



Ministry for Primary Industries

Red Meat Profit Partnership Audit

June 2016

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Ministry of Primary Industries
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Private and Confidential

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Dear Steve

We have pleasure in presenting our report for the review of Red Meat Profit Partnership, Primary Growth Partnership Partner audit.

Please contact me on (04) 495 1536 if you have any queries in respect of this report.

Yours sincerely



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Contents

1. Scope and objectives	2
1.1 Background	2
1.2 Objectives	2
1.3 Scope	2
1.4 Work performed	3
1.5 General Observation	3
1.6 Summary of key findings	4
1.7 Inherent limitations	6
1.8 Third party reliance	6
2 Findings and observations	7
2.1 Verbal approval by GM for processing in-kind amount	7
2.2 Invoice approved by someone other than the Project Manager	8
2.3 Deloitte and RMPP staff with privileged access to Xero	9
2.4 No secondary review of manual journals and credit notes created in Xero by Deloitte	10
Appendix - 1	11

1. Scope and objectives

1.1 Background

The Primary Growth Partnership (PGP) 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.

The Ministry for Primary Industries (the Ministry) 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. This co-funding can be either in the form of cash contributions or in kind contributions.

The Red Meat Profit Partnership (RMPP) programme is a partnership between the Ministry and nine industry partners, Beef and Lamb New Zealand, six meat processing companies and two banking sector participants. The total maximum funding for this programme is \$64.3m (\$32.15m from government and \$32.15m from industry co-investor). The programme contract was signed in November 2013. The programme runs for 7 years and consists of six sets of projects.

The Red Meat Profit Partnership office is based in Featherston Street Wellington. Some of the key elements of the programme's financial management are provided by Deloitte Wellington.

1.2 Objectives

This objectives of this independent review were:

- To ensure that the key elements of the co-investors' PGP financial management systems are suitably robust and effective. Elements of system that may be assessed include:
 - Budgeting, forecasting and monitoring processes;
 - Systems and processes for day to day financial management (payment processing, allocating costs etc.); and
 - Systems for developing claims to the Ministry and financial reports for the Programme Steering Group.
- To ensure that PGP co-investors have adequate, complete, and reliable records of use of the funding and co-funding that adequately support their funding/ co-funding claims.

1.3 Scope

The scope of this internal audit was to:

- Understand the processes for creating funding claims and financial reports to assess whether they effectively contribute to the management of funding and co-funding;
- Understand RMPP's systems for making purchases and payments and verify that the systems operate as described;

- Understand the process for identifying in-kind based costs to assess whether these costs are valid;
- Understand and assess processes RMPP has in place for budgeting and forecasting for the programme and any of its components both over the life of the programme and year to year; and
- Obtain detailed listings of the underlying transactions that support invoices received to assess whether there are adequate records to support cost claims, both cash and in-kind, and whether the costs relate to the program.

The audit period covered by this internal audit testing was from 1 March, 2015 to 31 March, 2016.

1.4 Work performed

The internal audit was conducted with the following approach:

- Reviewed relevant policy and procedures documents including annual plan, contracts, schedules, business plans, budget and monthly reports;
- Held interviews with relevant staff from the Ministry, RMPP, including the General Manager, partners, project managers and Deloitte staff (Financial Management);
- Undertook walkthroughs of the process areas outlined in the Scope section above and documented our understanding of these processes;
- Assessed the key risks associated with these processes;
- Tested the effectiveness of the key controls identified. This involved assessing whether the key controls adequately mitigated the risks identified and determined if these controls have been operating throughout the period under review;
- Identified and discussed potential areas for improvement with RMPP and the Ministry;
- Agreed action plans with management to improve control effectiveness and, where appropriate, to improve process performance.

1.5 General Observation

Based on the testing undertaken, RMPP's financial management systems (including systems for budgeting and forecasting, financial management reporting and monitoring, cost allocation and payment processes) for funding and co-funding are suitably robust and effective. Amendments to budgets and forecasting are actively monitored by the RMPP General Manager and the Board.

