Ministry for Primary Industries
Manatū Ahu Matua

**Assurance and Evaluation**

Office of the Director-General

# PRIMARY GROWTH PARTNERSHIP FINANCIAL MANAGEMENT: ASSURANCE ON MARBLED GRASS FED BEEF PARTNERSHIP USE OF FUNDING

FEBRUARY 2015

Assurance & Evaluation

# Contents

# SECTION 1: EXECUTIVE SUMMARY

## OBJECTIVE OF WORK

1. The key objective of our work was to provide assurance that the Marbled Grass Fed Beef Partnership (Grass Fed Wagyu Limited and MPI) financial management systems for Primary Growth Partnership (PGP) funding and co-funding, are suitably robust and effective.

## OVERALL CONCLUSIONS

**The co-investor has an effective system for producing quarterly claims for funding**

2. Grass Fed Wagyu Limited has a system for collecting and collating data and information to support its quarterly claims for funding.

3. The amounts claimed by Grass Fed Wagyu Limited from the Ministry are supported by documentary evidence. These amounts appear to be appropriate costs to be borne by the partnership programme and recovered from the Ministry.

4. This conclusion is based on our review of the documentation and information supplied by the partners to support the transactions selected for audit testing.

**The costs incurred for this programme (as at the date of our audit) have been significantly less than the budgeted costs**

5. The programme is now in its third year. Costs were significantly less than budget in both of the first two years – the programme underspent by 53% in its first year ($0.964m), and by 40% in its second year. ($1.265m). We understand that this is primarily due to slower progress in delivering aspects of two of the programme objectives – Supply Chain and Marketing. Some significant changes have now also been made to the future spending plans for the programme.

6. Given these facts we came to the view that there would be little value in looking at budgeting processes in detail. The assumptions and information used to complete both the original budget and the annual planning exercises are now somewhat historic and any assurance that we could give on their effectiveness would be limited.

7. One of the consequences of the slower progress of certain programme objectives is that, as at the end of September 2014, the Ministry has funded 56% of the costs to date of this programme. This is because the Ministry is not equally funding each of the programme objectives. The Ministry Investment Manager will need to monitor the ratio of Ministry to co-investor funding to ensure it does not fund more than 50% of the total costs.

8. It will be important that both the Programme Steering Group and the Ministry Investment Manager critically assess and challenge the detail of the spending plans put forward as part of the 2015/16 Annual Planning exercise. This will help give more confidence that good planning systems and capability are in place and that the programme is being managed well.

**Quarterly financial reporting and re-forecasting processes could be enhanced**

9. Quarterly reports to the Programme Steering Group provide a limited amount of detail to quantify the variances between actual costs and budgeted costs. More detailed and regular analysis of variances can provide the Programme Steering Group and the Ministry with greater understanding of the progress of the programme.

10. Quarterly reports include some limited re-forecasting of future in year costs. Re-forecasts for 13/14 were based on overly optimistic assumptions which meant that they were not very meaningful. Re-forecasting processes need to be enhanced to provide more realistic

assessments more closely aligned to planned activity and actual spending.

**Roles and responsibilities for financial management were not always clear to us**

11. One of the challenges that we faced was clearly understanding the roles of the various parties for the different elements of the financial management processes: budgeting, reporting, making claims, monitoring and forecasting. Based on our enquiries and the response to these enquiries, we are not confident that we were provided with a clear understanding of their roles or that those involved had a consistent understanding of their roles.

**There were a number of discrepancies and inconsistencies in some of the data and financial information in plans and reports**

12. We also noted a number of inconsistencies in financial data in both the 2014/15 Annual Plan and some of the programme's quarterly reports which did not appear to have been picked up. One of these inconsistencies related to the reporting of the Ministry contribution to the costs of the programme to date. For the last 3 quarters of year two of the programme (2013/14), the reports understated the amount that the Ministry had contributed by $46k. (This error also appeared in the 2014/15 Annual Plan, reporting on the previous year).

13. While not a material discrepancy, this does indicate a possible need for more rigorous checking and cross checking of some of the financial information before it is presented to a wider audience.

**Our suggested actions**

14. We have proposed eight actions to address our findings and conclusions. These are set out at Fig 1. Further details of the findings and actions are at Section 3 paragraphs 30 to 51.

**FIG 1 Suggested actions to address areas identified**

| Area | Suggested Action |
|---|---|
| Monitoring of funding (paragraph 7) | ***For Programme Manager and MPI Investment Manager****: To ensure that the Ministry funds no more than 50% of the total costs of the programme, monitor investment to date as well as against budget* |
| Annual Planning (paragraph 8) | ***For Programme Steering Group:*** *assess and challenge the detail of the spending plans put forward as part of the 2015/16 Annual Planning exercise.* |
| Variance analysis (paragraph 9) | ***For Programme Manager****: provide Ministry and Programme Steering Group with more detailed and regular variance analysis to explain significant under or over spends against budget.* |
| Re-forecasting (paragraph 10) | ***For Programme Manager****: Enhance existing re-forecasting processes to ensure quarterly forecasts are more closely aligned to planned activity and actual spending.* |
| Roles and responsibilities (paragraph 11) | ***For Programme Manager in coordination with CFO Brownrigg Agriculture and CFO Firstlight Foods:*** *Clarify for Ministry and all other interested parties:*<br>o *Individual roles and responsibilities for financial management.*<br>o *Programme/Project Manager's specific financial management roles and responsibilities.*<br>o *New co- investor board specific responsibility for financial management.*<br>*Ensure roles are clearly articulated and understood* |
| Checking of data and information in reports and plans (paragraph 12) | ***For Programme Manager****: Implement processes to ensure financial information in plans and reports is accurate and consistent.* |

# SECTION 2: INTRODUCTION

## CONTEXT FOR WORK

15. The Primary Growth Partnership is a government-industry partnership that invests in significant programmes of research and innovation to boost the economic growth and sustainability of New Zealand's primary and food sectors.

