

The 8th ASOSAI Seminar on Environmental Auditing

**Themes from the Australian National Audit Office's
recent environmental audit coverage**

SAI Australia Country Paper

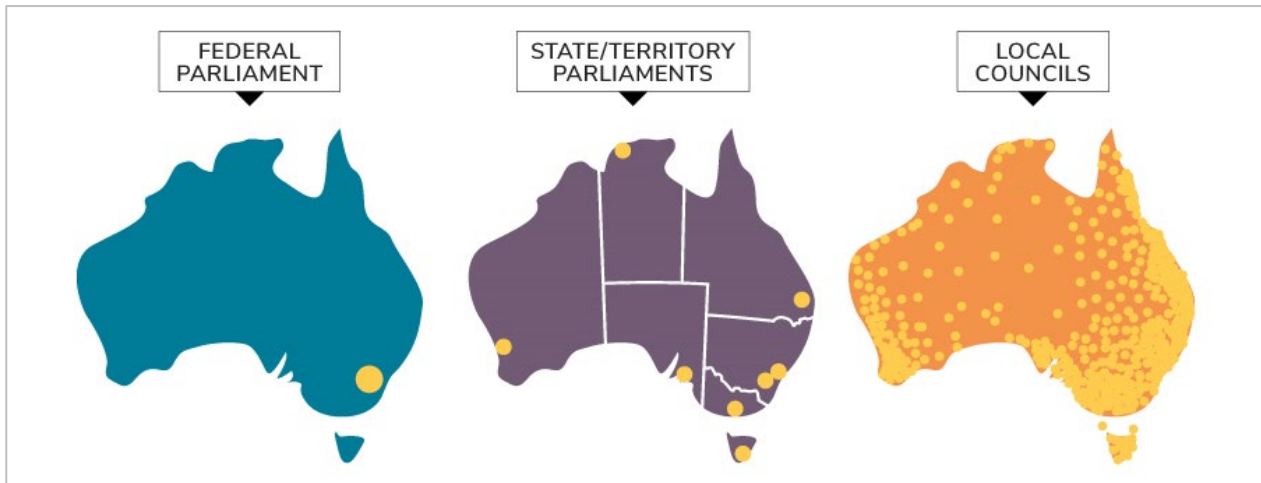
Theme of seminar: Audit Promoting Government Accountability for Environment

Introduction

A shared responsibility

1. Australia is a federation of six states and two self-governing mainland territories. The Australian Constitution sets out the responsibilities of the Australian and state governments. The six states and the Northern Territory have established one further level of government, the local councils (see Figure 1).

Figure 1: Australian Government jurisdictions



Source: Australian Parliament.

2. The Australian (or Commonwealth or federal) Government is primarily responsible for the protection of matters of national environmental significance and for implementing Australia's obligations under international environmental treaties and conventions. The states and territories are responsible for a broad range of environmental matters in their respective jurisdictions, including the regulation of pollution, approval of certain types of development activity, and natural resource management. Local councils oversee local matters, such as town planning approvals, sewerage, maintaining local parks and streets, and rubbish collection.

Auditor-General's mandate

3. The Auditor-General for Australia is responsible under the *Auditor-General Act 1997* for auditing Commonwealth public sector entities and reporting to the Parliament of Australia. The Australian National Audit Office (ANAO) assists the Auditor-General to deliver these functions.

4. The ANAO's audit mandate does not extend to the promotion of government policy or international environmental and development practice, such as the United Nations (UN) Sustainable Development Goals. The Australian Government Department of Foreign Affairs and Trade has the lead responsibility for responding to the UN Sustainable Development Goals.¹

5. The Agriculture, Water and the Environment portfolio is responsible for advising the Australian Government and implementing programs on the environment, water resources, and

1 For more information, see Department of Foreign Affairs and Trade, *2030 Agenda for Sustainable Development* [Internet], available from <https://www.dfat.gov.au/aid/topics/development-issues/2030-agenda/Pages/default> [accessed 24/08/2021].

