



**IPART** Independent  
Pricing and Regulatory  
Tribunal | NSW

Public Water Utility Audit Guideline

# Guideline

July 2023

Water >>

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## **Acknowledgment of Country**

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

## **Tribunal Members**

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## **The Independent Pricing and Regulatory Tribunal**

IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from [IPART's website](#).

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# 1 Introduction

IPART administers operating licences for Hunter Water Corporation (Hunter Water), Sydney Water Corporation (Sydney Water) and Water NSW (WaterNSW). Together, we refer to these 3 utilities as the public water utilities (PWUs).

The operating licences (licences) authorise the PWUs to provide essential water and, where applicable, wastewater services to their customers, to the standards specified in their licences. We undertake operational audits to check that the PWUs are complying with these standards.

As part of the operational audits, we check the PWUs' compliance with:

- their licence conditions (i.e. the performance standards and other service criteria set by the licences)
- their reporting requirements
- any matters required by the Minister.

We engage auditors to partner with us in the delivery of the operational audits. The auditors must be independent of the PWU being audited. We hold our auditors to high professional standards and expect that the auditors will conduct audits and prepare reports with rigour.

PWUs and auditors must be familiar with this Audit Guideline (Guideline) when undertaking operational audits for us.

Complementing the Guideline, we have set out the audit criteria for auditing water quality management systems in a fact sheet on IPART's website.

## 1.1 Purpose of this document

This Guideline sets out the IPART audit process and explains our expectations for undertaking the audits. Where there is an inconsistency between this Guideline and the requirements of a relevant operating licence, the licence obligations will prevail.

The purpose of this Guideline is to:

- outline the PWUs' obligations relating to audits
- provide auditors with an understanding of IPART's approach to the audits and the principles that apply when providing an audit service to IPART
- provide a consistent approach to auditing, enabling auditors to adequately assess the PWUs' compliance with their licences
- provide a consistent approach to reporting on the audits
- provide the PWUs information to prepare for the audits
- provide the PWUs transparency about the audit process and our expectations, enabling them to understand and evaluate the audit findings
- provide the PWUs and auditors a consistent approach for raising concerns with IPART regarding audit outcomes.

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- improve transparency for the community.

## 1.2 Legislative framework

The PWUs must participate in our operational audits, as it is a condition of their licences.<sup>1</sup>

The PWU licences set out that IPART undertakes the operational audits.<sup>2</sup> It is the Tribunal's role to monitor and report on the PWUs' compliance with their operating licences to the Minister administering each PWU licence.<sup>3</sup> The audits assist us in this function and this Guideline provides the framework for undertaking these audits.

The auditor's findings and recommendations will inform the Tribunal's report to the Minister. The Tribunal may come to a different conclusion to the auditor on whether the PWU is compliant or non-compliant with a licence condition, and about the materiality of any non-compliances. We will explain the Tribunal's conclusions in the report to the Minister.

We expect the PWUs and auditors to adhere to the Guideline. If the Guideline is unclear, auditors and PWUs should seek clarification from IPART. If a PWU or auditor cannot comply with a requirement in the Guideline, they should notify IPART and provide reasons why they cannot comply. We may provide specific advice on the application of the Guideline or appropriate departures from the Guideline where necessary.

This Guideline is not binding on IPART, and we may depart from it where we consider it to be appropriate or necessary to ensure that a PWU complies with the requirements under legislation and their licence obligations.

## 1.3 Reasonable assurance audit of NPR indicators

From time to time, we may require the auditors to audit the PWUs' calculations and data collection in relation to performance indicators for the Urban National Performance Report (NPR). The auditor must check the reliability and accuracy of calculations and data collection methods adopted by the PWU for reporting against the NPR indicators.

The Bureau of Meteorology produces an annual Urban National Performance Report as part of the National Water Initiative. The Urban NPR publicly and independently reports on the performance of PWUs across Australia. Data from NPR indicators about customers, health, water resources, assets, environment, pricing and finances informs the Urban NPR.

We provide the results of the NPR indicator audit to the Bureau of Meteorology. We undertake this work as part of our obligations as Data Coordinator and Audit Coordinator for the PWUs in New South Wales as set out in the National Framework for Reporting on Performance of Urban Water Utilities Deed.

This Guideline explains when auditors must provide their NPR indicator audit reports to us but does not specify any requirements or provide guidance on conducting the NPR indicator audits.

Auditors must refer to the [National Urban Water Utility Performance Reporting Framework](#) for guidance about undertaking the NPR indicators audits. This framework outlines the requirements for undertaking the NPR indicator audits. It provides an audit report template for PWUs to use when collecting data and reporting on a set group of indicators.

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For further information on the NPR indicator audits, please contact us and we can provide the latest handbook from the Bureau of Meteorology.

## 1.4 Process for revision

This Guideline is published by IPART. The Guideline is intended to supplement (and not replace) the application of recognised audit standards.

We will review and amend the Guideline from time to time to:

- reflect changes in the legislation or licence conditions
- amend the audit information that must be provided to IPART
- improve the audit process.

We will consult affected PWUs and other interested stakeholders before making any significant revisions to the Guideline. We will then notify stakeholders of the revisions to the Guideline and the commencement date of any new requirements. In determining the commencement date for new requirements, we will allow a reasonable period for PWUs for transitioning to the new requirements.

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## 2 The audit process

In this chapter, we explain how we specify the audit scopes and the process for the audits - including the role of IPART, the auditor and the PWU.

### 2.1 Specifying the audit scope

We provide an overview of how we develop the audit scopes for the selected audit periods below.

#### Operational audit

We audit the PWUs' compliance with their operating licence conditions, requirements of their reporting manuals and any other matters specified by the Minister in the operational audit.

IPART specifies the **operational audit scope** which sets out the obligations that we will test to determine the PWU's level of compliance over the specified period of time. This period is the **operational audit period**.

We do not audit all conditions of the PWU's operating licence in every audit. We specify the operational audit scope using a risk-based approach (see **Box 2.1** for details on this approach). The scope may also include checking on the PWU's progress with completing IPART recommendations from previous audits.

We consult with relevant stakeholders about the PWU's compliance during the audit period. The stakeholders' feedback informs the final audit scope.

We will provide the operational audit scope to the PWU and the engaged auditor who will then undertake the audit on our behalf. The audit formally commences at the kick-off meeting organised by IPART to introduce the PWU and auditor and set expectations for the audit (see section 2.3). From time to time, we may make adjustments to the scope after the audit process commences. In these circumstances we will inform all parties and provide the adjusted audit scope to the PWU and auditor as soon as practicable.

We will provide notice to the PWU if we anticipate changes to the PWU's typical operational audit period from year to year.

#### Box 2.1 We use a risk-based approach to the operational audits

We will audit all auditable clauses at least once during a 5-year licence period.

We use a risk-based approach to the operational audits to:

- efficiently allocate our focus to areas of higher consequences due to non-compliance.
- minimise costs to our regulated PWUs

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## Box 2.1 We use a risk-based approach to the operational audits

- avoid broader costs to the community.

Our approach will ensure that auditing reflects the type, size, complexity and consequences of a potential non-compliance.

Risk is a function of both the consequence and likelihood of harm in the absence of regulatory controls. We evaluate the consequence and likelihood using the descriptors in our [Compliance and Enforcement Policy](#). Once we have considered likelihood and consequence for each licence clause, we consider the overall risk, using a risk matrix.

Using this risk-based approach, we focus on those licence clauses that have the highest evaluated risk. We do not require an audit of all the clauses in the PWU's licence every year. The audit frequency of a clause will depend on the risk that a potential non-compliance poses, as well as the PWU's previous performance.

For example, we audit licence clauses related to drinking water quality management more frequently as we consider that potential non-compliances with these licence clauses pose a high risk. We may audit these licence clauses every year of the licence term.

Whereas we may only audit licence clauses related to reporting once or twice in the licence term as we consider that potential non-compliances with these licence clauses pose a lower risk.

## NPR indicators audit

PWUs report their performance against NPR indicators<sup>1</sup> for the preceding financial year. We audit the reliability and accuracy of calculation and data collection methods adopted by the PWU for reporting against the NPR indicators.

