

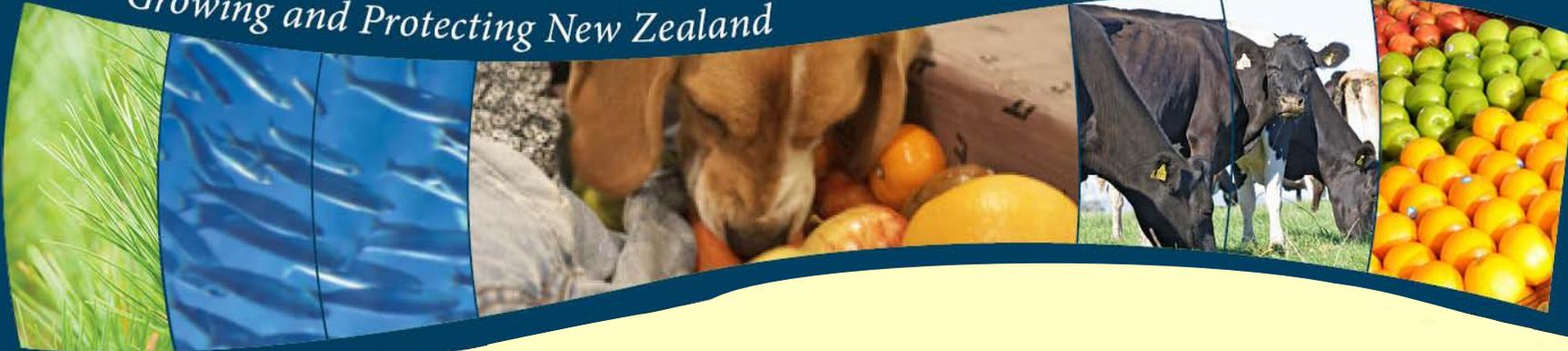


**Assurance and Evaluation**  
Office of the Director-General

# PRIMARY GROWTH PARTNERSHIP FINANCIAL MANAGEMENT: ASSURANCE ON BALLANCE'S USE OF PGP FUNDING

Final report issued: 19 December 2013

*Growing and Protecting New Zealand*



# Primary Growth Partnership Financial Management: Assurance on Balance's Use of PGP Funding

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# Primary Growth Partnership Financial Management: Assurance on Ballance's Use of PGP Funding

## SECTION 1: EXECUTIVE SUMMARY

### OBJECTIVE OF WORK

1. The key objectives of our work were to provide assurance that Ballance Agri-Nutrients Limited (Ballance's) financial management systems for PGP funding and co-funding of the Clearview programme are suitably robust and effective and to ensure that Ballance can demonstrate that they have sufficient, relevant and reliable records to support the use of the funding and co-funding claims made to the Ministry.

### OBSERVATIONS

#### Overall conclusions

2. Our conclusions are that Ballance'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 suitably robust and effective.
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 Clearview programme. We conclude that:
  - o Amounts being claimed from the Ministry are supported by documentary evidence.
  - o Amounts being claimed are relevant and appropriate costs to be borne by the partnership programme.
  - o An adequate process exists to value Ballance contributions to the programme.

#### The main areas or themes from our work

##### Annual Planning and Budgeting (paragraph 24-28)

4. Developing an annual plan and budget for the programme (which is required by the end of May 2013 under the terms of the funding agreement) prior to the Annual Science Winter Workshop (which takes place in August/September each year) poses challenges. It is only after

this meeting that a clearer idea of the actual costs and commitments for the next year emerges. Given these challenges it might be beneficial for the Programme Steering Group/Ministry to consider whether it would be worthwhile formalising and acknowledging that a meaningful annual plan budget can only be formulated and approved by, for example, September each year.

##### Long term financial planning (paragraph 29-30)

5. Now that the programme is into its third year it will be timely to re-evaluate the funding cashflows for the remainder of the life of the programme. The Ballance Research and Development Manager has acknowledged this and it is intended that this exercise will form part of the 2014-15 planning process.

