

Fire and Emergency New Zealand

FENZ funding to the United Fire Brigades Association



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Darryl Purdy
 Chief Financial Officer
 Fire and Emergency New Zealand
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 Wellington 6011

16 June 2021

FENZ Funding to the UFBA

Dear Darryl

In accordance with our Consultancy Services Order dated 10 March 2021, we have completed our engagement related to FENZ Funding provided to the United Fire Brigades Association (UFBA).

Our observations, findings and recommendations per the agreed scope and approach are set out in this report, and are based on the fieldwork carried out between 24 March 2021 and 12 May 2021.

We would like to take this opportunity to acknowledge the efforts of the FENZ and UFBA personnel for the contributions they have each made to enable us to perform this engagement.

Please feel free to contact us on 04 462 7019 if you have any questions or require any further information.

Yours sincerely,

[Redacted signature]

PwC Partner - Wellington

[Redacted contact information]

[Redacted signature]

PwC Partner - Auckland

[Redacted contact information]

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Conclusions

We have performed our engagement in accordance with relevant ethical requirements of the Code of Ethics issued by the New Zealand Institute of Chartered Accountants, and appropriate quality control standards.

This assignment does not constitute a review, audit, or assurance engagement as defined in the standards issued by the External Reporting Board. Accordingly, this engagement is not an assurance engagement, nor is it intended to, and will not result in, the expression of an assurance, audit or review opinion, or the fulfilling of any statutory audit or other assurance requirement.

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Executive Summary

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Background and scope

Background

The United Fire Brigades' Association (UFBA or Association) is a non-government organisation that is funded mainly through a grant from Fire and Emergency New Zealand (FENZ). In July 2018, an arrangement with UFBA via a Transitional and Advocacy Support Agreement (TASA) was signed between the two parties. The TASA provides the mechanism and framework to make grants to the UFBA for the delivery of "core" and "non-core" services to FENZ.

UFBA provides advocacy and support services to Fire Brigades, and undertakes activities that encourage, maintain and strengthen the capability of Brigades.

FENZ agreed to make an annual grant to meet UFBA's **fair and reasonable** governance and management cost in recognition of UFBA providing core functions as defined in the TASA. In respect of UFBA non-core functions, as also defined in the TASA, FENZ agreed to make a discretionary grant to cover the **fair and reasonable** costs of facilitating such services.

Purpose of this engagement

FENZ engaged PwC to assist them in better understanding how UFBA have utilised FENZ funding.

Objectives and scope of this engagement

We performed two interconnected phases of work. The objectives of each phase are summarised below:

Phase 1 - Assess the UFBA's processes for managing the use of FENZ funding

The objectives of Phase 1 were to:

1. Understand, and provide details of, the processes, controls and documentation UFBA have put in place to manage the use of FENZ funding.
→ The purpose of this was to enable FENZ to consider the level of confidence they have that UFBA is only using FENZ funding for the purposes in which it was intended.
2. Seek information from UFBA to explain where the increase in its accumulated funds arose from, and to understand how UFBA systems can track under spending of FENZ funding
→ The purpose of this was to enable FENZ to consider the level of confidence they have that their funding had been appropriately applied to the correct services, or to indicate potential areas where they June have provided funding in excess of UFBA's requirements.

Phase 2 - A forensic review of relevant transactions

The objectives of Phase 2 were to:

1. Obtain and analyse UFBA's operating expenditure from the period 1 July 2018 to 31 March 2021 (i.e. FY19, FY20, and YTD 31 March 2021).
→ The purpose of this was to analyse the data for trends, and any potential abnormalities and outliers, so that we could then select a risk-based sample of 30 transactions for further analysis back to supporting documentation.
2. Obtain and review supporting documentation for the sample of 30 transactions
→ The purpose of this was to ascertain whether there was documented evidence supporting that the sample of expenses was incurred in accordance with the FENZ funding requirements.

Summary observations

In the table below we have provided a summary of our key observations. We have then provided a summary of potential next steps for FENZ to consider. Our detailed observations are provided in Sections 2 and 3 of this report.