16. The Ministry provides funding to the industry co-investors for the programmes on receipt of invoices for work completed. The partners are required to provide co-funding at least equivalent to the Ministry's funding. Co-funding can be either in the form of cash contributions or in kind contributions.

17. Each contract between MPI and the partners provides rights of access to records to carry out an audit of the partner's use of the funds.

18. The Ministry's Assurance and Evaluation team help provide additional comfort to the Ministry and the Minister around PGP partners' management of funding and claims for funding through assurance on the partners' financial management of the programmes.

## WHAT WE DID AND HOW WE DID IT

19. In order to assess the financial systems for management of PGP funding and co-funding being operated the co-investors, we visited the programme offices of Grass Feed Wagyu in Hastings, to speak to the Programme Manager to understand the relevant systems and processes being used.

20. We also corresponded with other persons involved in elements of financial management to understand their roles:
    - Brownrigg Agriculture Group Chief Financial Officer,
    - Firstlight Foods Chief Executive,
    - Firstlight Foods Chief Financial Officer,
    - Objective Managers for Supply Chain, Marketing and Production objectives) and
    - On Farm Research Director (provider of Genetics and Production research.

21. We also checked documentation and other underlying evidence (which supports the costs that form part of the claims for reimbursement from the Ministry by the co-investor organisations.

22. This included invoices, time records and milestone progress reports, bank statements and information that supports quarterly reports to the Programme Steering Group.

23. The records that were reviewed covered the months of October 2013 to December 2013, and covered some $566k of programme expenditure. (The sample represents approximately 21% of total programme spending for the first two years of the programme to 30 June 2014).

## THE PROGRAMME

**The programme aims and objectives**

24. The programme is a partnership between MPI and co-investors Wagyu Breeders Limited, (100% owned by Brownrigg Agriculture Group Limited), Firstlight Foods Limited, and Firstlight Wagyu (NZ) Limited. (Firstlight Wagyu (NZ) Limited represents farmers in the producer group, and is owned in part by them, with the majority owned by Firstlight Foods Limited).

25. Two of the co-investors (Wagyu Breeders Limited and Firstlight Foods Limited), have established a 50:50 joint venture company, Grass-Fed Wagyu Ltd (GFW), through which their respective interests in the programme are managed.

26. The aim of the programme is to develop an integrated value chain for high-value, marbled beef that is internationally recognised for its superior eating qualities.

27. The programme has four agreed objectives (Genetics, Supply Chain, Marketing and Production Research and Development), each of which has a series of intermediate outcomes and milestones.

28. Wagyu Breeders Limited are funding and managing the Genetics objective. All other objectives are funded and managed by Firstlight Foods or Firstlight Wagyu (NZ) Limited. Much of the Genetics and Production objective work is being carried out and managed by On Farm Research, a company 50% owned by Brownrigg.

29. While the contract for this programme was only finalised and signed in May 2013, approval was given for 'go early' funding in August 2012 which allowed work to start pre contract signing.

# SECTION 3 OUR MAIN FINDINGS AND OBSERVATIONS

30. There are seven main findings and observations from our work. Details of these are set out below. Appendix 1 provides more detailed context around these findings.

**By the end of Year 2 of the programme (June 2014) costs have been significantly less than the original contracted business case budget and the revised 2013/14 annual plan budget**

31. The total initial funding approved for this programme was $23.3m ($11m from the Primary Growth Partnership fund and $12.3m from co-investors). Fig 2 sets out the original and revised whole of life budget. More details of the original year by year budget for the life of the programme are at **Appendix 2**.

**Fig 2: Programme budget by objective as per 2013/14 and 2014/15 annual plans**

| | Objective | Co-investor managing | 2013/14 | 2014/15 |
|---|---|---|---|---|
| 1 | Genetics | Wagyu Breeders | $ 7,190,838 | $ 7,190,838 |
| 2 | Supply Chain | Firstlight Foods | $ 3,022,353 | $ 6,139,958 |
| 3 | Marketing | Firstlight Foods | $ 6,020,452 | $ 6,714,536 |
| 4 | Production R&D | Firstlight Foods | $ 6,576,086 | $ 3,576,086 |
| | Project | Joint cost | $ 538,300 | $ 523,800 |
| | **TOTAL** | | **$ 23,348,029** | **$ 24,145,218** |

32. The original budget set in 2012, and agreed as part of contract finalisation in May 2013 had anticipated that approximately $5.3m ($1.8m in 12/13 and $3.5m in 13/14) would have been spent by 30 June 2014. The final 2013/14 Annual Plan revised the predicted spend to $3.9m ($0.8m actual for 12/13 and $3.1m forecast for 13/14).

33. However, as at 30 June 2014 the total spend for this programme was $2.7m – this is significantly less than estimated in both the original budget ($2.6m or 50% less) and the 2013/14 annual plan budget ($1.2m or 30% less).

34. The majority of this underspend was attributed to delays in the delivery of the programme objectives (although changes in the funding needs for the objectives was also a factor– see our further comments at paragraph 37).

35. More specifically the Supply Chain and Marketing activities had not progressed in line with expectations due to delays in implementing initiatives associated with these objectives

36. Appendix 3 sets out graphical representations of the spend to date against the original budget for year one, and the revised budget for year two.

> ***Suggested Action***
> ***For Programme Steering Group***: *assess and challenge the detail of the spending plans put forward as part of the 2015/16 Annual Planning exercise.*

**There have been some significant changes made to the current year and future years spending plans for Supply Chain and Production R&D objectives (as part of the 2014/15 Annual Planning process)**

37. When the original contract was signed in 2013, the Supply Chain and Production R&D objectives budgets were approximately $3m and $6.6m respectively. In early 2014, Grass Fed Wagyu Limited identified that spending on Production R&D could be scaled back and the same outputs achieved at lower cost.

38. The partners proposed to use the estimated $3m of future budget savings for Production R&D (12% of the total budget for the programme) to fund a new Supply Chain milestone “Integration with the Dairy Industry”.

