



# Sensitive Expenditure





## What is sensitive expenditure?

- Sensitive expenditure is defined as: “any spending by an organisation that could be seen to be giving private benefit to staff, additional to the business benefit to the organisation.”
- Public organisations spend public money – any spending must meet required standards to support the maintenance of trust and confidence in the public sector.

Refer to Part 1 of the Guide (paragraph 1.3), page 9

- Sensitive expenditure definition, another way to phrase it is (from the Auditor-General's introduction in the guide): “...spending by an organisation that could be seen to be giving private benefit to a staff member, their family, or friends.”

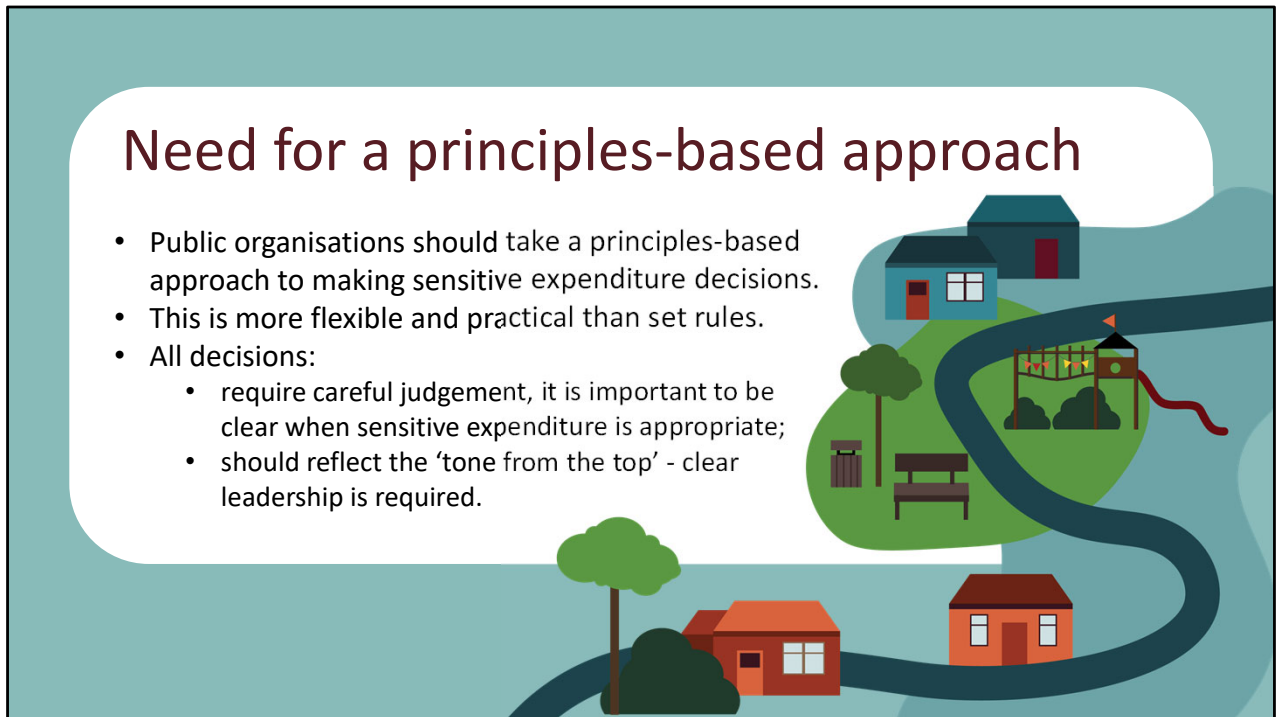
- Examples are set out in Parts 4-9 of the Guide (see slide 6 below)

- Why is the Auditor-General interested in sensitive expenditure?

-- Public organisations spend public money – their spending must meet required standards to support trust and confidence in the public sector. When not made subject to proper authorisations and controls, sensitive expenditure risks harming an organisation's reputation and the public sector more generally.