Summary of our observations

Application of FENZ funding

In the TASA agreement with the UFBA, FENZ undertakes to fund the UFBA's 'fair and reasonable' expenditures. TASA does not provide a definition of 'fair and reasonable'. In our assessment of 'fair and reasonable', we considered how a reasonable person acquainted with the facts surrounding the expenditure would perceive it. In doing so we also had regard to UFBA's stated purpose and its Travel, Procurement, and Business Expenditure policies.

Subject to FENZ satisfying itself on the "fairness and reasonableness" of two expenditures, our enquiries into the UFBA's expenditures and our sample review identified no expenditures that in our view were clearly unfair or unreasonable.

Use of funding for Tāngata Matatau related expenditures

Based solely on our enquiries, sighting of UFBA's financial records and review of a selected sample of expenditures, we found no evidence of FENZ funding being used for Tāngata Matatau related expenditures. We were shown how expenses related to Tāngata Matatau are recorded separately from normal operating expenditures and excluded from the UFBA's monthly invoices to FENZ for payment in arrears of Management Grant funding.

Generation of surpluses

UFBA's audited annual financial statements for the five years 2016-2020 highlight a significant increase in accumulated funds for the period 2018/19. We have not completed a separate audit or other investigation of UFBA's financial statements or trial balances, however, based on the procedures completed including a perusal of relevant UFBA records, the surpluses have resulted from the UFBA's own sources of income (e.g. annual brigade subscriptions and sales of merchandise and honours awards), not from unspent FENZ grants.

Key areas for FENZ consideration

We observe below the three key issues that impact FENZ's ability to gain confidence over their financial relationship with UFBA. We understand that FENZ has already begun to address these issues.

1. The TASA lacks sufficient specificity to support effective and efficient oversight of UFBA's performance. In particular, the TASA:
 - a. does not define and/or provide guidance/examples of what is "fair and reasonable";
 - b. is not supported by a performance framework of clear and measurable KPIs; and
 - c. reporting requirements do not provide sufficient comfort over how funds had been employed.
2. The monthly invoices sent by UFBA to FENZ do not include details of individual expenditures for which UFBA is seeking reimbursement. This means that FENZ does not have visibility into these expenses and is relying on UFBA to make an appropriate determination of what is a "fair and reasonable" expenditure. UFBA's interpretation of "fair and reasonable" might be different from FENZ's expectations.
3. UFBA has generated overall surpluses in recent years largely due to net profits obtained from annual brigade subscriptions and sales of merchandise and honours awards to brigades. FENZ may wish to consider whether its funding grants should take into account the extent to which the UFBA is capable of funding its own ongoing and future cash flow requirements.

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Detailed Findings Phase 1

Detailed observations

Phase 1 - Assess the UFBA's processes for managing the use of FENZ funding

1. Understand, and provide details of, the processes, controls and documentation UFBA have put in place to manage the use of FENZ funding.
→ The purpose of this was to enable FENZ to consider the level of confidence they have that UFBA is only using FENZ funding for the purposes in which it was intended.

