

# Procedure for Auditing Farm Environment Plans

*Opuha Water Ltd understands that ECan are currently working to standardise the FEP Audit process. While we believe the approach below is consistent with current thinking within ECan, we understand that this may change and, therefore, that OWL's auditing approach may have to change. We await ECan guidance and advice on this matter.*

## 1. Scope

This procedure specifies the work flow around the Farm Environment Plan (FEP) Audit process managed and administered by Opuha Water Ltd (OWL). This procedure covers the actions of OWL personnel, shareholders and contracted FEP Auditors.

## 2. Objective

The objective of this procedure is to provide clear, concise written instructions for the administration of FEP audits. This will ensure that the audit and related reporting is undertaken in a consistent and effective manner; satisfactory to OWL and the regulatory agencies overseeing any relevant resource consent requirements.

## 3. References

### Resource Consents and Regional Rules

OWL does not currently hold any resource consent that requires FEPs (and associated auditing) for its shareholders.

However, under the LWRP, all farms requiring a resource consent must prepare a FEP as part of their consent application:

- all farms in a red zone leaching more than 20kgN/ha/yr (FEP by 1 January 2017) (Rule 5.45)
- all farms in an orange zone leaching more than 20kgN/ha/yr, if their property is over 50ha or if they increase their nitrogen loss above the baseline (FEP by 1 January 2016) (Rule 5.55)
- all farms in an orange zone, leaching more than 20kgN/ha/yr, if they increase their nutrient loss >5kgN/ha/yr above the baseline (Rule 5.56)

The LWRP sets out requirements for the Auditing of these FEPs. Under Schedule 7, Part C, any FEP developed as part of a resource consent application must be audited by an Auditor who is independent of the farm being audited (i.e. it is not a professional advisor for the property) and has not been involved in the preparation of the FEP.

The LWRP requires that the farming activity occurring on the property will be audited against the following minimum criteria:

1. An assessment of the performance against the objectives, targets, good management practices, and timeframes in the Farm Environment Plan
2. An assessment of the robustness of the nutrient budget/s
3. An assessment of the efficiency of water use.

There are, however, a number of FEPs that will be developed under the OWL Audited Self Management programme which are not necessarily required for resource consent applications (smaller blocks or low emitters). OWL reserve the right to audit these FEPs in a different manner, depending on the scale and intensity of the farming operation in question. In such situations 'the Auditor' may not have to meet the conditions relating to *qualifications* and *independence* specified in the LWRP. It is acknowledged that should OWL hold a resource consent at some stage in the future, that requires FEPs as a consent condition, this may have to be revised.

Approval of the OWL template and guidance material, including these audit procedures, was received from ECan on 2 October 2014.

### **Water Supply Agreements**

Clauses 8.1 - 8.8 of the OWL Water Supply Agreement relate to FEPs; Clauses 19.1 – 19.2 relate to Breaches of Agreement FEPs (see Appendix 1)

### **Referenced Procedures**

Procedure for development of Farm Environment Plans  
Manual for Farm Environment Plan Audit (in development)

### **Relevant contacts**

Ian Brown, Environment Canterbury  
Judith Earl Goulet, Environment Canterbury  
Ian Lyttle, Environment Canterbury  
Auditor (TBA)

## **4. Definitions**

**Action Plan:** A Plan outlining how the shareholder will address C and D grades identified by the audit process and the timeframe for implementing the changes required. OWL will assist in the preparation of Action Plans where required.

**Audit (from LWRP):** An assessment of the performance of a farming activity against the objectives and targets of a Farm Environment Plan, and includes identifying any non-compliance with Farm Environment Plan, details of any action to remedy instances of non-compliance, and an overall grading based on the assessment of the property.

