

Ministry for the Environment

Review Guidance for Ministry Administered Funds

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Purpose

Funding recipients that receive more than \$1 million from the Ministry are required to appoint an auditor to perform an annual audit according to requirements set out in their Deed of Funding. An audit may take the form of a full technical, financial, compliance and/or health and safety audit, or a more informal assessment, of the Recipient and/or sub-contractors. To this end, the word “review” is used throughout this document to cover the range of evaluations that could be undertaken. The purpose of each review is to confirm compliance with the terms and schedules of the Deed, and the appropriate use of funds provided by the Ministry and any other sources.

Reviews are to be carried out by a chartered accountant who is independent of the Ministry or by Ministry staff (the practitioner).

This document provides guidance on the Ministry’s expectations, to help ensure that a consistent approach is taken for all reviews of Ministry administered PWER, FIF and EFF Grants and to ensure the Ministry’s requirements are met.

Review Guidance

The following section outlines Ministry’s expectations of the objectives, scope, approach, and timeline for the review for the matters identified in the Scope section of this guidance.

This guidance is expected to be followed, unless explicitly agreed otherwise between the practitioner, the recipient, and the Ministry. If you, as the practitioner, believe the following guidance is in any way inappropriate and/or unnecessary for any review(s) you are completing, please consult with the recipient and the Ministry directly prior to undertaking the review(s).

Objective

The Ministry requires assurance with respect to the allocation of funds provided to fund applicants (the recipients). The Ministry needs to ensure that all funding provided to recipients is spent in a manner that is consistent with the recipient’s Deed of Funding. Therefore, the objectives of each review are as follows:

- To determine the recipient’s compliance with the Ministry for the Environment’s annual compliance requirements as set out in the Deed of Funding, specifically clause 2.6 (and its associated sub-clauses).
- To determine the appropriate use of funds provided by the Ministry and any other sources.

Scope

The scope of each review is as follows:

- Compliance with the terms and schedules of the Deed, specifically clause 2.6 (refer Appendix 1 for details).
- Appropriate use of the funds provided by the Ministry and any other sources. Other sources may include but are not limited to both in-kind and financial contributions from the recipient and/or third-parties.
- Any other matters raised by the Ministry in relation to the proposed review.

Approach

The approach to each review is expected to include the following:

- Review Deed of Funding requirements, funding recipient-specific procurement policy and procedures and any other relevant documentation.
- Review payments and transaction data, and determine appropriate samples for detailed testing (refer 'Sampling' below).
- Conduct detailed testing in accordance with procedures that achieve the objectives of the review.
- Report findings associated to the testing performed in a manner consistent with the reporting requirements specified below.

To help ensure the approach to be adopted is consistent with the Ministry's expectations and the recipient's obligations, the proposed approach (including transaction populations and sample sizes) must be agreed with the Ministry before the review is undertaken.

Sampling

The Ministry expects the practitioner to determine a sample size sufficient to reduce sampling risk to an acceptably low level. The Ministry has determined that a **Confidence Level of 70% and a Margin of Error of 5%** is required to reduce sampling risk to an acceptably low level.

Indicatively, these parameters would give sample sizes similar to the following:

Size of Population	Sample Size
100	53
250	76
500	90

The sample size should include an equal mix of large, medium and small transactions. For projects with a small number of transactions (100 or less) the sample size should be specifically agreed with the Ministry, but will generally be 50% of the population.

Should any deviations (i.e., instances of non-compliance) be identified throughout the testing process, these must be noted as “procedural findings” in the final report prepared.

As the objective of each review is to confirm compliance, there is no monetary value/importance associated to any population items (i.e., each item in the population holds the same significance).

Reporting

For each review completed, we require a report which includes:

1. A summary of the procedures performed to determine compliance for each sub-clause of Clause 2.6, and confirmation of compliance with the terms and schedules of the Deed for each project;
2. A summary of the project’s grants funding and project funding from other sources (including In-kind contributions), confirming appropriate use or otherwise;
3. A summary of any other matters raised by the Ministry in relation to the review; and
4. Findings relating to the three requirements specified above, including any exceptions noted and recommendations made.

An example of procedures that may be performed in order to meet reporting requirements 1 – 3 are attached in Appendix 2.

Timeline

We recognise that given the comprehensive nature of sample sizes and testing requirements, these reviews may be quite time consuming and will require significant effort from both the practitioner and funding recipient. Final reporting is due to the Ministry before 30 October. We’d recommend engaging with your supplier in April of each year (or sooner), to ensure you have secured a supplier.

Appendices

Appendix 1. Clause 2.6 Requirements

The following tables sets out the details of each sub-clause within Clause 2.6 of the Deed of Funding. The 'Clause Details' wording is taken from the Deeds of Funding for Freshwater Improvement Fund (FIF) and the Public Waterways and Ecosystem Restoration Fund (PWER) and outline the responsibilities of the recipient. Note that Clause 2.6 (b) is different, depending on the fund and round.