##### Provision of financial information (paragraphs 31-34)

6. We were asked by the Ministry to consider the practicality and need for financial information on budgets and spending at a project level to be provided to the Programme Steering Group or the Ministry – currently information is not provided at this level of detail.
7. In our view it should not be too onerous for Ballance to provide this information. A simple way of providing information on costs by project would be to include additional columns in the funding invoice spreadsheet which Ballance provides to the Ministry each quarter. This would indicate which project each transaction relates to and indicate the running total of spending for each project. It should also be relatively easy for Ballance to provide details of their project budgets.

## RECOMMENDATIONS

There are three recommendations, one for Ministry to consider and two for Ballance to action/consider:

- **Annual Planning and Budgeting [RECOMMENDATION 1 for Ministry]:** Consider the practicality and potential for formally agreeing

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a change in the deadline for formulating and approving annual plans and budgets.

- **Long term financial planning [RECOMMENDATION 2 for Ballance]:** reforecast cashflows for remaining life of programme as part of 2014-15 planning.
- **Provision of financial information [RECOMMENDATION 3 for Ballance]:** revise the spreadsheet provided to the Ministry as part of the quarterly funding invoice to provide details of which project each transaction relates to and to provide a running total of costs for each project.

*Ballance management comment:*

*In summary we are happy with the report and are in agreement with the recommendations.*

## SECTION 2: INTRODUCTION

### OBJECTIVES OF WORK

8. This report sets out the main findings and observations from the MPI Assurance and Evaluation team's recent work to assess Ballance's financial management of the Clearview Primary Growth Partnership programme.
9. The key objectives of this work were to provide assurance that key elements of Ballance's financial management systems for PGP funding and co-funding are suitably robust and working effectively and to ensure that Ballance could demonstrate that they have sufficient, relevant and reliable records to support the use of the funding and co-funding claims made to the Ministry.

### CONTEXT FOR WORK

10. 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.
11. The Ministry provides funding to the partners for the programmes. The partners are required to provide co-funding at least equivalent to the Ministry's funding. Co-funding can be in the form of cash contributions and in kind contributions.
12. Each contract between the Ministry and the partners provides rights of access to records to carry out an audit of the partner's use of the funds.
13. The Ministry's Assurance and Evaluation team help provide additional comfort to the Ministry and the Minister on a PGP partner's management of funding and claims for funding through a programme of work to provide assurance on the partner's financial management of the programme. This work looks at the following elements of financial management
  - Financial management reporting processes
  - Budgeting, cash flow and forecasting processes
  - Cost allocation processes
  - Payments processes

[This work also includes a review of documentation to substantiate some of the costs incurred by the Ministry and the partner.]
14. The Ballance Clearview innovations programme is a partnership between the Ministry and Ballance. The total funding for this programme is \$19.5m (\$9.75m from government and \$9.75m from Ballance) and the programme was contracted and started in October 2011. The funding is

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split between two intermediate outcomes across four discrete areas (intermediate outcome 1 comprises three areas -Nitrogen, Phosphorus, Biologicals- with a total of eight objectives across these three areas; intermediate outcome 2 comprises one area -Effective extension and farmer adoption activities- with three objectives (currently under review).

15. To the end of September 2013, \$9.1m has been spent on the programme. Table 1 sets out the split of the funding of this spending to date. Most of this spending comprises the costs of research and development mainly undertaken by AgResearch.

**Table 1: Split of funding of spending to date**

Period	MPI	Ballance	Total
2011-12	1,985,403	1,985,403	3,970,806
2012-13	2,431,981	2,210,720	4,643,939
Q1/13-14	269,963	183,297	453,260
<b>Total to date</b>	<b>4,677,366</b>	<b>4,379,420</b>	<b>9,056,786</b>

## WHAT WE DID AND HOW WE DID IT

16. In order to assess the financial management systems being operated by Ballance we spoke to the persons in the Ministry and partner organisations 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 including the Ballance Clearview Programme Lead and Research Associate.
17. This included the Ballance Research and Development Manager, Research Associate, Financial Accounting Manager and Senior Systems Accountant.
18. We also checked documentation and other underlying evidence which supports the Ballance claims for funding including invoices, contracts,

payment advices and other documents. The records that were reviewed covered the period January – September 2013 relating to \$0.9m of the \$3.3m of expenditure on the programme during the period.