What we did	What we observed	What this means for FENZ
<p>We made enquiries with FENZ and UFBA personnel on controls, processes and accounting records employed by both parties.</p> <p>We engaged with [REDACTED], the UFBA Accountant, to enquire into the UFBA's accounting records and processes to understand how the Association manages and accounts to FENZ for its use of FENZ funding grants.</p> <p>This included enquiring into the Performance Management Framework that FENZ has put in place to monitor the UFBA's delivery of services to FENZ.</p> <p>We were provided with trial balances from the UFBA's Xero accounting system, from which we identified revenue and expenditure arising from UFBA's activities.</p> <p>We assessed the list of expenditure accounts to identify expenditure accounts for further examination in Phase 2 of this engagement.</p>	<p>UFBA manages the use of FENZ funding through its Xero accounting system. We were shown in the Xero monthly trial balance the allocation of UFBA expenditure across the main FENZ funding streams. Based on our procedures, it appeared that the total costs for each of these streams is what is invoiced to FENZ each month.</p> <p>In view of the fact that FENZ's TASA agreement with the UFBA says FENZ will pay "fair and reasonable" costs without defining what that means, we took the approach of assessing expenditure for reasonableness based on how a reasonable person acquainted with the facts surrounding the expenditure would perceive it while having a regard to the UFBA's stated purposes and selected policies. From our high level assessment (and our detailed sample assessment in Phase 2), we did not identify any expenditure types in the Xero trial balances presented to us that did not appear "fair and reasonable" for the UFBA to be incurring to deliver its services to FENZ.</p> <p>The Performance Management Framework that FENZ has put in place to monitor the UFBA now includes a section detailing the funding that has been applied to the specific goals FENZ has set for the UFBA to achieve. Previously, the framework did not include any reporting on the \$ spend.</p> <p>We considered the controls that UFBA has to manage expenditure. The strength of these controls are limited by the organisation's small size. Only the Chief Executive has a delegation level of any size, and most purchases need to be approved by him, and sometimes the UFBA Board. We established that to the extent possible UFBA has segregated purchase ordering from checking invoices and approving payments. However, we have not completed a detailed internal audit of these processes and controls.</p>	<p>From our interviews and sighting of processes and documentation, we did not identify any material issues with how UFBA is applying FENZ funding.</p> <p>However, it was apparent to us that FENZ is not being well served by the TASA. Specifically, FENZ's commitment to fund the UFBA's "fair and reasonable" costs, without a definition for what this means, makes it difficult to hold the UFBA to account. Whilst we found no inappropriate expenditures in the course of our engagement, this is not an ideal position for FENZ to be in.</p> <p>Recommendations for your consideration</p> <p>FENZ should consider re-negotiating the Transitional Agreement with UFBA.</p> <p>In line with this, we recommend that the Performance Monitoring Framework be redesigned to support a new Agreement. This should include meaningful and measurable KPIs to give confidence to FENZ that they are receiving they services and functions that they are funding.</p>

Detailed observations

Phase 1 - Assess the UFBA's processes for managing the use of FENZ funding

1. Understand, and provide details of, the processes, controls and documentation UFBA have put in place to manage the use of FENZ funding.
→ The purpose of this was to enable FENZ to consider the level of confidence they have that UFBA is only using FENZ funding for the purposes in which it was intended.

What we did	What we observed	What this means for FENZ
<p>In relation to the funding grants that FENZ makes to the UFBA for 25 and 50 year honours awards, we were specifically asked to consider the risk that UFBA may be “double-dipping” by recovering more than they should from the Brigades that buy these awards from UFBA.</p>	<p>FENZ funding grants to UFBA cover 50% of the cost of 25 and 50 year service honours medals up to a capped annual budget. FENZ provides separate funding to Brigades, part of which they use to purchase 25 and 50 year medals from the UFBA. FENZ's expectation is that the Brigades will only be charged the remaining 50% of medal costs.</p> <p>We were told by the UFBA Accountant that Brigades only pay the 50% balance of the cost of 25 and 50 year medals, plus a profit margin that UFBA adds.</p> <p>Based on the five randomly selected invoices issued to the Brigades that we reviewed, we noted that UFBA typically adds a 25% margin to the cost of the medals (we were informed this is to cover shipping fees and handling) and then sells them at 50% of the total marked up cost to the Brigades (i.e this results in an effective profit margin of 12.5%).</p> <p>We note that it is indicated on the UFBA invoices to the Brigades that they are being charged 50% of the (marked up) cost of the unit.</p>	<p>Based on our procedures and consideration of UFBA's financial records and review of selected expenditures, we found no evidence that UFBA is double recovering on the costs of 25 and 50 year medals.</p>
<p>We enquired into the controls exercised by FENZ over expenses related to the new Tāngata Matatau organisation, and whether these controls supported separation of costs from FENZ funded expenditure.</p>	<p>UFBA showed us the processes that they follow to ensure all expenses related to Tāngata Matatau are recorded separately from normal operating expenditures and excluded from the UFBA's monthly operating cost invoices to FENZ. We examined UFBA's relevant invoice reconciliations noting that expenses for Tāngata Matatau were excluded from FENZ invoices.</p>	<p>Based on our assessment of the UFBA's financial records and review of selected expenditures, we found no evidence of FENZ funding being used for Tāngata Matatau related expenditures.</p>

