

Summary of submissions to Draft Public Water Utility Audit Guideline

7 July 2023

1 Summary of submissions

In May 2023, we published a draft Public Water Utility Audit Guideline (Guideline) and a fact sheet complementing the Guideline, where we have set out the audit criteria for auditing water quality management systems (Fact Sheet) for feedback from our stakeholders and the public.

We received submissions from WaterNSW, Sydney Water and one anonymous individual submission. We have summarised these submissions in this Information Paper and explained how they have informed our final Guideline in **Table 1** below.

These stakeholders also provided minor editorial comments on our Fact Sheet. We have incorporated the suggested changes into the Fact Sheet but have not listed them in the submissions summary in **Table 1**.

We also received 3 submissions from the public, but we consider that they are not directly relevant for the Guideline. We will notify the relevant water utilities about these submissions.

All submissions are available on our website.

The following symbols indicate the stakeholders' positions in **Table 1**:
























-  Supports our draft Guideline but may have requested minor amendments
-  Disagrees with our draft Guideline
-  Supports our draft Guideline but proposes an alternative approach OR has requested additional information be included in the Guideline
-  Has not provided a view.




Table 1 Summary of submissions to the draft Guideline






#	Reference to Draft Guideline	Overview of Submission	Reference to Final Guideline	IPART Response
1	Section 1 Introduction on page 4	 WaterNSW requests changing "authorise the PWUs to provide essential water and wastewater services" to either "and/or wastewater services" or "wastewater services (where applicable)" as WaterNSW does not provide wastewater services under its operating licence or the Water NSW Act 2014.	Section 1 Introduction	Completed as suggested.
2	Section 1.1 Purpose of this document on page 4	 WaterNSW suggests including the following sections to the purpose statement: <ul style="list-style-type: none"> • IPART process/guideline for selecting and appointing auditors, including the high-level criteria for selecting auditors or establishing a panel of auditors. • IPART's Risk Management Framework – the key elements used by IPART in deciding the annual audit scope. This may extend to the audit approach adopted for the elements selected for review. • IPART's commitment or expectations it puts on itself for the end-to-end audit process. 	Section 1.1 Purpose of this document	We have not included this in the purpose statement as this is not the purpose of this Guideline. However, we have included some clarifications in section 2 of the Guideline (as below).
3	Section 1.1 Purpose of this document on page 4	 WaterNSW suggests clarifying that the purpose is also to provide a consistent approach for raising concerns with IPART regarding audit outcomes.	Section 1.1 Purpose of this document	Completed as suggested.
4	Section 1.2 Legislative framework on page 5	 Sydney Water requests clarification that where IPART assigns a different audit grade in its report to the Minister from that assigned by the auditor, the reasons for IPART's decision will be explained in IPART's report.  Sydney Water suggests replacing 'comply' with 'follow', or 'adhere to' in the 4 th paragraph as the Guideline is not a compliance document.	Section 1.2 Legislative framework (also in section 2.5 – IPART recommendations and report to the Minister)	Completed as suggested. Completed as suggested.






#	Reference to Draft Guideline	Overview of Submission	Reference to Final Guideline	IPART Response
5	Section 2.2.1 Step 1: Audit kick-off meeting on page 11 Box 1 – Audit period and audit scope on page 11	<p> WaterNSW queries how IPART takes a risk-based approach in determining which clauses are included in the audit scope, when the risk of non-compliance is not clearly defined and therefore stipulate to the auditor that this is the risk they are assessing compliance against. WaterNSW has previously raised the issue that when the auditor undertakes the audit of specific clauses, depending on the auditor, there can be varying interpretations of the 'defined risk' of the clause.</p> <p> Sydney Water suggests that in Box 1 for the operational audit scope, a brief description is provided of IPART's risk-based process for determining the audit scope, with more explicit detail describing the risk-based approach applied by IPART for determining the frequency of auditing Licence requirements.</p> <p> Sydney Water suggests considering the adequacy of a management system that could only be audited once in licence term as fully compliant, unless significant changes are made to the management system. However, implementation of the system elements would be audited in line with a risk-based approach.</p>	Section 2.1 Specifying the audit scope Box 2.1- We use a risk-based approach to the operational audits	<p>We have provided a brief overview of what a risk-based approach means, similar to what is included in the 2019 PWU Audit Guideline. In addition, we have provided examples of how we apply this risk-based approach.</p> <p>The Tribunal has decided that we will provide additional guidance to auditors on interpreting operating licence obligations and the evidence that we would expect to be sighted. However, we consider that there is not adequate value in providing risk statements for overarching licence obligations. Instead, we require our auditors to articulate the risk of an identified shortcoming or non-compliance on the PWU's ability to meet the objectives of the audited licence obligation. This provides more specific information than general risk statements.</p> <p>We intend to move towards auditing adequacy of management systems less regularly in an operating licence term and focus on auditing implementation. However, such decisions are at the discretion of the Tribunal and are made after considering a number of relevant factors. We do not propose to include detail of the decision-making process in the Guideline.</p>
6	Section 2 The audit process on page 7	<p> Sydney Water suggests including a brief description on IPART's procurement process for engaging auditors or providing reference to another source.</p> <p> Sydney Water requests that if IPART plans an audit period other than the financial year, sufficient notice should be provided to the PWU as the verification of data typically occurs for a financial year period.</p>	Section 2.2 Engaging auditors	<p>We have stated in the Guideline that we engage auditors through a separate procurement process. We seek to engage auditors with specialised skills and the expertise to undertake our audits, having regard to costs and value for money. However, we have not made further references to this as procurement is not a public process that is open for consultation. The auditors we engage are contracted to IPART to undertake services on our behalf.</p> <p>We have clarified in the Guideline that we will provide notice to the PWU if we plan changes to the PWUs' typical audit period, noting that the audit period for some PWUs is currently not aligned with the financial year.</p>






