Ministry for Primary Industries
Manatū Ahu Matua

Assurance and Evaluation

Office of the Director-General

PRIMARY GROWTH PARTNERSHIP FINANCIAL MANAGEMENT: MARBLED GRASS-FED BEEF PARTNERSHIP FOLLOW UP

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SECTION 1: EXECUTIVE SUMMARY

BACKGROUND

1. In November 2014 the Ministry's Internal Audit team did a review of the Marbled Grass-Fed Beef Partnership (Grass Fed Wagyu Limited and MPI) financial management systems for Primary Growth Partnership (PGP) funding and co-funding.

2. That review made six recommendations which were focussed on enhancing planning, monitoring and forecasting processes and were primarily the responsibility of the Programme Management team.

3. The internal audit team was asked to carry out a follow up visit to assess whether these recommendations had been actioned.

4. I visited the Wagyu Beef programme offices in Hastings on 17-18 November 2015 to do this follow up and discuss the actions taken (by the key personnel; the Programme Manager, the three Objective Managers and the two partners Chief Financial Officers) to address the recommendations of the previous audit.

5. I also checked documentation and other underlying evidence which supports the actions taken by the programme management team.

6. One of the four actions that has been addressed related to the need for a more rigorous review of the 2015-16 Annual Plan budgets. While this specific action was a point in time action, I did also look retrospectively at the process for developing this budget as part of this follow up.

OVERALL CONCLUSIONS

Programme Management team have largely addressed the recommendations from the original audit

7. In my view, actions have been taken that fully address four of the six recommendations from the original audit. Actions to address the other two recommendations – relating to variance analysis and reforecasting processes - are still work in progress and their completion should be tracked and monitored by the Programme Steering Group. Key points to note, related to these two outstanding actions, are:

   - Variance Analysis: The Programme Manager has developed an approach for more comprehensive quarterly analysis of variances between actual and budgeted expenditure. This was first rolled out for the last quarterly report (July-September 2015) – this first report provides a benchmark for the level of detail and explanation to be provided for future quarterly reports. Evidence of a similar level of rigour over the next three quarters would satisfactorily complete this action.

   - Reforecasting: The Programme Manager has developed a process for quarterly re-forecasting – this will need to be trialled and tested as part of the reporting for the next quarter (October-December 2015). In principle, the approach being adopted looks sensible and should help focus thinking on the drivers and timing of costs for the remainder of the financial year. The Programme Manager acknowledged that some work needs to be done to embed this process into the programme's regular reporting protocols

8. My comments on the actions taken to address each of the recommendations are set out at Section 2 of this report back.

SECTION 2: ACTION PLAN PROGRESS

All six recommendations from the earlier audit were directed to Grass Fed Wagyu Limited (GFW) Programme Manager to address

NO	AREA OF FOCUS	RECOMMENDATIONS	PROGRESS
1	Monitoring of funding	To ensure that the Ministry funds no more than 50% of the total costs of the programme the Programme Manager and the MPI Investment Manager monitor investment to date as well as against budget.	**Reported status:** Complete **Audit opinion:** action taken has addressed the recommendation

COMMENTARY

The Programme Manager now maintains a Claim Summary to monitor the overall percentage spend of the Crown and other co-investors – I sighted this during the visit to the Programme Offices. This summary enables him to better demonstrate the proportion of costs have been claimed from the Crown and other co-investors. GFW are now able to better demonstrate the profile of spend over time for each partner.

NO	AREA OF FOCUS	RECOMMENDATIONS	PROGRESS
2	Annual Planning	Assess and challenge the detail of the spending plans put forward as part of the 2015/16 Annual Planning exercise.	**Reported status:** Complete **Audit opinion:** action taken has addressed the recommendation – see commentary for audit view on budget development process.

COMMENTARY

I was told that as part of the 2015-16 Annual Planning process, the Programme Manager and MPI Investment Manager reviewed the objective budgets in detail. In practice this meant reviewing the budget on a line by line basis – this provides a level of rigour that helps address this recommendation. The Programme Steering Group did discuss the Annual Plan budget as one of the agenda items at the 28 July 2015 meeting – this is documented and noted in the meeting minutes. The meeting was attended by the Programme Manager and the two co-investor representatives (Firstlight Foods CEO and Brownrigg Agriculture CEO) with the two MPI representatives (MPI Investment Manager and Director Maori Partnerships and Programmes) calling in by phone.