IPART specifies the NPR indicators audit scope and we advise the PWU and the engaged auditor who will undertake the audit on our behalf. We must audit the full NPR indicator set every 3 years.

The **NPR indicator audit period** is the same financial year that the PWU reported against the indicators.

The NPR indicator audit period and the IPART operational audit period may not always align.

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<sup>1</sup> NPR indicators include indicators about customers, health, water resources, assets, environment, pricing and finances, set out in the *National Urban Water Utility Performance Reporting Framework*



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## 2.2 Engaging auditors

We engage auditors through a separate procurement process. These auditors partner with us in the delivery of the operational audits, undertaking the audits on our behalf. To do this effectively, we seek to engage auditors with specialised skills and the expertise to undertake our audits. We will have regard to the overall costs of the engagement and value for money when selecting auditors, noting that the costs are borne by the PWUs and ultimately transferred to customers.

## 2.3 Overview of audit process

We have provided an overview of our audit process in **Figure 2-1** below and an indicative timeframe for each step of the audit process in **Table 2-1**.

The audit begins at the kick-off meeting, after we have engaged an auditor, notified the PWU and provided the PWU and auditor with the audit scopes.

Figure 2-1 IPART process for undertaking operational and NPR indicator audits

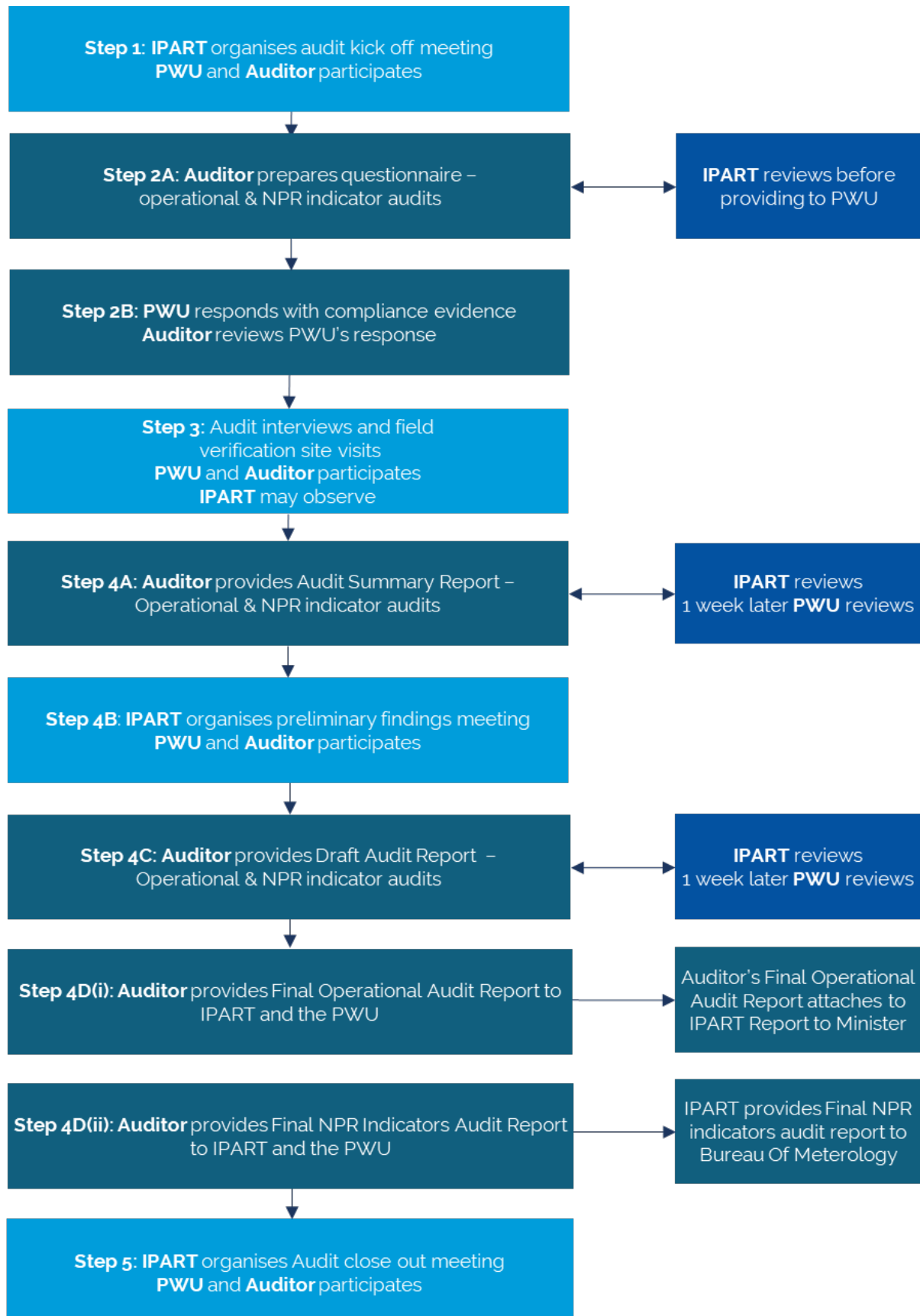


Table 2-1 Indicative audit schedule

Responsible party	Milestone	Audit process step (in Figure 1)	Indicative completion date
Auditor	Provide the Audit Questionnaire to IPART	2A	15 days of appointment of auditor (award of contract)
IPART and the auditor	IPART reviews the Audit Questionnaire and provides comments to the auditor The auditor revises the Audit Questionnaire and submits to IPART to provide to the PWU	2A	5 days after IPART first receives the Audit Questionnaire from the auditor This step may require additional time depending on the extent of IPART's review comments
PWU	Provide response to audit questionnaire with compliance evidence to the auditor	2B	20 working days after the PWU receives the Audit Questionnaire from IPART
Auditor	Review PWU's compliance evidence (response to Audit Questionnaire) in preparation for the audit interviews and field verification site visits	2B	10 working days after the auditor receives the PWU's response to questionnaire
PWU	Provide additional compliance evidence requested during audit interviews and field verification site visits to the auditor	3	5 working days after audit interviews and field verification site visits are completed
Auditor	Provide the Audit Summary Report to IPART	4A	20 working days after audit interviews and field verification site visits are completed
IPART and the auditor	IPART reviews the Audit Summary Report and provides comments to the auditor The auditor revises the Audit Summary Report and submits to IPART to provide to the PWU	4A	5 days after IPART first receives the Audit Summary Report from the auditor This step may require additional time depending on the extent of IPART's review comments
IPART, Auditor & PWU	Participate in the preliminary findings meeting	4B	5 days after the PWU receives the Audit Summary Report from IPART
PWU	Provide comments on the Audit Summary Report to the auditor Provide final compliance evidence	4B	10 days after the preliminary findings meeting
Auditor	Provide the Draft Operational and NPR indicator audit reports to IPART	4C	10 days after the auditor receives the PWU's comments on the Audit Summary Report
IPART and the auditor	IPART reviews the Draft Operational and NPR indicator audit reports and provides comments to the auditor The auditor revises the draft audit reports and submits to IPART to provide to the PWU	4C	5 days after IPART first receives the Draft audit reports from the auditor. This step may require additional time depending on the extent of IPART's review comments
PWU	Provide comments on the Draft audit reports to the auditor	4C	5 days after the PWU receives the Draft audit reports
Auditor	Provide the Final Operational and NPR indicator audit reports to IPART and the PWU	4D	5 days after the auditor receives the PWU's comments on the Draft audit reports

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## 2.4 IPART expectations for the audit

In this section, we explain our expectations for each step of the audit process.

The auditors and PWUs can consult us for clarifications about the audit scope, interpretation of the audit criteria, application of this Guideline and generally about the audit process.

### 2.4.1 Step 1: Audit kick-off meeting

We will organise a kick-off meeting at the beginning of the audit process to introduce the PWU and the selected auditor (see step 1 of **Figure 2-1**). Prior to this, we may separately meet with the auditor and/or PWU to confirm the auditor engagement and make any necessary clarifications.

