

Audit of Local Land Services Two year plan 2015–2017

Executive summary

This plan documents the priorities for audits of Local Land Services (LLS) by the Natural Resource Commission (the Commission) over the next two years. The plan explains our overall approach to audit and key steps in the process for planning and conducting an audit. It also provides some information on the preliminary scope for the first two planned audits of LLS governance and communications.

The Commission's audits offer independent assurance to the Minister and the community that public money has been spent wisely and that the results meet the Minister's expectations. They also recognise management initiatives and successes and are a catalyst for continuous improvement.

Audits will make an assessment of the maturity of LLS practice in reference to expectations established in the *Local Land Services Act 2013* (the LLS Act), the Performance Standard for Local Land Services¹ (the Standard) and other relevant sources of better practice.

The Commission's comprehensive assessment of risks to LLS service delivery identified five areas on which to focus audits for the next two years:

- governance
- communications
- investment prioritisation
- biosecurity
- collaboration.

These audit priorities were developed with input from LLS, its investors and stakeholders throughout the risk assessment process.

The Commission recognises that the establishment of LLS was a major transformation; LLS is 16 months old and in the early stages of organisational development. Initial audits will focus on assessing the level of organisational maturity of LLS in relation to each audit area. Recommendations will focus on LLS progress towards a greater maturity level and improved performance and outcomes.

The Commission will begin auditing LLS in June 2015. Our audit of LLS governance will be completed by the end of September 2015, and our audit of LLS communication by the end of February 2016. The Commission will audit the next priority risks to LLS service delivery over the following months.

¹ Natural Resources Commission, *'The Performance Standard for Local Land Service'*; February 2015

Plan for auditing Local Land Services

The Commission provides independent assurance over the outcomes and activities of Local Land Services (LLS) as required by the Act, and the performance outcomes required in the Standard.

The Act requires two types of independent audits:

1. Audits of LLS activities (**theme audits**)

Section 24(1) requires 'independent audit of the activities of LLS... to determine whether it is carrying out the functions conferred on it... effectively and efficiently'... and 'in accordance with State priorities for Local Land Services, the State strategic plan and any local strategic plan.'

2. Audits of LLS strategic plans (**performance audits**)

Sections 44 and 45 require audits of the State and Local strategic plans to 'ascertain whether its provisions are being given effect'.

Strategic plans are not expected to be finalised until mid-2015. The Commission will therefore conduct a series of 'theme audits' in 2015-17 that will address priority risks to effectiveness and efficiency of LLS functions. 'Performance audits' of implementation of strategic plans will commence later in 2017.

This audit plan documents the priorities for Commission audits of LLS over the next two years (2015-2017), and explains the overall approach and key steps in the process for planning and conducting an audit. It also provides some further detail about how the first audit (governance) will be carried out, and the scope for the second audit (communications).

Priorities for audit

In line with best practice², the Commission takes a risk-based approach to audits. This approach is designed to deliver an efficient and flexible audit program that provides for ongoing LLS learning and improvement, and ongoing assurance to investors whilst monitoring and responding to emerging issues. Investors may include state and local government, Commonwealth government, industry partners or rate payers.

The Commission has identified five areas (**Table 1**) on which to focus audits for the next two years. These risk areas were identified through a comprehensive audit planning process including a risk assessment and consideration of the overall assurance framework for Local Land Services.

² Standards across many disciplines require auditor to plan and execute audit engagements based on consideration of risk. These standards include those issued by the AUASB, ISO (Standards Australia), INTOSAI (the Australasian Council of Auditors General) and the IIAA.

Risk area (ranked by risk rating)	Priority	Auditable unit	Type of audit	YR 1 (2015-16)	YR2 (2016-17)
Governance	high	The Commission will audit the state level and three regions for each audit, with all eleven regions being included over the course of the two year program	Theme audits	Jun-Sept 15	
Communication	high			Oct 15-Feb 16	
Investment prioritisation	high				
Biosecurity	high				
Collaboration	high				

Table 1: Top risk and priority areas identified for Commission audits in the next two years

To identify the top priority areas for audit, the Commission conducted a detailed, collaborative risk assessment with LLS stakeholders and investors.