39. As part of the 2014/15 Annual Plan funding for specific activities in the 2014/15 year under the “Integration with Dairy” milestone was agreed. It was also agreed that funding of this milestone for out years would be resolved as part of the 2015/16 annual planning process, when a clear plan of action for this milestone would be available.

40. The implication of this change was considered by the Programme Steering Group, approved by the IAP, and is reflected in a contract variation.

**The Ministry and co-investor need to monitor their respective levels of spend to ensure the Ministry funds no more than 50% of the total costs of the programme**

41. The Ministry is funding different proportions of the cost of each of the four programme objectives i.e. 60% of the costs of supply chain costs, 30% of marketing costs, and 50% of genetics/production costs. This recognises that the PGP criteria do not allow the funding of all marketing activities, particularly marketing of specific brands – this is in line with the requirements laid down by the World Trade Organisation (WTO).

42. As at 30 June 2014, the Ministry has contributed 56% of the total costs of the programme. This is because the largest areas of underspends are in marketing where the co-investor share of funding is going to be greater.

> ***Suggested Action***
> ***For Programme Manager and MPI Investment Manager:*** *to ensure that the Ministry funds no more than 50% of the total costs of the programme, monitor investment to date as well as against budget*.

**Roles and responsibilities for elements of financial management need to be clearly articulated and understood**

43. We understand that the key parties involved in the financial management of the programme are the Project/Programme Manager GFW Limited and the three Objective Managers (Manager Supply Chain/Manager Marketing Firstlight Foods and On Farm Research Limited - Research Lead). The newly established co-investor board also has a role in the oversight of the budget and the commercial aims of the programme.

44. Based on our enquiries we were not able to clearly understand the roles played by each of these parties in financial management – we were not provided with sufficient information to confirm our understanding. We

were provided with unclear, incomplete and conflicting advice on who was responsible for budgeting and forecasting for each of the programme's objectives. Roles should be clearly understood and well articulated.

45. We were advised that the new Project/Programme Manager and co-investor board would have a role in financial management. At the time of our work, GFW Limited had still to agree a position description for the manager and a terms of reference for the board. It is important to have these founding documents to set out roles clearly.

***Suggested Actions***
***For Programme Manager in coordination with CFO Brownrigg Agriculture and CFO Firstlight Foods****: Clarify for Ministry and all other interested parties:*
*i. Individual roles and responsibilities for financial management*
*ii. Programme/Project Manager's specific financial management roles and responsibilities.*
*iii. New co- investor board specific responsibility for financial management*
*Ensure roles are clearly articulated and understood*

**To date the process for in year re-forecasting of actual spending does not appear to have been based on realistic assumptions**

46. We have not looked at the basis for developing budgets or forecasting in any great detail. As noted at paragraph 31 to 36 during both 2012/13 and 2013/14 actual costs were significantly less than budget.

47. Re-forecasts for each quarter during 2013/14 were based on the assumption that underspends would be compensated by increased spending later in the year which ultimately proved unrealistic.

48. It will be important for future years that budgets and re-forecasts are more realistic and more closely aligned.

***Suggested Action***
***For Programme Manager****: enhance existing re-forecasting processes to ensure quarterly forecasts are more closely aligned to planned activity and actual spending.*

**The content of quarterly reports could provide more analysis of financial performance of the programme**

49. One of the key tools for reporting back to the Programme Steering Group and the Ministry is the quarterly reporting which the co-investor is required to do. While these reports provide some summary financial tables both for the programme as a whole and for each of the objectives, most of the reports provide limited analysis of the variances between spending and budgeting.

***Suggested Action***
***For Programme Manager****: provide Ministry and Programme Steering Group with more detailed and regular variance analysis to explain significant under or over spends against budget.*

**There is some inconsistency between some of the financial data and information in some of the Programme Steering Group quarterly reports and annual plans**

50. We reviewed the content of the last two annual plans and the quarterly reports to the Programme Steering Group as part of our audit work. We noted a number of inconsistencies between different sets of financial data in the 2014/15 Annual Plan (Further details are set out in Appendix 1). Some of these relate to data for the budgets for each of the objectives, and while not large discrepancies, the inconsistencies make it difficult to

determine exactly the budget total, and what portion of costs will be met by the Ministry and co-investors.

51. We also found inconsistencies in some of the data and information collated in the programme's quarterly reports. One example of this is that for the last 3 quarters of year two of the programme, the reports showed that for the year to date, the Ministry had contributed $46k less than had actually been the case. (This error was also reported in the 2014/15 Annual Plan, reporting on the previous year). This has now been acknowledged and addressed.

***Suggested Action***

***For Programme Manager****: implement processes to ensure financial information in plans and reports is accurate and consistent.*

## SECTION 4: Action Plan

| No | Recommendations | Proposed Action | Due Date | Responsibility |
|---|---|---|---|---|
| 1 | To ensure that the Ministry funds no more than 50% of the total costs of the programme the Programme Manager and the MPI Investment Manager monitor investment to date as well as against budget. | The Programme Manager monitors the finance of the programme and reports on MPI and co-investor investment to date as well as against budget in the quarterly report.<br><br>The MPI Investment Manager checks that reported actual investment is consistent with MPI internal records. | Ongoing with immediate effect | Programme Manager and MPI Investment Manager |
| 2 | Assess and challenge the detail of the spending plans put forward as part of the 2015/16 Annual Planning exercise. | Review and discuss the assumptions behind the 2015/16 Annual Plan. | Between April and July 2015 | Programme Steering Group |
| 3 | Provide Ministry and Programme Steering Group with more detailed and regular variance analysis to explain significant under or over spends against budget. | Enhance ongoing quarterly reporting to Programme Steering Group to provide more detailed analysis and explanation of variances of actual and budgeted expenditure (parameter for variance analysis to be determined by discussion with Programme Steering Group) | By end of July 2015 | Programme Manager |
| 4 | Enhance existing re-forecasting processes to ensure quarterly forecasts are more closely aligned to planned activity and actual spending. | Forward looking forecasts which reflect and better align future spending to projected activity | Ongoing with immediate effect with the initial reforecasting to be completed by June 2015 | Programme Manager |
| 5 | Clarify for Ministry and all other interested parties:<br>○ Individual roles and responsibilities for financial management.<br>○ Programme/Project Manager's specific financial management roles and responsibilities.<br>○ New co-investor board specific responsibility for financial management. | Provide Ministry with a written overview of the roles played by the Programme Manager, Objective Managers and others involved in financial management<br><br>Provide Ministry with copies of terms of reference of co-investor board. Discuss role of board with Ministry representatives | By end of June 2015 | Programme Manager in co-ordination with CFO Brownrigg Agriculture and CFO Firstlight Foods |