The purpose of the kick-off meeting is for:

- IPART to introduce the PWU and auditor.
- IPART to confirm the audit scopes (for both operational and NPR indicator audits), the objectives of the licence obligations in the operational audit scope and any stakeholder comments on the PWU's compliance during the audit period.
- IPART to confirm our audit process and our expectations for auditing (see **Figure 2-1** for an overview of the process).
- IPART, the PWU and auditor to agree on the timeline for the audit and milestone deliverables. We have provided indicative timeframes in **Table 2-1** above as a guide, but the final timeline should be agreed at the kick-off meeting, taking into consideration special circumstances and allowing the PWUs and auditors to manage resources during the audit process.
- IPART, the PWU and auditor to agree on the approach for audit interviews, field verification site visits and any other meetings (i.e. will they be held in person, undertaken remotely or will we use a hybrid format?). We prefer that the audit interviews and field verification site visits are conducted in person, subject to any government health orders.
- The purpose of the field verification site visits is to allow the auditor to test the PWU's compliance in practice. We require at least one site visit during the audit. Deciding which sites are appropriate to support the audit rests with the auditor and IPART. We recognise that there are practicalities that may need to be discussed with the PWU when finalising the site visits, and at times, alternative sites must be identified. IPART, the PWU and auditor will discuss and confirm sites during the kick-off meeting (Step 3 of the audit process).

The sites selected for field verification site visits will be relevant to the audit scope. Facilities include assets, property or physical elements related to the PWUs operations, such as treatment plants, catchment areas or waterways. Unless the audit scope specifies otherwise, auditors should limit site visit requests to no more than one site for each asset class, excluding asset management/maintenance activities.

As far as possible, final selection of the site should be completed before the audit prepares the audit questionnaire (Step 2A).

- IPART, the PWU and the auditor to agree on modes and frequency of communication (including how auditors should request information and how the PWU should respond).

Any disagreement between the auditor and the PWU during the kick-off meeting can be resolved by the IPART representative.

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## 2.4.2 Step 2: Audit questionnaire and PWU's statement of compliance

The audit questionnaire is step 2 of the audit process (see steps 2A and 2B of **Figure 1**).

Auditors must:

- Prepare an audit questionnaire to obtain evidence from the PWU that demonstrates its compliance for the audit period.
- Ensure that the audit questionnaire covers the full audit scope, including:
  - the scope for the operational audit
  - the scope for the NPR indicators audit
  - any ongoing recommendations from previous audits
  - any comments from stakeholders about the PWU's compliance during the audit period.
- Ensure that the questionnaire is clear about the type of evidence that the auditor expects to see to be satisfied of the PWU's compliance during the audit period. We encourage auditors to give examples of the type of evidence that would demonstrate compliance for the questions asked.

We encourage sites for field verification site visits to be decided before the audit questionnaire is issued so that the auditor can include questions about the sites. This allows the auditor to be well prepared for the field verification site visits.

We will review the audit questionnaire to check that it is consistent with the audit scopes and it meets our expectations, as outlined in this Guideline, before IPART or the auditor issues the questionnaire to the PWU.

PWUs must:

- provide their responses to the audit questionnaires by the date agreed with the auditor at the kick-off meeting (see step 1 in section 2.4.1). This allows auditors to be adequately prepared for the audit interviews
- explain how the evidence provided responds to the auditor's questions and demonstrates the PWU's compliance during the audit period
- index all evidence provided (e.g. hyperlinks to documents or systems or detailed naming of documents with chapter and page numbers directing the auditor to the relevant information)
- provide their annual Statement of Compliance about their operational compliance to IPART by the date required in their reporting manuals.<sup>4</sup> In their statements of compliance, PWUs self-report any non-compliances during the previous reporting year. The reporting year is specified in the reporting manual.

We provide the PWUs' statements of compliance to the auditors to inform the auditor's assessment of the PWU's compliance. However, the reporting year that relates to the PWU's Statement of Compliance may not always align with the audit period which can mean that the Statement of Compliance may include non-compliances from a previous audit period that are not relevant to the current audit period. In this case, the self-reported non-compliances may not be reflected in the audit findings.

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After the PWU has provided its response to the audit questionnaire, the auditor must review the evidence and consider if they require additional information to determine the PWU's compliance during the audit period. The auditor should request any additional information at the audit interviews and field verification site visits.

### 2.4.3 Step 3: Audit interviews and field verification site visits

Conduct of the audit interviews and field verification site visits is step 3 of the audit process (see step 3 of **Figure 2-1**).

The purpose of the audit interviews and field verification site visits is for the auditor to test the compliance evidence that the PWU has provided to date and to seek additional information. The auditor may not test all the compliance evidence at the audit interviews if they are satisfied with the PWU's response to the audit questionnaire.

We prefer that the audit interviews and field verification site visits are conducted in person, subject to any government health orders. IPART staff may attend to observe and clarify expectations.

Following the completion of the audit interviews and field verification site visits, the PWU must provide any additional compliance evidence that the auditor requests by the date agreed with the auditor at the kick-off meeting (see step 1 in section 2.4.1). We suggest that this is done within one week of completing the audit interviews and field verification site visits.

The auditor or PWU must escalate any disagreements to IPART consistently with section 6.4.

PWUs should be aware that the conclusion of the audit interviews and field verification site visits does not signal the end of the audit process.

### 2.4.4 Step 4: Reporting on and discussing the audit findings

After completing the audit interviews, the auditor must report on the audit findings. Reporting is step 4 of the audit process.

#### Step 4A: Audit summary report

The auditor must provide a summary report with the auditor's findings for the operational and NPR indicators audits (see step 4A of **Figure 2-1**) to IPART by the date agreed at the kick-off meeting (see step 1 in section 2.4.1). The auditor can choose to provide one summary report covering the operational and NPR indicator audit scope or provide separate reports.

These are **preliminary findings only**, reflecting the auditor's opinion at this stage of the audit process, and may change subject to additional evidence provided by the PWU.

We have provided guidance for reporting on the audits in Chapter 3.

We will review the audit summary report to check that it meets our expectations, as outlined in this Guideline, before IPART or the auditor issues the report to the PWU (see section 2.6 for an overview of the review process).

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We will not make the summary report publicly available. The purpose of the summary report is to identify any inaccuracies or omissions in the auditor's findings early in the process and for the auditor to seek any additional compliance evidence from the PWU. This step is intended to assist the auditor to progress through the remainder of the audit process and audit reporting smoothly.

The PWU must review the audit summary report before the preliminary audit findings meeting with IPART and the auditor (see step 4B below).

### Step 4B: Preliminary findings meeting

Soon after the PWU receives the audit summary report, we will organise a 'preliminary audit findings' meeting (see step 4B of **Figure 2-1**) by the date agreed at the kick-off meeting (see step 1 in section 2.4.1). We do not prescribe the format of the meeting (i.e. it can be undertaken remotely or in person).

The purpose of the preliminary findings meeting is for IPART, the auditor and the PWU to:

- discuss the auditor's preliminary findings
- clarify any inaccuracies or omissions in the auditor's findings
- clarify any additional evidence that the auditor is seeking to establish the PWU's compliance.

The IPART representative can help to resolve any disagreements between the auditor and the PWU at the meeting.

PWUs must provide all additional evidence after the preliminary meeting by the date agreed with the auditor at the kick-off meeting (see step 1 in section 2.4.1). We suggest that this is done within one week of completing the preliminary audit findings meeting. This is the PWU's final opportunity to provide additional compliance evidence.

The auditor or the PWU must escalate any disagreements after the meeting to IPART consistently with section 6.4.

### Step 4C: Draft operational and NPR indicators audit report

After the auditor has reviewed the additional compliance evidence provided by the PWU, the auditor must provide draft operational and NPR indicators audit reports (see step 4C of **Figure 2-1**) to IPART by the date agreed at the kick-off meeting (see step 1 in section 2.4.1). The auditor must ensure that these are 2 separate reports.

In the draft operational audit report, the auditor must:

- explain their audit findings for the full operational audit scope and the evidence they have relied upon to make their findings. The draft operational audit report must consider any additional evidence provided by the PWU after the audit summary report
- make recommendations for the PWU to rectify non-compliant findings and shortcomings (see Chapter 4 to understand our audit grades and for guidance on making recommendations)
- provide a progress report on any ongoing recommendations from previous operational audits.

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In the draft NPR indicators report, the auditor must explain their audit findings for the full NPR indicators audit scope.

We have provided guidance for preparing the draft operational and NPR indicators audit reports in Chapter 3.

