

**SAUDI ARABIAN OIL COMPANY (Saudi Aramco)**  
**GENERAL INSTRUCTION MANUAL**

**GI NUMBER** Approved

20.500

**ISSUING ORG.** FINANCIAL ANALYSIS & PERFORMANCE ADVISORY DEPARTMENT

**ISSUE DATE**

05/01/2011

**REPLACES**

10/05/1988

**SUBJECT:** EXPENDITURE REQUESTS

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**CONTENT:**

This instruction describes the following:

- 1 Purpose
- 2 Scope
- 3 ER Authorizations and Forms
- 4 Responsibilities for Preparation
- 5 Estimating Cost of Work
- 6 Plant Transfers and Retirements
- 7 ER Requirements with Respect to Budgets and Programs
- 8 Review, Approval and Distribution
- 9 Related Instructions

**1.0 PURPOSE:**

An approved Expenditure Request (ER) authorizes expenditures for a Budget Item or Master Appropriation release associated with the following programs:

<u>Program Title</u>	<u>Documented In</u>
a) Exploration Program	Exploration Budget and Program (GI 20.081)
b) Development Program	Development Budget and Program (GI 20.101)
c) Capital Program	Capital Budgets and Programs (GI 20.031)
d) Non-Capital Program	Non-Capital Budget and Program (GI 20.110)

Relevant definitions are as follows:

- 1.1 Program: A Program is the aggregate of facilities, additions and improvements required to accomplish major Business Line objectives. Programs can be further subdivided into Projects.
- 1.2 Project: A Project is a subdivision of a Program and includes the new facilities, additions or improvements required to accomplish a specific Program objective.
- 1.3 Budget Item: Budget Items are the basic constructible units and may be for a single facility or for several related facilities or pieces of work which logically make up a constructible unit. Funds for the budget item are appropriated by the approval of an ER.
- 1.4 Prior Approval Expenditure Request: A Prior Approval Expenditure Request (PAER) funds only a portion of a proposed scope of work and may be developed to address scheduling issues driven by exceptional circumstances, such as the purchase of long-lead materials. The use of PAERs as a funding mechanism should be limited as they result in significant sunk costs prior to the full business case and scope of work for a project being finalized. The

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scope of a PAER should be sufficiently well defined to support an ER-quality,  $\pm 10\%$  official cost estimate from the Estimating Services Division, Project Management Office Department. PAER funding is in addition to any preliminary engineering funds which may have been approved for a project. PAERs are developed by the Facilities Planning Department in accordance with their manual *Preparation Guidelines for Planning, Budget and Expenditure Request Briefs*.

1.5 Expenditure Request: The Expenditure Request (ER) is a formal request for approval of a budget item. The approval of the ER authorizes the project to proceed with the detailed design process and construction. The life of an ER extends until it is financially closed.

1.6 Master Appropriation:

1.6.1 A Master Appropriation authorizes the purchase of equipment or certain other projects, the full scope of which cannot be defined at the time the ER is approved. As a practical matter, the scope of a Master Appropriation is usually sufficiently defined to allow preparation of lists of scope to be executed or equipment to be purchased. Examples of Master Appropriations include Maintain Potential projects, computing, medical, and research equipment, and BI-19, Miscellaneous Projects and Purchases.

1.6.2 Authorization to disburse funds is controlled by the preparation and approval of a release under the ER that identifies the equipment to be purchased or work to be done.

1.6.3 Releases are prepared for equipment to be purchased or work to be performed during the period specified in the Master Appropriation. The release must be made prior to the expiration date as specified on the ER. No release can be authorized after expiration of the stated period in the Master Appropriation. Unless otherwise specified in the Expenditure Request Brief, a Master Appropriation's release period begins on January 1<sup>st</sup> and expires on December 31<sup>st</sup> of the same Gregorian calendar year.

1.6.4 The life of a Master Appropriation extends until all expenditures against related releases are complete.

## **2.0 SCOPE:**

The Scope of an ER is as follows:

2.1 An ER will include a description of the work to be done and all elements of cost (both capital and expense) for the work described. The scope of an ER should be sufficiently well defined to support an ER-quality,  $\pm 10\%$  official cost estimate from the Estimating Services Division, Project Management Office Department.

