



# Dunedin Venues Management Limited

## Expenses Review

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**Confidential**

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## 1. Executive Summary

### 1.1 Objectives and Scope

The objective of our procedures was to identify the nature of all expenditure items incurred by Guy Hedderwick that had the potential to provide personal benefit and to report our conclusions on these to allow Dunedin City Holdings Limited to conclude on the appropriateness of these expenses.

Our objective was to perform the following procedures and to report on the results of our work as follows:

- Obtain a listing of all expenditure reimbursement payments made to Guy Hedderwick in the period from 1 July 2012 to 31 December 2013.
- Obtain a listing of all expenditure incurred by Guy Hedderwick on DVML issued credit cards from 1 July 2012 to 31 December 2013.
- Obtain general ledger listings for expenditure categories that had the potential to provide staff with private benefit from 1 July 2012 to 31 December 2013. This covered general ledger accounts for domestic and overseas travel, accommodation and other associated costs, entertainment, hospitality and miscellaneous expenditure. We reviewed supporting documentation for expenses included in these accounts for amounts exceeding \$100 that may have related to Guy Hedderwick. This captured expenditure invoiced directly to Dunedin Venues Management Limited (DVML).
- For each item of expenditure above, we examined whether the expenditure:
  - was approved in line with relevant rules, policies and levels of delegated authority;
  - was properly documented (with tax invoices or receipts);
  - was for official DVML business;

- appeared reasonable.

### 1.2 Approach

The following General Ledger accounts were selected for review to identify transactions that related to Guy Hedderwick and had the potential to include personal expenditure:

1800 – Event Attraction Fund  
2110 – Dunedin Centre Expenses  
3500 – Consulting Fees  
3750 – General Expenses  
4110 – Motor Vehicle Expenses  
4180 – Travel and Accommodation  
4610 – Event Promotion  
4640 – Membership Retention/Enhancement  
4770 – Directors Meeting Travel  
4771 – Directors Expenses  
4772 – Directors Hosting  
7002 – Event Attraction Costs  
7040 – General Operating Expenses

Transactions pertaining to Guy Hedderwick were noted and invoices reviewed along with credit card statements and expense claims made by Guy Hedderwick.

During the course of our review, it came to our attention that a significant volume of transactions related to the periods prior to 1 July 2012. As a result of this, we extended our procedures to cover the period from 1 March 2010 to 31 March 2014.

### 1.3 Basis and use of report

This report has been prepared in accordance with the objectives and approach set out in the engagement letter dated 4 April 2014, and subject to the limitations set out in Appendix 1 “Basis and Use of Report”.

## 1.4 Overview of Findings

Our overall conclusion is that we identified no significant concerns relating to the travel and entertainment expenses incurred by Guy Hedderwick during the period from 1 March 2010 to 31 March 2014. However, we noted a number of internal control weaknesses relating to the travel and expenditure approval processes in place at DVML. These weaknesses prevented us from being able to form a conclusion as to whether all expenditure incurred was for official DVML business – although we identified nothing to suggest that this was not the case.

The tables in section 1.6 below provide a high level summary of the results and main recommendations resulting from our review. We have provided, in section 2, more detailed findings and practical suggestions for improvement to the travel and expenditure approval processes to be considered by the Board and management of DVML.

## 1.5 Internal Audit Risk Rating:

Risk ratings have been provided for individual issues and recommendations in section 2 of our report. The definitions for these risks are provided below:

- **High** – Issue represents a control weakness, which could cause or is causing major disruption of the process or major adverse effect on the ability of the process to achieve its objectives.
- **Medium** – Issue represents a control weakness, which could cause or is causing moderate adverse effect on the ability of the process to meet its objectives.
- **Low** – Issue represents a minor control weakness, with minimal but reportable impact.

## 1.6 High Level Summary of Findings and Recommendations

The table below provides a summary of the work undertaken and high level results which are explained in more detail in section 2 of the report:

<b>Analysis</b>	<b>Number of Transactions</b>	<b>Amount \$</b>	<b>% of Total Amount</b>
Total number of transactions reviewed that related to Guy Hedderwick	943	144,879.66	100.0
Total number of transactions reviewed that related to Guy Hedderwick's travel and entertainment	813	108,263.40	74.7
Transactions reviewed with no invoice attached	118	3,974.50	2.7
Invoices reviewed with no evidence of approval noted on the invoice	71	28,852.03	19.9
Credit card statements reviewed with no evidence of approval on the statement	6	5,359.55	3.7
Cash advances and withdrawals made	10	3,016.41	2.1

