



Natural
Resources
Commission

Audit framework for water
management plan audits under
Section 44 of the Water Management
Act 2000

August 2020

Enquiries

Enquiries about this report should be directed to:

Name	Marguerite Collins
Phone	(02) 9228 4844
Fax	(02) 9228 4970
E-Mail	nrc@nrc.nsw.gov.au
Postal address	GPO Box 5341, Sydney NSW 2001

Acknowledgement of Country

The Natural Resources Commission acknowledges and pays respect to traditional owners and Aboriginal peoples. The Commission recognises and acknowledges that traditional owners have a deep cultural, social, environmental, spiritual and economic connection to their lands and waters. We value and respect their knowledge in natural resource management and the contributions of many generations, including Elders, to this understanding and connection.

List of acronyms

ASAE	Australian Standards on Assurance Engagements
AUASB	Australian Auditing and Assurance Standards Board
DPIE	Department of Planning, Industry and Environment (NSW)
EES	Environment, Energy and Science, a division of DPIE
ICAC	Independent Commission Against Corruption
NRAR	Natural Resources Access Regulator

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1 The Commission's audit role

The Natural Resources Commission (the Commission) has a role under Section 44 of the *Water Management Act 2000* (the Act) to audit water management plans within the first 5 years of the plan for the purpose of ascertaining whether its provisions are being given effect to.

Water management plans include water sharing plans and floodplain management plans made under the Act.

The Commission's role commenced from 1 December 2018 under changes to the Act. The Commission is therefore responsible for audits of all plans that reach five years since commencement post 1 December 2018. In 2020, the Commission will commence audits of water management plans, including floodplain management plans and water sharing plans.

Prior to this, the Department of Planning, Industry and Environment – Water (DPIE-Water) had the audit responsibility under Section 44 of the Act.

In performing these audits, the Commission will draw and build on experience and knowledge of water management gained through the Commission's other legislative functions.¹ However, this audit role is distinct and separate from other independent work performed by the Commission.

The purpose of this document is to set out the Commission's overall approach to efficiently and effectively perform Section 44 audits of water management plans under the Act.

The Commission expects to review this framework periodically.

¹ The Commission has separate legislative functions under the Act to perform: reviews of water sharing plans under Section 43A prior to each plan's expiry; and a consultation role for reviews of management plans within the first five years of each plan under Section 43.

2 Audit purpose and objectives

The purpose of a water management plan audit is to:

- provide an independent line of evidence that contributes to improved water management
- increase transparency for water users, government and the broader community
- identify areas where water management plans have not been given effect, that is, plan implementation (of specified provisions and parts) has not occurred as stated
- support accountability and promote confidence in water management
- contribute to:
 - achieving the objects of the Act, specifically:

‘to provide for the sustainable and integrated management of the water sources of the State for the benefit of both present and future generations’²

- the NSW Government’s vision for water management in NSW, specifically:

‘for a much more robust, transparent and accountable system that promotes confidence that this precious resource is being managed efficiently, effectively, in accordance with the law and, above all, fairly’.³

The objectives of the audits are to:

- provide audit reports to the Minister responsible for the Act⁴ that express a limited assurance conclusion regarding whether the provisions of the management plans are being given effect to, and describe a basis for these conclusions
- to communicate with auditees and key stakeholders as required by the audit standards and to operate transparently
- to provide recommendations to improve transparency of water management.

² Section 3 of the Act.

³ Parliament of NSW (2018) *Legislative Hansard 06 June 2018, Second reading speech for the Water Management Act Amendment Bill 2018*. Available at: <https://www.parliament.nsw.gov.au/Hansard/Pages/HansardResult.aspx#/docid/'HANSARD-1820781676-76716>.

⁴ The current responsible Minister is the Minister for Water Property and Housing.

3 Audit approach

3.1 Auditing standards

The audits will be conducted in accordance with the standards issued by the Australian Auditing and Assurance Standards Board (AUASB), specifically the following Standards on Assurance Engagements (ASAE):

- ASAE 3000 for *Assurance Engagements other than Audits or Reviews of Historical Financial Information*
- ASAE 3100 for specific *Compliance Assurance Engagements*.

These standards (audit standards) set out how audits should be planned, performed and documented to maintain a high level of confidence in the assurance provided to report users.

These standards require firms and entities applying the audit standards to maintain a system of control to ensure the firm or entity and its personnel comply with the relevant ethical and engagement requirements, and applicable legal and regulatory requirements. These requirements are found in ASQC1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

The Commission has undertaken an assessment of the audit standards and ensured that our approach aligns to these standards. This approach has been peer reviewed and is supported by our audit quality control reviewer.

3.2 Ethics and quality control

3.2.1 Ethics

The audit standards require Commission auditors to comply with all relevant ethical requirements, including those relating to independence, when performing audits.

Broadly auditors are required to display:

- integrity
- objectivity
- professional competence and due care
- confidentiality
- professional behaviour.

Ethics training will be attended by all team members prior to participating in an audit. Further, all team members will maintain this audit training at no more than two yearly intervals. This training will include obligations under the audit standards and the *Code of Ethics and Conduct* for NSW Government sector employees.

Additionally, the Commission's audit team, its reviewers and any contractors will sign a Declaration of Independence and Acknowledgement of Ethical Requirements prior to each audit. This will be completed for each audit or group of audits an individual is involved with. Each signed declaration will be valid for a maximum period of one year.⁵ The declarations will

⁵ In accordance with ASQC1 24.1.

be sent to the lead auditor and any perceived or actual conflicts of interest will be assessed and steps outlined to manage or mitigate the conflict agreed prior to any work.

At the completion of each audit or group of audits (minimum annually) each individual team member, or audit lead on their behalf, is required to confirm in writing compliance with the Declaration of Independence and Acknowledgement of Ethical Requirements.⁶

Any cases of fraud or non-compliance will be taken seriously and standard government protocols will be followed.

3.2.2 Quality control

The Commission will maintain quality assurance and ongoing improvement by:

- working in accordance with the audit standards (see **Section 3.1**)
- using competent, professional auditors (see **Section 6.3**)
- standardised audit documentation and ensuring all key audit decisions and judgements are documented on the audit file
- internal review and approval processes will be undertaken per standard Commission protocol
- transparent communication with auditees and stakeholders (see **Section 6.5**)
- undertaking a monitoring program that will include at a minimum the inspection of one audit annually, by someone suitably qualified that was not involved in undertaking the engagement.⁷ Any issues identified as a result of this monitoring process will be reported to the Director Programs and Executive Director and evaluated to determine if there are:⁸
 - instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with the audit standards, relevant ethical requirements, and applicable legal and regulatory requirements, and that the audit reports are appropriate in the circumstances; or
 - systemic, repetitive or other significant deficiencies that require prompt corrective action;⁹ and
 - appropriate remedial actions will be documented and implemented (for example, changes to procedures, training and development, addressing an issue with an individual)¹⁰
 - external review; external quality control reviewer to provide assurance over the work of the audit team (see **Section 6.7.4**).

