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# Appendix three – About the audit

## Audit objective

This audit assessed the effectiveness the Department of Planning, Industry and Environment's support for planning and funding town water infrastructure in regional NSW towns and cities.

## Audit criteria

We addressed the audit objective by assessing whether the department has:

- effectively overseen and facilitated Local Water Utilities' (LWUs') planning for town water infrastructure
- had an effective framework for assessing town water infrastructure issues to inform state and regional water planning
- effectively targeted town water infrastructure to its policy objectives.

## Audit scope and focus

In assessing the criteria, we focused on activities since 2014 and checked the following aspects:

- The department's oversight and support to LWUs for their strategic town water planning, via its administration of the Integrated Water Cycle Management (IWCM) planning guidance, which is part of the Best Practice Management of Water Supply and Sewerage Guidelines. Specifically, we checked whether the department:
  - effectively assisted LWUs to develop sound IWCM strategies
  - effectively reviews and approves IWCM strategies using clear processes and a governance framework
  - has robust monitoring and evaluation that continuously improves these processes.
- The department's plans, activities and progress to develop integrated approaches to local, regional and state water planning, particularly via the Regional Water Strategies Program and insofar as these activities relate to town water infrastructure planning. Specifically, we checked whether the department had:
  - defined objectives for this strategic water planning, with aligned priorities, at local, regional and state-wide levels
  - clear plans to engage local stakeholders on town water infrastructure issues when developing state and regional water strategies
  - identified issues in IWCM strategies to inform state and regional water strategies.
- The department's role in the design and implementation of town water infrastructure funding programs, with a focus on the Safe and Secure Water Program (SSWP) i.e. program approaches to targeting funds in the first version (SSWPv1), and in stream 1 and stream 2 of the re-designed version (SSWPv2). Specifically, we checked whether the department had:
  - designed the program to align to its policy objectives
  - addressed barriers to effectively targeting funds
  - targeted funds as intended.

## Audit exclusions

The audit did not conduct a statutory review of the department's regulatory arrangements for the LWU sector, and did not assess the effectiveness of the department's operational and technical advice to LWUs across all aspects of their businesses (other than for IWCM planning and the related strategic business planning activities). The audit did comment on these matters where they affected our findings or for context.

## Audit approach

Our procedures included:

1. Interviewing officers and other staff from:
  - the department's Water Group, including the Water Utilities and Regional Water Strategy teams and the Chief Water Strategy Officer
  - other departmental areas and cluster entities, including the Office of Local Government (OLG), the Natural Resources Access Regulator (NRAR), the NSW Environment Protection Authority (EPA), the Regional Town Water Coordinator, the Natural Resource Commission (NRC), and Water NSW
  - other state government entities including Infrastructure NSW, NSW Health, Regional NSW (including Public Works Advisory), NSW Treasury and the Office of the Productivity Commissioner
  - the Independent Pricing and Regulatory Tribunal
  - Local Water Utilities (including local council and non-council operated utilities)
    - Seventeen LWUs were selected via a stratified random sampling approach to ensure coverage across all 12 departmental planning regions, and a mix of LWU sizes and types.
  - Industry and sector groups, including the Water Directorate and Local Government NSW
  - the Australian Government Productivity Commission
  - University-based experts in water resource management.
2. Examining and analysing:
  - legislation, policy, program documents and reports related to the department's regulatory role, activities, and priorities for supporting and funding regional town water infrastructure, and its oversight approach and support to LWUs
  - processes and procedures relevant to the administration of the IWCM element of the BPM Guidelines, and LWU sector engagement activities
  - administrative data about the review process and status of IWCM planning documents, and information about IWCM planning in the department's LWU Performance Monitoring and Benchmarking reports
  - plans, status updates and risk registers related to regional and state water planning, evidence of LWU sector engagement and IWCM strategies informing regional water strategies, current versions of draft regional water strategies, and minutes from relevant meetings
  - policy and program documents related to the design, implementation, monitoring and reporting on the department's town water infrastructure co-funding programs (including the SSWP), and partner programs with Infrastructure NSW
  - administrative data on town water infrastructure co-funding, including SSWP application data (n=226). Additional sampling of the completeness of project assessment data for 40 per cent of SSWP detailed applications across four TRP meetings; and records of all projects recommended through alternative processes
  - submissions from LWU sector groups including the Water Directorate, Local Government NSW, Joint Organisations of Councils and water utility alliances
  - reports from inquiries, reviews and previous performance audits relevant to regional town water management and LWU sector regulation in NSW.

The audit approach also involved developing an in-depth IWCM process study combining qualitative information from LWU interviews and submissions with the department's records.

We engaged an expert in water resource management and IWCM planning to provide technical advice on the audit procedures.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

## **Audit methodology**

Our performance audit methodology is designed to satisfy Australian Audit Standard ASAE 3500 Performance Engagements and other professional standards. The standards require the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with requirements specified in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

## **Acknowledgements**

We gratefully acknowledge the co-operation and assistance provided by the Department of Planning, Industry and Environment, other Local, State and Australian Government agencies, and water utility sector groups.

## **Audit cost**

The estimated total cost of this audit is \$520,000.