Our review also noted that the funding being provided by the Ministry and co-investors is being used to meet the costs of the RMPP programme. From the review completed we noted that:

- Amounts being claimed from the Ministry are supported by documentary evidence.

- Amounts being claimed are relevant and appropriate costs to be borne by the partnership programme.
- An adequate process exists to value the partners' contributions to the programme.

We further noted that RMPP's financial management system (Xero) is suitably robust and effective, and that claims made for reimbursement from PGP funding by the projects were able to be supported by sufficient, relevant, and reliable records. Detail reviews of all expenses and claims made to the RMPP projects are completed by the relevant Project Managers and also by the General Manager (RMPP) prior to payment. All payments require two levels of approvals from authorised personnel.

Refer to Appendix A for details.

1.6 Summary of key findings

In accordance with the objectives and scope outlined in 1.2 and 1.3 above, we have identified one Moderate rated and three Minor rated findings. Refer to Section 2 for detailed findings.

The Moderate rated finding has been summarised in the table below:

Findings	Rating	Recommendations	Management Comments
<p>2.1 Verbal approval by GM for processing in-kind amount</p> <p>On a monthly basis, RMPP partners submit their in-kind claims for services provided to various RMPP projects. These claims are recorded and submitted through excel spreadsheets. Each claim provides detail of the services provided, staff involved, number of hours realised by each staff and the charge rate for each employee. The claims submitted by the partners are sent to Deloitte and collated and maintained on a master spreadsheet by Deloitte. The in-kind spreadsheet is reviewed and approved by the General Manager (RMPP).</p> <p>Our review of the in-kind activities for the last 12 months highlighted that the approval for processing in-kind is informal. Currently, only verbal approval is provided by RMPP General Manager to Deloitte for in-kind payments processing.</p>	<p>Moderate</p>	<p>We recommend management to</p> <p>2.1.1 Implement a process for the General Manager, RMPP to provide formal approval for processing in-kind amounts (e.g. through email). Furthermore, evidence of such approvals should be retained.</p>	<p>2.1.1 As per the LP agreement Partners have accepted liability for all expenses claimed in this area which can be audited at any time. Consequently while some of these in-kind invoices are approved a manual check is all that has been deemed required to date. Noting also that total costs claimed over the current financial year amount to 2% (or \$10k/month) of total spend. In-kind claims will now be formally approved on a monthly basis.</p>

The following rating system has been used to identify the significance of the observations.

Rating	Definition
Major	An issue that compromises the Business Unit or Process area's control environment and presents an immediate exposure to a significant loss, or a Critical or High risk, or prevents the Business from achieving their objectives.
Moderate	An issue that compromises an element of the control environment which could compromise the Business Unit or Process area's overall control environment if left unresolved, and/or presents an immediate exposure to a Medium risk and/or prevents partially the Business from achieving their objectives.
Minor	An issue that does not currently compromise either the overall or area-specific control environment (but which could do so if allowed to escalate), and presents an exposure to a Low risk, or could have an impact on Management's ability to meet their objectives.
Improvement idea	An observation or idea for management to consider, to improve a process or control.

1.7 Inherent limitations

In the performance of our internal audit we have undertaken tests of selected controls and transactions as appropriate to the circumstances of our internal audit. The concept of selective testing, which involves judgment regarding both the number of transactions to be audited and the controls to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express a view on the internal controls in operation.

Because of the inherent limitations in any system of internal control or accounting system, errors, fraud or irregularities may occur and not be detected. The nature and size of the operations may prevent optimum segregation of duties being achieved. In addition, projections of any assessments provided on internal control relating to future periods (beyond the date of the audit fieldwork) are subject to the risk that the internal controls may become inadequate due to changes in conditions, or that the level of compliance with control procedures may deteriorate or weaken.

Our internal audit fieldwork was completed on May 27th. Our findings are expressed as at that date. We have no responsibility to update this report for events or circumstances occurring after that date.