Any issues raised by the internal or external reviewers should be addressed by the audit team and actions taken noted.

⁶ In accordance with ASQC1 para 24.1.

⁷ In accordance with ASQC1 para 48.

⁸ In accordance with ASQC1 para 50.

⁹ In accordance with ASQC1 para 49.

¹⁰ In accordance with ASQC1 para 51.

The external quality control reviewer will be selected based on having sufficient and appropriate technical expertise, experience and authority, depending on the circumstances of the engagement. The external quality control reviewer will be selected in accordance with paragraph 49 of the ASQC1 quality control standard and be selected by the audit team. The external quality control reviewer will be required to sign the Declaration of Independence and Acknowledgement of Ethical Requirements at a minimum frequency of annually. Should it become known at any time that a circumstance arises that impairs the objectivity of the external quality control reviewer, a new external quality control reviewer will be sought to perform the work. For the duration of the external quality control reviewer's engagement, they will not:

- participate in the audit during the period of review
- make decisions for the audit team
- be subject to other considerations that would threaten their objectivity.¹¹

3.3 Level of assurance

Under the audit standards there are two levels of assurance: limited and reasonable. The level of assurance that is appropriate is based on audit team professional judgement on what is meaningful to users, the complexity of the subject matter, time, cost and value for money.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

The audits will be limited assurance engagements for the following reasons:

- Limited assurance will provide confidence to users, be meaningful and useful and meet the objective of increasing transparency and accountability for water management.
- The Commission has assessed that the maximum public value initially will be obtained by establishing baseline and identifying key risk areas.
- It would not be feasible to undertake reasonable assurance for all audits in the time and resources available.¹²

There is scope within limited assurance engagements to vary the procedures depending on the level of risk.

In a limited assurance engagement, auditors typically place more emphasis on procedures such as interviews, analytical procedures such as document reviews, observation of functions being performed (also known as 'walk throughs') and some types of sampling.

Typically, they do not include more time or cost-intensive procedures such as extensive sampling, testing of controls or substantive tests (re-performance and recalculation) and other analytical procedures (understanding and comparing movements and trends).

¹¹ In accordance with ASQC1 para A49.

¹² Excerpt from ASAE 3000 A110: 'Factors that may affect the assurance practitioner's selection of procedures include the nature of the underlying subject matter; the level of assurance to be obtained; and the information needs of the intended users and the engaging party, including relevant time and cost constraints.'

Because of the inherent limitations of an assurance engagement and any system of internal control, there is an unavoidable risk that some deficiencies in the compliance framework or deviations in implementation from plan provisions may not be detected, even though the engagement is properly planned and performed in accordance with the audit standards.

In a limited assurance engagement, there is a higher risk than in a reasonable assurance engagement that any material deficiencies in the compliance framework and relevant controls that exist may not be revealed by the engagement, even though the engagement is properly performed in accordance with the audit standards.

The audit cannot therefore be relied on to comprehensively identify all weaknesses, improvements or areas of non-compliance.

4 Scope of audit program

4.1 Plans in scope

The Commission's audit role under Section 44 of the Act is ongoing and will cover all the water management plans in NSW. This includes approximately:

- 58 water sharing plans¹³
- 16 floodplain management plans¹⁴
- any other water management plans (for example drainage management plans) that commence under Part 3 of the Act.

The number of plans may change, as plans are merged and separated from time to time for different reasons. For example, the water resource planning process is currently leading to plan changes.

The Commission will keep up to date with the most recent plan list and any changes in relation to new plans, plan amendments, plan amalgamations, or plan replacements and how this affects scope in relation to plans requiring audit. This should occur through regular contact with DPIE-Water.

Water management plans due for audit will be grouped and audited over a 12-18 month period as part of a rolling audit program. Consultation will be undertaken for each group of audits in order to provide an opportunity for the broader community and plan users to provide any insights or emerging risks for consideration by the audit team during audit scoping. This framework document will also be reviewed at the beginning of a new period and associated project specific documentation developed. A debrief with the auditee and an internal audit debrief will be held to capture lessons learned from their perspective and feed into the review of this framework.

The first group of water sharing plans being audited between January 2020 to June 2021 include:

- 10 historic floodplain management audits by September 2020
- 12 water sharing plan audits and one floodplain management plan audit by June 2021.

Where significant findings are addressed or emerging risks identified across multiple plan areas (or that applies for a subset of plans), the Commission may undertake a themed audit on a particular topic or scope in subsequent audits (where the identified issue is applicable) to strengthen the focus on a particular topic or issue.

Alternatively, should a previously identified issue not be addressed prior to a subsequent affected audit, the audit focus on this topic may be reduced to increase public value by not expending effort to uncover the same information which has a known status.

¹³ Note this number may change after the water resource planning process, which may result in some plans being amalgamated and some being separated out.

¹⁴ This number may change once the Healthy Floodplain Project is complete.

4.2 Audit objective

Each audit will be conducted with the objective of reaching a conclusion on whether the relevant NSW Government agencies have implemented the plans and thereby given effect to the provisions in all material respects as evaluated against set criteria, which will be set out in audit scope documentation. High level criteria are provided in **Section 4.3**.

The audit objective will be achieved through examining these criteria.

4.3 Audit criteria

Audit criteria will be developed based on plan provisions and the legislative criteria that requires an audit to determine whether the provisions of the plans are being given effect to.

Generic audit criteria have been developed (see below) for each management plan type and these will be tailored specifically to each management plan.

The generic criteria will be presented in the audit scopes for each group of audits and further refined if needed in individual audit plans.

Audit criteria should be relevant, complete, reliable, useful, neutral, clear and comparable.

Sub-criteria will be set up beneath each of these criteria. Specific audit procedures will be set up using a risk-based approach appropriate to a limited assurance audit.