**ECan:** Environment Canterbury / Canterbury Regional Council

**Independent Auditor (taken from LWRP, refer FEP auditor):** A person who can provide evidence of at least 5 years professional experience in the management of pastoral, horticulture or arable farm systems and holds either:

1. A Certificate of Completion in Advanced Sustainable Nutrient Management in New Zealand Agriculture from Massey University; or
2. A Certificate of Completion in Sustainable Nutrient Management in New Zealand Agriculture from Massey University; or

3. Such other qualification that has been approved by the Chief Executive of the Canterbury Regional Council as containing adequate instruction and assessment on agricultural sciences and nutrient management

**Legal Non-compliance:** Legal non-compliances are defined as activities that are non-compliant with resource consents or the regional plan(s).

**Plan Implementer:** The person specified in the FEP as being responsible for the implementation of the FEP. This person is a signatory to the FEP.

**Property(ies):** Any area of land that is utilised as a single operating unit

## 5. Responsibilities

### **OWL Chief Executive (or nominee)**

The CEO is responsible for ensuring that OWL develops and maintains a FEP Auditing process in order to ensure the schemes objectives and required outcomes, and any relevant resource consents are met.

### **OWL Office Manager**

The Office Manager is responsible for scheduling audit visits with the selected properties

### **OWL Environmental Manager**

The Environmental Manager is responsible for the overall management of the FEP Auditing process. This includes:

- Selection of properties to be audited each year
- Selection of Auditor(s) as appropriate
- Communication with shareholders
- Communication and reporting to ECan
- Management of records
- Assisting with preparation of Action Plans and review of progress

### **OWL Shareholders**

OWL shareholders are responsible for maintaining FEPs that are auditable and demonstrating practices that provide a high level of confidence that on-farm environmental risks are being appropriately managed.

### **Auditor**

Auditors (including Independent Auditors) are responsible for conducting the FEP Audit and for providing individual audit reports, and a report on audit findings in an acceptable and timely manner.

## 6. Audit Procedures

### **Appoint auditor(s)**

- OWL will appoint or tender for Auditors on a yearly basis, once the number of audits required has been assessed.
- Auditor(s) will be appointed in sufficient time to schedule the audit programme.

## Audit administration

- OWL will arrange the audit dates/times with plan implementers/shareholders and the Auditor.
- Shareholders are required to pay the full cost of the audit or re-audit. This will be on a cost recovery basis to recoup the fees charged by the Auditor.
- OWL will maintain a list of shareholders who are not subject to audit and the reason for their exclusion, e.g. dry shares, stock water, etc.

## Audit frequency

- All FEPs will be audited after 1 year (See Figure 1).
  - If the audit has been graded A the property shall be re-audited after 5 years
  - If the audit has been graded B the property shall be re-audited after 2 years
  - If the audit has been graded C the plan implementer will work with the Environmental Manager to review actions and develop action plan.
    - If on-track to meeting objectives, the property will be re-audited after 1 year
    - If not on track to meeting objectives, re-audit after 6 months
  - If the audit has been graded D the plan implementer will work with the Environmental Manager to assess if immediate fix is required
    - If immediate fix is required, plan implementer must engage in process and address issue within specified timeframe, or notice of breach will be issued. Re-audit after 6 months
    - If immediate fix not required, the plan implementer will work with the Environmental Manager to review actions and develop an action plan and re-audit after 6 months
- If the audit has been graded a C or D for the third consecutive year a notice of breach may be issued, and re-audit after 6 months
- Additionally, the FEP will be re-audited the following year if:
  - the 'plan implementer' changes, or
  - there are significant changes to the farming operation or on-farm practices, or
  - a complaint has been received from the public, and it has been verified by OWL as a significant breach.

## Undertake Audits, review, assessment and reporting

- The Auditor(s) will visit farms at agreed time and carry out audit.
- The Auditor(s) will prepare the *draft* individual FEP audit report and send to the plan implementer/shareholder and OWL within 10 working days of carrying out the farm visit.
- The Plan implementer/shareholder and OWL will have 10 working days to respond to the auditor with comments/queries.
- If the plan implementer/shareholder dispute the Auditors findings and the Auditor(s) is not prepared to change their report, OWL CEO and Environmental Manager may:
  - Convene a meeting to discuss the issues in contention;
  - Visit the property, if necessary, to view issues in contention
- *Finalised* individual audit reports and an Audit Summary Report will be provided to OWL by the Auditor(s) within 10 working days of receiving comments.
- Should the audit identify any legal non-compliances, OWL will advise ECan within 10 working days of receiving the finalised audit summary report.