Over 60 risk assessment interviews were conducted with industry stakeholders, community groups, government agencies, LLS and others as part of the risk assessment.

Risks were grouped into audit areas based on their relevance to key LLS activities. Audit areas were then prioritised by estimating their potential impact on effective LLS service delivery.

A full list of the parties consulted in the risk assessment is provided in **Attachment 1**. A more in depth description of the process for developing the audit plan is provided in **Attachment 2**. LLS is considering the way in which its corporate risk register should be aligned with the Commission's risk assessment.

Delivering value

Audits offer independent assurance to the Minister and the community that public money has been spent wisely. They also recognise management initiatives and successes and are a catalyst for continuous improvement in the public sector.³

The Commission's theme audits will focus on foundational elements of the LLS business that are critical to success. These audits will deliver value by:

- 1 strengthening LLS accountability
- 2 independently verifying good practice and outcomes
- 3 giving LLS Boards and management a mandate for change, where required

³ Victorian Auditor General's Office (August 2014) *Audit Practice Statement: Auditing on the public interest*

- 4 guiding continuous improvement in LLS performance
- 5 linking to other audit and assurance initiatives in LLS.

Delivering assurance

The Commission's audits offer independent assurance to the Minister and complement assurance provided by LLS and others (eg. Audit Office of NSW) as part of an integrated assurance framework for investors and stakeholders.

Independence is vital to ensure the integrity and objectivity of the audit process. It is critical that auditors are not only independent, but also that the entire audit process is transparent.

The Commission collaborated with LLS to identify and rate risks to the organisation. However, as an external auditor, the Commission independently forms judgements and conclusions in developing the audit plan and during the audit. The Commission's audit team meets the independence requirements of the Australian Auditing Standards⁴.

The Commission is committed to maintaining confidentiality and objectivity throughout the audit process. The audit team will:

- be professionally competent, independent and sceptical throughout the audits
- conduct balanced assessments⁵ to consider opportunities (upside risks) and challenges (downside risks) equally
- apply 'best practice' audit tools and techniques
- use efficient processes that direct effort and resources to the most significant issues
- ensure the audits are proactive and dynamic through the ongoing monitoring of risks
- develop and implement tailored and fit-for-purpose audits that account for the maturity and audit-readiness of LLS
- collaborate to ensure the audits meet stakeholder and investor needs
- ensure the audits complement other assurance mechanisms for LLS
- communicate effectively to deliver a 'no-surprises' approach for stakeholders
- capture learning from initial audits and use them to adaptively manage audit processes
- engage external audit experts as peer reviewers to quality assure, and assist with continuous improvement of, our processes.

⁴ Auditing and Assurance Standards Board (AUASB) Australian Auditing Standards, www.auasb.gov.au/Pronouncements/Australian-Auditing-Standards.aspx

⁵ Adapted from Auditing and Assurance Standards Board (AUASB) *Framework for Assurance Engagements*, June 2014; section 6 'relevant ethical requirements'

Organisational maturity

The Commission recognises that the establishment of LLS was a major transformation. LLS is 16 months old and in the early stages of organisational development. As such, it is reasonable to expect that LLS is still maturing in many aspects of its business, such as governance, which take time to develop. The initial audits will be exploratory and investigative in nature, focusing on identification of learnings to guide practice improvement in the near term.

The Commission will consider the organisational maturity of LLS in developing and performing the audits. The audit reports will identify where the LLS business currently stands on the spectrum of organisational maturity. Recommendations will provide the means for LLS to progress along the maturity scale and improve performance and outcomes.

As LLS matures, the type of audit required to deliver best value to investors will change.⁶ Over time, the Commission will increase audit resources dedicated to reviews of outcomes and achievement of strategic objectives, and decrease emphasis on functions and activities. Future audits will focus on how LLS can deliver improved value and be innovative (**Figure 2**).