| No | Recommendations | Proposed Action | Due Date | Responsibility |
|---|---|---|---|---|
| | Ensure roles are clearly articulated and understood | | | |
| 6 | Implement processes to ensure financial information in plans and reports is accurate and consistent. | Carry out cross checks of annual plans and quarterly reports | Ongoing with immediate effect | Programme Manager |

# APPENDIX 1 –FINANCIAL MANAGEMENT PROCESSES DETAILED OBSERVATIONS

| Area | Commentary and observations | Action |
|---|---|---|
| Roles and responsibilities | **Overview of key roles**<br>The co-investors interests in the programme are represented by a 50:50 joint venture company that they have established called Grass-Fed Wagyu Limited. (GFW). At the time of the visit GFW employed a Project/Programme Coordinator. This position was filled by a contractor who worked two days a week for GFW. This person was responsible for coordinating the management of the programme including the processes for formal reporting to the Programme Steering Group and MPI. We understand that this role had the primary responsibility for collating quarterly reports and making sure sufficient documentation is available to support the funding claims. At the time of our visit, this person was finishing their role and being replaced by a full time Project/Programme Manager. This replacement person had already started.<br><br>Our understanding is that the other key persons involved in the financial management of the programme were the Objective Managers. We understand that for the four programme objectives there are three different Objective Managers, two Firstlight employees (Manager Supply Chain and Manager Marketing for Objectives 2-3) and an On Farm Research Limited contact, the research provider (for Objectives 1 and 4). The Project/Programme Coordinator was heavily dependent on these managers to provide the financial management information that he needed to fulfil his responsibilities both for budgeting and reporting purposes.<br><br>Given the significant role that Firstlight Food played in the management and delivery of the programme we understand that the Chief Executive Officer of this company also played a key role in financial management.<br><br>During our visit we were also told that a co-investor board had recently been established (Wagyu Breeders and Firstlight Foods), to have an oversight role in relation to both budgeting and the commercial aims of the programme.<br><br>**The Project/Programme Manager role description needs to include responsibilities for financial management**<br>The new Project/Programme Manager told us that his position is intended to have an independent driving | ***For Programme Manager in coordination with CFO Brownrigg Agriculture and CFO Firstlight Foods*** *Clarify for Ministry and all other interested parties:*<br>o *Individual roles and responsibilities for financial management.*<br>o *Programme/Project Manager's specific financial management roles and responsibilities.*<br>o *New co- investor board specific responsibility for financial management.*<br>*Ensure roles are clearly articulated and understood* |

| Area | Commentary and observations | Action |
|---|---|---|
| | role in keeping the programme's commercial aims on track. However we were told that, at the time of our visit, there was not a finalised agreed role description for the position. It will be important to ensure that when this position description is finalised that responsibilities for coordination and management of financial activity are included.<br><br>**We were not able to fully understand the roles played by the different parties in all aspects of financial management**<br>We sought to understand the roles of the three Objective Managers, the Chief Executive Officer at Firstlight Foods and the two companies Chief Financial Officers. We asked them to complete a survey to help us do this. Based on the results of this survey, we have not been able to fully satisfy ourselves that we understand the various roles played by different persons. In part this was because:<br><br>o Those completing the surveys gave us conflicting advice on who was responsible for various financial management roles for each of the programme's objectives. This could be a cause for concern if those involved are not clear on their roles<br>o In addition, information received was not complete – one Objective Manager for Objective 3 – Marketing, did not respond to our request to complete the survey.<br><br>**The role of the co-investor board in financial management needs to be clear**<br>The establishment of the co-investor board would seem to be a potentially beneficial way to provide more management oversight for the programme, given some of the delivery challenges that the programme has faced to date. We understand that this board had its first meeting in October 2014. At the time of the visit the terms of reference for the board had not been developed – it will be important that this is done and that the terms of reference includes clarification of their role in financial management oversight. | |
| Budgeting processes | **Overview of budgeting**<br>There have already been some significant changes to the financial plans for this programme. This potentially highlights the more fundamental challenges around managing the overall shape of the programme and the delivery of programme milestones. While all of the PGP programmes require some degree of flexibility around their spending plans to recognise stop/go points in research, changes to the ways in which an outcome might be achieved, the budgets and plans for any programme need to be based on realistic assumptions and costings. | |