Detailed observations

Phase 1 - Assess the UFBA's processes for managing the use of FENZ funding

2. Seek information from UFBA to explain (a) where the increase in their accumulated funds arose from, and (b) to understand how UFBA systems can track under spending of FENZ funding → The purpose of this was to enable FENZ to consider the level of confidence they have that their funding had been appropriately applied to the correct services, or to indicate potential areas where they June have provided funding in excess of UFBA's requirements.

A. Analysis of increase in accumulated funds

What we did

In December 2019 the FENZ Board requested details from UFBA explaining where the Association's 2018/19 funding surplus of \$637,630 had originated. UFBA's response did not provide a satisfactory level of detail for FENZ to conclude on this matter.

We subsequently obtained UFBA's Audited Annual Financial Statements for the last five years and extracted from these the UFBA's total revenues and expenditures.

From these balances we separated out what is funded and paid for by FENZ, and what is attributable to the UFBA's non-FENZ funded activities (this is based on year end trial balances from UFBA's accounting system).

This extract and analysis is displayed opposite.

Please note, we have not completed a separate audit or other investigation of UFBA's financial statements, or trial balances.

What we observed

The table below provides a high level summary of UFBA's profit and loss statements over the previous five financial years. These summarised balances have been taken from the Audited Annual Financial Statements published in the UFBA's Annual Reports.

	Notes	2019-2020	2018-2019	2017-2018	2016-2017	2015-2016
TOTAL FENZ Funding		3,488,238	4,350,419	3,675,000	2,595,000	2,573,000
TOTAL FENZ Funded Expenses	1	3,887,827	4,159,534	3,819,802	3,169,360	3,010,591
TOTAL surplus/ (shortfall) FENZ funding	A	(399,589)	190,885	(144,802)	(574,360)	(437,591)
TOTAL UFBA Funding	1	879,839	980,459	821,537	1,076,537	957,714
Total UFBA funded Expenses		484,655	533,714	472,383	473,398	449,780
TOTAL UFBA funding surplus/ (deficit)	B	395,184	446,745	349,154	603,139	507,934
Annual Surplus/(Deficit) (UFBA Annual Financial Statements)	A+B	(4,405)	637,630	204,352	28,779	70,343
Accumulated Surplus (UFBA Audited Annual Financial Statements)		1,601,307	1,605,712	968,082	763,730	734,951

Note 1. Adjusted to net-off Conference and Event Levy income, AFFCO donations, Brigades' Xero subscriptions

Detailed observations

Phase 1 - Assess the UFBA's processes for managing the use of FENZ funding

2. Seek information from UFBA to explain **(a)** where the increase in their accumulated funds arose from, and **(b)** to understand how UFBA systems can track under spending of FENZ funding → The purpose of this was to enable FENZ to consider the level of confidence they have that their funding had been appropriately applied to the correct services, or to indicate potential areas where they may have provided funding in excess of UFBA's requirements.

