



Assurance and Evaluation
Office of the Director-General

**PRIMARY GROWTH PARTNERSHIP FINANCIAL MANAGEMENT: ASSURANCE
ON USE OF PGP FUNDING – LIFESTYLE WINES**

Finalised March 2017

Growing and Protecting New Zealand



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CONTEXT FOR WORK

1. 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 industries.
2. 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.
3. 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.
4. 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.
5. 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 the NZW Wines Limited Partnership from the Crown (MPI) for the Lifestyle Wines Primary Growth Partnership programme.

THE PROGRAMME

6. The programme is the largest research and development effort ever undertaken by New Zealand's wine industry. Lifestyle Wines is designed to position New Zealand as number 1 in the world for high quality, lower alcohol and lower calorie 'lifestyle' wines. It aims to capitalise on the domestic and international market demand for these wines.

7. NZW Wines Limited Partnership is a partnership between NZ Winegrowers and 18 contributing wineries, who are members of NZ Winegrowers (the Partners).
8. NZ Winegrowers is the national organisation for New Zealand's grape and wine sector and conducts a wide range of tasks on their behalf. The programme utilises NZ Winegrowers financial systems and processes for transactions and records.
9. This programme aims to capitalise on market-led opportunities domestically and internationally, using applied research and development to provide innovative solutions.
10. The research focuses on natural production using sustainable viticultural techniques and native yeasts unique to New Zealand, giving wineries a point of difference to existing processing methods and other products on the market.
11. The programme is planned to run for 7 years and began in March 2014. Funding is budgeted at \$8.13 million from the Crown and \$8.84 million (including \$5.03 million of in-kind contributions) from NZW Wines Limited Partnership.
12. The majority of the in-kind contributions relate to the wineries' costs and the value of their product (grapes or wine) that has been put at risk during the application of experimental vineyard management practices, such as vine pruning and experimental wine making techniques.
13. NZ Winegrowers provide most of the financial management and administrative support for the Lifestyle Wines Primary Growth Partnership programme/NZW Wines Limited Partnership from their Auckland corporate office.

OBJECTIVE OF WORK

14. The key objectives of our work were to provide assurance:
 - That the key elements of the Lifestyle Wines Primary Growth Partnership programme 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, recording in-kind contributions etc)
 - Systems for developing claims to MPI and financial reports for the Programme Steering Group
 - Budgeting, forecasting and monitoring processes
 - That Lifestyle Wines Primary Growth Partnership programme 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

15. We spoke to the Programme Manager and key people at NZ Winegrowers involved in the financial management of the programme, to understand and assess the relevant systems and processes operated.
16. We also checked documentation and other underlying evidence, (including a representative sample of invoices, in-kind contribution sheets, contracts and other supporting documents) which supports the funding claims being made to MPI.
17. The records that were reviewed related to the 2014/15 financial year costs. The programme incurred \$2.39 million in costs (including \$0.65 million of in-kind contributions) during this year.
18. Appendix One: Overall Assessment of PGP Financial Management – Lifestyle Wines, sets out our conclusions and observations about each

element of the processes we reviewed. Our overall conclusions are set out below.

OVERALL CONCLUSIONS

Financial management systems are suitably robust and effective

19. Our conclusions are that NZW Wines Limited Partnership systems for the day to day financial management are appropriate for the programme.
20. The programmes' systems for developing funding claims, financial reports, budgeting, forecasting and monitoring spending are appropriate for the programme.
21. We have found that systems and processes are suitably commensurate with the size and complexity of this programme and consistent with our expectations.

NZW Wines Limited Partnership has sufficiently complete and reliable documented records to support its claims for funding from MPI

22. Based on our review of all the records for the 2014/15 financial year, MPI management can take comfort that the funding that has been provided has been used to meet the actual costs of the programme.
23. MPI management can also take comfort that cash costs that have been reported and the judgments being made about how to account for these costs have been reasonable and consistent.

The Partners (MPI and NZW Wines Limited Partnership) have not yet formally signed off a methodology for calculating the value of in-kind contributions from NZW Wines Limited Partnership

24. The Lifestyle Wines Programme business case of October 2013 put forward a proposal for how the value of in-kind contributions would be calculated. However, in practice, this proposal was found not to be completely suitable.

