



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

## PRIMARY GROWTH PARTNERSHIP FINANCIAL MANAGEMENT: ASSURANCE ON FOODPLUS USE OF FUNDING

Report issued: July 2015  
Assurance & Evaluation

*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 ANZCO Foods Ltd (ANZCO) 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 overall conclusions are that ANZCOs financial management systems are suitably robust and effective.
3. The complexity of ANZCOs systems for PGP funding and co-funding management are commensurate with the size of the FoodPlus 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 FoodPlus PGP programme.
5. Amounts claimed by ANZCO 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 ANZCO to support the transactions selected for audit testing. We did identify some minor issues that need addressing - details of which are set out in section 3 of this report.

## 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 FoodPlus programme is a partnership between the Ministry and ANZCO Foods Ltd. The programme aims to generate more value from the red meat carcase by developing new and innovative uses for parts of the animal.
11. One of the projects undertaken by the FoodPlus programme is being completed by Taranaki Bio Extracts Ltd (TBE). This is a joint venture between ANZCO and Taranaki By-Products Ltd. The costs associated with this project are met 50% by the Ministry and 50% by TBE.
12. The total funding approved for this programme is \$77.4m (\$38.7m from the Primary Growth Partnership fund and \$38.7m from co-investors). The programme was contracted in November 2012 for 7 years.

13. 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

14. In order to assess the financial management systems being operated by ANZCO, we spoke to the people in the Ministry and ANZCO who manage the programme of work to understand the systems and processes being used to manage the funding/co-funding and make claims for funding.
15. 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 covered the period between April 2014 and March 2015.

## SECTION 3: FINDINGS & OBSERVATIONS

### OVERVIEW

16. We found that the FoodPlus programme finances were generally being well managed. The programme utilises existing ANZCO financial systems and structures to ensure sound financial discipline such as segregation of duties and help provide a base of wider financial knowledge. The programme managers have also added additional financial processes where deemed necessary to enhance the rigour of their financial management – an example being the use of timesheets to document and substantiate costs.
17. There are two points where we consider either that some action needs to be taken to address minor issues or that action is already being taken. Details of these issues are set out below.

**ANZCO are not fully accounting for their contribution to the programme in the FoodPlus ledger and as a result the interest charges for notional lending from ANZCO to FoodPlus are included in the programme costs charged to MPI and TBE.**

18. The FoodPlus PGP programme accounting ledger is part of the wider ANZCO accounting ledger/financial management system, M3. The costs of the FoodPlus programme are recorded in the FoodPlus element of the ledger. In theory, the costs of the programme should be met by ANZCO and another partner Taranaki Bio Extract (TBE) with their funds matched by the Ministry.
19. ANZCO use an ANZCO/FoodPlus inter-company account process to record the contributions and commitments/liabilities between FoodPlus and ANZCO. All monies are paid out by ANZCO for supplier and employee payments etc and are recorded against the ANZCO inter-company account in the FoodPlus ledger and in the FoodPlus inter-company account in the ANZCO ledger. Any funds for reimbursement of costs received from the Ministry and Taranaki Bio Extracts (TBE) are also recorded and accounted for through the inter-company account.
20. At any point in time, the balance owed to ANZCO through the inter-company account should be the total paid out by ANZCO less cash contributions from MPI and TBE. Up until recently ANZCO accounted for this amount owing by making accounting entries to transfer their contributions through the inter-company account.
21. In July 2014 FoodPlus changed its accounting practice resulting in a change in how the contributions from ANZCO were captured in the ledger and inter-company accounting system.
22. While ANZCO is still making payments on behalf of the FoodPlus programme, the ANZCO contributions are no longer being recorded as accounting entries in the inter-company account. Instead the balance owed to ANZCO is accumulating in the inter-company account.

23. This is important because of the fact that ANZCO charges FoodPlus interest on any outstanding balance owed through the inter-company account. In effect, MPI and TBE, are being charged interest by ANZCO on the inter-company account balance because the accounting entries for ANZCOs share of contributions have not been credited into the inter-company account.
24. While the interest charge to FoodPlus is not considered to be significant, it is not appropriate for ANZCO to pass on the nominal interest charge as a FoodPlus programme cost which is covered by MPI and TBE.