Australia's agricultural, fisheries and forestry industries. The Department of Agriculture, Water and the Environment (DAWE) is the lead entity in the portfolio.

6. The ANAO's environment related audits are generally conducted under the Auditor-General's performance audit mandate. From 2019–20 to 2020–21, the ANAO tabled 84 performance audits, with nine audits relating to the environment and agriculture.²

Annual Audit Work Program and audit coverage

7. The Auditor-General publishes an annual audit work program in July each year.³ The purpose of the annual audit work program is to inform the Parliament, government sector entities and the public of the audits the ANAO proposes to deliver throughout the financial year.⁴

8. For 2021–22, key characteristics and risks in the context of the Australian Government's environmental responsibilities that influence the ANAO's allocation of resources include:

- measuring and demonstrating the achievement of intended goals;
- the achievement of value for money through grants and procurement, including in relation to water efficiency and water entitlements;
- implementation of new policies, including in relation to recycling and waste, bushfires, droughts, floods, COVID-19 pandemic response and the current economic conditions;
- planning and implementation of environmental and agricultural regulation; and
- procurement and financial management.

9. The ANAO's work program for 2021–22 has 76 potential performance audits across all Australian Government portfolios. Considering the identified risks, expenditure and diversity of the sector, the ANAO has identified five potential performance audits related to the environment and agriculture for 2021–22.⁵

Themes from the ANAO's recent environmental audit coverage

10. The ANAO's recent coverage of environmental matters as part of its performance audit program has highlighted several themes across the Australian Government's delivery of programs and regulatory functions. The ANAO's performance audits have identified:

- weaknesses in management of probity and conflicts of interest;

2 Auditor-General Report No. 21 of 2019–20 *Probity Management in Rural Research and Development Corporations*; Auditor-General Report No. 35 of 2019–20 *Grant Program Management by the Australian Renewable Energy Agency*; Auditor-General Report No. 41 of 2019–20 *Design and Establishment of the Regional Investment Corporation*; Auditor-General Report No. 47 of 2019–20 *Referrals, Assessments and Approvals of Controlled Actions under the Environment Protection and Biodiversity Conservation Act 1999*; Auditor-General Report No. 2 of 2020–21 *Procurement of Strategic Water Entitlements*; Auditor-General Report No. 35 of 2020–21 *Implementation of the Great Barrier Reef Foundation Partnership*; Auditor-General Report No. 42 of 2020–21 *Responding to Non-Compliance with Biosecurity Requirements*; Auditor-General Report No. 44 of 2020–21 *Regulation of Great Barrier Reef Marine Park Permits and Approvals — Follow-up*; and Auditor-General Report No. 45 of 2020–21 *Management of Commonwealth Fisheries*.

3 The annual audit work program for 2021–22 is available on ANAO website: <https://www.anao.gov.au/work-program/overview>.

4 As an independent officer of the Australian Parliament, the Auditor-General has discretion in the performance or exercise of functions or powers and may at any time explore additional areas of audit interest beyond those published in the annual audit work program.

5 Potential audits for the Agriculture, Water and the Environment portfolio can be found on the ANAO website: <https://www.anao.gov.au/work-program/portfolio/agriculture-water-and-the-environment>.

- variability in the maturity of risk-based frameworks for the delivery of regulatory functions; and
- scope to improve performance measurement frameworks to determine the impact and effectiveness of the Australian Government's environmental programs and regulatory functions.

Weaknesses in probity and managing risk relating to conflict of interest

11. A significant amount of Australian Government funding for the environment is delivered to other levels of government or non-government organisations. Grants totalling \$2.6 billion comprise 52 per cent of DAWE's total budgeted expenses for 2021–22. Establishing strong probity frameworks helps ensure decisions are made with integrity, fairness and accountability, while attaining value for money. Appropriate arrangements to manage conflicts of interest are particularly important for building and maintaining public confidence in the government to manage sensitive, high-value and at times contentious environmental policies and programs.