25. The partners have continued to work over the last two years on refining a suitable agreed methodology for valuing these contributions. Our understanding is that an agreement is close to being completed and that it will then require formalising and signing off by the partners.

26. Under the current terms of the partnership agreement, we believe that this will require both parties to sign a formal variation to the agreement in line with relevant delegated authorities to agree and acknowledge the changes.

MPI is unable to contribute towards commercial activity, therefore any changes to methodology will need to ensure this is incorporated

27. The Primary Growth Partnership agreement between the partners refers to the business case which outlines the methodology for the calculations of in-kind. It also accounts for any potentially useable outputs from winery trials in commercial sales as the trials progress. This was reflected in the reducing percentage of the in-kind contribution claimable over the time of the programme.

28. The revised methodology for calculating in-kind contributions should continue to ensure that MPI's funding does not contribute towards any commercial activities.

MPI's first funding contribution to this programme included an advance of \$97,065, this was going to be progressively offset against subsequent invoices.

29. MPI's first funding contribution to the Programme included an additional amount of \$97,065, over and above the level of contributions for cash and in-kind supported by the funding claim. Our understanding is that this additional amount is recognised by the partners as an advance which it was intended to be offset against future claims progressively over time.

30. Agreement about this was not clearly documented. We were unable to find any records or correspondence which supported this agreement. MPI

Investment Managers need to ensure that they formally document the advance and monitor the offset progress through quarterly Programme Steering Group (PSG) reporting

RECOMMENDATIONS

Ref	Recommendation	Agreed/not agreed?	Management comments	Responsibility	Deadline
1.	Agree in kind methodology ensuring that under revised methodology MPI does not contribute to outputs generating commercial returns.	Agreed.	<i>Lifestyle Wines Primary Growth Partnership Programme Manager comment</i> A revised agreement updating the definition of in-kind has been developed between the Programme and MPI. The PSG agreed the direction and elements of the agreement in November 2016 and it will be ratified at the April 2017 PSG meeting.	Programme Steering Group	April 2017 meeting
2.	MPI and NZW Wines Limited Partnership to formally sign off the revised in-kind methodology in line with relevant delegated authorities.				
3.	MPI to formally document the provision of the \$97k advance and the reasoning behind it.	Agreed.		MPI Investment Manager	With immediate effect
4.	Recognise the advance and the progress of the offset in quarterly reporting to PSG.	Agreed.	<i>Lifestyle Wines Primary Growth Partnership Programme Manager comment</i> The Programme has agreed to pay back this advanced sum in increments over the remainder of the programme, in the final quarter of each financial year. These repayments will be monitored by the PSG and will be noted in the appropriate financial section of the quarterly report.	Lifestyle Wines Primary Growth Partnership Programme Manager	On going

APPENDIX ONE: OVERALL ASSESSMENT OF PGP FINANCIAL MANAGEMENT – LIFESTYLE WINES

Process	Key conclusions and observations
Processes for creating funding claims and financial reports	<p>Reporting processes</p> <ul style="list-style-type: none"> ○ The process for creating the quarterly financial reports appears to be well embedded. ○ The underlying systems of accounting and financial record keeping seem to be well managed by the Programme Manager on a day to day basis. ○ There is effective segregation of duties and oversight of financial management commensurate with the Programme size. ○ An early advance by MPI needs to be transparently tracked.
Processing of payments	<p>Payment processing practices</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 Programme of a similar size and complexity.
Processes for identifying in-kind and staff time based costs	<p>Processes for identifying in-kind transactions</p> <ul style="list-style-type: none"> ○ MPI and NZ Wines still need to sign off the agreement regarding the basis for in-kind contribution calculations. ○ The programme has processes to consolidate in-kind contributions from industry stakeholder contributors based on their current understanding.
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.
Forecasting	<p>Forecasting systems are satisfactory</p> <ul style="list-style-type: none"> ○ The forecasting process is led by the Programme Manager. The process they have in place is consistent with expectations that we would have of any Programme of a similar size and complexity.
Evidence to support partners funding claims	<p>There is satisfactory evidence to support funding claims made by Lifestyle Wines 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 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.