We will review the draft audit reports to check that they are consistent with the audit scopes and meet our expectations, as outlined in this Guideline, before IPART or the auditor issues them to the PWU (see section 2.6 for an overview of the review process).

We will not make the draft audit reports publicly available. The purpose of the draft reports is for IPART and the PWU to review them for accuracy before the auditor provides the final reports.

The PWU must:

- check both draft reports for factual inaccuracies in the audit findings
- review the wording and timeframe specified in the auditor's recommendations in the draft operational audit report for accuracy and practicality
- not provide additional compliance evidence at this stage (except in extenuating circumstances, granted at IPART's discretion).

#### Step 4D: Final operational audit report

The auditor must provide a final operational audit report (see step 4D of **Figure 2-1**) to IPART and the PWU.

The final operational audit report must include:

- the auditor's detailed audit findings for the full operational audit scope
- recommendations for the PWU to rectify non-compliant findings and shortcomings
- the auditor's assessment of the PWU's progress with completing recommendations from previous audits.

We have provided guidance for preparing the final operational audit report in Chapter 3. The auditor must consider IPART's and the PWU's comments on the draft reports when finalising the report.

No further action is required from the PWU in relation to finalisation of the audit report. We will attach the final auditor's report on the operational audit to our report to the Minister. We will publish this report on our website after the audit is completed, and, subject to any requirements, to the Minister to table the report in Parliament.

#### Step 4D: Final NPR indicators audit report

At the same time as the final operational audit report, the auditor must also provide a final NPR indicators audit report (see step 4D of **Figure 2-1**) to IPART and the PWU.

The final NPR indicators audit report must include the audit findings for the full NPR indicators audit scope, consistent with the requirements of the *National Urban Water Utility Performance Reporting Framework*.



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We have provided guidance for preparing the final NPR indicators audit report in Chapter 3.

We will provide the NPR indicators audit report to the Bureau of Meteorology. We will not make it publicly available (although it is possible that it may be disclosed if required by law).

## 2.4.5 Step 5: Close out meeting

After receiving the final audit report, we will organise a close-out meeting with the auditor and the PWU (see step 5 of **Figure 2-1**) by the date agreed at the kick-off meeting (see step 1 in section 2.4.1). We do not prescribe the approach to the meeting (i.e. it can be undertaken remotely or in person).

At the close-out meeting, we will provide any feedback to the PWU and the auditor and we will seek feedback about improvements for our audit process.

## 2.5 IPART recommendations and report to the Minister

Our report to the Minister will include our recommendations for the PWU to address any identified non-compliances and minor shortcomings<sup>2</sup> and a status update on the PWU's progress with completing recommendations from previous audits.

We will attach the final report from the auditor on the operational audit to our report to the Minister. The auditor's findings and recommendations will inform the final grades and recommendations that we make in our report to the Minister. The Tribunal may come to a different conclusion to the auditor on whether the PWU is compliant or non-compliant with a licence condition, and about the materiality of any non-compliances. We will explain the Tribunal's conclusions in the report to the Minister. For example, if a PWU has repeatedly breached its licence obligations, this may impact the materiality of identified non-compliances, consistent with the approach we adopt to enforcement action in IPART's Compliance and Enforcement Policy.

PWUs are required to report on their progress with completing our recommendations by the dates specified in their reporting manuals.<sup>5</sup> These reports inform the scope for the next operational audit.

We may consider further actions in response to non-compliances identified in the audits in accordance with the relevant legislation and [IPART's Compliance and Enforcement Policy](#).

## 2.6 Review of audit reports by IPART and the PWU

We will review all draft outputs from the auditors (i.e. audit questionnaire, summary report and operational and NPR indicators reports) before providing to the PWU, to check that they are consistent with the audit scopes and they meet our expectations, as outlined in this Guideline.

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<sup>2</sup> We explain our audit grades in Chapter 4.

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IPART, the auditor and the PWU must agree on the timeline for reviews early in the audit process, preferably at the kick-off meeting (see step 1 in section 2.4.1).

The auditor or the PWU must escalate any disagreements to IPART consistently with section 6.4.

### 2.6.1 Review by IPART

We will:

- Review the audit questionnaire, audit summary report and draft operational and NPR indicator audit reports for completeness, accuracy, and clarity.
- Seek amendments where the audit questionnaire, audit summary report or draft audit reports do not sufficiently address the audit criteria or where they are unclear or erroneous.
- Refuse to accept audit questionnaires or reports that are not of a sufficient quality or that do not comply with auditing standards.

We will complete our review in a timely manner. Once we are satisfied that the audit questionnaire and/or reports meet the requirements, we will request the auditor to release an updated questionnaire/report to the PWU for their review. Alternatively, we may issue them to the PWU ourselves.

The auditor must consider IPART's comments on the draft questionnaire, audit summary report or draft audit reports before providing them to the PWU for review.

### 2.6.2 Review by the PWU

The PWU must:

- review both the audit summary report and draft operational and NPR indicator audit reports for factual inaccuracies in the audit findings
- review the wording and timeframe specified by the auditor in their recommendations in the draft operational audit report for accuracy and practicability
- complete reviews by the agreed dates for all reports.

The auditor must consider the PWU's comments on the audit summary report and draft reports before finalising.

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## 3 Reporting on the audit findings

In this chapter, we provide guidance for reporting on the audits and discussing the audit findings, after the auditor has completed the audit interviews and field verification site visits. This chapter focuses on step 4 of the audit process, set out in Chapter 2.

This chapter applies to both operational and NPR indicator audits.

We provide guidance on assigning audit grades and general principles for auditors when undertaking our operational audits in Chapter 4.

### 3.1 Audit summary report

Auditors must provide a summary report with the auditor's preliminary findings on the operational audit, NPR indicators audit and the PWU's progress with completing recommendations from previous audits.

The purpose of the summary report is to provide an early opportunity for IPART and the licensee to identify any issues that require clarification before proceeding to the draft audit report stage. The auditor should not include a discussion on the full audit scope in the audit summary report. Instead, the audit summary report should be an exception-based report, focusing on those areas where the PWU did not fully comply with their requirements or where they did not complete a recommendation from a previous audit.

The summary report should describe licence obligations where the auditor has identified minor shortcomings and non-compliances in addition to any licence obligations where the auditor may have identified potential issues but, on balance, has assigned a Compliant grade. The auditor should not include findings for licence obligations where the auditor has assigned a Compliant grade and no issues of concern identified. The audit summary report should not include suggested opportunities for improvement (OFIs). OFIs should be included in the complete operational audit report. We have provided guidance about OFIs in section 3.2.

As previously stated, the purpose of the summary report is to identify any inaccuracies or omissions in the auditor's findings early in the process and for the auditor to seek any additional compliance evidence from the PWU. The summary report will inform the discussion at the preliminary findings meeting where the PWU, auditor and IPART can clarify any additional evidence requested from the PWU. While this is intended to avoid rework at the draft audit report stage, review of a summary report does not preclude IPART or the PWU from raising additional points of clarification (but not evidence on compliance) at later stages in the process.

Auditors can use the summary report to develop the complete draft and final audit reports where the auditor must discuss their findings for the full audit scope (see sections 3.2 and 3.3).

#### 3.1.1 Reporting on the operational audit

In the audit summary report the auditor must summarise their preliminary findings for the operational audit consistent with the guidance in **Table 3-1** below.