12. In recent audits, the ANAO identified weaknesses in relation to the management of probity and conflicts of interest. In [Auditor-General Report No. 35 of 2019–20](#) *Grant Program Management by the Australian Renewable Energy Agency* (ARENA audit), the ANAO found that grant funding recipients were also providing evaluation services to the entity. ARENA was unable to provide evidence that the materiality of these conflicts was considered by the delegate, or that actions to manage material conflicts were documented.

13. In [Auditor-General Report No. 47 of 2019–20](#) *Referrals, Assessments and Approvals of Controlled Actions under the Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act audit), the ANAO examined DAWE's regulation of environmental approvals. The audit found that the department had identified two 'high' risks relating to conflicts of interest in its 2015–17 fraud risk plan, and one 'medium' risk in the 2017–19 plan. However, the department did not implement any of the treatments identified to address these risks. DAWE did not establish a fraud risk plan for 2019–20 onwards.

14. [Auditor-General Report No. of 2020–21](#) *Procurement of Strategic Water Entitlements* (Water Entitlements audit) examined strategic water procurements conducted by DAWE. The audit found that the department relied on officials to self-declare any real or perceived conflicts of interest for limited tender procurements, rather than making it a requirement. Conflict of interest declarations were not clearly documented.

15. The ANAO made recommendations to strengthen the probity and conflict of interest management processes. The ANAO recommended that entities should:

- improve policies and processes to ensure appropriate consideration of probity when making decisions;
- consistently implement and communicate arrangements for managing real or perceived conflicts of interest; and
- ensure that identified conflict of interest risks are managed and treated.

16. The above audits provided the following key messages for the public sector.

- Data and information from IT and records management systems needs to be accessible and have appropriate quality controls if it is to effectively support the identification of key

risks and trends. Entities should ensure records relating to conflict of interest declarations are current, complete and accessible.

- The coverage and scope of the probity management framework should be commensurate with the nature and level of the risks involved.
- Entities should ensure appropriate probity policies are developed, regularly reviewed and demonstrably adhered to through appropriate reporting on compliance. This involves an active rather than passive approach to acting on probity risks.

Risk-based environmental regulation

17. A risk-based approach to regulation supports the targeting of regulatory activities to areas of highest compliance risk. This approach helps to ensure that compliant entities are freed from unnecessary regulatory intervention, while additional regulatory effort is directed at those entities that are less likely to meet their compliance obligations. A sound understanding of risk also allows regulators to frame their risk tolerance and appetite, which should be used to inform all aspects of regulatory activity.

18. The ANAO identified variability in the maturity of risk-based approaches to the delivery of regulatory functions.

19. [Auditor-General Report No. 42 of 2020–21](#) *Responding to Non-Compliance with Biosecurity Requirements* (Biosecurity audit) examined DAWE’s effectiveness in responding to non-compliance with plant and animal biosecurity requirements. Effective arrangements to detect and respond to non-compliance with biosecurity requirements are necessary to manage the risk of plant and animal pests and diseases entering Australia.

20. The audit found that DAWE does not have a framework to assess and manage risk across the entire biosecurity system. There is no established process to assess the level of risk posed by each border entry route and target activities at those pathways. This was identified as an issue once in 2008, twice in 2015 and twice in 2020. There have been multiple attempts or commitments to implement such a framework, including in 2009, 2010, 2012, 2016, 2017, and at the time of audit fieldwork in March 2021. These did not result in an implemented framework.

21. The EPBC Act audit found that DAWE has not assessed compliance risk across all of its environmental regulatory responsibilities, or established arrangements to prioritise its assessments of compliance risk between its environmental regulatory responsibilities. This meant that DAWE was not well positioned to develop a complete view of compliance risk, limiting its ability to align regulatory functions and resources to the risk of non-compliance.

