



Passion2Profit

Ministry for Primary Industries

Primary Growth Partnership Audit

20 July 2017

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Disclaimers

Inherent Limitations

This report has been prepared in accordance with our Consultancy Services Order (CSO) dated 27 March 2017 agreed between ourselves and the Ministry for Primary Industries ("the Ministry") and for no other purpose.

This review was conducted in accordance with KPMG's global Internal Audit Methodology. The services provided under our engagement letter ('Services') have not been undertaken in accordance with any auditing, review or assurance standards (such as those issued by the External Reporting Board). The term "Audit/Review" used in this report does not relate to an Audit/Review as defined under professional assurance standards.

The information presented in this report is based on that made available to us in the course of our work. We have indicated within this report the sources of the information provided. Unless otherwise stated in

this report, we have relied upon the truth, accuracy and completeness of any information provided or made available to us in connection with the Services without independently verifying it.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Deer Industry New Zealand management and personnel consulted as part of the process.

Internal Controls

Due to the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. Our procedures were not designed to detect all weaknesses in control procedures as they are not performed continuously throughout the period and the tests performed are on a sample basis. As such, except to the extent of sample testing performed, it is not possible to express an opinion on the effectiveness of the internal control structure.

Third Party Reliance

Other than our responsibility to the Ministry, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report.

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The statements and opinions expressed in this report have been made in good faith and on the basis that all relevant information for the purpose of preparing this report has been provided and that all such information is true and accurate in all material aspects and not misleading by reason of omission or otherwise. Accordingly, neither KPMG nor their partners, directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based, or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

The report dated 20 July 2017 was prepared based on the information available at the time. KPMG have no obligation to update our report or revise the information contained therein due to events and transactions occurring subsequent to the date of the report.

1. Executive summary

Introduction

The Primary Growth Partnership (PGP) is a Government/industry partnership that invests in significant programmes of research and innovation. The objective of the partnership is to boost the economic growth and sustainability of New Zealand's primary and food sectors.

Each contract between the Ministry of Primary Industries (the Ministry) and the co-investors provides rights of access to records to carry out an audit of the co-investors' use of funds.

KPMG has completed a review of the Passion2Profit (the Programme). The fieldwork was completed between 8 May and 16 June 2017.

Objectives

The objectives of the audit were:

To gain assurance that the key element of the co-investors' PGP financial management systems are suitably robust and effective. Elements of the system that were assessed included:

- budgeting, forecasting, and monitoring processes
- systems and processes for day-to-day financial management (payments, processing, allocating costs, etc.)
- systems for developing claims to the Ministry and financial reporting for the Programme Steering Group.

To ensure that PGP co-investors have adequate, complete, and reliable records of use of the funding and co-funding that adequately supports their funding/co-funding claims.

Scope

The scope of the review covers the 12-month period from 1 April 2016 to 31 March 2017.

Background

The Passion2Profit programme is a partnership between the Ministry and several industry partners including Deer Industry New Zealand (DINZ), New Zealand Deer Farmers Association, Alliance Group, Duncan New Zealand Ltd, Firstlight Foods, Mountain River Venison and Silver Fern Farms. These organisations represent 95% of the industry.

On behalf of DINZ, and the other co-investors, Beef and Lamb NZ provides accounting administrative support. Beef and Lamb processes payments for goods or services, and provide regular financial reports to DINZ.

The Passion2Profit programme began in June 2015, and is scheduled to run for seven years. In total, the Programme is budgeted to receive PGP funding of \$7.4m over its lifetime. Industry funding will slightly exceed this amount over the same period. As at May 2017, \$1.4m of Crown funding has been paid out.

The aim of the programme is to position New Zealand venison as a premium non-seasonal meat in new markets. The desired outcome is a venison industry that collaborates at all levels of the value chain to deliver greater productivity and profitability.

If successful, the programme is estimated to have a potential economic benefit for New Zealand of up to \$56m a year in additional industry revenue by 2022.