2.2 The ER will indicate a completion date.

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2.3 Those responsible for an ER should assure that the scope of work and funds requested include all costs directly related to the project; that is, identify and include in the one request the total amount that Saudi Aramco will be committed to spend if the item is approved.

2.4 Refer to 1.6.1 above for scope of a Master Appropriation.

### **3.0 ER AUTHORIZATION AND FORMS:**

An approved ER provides authorization to make commitments and incur expenditures for projects within the scope described in the ER. Approval authorities for ERs are documented in the Management Guide, Section 4., Approval Authority. Conditions may dictate, in exceptional circumstances, that due to urgent operational requirements, a project should be started prior to receipt of final ER approval. In these instances, written approval of the President & Chief Executive Officer to make commitments and/or incur expenditures prior to ER approval must be obtained before the project is started.

3.1 Standard processing steps are detailed in Supplement 20.500-1, Standard Processing Steps for an Expenditure Request Approval Package, on page 11.

3.2 Proposed changes in the scope or design of a project, including the cancellation of approved work, commitments, or expenditures, should be submitted for approval in an ER amending the initial authorization if the magnitude of the change meets requirements stated below (see also GI 20.520, Project Change Requests).

3.3 Procedures for amended appropriations are as follows:

3.3.1 Supplements: A forecast overrun of the approved ER amount by more than 10% or \$20,000,000, whichever is less, arising because of unanticipated costs or construction difficulties within the approved scope and design requires a Supplement ER subsequent action. A Supplement ER should be submitted for approval as soon as an overrun in excess of these limits is forecasted. Approval requirements for cost overruns up to 10% and not exceeding \$20,000,000 are documented in the Management Guide, Section 4., Approval Authority.

3.3.1.1 A forecast overrun of an approved Master Appropriation release amount by more than 10% or \$20,000,000, whichever is less, arising because of unanticipated items, costs or construction difficulties within the approved scope and design requires a Supplemental Release ER. If the original Master Appropriation is closed or fully released, the Supplemental Release ER can only be charged to a current, open Master Appropriation based on the release period defined in the ER Brief covering the same project type, BI-19 funds if within the \$4,000,000 limit for BI-19 projects or a Supplement ER subsequent action to be approved at the Excom or Board level.

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Overruns of less than 10% and not exceeding \$20,000,000 require no further approval action.

3.3.1.2 Projects originally authorized for \$4,000,000 or less (BI-19) with expenditure overruns exceeding 10% require ER Supplements with the approval authority required based on the revised total cost, both capital and expense components, of the project. Under no circumstances may the total cost, including any cost overruns for both the capital and expense components of a BI-19 project, exceed \$4,400,000. A fixed scope budget item would be required if costs escalate beyond \$4,400,000. Cost overruns of less than 10% require no further approval action.

3.3.2 Redefinitions: When the total proposed scope changes, additions and deletions considered separately, exceed 10% or \$20,000,000 whichever is less, of the original fixed-scope ER amount, a Redefinition ER subsequent action is required). In those cases where a proposed Redefinition causes a forecast reduction in ER funds, a Redefinition & Partial Cancellation ER subsequent action is required. In those cases where a proposed Redefinition causes a forecast increase in ER funds, a Redefinition & Supplement ER subsequent action is required. Approval requirements for scope changes up to 10% and not exceeding \$20,000,000 are documented in the Management Guide, Section 4., Approval Authority, and are also discussed in GI 20.520, Project Change Requests.

3.3.2.1 For Master Appropriations, since the scopes of work are not fully defined at the time of ER approval, a larger scope change threshold of 25% of approved funding is applicable. Once total proposed scope changes, with additional and deletions considered separately, exceed 25%, an ER Redefinition subsequent action is required.

3.3.2.2 For individual Master Appropriation releases, when the total proposed scope changes, additions and deletions considered separately, exceed 10% or \$20,000,000, whichever is less of the original Master Appropriation release value, an ER Redefinition release is required. These actions should be rare as funds should only be released when project scopes have been finalized. Further, these actions will be reviewed on a case-by-case basis by the Capital Programs, Forecast & Analysis Division to ensure funds are not redirected to new scopes of work as a result of the changes to the originally planned scope of work.

3.3.2.2.1 If the release period for the Master Appropriation has expired, the revised scope of work must be of the same project type and be located in the same geographic area. Any additional funding required for the release can only be obtained from an unexpired, open Master Appropriation covering the same project type.