Clause	Clause 2.6 Details
2.6(a)	ensure that the Grant is only used for costs that are Project Costs.
2.6(b)	<p>FIF Round 1 (2017) and PWER (2020): ensure that expenses incurred in carrying out the Project are reasonable and in accordance with Schedule 1 (Expense Policy).</p> <p>FIF Round 2 and 3 (2021): ensure that expenses incurred in carrying out the Project are reasonable and in accordance with any Expense Policy issued by the Ministry as notified to the Recipient from time to time.</p>
2.6(c)	not use any part of the Grant for Capital Costs, except with the prior written agreement of the Ministry.
2.6(d)	account for the Grant received under this Deed in accordance with generally accepted accounting practices, with appropriate internal controls to ensure that the Grant is applied for the purposes of this Deed.
2.6(e)	establish, and maintain for the period of the Project, cost codes that relate specifically to all costs incurred for the purposes of this Project so that the Project Costs can be categorised and reported by their nature.
2.6(f)	comply with any cost policies provided by the Ministry from time to time in relation to the accounting treatment of Project Costs and use of the Grant.
2.6(g)	ensure that the Grant is used to fund the Project Costs or subcontractor specified in the Annual Work Plans when those costs are properly due and payable.
2.6(h)	follow appropriate procurement processes when buying goods or services for the Project so that only reasonable, open market costs are incurred on an arm's length basis avoiding any conflict of interest. If a conflict of interest is unavoidable the conflict must be declared to the Ministry and managed appropriately by the Recipient.
2.6(i)	not claim for costs or expenses that have been, or will be, claimed from other sources, except as expressly provided for in this Deed.

Clause	Clause 2.6 Details
2.6(j)	not claim or use any part of the Grant to support or assist activities which are political (e.g. supporting a political party or movement, running a political campaign, or lobbying against the Government).

Appendix 2. Example Procedures

The following table provides example procedures that could be followed by the practitioner to determine compliance with Clause 2.6 of the Deed of Funding. Note, these procedures are **examples only**, and should be tailored in a manner that ensures the objectives of each review are achieved (refer *Objective* section above).

Clause	Procedures
2.6(a)	<ol style="list-style-type: none"> 1. Obtain the project-cost transaction extract for the period in scope and perform the following: <ol style="list-style-type: none"> a. Confirm the total number of project cost transactions in the period, where one line item equals one project cost. b. Select a sample size of [XX] transactions from the extract. c. Request copies of the relevant invoices from the recipient for each of the transactions selected in the sample. 2. Once copies of the invoices are received, perform the following: <ol style="list-style-type: none"> a. Agree the values of each of the invoices in the sample to the values of the project-cost transaction extract. b. Confirm the description/narration of each invoice appears reasonable in comparison to the delivery approach and objectives of the project.
2.6(b)	<ol style="list-style-type: none"> 1. Obtain the project-cost transaction extract for the period in scope and perform a line-by-line review of the transaction description to identify instances of expense related activity as defined in the relevant Expense Policy(ies). If expense related activity transactions exist: <ol style="list-style-type: none"> a. Extract the expense related line entries and select a sample of [XX] transactions for testing. b. Request copies of the relevant invoices from the recipient for each of the transactions selected in the sample. 2. Once copies of the invoices are received, perform the following: <ol style="list-style-type: none"> a. Agree the values of each of the invoices to the values of the project-cost transaction extract.

Clause	Procedures
	<ul style="list-style-type: none"> b. Confirm the values of each of the invoices do not exceed value thresholds specified in Schedule 1 (Expense Policy) relating to meal expenses and accommodation. 3. Where other expenses are recorded that are not specified in Schedule 1, confirm the reasonableness of the expense in comparison to the delivery approach and objectives of the project.
2.6(c)	<ul style="list-style-type: none"> 1. Obtain the project-cost transaction extract for the period in scope and perform a line-by-line review of the transaction description to identify potential instances of capital related expenditure. Potential instances include line-items relating to machinery, vehicles, IT equipment etc. 2. Request the capital asset register that is maintained by the recipient. 3. Confirm the line-items from the transaction extract match to the expense type and value of capital expenditure specified in the capital asset register. 4. Confirm the expense type and value of capital expenditure specified in the capital asset register matches to that specified in the Annual Work Plan (AWP).
2.6(d)	<ul style="list-style-type: none"> 1. Obtain a monies-received extract for the period in scope, a copy of all quarterly reports provided by the recipient to MFE for the period in scope, and a copy of the general ledger to which the monies received were recorded, and perform the following: 2. Select [XX] number of line-item transactions at random and request the relevant invoices for these. Once relevant invoices received: <ul style="list-style-type: none"> a. Match the values associated to each of the revenue-based invoices to the entries recorded in the appropriate revenue general ledger account. b. Match the values associated to each of the relevant invoices to the entries reported in the MFE quarterly reports.
2.6(e)	<ul style="list-style-type: none"> 1. Obtain the project-cost transaction extract for the period in scope. 2. Extract all of the unique project cost codes used for the scope period and select [XX] number for testing purposes. 3. Request a cost-code report for each of the selected codes to confirm that cost codes can be reported on. 4. Obtain an extract from the recipient which shows the total amounts allocated to the cost-code for the period in scope. 5. Match the sum of the amounts from the extract to the total amount spent per the project cost extract acquired in Clause 2.6(a) procedures.