Table 3-1 Information required when explaining operational audit findings

Information that the auditor should include in the Audit Summary Report when explaining operational audit findings	
<b>Operating licence obligation</b>	<i>State the operating licence clause number and the licence obligation being audited.</i>
<b>Audit grade</b>	<p><i>Assign one of the following audit grades in accordance with the guidance in section 4.1:</i></p> <ul style="list-style-type: none"> <li>• <i>Compliant</i> – only where the auditor may have identified potential issues but on balance, has assigned a Compliant grade.</li> <li>• <i>Compliant (minor shortcomings)</i></li> <li>• <i>Non-Compliant (non-material)</i></li> <li>• <i>Non-Compliant (material).</i></li> </ul> <p>Auditors must assign audit grades that reflect the compliance evidence that the PWU has provided at the time of drafting the report.</p>
<b>Reasons for audit grade</b>	<p><i>Briefly explain why the auditor has assigned the chosen grade.</i></p> <ul style="list-style-type: none"> <li>• Where a Compliant (minor shortcomings) grade is assigned:               <ul style="list-style-type: none"> <li>– state what the identified shortcomings are and briefly explain why they are shortcomings with the licence obligation</li> <li>– consider the risk of the shortcomings and their impact on the PWU's ability to meet its licence objectives. Identify the objectives of the licence obligation being audited and explain why the identified shortcomings pose the identified risks for the PWU meeting these objectives.</li> </ul> </li> <li>• Where a Non-Compliant grade is assigned:               <ul style="list-style-type: none"> <li>– state what the identified non-compliances are and briefly explain why they are non-compliances with the licence obligation</li> <li>– state what evidence (or insufficiency of evidence) the auditor relied upon in assigning a non-compliant grade. Explain how the evidence, or lack of evidence, establishes the non-compliance</li> <li>– explain whether the identified non-compliances are material or non-material. Explain how they contribute to the overall grade</li> <li>– consider the risk of the non-compliances and their impact on the PWU's ability to meet its licence objectives. Identify the objectives of the licence obligation being audited and explain why the identified non-compliances pose the identified risks for the PWU meeting these objectives.</li> <li>– explain any shortcomings that the auditor may have identified. (For non-compliant licence obligations, it is possible that the auditor may identify minor shortcomings in addition to the non-compliances.)</li> </ul> </li> </ul> <p>When auditing the adequacy of a management system required by the PWU's licence, the auditor must explain the identified shortcomings and non-compliances in the context of the standard specified in the licence. These management systems may include water quality management systems, asset management system, environmental management systems, quality management systems, etc.</p> <p>That is, the auditor must:</p> <ul style="list-style-type: none"> <li>• Note the inconsistency between the management system and the standard that has led to the shortcoming or non-compliance.</li> <li>• Describe the element and required actions from the standard to explain why the auditor has identified the inconsistency.</li> </ul>

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### Information that the auditor should include in the Audit Summary Report when explaining operational audit findings

- Explain whether the inconsistency is material or not material and why it is a shortcoming or non-compliance with the licence obligation.

Auditors should not explain all of the identified inconsistencies in the audit summary report. Only those that contribute to a shortcoming or non-compliance with the licence.

(See section 4.4 for guidance on determining if an inconsistency is a shortcoming or non-compliance with the licence.)

Auditors should follow a similar approach when auditing the PWU's implementation of a management system. That is, the auditor must:

- Note the inconsistency between the PWU's actions and the requirements from its management system that has led to the shortcoming or non-compliance.
- Explain whether the inconsistency is material or not material and why it is a shortcoming or non-compliance with the licence obligation.

#### Additional evidence sought by auditor

Briefly explain any additional evidence the auditor seeks to be satisfied that the PWU has a higher level of compliance than identified at this stage.

The auditor must consider the additional evidence provided by the PWU in the final audit findings and recommendations.

#### Areas of good practice observed

Briefly explain any areas of good practice observed at the audit.

*It is not mandatory to include this in the Audit Summary Report. Auditors can choose to include this in the complete draft and final audit reports only (see sections 3.2 and 3.3).*

We prefer that the auditor does not make recommendations to rectify the identified shortcomings or non-compliances at this stage. The focus of the audit summary report is to accurately determine the PWU's level of compliance.

We require auditors to be clear about any additional evidence they seek to accurately determine the PWU's level of compliance before making recommendations in the complete operational audit report (see section 3.2).

The auditor may identify minor issues or areas that the PWU could improve that do not impact the PWU's ability to comply with the licence obligation. These matters must not impact the assigned audit grade as they are not compliance matters. The auditor can make suggestions to rectify these issues in the complete operational audit report.

### 3.1.2 Reporting on PWU's progress with completing recommendations from previous operational audits

In the audit summary report, the auditor should only discuss those recommendations from previous audits that:

- were due in the audit period but were not completed by the PWU
- are due in a subsequent audit period, but where the PWU has not made adequate progress to complete the recommendation by the due date, in the auditor's opinion.

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The auditor must explain reasons for the delays and, where possible, discuss when the PWU may complete the recommendation.

The auditor must explain any additional evidence required from the PWU to be satisfied that the recommendations have been completed.

### 3.1.3 Reporting on the NPR indicators audit

In the audit summary report, the auditor should only report on indicators where the PWU has not reported consistently with the requirements of the *National Urban Water Utility Performance Reporting Framework*.

The auditor must explain the reasons for the audit findings and any additional information or evidence required from the PWU to be satisfied that the PWU has reported accurately.

## 3.2 Complete operational audit report

The complete operational audit report must discuss the auditor's findings for the full operational audit scope and the PWU's progress with completing all outstanding recommendations from previous audits. This is not an exception-based report.

Auditors must prepare both draft and final audit reports in line with the nominated audit standard.

Auditors must address any comments received from IPART or the PWU on the audit summary report in the draft audit report. Similarly, auditors must address any comments on the draft audit report in the final report.

The final auditor's report will be attached to our report to the Minister on the PWU's audit performance and made publicly available on our website. Therefore, it must be accurate, concise and written clearly, in plain English.

### 3.2.1 Executive summary

Auditors must include key information about shortcomings and non-compliances in the executive summary. It does not need to include licence clauses where the auditor has assigned a Compliant grade.

The audit summary report, described in section 3.1, can form this executive summary of the complete operational audit report. In addition, auditors must ensure that the executive summary:

- includes the auditor's recommendations for rectifying the identified shortcomings and non-compliances. The same recommendation can address more than one shortcoming and/or non-compliance
- confirms that the only operating licence conditions not included in the executive summary are those that have been assigned Compliant grades
- reflects any additional compliance evidence provided by the PWU in response to the audit summary report, as appropriate

- 
- does not discuss the NPR indicators audit. Auditors must provide a separate report on the NPR indicators audit (see section 3.3).

In addition, the executive summary must list any suggested OFIs from the auditor. Auditors may identify minor issues that are not compliance issues, but these may still impact the PWU's operations or may not be best practice. We encourage auditors to suggest OFIs to rectify these minor issues that the PWU can implement at its own discretion. These minor issues must not impact the assigned audit grade for that licence obligation.

We provide the following guidance about OFIs:

- The auditor is not required to suggest OFIs, but we welcome auditors sharing their experience and observations of other utility operations.
- OFIs are suggestions that may improve business performance and general efficiency.
- OFIs can be suggested for any area of the PWU's operations. OFIs do not have to be linked to an operating licence obligation.
- The auditor must not suggest OFIs to address compliance issues with the licence. They must not replace recommendations.
- OFIs must be numbered or labelled logically for reference.

Finally, the auditor should declare that:

- that the auditor has seen sufficient evidence on which to base their conclusions and the audit findings accurately reflect the professional opinion of the auditor
- the lead auditor and team members have noted the requirements of this Guideline and IPART's request for quote when conducting the audit, determining audit findings and preparing the report
- the audit findings have not been unduly influenced by the PWU and/or any of its associates.

### 3.2.2 Detailed audit findings

#### **Operational audit - general**

In the detailed audit findings, auditors must describe the evidence that informed their audit opinion and explain how the auditor came to that opinion for the full operational audit scope, consistent with the guidance in **Table 3-2** below.

The detailed audit findings must include those licence conditions where the auditor has assigned a Compliant grade (unlike in the audit summary report or in the executive summary of this complete operational audit report).

We have provided guidance for reporting on the audits of the adequacy of the PWUs' management systems, and the PWUs' implementation of those systems, in the next section.