A. Analysis of increase in accumulated funds (cont.)

What we observed	What this means for FENZ
<p>Key Observations</p> <ul style="list-style-type: none">• UFBA's audited financial statements indicate surpluses have been developed over four of the last five years.• There appears to have been some underspend of FENZ funding in the 2018/19 year although other years all show significant shortfalls that required UFBA funding sources to pay for operating costs that FENZ funding had not covered.• Our examination of the UFBA's Xero system trial balances for 2019 and 2020 show that the UFBA's own revenues come predominantly (90% in 2019 and 97% in 2020) from annual membership subscriptions from Brigades, and merchandise and service honours sales to Brigades. Other smaller sources of revenue are donations and interest.• UFBA also receives income from levies/fees from attendees at challenge events and the annual conference, but this income is largely offset against the costs of these events and the net cost is what the UFBA recovers from FENZ in the funding grants.• We note that the model for paying FENZ funding grants to the UFBA changed in 2019/20 to a model where UFBA is paid monthly in arrears for actual costs incurred each month. UFBA invoices FENZ monthly for the three FENZ grants, with supporting evidence for the costs claimed.	<p>The change made by FENZ in 2019/20 to fund UFBA monthly in arrears on actual invoiced costs improves FENZ's oversight over the UFBA's use of the FENZ funding. However, the monthly UFBA invoices to FENZ would be more beneficial to FENZ if they provided greater detail of what specific expenditure items are included. The UFBA Accountant indicated to us that UFBA is willing to provide FENZ with additional detail as may be required.</p> <p>In parallel with the change in the funding model, FENZ has changed its UFBA Performance Monitoring Framework to require UFBA to report on its expenditure against the annually agreed funding grant budgets.</p>

Detailed observations

Phase 1 - Assess the UFBA's processes for managing the use of FENZ funding

2. Seek information from UFBA to explain **(a)** where the increase in their accumulated funds arose from, and **(b)** to understand how UFBA systems can track under spending of FENZ funding →The purpose of this was to enable FENZ to consider the level of confidence they have that their funding had been appropriately applied to the correct services, or to indicate potential areas where they may have provided funding in excess of UFBA's requirements.

B. How do UFBA systems track under spending of FENZ funding?

What we did	What we observed	What this means for FENZ
<p>We undertook this as part of our exploration of the controls exercised by the UFBA to track its spending against the three main FENZ funding streams.</p>	<p>As already recorded above in Phase 1.1, we were shown how the Xero monthly trial balance allocates expenditure in accounts across the main FENZ funding streams. The total costs for each of these streams is what is invoiced to FENZ in the UFBA's individual invoices for these streams each month.</p>	<p>Because the model for FENZ grant payments to the UFBA changed in 2019/20 to an arrears payment of actual costs incurred in the prior month, the question of how UFBA tracks underspending of FENZ funds has reduced in risk for FENZ.</p>

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Detailed Findings Phase 2

Detailed observations

Phase 2 - A forensic review of relevant transactions

3. Obtain and analyse UFBA's expenditure from the period 1 July 2018 to 31 March 2021.
 - The purpose of this was to analyse the data for trends, and any potential abnormalities and outliers, so that we could then select a risk-based sample of 30 transactions for further analysis back to supporting documentation.

What we did	What we observed	What this means for FENZ
<p>We were granted unrestricted, read-only access to the UFBA's Xero accounting system. Based on Xero and our discussions with [REDACTED], we reviewed and sought to understand the general trends in individual operating expense accounts with the focus on FY19, FY20 and YTD 31 March 2021.</p>	<p>Overall, we have noted the upward movements in the following accounts:</p> <ul style="list-style-type: none"> ● Personnel and Entitlements as additional personnel were hired during the period (e.g. [REDACTED]). ● Professional Fees, Contractors and Consultants (taken together as these accounts are sometimes used interchangeably in Xero by UFBA) costs due to: <ul style="list-style-type: none"> ○ a contractor stepping in for Bill Butzbach, CEO, who stood aside in 2020 during an external inquiry conducted at UFBA ("external inquiry"); ○ legal fees in respect to the external inquiry; ○ a software developer contracted to build a new UFBA membership database; ○ FRFANZ merger consulting; and ○ Gateway/Out of School Project consulting. ● Communications expenses for the production of professional videos primarily to promote the FRFANZ merger. <p>We noted the following downward movements, which appear to be mostly due to the disruption caused by the ongoing COVID-19 pandemic:</p> <ul style="list-style-type: none"> ● International airfares and accommodation; ● Domestic airfares and accommodation; and ● Catering. <p>Overall, at the operating expenses level the account movements appear consistent with our understanding of the UFBA's business and recent developments affecting UFBA including ongoing pandemic and external inquiry.</p>	<p>We performed our trend analysis to obtain a further understanding of UFBA's business and as a precursor to selecting a relevant sample for review - please refer to the next page for the discussion of our sample review.</p>