Ref	Recommendation	Agreed/not agreed? (management comments)
1	Review the processes for the accounting treatment of ANZCO contributions to ensure that interest is not charged to the FoodPlus programme partners.	Agreed. No further interest will be charged to MPI from July 2015.
2	Credit back all ANZCO inter-company interest charged to the FoodPlus programme.	Agreed. Credit will be applied in July 2015 through monthly invoicing process.

**Taranaki Bio Extracts have incorrectly charged for some of the time spent on the programme by one of their staff, due to an error in a spreadsheet formula**

25. ANZCO and TBE staff working on the FoodPlus programme are required to complete weekly timesheets. The timesheets record the time spent working on each FoodPlus project and time spent working on other activities. A charge is then made to FoodPlus for the time the staff member was completing FoodPlus work.

26. TBE send an electronic version of staff timesheets through to the FoodPlus programme each month so that costs can be accrued, TBE then send a physical, signed copy of the timesheet through at a later date. TBE will then send an invoice through to the FoodPlus programme for the staff time.
27. We checked two complete weeks of TBE timesheets. We found that for one individual there were differences in both weeks between the time recorded on the electronic version of the timesheet and the signed physical copy. When comparing the invoices against the paper timesheets for March 2015 we found that TBE had incorrectly charged FoodPlus as the invoice was based on the electronic copies that contained errors. This has resulted in a small undercharge from TBE to the FoodPlus programme.
28. The charges are calculated using a spreadsheet. We believe that an error had entered the formula used in the spreadsheet that was then copied through and used in calculating charges in the following weeks. While we only found the issue in one staff members timesheet, because the spreadsheets are editable it is possible that errors may have occurred in other records.

Ref	Recommendation	Agreed/not agreed? (management comments)
3	Complete a review of timesheets and invoices from TBE to ensure that all errors are corrected.	Agreed
4	Put in place a control to ensure that future charges from timesheets are correct and accurate.	Agreed

Ref	Recommendation	Agreed/not agreed? (management comments)
	<p>The control should ensure that electronic timesheets are compared to signed paper copies and to the final invoice and any discrepancies looked into.</p> <p>TBE may wish to limit the cells that can be edited within their timesheets</p>	

**It is recognised that forecasting processes need to be further developed**

29. We note that the Programme Steering Group has raised the quality of the forecasting by the FoodPlus programme as an issue. The issues and planned resolutions have been discussed with some of those involved at FoodPlus. The issues raised are not unique to FoodPlus and are common problems in completing forecasting. The team at FoodPlus are aware of the problems and actively working on them. The actions they are undertaking are reasonable to address their forecasting issues.
30. We have no recommendations to make in relation to any additional ongoing work to improve forecasting. PSG are aware of issues and are continuing to monitor the quality of forecasting.

**SECTION 4: ACTION PLAN**

No	Recommendations	Proposed Action	Due Date	Responsibility
1	Review the processes for the accounting treatment of ANZCO contributions to ensure that interest is not charged to the FoodPlus programme partners.	Any interest charged to the FoodPlus ledger as part of the monthly interest calculation performed by the ANZCO treasury team, will immediately be charged onto ANZCO Food & Solutions. We will ensure that interest expense in FoodPlus is nil.	31 July 2015	ANZCO
2	Credit back all previous inter-company interest charged to the FoodPlus.	To be deducted from monthly invoice to MPI and clearly identified in monthly programme report to PSG.	31 July 2015	ANZCO
3	Complete a review of timesheets and invoices from TBE to ensure that all errors are corrected.	A review of timesheets submitted by TBE will be performed to ensure that no further errors exist.	30 September 2015	ANZCO and TBE
4	Put in place a control to ensure that future charges from timesheets are correct and accurate. The control should ensure that electronic timesheets are compared to signed paper copies and to the final invoice and any discrepancies looked into. TBE may wish to limit the cells that can be edited within their timesheets	ANZCO has discussed the timesheet errors with TBE finance staff. In future, the ANZCO Food & Solutions assistant accountant will ensure that the timesheet submitted calculates correctly, and that the signed timesheet matches the unsigned timesheet. On submission of the invoice from TBE each month for reimbursement of the wages, the ANZCO Food & Solutions financial accountant will signoff of the invoice as a sign that the timesheets and invoice are in alignment.	In place	ANZCO and TBE