

# Summary

## *Inquiry into Alpine Energy Limited's decision to install solar equipment at a senior executive's house*

Trust and confidence in individual public organisations, and the public sector more generally, is driven by competence, reliability, and integrity. When there is any question about these things, real or perceived, that trust and confidence can quickly be eroded.

Sensitive expenditure is spending by a public organisation that could also be seen as giving some private benefit to an individual staff member additional to the business benefit to the public organisation. It is a particular risk in the public sector because if it is not recognised and properly managed, public trust and confidence can quickly be eroded, regardless of the amount spent.

A concern was raised with us about Alpine Energy's decision to install a solar energy installation on an employee's house as part of a trial of solar energy. When the employee left the company, Alpine Energy sold the solar equipment to the employee for much less than it cost to install.

Regardless of the amounts spent, this raised questions for us about whether Alpine Energy had properly managed the risks around sensitive expenditure.

Some of our questions about the expenditure could be answered quite easily:

- We saw no evidence that the solar equipment was installed on the employee's house as part of a recruitment or employment package.

- The installation had a legitimate business purpose.
- The arrangement was fully disclosed to the Board.
- It was agreed, from the outset, that the employee would purchase the solar equipment at the end of the trial period with the price to be calculated on the basis of a pre-agreed formula.

Although some of our concerns were resolved, others remained:

- Alpine Energy did not explicitly recognise the expenditure as sensitive expenditure at the start.
- Alpine Energy was not able to explain how it calculated the final price for selling the equipment to the employee.
- It is also not clear that Alpine Energy sought to maximise the return on the sale of the solar equipment to the employee and recognised the potential for actual or perceived advantage to that employee.

Despite involving a relatively unusual type of sensitive expenditure, this case serves as a useful reminder to all public organisations, regardless of their activities, size or location. Even for commercial entities in the public sector, the appropriate treatment of sensitive expenditure is an important area and one in which vigilance is required, to manage perceived and substantive benefits.



# *Sensitive expenditure – guidance for public organisations to consider*

The most fundamental fact that applies to all spending by a public organisation is that it is spending public money. This means it has to be able to withstand scrutiny from Parliament and from the public.

Do your policies and procedures about sensitive expenditure:

- make clear what types of expenditure are and are not permitted?
- outline clear approval processes that are specific about who approves what, including arrangements for when the usual approver is unavailable?
- set spending limits or boundaries, including explaining what is meant by “actual and reasonable” when these terms are used, and specifying dollar limits and defined boundaries, where practicable, of what is “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 and, where applicable, any internal audit checks that may be applied?
- specify the process for amending the policies and procedures?

Approval of sensitive expenditure should be:

- given only when the person approving the expenditure is satisfied that a justified business purpose and other principles have been adequately met;
- given before the expenditure is incurred, wherever practical;
- made within any statutory limits on an entity’s delegations;
- made only when budgetary provision and delegated authority exist; and
- given by a person senior to the person who will benefit or who might be perceived to benefit from the sensitive expenditure, wherever possible. Where this is not possible, this fact should be recorded, and any such expenditure should be subject to some form of monitoring.

For more information about sensitive expenditure good practice, and our other good practice guidance, see [oag.govt.nz/good-practice](http://oag.govt.nz/good-practice).