



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

## PRIMARY GROWTH PARTNERSHIP FINANCIAL MANAGEMENT: ASSURANCE ON STIMBR'S 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 PGP funding and co-funding by Stakeholders in Methyl Bromide Reduction Inc. (STIMBR), are suitably robust and effective.

### OVERALL CONCLUSIONS

2. Our conclusions are that STIMBR'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 adequate and commensurate with the size and complexity of the STIMBR PGP sub 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 STIMBR programme (this conclusion is based on our review of the documentation and information supplied by STIMBR to support the 55 transactions selected for audit testing). Appendix 1 sets out further details of the basis of our assessment.

*This conclusion is subject to one caveat – in January 2013 Scion, one of the two main providers of the research for the MPI/STIMBR PGP programme signed a four year contract for funding of \$5.2m from the Ministry of Business, Innovation and Employment's Science and Innovation fund (SIF), to fund a project entitled "Protecting market access for wood exports". This project continues some of the research programme work started by Scion and its research collaborators as part of the MPI/STIMBR PGP. Up until approximately June 2014, when the PGP funded research work is completed there will be a period of overlap where Scion and their collaborators are*

*receiving both PGP and SIF funding from the Crown for these complementary research programmes.*

*It is not part of the remit of our work to provide assurance on the use of this MBIE funding – however this does mean that we have not looked at whether Scion or any of their research collaborators (Plant and Food Research, University of Canterbury) who are involved in doing research activity for both the PGP funded work and the MBIE funded work, are being provided with or claiming funding from both funds for the same research work.*

*The risks to the Crown of funding or being charged for the same research work twice are probably low – this is based on the fact that:*

- *most of the PGP funds have already been expended by the time the MBIE research funding started in January 2013;*
- *the number of invoices submitted for PGP work and number of projects is small; and*
- *STIMBR has an officer with oversight of the delivery of both programmes of work.*

*However, while the Ministry continues to fund the PGP programme it should liaise and work with its contacts in the MBIE Science and Innovation area to ensure that both Ministries are clear about the research costs and deliverables that are being funded by the two respective funds.*

## SECTION 2: INTRODUCTION

### OBJECTIVE OF WORK

4. This report sets out the main findings and observations from a recent piece of work which looked to assess the financial management activities of STIMBR Primary Growth Partnership programme.

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5. The key objectives of our work were to provide assurance that partner's financial management systems for PGP funding and co-funding are suitably effective and to ensure STIMBR 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

6. 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.
7. 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 either in the form of cash contributions or in kind contributions.
8. 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.
9. The STIMBR programme of work is a partnership between the Ministry and STIMBR, who represent a range of interested stakeholders. The total funding (as detailed in the 2013-14 Annual plan) for this programme is \$2.636m (\$1.186m from government and \$1.45m from the partner), and the six themed programmes started in September 2011.
10. As at June 2013, \$1.8m of the total programme funding had been spent and the intention is that the programme will complete in 2013-14. Most of the MPI/STIMBR partnership funding is being spent on a three year programme of research and development work being completed by two Crown Research Institutes – Plant and Food Research and Scion.

11. 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

12. In order to assess the financial management systems being operated by STIMBR, 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.

*[STIMBR only has one employee – an Executive Officer /Research Director - who is responsible for all aspects of the management of this programme including financial management practices. This does place heavy reliance on this person and could pose risks associated with key person knowledge of STIMBR management systems and processes. (Note that some assistance is also provided to STIMBR by the Forest Owners Association with financial administration – bill payments etc. Other resources are recruited and used on an as and when needed basis.)]*

13. 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 July 2011 to June 2013, and covered some \$1.8m of expenditure.
14. We also obtained some assurance from written assurances from third parties (STIMBR's auditors) about the effectiveness of financial management systems.

## SECTION 3: FINDINGS & OBSERVATIONS

### OUR CONCLUSIONS

15. Our conclusions are that STIMBR's financial management systems for the PGP funding and co-funding are adequate and commensurate with the size and complexity of the STIMBR PGP sub 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.
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.
17. The funding being provided by MPI PGP and the co-investor is being used to meet the costs of the STIMBR programme. (This conclusion is based on our review of the documentation and information supplied by STIMBR to support the 55 transactions that make up total 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.