## Need for a principles-based approach

- Public organisations should take a principles-based approach to making sensitive expenditure decisions.
- This is more flexible and practical than set rules.
- All decisions:
  - require careful judgement, it is important to be clear when sensitive expenditure is appropriate;
  - should reflect the 'tone from the top' - clear leadership is required.



Refer to Part 2 of the Guide, page 9

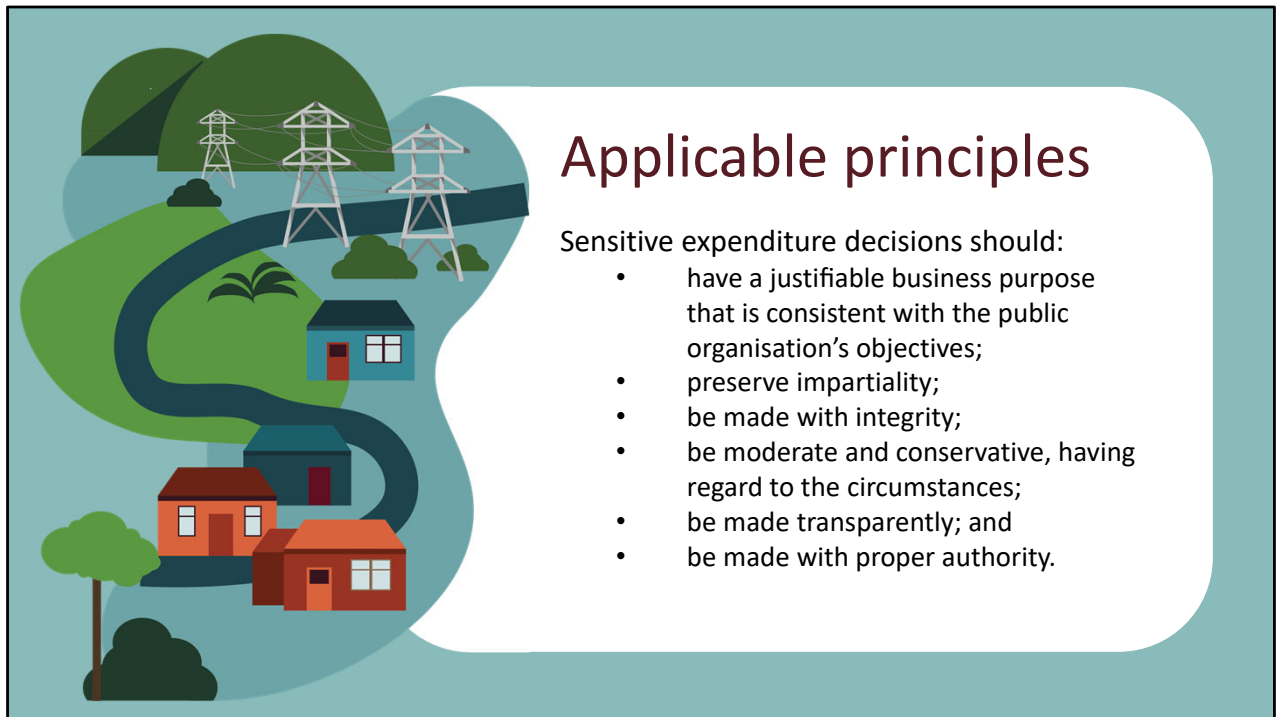
All public organisations need to take into account the same principles when determining their approach (or attitude) to sensitive expenditure decisions. The Auditor-General recognises that, for valid reasons, public organisations make their own decisions about what is appropriate sensitive expenditure. For example, a state-owned enterprise might make different judgements from a central government department or a local authority.

