



Assurance and Evaluation
Office of the Director-General

**PRIMARY GROWTH PARTNERSHIP FINANCIAL MANAGEMENT: ASSURANCE
ON USE OF PGP FUNDING – HIGH PERFORMANCE MANUKA PLANTATIONS**

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Growing and Protecting New Zealand



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SECTION 1: EXECUTIVE SUMMARY

CONTEXT FOR WORK

1. This report sets out the findings and observations from a review of the financial management systems and records that support the funding that has been claimed by Manuka Research Partnership (NZ) Limited (MRPL) from the crown for the High Performance Manuka Plantations Primary Growth Partnership programme.
2. 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.
3. The Ministry for Primary Industries (MPI) provides funding to the co-investors for the programmes. The co-investors 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.
4. Each contract between MPI and the co-investors provides rights of access to records to carry out an audit of the partner's use of the funds.
5. The Ministry's Assurance and Evaluation team help provide additional comfort to the Ministry and the Minister for Primary Industries around PGP co-investors' management of funding, and claims for funding, through assurance on the partners' financial management of the programmes.

THE PROGRAMME

6. The High Performance Manuka Plantations PGP programme is a partnership between the Ministry and Manuka Research Partnership (NZ) Limited (MRPL) and Comvita Limited. The aim of the contracted programme is to provide for more science based farming of Manuka plantations, research the impact of local ecosystems on Manuka production and research the impact of genetics. The programme was contracted to begin in March 2011, with an end date of 30 September 2018.
7. The original 2011 contract was varied during 2014-15 to reflect changes to scope of programme. These changes largely involved expanding the trials for Manuka planting and extending the programmes to assess other applications of the science including riparian planting of stream banks.
8. The original contract had a set of four sequenced projects to achieve its objectives. With the expansion a fifth project was added. At the time a new updated business plan for the remaining period of the programme was developed and tabled 28 February 2014. This business plan forms part of the Contract Variation which was signed 24 February 2015.
9. The contract variation inserted a new Clause 16.2 which increased crown funding from \$850,000 to \$1,400,000. This increase of \$550,000 of crown funding represented \$400,000 towards projects and an additional \$150k funding to allow MRPL to employ a dedicated programme manager for the remaining duration of the programme. The total funding approved for this programme was increased from \$1.7m to \$2.9m.

10. Most of the cost of this programme is related to the costs of a seven year research programme. The key elements of cost are:

- **Massey Research programme costs:** \$2.3m of the budgeted costs of this programme are the costs associated with a science research programme run by Massey University. \$2m of this budgeted spend is costs which will be incurred under research contract agreements between MRPL and Massey University. Massey charges MRPL for their direct staff costs, vehicle and equipment costs and their administration costs. The other \$0.3m of budgeted costs are MRPL programme management costs. The need for a specific MRPL employed Programme Manager was only recognised, after the PGP programme had started, in 2013. These costs only started to be incurred in 2014, when the scope of the programme was expanded.
- **Science programme in kind costs:** \$0.6m of budgeted costs of the programme are described as in kind costs of partners relate to the science research programme. Most of these costs have now been incurred; a vast proportion of the costs were the costs of planting Manuka plantations (cost of cuttings, planting costs etc). These planting costs were borne by the partners and the partners then provided invoices to MRPL to support what they had paid for the trees and the planting.

OBJECTIVE OF WORK

11. The key objectives of our work were to provide assurance:
- That the key elements of Manuka Research Partnership (NZ) Limited PGP financial management systems are suitably robust and effective. Elements of the system that have been assessed include:
 - Systems and processes for day to day financial management (payment processing, allocating costs etc)
 - Systems for developing claims to MPI and financial reports for the Programme Steering Group
 - Budgeting, forecasting and monitoring processes
 - That Manuka Research Partnership (NZ) Limited have adequate, complete and reliable records of use of the funding and co-funding that adequately support their funding/ co-funding claims.

