



Framework for Auditing the
Implementation of Catchment
Action Plans

December 2007



FRAMEWORK FOR AUDITING THE IMPLEMENTATION OF CATCHMENT ACTION PLANS

*Providing confidence and promoting improvement
in NSW's natural resource management*

December 2007

Enquiries

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List of acronyms

CAP	Catchment Action Plan
CMA	Catchment Management Authority
JSC	Joint Steering Committee
NRC	Natural Resources Commission
NRM	Natural Resource Management
NSW	New South Wales
SOE	State of Environment reporting

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1 Introduction

The Natural Resources Commission (NRC) is an independent body responsible for auditing the implementation of Catchment Action Plans (CAPs). The purpose of this auditing is to assess whether the implementation of CAPs is achieving on-ground improvements in the condition of natural resources in NSW, and complies with the *Standard for Quality Natural Resources Management* (the Standard)¹.

The auditing will be undertaken periodically throughout the life of each CAP, and is an important part of the regional natural resource management (NRM) delivery model in this state. It will help us understand how effectively CAPs are being implemented, and assess the progress we are making towards achieving the state-wide targets for natural resources included in the State Plan.² It will also provide confidence that the investments being made in NRM are sound, and will support adaptive management in a sector characterised by diversity, uncertainty and gaps in available science and information.

1.1 What is the audit framework?

The audit framework explains the NRC's overall approach to auditing the implementation of CAPs. The key features of the framework are that:

- audit work will be designed to assess whether the implementation of CAPs is leading to on-ground improvements in natural resource condition by assessing compliance with the Standard and using hard data to verify progress towards state-wide targets
- a risk-based approach will be used to focus and tailor the nature of audit work, and to inform the frequency of audits
- each CAP will be audited at least once every three years; however, audits may be more frequent where the risks to effective CAP implementation are assessed as high
- commonly accepted audit methods will be adopted to ensure the rigour of the audit process and effective communication of audit findings and conclusions
- audit teams will include appropriate NRC staff, audit experts, and natural resource experts.

The framework does not:

- prescribe the methods or plans for a particular audit – these will be prepared prior to conducting each audit
- set out the NRC's specific audit timetable for the next 12 months and beyond – this program is still being developed and will be updated every 12 months
- describe in detail the process the NRC will use to review revised CAPs – the review of a CAP is separate to the audit of its implementation, although the quality of a CAP is one of the factors the NRC will consider in assessing the risks to effective implementation.

¹ Natural Resources Commission (2005) *Standard for Quality Natural Resource Management*, September, 2005.

² See Priority E4 in, NSW Government (2006) *A new direction for NSW, NSW Government State Plan*, November, 2006.

1.2 How will the framework improve over time?

The NRC proposes to review this framework in December 2008 to incorporate lessons from early audits. In addition to this, the NRC will also review the framework in consultation with the Australian and NSW Governments once future arrangements for the governance of the regional NRM delivery model in NSW are formally agreed.

1.3 Purpose of this paper

This paper explains the context for the NRC's audits of CAPs and outlines the framework for delivering these audits.

The paper is structured as follows:

- Chapter 2 explains why the NRC needs to audit the effective implementation of CAPs, and the scope of the audits
- Chapter 3 outlines how the NRC proposes to adopt a risk-based approach to the audits, and how this approach will work
- Chapter 4 explains how often the NRC will audit each CAP
- Chapter 5 describes how the NRC will conduct the audits, including the principles and practices that will be common to all audits.
- Chapter 6 outlines how the NRC has developed the audit framework.

2 Why the NRC is conducting audits

The NRC is required by legislation to audit the effectiveness of the implementation of CAPs. This auditing plays an important accountability and improvement role in the regional NRM delivery model in NSW. In planning how it will perform its audit function, the NRC aimed to ensure that its approach both meets the legislative requirements and fulfils this role.

The scope of the audits is defined by legislative requirements. The following sections outline those legislative requirements for and the role of audits, and explain how the NRC will measure the effectiveness of the implementation of CAPs.

2.1 Legislative requirements

One of the NRC's core functions under the *Natural Resources Commission Act 2003* (the NRC Act) is to audit the effectiveness of the implementation of CAPs in complying with the Standard and contributing to the achievement of the state-wide targets³ (see Box 2.1). This Act states that the NRC is to undertake these audits as it considers appropriate. It also states that the Government can require the NRC to undertake audits of CAPs (for example, if the Government has concerns about the implementation of a particular CMA's CAP).

The *Catchment Management Authorities Act 2003* (the CMA Act) also requires the implementation of CAPs to be audited. The CMA Act specifies that the Minister for Climate Change, Environment and Water is to ensure that a CAP is audited at least every five years, to determine whether its provisions are being given effect to.⁴ It also specifies that these audits be carried out by the NRC or by an independent panel appointed by the Minister.

