

AUDITOR-GENERAL'S REPORT

PERFORMANCE AUDIT

Follow-up of Performance Audit Controlling and Reducing Pollution from Industry (2001)



The Legislative Assembly
Parliament House
SYDNEY NSW 2000

The Legislative Council
Parliament House
SYDNEY NSW 2000

In accordance with section 38E of the *Public Finance and Audit Act 1983*,
I present a report titled **Follow-up of Performance Audit: Controlling
and Reducing Pollution from Industry (2001)**.

R J Sendt
Auditor-General

May 2004

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Foreword

Periodically we review the extent to which agencies have implemented the recommendations they accepted from our earlier audits. This gives Parliament and the public an update on the extent of progress made.

In this follow-up audit, we examine changes following our April 2001 report on how well the Environment Protection Authority (now part of the Department of Environment and Conservation) was controlling and reducing pollution from industry.

R J Sendt
Auditor-General

May 2004

Controlling and Reducing Pollution from Industry (2001)

Audit opinion

The Environment Protection Authority (EPA) accepted all the recommendations in our 2001 audit report on *Controlling and Reducing Pollution from Industry* and has demonstrated leadership in addressing the issues raised.

Most of the recommendations have now been fully or largely implemented. Major achievements include:

- new measures to facilitate a more consistent approach to licensing
- new risk assessment tools to assist in dealing with non-compliances and to identify priorities for its compliance audit activities
- a new licensing information management system.

In our view the EPA has a suitable framework with which to control the amount of pollutants discharged to the environment by industry.

The challenge now is for the EPA similarly to extend its influence for the protection of the environment from other more diffuse sources of pollution, such as agricultural run-off (highlighted in our May 2003 report on *Protecting Our Rivers*). We will follow up this work in a future report.

Background

Regulation, enforcement and education are the primary tools used by the EPA to protect the environment and to control the amount of pollutants discharged to the environment by industry. Although the EPA administers numerous other programs aimed at environmental improvement, one of its core functions is environmental regulation.

Primarily, the EPA regulates industry through the issue of environment protection licences to control pollution. There are more than 3000 environment protection licences in force. The introduction of the *Protection of the Environment Operations Act 1997* (POEO Act), which commenced 1 July 1999, restructured, streamlined and strengthened pollution control legislation.

At the time of the 2001 audit, the Environment Protection Authority (EPA) was the primary agency for environment protection in NSW. On 24 September 2003 the EPA was incorporated into the new Department of Environment and Conservation. However, functions and powers of the POEO Act continue to be exercised in the name of the EPA. For ease of understanding, this follow-up report continues to refer to the EPA.

Our 2001 audit

Our 2001 audit focused on determining whether:

- the EPA controlled the environmental impact of industry through licences and pollution reduction schemes
- the EPA's compliance and enforcement activities achieved high rates of compliance
- systems were in place to support decisions on regulatory interventions and ensure resources were directed to areas of greatest need.

Findings

2001 audit findings In 2001 we found that the legislative framework supported best practice in regulation and enforcement. However, there were a number of issues that limited the effectiveness of regulatory reforms.

Some of these, such as the quality of licences and the effectiveness of compliance activities, had already been identified by the agency.

Other factors that we identified as requiring attention were:

- compliance activities needed to provide greater assurance that premises are operating in accordance with the conditions of their licence
- indicators were needed to measure the overall effectiveness in achieving environmental improvements arising from compliance and enforcement activities and pollution reduction programs
- further improvements in information systems and data quality were needed to enable the agency to construct an accurate and complete record of its intervention in relation to a particular licensee or group of licensees
- a more structured and formalised approach for assessing licensee performance was needed to guide decision making and target resources to areas of greatest need.

Status of the implementation of recommendations

2004 follow-up audit

The Environment Protection Authority accepted all the recommendations from our 2001 audit and many changes have occurred. Most of the recommendations have been fully or largely implemented. The following chapter summarises the changes since the 2001 audit. A more detailed summary of the status of the recommendations and changes since 2001 is provided in Appendix 1.

Response from Department of Environment and Conservation

Thank you for your letter of 2 April 2004 providing the final draft report of the Follow-Up Performance Audit - Controlling and Reducing Pollution from Industry for our comment. I understand that a further amendment to Recommendation 24 of Appendix 1 was necessary and it has now been rectified and confirmed in an email from your Mr Chris Yates.

The Department of Environment and Conservation (DEC) agrees with the findings of the final draft follow-up audit and the subsequent amendment. I am aware of the cooperative atmosphere in which this follow-up audit has been undertaken and I support its early presentation to Parliament.

(signed)

*LISA CORBYN
Director General
Department of Environment and Conservation*

Dated: 22 April 2004

What's been happening since the 2001 audit?

- Regulatory reform** The 2001 audit found that the new legislation was seen as a positive step towards improving environmental outcomes in NSW. It introduced key initiatives to protect the environment in that it provided for:
- a system which controls the loads or total mass of pollutants discharged to the environment (in addition to controlling the concentration of pollutants discharged)
 - the introduction of economic incentives to industry in the form of a load-based licensing (LBL) scheme effective from 1 July 2000.