| Area | Commentary and observations | Action |
|---|---|---|
| | **At the end of year 2 the programme has cost significantly less than was anticipated – the programme is underspent against the whole of programme life budgets**<br>The original seven year budget for this programme was developed as part of the business case and contract finalisation process in 2012-13. As at 30 June 2014 the actual spend against budget was significantly less than expected ($2.7m against $5.3M). Refer to **Appendix 3** for graphs illustrating budget and underspend data.<br><br>This has been primarily a direct result of delays in significant elements of the programme including marketing activity. Of the individual objectives within the programme of work, the highest level of underspend over years one and two (at 56%) was against Objective 3 – Marketing ($1.058m).<br><br>On the basis that the information in this original budget is very outdated we did not seek to look at the basis for its development.<br><br>**The 2014/15 Annual Plan budget has made some significant changes to the in year and future years spending plans**<br>The programme co-investors have been required to produce two revised annual plans since the programme started – the 2013/14 and 2014/15 plans. The most recent annual plan for 2014/15 identified some significant changes to the proposed shape of the programme including the proposed reallocation of some $3m (or 12% of total funding) for Production R and D to Supply Chain activity.<br><br>The 2014/15 Annual Plan reflected the fact that only $1.8m of the projected $3.1m spend for 2013/14 had actually been spent. It also recognised other areas where there were proposals for significant revisions to the in year budgets e.g. reducing genetics budget from $1.1m to $0.75m, increasing marketing from $1.1m to $1.5m and pushing significant proportions of spend into out years 2015/16 to 2018/19 (nearly 75% of total spend will be in years 4 to 7 of this programme).<br><br>**The roles and responsibilities for developing Annual Plan Budgets were not made clear to us**<br>We attempted to gain an understanding of the basis for developing the annual plan budgets. This proved challenging because some of those that we expected might be involved in this process were unable to provide us with clear, complete and consistent advice on their roles and responsibilities for budgeting for | |

| Area | Commentary and observations | Action |
|---|---|---|
| | each of the programme's objectives.<br><br>○ Firstlight Foods Chief Executive advised us that the "The annual plans and budgets are prepared by the Project Manager after consultation with the co-investor governance group, the Objective Managers and ultimately the PSG Board. Individual costs are identified at the budget stage as to the split of costs between MPI and co-investors and what is in-kind vs cash cost."<br><br>○ The outgoing Project/Programme Coordinator told us that the programmes budgets for future years are reassessed annually – he advised us that out-years are budgeted in detail for Objectives 2 & 3 (Supply Chain and Marketing) and at a high level only for Objectives 1 & 4 (Genetics and Production R and D). This reflects that future spending on these objectives is dependent on the results of work done each year – this drives what work is done in future years.<br><br>○ The Objective Managers – who we would expect to have a clear role in owning and managing budgets – provided us with a range of responses to our questions on the process for setting budgets (Note that only two of the three managers responded). One manager advised he had no involvement, the other respondent advised that budgets were developed in collaboration with the other manager, who had advised us that he had no involvement.<br><br>It would certainly be our expectation that the Programme/Project Manager would play a coordinating role in putting together budgets. We would also expect that the Objective Managers would have an involvement and be well placed to identify the costs and own the budgets for their respective objectives. We did not gain comfort from our enquiries that Objective Managers had a consistent understanding of their respective responsibilities.<br><br>**There is some inconsistency in data and information in the 2013/14 and 2014/15 Annual Plans**<br>We reviewed the last two annual plans and we note that there were a number of inconsistencies in budget and actual spend data both between Annual Plans year on year, and within Annual plans also. While most of these are relatively small discrepancies this does suggest there should be some more rigorous and robust review of these documents before they are formally tabled and approved. Some examples of the inconsistencies are provided below:<br><br>2014/15 Annual Plan<br><br>○ Some budget amounts for individual programme objectives (on pages 14, 19, 25, & 32), do not add | ***For Programme Manager**: implement processes to ensure financial information in plans is accurate and consistent.* |

| Area | Commentary and observations | Action |
|---|---|---|
| | up to the budget amounts shown on summary pages numbers 33 and 72.<br>o Some budget amounts shown on summary pages numbers 33 and 72 do not match each other.<br>o Page 34 – Budgets shown for individual objectives do not add up to the programme budget total shown.<br>o There are three conflicting statements of the Ministry's budgeted level of contribution throughout the document.<br><br>2013/14 – 2014/15 Annual Plan<br><br>o Actual spend and contributions shown in the 2014/15 Annual Plan for year 1 of the programme, is both incorrect and inconsistent with the amounts shown on the 2013/14 Annual Plan.<br>o In the 2014/15 Annual Plan, the previous year's budget stated is inconsistent with that shown in the 2013/14 Annual Plan. ($133k variance)<br>o In the 2014/15 Annual Plan, the year 3 "previous year" budget is shown as less than in the 2013/14 Annual Plan. ($426k variance). | |
| Forecasting processes | **The process for re-forecasting 2013/14 in year spending was not based on realistic assumptions**<br>During the 2013-14 financial year re-forecasting was done at the end of each quarter. This process was not particularly sophisticated. During 2013/14 budgets were significantly underspent for the first three quarters. In the first two quarters the Objective Managers worked on the assumption that this would be compensated by spending later in the year which proved unrealistic. It was only at the end of the third quarter that a realistic reforecast of the likely spend for the year was done. Even this reforecast proved to be overly ambitious. With next year – 2015/16- being Year 4 of the 7 year programme, it will be important to recognise any significant underspends on a timely basis, if the partnership wishes to fully use this funding over the remaining life of the programme | ***For Programme Manager**:*<br>*Enhance existing re-forecasting processes to ensure quarterly forecasts are more closely aligned to planned activity and actual spending.* |
| Quarterly funding claims | **There is an effective system in place for producing quarterly funding claims**<br>On the basis of the enquiries that we made, the spreadsheet that we have reviewed and the transactions and reports that we have examined, we are comfortable that there are systems in place to produce quarterly funding claims and then report back accurately to MPI and make claims for the funding of the programme. The combination of systems used to capture the financial data and information is sufficiently robust and effective to give us sufficient confidence in the amounts being claimed as part of quarterly funding claims. The system in place is commensurate with the size and the complexity of the programme and the value of the funds being managed and claimed. | |

