



Assurance and Evaluation
Office of the Director-General

**PRIMARY GROWTH PARTNERSHIP FINANCIAL MANAGEMENT: ASSURANCE
ON USE OF PGP FUNDING – RAVENSDOWN, PIONEERING TO PRECISION**

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Growing and Protecting New Zealand



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SECTION 1: EXECUTIVE SUMMARY

OBJECTIVE OF WORK

1. The key objectives of our work are to provide assurance that Ravensdown Fertiliser Co-operative Limited has:
 - financial management systems for Primary Growth Partnership (PGP) funding and co-funding that are suitably robust and effective; and
 - sufficient documentary records to reliably and adequately demonstrate their use of the funding and co-funding and support their funding / co-funding claims.

OVERALL CONCLUSIONS

2. Our conclusions are that Ravensdown's financial management systems (including systems for budgeting and forecasting, financial management reporting and monitoring, cost allocation and payment processes) are suitably robust and effective.
3. The complexity of Ravensdown's systems for PGP funding and co-funding management are commensurate with the size and complexity of the Pioneering to Precision PGP programme.
4. The systems and processes being used to manage the funding/co-funding and make claims for funding are appropriate and reliable.
5. There are appropriate and reliable processes for allocating, splitting and attributing costs between those borne by the co-investor and those claimed from the Ministry.
6. There is reasonable assurance that the funding being provided by the Ministry for Primary Industries (MPI) and the co-investor is being used to meet the costs of the Pioneering to Precision programme.
7. This conclusion is based on our review of the documentation and information supplied by Ravensdown to support the transactions selected

for audit testing. Appendix 1 sets out further details of the basis of our assessment.

RECOMMENDATIONS

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

SECTION 2: BACKGROUND

CONTEXT FOR WORK

9. 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.
10. The Ministry for Primary Industries (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.
11. 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.
12. 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.

THE PROGRAMME

13. The Ravensdown Pioneering to Precision programme is a partnership between the Ministry and Ravensdown Fertiliser Cooperative Limited

(Ravensdown). The aim of the contracted programme is to provide for more efficient use of fertiliser, through the development of precision application technology, using remote sensing of the nutrient status of the land to determine where nutrients should be targeted.

14. The total funding approved for this programme is \$10.3m (\$5.17m each from the Primary Growth Partnership fund and Ravensdown). The programme was contracted to begin from October 2013, with an end date in June 2020.

WHAT WE DID AND HOW WE DID IT

15. In order to assess the financial systems for management of PGP funding and co-funding being operated by the co-investor, we visited the offices of Ravensdown in Christchurch, to speak to the staff who are involved with the financial management of the programme of work and to understand the relevant systems and processes being used. We also sought advice from the programme manager on the assumptions used to develop the programme budget, and reviewed the detailed level budget.
16. We also checked documentation and other underlying evidence which supports the claims for payment being made by the co-investor's organisation, including invoices, statements of work for the two largest service providers and other documents. The records that were reviewed covered from October 2013 to December 2014, and covered some \$2.8m of programme expenditure. (The sample represents 98% of total programme spending to 31 December 2014).

APPENDIX ONE: OVERALL ASSESSMENT OF PGP FINANCIAL MANAGEMENT PROCESSES - RAVENSDOWN PIONEERING TO PRECISION

Process	Conclusions and observations
<p>Financial management reporting processes</p>	<p>Overall conclusion: Financial management reporting processes are suitably robust and effective and provide sufficient information to understand the financial performance of the programme.</p> <p>Observations</p> <ul style="list-style-type: none"> ○ Financial reports are created for the PGP Steering Group each quarter by the project leader. They provide 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 quarter. This report is presented to the PGP steering group quarterly, for discussion, and the group’s approval of the invoice. Once approved by the PGP Steering Group, the invoice is submitted to MPI for approval and payment. ○ We can provide a reasonable level of assurance that the data and information provided before invoices are submitted for payment to Ministry is accurate. <p>The financial detail in the documentation supporting the invoices sent to MPI is consistent with the financial detail presented in these reports.</p>
<p>Cost allocation processes</p>	<p>Overall conclusion There are appropriate and reliable processes for allocating, and attributing costs between those borne by the co-investor and those claimed from the Ministry.</p> <p>Observations</p> <ul style="list-style-type: none"> ○ Ravensdown has a financial system which records total project costs incurred, coded by milestone. ○ Each quarter’s PGP programme costs are split 50:50 between the Ministry and MPI.
<p>Processing of payments</p>	<p>Overall conclusion There are satisfactory processes for making and recording payments and these include:</p> <p>Observations</p> <ul style="list-style-type: none"> ○ There is sufficient oversight and approval of purchase orders and payments ○ There is effective segregation of payment arrangement and approvals between project leader and other members of staff
<p>Budgeting and Forecasting processes</p>	<p>Overall conclusion: The process that was followed for developing the budget is sufficiently rigorous to provide MPI with a sense of the future costs of the programme (note that the vast majority of the cost drivers for this programme’s budget are the costs of two research providers).</p>

PRIMARY GROWTH PARTNERSHIP FINANCIAL MANAGEMENT: RAVENSDOWN - PIONEERING TO PRECISION

Process	Conclusions and observations
	<p>Observations</p> <ul style="list-style-type: none"> ○ The Programme Manager told us that the budget was developed in conjunction with the subcontractors' scope of work. Because of the nature of the work (developing remote sensing) there is a lot of clarity on a number of steps that need to be completed to deliver the programme outcomes. This made it easier to develop and complete a budget from the ground up. ○ To date, the actual costs of the programme have largely tracked to budget. In this context, the steps that have been taken to reassess future costs forecasts have been timely and appropriate. ○ The variance analysis being done for quarterly reporting purposes provides sufficient detail to understand the differences between budget and actual costs and act as an effective forecasting tool.
<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 43 transactions from October 2013 to December 2014. (\$2.8m) These transactions accounted for 98% of the total PGP project costs incurred during that period. (\$2.846m). ○ Sighting of supporting documents such as statements of work from the 2 largest service providers, invoices for the sampled transactions, and bank statements evidencing the payment of 43% (\$1.2m) of the total PGP project costs incurred during that period. ○ Transactions also match Ravensdown general ledger for PGP expenditure for the sampled period.