The *Protection of the Environment Operations Act 1997* is currently under review. The review report was tabled in Parliament in December 2003 and options for legislative amendments will be considered in 2004. The review has included extensive consultations with licensees, local government, and members of the community.

- Load-based licensing** At the time of our 2001 audit the EPA had introduced a Load-based Licensing (LBL) scheme. This was planned to be in stages with approximately 350 or 12% of all licence holders included in the first year (1999-2000). However, EPA had yet to finalise an implementation plan to extend the scheme to all applicable licensees.

The 2001 audit recognised that there would be a proportion of licence holders for which LBL would not be applicable because the nature of their environmental impact was incompatible with the load-based approach. For the majority of these licensees, the licensing system would not provide any significant economic incentives to reduce pollution beyond licence requirements.

The agency finalised the implementation plan, but this did not involve extending the number of licences captured by the LBL. It found that 90% of the State's largest emitters had been included in the first stage of the LBL scheme. Higher priority was given to ensuring implementation of the existing provisions, prior to any extension of the scheme.

The Department of Environment and Conservation has advised that it is reviewing the *Protection of the Environment Operations (General) Regulation*, following the Minister's five year review of the POEO Act. The Minister and the Department may consider the incorporation of new activities in the scheme during this review.

Other economic incentives

The 2001 audit found that traditional forms of regulation were being complemented by other measures such as economic tools, industry agreements, codes of practice and financial assurances. The EPA has continued to develop the use of these measures, providing incentives that will encourage licensees to improve environmental performance (particularly those not included in the load-based licensing scheme). Examples include:

- the Industry Partnership Program
- the Green Offset Schemes
- the Hunter River Salinity Trading Scheme (formalised on 1 December 2002 by the *Protection of the Environment Operations (Hunter River Salinity Trading Scheme) Regulation 2002*).

Licence integrity

The 2001 audit found that the integrity of existing licences was diminished by a lack of consistency, appropriateness, relevance and enforceability in licence conditions.

We considered that many of the problems with the quality of licences could be addressed through programs such as the licence review process introduced under the POEO Act, the development of model licences for industry sectors and the review of data monitoring and reporting requirements for industry.

At the time of the 2001 audit, the EPA had developed twelve model licences. Twenty-two model licences have now been developed. However, the EPA does not intend to develop model licences for all industry sectors and considers that there are limits to standardising performance expectations to improve the quality of licences.

The EPA has developed a number of other measures to facilitate improvements and consistency in licences, including:

- monitoring principles and protocols for specific industry sectors
- licence reviews and supporting sector documentation for specific sectors
- compliance audits and a comprehensive approach that integrates compliance audit with license review.

In addition the EPA is developing the Regulatory Officers Online Knowledge System (ROOKS) to provide a web based 'one stop shop' for EPA officers to gain easy access to all relevant policies, standards, procedures and regulatory/environmental compliance decisions.

Assuring compliance

The objective of compliance and enforcement activities is to achieve behavioural change through high rates of compliance with statutory requirements. The EPA gains assurance that licensees are complying with licence limits through inspections, compliance audits, and mandatory self-reporting by licensees.

However the 2001 audit noted that:

- the EPA relied on licensee self-reports which are not independently validated
- the coverage of compliance audit activities by the EPA was around 1.3% whilst the current rate of industry non-compliance was estimated to be at least 15%
- better targeting of high-risk premises might help to improve the level of confidence the EPA could draw from its compliance activities.

Varying levels of compliance reviews are now undertaken, ranging from administrative checks to detailed scrutiny through the audit process.

Compliance reviews of the annual returns include:

- a check of the monitoring and complaint summary provided by the licensee
- a review of any breaches or incidences reported in the annual return and the action taken in response to those breaches
- a review of breaches and issues raised in complaints during the past year to determine if the licence conditions are appropriate.

Risk assessment

The EPA has developed a risk assessment system to assist decision-making in relation to non-compliances. The EPA is currently trialling the risk assessment system for non-compliances identified during compliance audits. The system has also been trialled for non-compliances identified by other environmental compliance activities, such as annual returns and pollution line reports.

The risk assessment system for non-compliances evaluates information against two criteria: the likelihood of environmental harm occurring, and the level of environmental impact as a result of non-compliance.

The results are colour coded for further consideration:

		Likelihood of Environmental Harm Occurring		
		Certain	Likely	Less Likely
Level of Environmental Impact	High	code red	code red	code orange
	Moderate	code red	code orange	code yellow
	Low	code orange	code yellow	code yellow

Compliance audits Also the number of compliance audits has increased from 66 in 2000-01 to 71 in 2002-03. Different types of audits are being used depending on the outcomes required, such as the comprehensive approach that integrates compliance audit and licence review, with reference to industry best practice.