## 7. FEP Audit requirements

Under LWRP Schedule 7 requirements, the auditor will be assessing, as a minimum:

- the performance against the management objectives, targets, good practices and timeframes in the FEP;
- the robustness of the nutrient budget
- the efficiency of water use

### ***Assessing performance against the management objectives***

- The Auditor will determine an overall grading for the property based both on the levels of confidence (LOC) ratings achieved for each management area and some discretion on their part as to the overall level of confidence.

Grading	Overall Ratings for each management area*	Actions
A	All areas High	<ul style="list-style-type: none"> <li>• Re-audit after 5 years (unless change in manager)</li> </ul>
B	1-2 Mediums and no lows	<ul style="list-style-type: none"> <li>• Re-audit after 2 years (unless change in manager)</li> </ul>
C	> 2 mediums and no lows	<ul style="list-style-type: none"> <li>• Review of actions / develop action plan; if on track to meeting objectives, re-audit after 1 year</li> <li>• Review of actions / develop action plan; if <u>not</u> on track to meeting objectives, re-audit after 6 months</li> </ul>
D	Any lows	<ul style="list-style-type: none"> <li>• Immediate fixes to be addressed within specified timeframe – or notice of breach issued; re-audit after 6 months</li> <li>• If immediate fix not required, review actions / develop action plan and re-audit after 6 months</li> </ul>

\* See appendix X for manual for auditing

### ***The robustness of the nutrient budget***

The auditor must assess the robustness of the nutrient budget:

- The nutrient budget is to be prepared using Overseer Best Practice Data Input Standards.
- The data input reflects the current farming operation.
- The nutrient budget has been prepared by a suitably experienced person who is familiar with the operation of the farm.

The auditor will assess these factors through the Nutrient Management section of the Farm Environment Plan.

### ***The efficiency of water use***

The auditor will assess the efficiency of water use through the Irrigation Management section of the Farm Environment Plan.

## 8. Managing Breach of FEP

### **Managing 'C' and 'D' graded audits**

- All instances of 'C' and 'D' grading identified by the audit process must be addressed.

- Within 10 working days receiving final reports from the auditor, OWL will send a letter to all plan implementers/shareholders who received 'C' and 'D' grading, notifying them that they have one month to respond with an action plan to address the issues identified.
- The OWL Environmental Manager will work with shareholders and plan implementers to prepare and implement action plans. 'D' graded properties will be dealt with as matter of priority.
- The Environmental Manager will maintain a record of time spent working with shareholders and/or plan implementers on action plans, and will charge for this time in accordance with the OWL Charging Policy at the current rate (reviewed annually).

## **Breaches**

- The following situations are considered breach of the provisions contained in the Farm Environment Plan (as per clause 8.6 of the Water Supply Agreement)
  - If following a 'D' grading, the plan implementer does not engage in a process to address the immediate fixes within required time frames
  - If following a 'D' grading, the plan implementer does not implement the immediate fixes within required time frames
  - If the audit has been graded a C or D for the third consecutive time
- In such situations, the shareholder will be considered in breach of their water supply agreement and the Company may give notice of breach to the shareholder (as per clause 19.1 of the Water Supply Agreement).
- OWL will use its discretion when issuing a notice of breach, and will take account of:
  - The seriousness of the breach
  - Degree of co-operation
  - History of environmental issues
- Restricting or denying access to water is a 'last resort' to compel corrective action and OWL will always endeavour to resolve environmental issues through discussion and advice. However, in order to protect the interests of all shareholders and their on-going access to water, this step will be implemented if necessary.