Table 3-2 Detailed audit findings

Information that the auditor should include in the detailed audit findings of the operational audit report	
<b>Operating licence obligation</b>	State the operating licence clause number and the licence obligation being audited.
<b>Audit grade</b>	<p>Assign one of the following audit grades in accordance with the guidance in section 4.1:</p> <ul style="list-style-type: none"> <li>• Compliant</li> <li>• Compliant (minor shortcomings)</li> <li>• Non-Compliant (non-material)</li> <li>• Non-Compliant (material).</li> </ul> <p>The assigned grade must be consistent with what is in the executive summary, where relevant, noting that the executive summary may not include those licence conditions that have been assigned a Compliant grade.</p> <p>Auditors must assign audit grades that reflect the compliance evidence that the PWU has provided at the time of drafting the report.</p>
<b>Audit findings</b>	<ul style="list-style-type: none"> <li>• Auditors must describe the evidence that has informed the audit opinion and explain how the auditor came to that opinion. The full list of evidence can be included as an appendix to the audit report.</li> <li>• Where the auditor has assigned a Compliant (minor shortcomings) or Non-Compliant grade, the auditor must: <ul style="list-style-type: none"> <li>- state the minor shortcomings and/or non-compliances as described in the executive summary</li> <li>- analyse the difference between what was observed in the evidence with what is required by the licence condition and, where applicable, the causes and effects of the differences</li> <li>- explain any extenuating circumstances that contributed to the shortcomings or non-compliances</li> <li>- reference the relevant recommendation(s) made in the executive summary where the shortcomings and non-compliances are discussed here, for easy navigation. Recommendations listed here must match those in the executive summary.</li> </ul> </li> <li>• When identifying an opportunity for improvement, the auditor must reference the relevant OFI(s) within the discussion here. The auditor must make clear that the identified issue is an OFI only and not a shortcoming or non-compliance.</li> </ul>
<b>Areas of good practice observed</b>	Briefly explain any areas of good practice observed at the audit.

### Operational audit- management systems

We encourage auditors to report their findings when auditing the adequacy of the PWUs' management system and their implementation of these management systems in a table format with the information specified in **Table 3-3** below.

These management systems may include water quality management systems, asset management system, environmental management systems, quality management systems, etc.



Table 3-3 Reporting on audit findings for management systems

**Information to be reported when auditing the adequacy of the PWU's management systems or auditing whether the PWU is implementing its management system**

<p><b>Audit Criteria</b></p>	<p><i>When auditing adequacy of the PWU's water quality management system:</i> state the element from the Australian Drinking Water Guidelines / Australian Guidelines for Water Recycling.</p> <p>OR</p> <p><i>When auditing adequacy of the PWU's Asset/ Environmental/ Quality Management System:</i> state the element from the standard specified in the licence.</p> <p>OR</p> <p><i>When auditing implementation:</i> state the requirements from the PWU's system.</p>
<p><b>Does the PWU's system or actions conform? If not, why not?</b></p>	<p><i>When auditing adequacy:</i> compare the PWU's management system with the action specified in the standard. Explain the extent to which the PWU's management system is consistent with the standard.</p> <p><i>When auditing implementation:</i> compare the PWU's actions with the requirements of its own management system. Explain the extent to which the PWU's actions are consistent with what is required by its management system.</p>
<p><b>What is the risk of the inconsistency?</b></p>	<p>For identified inconsistencies explain the <b>risk</b>. Explain whether the inconsistency is material or not material</p> <p>The auditor should make note of any risk controls that the PWU is taking and the <b>residual risk</b> of the inconsistency.</p>
<p><b>Is the inconsistency a shortcoming or non-compliance with the licence? Why?</b></p>	<p>Explain if the inconsistency is a non-compliance with the licence obligation to maintain an adequate system/ implement the PWU's system.</p> <p>Alternatively, the auditor may decide that the PWU is Complaint with the licence obligation and the identified inconsistency is a minor shortcoming. In making this decision, consider the materiality of the inconsistency on the objectives of the licence obligation. Explain the objectives that compliance is being assessed against.</p> <p>(See section 4.4 for guidance on determining if an inconsistency is a shortcoming or non-compliance with the licence.)</p>
<p><b>Recommendation</b></p>	<p>Each identified shortcoming or non-compliance must have a related recommendation. The same recommendation may address more than one shortcoming and/or non-compliance.</p> <p>Recommendations listed here must match those in the executive summary.</p>

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### 3.2.3 Recommendations from previous audits

The auditor must explain the progress the PWU has made in addressing outstanding recommendations from previous audits (included in the audit scope).

The auditor must explain if the recommendation has been completed or if it is ongoing and why. The auditor must discuss the PWU's progress towards completing the recommendation and provide an update on the anticipated completion date.

### 3.2.4 Summary of field verification visits

The auditor must provide a summary of the field verification visits (site visit report). This should include the:

- sites visited and assets inspected
- reasons why the sites were chosen and how they are relevant to the operational audit scope
- issues reviewed/identified, and the evidence presented.

### 3.2.5 Appendices

In the audit report:

- list the evidence sighted, referencing the operating licence conditions that the evidence relates to
- include a glossary of acronyms, abbreviations and technical terms
- explain the administrative requirements for the audit, audit methods used, standards applied and quality assurance.

## 3.3 Complete NPR indicators audit report

Auditors must provide a report on the NPR indicators audit consistent with the requirements of the *National Urban Water Utility Performance Reporting Framework*. The NPR indicators audit report must be **separate** to the operational audit report.

Auditors must prepare both draft and final audit reports. Auditors must address any comments received from IPART or the PWU on the audit summary report in the draft audit report. Similarly, auditors must address any comments on the draft audit report in the final report.

We do not make the NPR indicators audit report publicly available on our website.

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## 4 Auditing principles for operational audits

In this chapter, we provide guidance to auditors for assigning audit grades, identifying shortcomings and non-compliances, and making recommendations for the PWU to rectify these shortcomings and non-compliances.

We also provide guidance on auditing the adequacy of a PWU's management system as well as the PWU's implementation of that management system.






This chapter applies to operational audits only. It does not apply to NPR indicator audits.

### 4.1 Assigning audit grades

The auditor must assign grades that reflect the PWU's compliance with its licence obligations for the whole audit period, in accordance with **Figure 4-1** below.

Auditors must use this figure to assign grades for the operational audit.

Figure 4-1 Guidance for assigning compliance grades

<b>Step 1: Consider if the operating licence obligation was triggered during the audit period.</b>			
<p>If not triggered, the auditor must assign a 'No Requirement' grade (i.e. if there was no requirement for the PWU to comply with the licence obligation during the audit period)</p> <p style="text-align: center;"></p> <p style="text-align: center;">If triggered, the auditor should move on to Step 2</p>			
<b>Step 2: If the operating licence obligation was triggered, consider if the PWU was Compliant or Non-Compliant during the audit period.</b>			
<b>Compliant grades</b>		<b>Non-Compliant grades</b>	
<p>The auditor must assign a Compliant grade if they are satisfied that there is <i>sufficient</i> evidence to confirm that the PWU <i>has materially met</i> the operating licence obligation during the audit period.</p> <p>This may include circumstances where the PWU has addressed the elements necessary to meet a test of compliance, but some minor shortcomings in the way the elements were addressed were identified. Minor shortcomings are unlikely to have an impact on the PWU meeting the objectives of the audited licence obligation.</p>		<p>The auditor must assign a Non-Compliant grade if they are satisfied that there is <i>sufficient</i> evidence to confirm that the PWU <i>has not met</i> the operating licence obligation during the audit period</p> <p style="text-align: center;">OR</p> <p>if there is <i>insufficient</i> evidence to confirm that the PWU <i>has met</i> the operating licence obligation during the audit period.</p>	
<b>Step 3: Now that the auditor has established compliance, consider if the PWU was Compliant or Compliant with minor shortcomings during the audit period</b>		<b>Step 3: Now that the auditor has established non-compliance, consider if the non-compliance was material or non-material during the audit period</b>	
<b>Compliant</b>	<b>Compliant (minor shortcomings)</b>	<b>Non-Compliant (non-material)</b>	<b>Non-Compliant (material)</b>
			
<p>The auditor has established compliance and identified no shortcomings</p>	<p>The auditor has established compliance but has identified minor shortcomings that must be addressed. Minor shortcomings are unlikely to have an impact on the PWU meeting the objectives of the licence obligation.</p>	<p>The auditor has established non-compliance and has identified inconsistencies, inadequacies or deficiencies that pose a low or non-material risk to the PWU meeting the objectives of the licence obligation.</p>	<p>The auditor has established non-compliance and has identified inconsistencies, inadequacies or deficiencies that pose a high or material risk to the PWU meeting the objectives of the licence obligation.</p>

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i What are the objectives of the licence obligations?