My own discussions with those involved confirmed that the level of detail within the 2015-16 budget is fairly comprehensive for a programme of this size– each of the four objectives has a total budget which is split into a series of milestones. The cost of each milestone is broken down into individual elements of the budget (defined as codes). There are codes set up for each person who spends time on a project as well as a series of codes for each of the other direct costs that might make up the costs of a milestone i.e. costs of surveys, costs of materials for research trials etc. I note that much of the budgeted cost of the programme –

particularly the Marketing and Supply Chain objectives – are people costs whether Firstlight Foods employees or those employed on their behalf.

I spoke with each of the Objective Managers to gain an understanding of the role that they played in developing the budget – I was comfortable that they had exercised a degree of rigour in putting the budgets together (or had been assisted by someone with an understanding of budgetary processes). Obviously time will tell whether the 2015-16 budget has more accurately predicted actual spend than earlier year budgets.

There are a number of assumptions that were made in developing the budget – including hourly rates for staff time, cost of farmers being involved carrying out elements of research trials. The basis of these were checked and appear reasonable assumptions.

Much of the budget has been phased equally across all four quarters of the year – this does not always reflect the timing of the actual spending. It is important that the phasing of spending is as accurate as possible, in terms of understanding the profile of spending but also from the perspective of being able to do more meaningful analysis of any variances between budgeted and actual spend.

The budget seeks to identify how much of each element of cost will be met by the Crown and by the investor. In some of the cases an element of cost will be met 50:50 by both parties, in others the Crown meets 100% of cost or the co-investors meet 100% (this is partly because the Crown is not allowed to fund some of the elements of this programme). In other cases different ratios of costs may be met by either party. Ultimately the aim is that broadly each year the Crown and the co-investors each meet 50% of the costs of the programme. The way in which the budget model has been put together to ensure this equal split is quite challenging to understand for someone with limited previous involvement. Many of the agreements that were made about the extent to which an element of the programme would be funded by the Crown or the other partners are now quite historical – made when the programme was in its infancy. The Programme Manager has only been in post for a year and has essentially picked up and run with the existing splits used with some modification to certain apportionments to ensure the split of the total costs of the programme remains equal.

It was not clear to me whether the budget was prepared on an accruals or cash basis. I note that the Programme Manager was not clear about this either – essentially claims for MPI funding are based on cash accounting. To a certain extent this should not have a significant impact provided the basis is applied consistently- although this is important to consider in any regular variance analysis (particularly where work has been done but where the costs being claimed are dependent on the provision of invoices from suppliers incurred or on information from farmers – note that claims are consistently on a cash basis where claims are supported by invoices and information from farmers)

NO	AREA OF FOCUS	RECOMMENDATIONS	PROGRESS
3	Variance Analysis	Provide Ministry and Programme Steering Group with more detailed and regular variance analysis to explain significant under or over spends against budget.	**Reported status:** Complete - the quarterly reports will contain more detailed variance analysis **Audit opinion:** In progress - action is addressing the recommendation but need the experience of more quarterly reporting exercises to confirm this is working. The Programme Steering Group should monitor and

			track progress over the next three quarters

COMMENTARY

The audit report findings were agreed in June 2015 which means that the most recent (July-September 2015) Quarterly Report was the first report to feature more detailed variance analysis of actual spend against budget. The Programme Manager has adopted a rule that any over or underspend of $30k per quarter or more at the programme objective level needs to be quantified (there are four objectives and their quarterly budget ranged from $140k to $350k so this variance ranges from 10-20% of total spend – this appears sensible in the context of the size and complexity of the programme).

For this first quarter actual spend was $687k against budget of $1,012k – three of the four objectives were underspent against budget by more than $30k so required an explanation of their variance. The explanations for the Marketing and Production R and D objectives provided sufficient detail to understand the variances without being too onerous. There was only a very small variance of $16k actual over budgeted spend for the supply chain objective so no explanation was provided. This $16k over was the net of a $35k overspend on Integration with Dairy and $12k overspend on project management, and a $22k underspend on establishing producer groups and $9k underspend on understanding farmers. While none of these milestone level variances are particularly significant in themselves, there may be occasions where it might be beneficial to consider variance analysis at a milestone level.