22. In contrast, [Auditor-General Report No. 45 of 2020–21](#) *Management of Commonwealth Fisheries* (Fisheries audit) examined the Australian Fisheries Management Authority’s (AFMA) compliance framework and found that AFMA has established appropriate risk-based compliance priorities and plans. Risks are identified and monitored through biennial risk assessments and ongoing analysis. Compliance plans and programs are aligned with identified risks.

23. The ANAO made recommendations for relevant entities to implement:

- a strategy and accompanying procedural guidance for use of regulatory intelligence;
- a framework to assess and manage risk across the entire regulatory system; and
- a framework to ensure the resources allocated to regulatory functions is proportionate to the level of risk.

24. The above audits provided the following key messages for the public sector.
- Regulators should use collected information and intelligence to assess the level of risk across the entire breadth of their regulation, and then target their activities at those areas with the highest level of risk.
 - Governance and risk frameworks should consider available resources and feasibility of implementation to ensure intended outcomes are achieved.
 - Undertaking regulatory activities in full accordance with procedural and legislative requirements, including maintaining appropriate records, is necessary to ensure effective and defensible action can be taken in response to non-compliance.

Measuring the impact and effectiveness of environmental functions

25. Fit-for-purpose performance measurement frameworks enable an assessment of the extent to which environment programs are achieving established objectives. Common issues that have reduced the usefulness of performance measurement frameworks include:

- heavy reliance on activity-based performance information, which does not provide sufficient insights into progress or impact of programs and activities; and
- changes to measures used to report publicly on performance results year-to-year or consolidating performance information across several programs.

26. The ARENA audit examined whether ARENA is achieving its legislated objectives of improving the supply and competitiveness of renewable energy in Australia. The audit found that ARENA's evaluation and performance reporting frameworks do not clearly demonstrate that its grant funding is increasing the supply and competitiveness of renewable energy in Australia beyond what would otherwise have occurred.

27. The Fisheries audit made similar observations for AFMA. Collectively, performance measures contained in AFMA's corporate plan did not enable a clear assessment of AFMA's effectiveness in achieving its purpose. AFMA had incorrectly reported results in its performance statements over the past four financial years.

28. The EPBC Act audit found that DAWE had not established appropriate performance measures relating to the effectiveness or efficiency of its administration of referrals, assessments and approvals. All relevant performance measures in the department's corporate plan were removed in 2019–20, and there were no internal performance measures relating to effectiveness or efficiency.

29. The absence of meaningful performance information makes it more difficult for entities responsible for the delivery of environmental programs and activities to effectively manage delivery and for stakeholders to judge the impact and effectiveness of the public funding. It also results in a limited evidence base on which the development of new policies can be based.

30. The ANAO made recommendations for relevant entities to establish or revise their performance information to:

- measure the effectiveness and efficiency of their activities;
- improve their reliability and completeness; and
- ensure the purpose statement wholly incorporates legislated objectives and are aligned with key activities.

31. The above audits provided the following key messages for the public sector.
- Entities should implement performance and evaluation frameworks that provide information on their progress towards desired outcomes, to develop a meaningful understanding of their effectiveness and allow them to respond to emerging issues.
 - The establishment of appropriate efficiency measures will better position regulators to identify and address the reasons for declining performance.
 - To facilitate a meaningful assessment of progress and achievement, entities should ensure they are monitoring, evaluating and reporting on their effectiveness at achieving their objectives.

Audit impact

32. The fact that independent external audit exists, and the accompanying potential for scrutiny, improves performance. The impact of the ANAO's ongoing scrutiny of the government's environmental activities can be seen at both the individual program and whole-of-system levels.