The agency's compliance audit section continues to consult with regional officers on audits of individual premises. This assists such audits to have a more focused scope, targeting issues of concern or potential concern.

The outcomes of past audits, pollution line data and risk/problem identification systems are also used to inform decision-making for the selection of premises to be audited.

For example:

- the storage and handling of chemicals has been identified in previous audits as an area of non-compliance and will be the focus of the next comprehensive approach
- a targeted approach is used in the current LBL audit program, specifically examining compliance with load based licensing requirements.

A small number of mandatory audits have been required of some licence holders where performance may be in question.

The EPA considered the merits of having independent certification of annual returns, but concluded that it was not economically feasible to introduce such a requirement state-wide.

Information on licensee performance

The 2001 audit considered there were opportunities for the EPA to use formal assessments of licensee performance to support decision-making and better target resources.

The EPA needed to be adequately informed about licensee performance, including the licensee's compliance history and the impact of previous decisions. The 2001 audit found that this type of information was difficult to access, and not necessarily reliable or accurate due to poor quality records and the limited functionality of information systems.

The EPA has a new system to record and disseminate this information. The licensing system (ISEMS) introduced standard practices for recording inspections and procedures for reviewing recommendations arising from inspections. The new system contains fields for the documentation of non-compliances from annual return documents. Fields include: non-compliance type, condition number breached, description of non-compliance and whether follow up action has been completed. The annual return record cannot be "approved" for the purposes of the system unless the appropriate fields have been completed.

Monitoring and reporting compliance outcomes

Our 2001 audit found that, although the EPA reported on compliance activities in its annual report, it did not report on the outcomes of interventions in terms of environmental improvements or their impact on premises. As a consequence, it was not possible to report on the effectiveness of the EPA in achieving compliance or producing the best environmental outcome.

The EPA has since developed organisational key performance indicators (KPIs) to be reported every six months.

These include a number of KPIs relating to the compliance program. The first report was completed in January 2002. Since then reports have been made on a six monthly basis.

The interpretation section of the KPI compares the most recent result with past periods and identifies any implications for the EPA and refers to any contextual information. Although the KPIs tend to focus on activity, not environmental outcomes, the EPA is endeavouring to improve the KPIs. It is currently examining new indicators specifically for assessing its regulatory programs.

Monitoring the implementation of recommendations

Monitoring and reporting on implementation

The EPA established a working group, with a designated project manager, to manage the implementation of the Audit Office's recommendations. Project Plans were completed to address each recommendation. Operations Directors progressed particular projects.

Reporting mechanisms were also established to ensure that both the EPA's Executive and Board were aware of any progress on the projects arising from the Audit Office's report. These reports contain lists of all projects and encompassed milestones set out in the original project plans and updates of progress against these milestones.

EPA also provided update reports to the Audit Office.

Public reporting

The EPA commented on the 2001 performance audit report in its 2000-01 annual report.

Appendices

Appendix 1: Summary of changes since the 2001 Audit

	Recommendation	Status	Changes in practice
1	<p>The EPA consider expanding the scope of data available to the public on individual licensees to include the results of compliance and enforcement activities.</p>	<p>Complete</p>	<p>The EPA has considered this. The public register allows members of the public to access the results of certain compliance and enforcement activities as specified by section 308 of the Protection of the Environment Operations Act 1997.</p> <p>A number of enhancements have been made to the public register that allow the public to access information regarding:</p> <ul style="list-style-type: none"> ▪ specific details of non compliance reported as part of an annual return ▪ environmental compliance reports for the wood preservation industry. <p>Compliance audits are available to the public through the EPA's library. Work is underway to make monitoring data collected by licensees subject to load based licensing available to the public via the public register.</p> <p>EPA has considered other compliance and enforcement information. For example, the availability of information regarding penalty infringement notices has been considered. However, as a Penalty Notice is not an admission of guilt, EPA concluded that it was not in the best interests of the regulatory system to make these available. Similarly complaints lodged are also not always substantiated nor do they always involve a breach of environmental licences or laws.</p>
2	<p>The EPA finalise an implementation plan to extend the load-based licensing (LBL) scheme to all applicable licensees.</p>	<p>Complete</p>	<p>The EPA finalised the implementation plan, but this did not involve extending the number of licences. The EPA assessed the capture rate of major emitters in the LBL scheme and found that 90% of the State's largest emitters were captured in the current LBL scheme. Higher priority was given to ensuring implementation of the existing provisions, prior to any extension of the scheme.</p> <p>EPA advise that the Protection of the Environment Operations (General) Regulation is being reviewed and consideration may be given to the incorporation of new activities in the scheme during this review.</p>