The audit framework sets out an approach that the NRC considers appropriate for meeting the requirements under both Acts. Under this framework, the audits will focus on the activities of CMAs, because these organisations have legislative responsibility for developing and implementing CAPs.⁵ Individual CAPs will be audited at least once every three years (which meets the requirements under the CMA Act). However, they may be audited more frequently if the NRC assesses the risks to effective implementation as high, or if the Government specifically requests an audit. The NRC will develop an audit timetable that will set out the audit work schedule over the next 12 months and beyond. It will consult with the Government to ensure that this program meets their needs.

The NRC will report publicly and so will be available to inform all stakeholders with an interest in the findings.⁶

³ Section 13 (c), *Natural Resources Commission Act 2003*.

⁴ Section 26, *Catchment Management Authorities Act 2003*.

⁵ Section 15 (a), *Catchment Management Authorities Act 2003*.

⁶ The NRC is required to make its reports public under section 15(3), *Natural Resources Commission Act 2003*.

Box 2.1 What are CAPs?

CMAs are required by legislation to develop Catchment Action Plans (CAPs) that set out region-specific targets for improving natural resource condition and help prioritise their investments in meeting these targets. CAPs are dynamic documents that are to be updated periodically. The NRC provides independent advice to the Government to help it determine whether or not to approve each CAP.

CMAs must develop their CAP in consultation with their community, and take account of the priorities and policies of the Australian and NSW Governments. In addition, they are required to develop and implement their CAP in a way that is consistent with the *Standard for Quality Natural Resource Management* (the Standard) and contributes to the state-wide targets for natural resources included in the NSW Government's State Plan.

The Standard is designed to promote consistent, high-quality practice across the NRM sector, and encourage adaptive management to achieve goals and targets for resource condition improvement.¹ It comprises seven inter-related components that define the characteristics of quality NRM practice, and indicate the *Required Outcomes* that effective natural resource managers are expected to meet.

The State-wide targets focus on the fundamental functions of the key natural resource assets (for example, riverine ecosystems) and specific state-community preferences (such as threatened species). They aim to focus NRM investments and provide a means of tracking progress on NRM issues within NSW.

2.2 Role of audits in regional delivery of NRM in NSW

The NRC's audit function has two roles in the regional NRM delivery model:

- providing confidence that NRM investments are achieving real improvements, and
- promoting improvement in NRM.

The Australian and NSW Governments have devolved significant resources and responsibility to the CMAs to plan and coordinate NRM investment at a regional scale in partnership with their communities and with the aim of achieving real improvements in natural resource condition. CMAs must report on their work and achievements to governments through a number of reporting processes including public annual reporting. The first role of the NRC audit function is to provide independent assurance that ongoing investment by government and other investors is sound, and therefore likely to result in the intended outcomes (Figure 2.1⁷).

This builds on past NSW experience. Statutory reporting to the NSW Government by the NRC as part of the review of CAPs was also useful to the Australian Government, allowing significant streamlining in the review process. The NRC will review the framework once future arrangements between the Australian and NSW Governments regarding the governance of the regional NRM delivery model are formally agreed.

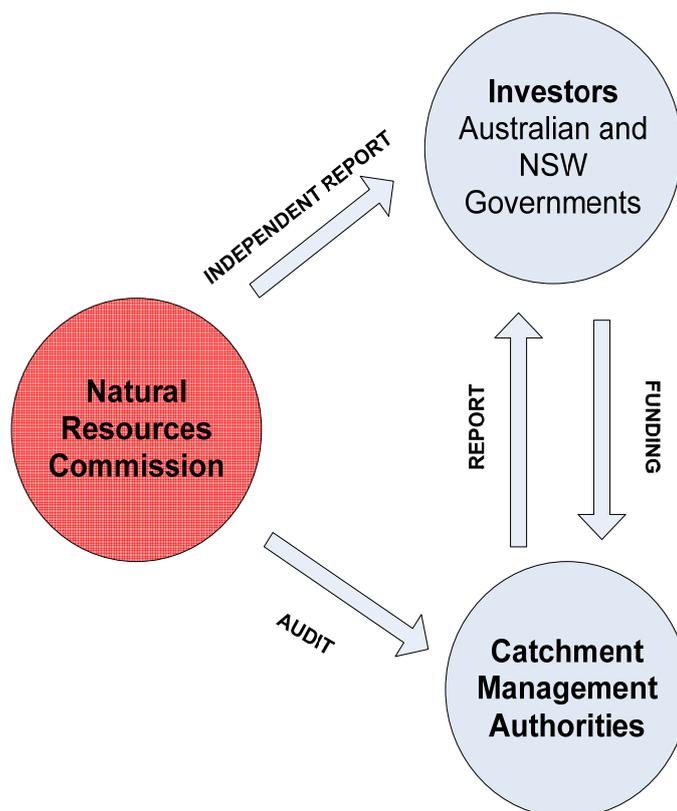


Figure 2.1 Providing confidence in NRM investments

⁷ Adapted from The Institute of Internal Auditors Australia (2006) *The Role of Auditing in Public Sector Governance*.

The second role of the NRC audits is to identify opportunities for improvement in NSW's regional NRM delivery model. The NRC does this by auditing as an independent body, rather than taking part in the planning and coordination of NRM investment. This role is intended to promote flexibility, innovation and adaptive management in NRM at the regional scale. Figure 2.2 illustrates this role of the audits.