Detailed observations

Phase 2 - A forensic review of relevant transactions

4. Obtain and review supporting documentation for the sample of transactions
→ The purpose of this was to ascertain whether there was documented evidence supporting that the sample of expenses was incurred in accordance with the FENZ funding requirements

What we did	What we observed	What this means for FENZ
<p>Based on our trend analysis, we judgmentally selected 30 operating expenses from Xero for a further review primarily focussing on expense accounts with observed movements. Our sample spanned FY19, FY20 and YTD 31 March 2021.</p> <p>We examined supporting documentation stored in Xero for each sample and obtained understanding and context of each expenditure via discussions with [REDACTED]. This included obtaining further documents from [REDACTED], supplementing the documentary support for a given expenditure, if stored outside Xero.</p> <p>We requested [REDACTED] to confirm which expenditures UFBA sought reimbursement for from FENZ. Where the expenditure reimbursement was not sought from FENZ, we obtained evidence of the expenditure being paid by UFBA from [REDACTED] in the form of invoice reconciliations, payroll deduction screenshots and any other relevant documentation.</p> <p>Where the expenditure reimbursement was obtained from FENZ, we sought to establish whether the expenditure was “fair and reasonable”. We note that “fair and reasonable” is an undefined concept in the TASA. In our assessment of “fair and reasonable”, we considered how a reasonable person acquainted with the facts surrounding the expenditure would perceive it. In doing so we also had regard to UFBA’s Travel, Procurement, and Business Expenditure policies and the Association’s stated purpose of “<i>advocating for volunteerism, building positive cultural change and bringing brigades together</i>”.</p>	<p>Based on our work performed, for each of the samples examined, the supporting documentation matched the nature of the expenditure recorded.</p> <p>In summary:</p> <ul style="list-style-type: none">• 15 transactions were covered by FENZ funds and we determined them to be “fair and reasonable”;• 12 transactions were paid from non-FENZ funds including Tāngata Matatau related expenditures, which had been flagged and tracked in Xero with a “Peak20/21” sub-ledger tag (except for one miscoded item of minor value with no financial impact to FENZ); and• for three transactions, we identified that the expenditure may not clearly meet FENZ’s expectations of “fair and reasonable”. We recommend that FENZ review these transactions and make a determination of appropriateness (see transactions 8,11 and 25 on the following pages). <p>Overall, we noted a good standard of record-keeping. We were told by [REDACTED] that he largely inherited the record-keeping system of coding items into specific sub-ledgers from his immediate predecessor, a former management accountant at FENZ. [REDACTED] has kept this system in place and and has not significantly changed it.</p> <p>Please refer to pages 16 to 18 for details of our sample review.</p>	<p>FENZ should define and/or give examples to UFBA of what it understands to constitute “fair and reasonable” expenditures. Any such definition and/or examples should have regard to UFBA’s stated purpose and its business activities.</p> <p>To obtain further visibility into UFBA’s expenditures, FENZ could request more detailed monthly invoices from UFBA. Such details may include individual expenditures grouped by expense categories (e.g. Airfare, Personnel, etc.) or simply a listing of every single expenditure for which UFBA is seeking a reimbursement (although we note that, based on our review of Xero, in any given month UFBA will have a significant number of such individual operating expenses, usually in hundreds).</p> <p>Alternatively or in addition to the above measures, FENZ could conduct an ongoing monitoring of UFBA spending by requesting on a periodic basis that the Association provides further details to FENZ for a selected sample of expenditures (if feasible).</p>

Sample Transactions Review Details

The table below summarises our findings in respect of review of a sample of UFBA's operating expenditures.

#	Transaction Details as Taken from Xero							Supporting document(s) sighted (e.g. invoice, emails, expense claims)	Expenditure reimbursement sought from FENZ?	Does the expenditure appear to be "fair and reasonable"?	Notes
	Date	Account Item	Source	Description	Paid To	Sub ledger	Amount (excl GST)				
[Redacted content]											

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Sample Transactions Review Details (continued)

The table below summarises our findings in respect of review of sample of UFBA's operating expenditures.