A good practice approach to managing sensitive expenditure requires:

- a principles-based approach;
- leading proper and prudent practices by example (note more 'setting the tone from the top' below);
- approving and putting in place suitable policies and procedures;
- procedures that consistently support all staff (at all levels and roles in the organisation) to follow proper and prudent practices;
- appropriate training and monitoring of activities to ensure effective control of sensitive expenditure;

- (new in the updated guidance) carrying out regular reviews to understand outcomes being achieved on sensitive expenditure; and
- (new in the updated guidance) taking corrective action on failures and learning from them.

**Setting the tone at the top (note this is a new addition to the updated guidance)** - in the Auditor-General's view, responsibility rests with those "at the top" – that is, governors, chief executives, and senior managers. They need to set the highest standard for what is and is not acceptable sensitive expenditure. They also need to have clear policies and processes that apply to all staff, including the chief executive, board members, and senior leadership.



## Applicable principles

Sensitive expenditure decisions should:

- have a justifiable business purpose that is consistent with the public organisation's objectives;
- preserve impartiality;
- be made with integrity;
- be moderate and conservative, having regard to the circumstances;
- be made transparently; and
- be made with proper authority.

Refer to Part 2 of the Guide, pages 9-10

There are principles that underpin decision-making about sensitive expenditure. Expenditure decisions should:

- **have a justifiable business purpose** that is consistent with the public organisation's objectives. A justifiable business purpose means a reason that would make clear sense, supported by evidence of the need for the spending and evidence that a range of options have been considered. The principles of a justified business purpose are particularly relevant to travel and accommodation (e.g. absence of specific rationale for individual trips especially by governors, chief executives, and managers are often brought to the attention of OAG);

- **preserve impartiality.** Impartiality means decisions based on objective criteria, rather than based on any sort of bias, preference, or improper reason. Examples include provision of complimentary tickets/merchandise to influence staff to buy from that supplier or private use of an organisation's suppliers – with suppliers offering discounts to an organisation's employees which could be perceived as

influencing the final supplier selection.

- **be made with integrity.** Integrity is about exercising power in a way that is true to the values, purposes, and duties for which that power is entrusted to, or held by, someone. It is about consistently behaving in keeping with agreed or accepted moral and ethical principles. A positive example of this would be consistent refusal of gifts (e.g. for speaking engagements) even if it is awkward at the time.

- **be moderate and conservative** when viewed from the standpoint of the public and given the circumstances of the spending. It includes considering whether the justifiable business purpose could be achieved at a lower cost (e.g. nightly rates that exceed the limits included in organisations' travel and accommodation policies, or different room rates depending on employees' seniority).

- **be made transparently.** Transparency in this context means being open about the spending, and willing to explain any spending decisions or have them reviewed (e.g. inadequate disclosure of nature and reasons for overseas travel and expenditure); and

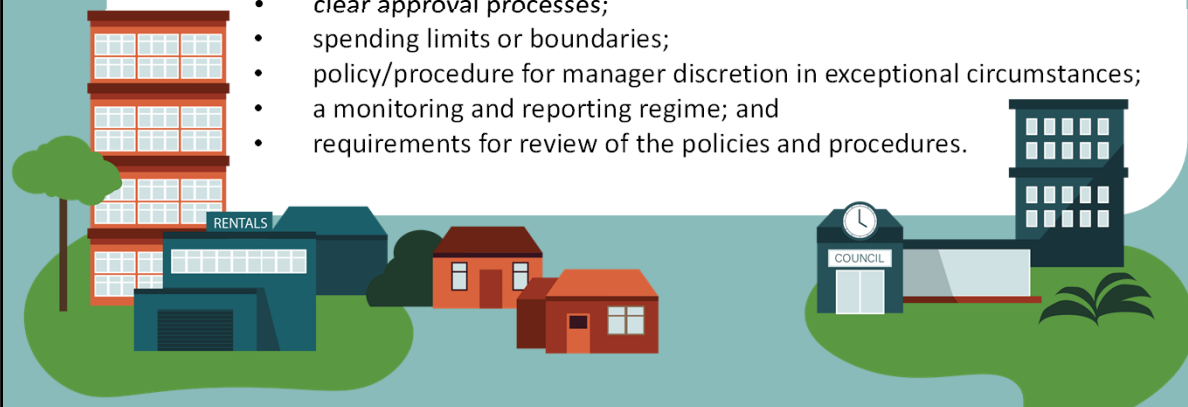
- **(note this principle is a new addition to the updated guidance) be made with proper authority.** This means that the person approving the spending has the appropriate financial delegation to do so, for the type and amount of spending and follows correct procedures (e.g. issues where senior staff approve their own expenses).