Our discussions with the Programme Manager and Objective Managers highlighted that these variances have been caused by a number of factors:

- Delays in starting work or spending money – examples include delays in recruiting two GMs Marketing for USA and UAE markets and delays in on farm monitoring activity.
- Phasing of budgets – many of the budget line items are phased equally across the year but in some instances the spending is not incurred equally across the year (breeding seasons etc). It is important that budgets are phased as accurately as practicable
- Timely recognition of the costs incurred I.e. where work has been done but the costs have not been accounted for
    - An example of this is the costs of the Sapere Programme review. This was commissioned by the Ministry, jointly funded by the co-investors to be paid by the programme (The review was completed in September 2015, the programme manager budgeted to meet the costs of this in the June-September 2015 quarter, but MPI have not submitted an invoice to the programme so the costs have not appeared in the programme actual figures).
    - Another example would be the cost of farmers in kind time for undertaking farm trials – the data to identify how much time farmers have spent did not come back to the Programme Manager quickly enough to be included in the figures reported in the June-September 2015 report
- Coding errors – examples from this first quarter include some genetics costs that have been allocated to the wrong milestone/code

From a positive perspective the variance analysis is picking up these discrepancies.

NO	AREA OF FOCUS	RECOMMENDATIONS	PROGRESS
4	Re-forecasting	Enhance existing re-forecasting processes to ensure quarterly forecasts are more closely aligned to planned activity and actual spending.	**Reported status:** In progress - process for reforecasting under development

			Audit opinion: in progress – if implemented effectively action should address recommendation. The Programme Steering Group should monitor and track the implementation of this action

COMMENTARY

The Programme Manager has developed a process for future in year re-forecasting which he intends to introduce for the October – December 2015 quarter. This should certainly help promote better reforecasting and projections of costs.

The success of this process will be dependent on each of the Objective Managers having a good understanding of what is driving the cost of their part of the programme, the phasing of these costs and those factors that might change the profile of spending over time.

The Programme Manager acknowledged that there is still a need to assess and reforecast future year's funding requirements – this will be an important part of preparing the 2016/17 Annual Plan. A particular focus for this work might be looking at the future funding for the Genetics elements of the research budget. The current projections for funding needs in this area are $3.5m over the three years from 2016-17 to 2018-19 while in the four years from 2012-13 to 2015-16 spending has never been more than $500k per annum. This will need to be considered by the Programme Steering Group as part of their involvement in the annual planning process

NO	AREA OF FOCUS	RECOMMENDATIONS	PROGRESS
5	Roles and responsibilities	Clarify for Ministry and all other interested parties: ○ Individual roles and responsibilities for financial management. ○ Programme/Project Manager's specific financial management roles and responsibilities. ○ New co-investor board specific responsibility for financial management. Ensure roles are clearly articulated and understood	**Reported status:** Complete **Audit opinion:** action taken addressed the recommendation

COMMENTARY

Following the audit review the new GFW Programme Manager produced a paper – with the input of key contacts from the co-investors – which set out clearly the financial management roles and responsibilities of the Programme Manager, three Objective Managers and the two co-investor Chief Financial Officers, for the key components of programme financial management: annual planning, day to day management and quarterly monitoring and reporting. This provides a much clearer understanding of roles and responsibilities.

NO	AREA OF FOCUS	RECOMMENDATIONS	PROGRESS
6	Checking of data and information in	Implement processes to ensure financial information in plans and reports is accurate and consistent.	**Reported status:** Completed

	reports and plans		**Audit opinion:** action has addressed the recommendation

COMMENTARY

We discussed the steps that the Programme Manager has put in place to ensure the consistency of information across different reports, One of the things that he has done is to introduce check sum totals in the master programme documents to capture and then address and administrative errors. There does seem to be more rigour around the checking of the data being collected in these documents before they are signed off and circulated more widely.