4.3.1 Water sharing plan criteria

The criteria for water sharing plans are likely to include:

- **Criterion 1:** The relevant responsible parties have implemented plan provisions relating to vision, objectives, strategies and performance.
- **Criterion 2:** The relevant responsible parties have implemented the system operation rules as set out in the plan (note that this criterion is only relevant to some plans)¹⁵
- **Criterion 3:** The relevant responsible parties have implemented plan provisions relating to limits to the availability of water, specifically long-term average annual extraction limits
- **Criterion 4:** The relevant responsible parties have implemented plan provisions relating to limits to the availability of water, specifically available water determinations
- **Criterion 5:** The relevant responsible parties have implemented plan provisions relating to granting access licences
- **Criterion 6:** The relevant responsible parties have implemented plan provisions relating to managing access licences
- **Criterion 7:** The relevant responsible parties have implemented plan provisions relating to rules for water supply work approvals

¹⁵ Hunter Regulated River 2016, Macleay Unregulated and Alluvial 2016 and Tuross River Unregulated and Alluvial 2016.

- **Criterion 8:** The relevant responsible parties have implemented plan provisions relating to access licence dealing rules
- **Criterion 9:** The relevant responsible parties have implemented plan provisions relating to mandatory conditions
- **Criterion 10:** The relevant responsible parties have implemented plan provisions relating to amendments (where these are not optional).

The water sharing plan audits will **not**:

- provide an assessment against all provisions in each plan, but will include select priority provisions based on risk
- examine all parts of each water sharing plan, specifically the following parts will not be included in the audit:
 - Introduction (Part 1) - the information contained in this part will be used to provide context for the audit and to inform the examination of the auditable parts.
 - Bulk access regime and environmental water (typically Parts 3 and 4) – this is because provisions within these parts refer to other parts of each water sharing plan. These parts will be examined through the audit procedures relevant to the other operative plan parts.
 - Requirements for water (typically Part 5) – this part details the estimated share components for each licence category at the commencement of each plan and does not have any auditable provisions.
- provide an opinion regarding compliance of holders of water access licences, works approvals or any other regulatory instruments issued under the Act
- provide an opinion as to whether the plans are being implemented efficiently, or whether they are achieving environmental, social, or economic outcomes, stated visions, objectives or performance indicators
- provide an opinion as to whether the plan provisions are effective, appropriate or in line with the Act or other relevant legislation.

4.3.2 Historic floodplain management plans criteria

The criteria for historic floodplain management plans are likely to include:

- **Criterion 1:** The relevant responsible parties have implemented plan provisions relating to assessment of flood work approval applications.
- **Criterion 2:** The relevant responsible parties have implemented plan provisions in relation to modifications of existing works.
- **Criterion 3:** The relevant responsible parties have implemented plan provisions in relation to performance indicators.
- **Criterion 4:** The relevant responsible parties have implemented plan provisions in relation to flood monitoring (as relevant to each plan).
- **Criterion 5:** The relevant responsible parties have implemented plan provisions in relation to environmental monitoring (as relevant to each plan).
- **Criterion 6:** The relevant responsible parties have implemented plan provisions in relation to plan review (as relevant to each plan).

The historic floodplain management plan audits will **not**:

- provide an assessment against all provisions in each plan, but will include select priority provisions based on risk
- examine all parts of each historic floodplain management plan
- provide an opinion regarding compliance of holders of flood work approvals or any other regulatory instruments
- provide an opinion as to whether the plans are being implemented efficiently, or whether they are achieving environmental, social, or economic outcomes, stated visions, objectives or performance indicators
- provide an audit opinion as to whether the plan provisions are effective, appropriate or in line with the Act or other relevant legislation¹⁶
- examine approvals in relation to the *Environmental Planning and Assessment Act 1979* that are not related to the objects, principles, core and additional floodplain management plan provisions
- examine any activity pre-September 2015, except where there is explicit mention of an activity. For example, required modifications will be examined to determine if there are:
 - outstanding determinations or implementations
 - associated ongoing compliance and monitoring activities.

¹⁶ The Commission may choose to comment on adequacy of provisions in so far as they relate to the ability of an auditee to implement a management plan. However, the Commission will not provide an official audit opinion on the provisions as this type of opinion relates to sections 43 and 43A in the Act.

4.3.3 Healthy floodplain management plans

The criteria for the healthy floodplain management plans are yet to be determined.

4.4 Audit criteria considerations

Some factors will command less attention than others in our audits. For example, prolonged drought and extensive bushfires or flooding pose significant external risks to the implementation of water management plans. However, such factors are externalities. They are auditable only to the extent that the water management plan requires the agencies responsible for implementation to recognise the risk of such events arising and to manage and mitigate that risk appropriately.

For our audit purposes, the most important areas are those that are required under each plan, pose significant risk and that are within the direct control of the implementing agencies.

4.5 Auditing period

The audit team will consider evidence over the assessment period which is from plan commencement through to the date of receipt of agency comments on the draft report.

5 Key stakeholders

Key stakeholders include:

- the Minister (primary stakeholder)
- entities responsible for implementing water management plans (secondary stakeholders).

5.1 Auditees and their roles

The key entities responsible for implementing water management plans in NSW are NRAR, DPIE-Water, and WaterNSW. The audit focus for each entity will be limited to their role and responsibilities for implementing the plan.

The water management role for these responsible entities is set out below:

- **DPIE-Water** – the lead agency responsible for water resource management in NSW. The Lands and Water Division prepares and administers legislation, NSW policy and water management planning products, including water management plans, acting as delegate for the Minister, under the Act.
- **NRAR** – responsible for compliance and enforcement of water laws in NSW.¹⁷ NRAR's principle objectives are:
 - *(a) to ensure effective, efficient, transparent and accountable compliance and enforcement measures for the natural resources management legislation*
 - *(b) to maintain public confidence in the enforcement of the natural resources management legislation.*¹⁸
- **WaterNSW** – a state-owned corporation, established under the *Water NSW Act 2014*. It which operates as a bulk water supplier and system operator, carrying out water infrastructure planning, delivery and operation, as well as providing water transaction and information services to customers for water licensing and approvals.¹⁹ Its principle objectives are:
 - *(a) to capture, store and release water in an efficient, effective, safe and financially responsible manner*
 - *(b) to supply water in compliance with appropriate standards of quality*
 - *(c) to ensure that declared catchment areas and water management works in such areas are managed and protected so as to promote water quality, the protection of public health and public safety, and the protection of the environment*
 - *(d) to provide for the planning, design, modelling and construction of water storages and other water management works*
 - *(e) to maintain and operate the works of WaterNSW efficiently and economically and in accordance with sound commercial principles.*²⁰

¹⁷ NSW Government (n.d.) *Natural Resources Access Regulator*. Available at: <https://www.industry.nsw.gov.au/natural-resources-access-regulator/about-nrar/who-we-are>.