*It is important to consider licence obligations in the context of the objectives of the PWU and the licence.*

*These may include objectives related to public health and safety, water quality, customers (including customer relations and wellbeing), the environment, promoting competition, and operating as a successful business.*

*Auditors should consult with IPART to confirm objectives if in doubt.*

i The auditor must identify the risk posed by non-compliances with the licence obligations

This risk should be the residual risk after any controls that the PWU has implemented during the audit period are applied to minimise the risk.

i Licence obligations set the standard for compliance

Where an auditor identifies that the PWU's practices meet the licence obligations with no minor shortcomings, but in the auditor's opinion these practices do not meet industry best practice, the auditor can suggest opportunities for improvement.

The PWU is expected to consider opportunities for improvement but is not required to implement them.

#### 4.1.1 Grades must reflect compliance for the whole audit period

The PWU must be compliant for the whole audit period to be assigned a Compliant grade. If the PWU did not comply with its licence obligations at any time in the audit period, the auditor must assign a non-compliant grade.

PWUs are responsible for ensuring that they remain compliant with their licence conditions and to rectify any shortcomings and non-compliances as quickly as reasonably possible.

If the PWU self-identifies and rectifies a non-compliance within the same audit period, the materiality of the non-compliant grade assigned can reflect the PWU's procedure and/or system changes.

If the PWU self-identifies and rectifies a shortcoming within the same audit period, where it is otherwise compliant with its licence obligations, the auditor may assign a Compliant grade (rather than a Compliant (minor shortcomings) grade).

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#### 4.1.2 Dealing with shortcomings and non-compliances with the same root cause

Auditors may identify shortcomings or non-compliances with multiple licence obligations that have the same root cause. The auditor should note all the relevant licence obligations that are affected and contact IPART to discuss the circumstances and IPART's preferred approach.

### 4.2 Recommendations to rectify shortcomings and non-compliances

Auditors must make recommendations for the PWU to rectify any identified shortcomings or non-compliances. Recommendations must:

- include a date by which the PWU can reasonably complete the recommendation
- be clearly stated and outcomes focused, as appropriate.

Auditors must not make recommendations for licence obligations where they have assigned Compliant grades.

The auditor's recommendations will inform IPART's recommendations in our report to the Minister. PWUs must respond to and implement all of IPART's recommendations, by the required dates. PWUs will have a chance to provide feedback to the auditors on the dates specified in the recommendations, and whether they are practical to achieve, when reviewing the draft audit reports (see section 2.6.2).

While IPART relies on the auditor's recommendations to inform our response to the audit, we may recommend that the PWU take a different action to rectify a shortcoming or non-compliance.

### 4.3 Auditing rectification of previous non-compliances and completion of recommended actions

We typically require auditors to check the PWUs' completion of recommended actions in the year that they are due. In the interim, we may require auditors to check the PWU's progress towards completing the recommendation. The auditor should provide an opinion about whether the PWU will be able to complete the recommendation by the required date.

We will specify this in the audit scope.

In most cases, PWUs remain non-compliant until the identified non-compliances are rectified even when we have made recommendations to rectify the identified non-compliances at a future date. Depending on the date of rectification, the PWU may be non-compliant for multiple audit periods.

The same principle applies for shortcomings.

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## 4.4 Auditing management systems

The PWUs' licences require them to maintain and implement management systems (e.g. water quality management systems, asset management systems, environmental management systems and quality management systems) that are consistent with a specified standard.

Auditors may be required to check the adequacy of the PWU's management systems and if the PWU has implemented their management systems effectively. **Box 4.1** explains how inadequacies that the auditor observes in a PWU's management system or inadequacies with how the PWU has implemented its management system should be treated.

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### Box 4.1 How should inadequacies observed in management systems or their implementation be treated?

When auditing **adequacy**, the auditor must consider whether an inconsistency observed when comparing the management system with the specified standard is material to the licence obligation.

When auditing **implementation**, the auditor must consider whether an inconsistency observed when comparing the PWU's actions in practice with the policies and procedures in its management system is material to the licence obligation.

Not all inconsistencies will be shortcomings or non-compliances with the licence obligation.

- Material inconsistencies that impact the PWU's ability to meet the objectives of the licence obligation are non-compliances with the overall licence obligation.
- Non-material inconsistencies may be shortcomings with the licence obligation (though in some cases the auditor may decide that they do not affect the PWU's compliance and they are OFIs only).

Where an auditor is uncertain whether an inconsistency is a shortcoming or non-compliance with the licence obligation, the auditor should contact IPART to discuss the circumstances and IPART's preferred approach.

We have provided further detail about IPART's expectations for testing adequacy and implementation of drinking water and recycled water management systems in a separate fact sheet.

## 4.5 Certification for management systems

The PWUs' licences do not require them to have certified management systems.

If the PWUs choose to have their systems certified, the auditor must consider the findings of any certification and surveillance audits undertaken during the audit period, as well as systems that have current certification, when assessing the PWUs' compliance with their licence obligations for these management systems.

The PWU must provide the certification audit reports as part of the compliance evidence when responding to the audit questionnaire (step 2 – Chapter 2)


We encourage our auditors to consider the data and audit opinion from these audits as audit evidence where possible.



## 5 Examples of reporting on operational audits and assigning grades

In this chapter, we provide examples to auditors to demonstrate scenarios where audit grades are appropriately assigned. The examples also demonstrate our expectations for describing the audit findings and reporting on the audits.


### 5.1 Example 1 – when a Compliant grade is assigned

Section of audit report	Auditor's notes
<b>Operating licence obligation</b>	<i>[Utility]</i> must maintain a Management System consistent with the Australian Standard AS ISO 55001:2014 Asset Management – Management systems – Requirements or other standard approved by IPART (the Asset Management System).
<b>Audit grade</b>	 Compliant
<b>Audit findings/ reasons for audit grade</b>	<p><i>[Utility]</i> was Compliant because it maintained an Asset Management System (AMS) compliant with AS ISO 55001:2014 throughout the audit period.</p> <p><i>[Utility]</i>'s AMS was re-certified to ISO 55001 during the audit period and a third party surveillance audit conducted in 2020 identified no material inconsistencies with AS ISO 55001:2014.</p> <p>The third-party audit observed one minor/non-material inconsistency with the standard relating to <i>[Utility]</i>'s management of controlled documents. That is, some documents had review dates that had lapsed. We confirmed that <i>[Utility]</i> recorded this inconsistency and established a series of actions to address the matter, with responsibilities and due dates assigned.</p> <p>As our auditor agreed that the inconsistency was minor, and <i>[Utility]</i> is already taking steps to address it, we consider that this is not a compliance issue with the licence obligation and <i>[Utility]</i> has effectively maintained its AMS consistently with the required standard.</p> <p>We do not consider the inconsistency to be a shortcoming or non-compliance with the licence as it does not affect <i>[Utility]</i>'s ability to maintain its assets.</p>

**Note 1:** If the inconsistency with the standard identified in the external audit had been material, the auditor may have determined that the PWU had failed to maintain a management system that is consistent with the required standard. In this example, if the PWU had not reviewed the document for a substantial time period and had not resolved the matter themselves, this could have been a material inconsistency, in our view.


**Note 2:** The third-party audit may use different descriptors for the inconsistencies. The auditor should use their judgement to determine if the inconsistencies identified in third party audits materially impact the PWU's compliance with the operating licence.

## 5.2 Example 2 – when a Compliant (minor shortcomings) grade is assigned

Section of audit report	Auditor's notes
<b>Operating licence obligation</b>	<p><i>[Utility]</i> must make a copy of the documents listed in this licence condition (e.g. customer contract, procedure for payment difficulties and actions for non-payment, customer advisory group charter, etc.) available to any person, free of charge, on its website for downloading and upon request through the General Enquiry Process.</p>
<b>Audit grade</b>	<p> Compliant (minor shortcomings)</p>
<b>Audit findings/ reasons for audit grade</b>	<p><i>[Utility]</i> was compliant during the audit period because it made all of the required information available on its website. Therefore, there was evidence demonstrating that <i>[Utility]</i> had met the licence obligation.</p> <p>We identified a minor shortcoming because not all of the information could be readily identified or located by navigation or search from the 'Home' page. We consider that this does not fully meet the objective of the licence to make information available to customers. However, the risk to customers is low.</p>


**Note:** It could be argued that the PWU is Compliant with the licence obligation. The Compliant (minor shortcomings) grade reflects the PWU's general compliance but acknowledges that by not making the information easily locatable, there is a risk that the objective of the licence is not being met. OFIs are intended for general performance improvement, but as this was a compliance matter, identifying the issue as a minor shortcoming is appropriate.

