear intention to reimburse the costs. However, this should be done only when necessary and should be clearly documented.

91. There has been some public comment since this matter arose that suggests that the use of credit cards is not wise. In our view, used correctly, credit cards are an effective and transparent way of paying business costs. However, the use of credit cards needs to be properly managed, with clear rules and policies that are enforced.

Appropriation issues

92. All public spending must be authorised by Parliament, through an appropriation. Usually appropriations authorise spending in a general area or for a broadly defined purpose. However, the appropriations in Vote Parliamentary Service, and some of the relevant appropriations in Vote Ministerial Services, are more specific. They link directly to the rules that set out what spending is and is not allowed. The result is that any expenditure that is outside the rules is automatically unappropriated. That is, it does not have proper lawful authority.

93. In the case of Vote Parliamentary Service, the Parliamentary Service had already identified that the incorrect way it has been administering travel entitlements for children under five years will have resulted in unappropriated expenditure. It is taking immediate steps to determine the amount of expenditure involved, to validate that spending, to change the rules to avoid the problem recurring, and to ensure that there is no more unappropriated expenditure in the meantime.

94. We are pleased with the Parliamentary Service's swift response and note that it is checking to see whether the changes in 2007 have resulted in similar problems elsewhere. This review is essential.

95. For Vote Ministerial Services, we note that the expenditure by Ministers on the accommodation and meal costs of spouses or partners will be unappropriated if it is outside the rules. We will work with Ministerial Services during the remaining parts of our inquiry to determine whether there is a widespread problem resulting from the way the particular rule is written, and its application in practice, before considering what remedial action may be needed.

Other issues

96. We identified a range of other issues from our audit, such as inadequate supporting documentation (tax invoices or receipts) for some expenditure, and other system and internal control matters, which we intend to follow up as part of our work on the remaining parts of the terms of reference for our inquiry.