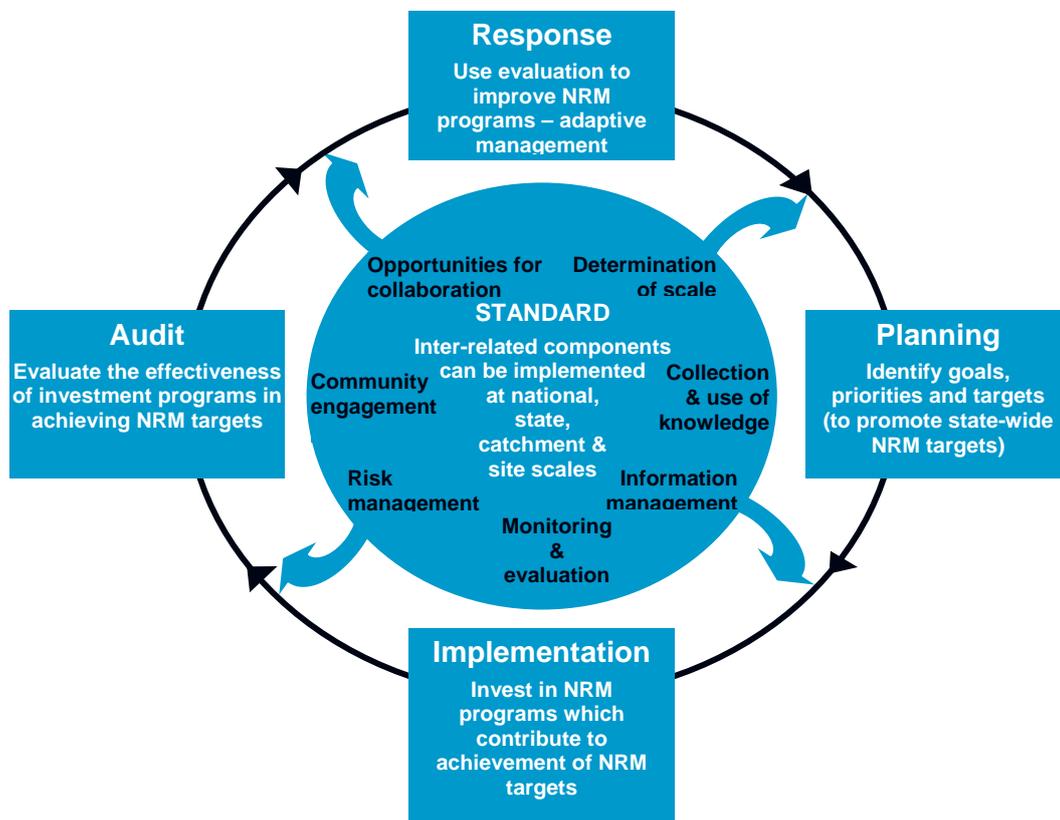


Figure 2.2 Promoting improvement in NRM

2.3 How the NRC will measure effectiveness

The NRC's audit function is to audit the effectiveness of the implementation of CAPs. This effectiveness will be measured by:

1. **Compliance with the Standard.** The CMA plans, business systems and operational decision-making that underpin the implementation of the CAP should comply with the Standard, and there should be evidence that each of the *Required Outcomes* is being achieved. This will provide confidence that the inputs to CAP implementation are sound and there is a strong likelihood that the intended natural resource outcomes described in the CAP will be achieved.
2. **Achievement of NRM targets.** Implementation of the CAP should contribute to the achievement of the state-wide targets by progressively achieving the regional-scale management targets and catchment targets included in the CAP. This will provide hard evidence that the implementation of the CAP is being effective in achieving the intended outcomes.

This definition of effectiveness also helps to establish the scope of the audits, which will include reviewing:

- **CMA planning.** The audits will review the plans the CMA has used in implementing its CAP (such as investment strategies and annual implementation programs) to determine whether they comply with the Standard, and whether they demonstrate the logical and scientific links between the investments it has made and the CAP and the state-wide targets.
- **CMA operations.** The audits will assess the CMA's operational decision-making and business systems for implementing programs, projects and contracts (such as its project management systems and risk management systems) to determine whether these systems comply with the Standard and whether there is evidence that the systems are being used.
- **CMA and state-scale reporting.** The audits will review CMA reports, other reports on resource condition, pressures and responses, and available data and modelling to look for verifiable evidence that targets are being achieved. CMA reports might include Joint Steering Committee (JSC), annual, project and contract reports. Other reports might include State of the Environment and State of the Catchment reports, and reports made under the State Plan.

The various types of audit activity that will be used to assess these aspects are described in Chapter 5 (see Table 5.1).