## **8. Training and Education**

OWL will ensure that when shareholders are developing their FEPs they are made aware of the audit procedure and their obligations

OWL may facilitate training and education opportunities to plan implementers, shareholders, owners or managers to support them in achieving the FEP outcomes and to encourage environmental improvement across the scheme.

## **9. Record Keeping and Reporting**

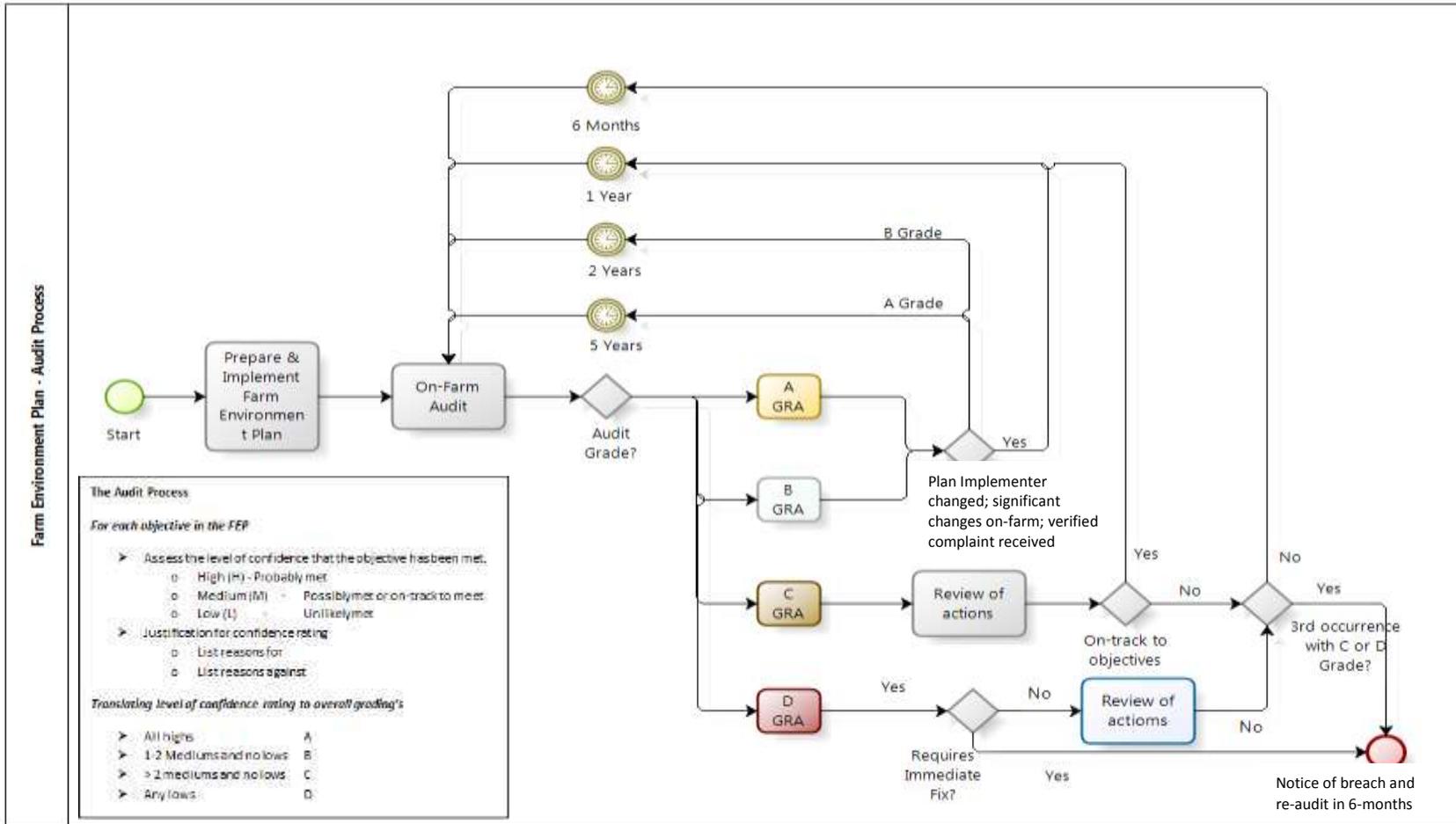
- OWL will maintain
  - a copy of all records relating to FEP audits for a period of at least 7 years.
  - A map of all properties in the scheme who have a farm environment plan, and those who are required to have a farm environment plan under the LWRP
  - An annual summary of the results of the FEP audits, including a summary of audit grades and the action taken to remedy issues identified in audits.
- OWL will report annually to the Board and shareholder on FEP performance