Clause	Procedures
2.6(f)	<ol style="list-style-type: none"> 1. Request confirmation from the appropriate MfE personnel if cost policies have been imposed by MfE for the project. If cost policies have been imposed, request a copy be provided by MfE, and perform the following: <ol style="list-style-type: none"> a. Review the cost policies and record the recipients' obligations under the policies. 2. Discuss with the relevant recipient personnel their process(es) for ensuring each of their obligations are met and report any discrepancies if identified.
2.6(g)	<ol style="list-style-type: none"> 1. Obtain the project-cost transaction extract for the period in scope which includes the names of each supplier related to the transactions. 2. Obtain a list of all sub-contractors used for the scope period from the recipient. 3. Summarise the transaction extract to identify all suppliers used within the scope period. Match this list of suppliers to the list of sub-contractors provided by the recipient to confirm the sub-contractors used and the amount paid to each sub-contractor. 4. Select [XX] number of sub-contractors for testing purposes and confirm that each of the sampled subcontractor (or the type of contractor) is specified in the AWP. 5. Select [XX] number of transactions related to all sub-contractors identified in (2) and request copies of the I invoices related to these transaction entries. 6. Once copies of the invoices are received, confirm that all invoices have been paid in a timely manner in line with the recipients' payment policy
2.6(h)	<ol style="list-style-type: none"> 1. Obtain the project-cost transaction extract for the period in scope which includes the names of each supplier related to the transactions, and the recipient's procurement policy. 2. Confirm the procurement processes required to be followed for procurement activity > \$10,000 based on the recipient's procurement processes. 3. Summarise the transaction extract to identify all suppliers used within the scope period, and the amount spent on each supplier. 4. Select all suppliers with total spend for the period > \$10,000 and select a sample size of [XX] for testing purposes. 5. Confirm the process followed to engage with each of the suppliers selected is in alignment with the process specified in the procurement policy. If the recipient does not have a procurement policy, confirm the process followed was in alignment with good practice expectations such as those established in: procurement.govt.nz 6. Request the completed conflict of interest forms for the sampled suppliers and confirm that all required fields in the forms have been completed. 7. Confirm with the recipient if any conflicts have been identified. If there has been, confirm with both the recipient and the Ministry that these have been declared.

Clause	Procedures
2.6(i)	<ol style="list-style-type: none"> 1. Obtain the project-cost transaction extract for the period in scope, the monies-received extract for the period in scope (including monies received from all parties), and the proportion of project funding contribution by all parties per the Annual Work Plan (AWP), and perform the following: <ol style="list-style-type: none"> a. Reconcile the sum of the project-cost transaction extract to the sum of the monies-received extract, and explain any variance identified. b. Sum the MfE-only contributions per the monies-received extract and calculate this as a proportion of total monies-received for the period. 2. Confirm the proportion calculated in (b) aligns with the contribution proportion per the AWP.
2.6(j)	<ol style="list-style-type: none"> 1. Obtain the project-cost transaction extract for the period in scope and perform the following: <ol style="list-style-type: none"> a. Confirm the total number of project costs incurred, where one line item equals one project cost. b. Select a sample size of [XX] transactions from the extract. c. Request the relevant invoices from [XX] for each of the sampled items identified. 2. Once relevant invoices received, confirm the description and narration of each invoice does not mention political activities or similar. 3. Confirm with the recipient that there have been no political activity related expenditure for the period in scope.

The following table provides example procedures that could be followed by the practitioner to determine appropriate use or otherwise of the project's grants funding and project funding from other sources. As above, these are **example procedures only**.

Procedures
<ol style="list-style-type: none"> 1. Request monies received transaction data from the recipient and confirm the funding (including in-kind contributions) and funding sources for the period in scope. 2. Confirm with the recipient the activities to which the funding is related to and validate the appropriateness of these activities in alignment with the AWP. 3. Summarise funding received (including in-kind contributions) in a table comparing funding to project activities for the current year including the percentage of cost funded by each party.

The following table provides example procedures that could be followed by the practitioner to address any other matters raised by the Ministry in relation to the review. As above, these are **examples only**.

Procedures

1. Confirm that MFE has not requested any other procedures outside of those outlined above (related to Clauses 2.6a – 2.6j) to be completed, by contacting and confirming with the appropriate MFE personnel.
2. If other procedures are required to be completed, document and perform these procedures accordingly.