	Recommendation	Status	Changes in practice
3	The EPA conducts a post implementation review to assess the effectiveness of the new regulatory framework following at least 2 years of operation.	Ongoing	The <i>Protection of the Environment Operations Act 1997</i> is currently under review. The review report was tabled in Parliament in December 2003 and options for legislative amendments will be considered in 2004. The review has included extensive consultations with licensees, local government, and members of the community.
4	The EPA further progress the development of model licences for industry sectors to standardise performance expectations and improve the quality of licences.	Complete	<p>At the time of the 2001 audit the EPA had developed 12 model licences. To date 22 model licences have been developed. However the EPA does not intend to develop model licences for all industry sectors and considers that there are limits to standardising performance expectations to improve the quality of licences.</p> <p>The EPA has developed a number of other measures to facilitate improvements and consistency in licences, including:</p> <ul style="list-style-type: none"> ▪ monitoring protocols for specific industry sectors ▪ licence reviews and supporting sector documentation for specific sectors ▪ compliance audits and the comprehensive approach. <p>In addition the EPA is developing the Regulatory Officers Online Knowledge System (ROOKS) to provide a web based 'one stop shop' for EPA officers to gain easy access to all relevant policies, standards, procedures and regulatory/ environmental compliance decisions.</p>
5	The EPA complete the review of the efficacy of monitoring and reporting requirements and establish guiding principles to ensure requirements are cost effective, equitable and beneficial to the EPA.	Complete	<p>The review is complete as:</p> <ul style="list-style-type: none"> ▪ monitoring principles and protocols, and 2 model pollution reduction programs have been developed ▪ these are available to all staff via the EPA intranet site <p>more broadly, Environmental Compliance Operating Principles have been developed and distributed to all EPA staff.</p>
6	The EPA includes monitoring and reporting requirements in model licences that reflect the guiding principles referred to above.	Complete	Note comments for recommendation 5

	Recommendation	Status	Changes in practice
7	The EPA completes the post-implementation review of the licence review program to assess effectiveness and identify opportunities to enhance the licence review process.	Complete	<p>The post implementation review of the licence review program is complete.</p> <p>A key finding was that a more effective way of undertaking licence review is to integrate this with other regulatory activities, such as compliance or enforcement activities. EPA advise that this approach has been introduced for the second round of licence reviews and for 'Comprehensive Approach' reviews that incorporate results of the compliance audit program and are aligned to best environmental management practices.</p> <p>The review also identified that the time requirements of the POEO Act, relating to giving public notice of licences to be reviewed within strict timeframes, limit opportunities for public input into licence reviews and reduce the flexibility to schedule licence reviews strategically with other regulatory activities. Changes have been proposed to overcome these limitations.</p>
8	The EPA reports on the outcomes of this review in its annual report.	Complete	The EPA's Annual Report 2001-02 contained both an overview of the progress on review of all environment protection licences and an overview of the evaluation of the licence review process. The Annual Report 2002-03 also notes the progress of the licence review program.
9	The EPA undertakes compliance reviews of annual returns.	<p>Complete</p> <p>Ongoing in terms of continual improvement</p>	<p>Varying levels of compliance reviews are now undertaken, ranging from administrative checks to detailed scrutiny through the audit process. Compliance reviews of the annual returns include:</p> <ul style="list-style-type: none"> ▪ a check of the monitoring and complaint summary provided by the licensee ▪ a review of any breaches or incidences reported in the annual return and the action taken in response to those breaches ▪ a review of breaches and issues raised in complaints during the past year to determine if the licence conditions are appropriate. <p>A risk assessment tool has been developed to assist decision-making in relation to non-compliances.</p>

Recommendation		Status	Changes in practice
10	The EPA maintain records on the outcomes of compliance reviews of annual returns.	Complete Ongoing in terms of continual improvement	The EPA has a new system to record this information. The licensing system (ISEMS) contains fields for the documentation of non-compliances from annual return documents. Fields include: non-compliance type, condition number breached, description of non-compliance and whether follow up action has been completed. The annual return record cannot be "approved" for the purposes of the system unless the appropriate fields have been completed.
11	The EPA consider the implementation of a system for independent certification of annual returns.	Complete	<p>Independent certification of annual returns has been considered and rejected. EPA concluded that it was not economically feasible to introduce a requirement of a state wide independent certification requirement for annual returns as:</p> <ul style="list-style-type: none"> ▪ annual independent audits would cost between \$2,000 - \$8,000 per annum for straight-forward premises and up to \$20,000 per annum for complex premises ▪ an average cost of \$8,000 per annum would require industry in NSW to spend an additional \$25 million per annum on meeting environmental requirements <p>To understand the cost implications of this proposal it should be noted that 87% of EPA environment protection licences pay less than \$8,000 per annum for licence administration fees.</p>
12	The EPA consider using the results of a formal risk assessment to establish priorities for inspection activity.	Complete Ongoing in terms of continual improvement	<p>The EPA has developed criteria to identify priorities for environmental compliance activities including impacts on environment/human health, complexity of activity, locality, community concern, environmental performance, knowledge gaps, emerging issues and opportunities.</p> <p>The EPA is currently trialling the risk assessment system for non-compliances identified during compliance audits and the system has also been trialled for some other non-compliances identified by other environmental compliance activities, such as annual returns and pollution line reports.</p> <p>The risk assessment system for non-compliances evaluates information against two criteria: the likelihood of environmental harm occurring, and the level of environmental impact as a result of non-compliance. Material has also been prepared to guide the categorisation of non-compliances.</p>