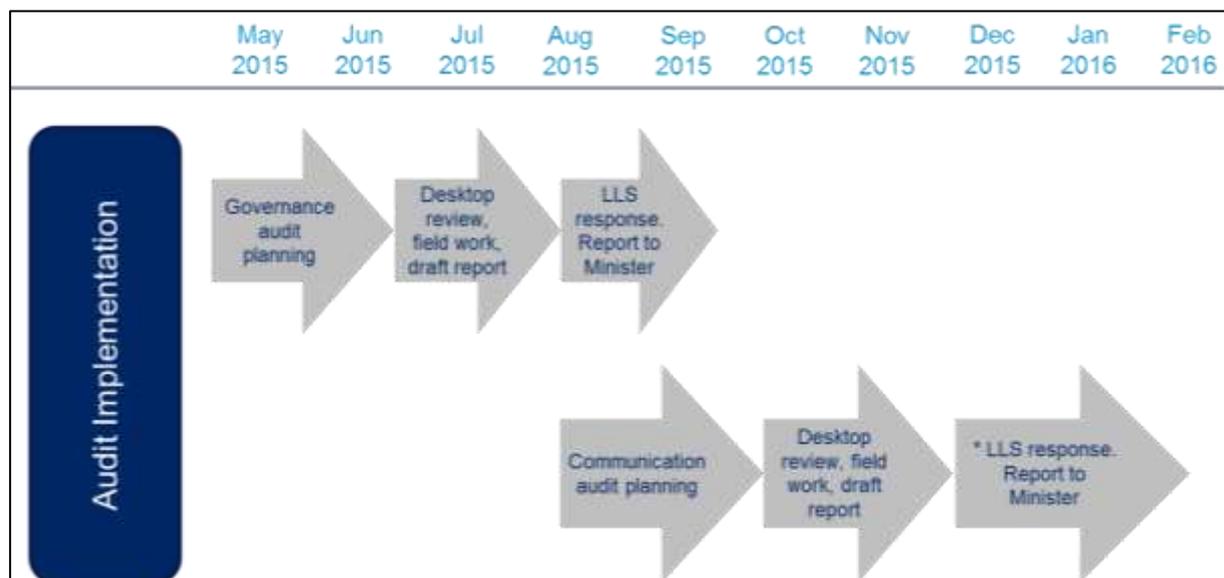


Figure 2: The initial audit focus will be assurance of LLS core systems and functions, and will expand over time to include to assessment of future risks and improved business performance.

⁶ Natural Resources Commission, 2014, *Quick Reference Guide – NRC audit services*, July 2014.

First Audits

The Commission will commence LLS audits in June 2015. Our first audit of LLS governance will be completed by September 2015. The second audit of LLS communication will commence in October 2015 with the final report completed by February 2016. The Commission will then audit the next priority risks to LLS service delivery over the following months.



* The timeframe for feedback and final reporting activities for the communications audit account for the December/January holiday period.

Figure 3: Timeline for first two audits (governance and communications)

Implementation planning

For each audit area, a detailed implementation plan will be prepared. This will identify the full scope, timing and methodology for the audit. This will include for instance, which regions will be audited, the types of evidence that will be collected, lines of inquiry to be examined and processes for reporting and feedback to all LLS regions.

Each audit of LLS will be conducted at state and regional scales. The Commission, in consultation with LLS, will use criteria to select a representative group of three regions for each audit. All regions will be audited once within the two-year plan.

Governance audit

The Commission has begun developing the detailed implementation plan for the governance audit, including the objective, lines of inquiry and methodology that will be used. The scope of the audit will include relevant governance requirements of the LLS Act, the Standard and relevant corporate governance requirements, for example those specified by the Australian Institute of Company Directors.

Audit objective: To provide a pathway for increasing governance maturity in Local Land Services (LLS) through process improvement and practice change.

The audit will assess compliance of governance arrangements against the *LLS Act 2013* as well as the quality of the governance procedures, policies and actual practice in relation to the LLS Performance Standard. In the audit report, the Commission will assess the level of maturity of current LLS governance practice and make recommendations for process improvement and practice change. Recommendations will focus on LLS progress towards a greater maturity level and improved performance and outcomes.