3 How the NRC will use risk assessments to guide audits

The NRC proposes to identify, analyse and evaluate the risks to the effective implementation of each CAP to help it select and prioritise its audit work.⁸ This risk-based approach has several benefits:

- it will allow both the NRC and CMAs to focus resources on the aspects of CAP implementation with the highest risk, where they are most likely to improve the overall effectiveness of implementation
- it will enable the NRC to schedule the audit timetable so it focuses on the CAPs with the highest risks to effective implementation first, thus maximising the level of early improvement across CMAs
- it will allow the NRC to set the frequency of audits of individual CAPs to provide an appropriate level of assurance and promote improvement where it is most needed
- it will enable the NRC to tailor the audit work to the nature and level of the risk, thus increasing the efficiency of the work.

The following sections outline how the risk-based approach will work in practice and how the frequency of audits will be determined.

3.1 How the risk-based approach will work

The NRC intends to conduct a risk assessment for each CMA between February and March each year. These assessments will inform the NRC's audit timetable and to tailor specific audit plans for individual CMAs. The outcomes of completed audit work will then be used as inputs to future risk assessments. Should exceptional circumstance arise, the NRC may also conduct risk assessments at other times during the year.

This cycle is shown in Figure 3.1.

⁸ Closely following, Standards Australia and Standards New Zealand (2006) *Delivering assurance based on AS/NZS 4360:2004 Risk Management*, Handbook 158-2006.

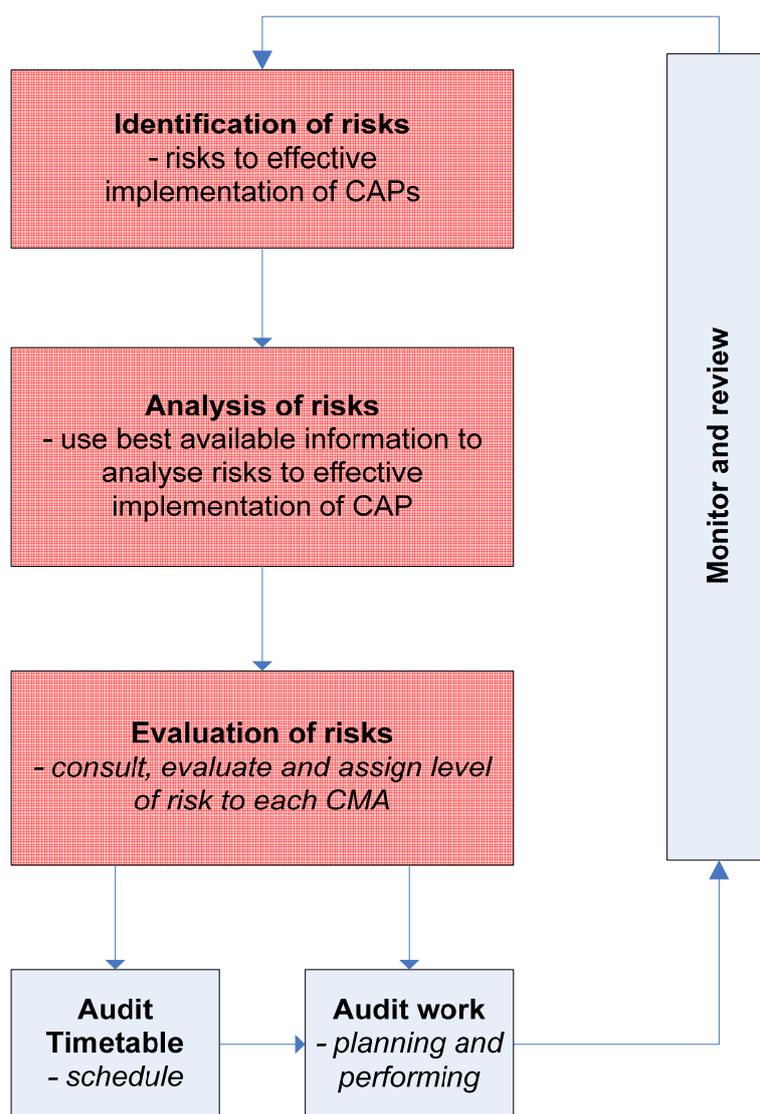


Figure 3.1 Risk-based approach to auditing

3.1.1 Identification of risks

The first step in the risk-based approach to auditing the implementation of CAPs is identifying the risks to effective implementation. The NRC considers that these risks generally fall within three broad categories, depending on where the risk arises:⁹

- **strategic risks** (arising at the CMA Board level)
- **operational risks** (arising at the CMA management and staff level)
- **external risks** (arising from outside the CMA).

⁹ These build on Standards Australia and Standards New Zealand (2006) *Delivering assurance based on AS/NZS 4360:2004 Risk Management*, Handbook 158-2006, and on previous NRC work, for example, Natural Resources Commission (2005), *Guide to using the standard for quality natural resource management*, September 2005.

Table 3.1 describes the important types of risks the NRC has identified within each of these categories, along with several features that can typically mitigate or lower the level of each risk (discussed in section 3.1.2 below).