#	Reference to Draft Guideline	Overview of Submission	Reference to Final Guideline	IPART Response
7	Section 2.1 Overview of audit process Figure 1 – IPART process for undertaking operational and NPR indicator audits on page 8	 WaterNSW suggests the following changes to Figure 1 (overview of the audit process): <ul style="list-style-type: none"> Step 1 should be, "IPART develops scope of annual operational audit, with associated activities (appointment of auditors and notification of the audit)". It should include clarity about discussion of potential scopes with the PWU prior to notification of the final scope. Include a Step 2C for the PWU and Auditor to determine field verification sites appropriate to meet the audit scope. Include the words "to IPART and the PWU" to the end of Step 4D. Change the second Step 4D to Step 4E, as it is in a separate box, or combine both steps associated with 4D into one box and reword the right-hand box to include the words "Final Operational Audit Report". 	Section 2.3 Overview of audit process Figure 2-1 – IPART process for undertaking operational and NPR indicator audits	<p>We have not included a new Step 1 in Figure 1 but have included additional information before this figure in sections 2.1 and 2.2 describing IPART's engagement of auditors, development of operational and National Performance Report (NPR) indicator audit scopes. We also clarify that the audit process commences after IPART has provided the PWU and auditor with the audit scopes and notified them about the commencement of the audits.</p> <p>The decision on which sites are appropriate to support the audit rests with the auditor and IPART. Therefore, we have not included the suggested edits in the audit process diagram. We have explained in section 2.4.1 that sites will normally be discussed and confirmed during the kick-off meeting before finalisation to consider any issues with practicalities and consider alternative sites if required.</p> <p>We have updated Step 4D of Figure 1 to include the words 'to IPART and the PWU' as suggested and clarified that the final steps are about the finalisation of the operational audit report (and NPR indicators audit report), as suggested.</p>
8	Section 2.2.1 Step 1: Audit kick-off meeting on page 9	 WaterNSW requests that IPART include an indicative timeline of the end-to-end audit process. Further, it seeks greater flexibility in the audit schedule/timeline for audit interview week  Sydney Water also seeks indicative timelines for PWU to complete the following tasks, with provision for timeframes to be varied with agreement from all parties during the audit kick-off meeting: <ul style="list-style-type: none"> response to the Audit Questionnaire with compliance evidence (4 weeks) review and comment on the Audit Summary Report and preparation for the preliminary audit findings meeting (one week) provide additional compliance evidence after the preliminary findings meeting (2 weeks) review and comment on the Draft operational and NPR indicators report (one week) 	Section 2.3 Overview of audit process Table 2-1 – Indicative audit schedule	<p>We have included an indicative suggested timeframe for milestone deliverables in the Guideline (see Table 1 in section 2.3)</p> <p>The indicative timeframe clarifies the time required by the auditor to prepare the Audit Summary Report and Draft and Final operational and NPR indicator audit reports and other timeframes requested by Sydney Water.</p> <p>These timeframes are indicative only and will be finalised in agreement with the PWU, auditor and IPART at the time of the kick-off meeting. It is necessary to retain some flexibility around timeframes to respond to specific circumstances and provide flexibility for PWUs and auditors to manage resources during the audit. This includes the timing for the audit interviews and field verification site visits.</p>