Methodology

The audit will focus on four lines of inquiry based on the governance risks identified in the risk assessment. The audit will consider the formal governance arrangements (principles, policies, processes etc.) that LLS have put in place and then determine how governance is working in practice (whether the principles, policies and processes are functioning effectively). Example focus areas for the lines of inquiry, which will be examined in regards to both arrangements and practice are:

1. Direction-setting

- consistency and clarity of strategic guidance at the state and local scales
- investor and stakeholder confidence in the strategic direction of the organisation.

2. Decision making, including roles and responsibilities

- establishment of clear governance arrangements
- clarity of roles and responsibilities for Boards and individuals at each scale within the governance arrangements established by LLS, including delegations
- consistent application of principles to determine the right organisational scale for decision making, including appropriate balance between state-wide consistency and regional variation
- involvement of Local Community Advisory Groups and other stakeholders in decision making.

3. Behavioural leadership

- diversity and representation on Community Advisory Groups
- internal and external assessments of Board performance
- culture and change management, including codes of conduct
- enterprise risk management, including reputational risks
- integrity, credibility and commitment to continuous improvement.

4. Transparency and accountability

- reporting of results, at both state and local scales
- financial probity and legislative compliance
- appropriate public access to activities of the Board, for example decisions taken in Board meetings

For each line of inquiry the Commission will make a finding in regards to the maturity of the governance according to following categories.

Category	Description
Mature	Mature, well-developed
Sound	Generally sound and reliable, do not need substantial improvement
Passable	Adequate but needs improvement
Evolving	Still evolving and developing, especially in practice
Under developed	In need of developmental attention
Unable to assess	Not in a position to give an assessment/opinion, not applicable?

The Commission will use a variety of methods for collecting evidence including:

- Document review to investigate current governance arrangements - eg. Board charters, agendas, minutes, policies etc.
- Observation of governance activities eg. Board meetings
- Interviews with representatives from LLS to:
 - investigate current governance arrangements, and
 - explore how governance is practiced and how practice could be improved, using a sample of case studies from LLS operations
- Survey of Board members for self-assessment of governance maturity
- Survey of stakeholders who interact with Boards for assessment of governance maturity.

The Commission acknowledges that the audit of governance will be the first audit performed using the new Performance Standard for Local Land Services. The Commission is committed to adaptive management of audit processes to ensure that the audits continue to provide assurance to the Minister, continuous improvement opportunities for LLS and learning opportunities for the Commission.

Communications audit

In the Commission's recent risk assessment, communication was identified as key in addressing LLS reputational risks and critical to effective client service delivery across regions. Communications has been selected as the second priority area for audit and the Commission is beginning to scope this audit.

LLS have internal communication responsibilities (including Ministerial) under the *Local Land Services Act 2013*. LLS are also required to meet internal and external communication outcomes in the Performance Standard for LLS.

At this early stage of organisational maturity for LLS, it is timely for the Commission to develop and conduct an audit of LLS' internal and external communications to investigate:

- to what extent LLS communications satisfy the requirements of the *LLS Act* and the Performance Standard for LLS
- delegations, including who can communicate externally on behalf of LLS

- the maturity of current LLS communications eg. publications, social media, etc.
- threats and opportunities to effective communication within LLS
- what LLS can do to improve communication.

The Commission recognises that there are significant links between LLS governance and communication, and hence, value to be derived from conducting audits of the two areas consecutively so that one may inform the other. As such, it is proposed the Commission begin a communication audit of LLS in October 2015 after the completion of the governance audit. A final report would be submitted to the Minister in February 2016.

Next steps

Engagement

Regular and constructive engagement with LLS, its investors and stakeholders will be an important feature of the Commission's audit program. This will ensure that the Commission is alerted to emerging risks and can adapt its audit program accordingly.

The Commission consulted widely during the development of the risk register. Attachment 1 provides a list of all of the organisations and agencies that provided input during the risk assessment.