¹⁸ Section 10 of the *Natural Resources Access Regulator Act 2017*.

¹⁹ WaterNSW (n.d) *What we do*. Available at: <https://www.waternsw.com.au/about/what-we-do>.

²⁰ Section 6 of the *Water NSW Act 2014*.

5.2 Other auditees and stakeholders providing input

The Commission may seek input from key stakeholders, such as those with knowledge of the plan implementation, or with a high involvement in using the plan. This additional evidence may support investigation into an aspect of the audit scope rather than to measure and report compliance of a particular individual licensee.

Stakeholders with knowledge of the plans may include:

- DPIE - Environment, Energy and Science (DPIE-EES), for example, in relation to environmental assets, environmental monitoring or their involvement in developing floodplain management plans
- the Murray Darling Basin Authority in relation to their role in compliance and enforcement (and their memorandum of understanding with NRAR) regarding plans situated in the plans Murray Darling Basin.

Stakeholders with an implementation role may include for example councils in some plan areas responsible for operating dams.

6 Conducting audits

The Commission will adopt common practices and principles in all its audits. Those practices and principles apply to the way the Commission will schedule, and plan audits, establish audit teams, perform audit work, and communicate audit findings.

Figure 1 below depicts the audit process stages and steps, identifying the required documentation that accompanies each step.

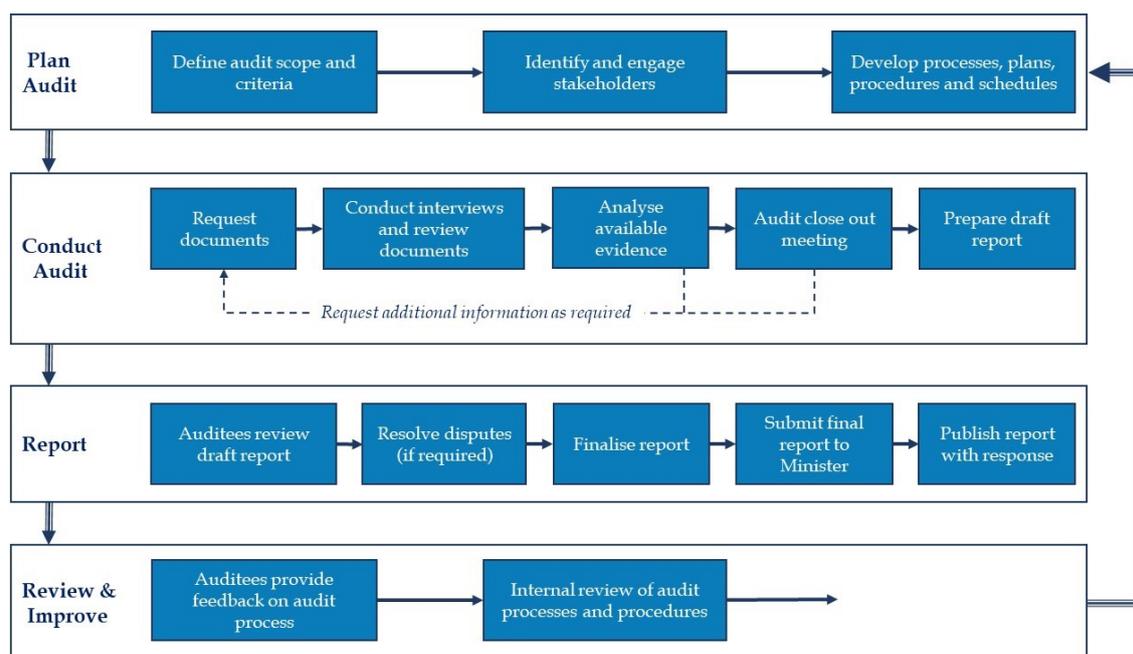


Figure 1: Stages and steps in the audit process

6.1 Risk based approach

The Commission will develop a risk-based audit plan for each water management plan, which will consider:

- plan type (for example, regulated, unregulated, groundwater plans and floodplain management plans)
- plan geographic location
- plan specific issues, engagement and subject matter risks
- level of assurance²¹
- audit conduct, including audit roles and responsibilities, timing, procedures and audit reporting.

²¹ In the first instance, all reviews will be limited assurance. However, there is a range of procedures that can be performed between achieving limited assurance and achieving minimum reasonable assurance. The type of procedures performed to achieve limited assurance may vary depending on the risk of each water management plan being audited.

6.1.1 Project risks

Project risks include engagement and delivery risks that relate to the ability of the Commission to complete the audit.

Project risks will be identified primarily by the audit team and Director Programs and approved within the project charter by the Commission.

These risks and agreed mitigations will be outlined in the project charter for each group of water management plans and approved by the Commission. The project charter will be updated by the project team with any emerging risks. Any significant changes will be approved by the Commission, other changes will be approved by the Executive Director.

6.1.2 Subject matter risks

Subject matter risks relate to where auditor opinion may be misstated due to not having adequate (sufficient or appropriate) evidence. As complexity increases, further audit procedures may be required to mitigate this risk.

For each group of audits, subject matter and engagement risks will typically be identified the following ways:

- An internal risk workshop, which may include external experts as required. Broader risks that may relate to the group of audits or program as a whole will be identified through the Commission's broader involvement in water management
- Stakeholder engagement (see **Section 6.5**) – auditees will be asked for any risk assessments they would like the Commission to consider in scoping the audits.
- The Commission's engagement with the Audit Process Stakeholder Group (see **Section 6.5.2**), which will inform progress monitoring of implementation of actions to address findings and recommendations made in previous audits. This channel will be used to identify emerging risks.

This risk-based approach is used to inform the set of provisions to be audited and the nature, timing and extent of evidence-gathering procedures. This means that the provisions will be selected based on materiality and impact to ensure focus is on areas of possible poor performance and high impact.

6.2 Individual water management plan audit plans

Taking a risk-based approach, individual audit plans will outline the audit procedures including sampling approach and interview guides tailored to each water management plan.

These audit plans will consider specific issues, risks and provisions and the risk assessment relevant to each plan.

In general, selection of provisions may consider:

- auditability
- materiality (of provision to plan implementation but also of the social, economic and environmental values in the plan area)
- known or likely gaps in performance (considering previous audit findings)

- remoteness or risk of undetected non-compliance
- degree of interest (from stakeholders, community, regulators, media, Minister)
- potential for mis-management (for example, potential for individual benefit)
- level of resourcing within water sharing plan areas
- focus (or lack of focus) in past audits.

Individual audit planning will include a variety of documents to guide the audit team, to maintain quality and focus throughout the audit and to provide transparency to the auditee.