	Recommendation	Status	Changes in practice
13	The EPA introduce standard practices for recording inspections and procedures for reviewing recommendations arising from inspections.	Complete	<p>The new information system incorporates this using an inspection reports template in ISEMS:</p> <ul style="list-style-type: none"> ▪ inspections are recorded in ISEMS or documented on file ▪ inspection reports must be approved within 6 months by senior officers ▪ inspection report template includes a segment for follow up action. <p>Additionally, EPA undertakes periodic reporting and reminders about the importance of documenting inspections.</p>
14	The EPA introduce procedures for investigating and recording the outcomes of complaints.	Complete	<p>In 2001, the Pollution Line database was expanded to include letters and faxes reporting pollution incidents. Since 2001 all Regions have had direct, user-friendly access to the Pollution Line database. Reports from the public and self-reports from licensees are entered into the database. Procedures require that the relevant Regional office receive the reports promptly. Action taken is recorded on the Pollution Line Report.</p>
15	The EPA examine the accuracy and completeness of complaint data as part of the quality assurance program.	Complete	<p>Reports from the pollution line database highlight reports that have not been completed.</p> <p>EPA are currently conducting an internal audit of operational record keeping to review completeness and accuracy.</p> <p>Regional and section managers are required to ensure that pollution line calls are acted on appropriately.</p>
16	The EPA consider using the results of risk assessment to identify priorities for its compliance audit activities.	Complete	<p>Compliance audit criteria have been refined to assess industries and to identify priorities in a more structured manner.</p> <p>The criteria used for the industry sector program includes consideration of the key environmental and community concerns and causes of concern, what industries are the major contributors to these concerns and whether compliance audit is the most appropriate and effective way of addressing these concerns.</p> <p>Compliance audit has also developed a framework for categorising the non-compliances identified during compliance audits in terms of their environmental risk.</p> <p>These categories are used to guide the response to the non-compliance in the particular case, as well as to identify areas for future audit work.</p> <p>See also 9 and 12 above.</p>

	Recommendation	Status	Changes in practice
17	The EPA better match compliance audit resources to the level of industry non-compliance.	Complete Ongoing in terms of continual improvement	<p>The number of compliance audits has increased. Different types of audits are used depending on the outcomes required, such as the comprehensive approach audit that is currently being piloted with the wood preservation industry.</p> <p>Also, for audits of individual premises the Compliance Audit Section consults with Regional Officers to identify particular environmental issues/concerns with the audits resulting from these discussions having a more focused scope, targeting issues of concern or potential concern.</p> <p>The outcomes of past audits, pollution line data and risk/problem identification systems are used to inform decision-making for the selection of premises to be audited. For example:</p> <ul style="list-style-type: none"> ▪ the storage and handling of chemicals has been identified in previous audits as an area of non-compliance and will be the focus of the next comprehensive approach audit ▪ a targeted audit approach is used in the current LBL Audit Program, specifically examining compliance with load based licensing requirements.
18	The EPA use mandatory environmental audit provisions as a means of complementing compliance audit activity.	Complete	<p>A small number of mandatory audits have been required and undertaken. EPA advises that mandatory environmental audit provisions are considered along with other compliance tools when determining the most appropriate response to environmental issues at licensed premises. EPA further advises that, whilst this can be a very useful tool, it is not necessarily applicable across a wide range of circumstances.</p> <p>Mandatory audit provisions have been reviewed as part of the <i>Protection of the Environment Operations Act 1997</i> review. The EPA may recommend extending the provisions to non-scheduled activities.</p>

	Recommendation	Status	Changes in practice
19	The EPA ensure accurate and complete documentation of all decisions regarding compliance activities and enforcement action taken against individual premises.	Ongoing to ensure continual improvement in this area.	<p>Considerable efforts have been made to ensure that all compliance activities are appropriately documented. Some examples are:</p> <ul style="list-style-type: none"> ▪ ISEMS authorisations and delegations to ensure appropriate sign-off on regulatory actions taken ▪ documenting decision making of <i>Protection of the Environment Operations Act 1997</i> s45 requirements ▪ Inspection Report template in ISEMS ▪ Compliance Audit follow-up reporting procedures ▪ Annual Return sections in ISEMS and follow-up of non-compliances ▪ Risk Assessment system for categorising non-compliances and making and documenting decisions ▪ Licence review documentation. <p>EPA is conducting an internal audit on record keeping, reviewing the completeness and accuracy of all records.</p>
20	The EPA improve access to information on the compliance and enforcement history of a licensee to support decision making.	<p>Complete</p> <p>Ongoing improvements in this area.</p>	<p>A number of enhancements have been made to ISEMS to ensure that regulatory officers have electronic access to licensee compliance and enforcement records/actions. This includes:</p> <ul style="list-style-type: none"> ▪ Annual returns ▪ Inspections ▪ Current and archived Licences ▪ Notices ▪ Pollution Reduction Programs ▪ Licence Review records ▪ Orders ▪ Investigative tools - notices to provide information etc. <p>In addition officers have full access to compliance audits, licence review documentation, penalty notices and prosecutions etc.</p>