3.1.2 Analysis of risk

The second step in the risk-based approach is analysing the identified risks to effective implementation of CAPs. The aim of this step is to understand the significance of each risk – that is, the likelihood that it will negatively affect the implementation of CAPs, and the consequences for the effectiveness of implementation if it does.¹⁰

For each of the identified risks, the NRC has identified several features that typically lower the level of the risk (see Table 3.1). Some of these features can be used to control the level of risk; others are outside the CMAs' control. For example:

- In the strategic risk category, one of the features that influence the risk that poor planning will negatively affect the implementation of the CAP is the quality of the CAP itself. The existence of a high-quality CAP document is a strong indicator that sound strategic planning is appropriately directing the CMA's work. Therefore it lowers the level of the planning risk to the effective implementation of the CAP.
- In the operational risk category, one of the features that influence the risk that poor financial management will negatively affect the implementation of the CAP is the financial management systems the CMA has put in place. The existence of systems that comply with public sector requirements is a strong indicator that funds will be allocated to appropriate projects, and will be used for those projects. Therefore, it lowers the level of the financial management risk to the effective implementation of the CAP.
- In the external risk category, one of the features that influence the risk that social factors will negatively affect the implementation of the CAP is level of community support for the CMA and the regional NRM delivery model. The existence of broad community support increases the likelihood that the CMA will be able to work collaboratively with a range of partners in the region to achieve its targets. Therefore, it lowers the level of the social risk to the effective implementation of the CAP.

To analyse the risks, the NRC will examine the best available information about the status of these features across the CMAs. Where possible, it will use information that is independent of CMA operational reporting, such as:

- the findings of any NRC work, such as previous audits, system reviews, CAP recommendations, specific policy reviews
- other NSW and Australian Government audit reports
- published reports relevant to CMA or regional actions, such as Annual Reports, websites or State of the Catchment reports
- internal audit programs and reports from CMAs, such as strategic progress letters
- natural resource condition data and modelling generated from the NSW Monitoring, Evaluation and Reporting Strategy or from other monitoring and evaluation activities.

¹⁰ Following Standards Australia and Standards New Zealand (2004) *Risk Management Guidelines Companion to AS/NZS 4360:2004*.

The NRC will use the conclusions in these reports, individually and collectively, to analyse how they describe the significance of the identified risks. Based on this analysis, it will develop a standardised way of determining an individual CMA's level of risk that will be expressed using a five-point scale, from 'very low' to 'very high'.

To illustrate what we mean here, consider the example of the strategic planning risk discussed above. In analysing the significance of this risk, the NRC might examine the reports on its review of each CAP, released in 2006. These reports included an assessment of the extent to which each CAP complies with the Standard. The NRC might decide that a CAP assessed as having a 'very high' level of compliance with the Standard will have a 'very low' level of strategic planning risk, while those with a 'high' level of compliance will have a 'low risk, etc.

3.1.3 Evaluation and assessment of risk

The third step in the risk-based approach is evaluating and assessing the levels of risk to effective implementation of each CAP. To evaluate the levels of risk, the NRC will apply the standardised approach it developed in the step described above. However, it may also consider additional information from external stakeholders (such as members of the public, other CMAs, and government agencies).

To assess the levels of risk, the NRC will make a decision about the overall levels of risk to the effective implementation of each CAP based on its evaluation. It will then test the validity of this assessment in consultation with the individual CMA.

The NRC expects that initially many CMAs will be assessed as having higher levels of risk exposure because the regional NRM delivery model and the organisational structures of the CMAs are still relatively new. Over time, CMAs' management of risks to the effective implementation of CAPs will improve, and the risk assessment process will recognise this as more information (including from the audits as they are conducted) becomes available.

The NRC will use the risk assessments to inform the audit timetable, audit work and other NRC reports.

Table 3.1 Risk categories and common features that lower risk

Risk category	Common features that lower risk
Strategic risks (arising at CMA Board level)	
<p>Planning <i>risk that strategic planning may not set the most effective direction</i></p>	<ul style="list-style-type: none"> ▪ High-quality CAP that is supported by quality operational plans (Annual Implementation Plans and project plans) ▪ Logical, scientifically robust, peer-reviewed CAP targets
<p>Governance <i>risk that governance arrangements do not effectively monitor and maintain strategic direction</i></p>	<ul style="list-style-type: none"> ▪ Qualified and experienced Board members ▪ Documented Board policies and procedures ▪ Performance-focussed, independent internal audit committee
<p>Reporting and review <i>risk that communication between the Board, its staff and its investors does not support strategic direction</i></p>	<ul style="list-style-type: none"> ▪ Best available information used to inform Board decision-making ▪ Prompt and accurate reporting of Board decisions affecting CAP implementation
Operational risks (arising at CMA management and staff level)	
<p>Business systems <i>risk that business systems do not support the effective implementation of the CAP</i></p>	<ul style="list-style-type: none"> ▪ High-quality key business systems that are used effectively
<p>Personnel <i>risk that CMA staff cannot support the effective implementation of the CAP</i></p>	<ul style="list-style-type: none"> ▪ CMA fully staffed, with qualified personnel ▪ Training and development for CMA staff ▪ Retention of key CMA staff
<p>Financial management <i>risk that financial management systems cannot support the effective implementation of the CAP</i></p>	<ul style="list-style-type: none"> ▪ Financial management systems comply with public sector requirements
External risks (arising from external factors)	
<p>Natural processes <i>risk that significant variance in natural processes (from the average) may impair effective implementation of the CAP</i></p>	<ul style="list-style-type: none"> ▪ Landscapes resilient to changes in natural processes (such as floods, droughts, bushfires and climate change) ▪ Business continuity planning
<p>Political, social and economic factors <i>risk that political, social and economic factors do not support the effective implementation of the CAP</i></p>	<ul style="list-style-type: none"> ▪ Broad community support of CMA and regional delivery ▪ Service level agreements with government agencies ▪ Government NRM policy settings consistent with CAP priorities and regional NRM delivery model
<p>Funding <i>risk that investment flows do not support the effective implementation of the CAP</i></p>	<ul style="list-style-type: none"> ▪ Approved Budget allocation ▪ Fully funded forward commitments ▪ Aligned and contracted co-contribution arrangements ▪ Diversity in funding sources