Individual audit plans provided to the auditees will comprise:

- audit objectives and criteria for assessing the implementation of plan provisions
- audit focus and scope (including interviewees, audit schedule, processes and systems likely to be the focus of the audit work, types of audit activities to be undertaken)
- expected timing and duration of field work
- audit team composition and resource requirements
- types, timing and extent of evidence gathering for the audit
- mechanisms for communication between the audit team and entities being audited
- expected timing of audit closeout meeting and issue of the draft report.

Before each audit commences, the Commission will discuss the audit project plan with auditees, to confirm auditability and clarify other issues.

In addition to the individual audit plan, internal documents will be created to support each individual audit. These will comprise an:

- individual audit scope
- audit test program
- audit working papers.
- interview guide (transcripts will be created using these guides and stored as evidence).

6.3 Establishing audit teams

Audit teams may include Commission staff, audit experts and technical experts as required.

To achieve an effective and efficient audit program, an audit team with good knowledge of the subject matter and audit process is desirable. The Commission will manage any familiarity threat that may emerge during the course of undertaking this work.²² Management strategies may include rotating Commission staff into the Section 44 audit team. This may allow the Commission to manage peaks, share knowledge and develop skills of Commission staff.

²² ASCQ1 para 25.1a discusses the familiarity threat whereby audit partner/quality review and audit lead rotation is the safeguard applied.

Each audit will be assigned an audit lead, who will be responsible for all aspects of the audit and ensuring that the audit is conducted in accordance with the audit standards and that the audit objective is achieved.

The audit lead and Director Programs will ensure that adequate audit team supervision will be in place to perform the following:²³

- tracking the progress of the engagement
- considering the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement
- addressing significant matters arising during the engagement, considering their significance and modifying the planned approach appropriately
- identifying matters for consultation or consideration by more experienced engagement team members during the engagement
- reviewing the work of the audit team to ensure the work performed supports the conclusions reached and appropriately documented.

Audit team members will:

- engage only in those services for which they have the necessary knowledge, skills, and experience
 - should they not feel comfortable they should raise this with the lead auditor or Director Programs, escalation should occur via the Executive Director as the materiality of the issue increases
 - should the lead auditor not feel comfortable in a staff member's role in an audit they should raise this with Director-Programs
- continually improve their proficiency and the effectiveness and quality of their services
 - audit team members will be trained in lead auditor training for management systems at a minimum
 - development plans will reflect a team member's ongoing professional development requirements.

6.4 Gathering evidence

How much verification of audit evidence is needed will be a matter for the audit team's professional judgement and will depend partly on the sources and types of available information. To reduce duplication of effort we will draw on existing data sources where possible. A brief summary of evidence types and associated verification techniques is provided in **Table 1**.

Types of evidence might include but not be limited to overarching frameworks (or framework elements such as procedures, guidelines, manuals, policies) that may cover roles and responsibilities, Quality Assurance/Quality Control systems, risk management, data collection

²³ In accordance with ASQC1 A34.

and analysis, verification and management, modelling Quality Assurance, business plans, account management, regular reporting, performance monitoring.

Audit procedures may include:

- document review (either written documents or numerical data) including overarching frameworks, procedures, guidelines, manuals, policies and reporting.
- interviews with process owners, implementors and users including the DPIE-Water, NRAR, and WaterNSW
- interviews with other stakeholders that may include DPIE-EES, licensees, if named specifically in the plan, or other groups involved in implementation such as stakeholder advisory panels or water user associations
- walk throughs of material activities (may include systems and processes with system implementors, owners or users)
- observations of material activities in operation
- sampling (where a large amount of data exists, either stratified, random, professional judgement, systematic).

These procedures will be carried out on a test basis to provide sufficient appropriate evidence on which to base a conclusion.

The Commission may also perform additional procedures if we become aware of matters that may cause deficiencies in controls.

The mix of procedures in an audit will depend on the nature of the management plan being audited and the level of risk to the implementation of that management plan.

Interviews with auditees will be guided by the interview guide and a separate transcript will be saved for each interview. Auditees will be advised that all interviews will be documented, however all findings and observations will be reported at the organisation level, no individuals will be identified.

Table 1: Evidence gathering

Type of evidence	Verification technique
Physical	Captured by camera, or screen shot
Oral	Interviewee confirms in writing the facts of the discussion Several sources verify facts and evidence
Documents	Documentary evidence is obtained from more than one source Final version and has appropriate approvals and sign-off Facts set out in document are tested Internal controls tested or electronic documents validated and verified Adherence to procedures or plans are tested to determine that they are followed in practice
Internally generated reports	Standard system report, custom report, samples of data tested for accuracy, completeness, validity

6.5 Process for engagement

The following sets out the process for engagement for each stakeholder group for each group of audits. To support this process, all stakeholders, their role, their role in the audit, and their contact details should be recorded in a stakeholder spreadsheet. This should be kept up to date.

6.5.1 Minister

A letter will be sent to the Minister to communicate the audit commencement for each group of water management plan audits.

6.5.2 Auditees responsible for implementation

Initial engagement with an organisation

Executive level agency representatives responsible for plan implementation will be issued a terms of engagement letter. The purpose of this letter is to:

- nominate agency contacts (one responsible for audit coordination and the other for involvement in the Audit Process Stakeholder Group)
- communicate audit objective, high level criteria, audit timeframe and process in accordance with the audit standards
- ask whether the auditee has any relevant risk assessments they would like to share to support the scoping process, audit preparation and planning.

The audit team shall not agree to a change in the terms of the engagement where there is no reasonable justification for doing so. If such a change is made, the audit team shall not disregard evidence that was obtained prior to the change.

Given this is a recurring engagement, after the initial group of audits, the Commission will assess whether circumstances require the terms of the engagement to be revised and whether there is a need to remind the engaging party of the existing terms of the engagement. Multiple letters may not be necessary, just an update that provides a list comprising the next water management plans to be audited and noting any changes to established generic criteria.