### 5.3 Example 3 – when a Non-Compliant (non-material) grade is assigned

Section of audit report	Auditor's notes
Operating licence obligation	<p>[Utility] must ensure that:</p> <ul style="list-style-type: none"><li>a) 99% of Customers who place a Non-complying Water Order are contacted within one working day to rectify that order</li><li>b) this is calculated as a percentage of all Non-complying Water Orders placed in the financial year.</li></ul>
Audit grade	 Non-compliant (non-material)
Audit findings/ reasons for audit grade	<p>[Utility] was non-compliant with the Licence obligation during the financial year because it contacted 98% of customers with non-complying water orders within one working day to rectify the order. This is a breach of the licence obligation to ensure that 99% of customers with non-complying water orders are contacted within one working day.</p> <p>In reality, [Utility] had only failed to rectify the orders of around 2 customers, but because the total number of water orders received during the year was low, this became significant. [Utility] contacted the remaining customers within the next 24 hours to resolve their water orders.</p> <p>The non-compliance is non-material because the issue was resolved quickly, even if not by the required time. This is consistent with the objective of this licence obligation to ensure that customers are provided with their required work orders. Further, the absolute number of non-complying orders that [Utility] did not contact within one working day was low relative to the number of customers overall.</p>

**Note:** The auditor must also provide details about how they assessed/confirmed the PWU's non-compliance, including the evidence (or insufficiency of evidence) the auditor relied upon in assigning the non-compliant grade. The auditor should explain how the evidence, or lack of evidence, establishes the non-compliance.

## 5.4 Example 4 – when a Non-Compliant (material) grade is assigned

Section of audit report	Auditor's notes
Operating licence obligation	<p><i>[Utility]</i> must consult with:</p> <ul style="list-style-type: none"> <li>a) Customers who are supplied water from the Declared Catchment Area</li> <li>b) stakeholders and regulators that have been agreed with, or directed by, IPART</li> <li>c) any other persons that <i>[Utility]</i> reasonably expects to have an interest in the review of the modelling of the system yield, regarding the review of the modelling, and provide the results of the consultation to the suitably qualified independent expert.</li> </ul>
Audit grade	 Non-compliant (material)
Audit findings/ reasons for audit grade	<p><i>[Utility]</i> failed to meet its obligations under parts (a) and (c) of this licence obligation.</p> <p><b><u>Non-compliance with sub-clause (a)</u></b>  <i>[Utility]</i> did not consult with minor customers or other local water utilities who are also <i>[Utility]</i>'s customers.</p> <p><b><u>Non-compliance with sub-clause (c)</u></b>  <i>[Utility]</i> did not identify all stakeholders that may have been interested in the review of the system yield. Instead, <i>[Utility]</i> relied on stakeholders it had previously engaged with. This approach risks excluding any new stakeholders that may be interested.</p> <p><b><u>Basis for audit opinion</u></b>            We consider that these issues are non-compliances with the operating licence because there is insufficient evidence to demonstrate that <i>[Utility]</i> met all of the requirements of the operating licence.</p> <p>The non-compliances are material because <i>[Utility]</i> had not met the objective of engaging with customers, stakeholders, and interested parties which is to gather different perspectives to determine the system yield. There is a risk that <i>[Utility]</i> may not have considered the views of all potentially interested parties in its review of the system yield model, which are important for ensuring that the system yield calculations are accurate. System yield impacts water availability and continuity to customers.</p>

**Note:** The auditor must also provide details about how they assessed/confirmed the PWU's non-compliance, including the evidence (or insufficiency of evidence) the auditor relied upon in assigning the non-compliant grade. The auditor should explain how the evidence, or lack of evidence, establishes the non-compliance.

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## 6 Audit fundamentals

In this chapter, we explain our expectations for conduct during the audits, including when escalating issues to IPART.

### 6.1 Conduct during audits

#### 6.1.1 Public Water Utilities

PWUs must cooperate with auditors and IPART during the audit and provide reasonable access to sites and information. PWUs must be prepared for audit interviews and ensure that appropriate personnel are available.

#### 6.1.2 Auditors

Where IPART considers that an auditor has failed to apply the level of professionalism or rigour expected by IPART, we will provide the auditor with feedback and ask the auditor to take steps to address any inadequacies.

#### 6.1.3 Communication with IPART regarding issues of concern

Where an issue arises during an audit, auditors or PWUs may contact IPART (i.e. the nominated IPART representative of the audit) to seek clarification of IPART requirements, to address issues that are outside the audit scope, or to discuss a matter of disagreement.

If necessary, IPART may decide to change the audit scope (see audit variation) or undertake other actions to address an unforeseen issue or a matter of disagreement.

### 6.2 Interpretation of a licence obligation

If, during an audit, there is disagreement between the auditor and the PWU as to the interpretation of a licence or another instrument, the auditor should refer the disagreement to IPART. IPART may provide the auditor with guidance on how to interpret the regulatory obligation for the purposes of the audit.

The auditor may also request guidance from IPART on the interpretation of a licence or other instrument in the absence of a disagreement.

### 6.3 Dealing with matters outside the audit scope

In general, we require auditors to stay within the audit scope. However, occasionally, the auditor may identify issues that could pose a significant risk to public health or the environment which fall outside the scope of the audit. This is mostly relevant to operational audits.

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If these issues relate to the PWU's licence, the auditor may continue the investigation of the 'out of scope' issue with the concurrence of the IPART representative in attendance at the audit. If the issue is outside the scope of the licence, IPART will refer the matter to the relevant agency.

The auditor must identify any out-of-scope matters to IPART as early as possible (preferably in an email). The auditor should include the out-of-scope findings in a covering letter attached to the final audit report.

The letter may include any specific concerns the auditor has relating to trends in performance that may lead to potential future non-compliance. IPART will provide a copy of the auditor's letter to the PWU. IPART may make recommendations to the Minister regarding the out-of-scope issues identified in our report to the Minister.

## 6.4 Escalation of issues

IPART will assign each audit with a nominated IPART representative to oversee the audit. The nominated IPART representative will be familiar with the licensed PWU and the scope of the audit. In most cases, we will attend the audit interviews and field verification site visits.

Where a disagreement relating to the audit process arises that cannot be resolved through discussions with the IPART representative, the PWU or an auditor may formally escalate the issue to IPART in writing. PWUs and auditors can escalate issues at any time during the audit process but should be brought to the IPART representative's attention as soon as possible.

The escalation correspondence must clearly outline the issue (including references to affected licence conditions where relevant). The escalation correspondence must be sent by email to the nominated IPART representative, with IPART's Director, Regulation and Compliance, copied in. The nominated IPART representative will then arrange a meeting with the notifier to discuss pathways for resolution. Where the issue relates to the behaviour of IPART employees the notifier can contact the Director, Regulation and Compliance, or the Executive Director, Regulation and Compliance.

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- 1 2022-2027 Hunter Water operating licence cl 38; 2019-2023 Sydney Water operating licence cl 10.1; and 2022-2024 WaterNSW operating licence cl 7.1.
  - 2 2022-2027 Hunter Water operating licence cl 38; 2019-2023 Sydney Water operating licence cl 10.1; and 2022-2024 WaterNSW operating licence cl 7.1.
  - 3 The *Hunter Water Act 1991* (NSW) s 18A(3); the *Sydney Water Act 1994* (NSW) s 31(2)(b); and the *Water NSW Act 2014* (NSW) s 56(3)(a).
  - 4 2022-2027 Hunter Water Reporting Manual s 6.1.1; 2019-2023 Sydney Water Reporting Manual s 8.1; and 2022-2024 Water NSW Reporting Manual s 7.1.
  - 5 2022-2027 Hunter Water Reporting Manual s 6.1.2; 2019-2023 Sydney Water Reporting Manual s 8.1; and 2022-2024 Water NSW Reporting Manual s 7.1.