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3.3.2.2.2 Scope additions (new work) to releases for expired Master Appropriations are not permitted. Scope may not be expanded to utilize excess funds.

3.3.2.2.3 New work must be approved from an open Master Appropriation. A scope deletion from an approved release against an expired Master Appropriation does not reopen the closed Master Appropriation. However, a scope deletion from an approved release against an open Master Appropriation restores previously released funds for other releases. The ER is required to document the proposed scope deletion from the approved release.

3.3.3 Partial Cancellation: A forecast underrun of the approved ER amount by more than 10% and \$10 million within the approved project scope requires a Partial Cancellation ER subsequent action. Additionally, projects with underruns less than these guidelines may be submitted for Partial Cancellation ER action as requested by the Engineering & Project Management Business Line or the Management Committee. A proposal for a Partial Cancellation ER must be submitted when all major contracts have been awarded. Judgment may still be required as to the timing of the action based on the remaining risks facing a project. For example, deployment of new technology or a project being executed within an operating facility may require more time to determine when funds should be returned versus the lump sum turnkey (LSTK) construction of a new pipeline. Cost underruns which are less than 10% and \$10,000,000 require no further approval action.

3.3.3.1 When the total spending forecast for all approved releases of an expired Master Appropriation underruns approved released funding by more than 10% and \$10,000,000, a Partial Cancellation ER must be processed. Projects with underruns which do not meet these guidelines may be submitted for Partial Cancellation as requested by the Engineering & Project Management Business Line or the Management Committee. A proposal for Partial Cancellation of an expired Master Appropriation should be submitted as soon as practicable and must be submitted prior to the project achieving mechanical completion (MCC). The partial cancellation of an expired Master Appropriation does not reopen the appropriation.

3.3.3.1.1 The individual releases which are the cause of the partial cancellation action also require partial or complete cancellation.

3.3.3.2 In the case of individual release underruns against open Master Appropriations, it is in the proponent's best interest to partially cancel excess funds from the release provided the amount is significant. The cancelled amount is restored to the Master Appropriation for other releases. Any

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additional releases must be in accordance with the intended scope of the Master Appropriation and meet essential business requirements.

3.3.4 Cancellations: A proposal to cancel an approved project requires a Cancellation ER subsequent action. Expenditures incurred but rendered worthless due to the cancellation are shown in the revised estimate as project costs to be charged to Abandonment Expense account 427-210. Expenditures benefiting other open projects are transferred to those projects, as approved on the Cancellation ER.

3.3.4.1 A proposal to cancel an approved release against a Master Appropriation requires a Cancellation Release. Expenditures incurred but rendered worthless due to the cancellation are shown in the revised estimate as project costs to be charged to expense. The cancellation of a release pertaining to an expired Master Appropriation does not reopen the expired Master Appropriation. However, a cancellation of an approved release against an open Master Appropriation restores the canceled funds for other releases. The Cancellation Release is required to document the proposed cancellation.

3.3.5 ER Captions: ER subsequent actions modifying the ER initially approved should be identified by one of the following captions, as appropriate:

- a) Supplement: ER-XX-XXXXX:
- b) Redefinition: ER-XX-XXXXX:
- c) Partial Cancellation: ER-XX-XXXXX:
- d) Cancellation: ER-XX-XXXXX:
- e) Redefinition and Supplement: ER-XX-XXXXX:
- f) Redefinition and Partial Cancellation: ER-XX-XXXXX:
- g) Master Appropriation release titles are assigned by the SAP workflow system.

Complete the caption by showing the project title of the previous authorization.

#### **4.0 RESPONSIBILITIES FOR PREPARATION:**

4.1 The responsibility for initiating an ER for proposed budget items valued at more than \$4,000,000 rests with the Facilities Planning Department. Responsibilities of various organizations concerned with ER preparation for these budget items are as follows:

4.1.1 Proponent and Construction Agency: This team prepares the project proposal and project execution plan, if required. The proponent and construction agency review the ER package prepared by FPD prior to Management review.

