



Assurance and Evaluation
Office of the Director-General

PRIMARY GROWTH PARTNERSHIP FINANCIAL MANAGEMENT: ASSURANCE ON USE OF FUNDING – STUMP TO PUMP

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Growing and Protecting New Zealand



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SECTION 1: EXECUTIVE SUMMARY

OBJECTIVE OF WORK

1. The key objective of our work was to provide assurance that the PGP co-investors can demonstrate that they have sufficient, relevant and reliable records of use of the funding and co-funding to adequately support their funding / co-funding claims.

OVERALL CONCLUSIONS

2. Our conclusions are that the systems and processes being used to manage the funding/co-funding and make claims for funding are appropriate and reliable.
3. There are appropriate and reliable processes for allocating, splitting and attributing costs between those borne by co-investors and those claimed from the Ministry.
4. There is reasonable assurance that funding being provided by the Ministry for Primary Industries (MPI) and co-investors is being used to meet the costs of the Stump to Pump programme.
5. The amounts being claimed from the Ministry for reimbursement are supported by sufficient, relevant and reliable records and the criteria for the funding are being met.

RECOMMENDATIONS

6. There are no actions or recommendations arising from this work for either the Ministry or the co-investors.

SECTION 2: BACKGROUND

CONTEXT FOR WORK

7. 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.
8. 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. Co-funding can be either in the form of cash contributions or in kind contributions.
9. 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.
10. The Ministry's Assurance and Evaluation team help provide additional comfort to the Ministry and the Minister around PGP co-investors' management of funding and claims for funding through assurance on the partners' financial management of the programmes.

THE PROGRAMME

11. The Stump to Pump programme is a partnership between the Ministry, Norske Skog Tasman Ltd and Z Energy Ltd. The aim of the contracted programme was to test the technical and commercial feasibility for the conversion of forest residuals into liquid fuels from the forest floor to the end consumer.
12. The total initial funding approved for this programme was \$13.5m (\$6.75m from the Primary Growth Partnership fund and \$6.75m from co-investors). The programme was contracted in July 2013 with an end date for the programme of 30 September 2014.

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13. While the original budget was set at \$13.5m, by the end of the programme the total programme cost is likely to be in the order of \$3.6m, with PGP's investment likely to be \$1.8m. This is significantly less investment than originally anticipated. The co-investors have concluded further investment is not necessary at this point in time.

WHAT WE DID AND HOW WE DID IT

14. In order to assess the financial systems for management of PGP funding and co-funding being operated the co-investors, we spoke to the people in the Ministry and partner organisations who managed the programme of work, to understand the relevant systems and processes being used.

15. We also checked documentation and other underlying evidence which supports the claims for payment being made by the co-investors' organisations, including invoices and other documents. The records that were reviewed covered the months of September 2013, February and April 2014, and covered some \$845k of programme expenditure. (The sample represents approximately one third of total programme spending to 30 June 2014).

APPENDIX ONE: OVERALL ASSESSMENT OF PGP FINANCIAL MANAGEMENT PROCESSES - STUMP TO PUMP

Process	Conclusions and observations
<p>Financial management reporting processes</p>	<p>Overall conclusion: There is reasonable assurance of the accuracy of data and information before invoices submitted for payment to Ministry.</p> <p>Financial reports are created for the PGP Steering Group each month by the Project Director presenting a summary of project progress, cost summary and cash flow, risks status, etc. The reports also include a detailed invoice to MPI for reimbursement of 50% of project costs for the previous month. This report is presented to the PGP steering group monthly, for discussion, and the group’s approval of the invoice. Once approved by the PGP Steering Group, the invoice is generated and submitted to MPI for approval and payment. Quarterly reports are also produced for MPI, covering the same information as monthly reports in greater depth.</p> <p>The documentation we reviewed underlying invoices to MPI supported the financial detail presented in the reports.</p>
<p>Cost allocation processes</p>	<p>Overall conclusion There are appropriate and reliable processes for allocating, splitting and attributing costs between those borne by co-investors and those claimed from the Ministry.</p> <p>Norske Skog Tasman has a financial setup which records total project costs incurred by themselves and Z Energy, coded by resource type.</p> <ul style="list-style-type: none"> • The co-investor Z Energy invoices Norske Skog monthly for reimbursement of half the project costs incurred by them, coded appropriately to activity. • Norske Skog Tasman invoices the Ministry monthly for reimbursement of half the total project costs incurred by themselves and Z Energy. (These costs are reported and approved in principle by the Project Steering Group at its monthly meeting, before the invoice is raised). • Upon receipt of payment from the Ministry, Norske Skog Tasman then reimburses Z Energy.
<p>Processing of payments</p>	<p>Overall conclusion There are satisfactory processes for making and recording payments and these include:</p> <ul style="list-style-type: none"> ○ Sufficient oversight and approval of payments ○ Effective segregation of payment arrangement and approvals between project Director and other members of staff
<p>Review of documentation and information</p>	<p>Overall conclusion: 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 review of 95 transactions in September 2013 and February and April 2014. (\$845k) These transactions accounted for 33% of the total

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Process	Conclusions and observations
	<p data-bbox="439 233 1361 261">PGP project costs incurred during the year July 2013 to June 2014. (\$2.594m).</p> <ul data-bbox="389 309 2051 448" style="list-style-type: none"><li data-bbox="389 309 2051 373">○ Sighting of supporting documents such as invoices, and timesheets for 92% of the dollar value of the sampled transactions. (Documents provided by both co-investors).<li data-bbox="389 421 1603 448">○ Transactions also match Norske Skog general ledger for PGP expenditure for the sampled months.