Overall ratings

Based on the results of the Internal Audit, we have rated the control environment as:

Processes and controls	DEVELOPING ¹
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Overall, we found that the financial management systems were robust and effective, with improvements required in reporting and invoicing processes.

¹ Refer to Appendix 1 for a description of audit ratings

Observations

Based on process assessment and testing performed, the financial management systems in place to support the review objectives are generally robust and effective. However, control gaps and weaknesses were identified in the processes for developing claims to the Ministry and financial reporting for the Board.

Our test findings and observations from the review are:

- In-kind contributions are adequately valued. However, processes for recording additional DINZ personnel time could be improved to ensure records are more reliable. Other than this expense type, all amounts claimed are supported by reliable documentation, or are within budgeted amounts agreed with the Ministry.
- Invoices for making claims from the Ministry and quarterly financial reports are manually prepared using data from a variety of sources. These documents are not subject to any independent review. Addition errors were identified in one of the reports reviewed and an incorrect invoicing amount was identified in one of the claims. While these errors were of a minor nature it shows that errors can occur and not be detected due to a lack of independent review.
- Records of the financial reports disclosed in the quarterly report are not maintained. As a result, the addition error noted above, and the loss of supporting records for the report, means we were unable to validate that the costs had been equally shared between the Partners and the Ministry.

Overall, expenditure claimed by DINZ is relevant to the Programme, with no instances identified in sample testing where unrelated expenditure had been included. DINZ's financial management system, which Beef and Lamb NZ administers on their behalf, is suitably robust and effective. The control gaps exist when this data is extracted from the system for reporting and invoicing purposes.

The Programme Manager completes detailed reviews of all expenses and claims made to the Passion2Profit programme before payment approval. All payments require two levels of approval from authorised personnel within Beef and Lamb NZ.

Refer to Section 2 for detailed findings and recommendations.

Overall management comments

DINZ welcomes the findings of the audit and looks forward to implementing some changes to ensure the programme is run in a manner that continues to provide robust and effective financial management. The KPMG audit identified three areas of improvement to ensure accurate record keeping and the presentation of invoices for the Passion2Profit Primary Growth Partnership. Changes have been made to address the three areas identified.

2. Detailed Findings and Recommendations

1. Systems for developing claims to the Ministry	Risk rating of finding ² : Low
Internal Audit Finding / Observation / Impact	Recommendations
Processes for raising claims to the Ministry are not as robust as they could be. In performing the review, issues were identified that demonstrate processes could be improved. They are: — Recording of DINZ personnel time, an in-kind cost, is not performed frequently enough to be considered reliable. The Programme Manager currently requests DINZ staff to provide an estimate of their time spent on the programme every 6 – 8 weeks. — The Ministry had been invoiced for an incorrect amount. An incorrect figure was selected from the PGP quarterly Board report. The error was later identified and a credit issued. Invoices and supporting documentation are not independently reviewed before sending to the Ministry. Overall, the amounts being claimed from the Ministry for actual cash costs are supported by sufficient, relevant and reliable records and the criteria for the funding is being met. The one exception to this is the DINZ in-kind costs noted above.	1. Update DINZ personnel in-kind time records fortnightly, and keep this data securely stored for reporting purposes. 2. Ensure the Ministry invoices are independently reviewed against the approved PGP quarterly report to ensure accuracy before issuing.
Agreed Management Actions	
1 Since the audit, DINZ now collates staff time fortnightly, recording estimates of the time that individual DINZ staff have spent working on the Programme. 2 Programme management will submit invoice and quarterly report to a third party to confirm that the correct amount is being claimed before submitting the invoice for payment to the Ministry.	