- Where appropriate, OWL will report to ECan on FEP performance

## 10. Sign-Off and Revisions

<b>Revision Chronology</b>			
<b>Version</b>	<b>Revision Status</b>	<b>Date</b>	<b>Preparer</b>
1	Final	September 2014	Julia Crossman

**Figure 1: FEPs Audit process (at year 1 audit)**



## Appendix 1 Relevant Water Supply Agreement clauses

### Farm Environment Plans

#### 8 FARM ENVIRONMENT PLANS

##### 8.1 Regulatory Authority Requirements

Each Shareholder shall comply with and meet the requirements of any Regulatory Authority to provide such farm environment plan, farm operating plan or other plans as determined by that Regulatory Authority and in accordance with the requirements of that Regulatory Authority.

##### 8.2 Audit

The Company may implement for each Property an audited self-management programme approved by the relevant Regulatory Authority under which the following shall occur:

- (a) an audit of the farm practices and environmental management for the relevant Property shall be carried out ; and
- (b) the Shareholder will provide such information, questionnaires and reports to the Company as reasonably required by the Company;
- (c) such audit may be subject to such external audit as determined by the Company to audit the Shareholder's compliance with all Regulatory Policies;
- (d) the Shareholder shall comply with any requirements of any Regulatory Authority and the Company in respect of farm and water management policies required and imposed on all Shareholders taking water from the Company and conveyed using any of the Distribution System.

##### 8.3 Farm Environment Plan

If required by the Company each Shareholder who has the right to receive Water from the Company shall prepare and implement a Farm Environment Plan for irrigated land to demonstrate how the Shareholder is actively managing the use of the Water to achieve high standards of environmental management consistent with the farming practices on the relevant Property. That plan shall include such matters as the Company may require from time to time and shall be provided within a time period required by the Company.

##### 8.4 Shareholder must comply with quality standards

Each Shareholder shall also in addition to the requirements of any approved Farm Environment Plan comply with all other industry quality assurance programmes, codes of practices, specific Regulatory Policies and legal requirements, and all other requirements to ensure Good Management Practice is maintained in respect of the operation of irrigation on the Shareholder's Property.

##### 8.5 Scheme Environmental Plan

The Company may post on its website a Scheme Environmental Plan for management of the irrigation Scheme. The Company will at all times be responsible for the enforcement of any applicable Scheme Management Plan and, to the extent required, the Shareholder will comply with the terms and provisions of the Scheme Management Plan. The Shareholder acknowledges that the Scheme Management Plan is an essential element for the continuity of the Resource Consents held by the Company and must be complied with in all material respects.

**8.6 Notice of Breach of Plans**

In the event that the Shareholder breaches any of the terms and conditions of the Short Form Agreement or these Terms or any of the provisions contained in the Farm Environment Plan (if applicable) or any Scheme Management Plan then the Company may give notice of breach to the Shareholder as set out in clause 19 and if necessary terminate the Short Form Agreement and these Terms as set out in clause 20.

**8.7 Must use water in accordance with policies**

The Shareholder acknowledges that in respect of any water released to the Shareholders Property that the Shareholder shall:

- (a) only use and distribute that Water in accordance with Good Management Practice in compliance of the Resource Consents and the requirements of any statutory body;
- (b) utilise a system and equipment, and apply and use methodologies as may be prescribed by the Company as being Good Management Practice from time to time;
- (c) comply with any Farm Environment Plan approved by the Company under Clause 8 and any Scheme Management Plan;
- (d) comply with the policy notified to Shareholders under clause 5.1;
- (e) comply with the requirements in clauses 8.1 and 8.2.