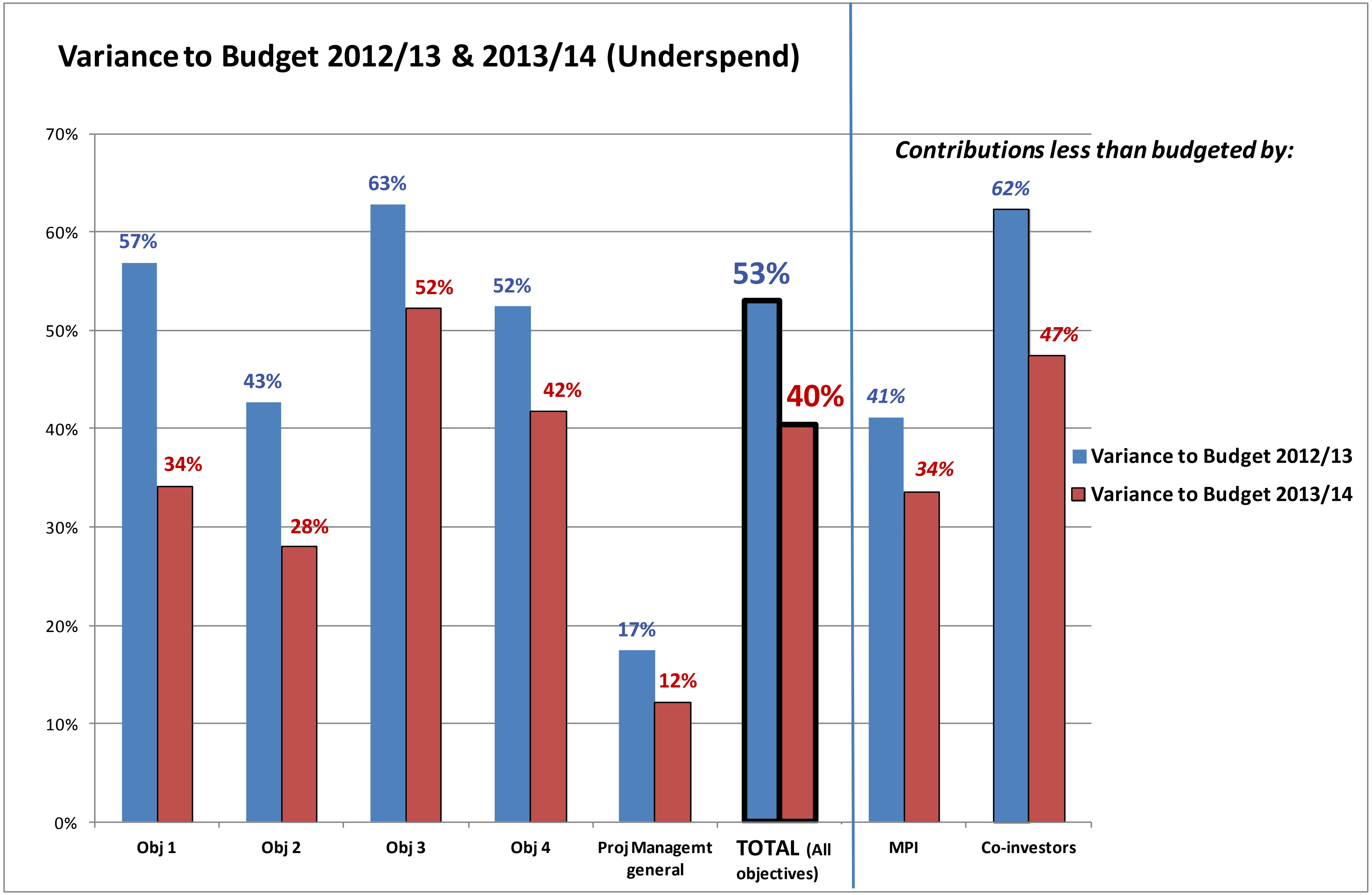
| Area | Commentary and observations | Action |
|---|---|---|
| | **Our review of the records kept to support these funding claims provides comfort that amounts claimed can be supported**<br>The amounts being claimed from Ministry for costs are supported by adequate records and the criteria for the funding are being met. This conclusion was based on a review of a sample of transactions which accounted for $0.6m of the PGP costs incurred to June 2014 and sighting of payment invoices and other supporting documentation for each of these transactions (the auditor was provided with copies of all physical records that supported the underlying transactions).<br><br>**The Ministry and co-investor need to monitor their respective levels of spend to ensure the Ministry funds no more than 50% of the total costs of the programme**<br>The Ministry is funding different proportions of the cost of each of the four objectives i.e. 60% of the costs of supply chain objective, 30% of marketing costs objective, and 50% of genetics/production costs. This recognises that the PGP criteria do not allow the funding of all marketing activities, particularly marketing of specific brands – this is in line with the guidance laid down by the World Trade Organisation (WTO). Under the rules of the programme, the Ministry's contribution should not exceed 50% by the end of the programme.<br><br>As at June 2014, the Ministry has contributed and funded 56% of the total costs of the programme. This position is largely due to the speed of progress of the programme – the largest underspends against the original budget are in those areas where the co-investors' funding contribution is significantly higher than the Ministry's i.e. Marketing objective.<br><br>Given the changes to allocation of funding and the inherent uncertainty associated with the progress of any programme, it would be potentially imprudent for the Ministry to continue funding on the same ratio until there is greater certainty about the progress of those areas where the co-investor is intending to make a greater funding contribution | ***For Programme Manager and MPI Investment Manager****: to ensure that the Ministry funds no more than 50% of the total costs of the programme, monitor investment to date as well as against budget*. |
| Quarterly financial reporting processes | **The content of quarterly reports could be enhanced to provide more analysis for the Programme Steering Group and MPI**<br>The quarterly reports to the Programme Steering Group and the Ministry for Primary Industries include a summary table of financials for the quarter and the year to date as well as individual financial tables for each of the four objectives (these show spending for each intermediate outcome both for the quarter and year to date).<br><br>Most of the Quarterly Reports provide minimal detail to explain the variances between spend and budget | ***For Programme Manager****: implement processes to ensure financial information in the reports is accurate and consistent*.<br><br>***For Programme Manager***: provide Ministry and |