#	Xero Transaction Information							Supporting document(s) sighted (e.g. invoice, emails, expense claims)	Expenditure reimbursement sought from FENZ?	Does the expenditure appear to be "fair and reasonable"?	Notes
	Date	Account Item	Source	Description	Paid To	Sub ledger	Amount (excl GST)				
[Redacted content]											

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Sample Transactions Review Details (continued)

Notes:	
A1	We were told by ██████████, and it is recorded in the UFBA's 2019/2020 Business Plan, that FENZ agreed to fund \$80k of FRFANZ merger-related expenditure during the year. We note that by the time of this expenditure the merger related expenses exceeded \$80k with UFBA having to cover the excess from its own funds.
A2	This expenditure was incorrectly coded with the "Merg19/20" sub-ledger - the expenditure was Tāngata Matatau related and should have been coded in "Peak20/21" subledger. As noted in A1 above, the expenditure was covered with the UFBA funds, as by that time the merger related expenses exceeded \$80k.
A3	We were told by ██████████ that UFBA was granted additional \$40k budget by FENZ for the purpose of amalgamating UFBA/FRFANZ awards. The expenditure was accordingly invoiced to FENZ.
B	We were told by ██████████ that UFBA purchased Skechers® shoes for the seven staff members, who were asked to attend a conference organised by UFBA during a weekend. The staff were expected to walk in excess of 10km during the conference and the new shoes were purchased for "health and safety reasons". The staff were not paid for attending the conference and were allowed to keep the shoes following the conclusion of the conference. While it appears that on the balance the expenditure may be considered "fair and reasonable", we suggest that FENZ makes its own determination as to whether this expenditure is "fair and reasonable".
C	This expenditure was to pay for the UFBA's Board of Directors accommodation at the InterContinental Hotel during the Annual Conference and AGM ("AGM") held in November 2020. The accommodation cost was \$245 (GST exclusive) per night. We note that UFBA's travel policy records that "Accommodation will be cost effective, accounting for the geographic location of the accommodation relative to where staff are working, the standard of the accommodation and safety and security issues". In our view, while the accommodation was not the most economical available, it may have been considered as a "fair and reasonable" expenditure given the policy requirements in respect to the geography, level of accommodation, safety and security. We suggest that FENZ makes its own determination as to whether this expenditure is "fair and reasonable".
D1	We were told by ██████████ that this expenditure was for the UFBA Chairman to travel to Germany with senior FENZ staff at the FENZ's request. The travel was eventually cancelled due to the pandemic. UFBA was subsequently fully reimbursed for this expenditure with the offsetting credit booked against operating expenses in May 2020.
D2	As D1 above, except that UFBA was subsequently reimbursed ~95% of this expenditure with the offsetting credit entry booked in July 2020.

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Appendix Approach

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Our approach to delivery

We used a phased approach for delivery

The three phases of work to deliver this internal audit were:

- Mobilise and define
- Review and analysis
- Provide progress updates
- Report

Analysis and recommendations

When conducting our assessment and building our recommendations we followed a two stage approach.

Stage 1: We read all of the background documentation supplied to us by FENZ and UFBA. We made enquiries with FENZ and UFBA personnel on controls, processes and accounting records employed by both parties. This was aimed at giving us an understanding of how both FENZ and UFBA manage the funding grants.

We undertook an analysis of UFBA annual Audited Financial Statements for the purpose of analysing the sources of the UFBA's revenues, and to answer the question of where UFBA annual surpluses have originated.

Stage 2: We engaged in interviews with UFBA Accountant and were provided with unrestricted, read-only access to the Xero financial records. This enabled us to conduct a review of the selected sample of UFBA's expenditures and to make an assessment of the 'fairness and reasonableness' of these expenditures. We sought to confirm that FENZ is only funding expenditures that are in accordance with the TASA agreement, and that FENZ is not paying any establishment costs for the new Tāngata Matatau entity.