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- 4.1.2 Project Management Office Department (PMOD): This department reviews and approves the  $\pm 10\%$ , ER-quality cost estimate (Saudi Aramco Form 56D) prepared by the construction agency.
- 4.1.3 Facilities Planning Department (FPD): This department prepares the ER approval package including the ER Brief, Budget Item Supporting Information (BISI), economic justification, charts, site plans, maps, etc. FPD coordinates the overall review and approval of the ER package by the Senior Vice President – Engineering & Project Management and the proponent's Senior Vice President or Business Line Head.
- 4.1.4 Budget Director: The Budget Director in FPD reviews the format and overall quality of the ER, arranges corrections, coordinates recommended changes, prepares the ER approval package for the Management Committee and makes changes or supplies additional information as required by the Management Committee.
- 4.1.5 Financial Analysis & Performance Advisory Department (FA&PAD): This department assists proponents and the Facilities Planning Department in matters dealing with financial, accounting and budgetary policies and procedures and provides input to the Budget Director as required. FA&PAD performs reviews and arranges corrections to the ERs as required. FA&PAD prepares and distributes the ER approval book to the Corporate Secretary for Board of Directors/Excom review and approval.
- 4.1.6 Business Analysis Department (BAD): This department advises on the appropriate approach to use for project justification during early stages of development. BAD issues guidelines for economic analysis, assists with the economic analysis as required, and reviews and endorses the economic analysis and justification.
- 4.2 The proponent has primary responsibility for initiating and processing Master Appropriation funding releases. The release will be developed using the SAP Master Appropriation release workflow system with the assistance of the assigned construction agency, as appropriate. Additional information regarding Maintain Potential Master Appropriation releases may be found in GI 20.720, Maintain Potential Master Appropriations. Guidelines regarding BI-19 funding releases are reflected in GI 20.620, Miscellaneous Projects and Purchases BI-19.
- 4.2.1 All releases must be supported by an ER-quality,  $\pm 10\%$  cost estimate of the work to be performed and must reference the total cost of the project for determination of the appropriate approval authority level. Cost estimates for projects valued at more than \$500,000 require PMOD endorsement. Cost estimates for subsequent action releases including supplements, redefinitions, partial cancellations, and cancellations for releases originally valued at more than \$500,000 must also be endorsed by PMOD.
- 4.2.2 Facilities Planning Department endorsement is required for all original releases exceeding \$500,000 in value. Subsequent action releases including supplements,

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redefinitions, partial cancellations, and cancellations for releases originally valued at more than \$500,000 must also be endorsed by Facilities Planning Department.

4.2.2.1 Redefinition and Supplement funding releases which result in an increase in project costs beyond \$500,000 must be endorsed by Facilities Planning Department.

4.2.2.2 Supplemental funding releases which result in an increase in project costs beyond \$500,000 do not require Facilities Planning Department endorsement.

4.2.3 Each release will be categorized as either in-scope or out-of-scope based on the detailed scope of work included in each Master Appropriation's Budget Item Supporting Information. Once out-of-scope releases exceed 25% of approved funding, an ER Redefinition subsequent action is required.

## **5.0 ESTIMATING COST OF WORK:**

The Expenditure Request cost estimate includes all expenditures associated with the work proposed in the Expenditure Request. The Project Management Office Department should be consulted for guidelines concerning preparation and review of Expenditure Request estimates.

5.1 A  $\pm 10\%$ , ER-quality cost estimate is required to support approval of an ER Supplement or Partial Cancellation subsequent action by the Board of Directors, its Executive Committee, or the President & Chief Executive Officer. The protocol and definitions used by PMOD to develop such cost estimates for the ER Supplement or Partial Cancellation subsequent action are entirely under PMOD's purview.

5.2 Cost estimates for Master Appropriation releases exceeding \$500,000 in value must be endorsed by PMOD. Subsequent action releases including supplements, redefinitions, partial cancellations, and cancellations for releases originally valued at more than \$500,000 must also be endorsed by PMOD. Additionally, subsequent action releases which result in revised total project costs exceeding \$500,000 must be endorsed by PMOD.

## **6.0 PLANT TRANSFERS AND RETIREMENTS:**

An ER will include information pertaining to existing plant and/or equipment items to be used or retired to complete a proposed project.

6.1 Such items, termed Plant Transfers, may either be moved to another location or so used in the proposed work that they will not be available for their original service. The movement of previously capitalized assets to other locations will be recorded by preparing Saudi Aramco Form SA-630. GI 207.050, Form SA-630 – Capital Assets Change Authorization, and the



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Accounting Manual, Section 307, Transfers, describe rules to be followed in recording transfers of plant and equipment.