Reporting

A draft audit report will be prepared within four weeks of completion of the research and field work components of each themed audit and will include:

- background for the area subject to review
- a description of the audit terms of reference/work plan
- a summary of the audit findings and recommendations
- a discussion of how the findings relate to the organisational maturity
- detailed description of audit findings and recommendations
- LLS management response to recommendations.

Recommendations for how the findings can best be addressed will be developed and prioritised in consultation with LLS.

LLS will be provided the draft report for review and will be requested to provide a response to the findings and recommendations to be included in the final report.

Final reports will be submitted to the Minister for Primary Industries, and placed on the Commission's website following approval by the Minister.

Ongoing audit planning

The audit plan will be updated in mid-2017 following a detailed risk assessment that incorporates approximately 18 months of strategic plan implementation.

The Commission will work to achieve integrated assurance of all providers to minimise LLS risk, identify any gaps and avoid duplication with LLS internal audit and other assurance providers.

Follow up audits

The Commission may perform follow up audits at the request of the Minister to assess progress against recommendations where there is a concern about ongoing or emerging risks.

The Commission recommends that the Minister requests that Board of Chairs provide regular updates on progress against audit actions to allow evaluation of risk mitigation.

Attachment 1 – Consultation

The Commission engaged a broad group of LLS representatives, stakeholders and investors from a range of government agencies, industry and community at different scales to achieve a sufficiently comprehensive risk assessment. Reviews of additional documentary evidence supplemented the consultation findings.

Table 1.1: Local Land Services representatives, stakeholders and investors consulted

Stakeholders consulted	
Investor - government	
Australian Government	Department of Agriculture Department of Environment
NSW Department of Aboriginal Affairs	
NSW Department of Planning	Coastal and Natural Resource Management Policy
NSW Department Premier and Cabinet	Resource and Land Use
NSW Department of Primary Industries	Biosecurity NSW Emergency Services Fisheries NSW and Marine Estate Strategy and Policy
NSW Environmental Trust	
NSW Office of Environment and Heritage (OEH)	Environmental Water, Policy Regional Operations Science
NSW Treasury	
Investor - non-government	
NSW Farmers	
Government partner	
Central West Regional Organisation of Councils	Riverina and Murray Regional Organisation of Councils
Riverina Eastern Regional Organisation of Councils	Southern Councils Group
Local Government NSW	NSW OEH - National Parks and Wildlife Service
Local Land Services - Board of Chairs, Board members, management and staff from the following regions	
Central Tablelands LLS	North Coast LLS
Central West LLS	North West LLS
Greater Sydney LLS	Riverina LLS
Hunter LLS	South East LLS
Murray LLS	Western LLS

Stakeholders consulted

Audit

Independent Pricing and Regulatory Tribunal

Agriculture

Australian Pork Limited

Dairy NSW

Australian Wool Innovation

Grains Research and Development Corporation

Central West Farming Systems

Meat & Livestock Australia

Cotton Research and Development Corporation

Primary Industries Ministerial Advisory Committee

Dairy Australia

Biosecurity

Animal Health Australia

NSW Weeds Officers Association

Invasive Species Council

Community

Landcare NSW

Environment

Nature Conservation Council

World Wildlife Fund

Water

Murray-Darling Basin Authority

NSW Department of Primary Industries - NSW Office of Water

Interview questions

The Commission asked a standard set of questions of LLS and its investors and stakeholders during interviews conducted either in person or by telephone. Four questions were designed to capture a broad and representative range of risks to LLS service delivery:

- 1 What are the important things that need to go right for LLS to effectively deliver services?
- 2 What worries you most about LLS being able to achieve effective service delivery?
- 3 What factors, if any are stifling LLS progress?
- 4 Where should the Commission plan to audit to have the greatest impact on investor confidence/ improving LLS business?

