



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

## Primary Growth Partnership: Assurance on Future Forest Research Management Of Funding

*Growing and Protecting New Zealand*



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## INTRODUCTION

### Purpose of work

1. This report sets out the overall conclusions and findings from our assurance work auditing the systems that Future Forests Research Limited (FFR) has in place for managing funding received from the Ministry for Primary Industry for the Steepland Harvesting project.

### Context for work

2. 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. 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.
3. There are currently nine programmes in operation. PGP funding of \$4.85m per year is also provided to the New Zealand Agricultural Greenhouse Gas Research Centre.

4. Assurance and Evaluation were asked to develop proposals for a programme of assurance work to help provide additional comfort to the Ministry and the Minister around PGP partner's management of funding and claims for funding.
5. Each contract between MAF and the partners provides rights of access to records to carry out an audit of the partner's use of the funds. Each funding contract sets out that partners "must keep appropriate accounting and other records of the use of the funding (including payslips, invoices and receipts) and the Co-funding and manage the combined funding in accordance with recognised research and accounting best practice standards, so as to enable MAF, to carry out an audit and determine whether the Funding and Co-funding is being used in accordance with this agreement. "

### Objectives

6. The main objectives of this assurance work were to ensure that the funding being provided by MPI and co-funding being provided by the partner was being used solely and specifically to meet the costs of the programme and in accordance with the PGP agreement between MPI and the PGP partner(s).

The work looked to confirm that the partner – FFR- had:

- sufficient, relevant and reliable records of use of the funding and co-funding to adequately support the funding/ co-funding claims

- financial management systems in place to manage PGP funding and co-funding including:
  - Financial management reporting processes (including financial data to support funding claims)
  - Cost allocation processes
  - Payments processes
  - Budgeting, cash flow and forecasting processes

## **What we did and how we did it**

7. To achieve our objectives for this work, we talked to the persons in the Ministry and partner organisations 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. We specifically discussed:
  - Systems and processes for FFR financial management with the CEO FFR
  - Systems and processes operated by Scion on behalf of FFR with the Scion, Financial Controller (Scion are a Crown Research Institute. They hold the sole share in FFR on trust for the benefit of FFR Members who contribute financially to the research programme. Scion are contracted to provide FFR with support services including financial accounting services)

8. We also checked documentation and other evidence which supports the claims for payment being made by the partner organisations. Our work included reviewing:
  - All 2011-12 payment invoices, contract agreements with all external providers of services, a sample of research development/work proposals and all 2011-12 direct credit payment schedules
  - Financial management documents including 2011-12 research plan, quarterly technical steering team meeting minutes, quarterly reports to the PGP Steering Group and spreadsheets documenting task and milestone progress

## **Main findings and conclusions**

9. On the basis of the audit work done our conclusions are that FFR has effective financial management systems in place to manage funding and co funding. During our audit visit we were provided with all records of the use of the funding and co funding to provide us with evidence to support the use of the funding. We found that Future Forest Research has:
  - An effective framework and processes for developing annual budgets and planning research activities for the life of the programme
  - Effective processes for contracting with research providers to deliver goods and services for the programme

- An effective framework for financial management reporting and general ledger accounting processing
- Effective processes for making payments to research providers:
  - Amounts being claimed from the Ministry are supported by consistent and accurate documentary evidence.
  - Amounts being claimed all appear relevant and appropriate costs to be borne by the partnership programme.
- Amounts being claimed for in kind contributions are supported by sufficient evidence to support them and an adequate process exists to value in kind contributions

10. More detailed comments on the work done and findings are provided in Appendix One.

11. We would like to thank the staff of FFR and Scion for their assistance during this audit visit

## **Actions required**

12. There are no immediate actions required as a result of this audit.

13. FFR are subject to external audit by Ernst and Young. We would suggest that this external audit could provide MPI with a suitable level of future assurance on FFR use of funding for the remaining four years of this programme. This would require MPI to liaise with FFR and the external auditors to provide clarity on the assurances that would be required.

## APPENDIX ONE: DETAILED COMMENTARY

### Background

1. Future Forest Research (FFR) was established in May 2006 to act as a vehicle for rationalising and championing research in the forestry sector. Its sole share is held in trust by Scion on behalf of its members. Its members include forestry companies, regional government bodies and other research bodies
2. FFR has two employees –its Chief Executive Officer and an Office Manager. It also employs four consultants to act as theme leaders – the theme leader for Harvesting research activity acts as a key contact for the FFR Primary Growth Partnership programme.
3. The total budget for the six year life of this PGP programme is \$6.5m of which \$3.262m has been committed by MPI. In 2011-12, some \$834,671 has been spent on taking forward the programme. The total costs incurred are split between the following categories of spend:
  - Task 1.1 Steep Slope Feller Buncher
  - Task 1.2 Teleoperated Felling Machine for steep country harvesting
  - Task 2.1 Advanced Hauler Vision system
  - Task 2.2 Improved Grapple/Carriage Control system
  - Task 2.3 Innovative Yarding System
  - Task 3.2 New Hauler Technology and International Monitoring