1.8 Third party reliance

This report has been prepared at the request of Ministry of Primary Industry in connection with our engagement to perform internal audit services. This report is solely for the benefit of Ministry of Primary Industry for the purpose set out in this report, and is not to be used for any other purpose or distributed to any other party or relied upon by any other party without Grant Thornton's prior written consent. We note our expectation that this report may be shared with Ministry of Primary Industry's external auditors for their information.

2 Findings and observations

2.1 Verbal approval by GM for processing in-kind amount

Finding

Rating: **Moderate**

On a monthly basis, RMPP partners submit their in-kind claims for services provided to various RMPP projects. These claims are recorded and submitted through excel spreadsheets. Each claim provides detail of the services provided, staff involved, number of hours realised by each staff and the charge rate for each employee. The claims submitted by the partners are sent to Deloitte and collated and maintained on a master spreadsheet by Deloitte. The in-kind spreadsheet is reviewed and approved by the General Manager (RMPP).

Our review of the in-kind activities for the last 12 months highlighted that the approval for processing in-kind is informal. Currently, only verbal approval is provided by RMPP General Manager to Deloitte for in-kind payments processing.

Root cause

- The current process does not require formal written approval for the processing of in-kind payments.

Effect

- Increased risk of incorrect or unauthorised in-kind amounts being processed

Recommendation

We recommend management to:

- 2.1.1 Implement a process for the General Manager, RMPP to provide formal approval for processing in-kind amounts (e.g. through email). Furthermore, evidence of such approvals should be retained.

Management action

Comments	Person responsible	Due date
2.1.1 As per the LP agreement Partners have accepted liability for all expenses claimed in this area which can be audited at any time. Consequently while some of these in-kind invoices are approved a manual check is all that has been deemed required to date. Noting also that total costs claimed over the current financial year amount to 2% (or \$10k/month) of total spend. In-kind claims will now be formally approved on a monthly basis.	Gen Mgr, Deloitte	1.7.2016

2.2 Invoice approved by someone other than the Project Manager

Finding

Rating: Minor

As per the established “Red Meat Profit Partnership” policy and procedures document, invoices submitted as part of the services provided to RMPP are to be approved by a designated Project Manager as well as the General Manager of RMPP. Our review of invoice payments over the last 12 months highlighted one invoice for \$17,250 which was approved by a Deloitte staff member who was not the designated Project Manager from Deloitte. However, we noted that this individual was known to RMPP as they support designated Deloitte’s Project Manager. We acknowledge that this invoice was also approved by the RMPP General Manager.

Root cause

- Approval arrangements agreed with Deloitte are inconsistent with policy.

Effects

- Non- compliance with the established “Red Meat Profit Partnership” policy and procedures

Recommendation

We recommend management to:

- 2.2.1 Ensure that as per the established RMPP policy and procedures, invoices are always approved by the designated Project Managers prior to the GM’s approval. Where there is an exception to the policy, it should be documented.

Management action

Comments	Person responsible	Due date
2.2.1 Noted and will be implemented as part of the invoice approval process.	Gen Mgr, Prog Coord	1.7.2016

2.3 Deloitte and RMPP staff with privileged access to Xero

Finding

Rating: **Minor**

The financial management of RMPP is conducted through Xero by Deloitte. Our review of the users with privileges access to Xero highlighted that currently two Deloitte staff and one RMPP staff member have super user level privileges to Xero. Some of the tasks that can be completed in Xero with the super user access include:

- Maintain creditor master data
- Payment processing
- In-kind processing
- Completing reconciliations
- Financial reporting
- Budget and forecasting

The RMPP staff member generally is responsible for gathering financial information and Deloitte is then responsible for processing it in Xero. As such, a RMPP staff member having super user privileges to Xero breaches the good practise segregation of duties and allows RMPP staff to bypass established controls and directly process financial transaction or make updates in Xero. It was also noted that this staff member did not have the authority to approve payments.

Root cause

- The access was requested by the GM to enable flexibility around reporting across the programme and within the workstreams to provide greater visibility around forecasting and managing budgets.