- 6.2 The dollar net book value of plant transfers is shown on the detail estimate of the ER as a memo amount excluded from the appropriation requested. The proponent is responsible for confirming the net book value of plant transfers with the Projects & Fixed Assets Accounting Division (P&FAAD), Operations Accounting Department.
- 6.3 When Saudi Aramco property having a total net book value equal to or in excess of \$100,000 is to be abandoned, demolished, given away or otherwise disposed of without financial consideration, a request for the required Board of Directors or its Executive Committee approval for the proposed asset write-off must be included in the ER Brief. The property description, reason for proposed action, options available for disposal and net book value of the property as confirmed by P&FAAD should all be included in the ER Brief.

## **7.0 ER REQUIREMENT WITH RESPECT TO COMPANY BUDGETS AND PROGRAMS:**

The cost and scope of work as proposed in an ER should be in accordance with official Saudi Aramco Budgets and Programs. An ER should be introduced in time to meet the approval dates published in the current Capital Budgets book.

## **8.0 REVIEW, APPROVAL AND DISTRIBUTION:**

ER Forms are reviewed by management before approval to confirm that proposed projects are compatible with Saudi Aramco corporate values, objectives, policies and programs.

- 8.1 Standard processing steps are shown in GI 20.500-1.
- 8.2 Approval authorities are shown in the Management Guide, Section 4, Approval Authority.
- 8.3 Distribution of an approved ER with a value exceeding \$4 million is performed by the Financial Analysis & Performance Advisory Department.
- 8.4 Master Appropriation release work breakdown structures are assigned by the SAP workflow system with all documentation retained electronically within the workflow.

## **9.0 RELATED INSTRUCTIONS:**

GI 20.500-1 Supplement: Standard Processing Steps for an Expenditure Request Approval Package is on Page 11. Other related General Instructions and Saudi Aramco manuals regarding ERs are listed below for convenient reference.

a) Other General Instructions

20.520	Project Change Requests
20.620	Miscellaneous Projects and Purchases BI-19
20.720	Maintain Potential Master Appropriations

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- b) Saudi Aramco Manuals  
Accounting Manual  
Facilities Planning Department – Preparation Guidelines for Planning, Budget, and  
Expenditure Request Briefs  
Saudi Aramco Engineering Procedures

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SUPPLEMENT 20.500-1

**STANDARD PROCESSING STEPS FOR AN EXPENDITURE REQUEST APPROVAL PACKAGE**

1. The Facilities Planning Department (FPD) prepares the ER approval package (ER Brief, Budget Item Supporting Information (BIS), economic justification, charts, site plans, maps, etc. as applicable). The proponent and construction agency provide information as required by FPD and review the completed ER package.
2. The Corporate Staff, consisting of Business Analysis, Facilities Planning, Finance, Project Management, the proponent, and other staff groups as required based on the particulars of the proposed Expenditure Request, review the ER package. All proposed revisions are reviewed by the proponent organization.
3. The Facilities Planning Department is responsible for obtaining the review and concurrence of each Expenditure Request by the proponent's Business Line Head before it is included in the Management Committee's Expenditure Request briefing materials.
4. The Budget Director prepares the Expenditure Request briefing materials for the Management Committee.
5. After Management Committee review of the Expenditure Request briefing materials, the Budget Director coordinates necessary changes to the individual Expenditure Request approval packages and provides any additional information required.
6. Expenditure Requests meeting all the following criteria are routed by the Budget Director to the Secretary – Management Committee for review by the Management Committee members and subsequent approval by the President & Chief Executive officer and are not processed for the Board of Directors or its Executive Committee's review and approval if:
  - The budget item is included in the approved annual Capital Budgets
  - The total cost exceeds \$4 million but is not greater than \$20 million for all original approvals
  - The budget item is not on the Board of Directors or its Executive Committee's recall list
7. For an Expenditure Request that does not meet the conditions of #6 above, the Budget Director provides the Financial Analysis & Performance Advisory Department with the Expenditure Request Briefs. FA&PAD then prepares the Expenditure Request Budget Book for the Corporate Secretary who distributes the Expenditure Request briefing materials to the Board of Directors or its Executive Committee for review and approval.

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