Table 1: Analysis of 2011-12 Steepland Harvesting PGP costs

Payee/element of cost	Amount (\$)	Notes
Scion	243,953	Involved in 5 tasks (1.1, 1.2, 2.1, 2.2, 3.2)
Interpine	25,181	Involved in 2 tasks (1.1, 3.2)
Trinder Limited	257,513	Involved in 2 tasks (1.1, 2.1)
University of Canterbury School of Forestry	41,916	Involved in 3 tasks (1.1, 2.2, 3.2)
University of Canterbury Mechanical Engineering –	41,500	Involved in 1 task (1.2)
Awdon Technologies	25,200	Involved in 1 task (2.3)
Project Management cost	107,203	Costs of consultant based on time worked daily/hourly rate
FFR - Overhead costs	48,260	Based on 6.5% of direct costs
In kind contributions by industry	43,945	Charged at standard hourly rate.
<b>Total</b>	<b>834,671</b>	

## Financial Management processes

### Budgeting and planning processes

4. While the overall indicative six year budget and business plan were developed when the PGP programme was first established in 2010, annual budgetary spending plans are subject to change – the programme has been under spent in both 2010-11 and 2011-12.
5. Annual budgets are developed as part of the annual research plan which is put together by the FFR Chief Executive Officer and theme leader. The annual budgets are split by both outcome and objective. At an objective level, the spending is split between research providers and also includes budgeted project management and in kind costs. Essentially the budgets are drawn up using costing information and estimates provided by the research partners as part of development plans. They provide estimates of the costs which are largely made up of labour costs (staff time) and some materials costs. The FFR CEO and Harvesting Theme leader assess these cost estimates and then determine whether to accept, reject or negotiate costs before entering into contracts to deliver the agreed tasks and outputs as part of the research plan.
6. The annual research plan is considered by the Technical Steering Team at its quarterly meeting prior to the start of the new financial year. The members of the steering committee recommend the programme for adoption. The Programme Steering Group approves the plan and it is signed off by the FFR CEO and Scion

GM. Annual research plans are also signed off by the FFR Board prior to the start of the financial year in conjunction with the annual budget approval process.

*Work done: Reviewed annual research plans for 2011-12 and 2012-13 and reviewed sample to understand how plans are costed. Evidence to support costing plans for sample of research plans was reviewed.*

### Contracting with suppliers of research services

7. FFR has signed service agreements/contracts with each of the external providers (Interpine, Trinder, University of Canterbury, Awdon)- the contracts are set out in a standard MPI designated format for each of the research activities. Each of these contracts has an appended schedule which sets out the key milestones and costs associated with the total research.
8. FFR has a different process for contracting with Scion. FFR terms of engagement with Scion are set out in an overall terms of agreement which was initially signed in 2007 – a separate terms of engagement was established directly related to the delivery of PGP related research in June 2011. Agreements with Scion are developed on the basis of year on year research plans whereas other agreements are on a project by project basis.

*Work done: contracts were sighted and checked against payments documentation and report backs. All contracts agreed to payments and agreed payments recorded in report backs.*

### **Monitoring of spending against annual budget**

9. As part of monitoring the spending against the budget a spreadsheet based tool called the Milestone Summary Report is used. The spreadsheet sets out details of each of the tasks and milestones, total forecast spend split by anticipated quarter and when the spend will be incurred. The spreadsheet also provides details of the research provider and key contacts responsible for delivering the task. The spreadsheet also includes a column which provides details of an assessment of the achievement of the task milestones (this is articulated as a percentage achievement based on the judgement of the team/individual delivering the task).
10. The Milestone Summary Report is reviewed in some detail as part of the quarterly Technical Steering Team meetings and Programme Steering Group (PSG) meetings. These are the key governance forums for the PGP programme. The PSG comprises representatives from MPI and FFR. The Technical Steering Team comprises representatives from the major FFR member contributors to the programme, along with representatives of MPI and the research partners.
11. The Technical Steering Team meet to discuss the progress on a quarterly basis. The minutes of the team meetings provide evidence of their discussion. Payments to research suppliers are

dependent on the recommendation by the Technical Steering Team that payments be approved by the Programme Steering Group. Payments are related to the steering committees assessment of the percentage completion of the milestones.

12. This governance forum plays a role through its quarterly meetings to assess progress in forecasting for the programme. Where milestones are not achieved or the costs change, then the forecast profile of costs will be changed in the Milestone Summary Report. Where forecasting identified that costs will not be incurred until future years then there is a protocol through the Programme Steering Group for discussing this with the programme partner MPI, to determine whether funding can be transferred.

*Work done: Minutes of the Technical Steering Team and Programme Steering Group were checked to ensure that the signed off decisions support the payments being requested from MPI. All minutes support decisions.*

13. FFR also produce a quarterly report following the Technical Steering Team and Programme Steering Group meetings which sets out progress against contracted task milestones and objectives. These reports include commentary where the budgeted and actual costs are subject to change or where spending is not following the profile established in the initial annual research plan budget.