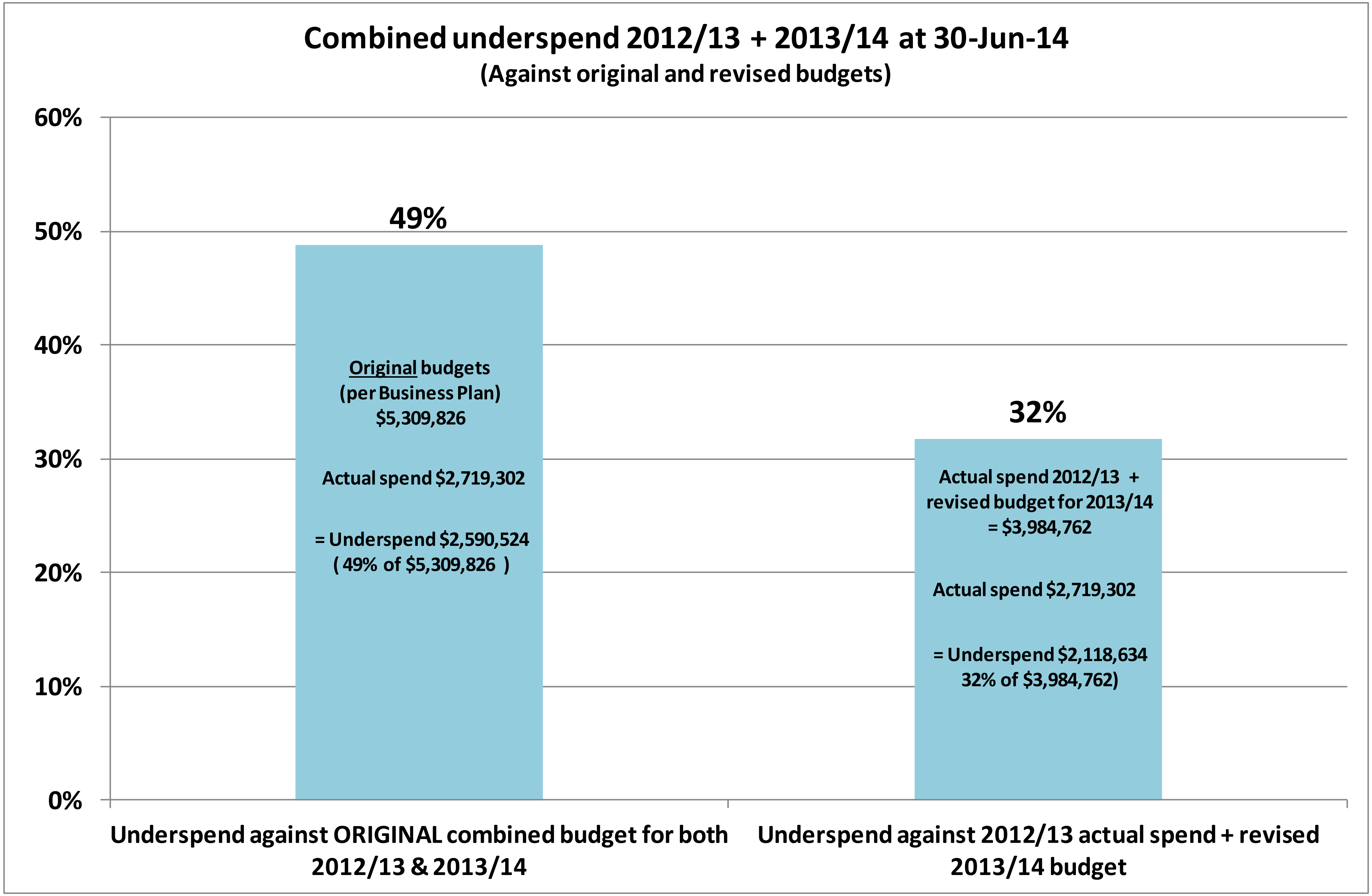
| Area | Commentary and observations | Action |
|---|---|---|
| | (excepting the January – March 2014 report which provided more detail to acknowledge the significant underspends in 2013-14). Examples of explanations of variances are largely described as delayed expenditure, delayed implementation or costs not incurred. While this may be as true, it might be beneficial to consider a more rigorous analysis of variances for the more significant areas of spend.<br><br>**There is some inconsistency in data and information in the quarterly reports**<br>o We note that financial data in some of the quarterly reports is inconsistent with the data in the financial summaries for the same period, submitted to MPI with an invoice. (For example, the quarter 4 2012/13 report, variance in actual MPI and co-investor contributions).<br><br>o The 2013/14 year quarterly reports all recorded the Ministry's funding contribution as less than the actual figure, and the co-investors' as more. By year end the Ministry's contribution was reported as being $46k less than actual, and the co-investors' as $46k more than actual. We have pointed this discrepancy out to the co-investors and believe action has been taken to address this.<br><br>o The first quarterly report for the 2014/15 year reported the Ministry contribution as being $355 less than actually claimed and paid. | Programme Steering Group with more detailed and regular variance analysis to explain significant under or over spends against budget. |