	Recommendation	Status	Changes in practice
21	The EPA adopt a more structured and formal methodology for assessing licensee performance.	Pilot Completed Ongoing in terms of continual improvement	A system of assessing licensees' level of environmental performance has been piloted in conjunction with undertaking licence reviews. This internal system was used to help inform possible licence changes. Factors considered included the licensee's awareness of environmental issues, whether adequate controls and effective monitoring were in place and whether a risk management plan was in place to take remedial action. Also considered was the environmental sensitivity of the operation. Consideration is currently being given to how this may be applied to other sectors and issues.
22	The EPA use the results of licensee performance assessments to support decision making, target regulatory intervention and benchmark licensee performance.	Complete Ongoing in terms of continual improvement and forward programs	See recommendations 21, 20, 19, 17, 16, 12, and 9.
23	The EPA develop performance indicators to measure its overall effectiveness in achieving environmental improvements arising from compliance and enforcement activities.	Complete	The EPA developed a suite of organisational key performance indicators (KPI's) to be reported to the Executive every six months. The first report to the Executive was completed in January 2002. Since then reports have been made on a six monthly basis. The interpretation section of the KPI compares the most recent result with past periods and identifies any implications for the EPA and refers to any contextual information.

	Recommendation	Status	Changes in practice
24	The EPA report on the success or otherwise of pollution reduction programs in reducing pollution from scheduled premises.	Complete	<p>PRPs are legally enforceable programs negotiated with the licensee that require improvements to works, methods or management practices to ensure environmental improvements within specified timeframes. The requirements of a PRP become licence conditions that may require studies to be undertaken, works to be carried out or the installation of plant or equipment to prevent, control, abate or mitigate pollution.</p> <p>The EPA has not systematically reviewed and reported on the success or otherwise of pollution reduction programs (PRPs) in reducing pollution. However, there is an assessment component to all PRP's. For example, a licensee is required to implement works to ensure that specific outcomes are met. In doing this, the licensee will also be required to demonstrate that the works implemented have been successful in ensuring the outcomes have been met.</p> <p>EPA considers that through case studies it is able to demonstrate measurable improvements in pollution reduction that are directly attributable to pollution reduction programs.</p>
25	The EPA use this information to select the best options for maximising pollution reduction using these programs.	Complete	See item above.
26	The EPA continue to investigate options for providing incentives which will encourage licensees to improve environmental performance (particularly those not included in the load-based licensing scheme).	<p>Complete</p> <p>Ongoing in terms of continual improvement</p>	<p>Options for environmental improvements through cost effective and flexible regulation continue to be investigated, implemented, and evaluated. Examples include:</p> <ul style="list-style-type: none"> ▪ the Industry Partnership Program ▪ the Green Offset Schemes ▪ the Hunter River Salinity Trading Scheme.

Appendix 2: Audit scope and objectives

Audit scope In this follow-up performance audit we examined the extent to which the Environment Protection Authority, now part of the Department of Environment and Conservation, had implemented recommendations it accepted from our report *Controlling and Reducing Pollution from Industry* (2001).

We judged changes in practice or performance based on whether:

- the agency had assessed the impact of the recommendations, determined the course of action, and implemented accepted recommendations
- the implementation plan was monitored and progress reported (eg, through an Audit Committee or other monitoring mechanisms)
- the agency had reported its progress in subsequent annual reports.

Cost of the audit The audit cost was \$49,000 which includes printing costs of around \$5,000.

Acknowledgement The Audit Office gratefully acknowledges the cooperation and assistance provided by representatives of the Department of Environment and Conservation.

Audit Team Chris Yates, Stephen Horne

Performance Audits by the Audit Office of New South Wales

Performance Auditing

What are performance audits?

Performance audits are reviews designed to determine how efficiently and effectively an agency is carrying out its functions.

Performance audits may review a government program, all or part of a government agency or consider particular issues which affect the whole public sector.

Where appropriate, performance audits make recommendations for improvements relating to those functions.

Why do we conduct performance audits?

Performance audits provide independent assurance to Parliament and the public that government funds are being spent efficiently and effectively, and in accordance with the law.

They seek to improve the efficiency and effectiveness of government agencies and ensure that the community receives value for money from government services.

Performance audits also assist the accountability process by holding agencies accountable for their performance.

What is the legislative basis for Performance Audits?

The legislative basis for performance audits is contained within the *Public Finance and Audit Act 1983, Part 3 Division 2A*, (the Act) which differentiates such work from the Office's financial statements audit function.

Performance audits are not entitled to question the merits of policy objectives of the Government.

Who conducts performance audits?

Performance audits are conducted by specialist performance auditors who are drawn from a wide range of professional disciplines.

How do we choose our topics?