Attribute	Recommendation
Approval of Travel Expenses	<ul style="list-style-type: none"> <li>▪ All travel should be formally approved in advance. Travel requests should include sufficient details of the reason the travel is required.</li> <li>▪ All invoices and expense claims should be formally approved to provide evidence that the expenses incurred have been reviewed and approved at an appropriate level of management as genuine business expenditure.</li> <li>▪ Supporting documentation should be required for all expenditure reimbursements. Non-compliance should result in removal of the credit cards or refusal to reimburse expenses.</li> </ul>
Nature of Expenditure Items	<ul style="list-style-type: none"> <li>▪ Supporting documentation for all expenses paid for using cash advances should be submitted to Finance on return of the trip. A reconciliation of invoices to cash advanced should be undertaken and unused cash returned.</li> <li>▪ The requirements of the DVML Credit Card Policy with regard to providing detailed information on entertainment provided should be enforced. Non-compliance should result in removal of the credit card.</li> </ul>
Credit Card Controls	<ul style="list-style-type: none"> <li>▪ DVML credit cards should be cancelled immediately on termination of employment to ensure no further expenses including items such as monthly subscriptions continue to be incurred.</li> <li>▪ DVML credit cards should only be used for the purposes defined in the Credit Card Policy. Other purchases should be undertaken using purchase orders and invoices to ensure purchasing procedures and approval levels cannot be circumvented.</li> </ul>

## 2. Findings and Recommendations

Current Situation	Risk Rating	Recommendation
<b>2.1 APPROVAL OF TRAVEL EXPENSES</b>		
<b>2.1.1 Pre-Approval of Travel</b>		
<p>The DVML Travel &amp; Accommodation Policy states that all staff travel is to be approved by the CEO. There is, however, no formal pre-approval process for travel and there are no detailed travel requests identifying reasons for travel (some did exist in 2010/11). As such it has not been possible as part of our review to identify the reasons individual trips were undertaken, for example if there were specific events that were being attended or specific people being met.</p>	<b>MEDIUM</b>	<p>1) All travel should be formally approved in advance. Travel requests should include sufficient details of the reason the travel is required.</p>
<b>2.1.2 Post-Approval of Travel</b>		
<p>We were unable to find formal approval for 71 invoices totalling \$28.9k (covering 19.9% of the total spend relating to Guy Hedderwick) and 6 credit card statements totalling \$5,4k (3.7% of the total spend relating to Guy Hedderwick over the period of our review).</p> <p>The following is noted in relation to these:</p> <ul style="list-style-type: none"> <li>- \$25.2k of the unapproved invoices related to invoices from Orbit Corporate Travel for flights and hotels.</li> <li>- 19 invoices totalling \$411 relate to the period after September 2013 when Guy Hedderwick has ceased to be an employee of DVML.</li> <li>- Management representation on this finding was that invoices are all reviewed by the Finance Manager prior to payment and even if not formally approved, would not be paid if they were deemed to be non-business expense.</li> </ul>	<b>MEDIUM</b>	<p>2) All invoices and expense claims should be formally approved to provide evidence that the expenses incurred have been reviewed and approved at an appropriate level of management as genuine business expenditure.</p>

Current Situation	Risk Rating	Recommendation
<b>2.1.3 Expenses with no Supporting Documentation</b>		
<p>There were 118 transactions totalling \$4k for which we could not find original invoice documentation, although credit card statements provided limited details of the transactions</p> <p>These transactions related significantly to 34 food and beverage expenses totalling \$688, 24 parking fee expenses totalling \$95, 12 payments to ticketing agencies for events attended totalling \$605, 11 subscriptions to marketing websites totalling \$344 and 1 payment to 1-Day online shopping for \$609 for which we have found no further detail.</p>	<b>MEDIUM</b>	<p>3) Supporting documentation should be required for all expenditure reimbursements. Non-compliance should result in removal of the credit cards or refusal to reimburse expenses.</p>
<b>2.2 NATURE OF EXPENDITURE ITEMS</b>		
<b>2.2.1 Hotel Expenses</b>		
<p>The DVML Travel &amp; Accommodation Policy states accommodation should not be at “luxury” or “5 star” level unless necessitated by security or location requirements. Any exceptions will require the CEO’s approval prior to accommodation being confirmed.</p> <p>Our analysis identified a total of \$26,246 expenditure incurred by Guy Hedderwick on hotel accommodation of which we were able to review invoices for \$24,586.</p> <p>These invoices indicated 4 instances where the nightly accommodation exceeded \$300.</p> <p>The invoices we reviewed covered accommodation for a total 60 trips of 126 nights resulting in an average accommodation cost of \$195 per night.</p> <p>One hotel invoice in Queenstown includes Mrs M Hedderwick for 2 nights at a cost of \$196 in April 2013. This cost was recharged to Guy Hedderwick.</p>	<b>MEDIUM</b>	<p>See Recommendation 1.</p>