4 How often the NRC will audit

The NRC will develop an audit timetable that will set out when it will audit the implementation of each CAP and will update this timetable every 12 months. The frequency and sequence of audits will be based on two timing conventions:

- to provide assurance, the effectiveness of the implementation of each CAP will be audited at least once every three years
- to promote improvement, the effectiveness of the implementation of a particular CAP will be audited more frequently and earlier if the NRC's annual risk assessment identifies a high or very high level of risk in any risk category.

The reasons for these conventions and how they relate to the NRC's previous statements about timing of audits are discussed below.

4.1 Every three years, to provide assurance

The NRC considers that auditing the implementation of each CAP at least every three years will provide an appropriate level of assurance to investors and other stakeholders. Currently, the NSW and Australian Governments require CMAs to prepare three-yearly investment strategies. A three-yearly audit cycle will ensure that at least one audit of each CAP is conducted within the Governments' NRM budgeting cycles. The results of this audit can be used to inform their high-level investment decisions. The results will also provide some assurance about the outcomes achieved by past investments and greater confidence in the likely value of future investments.

A three-yearly audit cycle is also consistent with the frequency of State of the Environment (SoE) reporting and will mean that at least one audit report for each CAP will be available to inform the SoE report in each cycle.¹¹ This level of frequency will also mean that a wider range of data will be available to assess changes in resource condition than if the audits were more frequent.

In addition, the combination of a three-yearly audit and annual risk assessment should be sufficient to provide confidence and assurance to other NRM investors about the value of investing in priorities under a CAP. However, individual investors may require CMAs to report on progress made on their specific investments more regularly. (For example, the NSW and Australian Governments require six-monthly progress reports on their investments).

The regular audit cycle will also enable CMAs to use the results of their audit in reviewing and revising their CAP. The NRC considers it reasonable to expect CMAs to undertake this process least every 5 years, and more generally whenever their adaptive management suggests a major change is needed.

¹¹ Section 10 (1), *Protection of the Environment Administration Act 1991*

4.2 Earlier and more frequently, to promote improvement

The potential to be audited more frequently than every three years, in response to the NRC assigning it a risk rating of high or very high, provides some incentive for CMAs to improve their practices and thus reduce their risk rating for the aspects of risk they can influence. It will also encourage CMAs to identify opportunities to improve the effectiveness of their CAP implementation via their own internal auditing processes.

In addition, the potential for more frequent audits provides a 'safety net' for those CMAs that either cannot influence the factors affecting their risk rating or are not successful in doing so. By being subject to more frequent audits, they will receive more frequent external assistance in identifying where and how they can improve their effectiveness.

5 How the NRC will conduct the audits

The NRC will tailor its audit work to primarily focus on the areas assessed as high risk. However, it recognises that wider audit work may also be necessary to provide assurance on CAP implementation in other important (material) areas.

The NRC proposes to adopt practices and principles that will be common to all its audits of the implementation of CAPs. These practices and principles apply to the way it will schedule and plan audits, establish audit teams, perform audit work, collaborate with other stakeholders, and communicate audit findings and conclusions.

The NRC will maintain quality assurance and on-going improvement through use of competent independent auditors, standardised documentation, continuous internal review and periodic external review.

5.1 Scheduling and planning audits

Based on the audit timetable the NRC will discuss the timing of audit work with CMAs and other auditors, so it can schedule individual audits at the most appropriate time.

Prior to each audit the NRC will prepare audit plans for each CMA focussing on areas of highest risk and finalise these plans in consultation with the CMA. Audit plans will include the following elements:

- the objective of and criteria for the audit (which will relate to determining the effectiveness of the implementation of the CMA's CAP)
- the focus and scope of audit work (including the programs, projects and systems likely to be the primary focus of audit work, and the type of audit activities to be undertaken)
- any plans for collaboration with other auditors
- the expected timing and duration of onsite audit work
- details of the audit team members
- mechanisms for communication between the CMA and the audit team
- the expected timing of the audit report.