Program-level impact

33. Program-level improvements can occur during an audit engagement as interim findings are made. Entities will often begin to address issues as they emerge during the audit process. For example, ARENA revised its performance framework during the course of the audit and implemented projects that improved the funding agreement oversight information available to its staff, managers and governance committees. In [Auditor-General Report No. 21 of 2019–20](#) *Probity Management in Rural Research and Development Corporations*, each of the five research and development corporations audited was responsive to issues raised during the audit, and accordingly made a number of improvements to their management of probity.

34. Improvements can also occur after the audit has been completed and formal findings are communicated. The ANAO's reports to the Australian Parliament identify areas where improvements can be made to aspects of public administration and make specific recommendations to assist public sector entities improve performance. The role of parliamentary committees is crucial in ensuring that entities are addressing the issues identified in the ANAO's audit reports. In 2020–21, the Water Entitlements audit and the EPBC Act audit were selected for further review and scrutiny at public hearings in the Australian Parliament.⁶

35. Committee inquiries produce reports that may contain recommendations of their own to government entities, such as to report back to the committee on progress on the implementation of recommendations. This ensures the Parliament maintains scrutiny over key areas of risk.

System-level impact

36. More systematic impact can involve legislative changes or regulatory reform. For example, the EPBC Act audit informed the statutory review of the EPBC Act which commenced on 29 October 2019.⁷ The review examined how the EPBC Act has been operating, and any changes needed for Australia to support ecologically sustainable development into the future.

6 The two inquiries are available on the Australian Parliament website:
https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit..

7 Section 522A of the EPBC Act requires a review examining the operation of the EPBC Act, and the extent to which its objects have been met, to be undertaken every 10 years.

37. The Final Report of the Independent Review of the *Environment Protection and Biodiversity Conservation Act 1999* was handed down in October 2020.⁸ The report found that:

[t]he EPBC Act does not clearly outline its intended outcomes, and the environment has suffered from 2 decades of failing to continuously improve the law and its implementation. Business has also suffered. The Act is complex and cumbersome and it results in duplication with State and Territory development approval processes. This adds costs to business, often with little benefit to the environment.⁹

38. The report provided 38 recommendations for reform. The centrepiece of the recommended reforms is for the government to adopt new, legally enforceable National Environmental Standards, to be overseen by a new, independent, statutory position of Environment Assurance Commissioner. The Australian Government responded to the Final Report in June 2021, agreeing with ‘the central pillars of reform recommended by the Review’.¹⁰

39. The Bill to amend the EPBC Act in line with the findings of the review is currently before the Australian Parliament.¹¹

Audit experience

40. The ANAO experienced challenges and barriers and also learned lessons from these audits.

Use of data analytics and systems assurance specialists

41. Appropriate utilisation of data analytics and systems assurance allows for a more efficient audit process and robust results. However, engagement of specialists is not always the more efficient pathway.

42. Having audit team members proficient in data analytics allows the audit team to undertake ad hoc data analysis tasks. For example, in the EPBC Act audit, this included the automation of audit processes, which provided efficiencies, and extracting further insights from available data, which provided enhanced audit outcomes. The ad hoc nature of some of the tasks means it would not have been efficient to engage data analytics specialists to complete them. In addition, the audit team’s familiarity with the entity enabled them to identify insights in the data that may not have been apparent to someone with less context.

43. In the Biosecurity audit, the work initially scoped for IT audit specialists was ultimately not used heavily in the final report. The audit team found that the majority of this work could have been led by the audit team, had it been scoped earlier, as it was not of a highly technical nature.

Data and record-keeping

44. The ANAO encountered a number of challenges related to entities’ poor record-keeping practices.

8 The report is publicly available at <https://epbcactreview.environment.gov.au/resources/final-report>.

9 G Samuel AC, *Independent Review of the EPBC Act – Final Report*, October 2020, p. vii.

10 Department of Agriculture, Water and the Environment, *A pathway for reforming national environmental law*, June 2021, available at <http://www.environment.gov.au/system/files/resources/02baf838-1d1c-492d-8014-ae9fc356f845/files/pathway-reforming-national-environmental-law.pdf>.