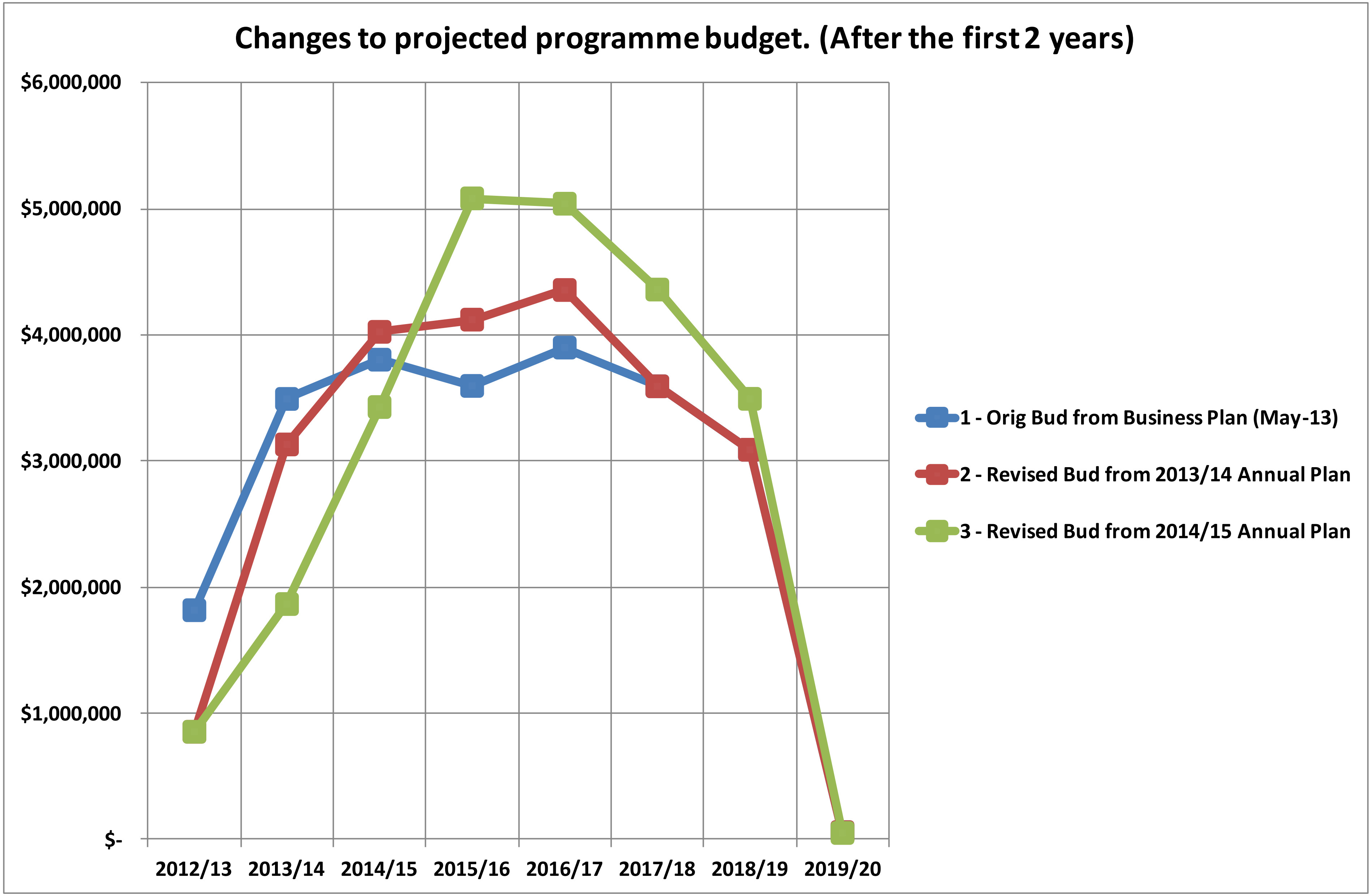
## APPENDIX 2: ORIGINAL YEAR BY YEAR PROGRAMME BUDGET

| | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| Objective 1 Genetics | $ 341,976 | $ 1,123,746 | $ 1,094,932 | $ 1,169,244 | $ 1,277,716 | $ 1,194,044 | $ 962,394 | $ 26,786 | **$ 7,190,838** |
| Objective 2 Supply Chain | $ 426,334 | $ 470,502 | $ 410,518 | $ 430,518 | $ 410,518 | $ 430,518 | $ 443,445 | $ - | **$ 3,022,353** |
| Objective 3 Marketing | $ 640,971 | $ 1,146,075 | $ 1,433,692 | $ 1,044,786 | $ 998,498 | $ 570,245 | $ 186,185 | $ - | **$ 6,020,452** |
| Production Research & Development | $ 324,994 | $ 676,828 | $ 789,160 | $ 875,692 | $ 1,137,588 | $ 1,322,320 | $ 1,422,053 | $ 27,451 | **$ 6,576,086** |
| Project Management general | $ 83,000 | $ 75,400 | $ 75,400 | $ 75,400 | $ 75,400 | $ 75,400 | $ 75,400 | $ 2,900 | **$ 538,300** |
| **TOTAL** | **$ 1,817,275** | **$ 3,492,551** | **$ 3,803,702** | **$ 3,595,640** | **$ 3,899,720** | **$ 3,592,527** | **$ 3,089,477** | **$ 57,137** | **$ 23,348,029** |
| ***MPI*** | *$ 795,242* | *$ 1,475,986* | *$ 1,888,628* | *$ 1,753,736* | *$ 1,854,418* | *$ 1,738,146* | *$ 1,495,707* | *$ 44,700* | ***$ 11,046,563*** |
| ***Co-investors*** | *$ 1,022,033* | *$ 2,016,565* | *$ 1,915,074* | *$ 1,841,904* | *$ 2,045,302* | *$ 1,854,381* | *$ 1,593,770* | *$ 12,437* | ***$ 12,301,466*** |

## APPENDIX 3: BUDGET & UNDERSPEND - GRAPHS




Combined underspend 2012/13 + 2013/14 at 30-Jun-14
(Against original and revised budgets)
60%
50%
40%
30%
20%
10%
0%
49%
Original budgets
(per Business Plan)
$5,309,826
Actual spend $2,719,302
= Underspend $2,590,524
( 49% of $5,309,826 )
32%
Actual spend 2012/13 +
revised budget for 2013/14
= $3,984,762
Actual spend $2,719,302
= Underspend $2,118,634
32% of $3,984,762)
Underspend against ORIGINAL combined budget for both 2012/13 & 2013/14
Underspend against 2012/13 actual spend + revised 2013/14 budget


Changes to projected programme budget. (After the first 2 years)
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$-
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
1 - Orig Bud from Business Plan (May-13)
2 - Revised Bud from 2013/14 Annual Plan
3 - Revised Bud from 2014/15 Annual Plan