[Our findings are subject to one caveat, details of which are provided below]

### Caveat on scope of audit work

18. In October 2012 the Crown Research Institute, Scion was granted approved funding of \$5.2m from the of the Ministry of Business, Innovation and Employment's (MBIE) Science & Innovation Fund (SIF) to fund a project entitled "Protecting market access for wood exports", and entered into a four year contract on 17 January 2013. Scion also obtained a commitment of \$3m from STIMBR to help fund this project.
19. We understand that the MBIE funding is being used to fund the continuation of elements of the programme of research work funded as part of the PGP programme.
20. The bulk of the MBIE funded work will be carried out by the same two Crown Research Institutes, Plant and Food Research and Scion, who are doing the PGP research work, with help from the same sub contractor collaborators used for the PGP, including University of Canterbury. Appendix 2 sets out in a diagram our understanding of the relationships between the 2 programmes of work.
21. With any programme of research and development work which seeks sources of funding from multiple arms of government, the relevant Ministries need to be satisfied that the funding recipients are not being funded twice for the same work. This is something that needs to be managed by effective collaborative monitoring by the Ministries concerned.
22. It is not within the remit of this audit to review any funding provided by MBIE to Scion for the SIF programme of work so this work will not identify any possible duplicate funding of the same research work.
23. The risks to the Crown of funding or being charged for the same research work twice are probably low – this is based on the fact that:
  - most of the PGP funds have already been expended by the time the MBIE research funding started in January 2013;

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- the number of invoices submitted for PGP work and number of projects is small; and
- STIMBR has an officer with oversight of the delivery of both programmes of work.

24. The Ministry should liaise and work with its MBIE Science and Innovation contacts to ensure that both Ministries are clear about the costs and deliverables that are being funded by the respective funds.

## APPENDIX I - Overall assessment of financial management processes

(Relating to PGP funded project only)

Process	Conclusions and observations
<b>Budgeting, cash flow and forecasting processes</b>	<p><b>Overall conclusion:</b> There are indications that budgeting and forecasting processes are adequate and are commensurate with the size and complexity of the STIMBR PGP sub programme.</p> <p><b>Observations</b></p> <ul style="list-style-type: none"> <li>○ Processes all managed by STIMBR's Executive officer / Research Director.</li> <li>○ Budgets and forecasting are scrutinised by the PGP Project Steering Group (PSG).</li> <li>○ There is some evidence of oversight by the STIMBR executive committee.</li> </ul>
<b>Financial management reporting processes</b>	<p><b>Overall conclusion:</b> Financial management reporting and monitoring processes are adequate and are commensurate with the size and complexity of the STIMBR PGP sub programme.</p> <p><b>Observations</b></p> <ul style="list-style-type: none"> <li>○ Processes are all managed by STIMBR's Executive officer / Research Director.</li> <li>○ The business partner (and wife) of STIMBR's Executive officer / Chairperson / Research Director prepares the quarterly PGP report, and invoices STIMBR for this and other governance services related to the PGP programme of work. To ensure separation of duties these invoices are approved for payment and cost allocation by an unrelated STIMBR Executive Committee member.</li> <li>○ Quarterly PGP reports are prepared by STIMBR, and scrutinised by the PGP Project Steering Group (PSG), of which the MPI PGP Investment Manager is a member. The PSG signs off the report, and the report is then submitted to the IAP Reporting is done formally each quarter to the Programme Steering group.</li> <li>○ There is some evidence of oversight by the STIMBR executive committee.</li> </ul>
<b>Cost allocation processes</b>	<p><b>Overall conclusion</b> There are adequate processes for allocating, splitting and attributing costs between those borne by STIMBR and those claimed from the Ministry.</p> <p><b>Observations</b></p> <ul style="list-style-type: none"> <li>○ Processes are all managed by STIMBR's Executive officer / Research Director.</li> <li>○ STIMBR invoices to MPI for PGP costs total 49% of financial statement totals for PGP expenditure for both the 2011/12 and 2012/13 financial years.</li> </ul>



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Process	Conclusions and observations
<b>Processing of payments</b>	<p><b>Overall conclusion</b>            There are adequate processes for making and recording payments.            There is adequate separation and segregation of duties between the procurer of services and accounts payable processing function.</p> <p><b>Observations</b></p> <ul style="list-style-type: none"> <li>○ Processes are all managed by STIMBR's Executive officer / Research Director.</li> <li>○ We were told that all invoices over \$5k are also approved by a STIMBR executive committee member, and the invoices examined largely supported this. There were some invoices over \$5k that appeared to have only been approved only by the STIMBR Executive officer / Research Director.</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 55 transactions which accounted for all PGP costs incurred during the period July 2011 to June 2013. (\$1.876m).</li> <li>○ Sighting of signed contracts and payment invoices for each of the transactions.</li> <li>○ Sighting of STIMBR bank records showing payment of selected invoices for PGP project services totalling \$1.446m</li> <li>○ Transactions match general ledger entries and STIMBR financial statement totals for PGP expenditure for both the 2011/12 and 2012/13 financial years.</li> </ul>



## APPENDIX II – Relationships Diagram (STIMBR)

