



# Omega Lamb

**Ministry for Primary Industries**

**Primary Growth Partnership Audit**

19 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, Alliance Group Ltd and Headwaters Ltd 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.

Any reliance placed is that party's sole responsibility. KPMG expressly disclaim any and all liability for any loss or damage of whatever kind to any person acting on information contained in this report, other than the Ministry.

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 19 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 sector.

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 Omega Lamb Programme (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 (payment, processing, allocating costs etc.)
- systems for developing claims to MPI 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 support 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 Programme is a partnership between the Ministry and two industry partners: Alliance Group and Headwaters New Zealand. The two industry partners formed a company, High Health Alliance Limited to manage the programme.

The Programme began in July 2015, and is scheduled to run for seven years. In total, the Programme is budgeted to receive PGP funding of \$12.5 million over its lifetime. Industry funding will match this amount over the same period.

As at February 2017, \$3.9m of Crown funding has been paid out.

The aim of the Programme is to develop lambs that have higher levels of polyunsaturated fats and Omega-3 fatty acids, the outcome being meat that tastes better, and has additional health benefits.

If successful, the Programme is estimated to have a potential economic benefit for New Zealand of up to \$400m over a 25-year period.

## Overall ratings

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

Processes and controls

GOOD<sup>1</sup>

Our overall conclusions are that High Health Alliance financial management systems are working effectively. In the completion of our review, we did not identify any issues to be brought to the attention of MPI.

<sup>1</sup> 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 robust and effective.

Our test findings and observations from the review are:

- In-kind contributions are adequately valued and recorded, and the processes in place to support this are fit-for-purpose.
- Expenditure claimed is relevant to the programme.
- All amounts claimed are supported by appropriate documentation.

## **Key findings**

High Health Alliance Limited's financial management system (Xero), which McIntyre Dick & Partners administers, is robust, fit-for-purpose and effective.

The Programme Manager completes detailed reviews of all expenses and claims made before payment approval. All payments require two levels of approvals from authorised personnel, who are principals at McIntyre Dick & Partners.

Refer to Section 2 for details.

## 2. Assessment of Objective Criteria

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### 1. Budgeting, forecasting, and monitoring processes

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#### Internal Audit Assessment

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The budgeting, forecasting, and monitoring processes in place at High Health Alliance Limited are suitably robust.

- Budgeting and forecasting are 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 monthly basis through standardised Xero reports.
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### 2. Systems and processes for Day-to-day financial management (payment processing, allocating costs etc.)

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#### Internal Audit Assessment

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##### **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 they are loaded into Xero.

Costs for the delivery of the Programme are split 50/50 between the Partners and the Ministry. This ratio is loaded in Xero and ensures all invoices raised to Ministry are for 50% of any transactions value.

##### **Payment processing**

Processes for making and recording payments are satisfactory and include:

- Sufficient checking, oversight and approval of payments.
  - Good segregation of duties between procurement, processing, payment and other accounting functions.
  - Effective controls over access and system permissions within Xero.
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### 3. Systems for developing claims to MPI and financial reporting for the Programme Steering Group

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#### Internal Audit Assessment

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##### ***Claims process***

The amounts being claimed from the Ministry for actual costs are supported by sufficient, relevant and reliable records and the criteria for the funding are being met. This is based on:

- A number of transactions selected for the period 1 April 2016 - 31 March 2017.
- Agreeing claimed amounts to supporting documentation.

##### ***Financial reporting process***

McIntyre Dick and Partners provide monthly reports to the Programme Manager and the Programme Steering Group on a monthly basis.

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

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#### Internal Audit Assessment

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McIntyre Dick and Partners raises all invoices issued to the Ministry based on supporting documentation provided to them. In completing our testing of a sample of transactions, there were no instances where they were not supported by appropriate documentation.

With regard to records for in-kind contributions, the supporting records were maintained in a timely manner, and subject to review. Overall, the adequacy, completeness and reliability of the records of the use of funding and co-funding were satisfactory.

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# Appendices

# Appendix 1: Internal audit ratings and classifications

## Internal Audit ratings

The internal audit ratings are defined as follows:

Rating	Definition
<b>GOOD</b>	The controls are fit for purpose and are being performed in a manner that effectively mitigates the identified risks.
<b>EFFECTIVE</b>	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.
<b>DEVELOPING</b>	Control weaknesses were identified that, if not appropriately addressed, could in the future result in the audited business processes not achieving their control objectives.
<b>NOT EFFECTIVE</b>	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.

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