11 Australian Parliament House, *Environment Protection and Biodiversity Conservation Amendment (Standards and Assurance) Bill 2021* [Internet], available at https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6683.

45. In the EPBC Act audit, DAWE used a business system to support their administration of referrals, assessments and approvals. However, this system was not fit for purpose as it did not meet some of its functional requirements and contained inaccurate data. Key documents were not available in the department's record management system.

46. These issues limited the department's ability to provide reliable information and increased reliance on manual data collection. It also meant the audit team had to adjust its planned testing approach due to unavailability or incompleteness of required data. For example, DAWE had not established arrangements to measure its efficiency or use of resources with regard to its administration of referrals, assessments and approvals. The audit team created proxy indicators to measure the department's efficiency.

47. A similar issue arose in [Auditor-General Report No. 44 of 2020–21 Regulation of Great Barrier Reef Marine Park Permits and Approvals – Follow-up](#). In the absence of an existing efficiency indicator, the ANAO examined whether an efficiency indicator could be created using inputs, such as the cost of their regulatory activities, and corresponding outputs, such as number of regulatory decisions made per financial year. However, the Great Barrier Reef Marine Park Authority was unable to provide a sufficient level of information on the costs of its activities to enable the development of an efficiency indicator.

Sample testing

48. The ANAO conducted a number of sample testing in the audits, which presented different learnings.

49. In the EPBC Act audit, the ANAO conducted four separate sample-based tests. The sampling numbers were based on a confidence level of 90 per cent (meaning expected error rate of 10 per cent) and a confidence interval of 5 per cent, in accordance with the ANAO Performance Audit Manual guidelines.

50. However, testing for all four samples showed very high error rates (between 34 and 79 per cent). This required the audit team to change the sampling methodology.

- For three of the four samples, certain requirements were excluded from sample testing and the error rate was adjusted to enable conclusions to be drawn from the testing.
- For the remaining sample, representative sampling was determined to not be appropriate under the ANAO Performance Audit Manual. Results were not presented as a representative sample and were supported by other evidence sources.

51. In the Water Entitlements audit, the audit team identified a number of additional transactions that fell within the scope of the audit but had been overlooked. This meant evidence for these transactions had not been collected, requiring more work in the late stages of the audit. Working with the entity in the planning and early phases of fieldwork to accurately scope the population would minimise these issues.

52. In the ARENA audit, the audit team tested a sample of grant projects. A single extract of data from ARENA's grant management system was collected early in the fieldwork stage. This meant analysis conducted from this data appeared relatively dated when it was incorporated into the final report, which was produced more than six months after the data extraction. Considering the need for a second data extraction close to the end of field work, and ensuring that data analysis procedures and code can be re-run, can help affirm that that the analysis is up to date at the end of the fieldwork.

Sharing and partnerships

Australia's involvement in the international SAI community

53. The ANAO shares its knowledge and learns from the experiences of others through three working groups on environmental auditing:

- Australasian Council of Auditors-General (ACAG)–Pacific Association of Supreme Audit Institutions (PASAI) Regional Working Group on Environmental Auditing;
- Asian Organization of Supreme Audit Institutions (ASOSAI) Working Group on Environmental Auditing; and
- International Organization of Supreme Audit Institutions (INTOSAI) Working Group on Environmental Auditing.

54. These working groups have provided important insights into alternative auditing methodologies, tools and approaches and their application in differing contexts. The attendance of government representatives, international speakers and specialist performance auditing bodies also provides important insights relevant to the delivery of the ANAO's audit program.

Conclusion

55. The Australian Government makes substantial investments in environment and agriculture-related activities. The ANAO will continue to monitor government activity in areas related to the environment in the context of its broader performance audit program. This audit work provides assurance to the Australian Parliament regarding the extent to which policy and program objectives are being achieved. Environment-related performance audits also highlight to administering entities opportunities for improvement.