Table 1.2: documents used as additional evidence sources

Evidence sources	
Audit Office of NSW	Financial Audit, Volume Fourteen focusing on Trade and Investment (2014) Management of Volunteers (2014)
Australian National Audit Office	Audit Report No. 21 2013-14, Pilot Project to Audit Key Performance Indicators (2014) The Design and Conduct of the Third and Fourth Funding Rounds of the Regional Development Australia Fund (2014)
Australian Institute of Company Directors	Governance Analysis Tool
Local Land Services	LLS Achievements Report (2014) LLS Draft Extension Strategy (2015)
Office of the Auditor General, Western Australia	Managing the Impact of Plant and Animal Pests: A State-wide Challenge (2013)
Natural Resources Commission	Review of Catchment Action NSW funding allocation to Local Land Services - 2015-2017 (2014)
NSW Treasury	Budget Papers 3 2014-15 - Department of Trade and Investment, Regional Infrastructure and Services (Volume 8) Budget Papers 3 2014-15 - Justice (Volume 6) Budget Papers 3 2014-15 - Planning and Environment (Volume 5)
Victorian Auditor General's Office	Effectiveness of Catchment Management Authorities (2014) Managing Victoria's Native Forest Timber Resources (2013)

Attachment 2 - Developing the audit plan

Figure 3.1 illustrates the six key steps involved in developing and finalising this audit plan.⁷ The Commission has used a risk based approach to planning its LLS audits, in line with industry best practice.

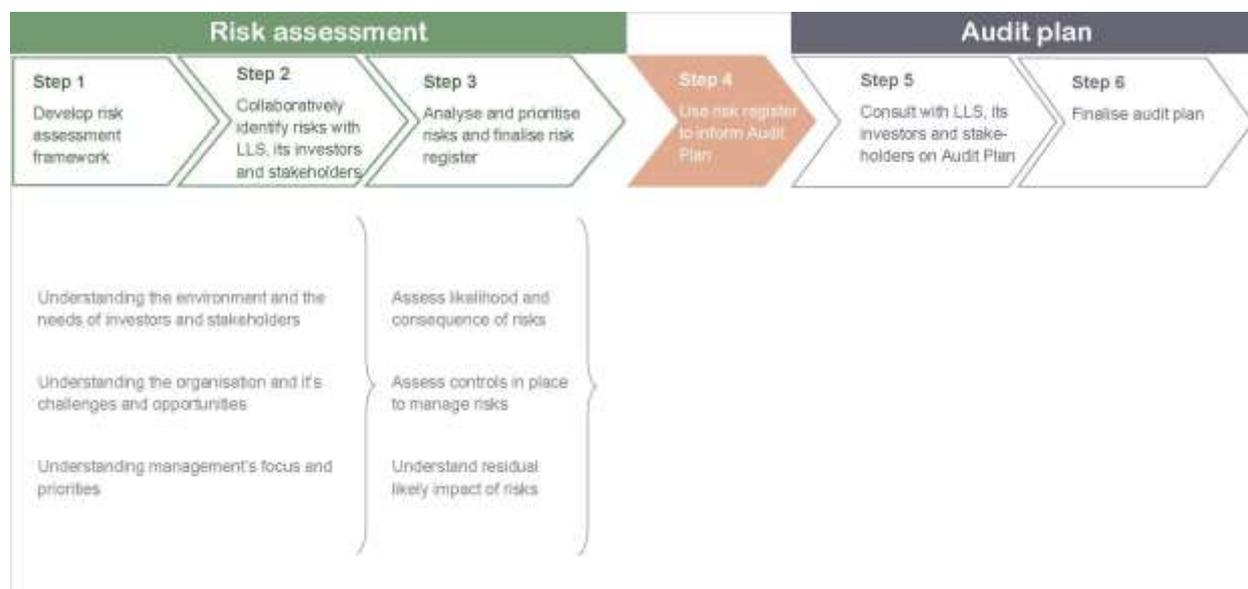


Figure 3.1: steps to audit

Risk assessment

The Commission conducted a detailed, collaborative risk assessment with LLS stakeholders and investors to inform the Commission's audit program. Through the risk assessment process, the Commission:

- developed a risk assessment framework and risk register
- gathered evidence to populate the register with risk data from a broad range of sources
- analysed the data in the risk register to identify priority strategic risks for LLS service delivery through a collaborative approach with LLS.