**8.8 Shareholder must comply with good management practice**

The Shareholder shall ensure that all irrigation on the Property to which Water is distributed shall be carried out in accordance with Good Management Practice and also in accordance with any Farm Environment Plan and related environmental requirements from time to time applicable to the distribution of Water. Those matters shall include and traverse all terms and provisions of Resource Consents, Statutory Requirements, Good Management Practice and company policies that may be applicable from time to time including any Scheme Management Plan.

## **Breach of Agreement**

### **19 BREACH OF AGREEMENT**

- 19.1 In the event of the Shareholder committing any breach of the terms of these Terms and such breach continues for 20 Business Days after written notice from the Company requiring such breach to be remedied, the Company may without payment of any damages or compensation to the Shareholder or any other person:
- (a) reduce the supply of Water to the Shareholder either permanently or until such time as such breaches have been made good provided that the Shareholder shall nevertheless remain liable to continue paying the Charges and any unpaid calls on shares in accordance with these Terms.
  - (b) stop the supply of Water to the Shareholder either permanently or until such time as all breaches have been made good provided that the Shareholder shall nevertheless remain liable to continue paying the Charges and any call on Shares in accordance with these Terms.
  - (c) after the breach has continued for 60 Business Days forfeit the Shareholder's Shares in the Company.
- 19.2 The liability of the Shareholder for interest on any Water Charges and any other payments not paid on due date shall be calculated to the end of each month and shall be payable by the 20<sup>th</sup> day (or the nearest Business Day thereto) in the next month.

## Appendix 2: Audit grading approach

The overall aim of the audit is three-fold:

- To determine if the objectives and outcomes for each management area (e.g. irrigation management) covered by the FEP have been achieved, and
- To provide an overall grading for the property
- To offer suggestions for improvement

### **Step 1: Objective rating and justification**

For each Objective (which relate to the management areas) in the FEP, the auditor must assess the level of confidence that the objective has been met.

*i.e. The systems and processes in place plus an assessment of action on the ground provide a low/medium/high level of confidence that the objective has been met.*

High (H)	Probably met
Medium (M)	Possibly met or on-track to meet
Low (L)	Unlikely met

To complete the process the auditor must be able to justify their thinking by listing both the positive and negative reasons for their decision together with a list of actions required for improvement.

### **Step 2: Overall grading for the property.**

The auditor will determine an overall grade for the property based both on the levels of confidence ratings achieved for each management area and some discretion on their part as to the overall level of confidence.

Details of progress made for each objective under review, and all evidence provided, should be recorded in the property audit report. This information will form the basis of the final conclusion and recommended actions from the audit.

Grading	Overall Ratings for each management area*	Actions
A	All areas High	<ul style="list-style-type: none"> <li>• Re-audit after 5 years (unless change in manager)</li> </ul>
B	1-2 Mediums and no lows	<ul style="list-style-type: none"> <li>• Re-audit after 2 years (unless change in manager)</li> </ul>
C	> 2 mediums and no lows	<ul style="list-style-type: none"> <li>• Review of actions / develop action plan; if on track to meeting objectives, re-audit after 1 year</li> <li>• Review of actions / develop action plan; if <u>not</u> on track to meeting objectives, re-audit after 6 months</li> </ul>
D	Any lows	<ul style="list-style-type: none"> <li>• Immediate fixes to be addressed within specified timeframe – or notice of breach issued; re-audit after 6 months</li> <li>• If immediate fix not required, review actions / develop action plan and re-audit after 6 months</li> </ul>

\*To determine the ratings that match with A,B,C grades need to note that properties will not necessarily need to cover all management areas (e.g. some may not need to cover Collected Effluent Management)

Note: It is not the auditor’s responsibility to follow up where action is required. This responsibility lies with the irrigation scheme managers.