Topics for performance audits are chosen from a variety of sources including:

- our own research on emerging issues
- suggestions from Parliamentarians, agency Chief Executive Officers (CEO) and members of the public
- complaints about waste of public money
- referrals from Parliament.

Each potential audit topic is considered and evaluated in terms of possible benefits including cost savings, impact and improvements in public administration.

The Audit Office has no jurisdiction over local government and cannot review issues relating to council activities.

If you wish to find out what performance audits are currently in progress just visit our website at www.audit@nsw.gov.au.

How do we conduct performance audits?

Performance audits are conducted in compliance with relevant Australian standards for performance auditing and operate under a quality management system certified under international quality standard ISO 9001.

Our policy is to conduct these audits on a "no surprise" basis.

Operational managers, and where necessary executive officers, are informed of the progress with the audit on a continuous basis.

What are the phases in performance auditing?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team will develop audit criteria and define the audit field work.

At the completion of field work an exit interview is held with agency management to discuss all significant matters arising out of the audit. The basis for the exit interview is generally a draft performance audit report.

The exit interview serves to ensure that facts presented in the report are accurate and that recommendations are appropriate. Following the exit interview, a formal draft report is provided to the CEO for comment. The relevant Minister is also provided with a copy of the draft report. The final report, which is tabled in Parliament, includes any comment made by the CEO on the conclusion and the recommendations of the audit.

Depending on the scope of an audit, performance audits can take from several months to a year to complete.

Copies of our performance audit reports can be obtained from our website or by contacting our publications unit.

How do we measure an agency's performance?

During the planning stage of an audit the team develops the audit criteria. These are standards of performance against which an agency is assessed. Criteria may be based on government targets or benchmarks, comparative data, published guidelines, agencies corporate objectives or examples of best practice.

Performance audits look at:

- processes
- results
- costs
- due process and accountability.

Do we check to see if recommendations have been implemented?

Every few years we conduct a follow-up audit of past performance audit reports. These follow-up audits look at the extent to which recommendations have been implemented and whether problems have been addressed.

The Public Accounts Committee (PAC) may also conduct reviews or hold inquiries into matters raised in performance audit reports. Agencies are also required to report actions taken against each recommendation in their annual report.

To assist agencies to monitor and report on the implementation of recommendations, the Audit Office has prepared a Guide for that purpose. The Guide, *Monitoring and Reporting on Performance Audits Recommendations*, is on the Internet at www.audit.nsw.gov.au/guides-bp/bpqlist.htm

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards. This includes ongoing independent certification of our ISO 9001 quality management system.

The PAC is also responsible for overseeing the activities of the Audit Office and conducts reviews of our operations every three years.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament and from internal sources.

For further information relating to performance auditing contact:

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Performance Audit Reports

No.	Agency or Issue Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
64*	Key Performance Indicators	<i>Government-wide Framework Defining and Measuring Performance (Better practice Principles) Legal Aid Commission Case Study</i>	31 August 1999
65	Attorney General's Department	<i>Management of Court Waiting Times</i>	3 September 1999
66	Office of the Protective Commissioner Office of the Public Guardian	<i>Complaints and Review Processes</i>	28 September 1999
67	University of Western Sydney	<i>Administrative Arrangements</i>	17 November 1999
68	NSW Police Service	<i>Enforcement of Street Parking</i>	24 November 1999
69	Roads and Traffic Authority of NSW	<i>Planning for Road Maintenance</i>	1 December 1999
70	NSW Police Service	<i>Staff Rostering, Tasking and Allocation</i>	31 January 2000
71*	Academics' Paid Outside Work	<i>Administrative Procedures Protection of Intellectual Property Minimum Standard Checklists Better Practice Examples</i>	7 February 2000
72	Hospital Emergency Departments	<i>Delivering Services to Patients</i>	15 March 2000
73	Department of Education and Training	<i>Using Computers in Schools for Teaching and Learning</i>	7 June 2000
74	Ageing and Disability Department	<i>Group Homes for people with disabilities in NSW</i>	27 June 2000
75	NSW Department of Transport	<i>Management of Road Passenger Transport Regulation</i>	6 September 2000
76	Judging Performance from Annual Reports	<i>Review of Eight Agencies' Annual Reports</i>	29 November 2000
77*	Reporting Performance	<i>Better Practice Guide A guide to preparing performance information for annual reports</i>	29 November 2000
78	State Rail Authority (CityRail) State Transit Authority	<i>Fare Evasion on Public Transport</i>	6 December 2000