19. We also reviewed documentation related to budgeting, forecasting and monitoring for a range of the outcomes and projects being conducted as part of the overarching programme.
20. Some comfort and assurance about the effectiveness of Ballance financial management systems can also be taken from the annual audit of the financial statements undertaken by KPMG. The annual accounts for 31 May 2013 were audited and signed off in July 2013.

## SECTION 3: FINDINGS & RECOMMENDATIONS OUR CONCLUSIONS

21. Our conclusions are that Ballance'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 suitably robust and effective.
22. We also conclude that the funding being provided by MPI and co-investors is being used to meet the costs of the Ballance Clearview programme (we base this conclusion on our review of the documentation and information supplied by Ballance to support the transactions we sampled as part of our audit testing). We conclude that:
  - Amounts being claimed from the Ministry are supported by documentary evidence.
  - Amounts being claimed are relevant and appropriate costs to be borne by the partnership programme.

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- An adequate process exists to value Ballance contributions to the programme contributions are supported by sufficient evidence to support them.
23. Appendix One provides details of the basis on which our assessment of the main elements of the financial management process has been made. Paragraphs 24 to 34 provide some additional commentary on three specific areas: annual financial planning and budgeting processes, long term budgeting processes and provision of financial information to the Ministry

## SPECIFIC OBSERVATIONS

### Annual financial planning and budgeting processes

24. The PGP agreement between Ballance and the Ministry states that “the Parties agree that the Programme Steering Group must, by 31 May in each Funding Year, formulate and approve an Annual Plan that applies to the following Funding Year.”
25. We reviewed the process for developing the 2013-14 annual plan and budget as part of the audit – this included costings for some existing projects that were already in progress and due to continue in 2013-14 and estimates of where the remainder of the budget would be spent across the four discrete areas of activity.
26. The original budget submitted as part of the 2013-14 planning process has since been subject to some revision. We were told that the Annual Science Winter Workshop which is held in August or September each year is a key contributor to planning and budgeting. These meetings are held by Ballance with their research providers (AgResearch etc) to review the progress of projects towards achieving their objectives and to see what is required to complete projects in terms of budget and resource. These meetings are held around this time to enable the participants to

review the results of the research most of which is carried out during the spring and summer periods of each year

27. We were told that it was only after this meeting that a clearer idea of the actual costs and commitments for the next year emerges. We were provided with evidence to support this – the minutes of the recent winter meeting and the follow up Programme Steering Group confirm that various projects had reached a “stop/go” decision point and a number of projects had been stopped (we were provided with costings and quotes which satisfactorily support the revised and current budget/forecast for the remainder of 2013-14).
28. We understand that the Ministry and Ballance have discussed the practicalities of producing an annual plan budget prior to the Annual Science Winter Workshop and recognise the challenges this poses. Given these challenges it might be worth the Ministry considering whether it could formalise and acknowledge that a meaningful annual plan and budget can only be formulated and approved by 30 September each year.

### Long term financial planning

29. When the original seven year funding budget was developed in 2011 an estimate of the detailed costs was developed for the first two years of the programme.
30. Now that the programme is into its third year it would be timely to re-evaluate the funding cashflows for the remainder of the life of the programme. The Ballance Research and Development Manager has acknowledged this and it is intended that this exercise will form part of the 2014-15 planning process.

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## Recommendation

Ref	Recommendation	Agreed/not agreed? (comments)
1	<b>For Ministry:</b> Consider the practicality of formally agreeing a change in the deadline for formulating and approving annual plan and budgets.	Ministry comment: agreed  Ballance comment: agreed – to be discussed at January Programme Steering Group
2	<b>For Ballance:</b> reforecast cashflows for remaining life of programme as part of 2014-15 planning.	Ballance comment: agreed – complete by Quarter 4 of 2013-14.