Audit contacts

- Audit coordinator – a single point of contact with technical knowledge of the implementation of water management processes and procedures will be contacted in the following ways:
 - (ideally) at least two weeks prior (via phone meeting) to:
 - establish audit - time, date and location for the audit (or timetable for audit including several telephone calls)
 - communicate criteria (provision or parts) to be audited, audit procedures
 - identify auditees (data holders, responsible parties)
 - request data (auditees will typically be requested to provide the required evidence to the audit team within one week following a request or meeting and within one month following an initial data request though this may vary depending on individual circumstances)
 - via email as a follow up to this meeting to confirm the above, including a copy of the scope and audit plan
 - through *ad hoc* calls throughout the audit to coordinate the audit stages (documentation review, field work close out meeting, findings review, report issue, debrief).
- **Audit Process Stakeholder Group**
 - This committee comprises one senior management representative per agency responsible for implementing management plans
 - Operates to a Terms of Reference, with a purpose to engage with the Commission on a regular basis (quarterly or six-monthly, as needed) across the ongoing Section 44 audit program, specifically to:
 - coordinate audit planning through discussion of high-level future audit schedule
 - share status of water management plan remakes/amendments/amalgamations/ extensions impacting audit schedules and planning
 - share any high-level changes within the agencies as relevant to water management plan implementation and discuss potential impacts for the audit process
 - share status of new policy and policy under development that is relevant to water management plan implementation

- share feedback from an agency perspective on the Commission's audit processes, including engagement, to support continual improvement, and an efficient and effective audit process for all involved
- share status of upcoming regulation relevant to water management plan implementation
- discuss status of implementation of recommendations from previous audits.

Key engagement points with the auditee

- **Emerging issues post doc review** – In the spirit of the ‘no surprises’ approach, at the completion of the document review, there should be a call with the audit coordinator to provide a preliminary briefing on any emerging issues to date, areas where there are information gaps, areas of focus for the next stage of audit (field work). This conversation is undertaken on a without prejudice basis. There will be no mention of ‘findings’, only emerging issues. The Executive Director is to be briefed prior to these meetings as to any content to be shared with the auditee. The Executive Director is to be invited to these meetings and may attend.
- **Field work** – Site visits will vary depending on the purpose of the field work, the location of the auditees in relation to each other. Some interviews and system walk throughs may be conducted remotely. This work will be planned for using a tailored audit test program and interview guide and documented using an audit working paper and interview transcripts for each management plan.
- **Close out meeting** – Will be held as soon as practicable after the of the audit and major emerging issues (potential findings) will be presented back to key interviewees, audit contact and governance personnel. The Executive Director is to be briefed prior to these meetings as to any content to be shared with the auditee. The Executive Director is to be invited to these meetings and may attend. Ideally the recommendations are also presented at this meeting to:
 - test the reasonableness of the proposed recommendations
 - increase the likelihood of future action by the auditee
- **Draft report review by auditee** – A draft report (approved by Executive Director and Commissioner) will be sent to audit contact for circulation for comment on accuracy and completeness. A call to the auditee (and other personnel interested) will be made to go through key findings at this point. A period of typically between two and four weeks will be provided for auditee feedback. Ensure that the audit coordinator is aware that there will be one draft report for comment and one round of comments. Unique circumstances aside, if no comment is received, the Commission will consider that the findings are accurate and proceed to finalising the report. The draft report sent to agencies is to be saved as a rendition in the Commission’s record management system.
- **Addressing auditee comments** - All comments received from auditees will be consolidated into one version of the report and comments addressed either in text or via a comment box before a comment is resolved. This keeps a record of how all comments were addressed or considered. A version of how these were addressed (post approval from Executive Director and Commissioner) is to be saved as a rendition in the Commission’s record management system. Any areas that need clarification should be resolved via a discussion with the auditee organisation.

- **Areas of dispute** – Areas of disagreement will be resolved between the audit lead and the audit contact, depending on the materiality of the dispute. The next level of resolution is between the Executive Director and his or her equivalent in auditee agencies. The Commission should resolve issues of dispute relating to fact. Disputes relating to recommendations may be more common, but not ideal. Ideally the Commission should work through the audit contact to increase the likelihood that recommendations are realistic and that there is buy-in for recommendations, to achieve value from the audit activity. Any areas of outstanding dispute should be brought to the attention of the Executive Director and Commissioner and a record kept of a formal sign off.
- **Report is then finalised** – Copy of final report (approved by Executive Director and Commissioner) will be sent to audit contact at the same time the report is sent to the Minister cc Minister for Energy and Environment. A rendition of final report sent to the Minister is to be saved in the Commission’s record management system. The management response to the audit from each audited agency (including any unresolved disputes) will be published on the Commission’s website together with the audit reports.
- **Audit debrief** - A discussion with auditees should be held at the completion of each group of audits to capture lessons learned and understand auditee experiences. The purpose of this discussion is for the Commission to take on feedback to improve the audit process and to feed into a review of this framework prior to subsequent audits commencing.

Figure 2 shows the relationship between the Commission and its key stakeholders.

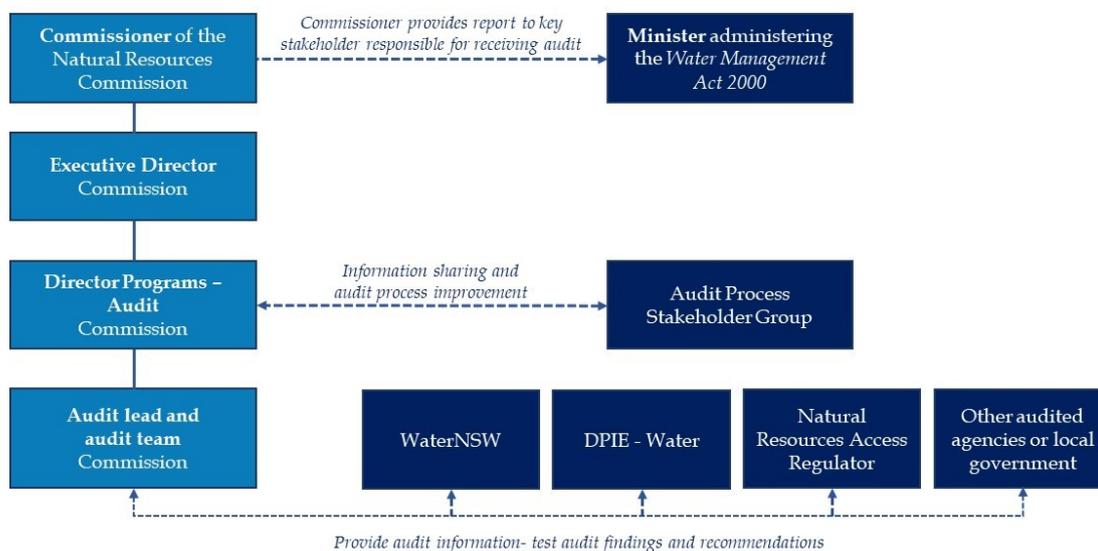


Figure 2: Stakeholder relationship diagram

6.5.3 Key Stakeholders - Interviewees

In some audits it may be decided to interview stakeholders who are not part of the key agencies responsible for implementation of the water management plans. These may include DPIE-EES, local councils, or water users. An engagement letter will be sent to these interviewees approximately three weeks prior to the audit.