No.	Agency or Issue Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
79	TAFE NSW	<i>Review of Administration</i>	6 February 2001
80	Ambulance Service of New South Wales	<i>Readiness to Respond</i>	7 March 2001
81	Department of Housing	<i>Maintenance of Public Housing</i>	11 April 2001
82	Environment Protection Authority	<i>Controlling and Reducing Pollution from Industry</i>	18 April 2001
83	Department of Corrective Services	<i>NSW Correctional Industries</i>	13 June 2001
84	Follow-up of Performance Audits	<i>Police Response to Calls for Assistance</i> <i>The Levying and Collection of Land Tax</i> <i>Coordination of Bushfire Fighting Activities</i>	20 June 2001
85*	Internal Financial Reporting	<i>Internal Financial Reporting including a Better Practice Guide</i>	27 June 2001
86	Follow-up of Performance Audits	<i>The School Accountability and Improvement Model (May 1999)</i> <i>The Management of Court Waiting Times (September 1999)</i>	14 September 2001
87	E-government	<i>Use of the Internet and Related Technologies to Improve Public Sector Performance</i>	19 September 2001
88*	E-government	<i>e-ready, e-steady, e-government: e-government readiness assessment guide</i>	19 September 2001
89	Intellectual Property	<i>Management of Intellectual Property</i>	17 October 2001
90*	Intellectual Property	<i>Better Practice Guide</i> <i>Management of Intellectual Property</i>	17 October 2001
91	University of New South Wales	<i>Educational Testing Centre</i>	21 November 2001
92	Department of Urban Affairs and Planning	<i>Environmental Impact Assessment of Major Projects</i>	28 November 2001
93	Department of Information Technology and Management	<i>Government Property Register</i>	31 January 2002
94	State Debt Recovery Office	<i>Collecting Outstanding Fines and Penalties</i>	17 April 2002

No.	Agency or Issue Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
95	Roads and Traffic Authority	<i>Managing Environmental Issues</i>	29 April 2002
96	NSW Agriculture	<i>Managing Animal Disease Emergencies</i>	8 May 2002
97	State Transit Authority Department of Transport	<i>Bus Maintenance and Bus Contracts</i>	29 May 2002
98	Risk Management	<i>Managing Risk in the NSW Public Sector</i>	19 June 2002
99	E-government	<i>User-friendliness of Websites</i>	26 June 2002
100	NSW Police Department of Corrective Services	<i>Managing Sick Leave</i>	23 July 2002
101	Department of Land and Water Conservation	<i>Regulating the Clearing of Native Vegetation</i>	20 August 2002
102	E-government	<i>Electronic Procurement of Hospital Supplies</i>	25 September 2002
103	NSW Public Sector	<i>Outsourcing Information Technology</i>	23 October 2002
104	Ministry for the Arts Department of Community Services Department of Sport and Recreation	<i>Managing Grants</i>	4 December 2002
105	Department of Health Including Area Health Services and Hospitals	<i>Managing Hospital Waste</i>	10 December 2002
106	State Rail Authority	<i>CityRail Passenger Security</i>	12 February 2003
107	NSW Agriculture	<i>Implementing the Ovine Johne's Disease Program</i>	26 February 2003
108	Department of Sustainable Natural Resources Environment Protection Authority	<i>Protecting Our Rivers</i>	7 May 2003
109	Department of Education and Training	<i>Managing Teacher Performance</i>	14 May 2003
110	NSW Police	<i>The Police Assistance Line</i>	5 June 2003
111	E-Government	<i>Roads and Traffic Authority Delivering Services Online</i>	11 June 2003
112	State Rail Authority	<i>The Millennium Train Project</i>	17 June 2003
113	Sydney Water Corporation	<i>Northside Storage Tunnel Project</i>	24 July 2003

No.	Agency or Issue Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
114	Ministry of Transport Premier's Department Department of Education and Training	<i>Freedom of Information</i>	28 August 2003
115	NSW Police NSW Roads and Traffic Authority	<i>Dealing with Unlicensed and Unregistered Driving</i>	4 September 2003
116	NSW Department of Health	<i>Waiting Times for Elective Surgery in Public Hospitals</i>	18 September 2003
117	Follow-up of Performance Audits	<i>Complaints and Review Processes (September 1999)</i> <i>Provision of Industry Assistance (December 1998)</i>	24 September 2003
118	Judging Performance from Annual Reports	<i>Review of Eight Agencies' Annual Reports</i>	1 October 2003
119	Asset Disposal	<i>Disposal of Sydney Harbour Foreshore Land</i>	26 November 2003
120	Follow-up of Performance Audits NSW Police	<i>Enforcement of Street Parking (1999)</i> <i>Staff Rostering, Tasking and Allocation (2000)</i>	10 December 2003
121	Department of Health NSW Ambulance Service	<i>Code Red: Hospital Emergency Departments</i>	15 December 2003
122	Follow-up of Performance Audit	<i>Controlling and Reducing Pollution from Industry (April 2001)</i>	May 2004

* Better Practice Guides

Performance Audits on our website

A list of performance audits tabled or published since March 1997, as well as those currently in progress, can be found on our website www.audit.nsw.gov.au

If you have any problems accessing these Reports, or are seeking older Reports, please contact our Governance and Communications Section on 9285 0155.



THE AUDIT OFFICE
OF NEW SOUTH WALES

THE AUDIT OFFICE MISSION

Assisting Parliament improve
the accountability and
performance of the State

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