Current Situation	Risk Rating	Recommendation
<b>2.2.2 Cash Withdrawals</b>		
<p>The DVML Company Credit Card Policy states that where cash is necessary for genuine business expenditure, then this is on strict basis of manual purchases with the appropriate receipts for items over \$10.</p> <p>Over the period from 1 March 2010 to 31 March 2014 that on 6 occasions cash advances totalling \$2,552 were made to Guy Hedderwick prior to travel and that 4 credit card cash withdrawals totalling \$464 were made.</p> <p>It is noted that invoices for cash expenses were submitted on occasion by Guy Hedderwick but that there is no formal reconciliation of expenses receipted to cash advanced or withdrawn on credit.</p> <p>It is additionally noted that cash advances were provided prior to trips to the UK and Italy totalling \$1,025. There are no invoices to identify expenditure made with these advances, although it is also noticeable that no other claims for subsistence expenses were made during these trips.</p>	<b>MEDIUM</b>	<p>4) It is recommended that supporting documentation for all expenses paid for using cash advances should be submitted to Finance on return of the trip. A reconciliation of invoices to cash advanced should be undertaken and unused cash returned.</p>
<b>2.2.3 Subsistence Expenses</b>		
<p>The DVML Travel &amp; Accommodation Policy states that reasonable meal costs including a maximum of two alcoholic drinks will be reimbursed on production of valid GST receipts, with the total cost not expected to exceed \$75 per person per day.</p> <p>Across the period of our review, \$7,889 food and beverage expenses were claimed plus and additional \$3,016 cash advances giving a total of subsistence expenses of \$10,905.</p> <p>Our review of hotel invoices identified at least 126 nights accommodation on 60 different trips. Assuming the day of checkout is also a travel day, there was a total of at least 186 travel days undertaken by Guy Hedderwick.</p>	<b>N/A</b>	<p>No Recommendation.</p>

Current Situation	Risk Rating	Recommendation
This equates to an average of \$59 subsistence charged per day.		
<b>2.2.4 Entertainment Expenses</b>		
<p>The DVML Credit Card Policy states that each item of entertainment must have the following noted on the supporting documentation:</p> <ul style="list-style-type: none"> <li>- Name of person entertained</li> <li>- Business position of that person</li> <li>- Name of business</li> <li>- Reason for entertainment</li> </ul> <p>10 restaurant invoices were reviewed where food and beverage items claimed exceeded the \$75 daily maximum. The following comments can be made in regard to these:</p> <ol style="list-style-type: none"> <li>1) One invoice for \$86.20 with meals for 2 people is noted to include another DVML employee.</li> <li>2) One invoice for \$141.69 contains no further details.</li> <li>3) Two invoices for \$155.28 and \$210.71 respectively relates to meals where 2 people were present. Whilst there are no details of who the other person was on the invoice, the expenses were incurred on a trip to the USA where Darren Burden (at the time DVML CEO) was also present. Our assumption is that Darren Burden would have been the other party.</li> <li>4) One invoice for \$241 included meals for 4 people. There is no indication on the expense claim as to who these people were.</li> <li>5) One invoice for \$311.20 included meals for 6 people. There is no indication on the expense claim as to who these people were.</li> <li>6) Two restaurant charges for \$240.24 and \$90.61 respectively were made on Guy Hedderwick's credit card in October 2013. No invoices were received for these by DVML. DVML</li> </ol>	<b>MEDIUM</b>	<ol style="list-style-type: none"> <li>5) The requirements of the DVML Credit Card Policy with regard to providing detailed information on entertainment provided should be enforced. Non-compliance should result in removal of the credit card.</li> </ol>

