



Assurance and Evaluation
Office of the Director-General

PRIMARY GROWTH PARTNERSHIP FINANCIAL MANAGEMENT: ASSURANCE ON PRECISION SEAFOOD HARVESTING USE OF FUNDING

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Assurance & Evaluation

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 Precision Seafood Harvesting General Partner Limited (PSH), are suitably robust and effective.

OVERALL CONCLUSIONS

2. Our conclusions are that PSH'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 PSH 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 PSH programme. This conclusion is based on our review of the documentation and information supplied by PSH 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 PSH programme of work is a partnership between the Ministry and PSH, which is jointly owned by Aotearoa Fisheries Limited, Sanford Limited and Sealord Group Limited. The maximum funding for this programme is \$52m (\$26m from government and \$26m from industry co-investors), from April 2012 with a planned length of six years.
8. Traditional fishing nets catch a wide variety of fish sizes and species, meaning a catch can include high proportions of undesired fish or undersized fish, which cannot be processed. PSH seeks to develop a new wildfish harvesting technology that will result in more precise catches, allowing fish to be landed fresher, in better condition, and of higher value.
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 PSH, we spoke to the people in the Ministry, PSH and FishServe who managed the programme of work to understand the systems and

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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 co-investor organisations including invoices, contracts, and other documents. Records reviewed included documents between April 2012 and June 2014.
12. PSH are audited annually to the yearend financial accounts. This year's audit has been completed but the final report has not been completed. We have seen a copy of the draft report and it has identified no issues.

SECTION 3: FINDINGS & OBSERVATIONS

OUR CONCLUSIONS

13. Our conclusions are that PSHs financial management systems for the PGP funding and co-funding are appropriate for the size and complexity of the PSH 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. The funding being provided by MPI PGP and the co-investor is being used to meet the costs of the PSH programme. This conclusion is based on our review of the documentation and information supplied by PSH to support the transactions that make up our sample of project expenditure. 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.
15. We raise one issue relating to user access the financial management software. There is one former FishServe employee and one on Maternity leave who still have user access to the financial management system.
 16. 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.

ACTIONS REQUIRED

Ref	Recommendation	Agreed/not agreed? (comments)
1	FishServe Management to review current user access to the financial management software and disable access for any user who does not currently require this access.	FishServe agree with this finding and will review the user access and the protocol for aligning this access against changes in staff status. User access will be disabled for the non-current users noted. FishServe also note that due to the lack of remote network logins there is no active ability for staff on leave or departing the company to make changes to the FishServe financial systems.

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MANAGEMENT COMMENT

PSH Management Comment

PSH management are pleased that the Audit has found the financial management systems for the PGP funding and industry co-funding to be appropriate for the size and complexity of the Precision Seafood Harvesting programme.

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APPENDIX I – OVERALL ASSESMENT 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 PSH PGP programme.</p> <p>Observations</p> <ul style="list-style-type: none"> ○ Annual planning process includes full budgeting each year ○ Budgets are approved by the PGP Programme Steering Group (PSG). ○ Processes all managed by PSH’s Programme Manager. ○ This year’s budget is for 15 months to align with the year end of the fishing industry and fishing quota year ○ The budget is completed with input from key stakeholders such as Plant & Food Research who are providing the majority of the scientific research.
Financial management reporting processes	<p>Overall conclusion: Financial management reporting and monitoring processes commensurate with the size and complexity of the PSH PGP programme.</p> <p>Observations</p> <ul style="list-style-type: none"> ○ Reports are generated from reporting tool add on from the financial management system ○ Formal Quarterly PGP reports are prepared by PSH, and scrutinised by the PGP Project Steering Group (PSG), of which the MPI PGP Investment Manager and Director Sector Policy are members.
Cost allocation processes	<p>Overall conclusion Adequate processes for allocating, splitting and attributing costs between those borne by PSH and those claimed from the Ministry.</p> <p>Observations</p> <ul style="list-style-type: none"> ○ Costs allocated 50/50 between MPI and co-investors as per PGP contract ○ Co-investors costs are shared equally between them ○ Vessel hireage is the most significant in-kind contribution. In months that vessel hireage costs exceeds the co-investors cash contribution the difference is recorded in a debtors ledger to offset future cash contributions by the co-investors
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 for the size and</p>

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Process	Conclusions and observations
	<p>complexity of the PSH environment</p> <p>Observations</p> <ul style="list-style-type: none"> ○ Invoices requiring payment are coded by PSH’s Programme Manager ○ Invoices are authorised by at least two of the three directors of PSH ○ Payments are recorded in the financial management software and uploaded into the bank by Corporate Accountant FishServe ○ Payments are authorised by PSH’s Programme director and Sanford, Branch Accountant (Timaru and Deepwater Operations)
Review of documentation and information	<p>Overall conclusion:</p> <p>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 April 2014 to June 2014, and sampling of prior periods. ○ Sighting of payment invoices for each of these transactions. ○ Sighting of PSH bank records showing payment of selected invoices for PGP project services ○ Transactions match general ledger entries for PSH