



Assurance and Evaluation
Office of the Director-General

PRIMARY GROWTH PARTNERSHIP FINANCIAL MANAGEMENT: ASSURANCE ON WHAI HUA 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 Whai Hua General Partnership Ltd (Whai Hua) financial management systems for Primary Growth Partnership (PGP) funding and co-funding, are suitably robust and effective.

OVERALL CONCLUSIONS

2. Our conclusions are that Whai Hua's systems and processes for managing PGP funding and co-funding (including systems for budgeting and forecasting, reporting and monitoring, allocating costs and processing payment) are suitably robust and effective.
3. The complexity of these systems is commensurate with the size of the New Dairy Products and Value Chains PGP programme.
4. 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 New Dairy Products and Value Chains programme.
5. Amounts claimed by Whai Hua from the Ministry are supported by documentary evidence and are relevant and appropriate costs to be borne by the partnership programme.
6. This conclusion is based on our review of the documentation and information supplied by Whai Hua 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

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 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.
9. 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.
10. The New Dairy Products and Value Chains programme is a partnership between the Ministry and Whai Hua General Partnership Ltd. Three commercial partners make up Whai Hua: Wairarapa Moana ki, Pouakani Incorporation, Miraka Limited, and Kanematsu New Zealand Limited. The aim of the contracted programme is to develop immune-enhancing dairy milk products targeting health-conscious consumers in Asian and New Zealand markets.
11. The total funding approved for this programme is \$3.5m (\$1.75m from the Primary Growth Partnership fund and \$1.75m from co-investors). The programme was contracted in June 2013. The end date for the programme is 31 December 2015.
12. The Ministry's Assurance and Evaluation team help provide additional assurance 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

13. In order to assess the financial management systems being operated by Whai Hua, we spoke to the people in the Ministry, Whai Hua and Beker Findlay Allan (the partnerships' accountants) 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.
14. We also reviewed 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 covered the period between June 2013 and September 2014.
15. Whai Hua are also audited by their three partner organisations. We did not see the findings of these audits but Whai Hua advised they had not been issued with any corrective actions, which is consistent with our findings.

ACTIONS REQUIRED

16. No actions are required as a result of this audit.

APPENDIX 1 – OVERALL ASSESMENT OF FINANCIAL MANAGEMENT PROCESSES

Process	Conclusions and observations
Budgeting, cash flow and forecasting processes	<p>Overall conclusion: Budgeting and forecasting processes are robust and effective and commensurate with the size and complexity of the New Dairy Products and Value Chains 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 Whai Hua's Programme Manager ○ Forecasting is done each quarter
Financial management reporting processes	<p>Overall conclusion: Financial management reporting and monitoring processes are robust and effective and commensurate with the size and complexity of the New Dairy Products and Value Chains PGP programme.</p> <p>Observations</p> <ul style="list-style-type: none"> ○ Financial reports are prepared by the programme accountant and reviewed by the programme manager ○ Financial reports are presented quarterly to the PSG
Cost allocation processes	<p>Overall conclusion Suitable processes for allocating, splitting and attributing costs between those borne by Whai Hua 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 based on the milestone that the expenditure is contributing to and the co-investor's relative share to the milestone ○ Research is the most significant cost to the programme. For the most significant expenditure there is a fixed price schedule for the work which is agreed annually
Processing of payments	<p>Overall conclusion Suitable processes for making and recording payments.</p> <p>Observations</p> <ul style="list-style-type: none"> ○ The accountant has the ability to solely operate the bank account. This is the most effective way for Whai Hua to operate it. The accountant is covered by the firms professional indemnity insurance which exceeds the total cost of the New Dairy Products and Value Chains PGP programme

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Process	Conclusions and observations
	<ul style="list-style-type: none"> ○ The software system Xero is used to record transactions. Suitable access controls are in place for its operation ○ Claims for payment from MPI are supported by adequate documentation and approved by the PSG
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 between June 2013 and September 2014 ○ Sighting of payment invoices for each of these transactions ○ Sighting of Whai Hua bank records showing payment of selected invoices for PGP project services