Current Situation	Risk Rating	Recommendation
<p>requested details directly from the restaurants but received invoices stating only "Food&amp; Beverage". There is no further information regarding these expenses.</p> <p>7) One invoice included in Guy Hedderwick's expenses totals \$388 and includes 8 meals and 3 bottles of wine. Guy Hedderwick paid \$96 of this invoice on his DVML credit card. There is no detail on who the other participants.</p> <p>8) One invoice included in Guy Hedderwick's expenses totals \$205.50 and includes 9 meals. Guy Hedderwick paid only his share of \$22.50 for this meal.</p> <p>It is also noted that on 3 occasions on a trip to the USA in 2013, 2 tickets to sports events were purchased and claimed by Guy Hedderwick. Whilst there are no details of who the other person was on the invoice, the expenses were incurred on a trip to the USA where Darren Burden (at the time DVML CEO) was also present. Our assumption is that Darren Burden would have been the other party.</p> <p>On one further occasion in 2012, an invoice for 2 sports tickets is included in the expenses file although Guy Hedderwick only made an expense claim for one of those tickets.</p>		
<b>2.2.5 Other Travel Expense Items of Note</b>		
<p>The following items were noted by us during our audit and are detailed below:</p> <p>1) A significant number of subsistence expense claims relate to snack items (confectionary and fizzy drinks in particular). However, as noted in point 2.2.3 above, these expenses appeared to be made in lieu of rather than in addition to meal expenses.</p> <p>2) Two food invoices claimed also included expense for a hair brush and shaving cream. These items totalled approximately \$10.</p> <p>3) Two items including Amazon Kindle purchases totalling \$38.10</p>	<b>N/A</b>	No recommendation.

Current Situation	Risk Rating	Recommendation
<p>were made on the company credit card but noted by Guy Hedderwick on the statement that these were to be recharged to him.</p> <p>4) A Walmart invoice from March 2013 totalling USD 105.12 including items such as children's t-shirts, hat, gloves and a toy jeep was included in the expenses file. These items were purchased using Guy Hedderwick's personal credit card and no expense claim was made by (or received by) Guy Hedderwick for these items.</p>		
<b>2.3 CREDIT CARD CONTROLS</b>		
<b>2.3.1 Credit Card Use Following Termination of Employment</b>		
<p>The DVML Credit Card Policy states that credit cards will be withdrawn by the CEO as part of standard termination procedures on ceasing employment.</p> <p>A contract for consulting services exists with Guy Hedderwick following the termination of his full-time employment with DVML. This contract commenced on 16 September 2013.</p> <p>Guy Hedderwick continued to use his company credit card until February 2014. A total of \$1,163.33 was spent by Guy Hedderwick on his company credit card after termination of his full time employment with DVML. Supporting documentation for these expenses was not submitted to DVML by Guy Hedderwick for these expenses although a review of the credit card statement entries does not suggest any suspicious activity.</p>	<b>MEDIUM</b>	<p>6) The requirements of the DVML Credit Card Policy should be enforced. Credit cards should be cancelled immediately on termination of employment to ensure no further expenses including items such as monthly subscriptions continue to be incurred.</p>
<b>2.3.2 Non-Standard Expenditure on Company Credit Card</b>		
<p>The DVML Credit Card Policy shall only be used in order to facilitate executive travel, meetings, accommodation, business entertainment and subscriptions where necessary and appropriate.</p> <p>It was noted during our review that other items including office supplies, IT equipment, hire of equipment, prizes for events and staff uniforms totalling \$12.6k over the period of our review were</p>	<b>MEDIUM</b>	<p>7) DVML credit cards should only be used for the purposes defined in the Credit Card Policy. Other purchases should be undertaken using purchase orders and invoices to ensure purchasing procedures and approval levels cannot be circumvented.</p>

Current Situation	Risk Rating	Recommendation
<p>purchased using Guy Hedderwick's company credit card.</p> <p>Use of credit cards for such general office expenditure allows for purchasing procedures and approval levels to be circumvented.</p>		
<b>2.3.3 Approval of Travel and Entertainment Expenses</b>		
<p>The DVML Credit Card Policy states that the CEO's credit card expenses are to be approved by the Chairman by signing and dating by way of acceptance and all other credit card approvals by direct reporting lines.</p> <p>Additionally the DVML Travel &amp; Accommodation Policy states that all expenses claimed for reimbursement must be signed by the staff member's manager.</p> <p>In practice it is noted that the travel and credit card expenses have been approved either by the CEO or the Finance Manager (with the Finance Manager approving the CEO's travel expenses).</p>	<b>LOW</b>	<p>8) It is appropriate for the Chairman to approve the CEO's travel expenses to avoid the situation of the Finance Manager having to approve his manager's expenses.</p> <p>It would otherwise appear appropriate for the Finance Manager to approve other staff members' expenses. The Credit Card and Travel &amp; Accommodation Policies should be updated to reflect this practice.</p>

### 3. Appendix 1– Basis and Use of Report

This report is prepared on the basis of the limitations set out below:

- Our procedures were designed to provide limited assurance which recognises that absolute assurance is rarely attainable, due to such factors as the use of judgment in gathering and evaluating evidence and forming conclusions, and the use of selective testing, and because much of the evidence available for review is persuasive rather than conclusive in nature.
- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout a specified period and any tests performed were on a sample basis.
- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.
- The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.
- Recommendations for improvement should be assessed by management for their full commercial impact, before they are implemented.
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