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Our ref DPE 2021 KPMG letter of  
observation\_Final 6 April 2022

Email: Jim.Bentley@dpie.nsw.gov.au

6 April 2022

Dear Jim,

## **KPMG Letter of Observation**

This Letter of Observation ('Letter') provides a formal summary of KPMG's independent review of the Department of Planning and Environment (DPE), formerly known as the Department of Planning, Industry and Environment (DPIE), *Water Stakeholder and Community Engagement Policy* (Policy), its implementation and effectiveness.

KPMG was engaged by DPE-Water between November 2021 and March 2022 to conduct the independent review in response to one of the fifteen recommendations from the NSW Independent Commission Against Corruption (ICAC) Report (November 2020): *Investigation into complaints of corruption in the management of water in NSW and systemic non-compliance with the Water Management Act 2000*. Recommendation 9 states:

That the DPIE tasks an appropriately qualified and experienced independent reviewer to conduct, on a recurrent basis, reviews of the steps taken to implement its 'Water stakeholder and community engagement policy' and the policy's effectiveness.

The independent reviewer should have the function of making such recommendations as they think necessary to ensure that all stakeholders have their interests heard in a fair, balanced and transparent way.

This Letter outlines the activities that KPMG undertook to arrive at the findings and recommendations it provided to DPE-Water.

### **Summary of KPMG Activities**

KPMG's responsibilities in this engagement were to review the Policy and its implementation across DPE-Water's stakeholder engagement activities, and specifically to undertake:

- A gap analysis of DPE-Water's approach against better practice criteria drawn from the AccountAbility AA1000 Accountability Principles Standard (AA1000APS) and Stakeholder Engagement Standard (AA1000SES), and the

International Association of Public Participation (IAP2) Quality Assurance Standard, focused on the following six elements:

1. Commitment and policy – Formalise and communicate a commitment to better practice principles, and develop an organisation-wide strategy for stakeholder and community engagement;
  2. Governance and decision-making – Integrate engagement outputs into organisational governance, strategy and management and establish a mandate and owners for engagement;
  3. Purpose, priorities, and planning – Determine the purpose and scope of engagement programs, undertake stakeholder mapping, determine appropriate engagement techniques, ensure capability and capacity, identify and prepare for engagement risks, and prepare a stakeholder engagement plan;
  4. Delivery – Conduct and document engagement, in part through inviting and supporting the participation of stakeholders;
  5. Results and outcomes – Develop and communicate a response to engagement outputs, and demonstrate the influence of participant input; and
  6. Evaluation and review – Monitor and evaluate the engagement using measurable indicators and identify and act on learnings.
- Selection of three stakeholder engagements for a deep-dive review of engagement practices; and
  - Provision of guidance on a recurring audit program to be implemented by DPE-Water.

KPMG drew on the expertise and experience of stakeholder engagement specialists from KPMG’s human rights and social impact practice, KPMG Banarra, to conduct the independent review.

The independent review involved:

- Review of 40 documents, including but not limited to: policies and organisation charts; stakeholder engagement frameworks; staff briefing packs; stakeholder engagement plans; ‘Community consultation - What We Heard’ public feedback reports; and fact sheets.
- Interviews with 18 internal stakeholders, including but not limited to: Directors, including Director, Office of the CEO NSW Water Sector, and Director, Water Communications; Managers, including Manager, Water Relationships and

Manager, Surface Water Planning; and Senior Project, Strategic Projects and Stakeholder Engagement Officers.<sup>1</sup>

- A deep-dive on a sample of three stakeholder engagement programs, selected by KPMG, to reflect the diversity of DPE-Water engagement (to the extent possible when considering three engagements). Consideration was given to timeframes, scale and complexity, nature of engagements (i.e., one-off vs ongoing engagement activities), and issues raised within the NSW ICAC Report (November 2020): *Investigation into complaints of corruption in the management of water in NSW and systemic non-compliance with the Water Management Act 2000* and recent media attention on DPE-Water's community and stakeholder engagement.
- The provision of 12 recommendations to close gaps identified in relation to four key findings in the following areas (corresponding gap analysis elements are noted in brackets):
  1. Ownership and accountability for the *Water Stakeholder and Community Engagement Policy* and gaps in the Policy's alignment with better practice standards (Relevant elements: Commitment and policy; Governance and decision making);
  2. Roles, responsibilities, and structure of the Water Relationships Team, including their relationship to engagement teams across various areas (Relevant element: Governance and decision making);
  3. Consistency in the development of Stakeholder and Community Engagement Plans and their use in ongoing planning and management of engagement programs and risks (Relevant element: Purpose, priorities and planning); and
  4. Evaluation and sharing of lessons learned during stakeholder engagement programs across DPE-Water (Relevant element: Evaluation and review).
- The provision of recommendations for a recurring audit program framework for DPE-Water to monitor the alignment of the Policy and processes against better practice principles and standards, which included the recommendation that future reviews are planned to enable:
  1. A more extensive sample of engagement programs to reflect the full breadth of engagement activities undertaken by DPE-Water; and
  2. Observation of engagement processes and activities in real-time.

## Conclusion

Overall, the independent review concluded that DPE-Water have demonstrated a strong commitment and made good progress towards planning and delivering stakeholder engagement programs that enable all stakeholders to have their interests heard in a fair, balanced and transparent way. However, a number of gaps in the

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<sup>1</sup> It is noted that the scope and timeframes for the independent review did not enable engagement with or observation of interactions with external stakeholders or with all specialist engagement teams across DPE-Water (of which there are many).

application of better practice standards (AA1000 and IAP2) to the Water Stakeholder and Community Engagement Policy are reflected in the findings and need to be addressed. In particular, to have confidence that DPE-Water's stakeholder and community engagement processes are effective in mitigating corruption risks identified by ICAC in relation to Recommendation 9 on corruption prevention, and specifically the risk of improper favouritism towards particular stakeholder groups, the Policy's application to direct lobbying activities needs to be clarified.

### **Disclaimers**

This Letter is provided to DPE-Water and was prepared solely in accordance with the scope of work set out in the Agreement (PROC0261) between KPMG and DPE-Water dated 2 November 2021 ('Agreement'), and summarised above. The Agreement defines the scope of our work in response to the specific requirements of DPE-Water.

This Letter is provided for information purposes only. Third parties are not entitled to rely and will not rely on any information, comment, observations or factual findings in this Letter. KPMG are under no obligation to provide any third party with any additional information nor to update any of the information contained in this Letter. To the maximum extent permitted by law, KPMG is not responsible to any third party for any loss they may suffer in connection with the release of this Letter to a third party.

Yours sincerely



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Advisory