² Refer to Appendix 1 for a description of finding risk ratings

2. Systems for financial reporting for the Programme Steering Group	Risk rating of finding : Low
Internal Audit Finding / Observation / Impact	Recommendations
Financial reporting processes require manual manipulation of financial data. This increases the risk of error. This risk is not managed, as the reports produced are not subject to independent review. The information used to prepare the reports, and the reports themselves, are not stored securely and are susceptible to being lost. In our review of the quarterly financial reports and reporting processes we identified that: — Financial reports disclosed in the quarterly reports are prepared in Excel, using data from a variety of sources. These reports are not subject to any independent review or control checks to ensure accuracy. Addition errors were identified in one of the reports reviewed that related to the amount to be invoiced to the Ministry. — Records of the financial reports disclosed in the quarterly report are not always retained. As a result, the addition error noted above, and loss of supporting records for the report, means we were unable to validate that the costs had been equally shared between the Partners and the Ministry. The amounts to which the identified errors related were not significant.	1. Require financial reports disclosed in the quarterly report to be independently reviewed for accuracy. Embed control procedures into the reporting tool to validate accuracy and completeness of reported figures. 2. Require all data used to prepare the quarterly financial reports, and the report itself, to be stored securely following approval by the Programme Manager and independent review.
Agreed Management Actions	
Programme management will require a third party to review calculations used for the reconciliation of quarterly financial report, and once agreed will be saved in a permanent form prior to the submission of the Quarterly Report to the Programme Steering Group.	

3. Assessment of Objective Criteria

1. Budgeting, forecasting, and monitoring processes

Internal Audit Assessment

The budgeting, forecasting, and monitoring processes in place over the Passion2Profit programme are robust and fit-for-purpose.

- Budgeting, and forecasting is completed by the Programme Manager and are reviewed and approved by the Programme Steering Group.
 - Amendments to budgets and forecasting are also reviewed by the Programme Steering Group.
 - Variances to budgets and forecasting is actively monitored and reported on a quarterly basis.
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2. Systems and processes for day-to-day financial management (payment processing, allocating costs etc.)

Internal Audit Assessment

Cost Allocation

There are satisfactory cost allocation processes in place to support the Programme. All expenditure tested that had been claimed from the Ministry were programme related. The Programme Manager is responsible for reviewing, coding and approving all invoices before Beef and Lamb NZ processes. .

Payment processing

Processes for making and recording payments are satisfactory and include:

Sufficient checking, oversight and approval of payments.

There is appropriate segregation of duties between procurement, processing, payment and other accounting functions. Effective controls over access and system permissions within the Financial Management system at Beef and Lamb NZ.

3. Adequate, complete, and reliable records of use of the funding and co-funding

Internal Audit Assessment

Processes to ensure the adequacy, completeness and reliability of records is an area that requires improvement. As discussed in Section 2, findings 1 and 2, records for DINZ personnel in-kind contributions should be improved. The period of time that passes between requesting DINZ personnel time records diminishes their quality with regard to all the objective criteria.

Record-keeping processes for financial reporting are not effective in ensuring reliable records are kept, as data has been lost.

With the exception of the above two matters, in transactions testing completed, all other costs were supported by appropriate documentation.



Appendices

Appendix 1: Internal audit ratings and classifications

Internal Audit ratings

The internal audit ratings are defined as follows:

Rating	Definition
GOOD	The controls are fit for purpose and are being performed in a manner that effectively mitigates the identified risks.
EFFECTIVE	Despite the fact that some control weaknesses were identified, existing controls within the audited process are considered to be generally adequate, appropriate and effective. They ensure that the audited business processes will achieve their control objectives.
DEVELOPING	Control weaknesses were identified that, if not appropriately addressed, could in the future result in the audited business processes not achieving their control objectives.
NOT EFFECTIVE	Existing controls are considered to be inadequate and ineffective to ensure that the audited business processes will achieve their control objectives. Significant improvements are required to improve the adequacy and effectiveness of the control environment.

Risk rating

The risk rating assigned to the findings is determined based on an assessment of the impact of the business and the likelihood of the risk occurring, defined as follows:

Rating	Definition
LOW	Matters which are unlikely to have a significant impact on the system of internal control, but should be addressed as part of continuous improvement.
MEDIUM	Matters which are important to the system of internal control and should be addressed as soon as possible.
HIGH	Matters which are fundamental to the system of internal control. The matters observed can seriously compromise the system of internal control and data integrity and should be addressed as a matter of urgency.

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