5.1.1 Types of audit activities

The NRC has identified various types of audit activities that it will use (listed on Table 5.1). The mix of activities used in a particular audit will depend on the nature and level of risk.

Table 5.1 Types of audit activities that will be used

Type of audit activities	Description
Expert review	<ul style="list-style-type: none"> ▪ Reviewing data and analysing conclusions in reports on natural resource condition ▪ Appropriate experts will be commissioned to undertake this work
Desktop report review	<ul style="list-style-type: none"> ▪ Assessing reports on outcomes against the aims contained in plans and legislation ▪ Primarily a desktop review
Report verification review	<ul style="list-style-type: none"> ▪ Verifying whether the claims outlined in reports reflect what is happening on the ground ▪ Involves fieldwork and interviews
CMA logic modelling review	<ul style="list-style-type: none"> ▪ Examining the logic of the targets set in plans and the links to outcomes at different scales including the state-scale ▪ Involves document review, interviews and may involve use of experts
Systems design review	<ul style="list-style-type: none"> ▪ Assessing whether the CMA's systems comply with the Standard ▪ Involves reviewing documents and conducting interviews with CMA staff
Systems implementation review	<ul style="list-style-type: none"> ▪ Assessing whether the CMA is using its systems effectively ▪ Involves 'walking through' a sample of projects and programs (document reviews, interviews and fieldwork)

5.2 Establishing audit teams

The NRC will ensure that audit work is undertaken by competent independent auditors that demonstrate appropriate proficiency and due professional care. The audit teams will include appropriate NRC staff, audit experts and natural resource experts as required. These teams may also include auditors from other Government agencies. The NRC will discuss the proposed audit team members with the CMA before starting audit work.

The audit team may seek expert advice where they identify a gap in their knowledge, skills or other competencies needed to complete the audit work. In particular, the NRC expects to use experts to conduct or peer-review analysis of data on natural resource condition. The audit teams will ensure that external advice is prepared in a way appropriate for use as audit evidence.

5.3 Performing audit work

NRC audit work for all activities will be performed within a defined audit scope, which will be recorded in the audit plan. The scope may include all the work of the CMA in the previous 12 months, and will generally include all areas of highest risk to the effective implementation of the CAP. The scale of audit work will be commensurate with the scale of the CMA's operations.

Audit work will be sufficient to meet the audit objective, and will involve:

- ongoing communication with the CMA
- the collection of information from within the CMA
- the collection and consideration of externally available data
- the verification of that information and data to establish audit evidence
- targeted consultation with relevant third parties
- the evaluation of audit evidence against the audit criteria to reach audit findings
- the evaluation of audit findings against the audit objective to reach an audit conclusion
- the reporting of audit findings and conclusions.

The extent of verification required to gain sufficient, reliable, relevant and useful audit evidence is a matter for the audit team's professional judgement and will depend partly on the source and nature of the information available. For example, information generated by the implementation of the NSW Monitoring, Evaluation and Reporting Strategy and the knowledge of experts may be used to verify any claims made by CMAs, and to help develop the audit findings on whether specific management, catchment and state-wide targets are being achieved.

An audit may also generate a number of further observations which may improve implementation of the CAP but which are outside the focus and scope of the audit. For example, these observations may relate to the effective implementation of CAPs by third parties. The NRC will also report on these observations to maximise the benefit of the audit work.

The NRC will record all relevant information to support audit findings and conclusions, retain all audit records for 10 years, and control access to those records.¹²

5.4 Collaborating with other auditors

The NRC has identified a number of other stakeholders with review or assurance roles in relation to the work of CMAs, and will seek to collaborate with other auditors, such as the Australian National Audit Office and the NSW Audit Office, to improve the cost-effectiveness of the NRC's audit work. The NRC will also collaborate with CMA's internal auditors when making risk assessments and during audit planning.

Collaboration may lead to the multiple use of audit teams' work, and save significant duplication of effort by auditors and CMAs. It may involve collaboration during audit planning, audit work and audit reporting. The NRC will discuss plans for collaboration during individual audits with CMAs prior to finalising audit plans.

¹² Consistent with the *General Retention and Disposal Authority: GA29 – Catchment Management Authorities*, approved under Section 21(2) (c) of the *State Records Act 1998*, State Records Authority of NSW, 2007.

5.5 Communicating audit findings and conclusions

The NRC will communicate any draft audit findings to the CMA as soon as possible during the course of the audit. This will allow the CMA to corroborate or challenge the audit evidence, and to respond if necessary with prompt appropriate corrective action.

The NRC will provide a draft audit report containing draft findings, conclusions and any further observations to the CMA as soon as possible after the completion of audit work. CMAs will be asked to provide a written response to the draft audit report within a reasonable period of time. This response will be published as an appendix to the final audit report.

The NRC may also provide draft audit reports to other auditors identified in the audit plan.

The NRC will consider comments received on draft audit reports then finalise the audit report as soon as possible after the close of time for comment. Audit reports will be objective, and will identify areas of good practice as well as areas for improvement.

The NRC will publish final audit reports on its website within a reasonable period of time in line with the requirements of the NRC Act.