6.5.4 Other user groups

The Commission will seek feedback on its proposed audit scopes and any relevant risks for consideration for all plans within a group. The Commission will do this via:

- the Commission's website - which allows users to subscribe so that they are notified of audit reports when they are released
- the NSW Government's *Have your say* website
- targeted emails to peak industry bodies and key user groups identified by the Commission.

The consultation period will typically be three weeks.

The Commission will consider all feedback prior to finalising audit scopes and audit plans.

Audit reports will be made available on the Commission's website upon release of the NSW Government's response to the audit or a mutually agreed time or within six months of providing the audit report to the Minister, whichever is sooner.

6.6 Documentation

The Commission will record all relevant information to support audit findings and conclusions, retain all audit records and control access to those records in line with the requirements of the *State Records Act 1998*. The Commission has kept all records since the Commission's commencement in two locations for access as required.²⁴

All records will be treated confidentially by the Commission. All evidence collected at the initial data request stage will be transferred electronically in a way that is agreed to between auditees and the Commission.

All documents will be saved in the Commission's record management system using standard filing naming and filing conventions. The audit file will retain all audit evidence that informs the preparation of the audit report, supports the conclusions against the audit file and any other evidence relevant to the audit findings, including all documentary evidence, screen shots of system walk throughs, interview transcripts, and notes of key phone calls with audit coordinators and other auditees.

In practice, team members working on the files will be those in the audit team who have signed a Declaration of Independence and Acknowledgement of Ethical Requirements. Any changes to documentation can be tracked in the Commission's record management system by users, and previous revisions are accessible in the Commission's record management system. Files cannot be deleted except by key administrative roles working for the Director, Corporate Services. Given the small size of the Commission, no further access controls were deemed warranted.

A suitable secure online platform will be used to transfer data between auditees and the Commission as well as consultants as required. Data received via file transfer will be backed up and saved in the Commission's record management system on a regular basis.

²⁴ ASAE 3000 (para A207) refers to the ASQC1 requirements. Specifically ASQC1 para 47, that requires firms to 'establish policies and procedures for the retention of engagement documentation', and ASQC1 A61, which states that 'the retention period would be no shorter than five years from the date of the auditor's report'.

Consistent with ASQC1 guidance, the Commission audit teams will finalise audit files within 60 days of submitting an audit report to the Minister.²⁵ Administrative changes only can be made to the files within this 60-day period.²⁶ After this time, files should not be modified.²⁷

6.7 Reporting of audit conclusion, findings and recommendations

6.7.1 Audit conclusion

In providing an independent conclusion via an audit report to the Minister on the implementation of the water management plans, the Commission may comment on other matters as deemed relevant.

Overall conclusions are required in each audit report. Limited assurance conclusions are phrased in the negative form of expression – that is, a statement about what the auditor does not know. Below are examples of the types of overall conclusions and how they should be expressed:

- **Limited assurance conclusion (unqualified)** – ‘Based on our work, nothing has come to our attention that cause us to believe that internal controls are not effective, in all material effects, based on [insert relevant criteria]’.
- **Or a qualified limited assurance conclusion** – ‘Based on the work, except for insert relevant finding], nothing has come to our attention’.
- **Adverse conclusion** – ‘In our opinion, because of matters discussed in the preceding paragraph, we believe [insert relevant condition] is not present in accordance with the [insert relevant criteria]’.
- **Auditor unable to reach a conclusion** – ‘In our opinion, because of matters discussed in the preceding para, the auditor was unable to obtain sufficient and appropriate evidence...could not form an opinion in regard to the audit objective’.
- When a scope limitation is imposed by the circumstances of an audit, the audit team shall attempt to perform alternative procedures to overcome the limitation. When a scope limitation exists and remains unresolved, the wording of the audit team’s conclusion shall indicate that it is qualified as to the effects of any instances of non-compliance with the compliance requirements, which might have been identified had the limitation not existed. If the effect of the unresolved scope limitation is both material and pervasive, the audit team shall express a disclaimer of conclusion²⁸

Commission audit reports will generally apply the following guidance for a limited assurance audit conclusion for Section 44 audits under the Act:

²⁵ ASQC1 A54 states that ‘Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagement is to be completed. Where no such time limits are prescribed in law or regulation, paragraph 45 requires the firm to establish time limits that reflect the need to complete the assembly of final engagement files on a timely basis. In the case of an audit, for example, such a time limit would ordinarily not be more than 60 days after the date of the auditor’s report’.

²⁶ In accordance with ASAE 3000 (A206).

²⁷ Given the small size of the Commission and the fact that audit teams may need access to audit files after the audit activity in order to build on previous work in preparing for subsequent audits, it was not deemed necessary to ‘lock down’ audit files. The Commission’s record management system will identify any changes after audit completion and who made the change. Previous revisions will always be available within the Commission’s record management system.

²⁸ Clause 61 of ASAE 3100.

- where the auditor concludes that implementation of provisions sits between approximately 0 and 10 percent, use 'in our opinion based on the evidence reviewed, we believe the provisions of the [insert water management plan name] have not been given effect in accordance with the [insert plan type] made under the *Water Management Act 2000*'.
- where the auditor concludes that implementation of provisions sits anywhere between approximately 10 and 90 percent, use 'in our opinion based on the evidence reviewed, we believe the provisions of the [insert water management plan name] have not been given full effect in accordance with the [insert plan type] made under the *Water Management Act 2000*'.
- where the auditor concludes that implementation of provisions sits between approximately 90 and 100 percent, use 'in our opinion based on the evidence reviewed, we believe the provisions of the [insert water management plan name] have been given full effect in accordance with the [insert plan type] made under the *Water Management Act 2000*'.

6.7.2 Findings

Good audit findings should consider the '5Cs'. They should:

- consider and clearly link to the **criteria** (what should be)
- describe the **condition** (what is in relation to the criteria)
- describe the **cause** (why) so that an appropriate recommendation is made relevant to the underlying cause if it can be determined rather than just the symptom
- describe the **consequence** (so what) so that appropriate recommendations can be made that are appropriate in nature and scale and priority
- link clearly to the **corrective action** (recommendation).

6.7.3 Recommendations

The Commission is likely to comment on whether implementation could be improved and if so recommendations for improvement. These recommendations:

- may identify areas for improvement in plan and associated program or policy implementation or development
- will be practical and consider the net benefit of adopting those recommendations
- may also generate further observations relevant to implementation of plans outside the focus and scope of the specific plan being audited.