## **Evidence to support programme deliverables**

14. Evidence of achievement of programme deliverables include completion of papers such as work plans and feasibility reports, concept design drawings technical notes and reports. Other deliverables are physical products including alpha and beta prototypes of technology and equipment. Note: technical notes and reports are only available to FFR members through the member only website – because there is no forestry industry wide commodity levy and research is funded by voluntary Member contributions, the FFR outputs are only available to its members rather than the industry as a whole.

## **Payment processing practices**

15. All FFR accounting processes including payment of invoices and the maintenance of general ledger are carried out for FFR on an agency basis by the Scion finance team.
16. Payment invoices are sent to FFR by research providers. Invoices are processed by the Scion finance team – AP processing – under an agency agreement (Scion finance do all FFR AP and AR invoicing and manage FFR finances). Invoices for PGP costs are generally signed off for payment by the Harvest Theme Leader and all invoices are authorised for payment by the FFR CEO.
17. The FFR office manager stamps each invoice with an authorisation stamp which shows the CEO authorisation signature, date, account code and direct credit reference. The invoices are scanned to

Scion AP who then process the payment invoice – original copies of invoices are retained by the FFR Office Manager.

18. Suppliers are paid by National Bank Direct Credit – generally on or around the 20<sup>th</sup> of each month. The CEO FFR logs on to the direct credit system to approve the payment of these direct credits. The FFR office manager reviews the list of direct credits and confirms that each credit is for a valid payment.

*Work done: Reviewed all payment invoices supporting the 2011-12 charges for each research provider and project management.*

*All payments are supported by valid invoices.*

*All payments were checked to direct credit schedules to confirm actually paid.*

*All payments approved and authorised by CEO and Harvesting Theme leader*

*All payments checked to general ledger entries in the FFR accounts*

*All payments appear relevant to the partnership programme*

*All payments discussed and approved by the technical team steering committee*

*All costs checked against contracts to ensure evidence that payments consistent with agreed amounts*

*Payment profiles for tasks checked against research plans budgets*

## Valuation of in kind contributions

19. The basis for valuing in kind contributions was determined when the programme was first established and agreed between FFR and MPI. In kind costs are mostly forest company staff time, some contractor assistance with plant and equipment for operational trials and the provision of data. The budgeted in kind costs range from \$50,000 in 2010-11 to \$100,000 per annum for 2012-13 to 2015-16. Total in kind costs in 2011-12 were approximately \$43,000.
20. In kind costs are valued based on a standard hourly rate for staff time. A spreadsheet based tool has been developed to record and demonstrate the total value of in kind contributions. This is provided to the quarterly Programme Steering Group for information and comment and submitted as part of the supporting papers for the quarterly MPI PGP invoice. The spreadsheet is maintained by the Harvesting theme leader and updated to diarise any contributions by industry. The most significant elements of the 2011-12 \$43k of kind contributions are the costs of industry representatives attending the quarterly steering committee meetings. The minutes of these meetings provide confirmation of the attendance of these forest company staff either in person or by tele-conference.

*Work done: checked in kind contributions spreadsheet against minutes for evidence that person listed as attendee. Confirmed attendance of all listed persons for whom contributions claimed recorded in minutes.*

## Invoicing MPI for share of PGP costs and cost allocation processes

21. MPI are invoiced quarterly for their share of the costs incurred in running the programme. The invoiced amounts are discussed at the quarterly Programme Steering Group which includes two members from MPI and then the invoice is generally presented for approval for payment within 2-4 weeks of the PSG meeting.
22. The costs are split evenly between costs borne by MPI and FFR. The invoice provides details of both cash costs and contribution in kind from industry and then requests reimbursement of 50% of these total costs.

## General ledger accounting processes

23. FFR accounts are managed by Scion using the accounting package Finance Technology One. FFR has its own set of cost centres in a separate ledger to differentiate its transactions from Scion's transactions. Its transactions are coded across the four different research themes. . The accounting system also enables the identification of corporate costs and other indirect or overhead costs.
24. PGP related costs are not directly differentiated from other harvesting theme related costs in the general ledger. Transactions on the general ledger system include accounts payable and accounts receivable transactions, accounting journals for accruals

and adjustments (these will be minimal) and payroll costs for two salaried staff.

the programme. This would need to be agreed with FFR and the external auditors- Ernst and Young.

### **Financial management reporting**

25. The two FFR staff and consultants don't have direct access to the Finance Technology One accounting system. The Scion Finance team create monthly financial reports which are provided to the FFR CEO. As a minimum, these include a summary Profit and Loss report and detailed drill down transaction lists for each of the categories of cost. These reports are subject to a high level review by the FFR CEO.

26. FFR produces financial reports for its Board each quarter. This provides brief commentary and analysis on the overall performance of the company.

### **External auditing**

27. FFR accounts are audited by Scion's external auditors who are currently Ernst and Young. The results of their audit, while considering FFR's financial management systems from a wider perspective provide some additional assurances and comfort on the business practices and financial management and reporting processes in place in the organisation.

28. MPI could consider using FFRs external auditors to provide some specific assurances relating to the financial management of the Steepland Harvesting PGP programmes for the future four years of