Effect

- Increased risk of inappropriate or unauthorised payments being made

Recommendation

We recommend management to:

- 2.3.1 Implement a process whereby, user activities reports are generated automatically in Xero and emailed to the General Manager of RMPP for review. The evidence of the general Manager's review should be retained. Furthermore, inquire and investigate any unusual activities completed by the RMPP staff in Xero.

Management action

Comments	Person responsible	Due date
2.3.1 Noted and will be implemented as part of monthly process.	Gen Mgr, Deloitte	1.7.2016

2.4 No secondary review of manual journals and credit notes created in Xero by Deloitte

Finding

Rating: Minor

Deloitte is responsible for managing the financial system (Xero) for RMPP. As part of this, Deloitte is able to create and process manual journals and credit notes (refunds, rebates) within Xero. At the time of the review, we noted that there was no secondary review of manual journals and credit notes created by Deloitte by RMPP. For the audit period (March 1 2015-March 31st 2016), we noted that there were five credit notes and thirty-six manual journals posted in Xero.

Root cause

- Historically, Deloitte has been allowed to process credit notes and manual journals and this is known to RMPP.

Effects

- Increased risk of inappropriate or unauthorised journals being processed
- Increased risk of inappropriate credit notes being issued

Recommendation

We recommend management to:

- 2.4.1 Implement an automated process to generate activity reports monthly capturing manual journals and credit notes in Xero and directly emailing them to the General Manager, RMPP or other authorised personnel for review to ensure they are appropriate. The evidence of the reviews completed should be retained.

Management action

Comments	Person responsible	Due date
2.4.1 Noted and will be implemented as part of monthly process	Gen Mgr, Deloitte	1.7.2016

Appendix - 1

Process	Conclusions and observations
Budgeting, cash flow and forecasting processes	<p>Overall conclusion</p> <p>The budgeting, cash flow, and forecasting processes in place at RMPP are suitably robust.</p> <ul style="list-style-type: none"> • Budgeting, cash flow and forecasting is completed by the relevant Project Managers for each of the projects and are reviewed and approved by the General Manager and the Board. • Amendments to budgets and forecasting are also reviewed by the General Manager and the Board. • Variances to budgets and forecasting is actively monitored.
Financial management reporting processes	<p>Overall conclusion</p> <p>There are satisfactory processes in place to report financial information within RMPP.</p> <ul style="list-style-type: none"> • Monthly reports are provided to the General Manager and the board by Deloitte • Monthly reports include RMPP's income and expenses and are further broken down into types of contributions from the partners (i.e. cash, in-kind, cash equivalent). In-kind for one of the partners (ANZ) is managed separately. Furthermore, contributions are tied to the relevant projects for transparency.
Cost allocation processes	<p>Overall conclusion</p> <p>There are satisfactory processes for allocating, splitting and attributing costs between costs borne by the partners and those claimed from the Ministry.</p> <ul style="list-style-type: none"> • Costs for the delivery of the pre-farm gate programme are split 50/50 between the Partners and the Ministry. We verified the total split was consistent with this, by reviewing the total allocation between PGP and non-PGP funding per-project (and confirming the recorded figures were consistent with individual Investment Schedules/subcontracts). • The partners allocate internal costs based on invoices from suppliers, and allocation of FTE staff time.
Processing of payments	<p>Overall conclusion</p> <p>There are satisfactory processes for making and recording payments and these include:</p> <ul style="list-style-type: none"> • Sufficient checking, oversight and approval of payments. • Effective separation and segregation of duties between procurers of services and accounts payable processing function and other accounting functions. • Controls over access to the accounts payable processing system • Effective workflow processes embedded within the accounting system. Xero
Review of documentation and information	<p>Overall conclusion</p> <p>The amounts being claimed from Ministry for actual cash costs are supported by sufficient, relevant and reliable records and the criteria for the funding are being met. This is based on:</p> <ul style="list-style-type: none"> • A number of transactions (expense claims, invoices, credit cards and payroll and in-kind) selected for the period 1, March 2015- 31, March 2016 • Agreeing claimed amounts to supporting documentation (approved invoices, Investment Schedules, Contracts).