WHAT WE DID AND HOW WE DID IT

12. We spoke to the MRPL Programme Manager and Company Secretary, who are the two key persons involved in the co-investors financial management of the programme to understand and assess the relevant systems and processes that MRPL operates.
13. We also spoke to the Massey University personnel leading the science programme of work and the MPI personnel who have been involved in the management of the programme, to understand their role in financial management of this programme.
14. We also checked documentation and other underlying evidence which supports the funding claims being made by MRPL to MPI. This documentation included invoices, contracts and other supporting documents. The records that were reviewed covered the whole period of the programme.

OVERALL CONCLUSIONS

Financial management systems are now suitably robust and effective

15. Our conclusions are that Manuka Research Partnership (NZ) Limited (MRPL) now have systems in place for the financial management of the programme that are robust and effective, suitably commensurate with the size and complexity of this programme and consistent with our expectations. There are systems for developing funding claims and financial reports and budgeting, forecasting and monitoring spending.

16. However, we were told that this combination of financial management systems and processes has only been in place since July 2014 when an MRPL Board Member developed the current system with the assistance of the Company Secretary. These systems and processes have been further embedded over the last twelve months since the appointment of a dedicated Programme Manager in March 2015.

17. From the point when the programme was first contracted in 2011 up to mid 2014, there was no programme manager. As a result there was less focus on some of these elements of financial management, such as reporting, monitoring and forecasting.

18. It reached a point where MPI concerns were heightened to such an extent that for some months during the second half of 2014 MPI held off paying MRPL funding claims. These concerns have now been resolved and in our view appropriate reporting, forecasting and monitoring systems are now in place.

Manuka Research Partnership (NZ) Limited have sufficiently complete and reliable documented records to support their claims for funding

19. In spite of these concerns about some elements of the programme's management, during the period from 2011 to mid 2014 the MRPL Company Secretary did ensure that the key day to day financial management processes such as processing and making payments,

keeping the books of accounts and maintaining records to support funding claims were being done.

20. In our view, the MRPL Company Secretary has exercised a suitable degree of day to day management of the programme's finances from its inception.

21. We have been provided with and reviewed sufficient evidence and records to support the claims for funding made to MPI since the inception of the programme. In our view, MPI management can take:

- reasonable assurance that the funding that has been provided to MRPL has been used to meet the actual costs of the programme.
- comfort that the cash and in kind costs that have been reported by MRPL since the programme was established are supported by adequate documentation and records and that the judgments being made by MRPL about how to account for these costs have been reasonable and consistent.

22. Appendix 1 sets out further details of the basis of our conclusions.

RECOMMENDATIONS

23. There are no specific actions or recommendations arising from this work for either the Ministry or the co-investor. The programme should continue to employ dedicated programme management resources until the end of the programme in September 2018.

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APPENDIX ONE: OVERALL ASSESSMENT OF PGP FINANCIAL MANAGEMENT PROCESSES – HIGH PERFORMANCE MANUKA PLANTATIONS