## Provision of financial information to the Ministry

31. Financial reports are created by Ballance for the Programme Steering Group each quarter. The Ministry is provided with a funding invoice each quarter which includes a spreadsheet which lists each of the transactions which make up the amount being funded.
32. This information is provided at the outcome and objective level i.e. it shows spending on the four areas of activity Nitrogen, Phosphorus, Biochemicals and Extension. Each of these four activities comprises a number of projects (for example currently in 2013-14 there are 4, 2 and 3 projects respectively across the Nitrogen, Phosphorus and Biochemicals activities).
33. We were asked by the Ministry to consider the practicality and need for financial information on budgets and spending to be provided to the Programme Steering Group or the Ministry at a project level. The funding contract sets out requirements for financial management to allow the tracing of funding and co-funding at an objective and milestone level not an individual project level.

34. However given that at the time of our work, there were only 9 projects with fairly clearly defined costs it would not be too onerous to provide this information. We would suggest that one of the simplest ways of providing information on costs by project would be to include additional columns in the funding invoice spreadsheet which is provided to the Ministry to indicate which project each transaction relates to and indicate the running total of spending for each project. It would be simple to provide details of the budget for each project.

## Recommendation

Ref	Recommendation	Agreed/not agreed? (comments)
3	<b>For Ballance:</b> revise the spreadsheet provided to the Ministry as part of the quarterly funding invoice to provide details of which project each transaction relates to and detail of the running total of costs for each project.	Ballance comment: agreed – refer to example provided as format for this

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## Appendix One: Overall Assessment of Ballance PGP financial management processes

Process	Conclusions and observations
<b>Budgeting, cash flow and forecasting processes</b>	<p><b>Overall conclusion:</b> Budgeting and forecasting processes are sufficiently robust and are commensurate with the size and complexity of the Ballance programme.</p> <ul style="list-style-type: none"> <li>○ As part of our work we looked at how some of the budgets had been set for a range of milestones projects and elements of programmes against supporting evidence. There is sufficient rigour around budget setting and sufficient evidence to support budget assumptions.</li> <li>○ Budgets are set for each of the three outcomes at a sufficient level of detail (milestone and individual project) with the input of the Ballance Gating Group, the Research and Development Manager and Research Associate.</li> <li>○ Budgets are recorded in spreadsheets which clearly and concisely set out the proposed spending – these are also reported for quarterly reporting of financial performance.</li> <li>○ Forecasting is done formally as a minimum three times a year at the end of the second, third and fourth quarters - as part of our work we looked at the processes used to forecast and reforecast costs for the same projects and elements assessed as part of the checks on budgeting.</li> </ul> <p><b>Observations</b></p> <p><b>Annual planning and budgeting:</b> one of the key points in time when the budget is reviewed is as part of the Annual Science Winter Workshop which is held in August or September each year. These meetings are held by Ballance with their research providers (AgResearch etc) to review the progress of projects towards achieving their objectives and to see what is required to complete projects in terms of budget and resource. It is only after this meeting that a clearer idea of the actual costs and commitments for the next year emerges. We were provided with evidence to support this.</p> <p><b>Long term financial planning:</b> now that the programme is into its third year it would be timely to re-evaluate the funding cashflows for the remainder of the life of the programme. The Ballance Research and Development Manager has acknowledged this and it is intended that this exercise will form part of the 2014-15 planning process.</p> <p><b>RECOMMENDATION 1 FOR MINISTRY: Consider timing of completion of annual plans and budgets.</b></p> <p><b>RECOMMENDATION 2 FOR BALLANCE: reforecast cashflows for remaining life of programme as part of 2014-15 planning.</b></p>
<b>Financial management reporting processes</b>	<p><b>Overall conclusion:</b> Financial management reporting and monitoring processes are sufficiently robust and commensurate with the size and complexity of the Ballance sub programme.</p>