5.6 Using the audit reports

The objectives of the audits are to provide confidence and promote improvement in the implementation of CAPs. Given these objectives, the NRC expects the audit reports to be used to:

- Support CMA performance reporting to investors. This may involve gradual reduction in reporting requirements imposed by investor stakeholders where they are receiving relevant assurance from the audits.
- Enable CMAs to improve CAP implementation. As the audit reports will identify areas for improvement, CMA Boards may use them to enhance their strategies for effective CAP implementation.
- Assist the NRC in future risk assessments. The CMAs will be able to update the NRC on progress since the last audit, during the risk assessment process.
- Inform other NRC work including its recommendations to Government about improving NRM.
- Inform improvements to other whole-of-government programs, such as the NSW Monitoring, Evaluation and Reporting Strategy.

6 How the NRC developed this framework

The NRC developed its audit framework by building on the previous work it did on mapping the audit process, learning from its experience of reviewing CMAs' business systems and draft CAPs, drawing on available knowledge of best practice approaches to audits and testing a draft framework through extensive consultation. It considers that this framework is responsive to the identified needs of CMAs and investors, and is comparable in rigour to formally accredited audit approaches.

6.1 Previous work mapping the audit process

When the NRC developed its recommendations for the Standard and state-wide targets, it also mapped out a 10-year process for auditing the implementation of CAPs.¹³ In this process, the early audits were to focus on reviewing each CAP's compliance with the Standard and assessing the likelihood that the management and catchment targets in the CAP will contribute to achieving the state-wide targets. The NRC considered that focusing on these aspects would provide the best early indicator of the long-term effectiveness of the CAP.

Over time, the audit focus was to widen to include using available monitoring and evaluation data to evaluate each CMA's progress towards achieving the management and catchment targets in its CAP, and periodic assessments of the CMAs' aggregate progress towards achieving the state-wide targets. The process also indicated that all CAPs would be audited at three milestones¹⁴ over their 10-year lifespan, and that the frequency of audits between these milestones will be based on a risk assessment.

While this audit framework is generally consistent with this high-level process, the NRC now proposes to audit each CAP at least every three years (see Chapter 4 for more detail).

6.2 Learning from reviews of CMAs' systems and CAPs

Last year the NRC conducted systems reviews of all CMAs and reviewed and recommended the approval of 12 of the 13 CMAs' first CAPs. This experience enabled the NRC to:

- become familiar with the content and scope of the CAPs
- identify the most significant types of risk to the effective implementation of CAPs, including both internal and external risks
- establish a baseline assessment of the quality of each CMA's business systems and CAP
- learn from the Minister's decisions on the approval of the majority of CAPs and any conditions on that approval.

¹³ See Chapter 4 of Natural Resources Commission (2005) *Recommendations - State-wide standard and targets'*, September 2005.

¹⁴ The three milestones are 1) CAP development (reviewing CAPs before their approval); 2) Mid term review of progress; 3) End of CAP review.

The NRC used its learning from this experience to design this audit framework that it considers best meets the needs of CMAs using an adaptive management approach to NRM, and will help build the confidence of investors in the regional NRM delivery model over time.

6.3 Using available knowledge of best practice approaches to auditing

The NRC drew on available knowledge of best practice approaches to auditing to help it develop this framework. It specifically considered a number of accredited standards and guidelines for applying these standards.¹⁵ This process helped the NRC to:

- understand accepted practice for applying a risk-based approach to auditing and its relevance to auditing the effective implementation of CAPs
- select best-practice audit principles that it will apply in conducting all audits
- develop a framework that is broadly consistent with comparable accredited frameworks, but tailored to the specific circumstances of auditing CAPs
- define the terms it uses in relation to audits in ways that are consistent with common and accepted uses in the audit field, and
- design a rigorous framework that will withstand external scrutiny and build acceptance of the approach and confidence in the outcomes of the audits.

6.4 Testing the framework through consultation

Before finalising the audit framework, the NRC undertook extensive consultation with stakeholders, experts and the public to ensure the framework meets the needs of relevant stakeholders and is comparable in rigour to other recognised audit approaches. This included:

- peer reviews with recognised leaders in internal auditing and environmental performance audit and reporting
- 'one-on-one' consultation with relevant stakeholders, including CMAs, NSW and Australian Governments and their respective agencies
- a public consultation process calling for formal submissions through the NRC's website and distribution lists.¹⁶

¹⁵ Professional auditing standards considered include, The Institute of Internal Auditors Australia (2007) *International Standards for the Professional Practice of Internal Auditing* and related *Practice Advisories* effective 2007; Standards Australia (2003) *ISO 19011:2003 Guidelines for quality and environmental management systems auditing*; Standards Australia and Standards New Zealand (2006) *Delivering assurance based on AS/NZS 4360:2004 Risk Management*, Handbook 158-2006; Auditing and Assurance Standards Board (2007) *Auditing and Assurance Standards and Guidance Statements*.

¹⁶ More information on our consultation process (including submissions) can be found at <http://www.nrc.nsw.gov.au/submodule.aspx?id=51>