Process	Key conclusions and observations
OVERALL ASSESSMENT OF FINANCIAL MANAGEMENT SYSTEMS	
<p>The overall framework of financial management processes is now satisfactory</p> <ul style="list-style-type: none"> ○ The framework of financial management processes and protocols that is now in place (that combination of programme planning, financial reporting, the day to day financial management practices) appears to be working suitably effectively. ○ We can provide some assurance that day to day financial management practices such as payment processing, book keeping etc have operated throughout the whole life of the programme. ○ We can provide some assurance on the veracity of the budgeting, forecasting, monitoring and reporting disciplines that MRPL have put in place since mid 2014. ○ There was limited programme management resource in place from the beginning of the programme in early 2011 to the middle of 2014. In fact prior to mid 2014, there was no Programme Manager. ○ As a result, those elements of financial management such as financial planning and budgeting, forecasting and monitoring spending received less focus and attention. In practice this meant that there was a heavier reliance on Massey University, the science programme provider, to manage the finances of their programme of science research. The MPI Investment Manager also played a heightened role in monitoring and forecasting of programme spend. ○ This had some impacts on the management of the programme. It reached a point during 2014-15 where MPI withheld funding claim payments for about eight months (from July 2014 to February 2015) for a number of reasons: the Contract Variation Agreement had not been signed, there had been delays in the submission of quarterly progress reports and there had been concerns about MRPL's financial reporting systems i.e. quarterly financial reporting processes. ○ While these limitations are not desirable, their effect is mitigated to a certain extent by the oversight role that the Programme Steering Group played. It should also be recognised that this is a relatively small PGP programme so the risks associated with these limitations could be considered less financially significant (as at June 2014, the programme had only incurred some \$600k of costs for the Massey University science programmes and another \$370k of in kind costs, most of which has been incurred at the beginning of the programme in 2010-11 and 2011-12). 	
Processes for creating funding claims and financial reports	<p>Reporting processes are satisfactory</p> <ul style="list-style-type: none"> ○ The process for creating the quarterly financial reports appears to be well embedded in MRPL practices, although this has only happened since a programme manager has been in place to drive this. ○ The underlying systems of accounting and financial record keeping seem to be well managed by the Company Secretary on a day

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Process	Key conclusions and observations
	<p>to day basis – general ledger accounting systems seem to have been set up with simplicity in mind.</p> <ul style="list-style-type: none"> ○ There are effective segregation of duties and oversight of financial management commensurate with an organisation of this size.
Processing of payments	<p>Payment processing practices are satisfactory</p> <ul style="list-style-type: none"> ○ The systems for making payments and processing creditors look to be consistent with the expectations that we would have of any business of the same size and complexity as MRPL.
Processes for identifying in kind and staff time based costs	<p>Processes for identifying in kind transactions are satisfactory</p> <ul style="list-style-type: none"> ○ The underlying accounting and record keeping systems appear to be commensurate with the size and complexity of the costs being managed for the relatively small amount of in kind costs being accounted for.
Budgeting	<p>Budgeting systems are satisfactory</p> <ul style="list-style-type: none"> ○ There seems to be an effective process in place for developing the annual budgets for this programme with the right level of engagement across those involved in managing the programme. ○ The budgeting tools being used have an appropriate degree of sophistication that is commensurate with the size and value of the funds being managed. ○ The commercial partner (MRPL) is still quite highly dependent on their service provider to produce the programme budget given that most of the costs are for the services of one provider (Massey University). MRPL could potentially benefit from a little more visibility from Massey of the breakdown of their costs – the budget figures in the longer term business plan breakdown each project’s costs by type of resource, travel, consumables etc, something similar for the annual budget might be worth considering.
Forecasting	<p>Forecasting systems are satisfactory</p> <ul style="list-style-type: none"> ○ The in year and ongoing future year forecasting practices and disciplines are now consistent with the expectations for the size and complexity of the programme being managed.
Evidence to support partners funding claims	<p>There is satisfactory evidence to support funding claims made by MRPL to MPI</p> <ul style="list-style-type: none"> ○ The amounts being reported as actual cash costs are supported by adequate, complete and reliable documentation and records. ○ The amounts being reported as in kind contribution costs are supported by adequate, complete and reliable documentation and records. ○ The judgments being made by the partner about which costs are recoverable from MPI are reasonable and consistent. ○ The costs that are being claimed back from MPI are relevant to the partnership programme. <p>In broad terms we are content that the costs being incurred by MRPL are supported by sufficient documentation to give comfort of the veracity of these costs. Alongside the comfort that is derived from the Programme Steering Group’s affirmation that the projects are</p>

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	<p>delivering the products and the outcomes expected, this gives a degree of assurance to MPI.</p> <p>Our conclusions are based on testing a substantive sample of costs transactions mostly drawn from the past two years (although note that we have also looked at some of the in kind costs incurred from 2010 by the partners in establishing field trials).</p>