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Process	Conclusions and observations
	<ul style="list-style-type: none"> <li>○ Reporting is done formally each quarter - as part of our work we looked at monitoring and reporting for a range of projects and elements of programmes against supporting evidence. There is sufficient rigour around this monitoring and reporting.</li> <li>○ Reports are developed with the input of the research providers and research leads who provide commentary on any delays and variances against milestones and deliverables. The quality and level of this detail is commensurate with the scale and complexity of the spending. The financial reports for the Programme Steering Group include some milestone commentary and a table which provides some financial information on each of the 3 outcomes.</li> <li>○ Effective systems and processes for financial management are in place which include reconciliation controls to check amounts posted to general ledger codes against transactions and claimed from MPI: these operate as an effective control for checking completeness.</li> </ul> <p><b>Observations</b></p> <p><b>Financial information for the Ministry on projects:</b> we were asked to consider the practicality and need for financial information on budgets and spending to be provided to the Programme Steering Group or the Ministry at a project level. The funding contract sets out requirements for financial management to allow the tracing of funding and co-funding at a milestone level not an individual project level. Given that there are only 9 projects with fairly clearly defined costs it would not be too onerous to provide this information. We would suggest that one of the simplest ways of providing information on costs by project would be to include additional columns in the funding invoice spreadsheet which is provided to the Ministry to indicate which project each transaction relates to and indicate the running total of spending for each project. It would be simple to provide details of the budget for each project.</p> <p><b>RECOMMENDATION 3 FOR BALLANCE: revise the spreadsheet provided to the Ministry as part of the quarterly funding invoice to provide details of which project each transaction relates to and detail of the running total of costs for each project</b></p>
<p><b>Cost allocation processes</b></p>	<p><b>Overall conclusion</b></p> <p>There are satisfactory processes for allocating, splitting and attributing costs between costs borne by Ballance and those claimed from the Ministry.</p> <ul style="list-style-type: none"> <li>○ Costs attributed between the Ministry and Ballance on a 50:50 basis – claims and reports checked to ensure this calculation was correct</li> <li>○ Ballance internal costs are attributed and charged on the basis of actual costs of staff time of the Research Associate, some travel and IP costs. We assessed the overarching methodology used to calculate this cost – at a high level the calculations look reasonable although the exact quantum of future costs to be recovered has still to be determined and agreed with MPI. Costs of research providers and other suppliers are calculated on the basis of the providers agreed prices for the work. It was not part of the remit of this work to look at whether these contracts represent best value for money.</li> </ul>
<p><b>Processing of payments</b></p>	<p><b>Overall conclusion</b></p> <p>There are satisfactory processes for making and recording payments and these include:</p>

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Process	Conclusions and observations
	<ul style="list-style-type: none"> <li>○ Sufficient checking, oversight and approval of payments</li> <li>○ Effective separation and segregation of duties between procurers of services and accounts payable processing function and other accounting functions</li> <li>○ Controls over access to the accounts payable processing system</li> <li>○ Effective workflow processes embedded within the accounting software system SAP</li> </ul>
<b>Review of documentation and information</b>	<p><b>Overall conclusion:</b> 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"> <li>○ A review of 20 transactions selected for testing which accounted for \$0.9m of the approximately \$3.3m of PGP costs expenses incurred during the nine month period i.e. approximately 25% of costs although note that many of the transactions related to research projects which had payments for other milestones in the period and earlier periods.</li> <li>○ Sighting of signed contracts, payment invoices and supporting documents such as progress reports on deliverables, for calculations of costs, other evidence to support deliverables of the programme for each of the transactions selected.</li> <li>○ Review of files of invoices for all other transactions since October 2011 to identify any other potential transactions of interest i.e. other research organisations or suppliers providing services not reviewed as part of main sample or other types of costs/method of payment not tested.</li> </ul>

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## SECTION 4: Action Plan

No	Recommendations	Action Description	Due Date	Responsibility
1	<b>For Ministry:</b> Consider the practicality and potential for formally agreeing a change in the deadline for formulating and approving annual plan and budgets.	Discuss recommendation and further action at January Programme Steering Group Meeting  Ministry to consider as part of a planned exploration across PGP programmes of spreading annual plan timings across the year	January 2014  June 2014	PSG  Director PGP, MPI
2	<b>For Ballance:</b> reforecast cashflows for remaining life of programme as part of 2014-15 planning	Ballance to reforecast cashflows for remaining life of programme by end Q4 2014 as part of the 2014-15 planning process	By Q4/2013-14	Ballance Programme Manager
3	<b>For Ballance:</b> revise the spreadsheet provided to the Ministry as part of the quarterly funding invoice to provide details of which project each transaction relates to and detail of the running total of costs for each project.	Financials spreadsheet provided to Ministry as part of the Quarterly report to have projects listed as a separate column as agreed with MPI auditor.	January 2014	Ballance Research Associate