



Nature audit

Accountants' assurance skills are not as desirable as environmental management expertise when it comes to natural resource management audits, says TIM KIRBY.

In 2008 and 2009 the NSW Natural Resources Commission undertook its first audits of the performance of the regional public sector bodies responsible for planning for and investing in improved natural resource management (NRM).

These audits, required by legislation¹, were the first of their kind in Australian natural resource manage-

ment and provide, firstly, a picture of the success of these NRM programs and, secondly, a picture of where NRM audit might be heading.

Recent articles in the *Journal* have talked about the accounting profession's role in sustainability auditing, and this review of the NSW experience would seem to indicate that audit expertise (which we accountants are marketing as our competi-

tive edge) is not as important as core natural resource expertise in delivering value through audit to "environmental" (encompassing both NRM and sustainability definitions) programs.

BACKGROUND TO THE NRC AUDITS

The NSW Natural Resources Commission was established in 2004 as part of reform in how natural

resource management in Australia was planned and funded. NSW established 13 regional Catchment Management Authorities (CMAs) to plan strategies and fund work to improve natural resource condition across the state.

The NRC audit function is part of the accountability structure surrounding these new regional bodies. That structure also consists of aspirational state-wide targets and a Standard for Quality Natural Resource Management, both of which were developed by the NRC, and served as criteria for the audits.

During 2008 and 2009 the NRC has reported on the effectiveness of implementation of each of the 13 regions' strategic NRM plans, known as Catchment Action Plans (CAP). These plans cover a wide range of topics, so this first performance audit work focussed on answering only four lines of inquiry:

- Is the CMA effectively prioritising its investments to promote resilient landscapes that support the values of its communities?
- Are the CMA's vegetation projects contributing to improved landscape function?
- Is the CMA actively engaging its communities?
- Is the CMA effectively using adaptive management?

The NRC selected these four activities as key to "a CMA... achieving multiple NRM outcomes and making the highest possible contribution towards the state-wide targets"². In addition, the focus on vegetation-related projects was chosen because "in general these have most potential to contribute to multiple NRM targets across more than one biophysical theme (for example, improvements in river health, soil function and native species habitat)"³.

WHAT THE AUDITS FOUND

A review of all 13 audit reports shows an uneven spread of strength across

TABLE 1: SUMMARY OF CMA PERFORMANCE AGAINST EACH LINE OF INQUIRY (LOI)

	LOI 1	LOI 2	LOI 3	LOI 4
BRG CMA	Negative	positive	mixed	negative
CW CMA	positive	positive	positive	mixed/positive
HN CMA	mixed/negative	positive	positive	mixed/negative
HCR CMA	mixed/negative	positive	positive	mixed/negative
Lachlan CMA	negative	positive	positive	mixed/negative
LMD CMA	negative	mixed/negative	mixed/negative	negative
Murray CMA	negative	mixed/negative	negative	negative
Murrumbidgee CMA	mixed/positive	mixed	mixed/positive	mixed/negative
Namoi CMA	mixed/positive	positive	mixed/positive	positive
NR CMA	mixed	mixed/positive	mixed/positive	negative
SR CMA	positive	positive	positive	mixed/negative
SM CMA	negative	positive	mixed	negative
Western CMA	positive	positive	mixed/positive	negative

the CMAs (see Table 1 below), the auditors found positive performance for each line of inquiry. Across the lines of inquiry, a couple of trends stand out:

- CMAs got generally positive comments about how well they were delivering projects, which

on investment prioritisation. Only three of the audit reports gave clear positive statements about the relevant CMA's performance, while a further two received some positive statements. In these CMAs the auditors generally found a clear vision for resilient landscapes, which

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should provide assurance to investors who also take some responsibility for other aspects (such as prioritisation).

- CMAs got generally negative comments about their adaptive management, which may signify the need for a review of the policies or resources surrounding the use (or understanding) of adaptive management.

STRATEGIC PLANNING

One example of the uneven spread of strength can be seen from the statements made in audit reports about the first line of inquiry focussed

was consistently understood across the organisation, and supported by "structured and transparent processes to establish and prioritise investments and assess and rank projects"⁴.