The result of the risk assessment was identification of the highest priority areas for the Commission to audit as shown in **Table 1**. The Commission will continue to work with LLS to finalise the assessment of controls in place to manage identified risks and determine residual risk ratings (as per Step 3 above).

⁷ Adapted from SACE Board of South Australia Strategic Internal Audit Plan 2009-2011

Risk framework

The risk framework identifies the “audit universe” to be examined in the risk assessment. The identified LLS services and functions subject to the Commission audit are shown in **Figure 3.2**.

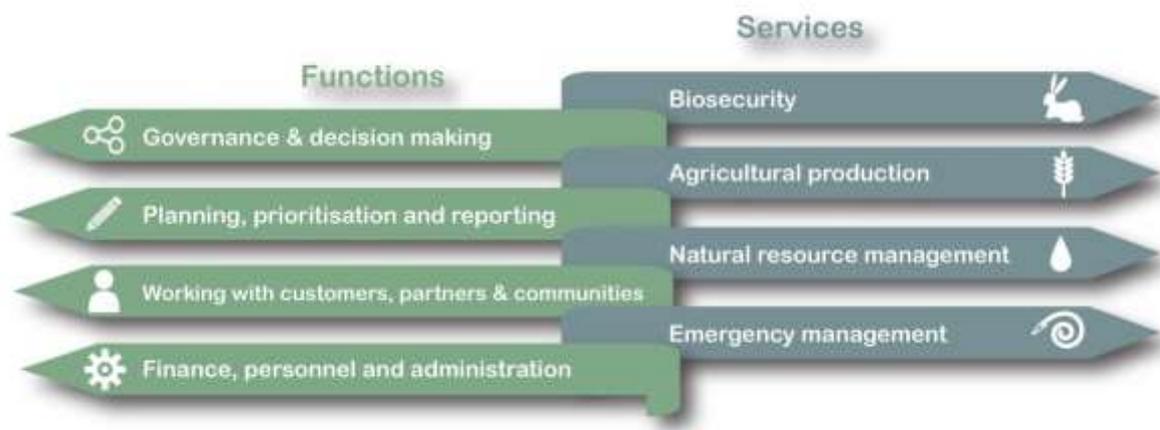


Figure 3.2: LLS functions and services to be examined in the risk assessment

Risk register

The risk register captures the evidence collected during the risk assessment as well as the results of analysis.

Sources of evidence for the risk assessment included LLS internal risk registers, interviews with a broad range of LLS stakeholders and investors at the state (Attachment 1), regional and local scale, document review and Commission analysis and expertise.

The Commission identified seven risk categories, segregated into internal and external risks. Risk information collected during the risk assessment was recorded within these categories.

Table 3.1: Risk categories

Internal	External
1. Governance and decision making	5. PEST (political, economic, social, technological)
2. Planning, prioritisation and reporting	6. Natural processes
3. Working with customers, partners and communities	7. Funding & investment
4. Finance, personnel and administration	

The Commission's audits are an important part of the LLS independent assurance framework (Figure 3.3), but do not replace internal LLS monitoring and review, or the important audit functions and oversight of LLS boards and the LLS Board Audit and Risk Committee⁸.



Figure 3.3: Integrated assurance framework for LLS

Collaborative approach

A workshop with the wider team, including LLS members evaluated the Commission's initial risk ratings and finalised findings. The collaboration with LLS:

- captured LLS understanding of the current controls to address identified risks
- assisted LLS with refining their internal risk registers
- strengthened the skills of both Commission and LLS in collaborative risk assessment
- built LLS confidence in the fairness of the audit planning process.

The risk assessment and audit program will be regularly reviewed and updated to account for significant changes in the internal and external context of the audits, and continued growth in the capability and organisational maturity of LLS. The Commission will also learn from its audit processes and will update risk assessment and audit approaches to inform the Commission's future LLS audit plans.

⁸ Taken from NRC brochure 'Introducing the Commission's audits of Local Land Services Performance', March 2015