These principles should be applied together. None should be applied alone, and no principle should be treated as more important than any other.

## Policies and procedures

Every public organisation needs to have a sensitive expenditure policy that includes:

- clarity on what types of expenditure are and are not allowed;
- clear approval processes;
- spending limits or boundaries;
- policy/procedure for manager discretion in exceptional circumstances;
- a monitoring and reporting regime; and
- requirements for review of the policies and procedures.



Refer to Part 3 of the Guide

Sensitive expenditure policies need to:

- make clear what types of expenditure are and are not allowed;
- outline clear approval processes that are specific about who approves what (including that expenditure should generally be approved before it is incurred) and any exceptions to that;
- set spending limits or boundaries and specify dollar limits and defined boundaries, where practicable. Otherwise, the policies need to be clear about when people are expected to exercise careful judgement as to what is actual and reasonable;
- allow a manager discretion to grant an exception (management override) to a policy or procedure only in exceptional circumstances;
- specify the monitoring and reporting regime (including when exceptions to policies have been granted) and, where applicable, controls or checks that may be applied; and
- specify the requirements for review of the policies and procedures.

Sensitive expenditure should be approved only when:

- the person approving the expenditure is satisfied that it is for a justifiable business

purpose that is consistent with the public organisation's objectives, and all of the [principles](#) have been adequately met;

- approval is given before the expenditure is incurred, unless it is for small amounts (for example, taxi fares) and allowed in the organisation's policies;
- the expenditure will be within budget and where delegated authority exists; and
- approval is given by a person who is senior to the person who will benefit (or might be perceived to benefit) from the sensitive expenditure. Where that is not possible, this should be recorded, and any such expenditure should be subject to some form of monitoring.



## Types of sensitive expenditure

Examples of sensitive expenditure include:

- using credit and purchasing cards;
- spending while travelling;
- entertainment and hospitality;
- obtaining, disposing of, or using goods and services;
- Staff support and well-being (e.g. social club funding);
- donations, gifts, and use of ICT resources.



Refer to Parts 4-9 of the Guide for more information and examples for each of these

## Recurring issues

- A level of expenditure that is, or could be regarded as, extravagant or immoderate for the public sector.
- Expenditure incurred without a justifiable and adequately documented business purpose that has a clear link to the organisation's objectives.
- Poorly defined sensitive expenditure policy and procedures.
- Expenditure that is not adequately substantiated by invoices, receipts, or other relevant documentation to support claims or payments.
- Expenditure that is made before appropriate authority has been obtained.
- Expenditure that is made without proper scrutiny to ensure that it complies with an organisation's policy and procedures.

Refer to Appendix 1 of the Guide for a list of Auditor-General reports that discuss poor sensitive expenditure practices

# OAG good practice guide

Aims to assist anyone who might deal with sensitive expenditure, including:

- board members, CEs, and managers.

Sets out the:

- basic principles that apply;
- provides a good practice approach to managing sensitive expenditure, through policies and procedures; and
- describes specific types of sensitive expenditure.

Available at: <https://oag.parliament.nz/2020/sensitive-expenditure>



## Further resources

Further resources are available on the Controller and Auditor-General's website ([www.oag.parliament.nz](http://www.oag.parliament.nz)), including:

- Summary document of the sensitive expenditure basics.
- *Integrity Town* – which provides an interactive quiz on integrity matters.
- Links to our sensitive expenditure resources.