In particular the auditors looked for the extent to which scientific research was collected and used to inform prioritisation, and for processes that ensured alignment between shorter-term investment strategies and longer-term CAP targets. Closer collaboration between CMAs might improve the weaker performance on both of these issues. ▶

DID THE AUDITS HIT THE MARK?

So did the audits meet the expectations of everyone involved? The answer to this seems to be only partly.

The NRC states two purposes for these audits; to provide accountability and to drive continual improvement⁵. The NRC also seemed to have a third goal for the audit reports, which devote significant space to explaining the expectations of quality

and whether they are on track to get there⁷.

However, the importance of the accountability (assurance) provided by the audits is not evident in performance reporting by individual CMAs or the CMA group as a whole. In late 2009 the CMAs produced a collective performance report, Celebrating five years of achievements. Despite claiming effectiveness across a num-

its audit framework, so perhaps their audit methodology will be further developed to reflect this expectation gap. Other Australian public sector organisations are also developing NRM audit programs, including the National Water Commission which will focus on water management in the Murray Darling Basin.

It is still very early days for NRM audit in Australia, but in the meantime

There is an "expectation gap" between what auditors are trying to provide, and what audiences are seeking

natural resource management. From this it may be assumed⁶ that the NRC was trying to use audit reporting to educate the audience about NRM.

It seems that there has been good acceptance of the "continual improvement" purpose (and implicitly the education goal of the reports) but there is little sign yet that the "assurance" value of audits is recognised.

At least CMAs seem to have accepted that the audit reports can help them improve how they do their work. While the NRC has not published all details of CMA responses to draft audit reports, analysis of the audit reports showed that most of the CMAs agreed with more than 90% of the auditors' suggestions, and would act on them. A review of CMA annual reports for 2008 and 2009 shows comments regarding the audits were focussed on the "internal" usefulness of the audit findings.

WHAT ABOUT ASSURANCE?

The NRC Audit Framework, the audit reports, and its 2008 summary report *Progress in effective implementation of CAPs* all mention the accountability purpose for the audits. These reports go a long way to explain the need for the audit role; so that government can "know what we are trying to achieve, whose job it is to achieve it

and acknowledgement of effectiveness by the NSW Minister responsible for CMAs, there is no mention that this "effectiveness" has been subject to independent audit.

Representing one of the investors in CMAs, the NSW Department of Environment and Climate Change does not mention the NRC audit role or reports in its Annual Report for 2008-09, despite identifying responsibility for state-level administration and grant funding to the CMAs.

These gaps in public reporting suggests that CMAs and some audiences for the NRC reports may not yet see an "assurance" value of the NRC audits to support public reporting and accountability.

SO WHAT?

There is an "expectation gap" between what auditors are trying to provide, and what audiences are seeking. Accountants are very familiar with "expectation gaps" from financial assurance work, and this should put the profession in a prime seat to help drive this new field of auditing.

However it is the natural resource skills that accountants are not expert in which are being seen as more important, and our assurance expertise is less valued.

The NSW NRC is now reviewing

accountants should take care in marketing themselves as having the competitive edge when pitching for this audit work. While our assurance skills are being sought, it is the knowledge and understanding of natural resource management that is seen to be adding the real value from audit. ■

- 1 Section 13(c), Natural Resources Commission Act 2003 (NSW)
- 2 From the introduction of all 13 audit reports
- 3 From the introduction of all 13 audit reports
- 4 Eg NRC, 2009, *Audit Report – Central West Catchment Management Authority March 2009*, downloaded from www.nrc.nsw.gov.au
- 5 NRC, 2008, *Progress of effective implementation of CAPs*
- 6 This is quite a strong assumption, namely that what is reported shows both what is expected, and what the reporter thinks is expected.
- 7 Page 12 of NRC 2008, *Progress of effective implementation of CAPs*, original NRC source unclear

Tim Kirby, CA, CIA, helped set the NSW NRC's audit program, and is now focussing on other assurance projects, including for the National Water Commission and the Institute for International Development. He is Deputy Chair of the Institute's Sydney Branch.

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