The recommendations should:

- identify who is responsible for implementation for each recommendation
- consider the why, what and how (at the high level)
- include a verb as you are proposing an action
- standalone, be easily understood without reference to other material.
- flow from findings

- have sufficient evidence, references and been given due consideration to know they will address the problem.
- be implementable and feasible, consider likely risks, costs and benefits.
- contribute to improve outcomes
- focus on what needs to be done and to a lesser extent how it should be done – for a concise recommendation (when the means of implementing a recommendation is important it should be in the body of the report).

Note that any suggestions should be contained in the text of the report if they are important but are not recommendations.

The Commission expects reports to:

- provide independent limited assurance on agency implementation of plans
- identify areas of good practice where provisions are being given effect to and areas for improvement in plan implementation
- be balanced and objective.

The audit reports will be made available:

- to agencies responsible for implementation of the management plans prior to submission to the Minister
- to the Minister prior to 5-years post plan commencement for each plan
- on the Commission's website upon release of the government's response to the audit or within six months of provision of the audit report to the Minister, whichever is sooner.
- The audit report will not disclose any non-compliances of individual licensees observed or refer to individuals. However, the auditor is obliged to report these to NRAR.

6.7.4 Report review

The draft report will be prepared by the audit team and reviewed by the lead auditor. Internal review of the reports will be carried out by the Director Programs, Executive Director and Commissioner prior to reports going to auditees and again prior to it going to the Minister.

For the first group of audits, all reports will be reviewed by an external engagement quality control reviewer (see **Section 3.2.2** for selection and documentation protocols regarding quality control review).

This external quality control review will consider the following:²⁹

- sufficient and appropriate evidence to support findings for limited assurance and the report
- the work performed supports the conclusions reached and is appropriately documented

²⁹ In accordance with ASQC1 A35.

- appropriate consultations have taken place and the resulting conclusions have been documented and implemented
- adequate evidence represented in the report to support finding
- evidence adequately and logically documented/ supported
- recommendations appropriateness, including nature and scale
- audit reports (and processes) meet the requirements of the ASAE 3000 and 3100 and ASQC1 and, relevant ethical requirements
- significant matters have been raised for further consideration
- if there is a need to revise the nature, timing and extent of work performed
- the objectives of the engagement procedures have been achieved and there is a clear link between the audit objective and the audit conclusion
- whether the audit recommendations address the cause of the significant issues identified by the audit, they are realistic and achievable, and they are understandable on their own.

The work of the internal and external reviewers should be recorded regarding what was reviewed and the outcome. Any issues raised by the reviewers is required to be addressed by the audit team and actions taken noted.

The frequency of engagement of an external quality control reviewer may decrease in subsequent years (in accordance with the monitoring program described in **Section 3.2.2**). Criteria for determining whether an audit reports will be subject to an external quality control review will be developed that will consider for example:³⁰

- the nature of the engagement, including the extent to which it involves a matter of public interest
- the identification of unusual circumstances or risks in an engagement or class of engagements.

6.7.5 Report finalisation

For reports subject to an external quality control review or external consulting advice, the date of the audit report cannot be earlier than the date on which the external quality control review is completed and or the consulting advice received.³¹

In the case of advice being provided by an external quality control reviewer or a consultant, any areas of disagreement and the conclusions reached must be documented in the audit file. The date of the audit report cannot be earlier than the date of resolution of any disputes as a result of the external review or advice.³² All decisions will be evidence-based and the Commission will take the final decision as auditor. If further audit procedures are required to firm up the evidence, this will be considered in making the decision.

³⁰ In accordance with ASQC1 paras 35 and A41.

³¹ In accordance with ASQC1 A42.

³² In accordance with ASQC1 paras 43 and 44.

6.7.6 Subsequent events

If there is an event that occurs after the audit period but prior to submission of a report, the auditor should consider it up to the date of the assurance of the report.³³ If it occurs after the report is issued, the matter should be appropriately raised with the auditee and any additional appropriate action taken. For example, in performing a subsequent audit, an auditor may become aware of something that would have affected the assurance conclusion for a previous audit if it had been known prior to issuing the report. This would be a subsequent action that would require raising with the audit lead and responsible Director Programs to establish appropriate course of action.

6.7.7 Report publication

The reports will be submitted to the Minister and within 6 months or as soon as a response is received from the Minister (whichever is the soonest) the reports will be published on the Commission's website.

³³ ASAE 3000 para 61 excerpt: 'When relevant to the engagement, the assurance practitioner shall consider the effect on the subject matter information and on the assurance report of events up to the date of the assurance report, and shall respond appropriately to facts that become known to the assurance practitioner after the date of the assurance report, that, had they been known to the assurance practitioner at that date, may have caused the assurance practitioner to amend the assurance report. The extent of consideration of subsequent events depends on the potential for such events to affect the subject matter information and to affect the appropriateness of the assurance practitioner's conclusion. However, the assurance practitioner has no responsibility to perform any procedures regarding the subject matter information after the date of the assurance report'.

6.8 Continuous Improvement

The audit team is committed to continuous improvement, it intends to:

- Improve and automate where possible its processes and procedures and reporting to ensure consistent and repeatable processes
- streamline audits so similar water management plans are audited together and reported in a single report, where practical to do so, this should:
 - improve the impact of the reports through being able to identify trends and systemic issues
 - ensure consistency in approach is taken across plans similar in nature and geographical location
 - reduce the administrative burden of data requests for auditees and report production and review improving cost efficiencies
 - reduce the administrative burden of making, tracking and implementing numerous similar recommendations.
- improve stakeholder engagement to inform audit planning through a heightened awareness of:
 - emerging issues and risks
 - recently implemented or upcoming changes to be implemented by agencies that will have a material impact on the way management plans are implemented
- Continue to build internal capacity to enhance auditors skills and expertise to perform efficient and effective audits.

The audit team will adopt a continual improvement approach with a view to being a recognised and respected audit team within the NSW Government, delivering audits which create value to the auditees and to the community. The audit team intends to deliver audits that:

- are a trusted source of information, which clearly articulate how water is being managed in comparison to how water management plans require it to be managed
- are transparent and easily understandable
- identify key issues needing to be addressed and keep the focus on the material and systemic matters that will create positive outcomes in line with the intent of the water management plans.

7 Document control

Date approved	August 2020
Review period	Annual
Next revision	August 2021
Responsible Officer	Executive Director
Approving Officer	Commissioner
Changes made during the last revision	Nil first version