



Assurance and Evaluation
Office of the Director-General

PRIMARY GROWTH PARTNERSHIP FINANCIAL MANAGEMENT: ASSURANCE ON SPATnz USE OF FUNDING

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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 financial management systems for Primary Growth Partnership (PGP) funding and co-funding by Shellfish Production and Technology New Zealand Limited (SPATnz), are suitably robust and effective.

OVERALL CONCLUSIONS

2. Our conclusions are that SPATnz's financial management systems (including systems for budgeting and forecasting, financial management reporting and monitoring, cost allocation and payment processes) for PGP funding and co-funding are commensurate with the size and complexity of the SPATnz PGP programme.
3. We also conclude that the funding being provided by the Ministry for Primary Industries (MPI) and co-investors is being used to meet the costs of the SPATnz programme. This conclusion is based on our review of the documentation and information supplied by SPATnz to support the transactions selected for audit testing. Appendix 1 sets out further details of the basis of our assessment.

SECTION 2: INTRODUCTION

CONTEXT FOR WORK

4. 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.

5. 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.
6. 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.
7. The SPATnz programme of work is a partnership between the Ministry and SPATnz, which is owned by Sanford Limited. The maximum funding for this programme is \$26m (\$13m from government and \$13m from the partner), between November 2012 and October 2019.
8. The SPATnz programme aims to deliver benefits by domesticating the Greenshell Mussel and developing selectively bred, high-value product. To deliver what the market requires, selective breeding of mussels in captivity is essential. The currently relied upon wild spat sources don't allow the full potential of the crop to be realised, whereas selectively-bred spat can be produced to target the most desirable traits and secure a reliable source of spat.
9. 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

10. In order to assess the financial management systems being operated by SPATnz, we spoke to the people in the Ministry and partner organisation who managed the programme of work to understand the systems and

processes being used to manage the funding/co-funding and make claims for funding.

11. We also checked documentation and other underlying evidence which supports the claims for payment being made by the partner organisations including invoices, contracts, and other documents. The records that were reviewed covered November 2012 to December 2013, and covered some \$1.2m of expenditure.
12. SPATnz has also commissioned an audit of their financial accounts. This audit has been completed but as yet they have not received a copy of the final report. We were advised by SPATnz that no major issues were identified during this work.

based on our review of the documentation and information supplied by SPATnz to support the transactions that make up our sample of project expenditure in the 2011/12 and 2012/13 financial years. We conclude that:

- Amounts claimed from the Ministry are supported by documentary evidence.
 - Amounts being claimed are relevant and appropriate costs to be borne by the partnership programme.
16. There are no actions required as a result of this audit.

SECTION 3: FINDINGS & OBSERVATIONS

OUR CONCLUSIONS

13. Our conclusions are that SPATnz's financial management systems for the PGP funding and co-funding are adequate and commensurate with the size and complexity of the SPATnz PGP programme, across the following areas of financial management.
 - Developing annual budgets for the life of the programme.
 - Monitoring and forecasting spend.
 - Financial reporting to governance groups and MPI.
 - Allocating costs.
 - Making and recording payments to suppliers.
14. Appendix 1 provides details of the basis on which our assessment of each of the main elements of the financial management processes has been made.
15. The funding being provided by MPI PGP and the co-investor is being used to meet the costs of the SPATnz programme. This conclusion is

APPENDIX I - Overall assessment of financial management processes

Process	Conclusions and observations
Budgeting, cash flow and forecasting processes	<p>Overall conclusion: Budgeting and forecasting processes commensurate with the size and complexity of the SPATnz PGP programme.</p> <p>Observations</p> <ul style="list-style-type: none"> ○ Budgets developed from series of spreadsheets generated prior to the commencement of the programme updated as required ○ Annual planning process includes full budgeting by sub project done by May each year ○ Programme budgets built from sub project budgets that are based on available funding, research aims and milestones, historical data on effort and expenses ○ Budgets and forecasting are scrutinised by the PGP Programme Steering Group (PSG). ○ Anticipated spending for the remainder of the year reforecast at programme level in January each year ○ Budgets are revisited and revised as needed, they are based on known costs e.g. contracted leases and staff costs where possible, working with the project managers for the construction phases and experience and schedule of costs for the research. ○ Processes all managed by SPATnz's Programme Manager ○ Quantity surveyors are used to provide assistance with budgeting in the complex area of construction costs
Financial management reporting processes	<p>Overall conclusion: Financial management reporting and monitoring processes adequate - commensurate with the size and complexity of the SPATnz PGP sub programme.</p> <p>Observations</p> <ul style="list-style-type: none"> ○ Reports are generated electronically from Xero for both SPATnz and BreedCo (which owns the mussel breeding families and is co-owned by SPATnz and Cawthron Institute), then combined to give the total costs pertaining to the PGP Programme ○ Processes all managed by SPATnz's Programme Manager ○ Quarterly PGP reports are prepared by SPATnz, and scrutinised by the PGP Project Steering Group (PSG), of which the MPI PGP Investment Manager and Director Forestry and Land Operations are members. The PSG signs off the report, and the report is then submitted to MPI and the Investment Advisory Panel. Reporting is done formally each quarter to the Programme Steering group

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Process	Conclusions and observations
Cost allocation processes	<p>Overall conclusion Adequate processes for allocating, splitting and attributing costs between those borne by SPATnz and those claimed from the Ministry.</p> <p>Observations</p> <ul style="list-style-type: none"> ○ Costs allocated 50/50 between MPI and Sanford as per PGP contract ○ Every cost is given a sub-project number and a general ledger code ○ There are no “in-kind costs”. All Sanford costs are invoiced to SPATnz on commercial terms, for example vessel leasing
Processing of payments	<p>Overall conclusion Adequate processes for making and recording payments. Adequate separation and segregation of duties between the procurer of services and accounts payable processing function</p> <p>Observations</p> <ul style="list-style-type: none"> ○ Invoices requiring payment are authorised by SPATnz’s Programme Manager ○ Payments are authorised using Sanford Limited financial processing, ensuring adequate segregation of duties ○ Payments are currently input in the general ledger by senior Sanford office staff member or the Management Accountant from Your Accountant (Accountancy practice providing accounting support to SPATnz), and reconciliations completed by the Management Accountant ○ Invoice totals are reconciled against the accounting system records. If an error is discovered, a correction is issued in the following month’s invoices. Currently Programme Manager calculates the invoices and Management Accountant completes the reconciliation
Review of documentation and information	<p>Overall conclusion: The amounts being claimed from Ministry for 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 a sample of transactions which accounted for all PGP costs incurred during the period November 2012 to December 2013 ○ Sighting of payment invoices for each of these transactions. ○ Sighting of SPATnz bank records showing payment of selected invoices for PGP project services ○ Transactions match general ledger entries for SPATnz