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		 The anonymous submission notes that the timeline for the audit and milestone deliverables does not include the time required by the auditor to prepare the audit reports.		
9	Section 2.2.1 Step 1: Audit kick-off meeting on page 9	 The anonymous stakeholder queries if there will still be a prior meeting between just IPART and the auditor before the kick-off meeting with IPART, the PWU and the auditor. This has been done in previous operational audits.  WaterNSW suggests clarifying that alternative options for site visits can be discussed at the kick-off meeting. In the past, events such as flooding and bushfire have closed public access to catchments for safety reasons and impacted WaterNSW's ability to conduct site visits as per the audit plan.	Section 2.4.1 Step 1: Audit kick-off meeting	<p>We have clarified that before the combined kick-off meeting with the PWU and auditor, we may meet with the PWU and auditor separately. The meeting with the auditor is typically to kick-off the auditor's contract engagement with IPART.</p> <p>The decision on which sites are appropriate to support the audit rests with the auditor and IPART. However, we recognise that there are practicalities that may need to be discussed with the PWU and at times, alternative sites must be identified. Sites will normally be discussed and confirmed during the kick-off meeting. We have clarified this in the Guideline.</p>
10	Section 2.2.1 Step 1: Audit kick-off meeting on page 10	 (Minor editorial comment) The anonymous submission suggests rewording <i>"Disagreements between the auditor and the PWU during the kick-off meeting can be resolved by the IPART representative"</i> to <i>"Any disagreements between the auditor..."</i> to provide a more positive context as the original text infers there will be disagreements.	Section 2.4.1 Step 1: Audit kick-off meeting	Completed as suggested.
11	Section 2.2.3 Step 3: Audit interviews and field verification site visits on page 13	 (Minor editorial comment) The anonymous submission suggests amending the wording from <i>"This audit interviews and field verification site visits is step 3 of the audit process."</i> to <i>"Conduct of the audit interviews..."</i> .	Section 2.4.3 Step 3: Audit interviews and field verification site visits	Completed as suggested.
12	Section 2.2.4 Step 4: Reporting on and discussing the audit findings on pages 13 & 15	 The anonymous submission queries if both the operational and NPR indicator audits are to be addressed in a single summary report, or if 2 separate reports are required.	Section 2.4.4 Step 4: Reporting on and discussing the audit findings	We have clarified in the Guideline that this is at the discretion of the auditor.



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		 (Minor editorial comment) The anonymous submission suggests that under step 4D, the final dot point has the word "on" deleted from it. (Minor editorial comment)		Completed as suggested.
13	Section 2.4.1 Review by IPART on page 17	 (Minor editorial comment) The anonymous submission suggests that the final sentence in this section would be more appropriately inserted in section 2.4.2.	Section 2.6.1 Review by IPART	Completed as suggested.
14	Section 3.1 Audit summary report Section 3.1.2 Reporting on PWU's progress with completing recommendations from previous operational audits 3.1.3 Reporting on the NPR indicators audit on pages 18, 21 & 22	 The anonymous submission suggests that the audit summary report should include the full operational and NPR indicator audit scope (for all audited licence clauses and NPR indicators, and progress checked for all outstanding recommendations from previous operational audits). This will allow IPART to review the auditor's findings and conclusions for all licence obligations before moving to the next stage.	Section 3.1 Audit summary report	<p>We have not incorporated this change as we consider that the benefit of the audit summary report is delivered by addressing issues that are likely to be contentious early in the audit reporting process. Audit findings that are less likely to be contentious can still be considered in detail at the draft audit report stage.</p> <p>We have clarified in the Guideline that the purpose of the audit 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 required from the PWU and discuss any concerns. To address the submission's concerns, we have clarified in the Guideline that the Audit Summary Report should describe any conditions where the auditor may have identified potential issues but on balance, has assigned a Compliant grade (in addition to licence obligations where the auditor has identified minor shortcomings and non-compliances). However, the auditor should not include licence obligations where there is no ambiguity about the PWU's compliance.</p> <p>We will review the full audit scope when we receive the Draft Operational Audit Report. We expect that the likelihood of remaining issues at that stage are low and we can address them at that stage, as required.</p>

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15	Section 3.1.1 Reporting on the operational audit	 WaterNSW suggests that opportunities for improvement (OFIs) should be introduced in section 3.1 (in the Audit Summary Report) instead of in section 3.2 (the complete draft operational audit report).	Section 3.1.1 Reporting on the operational audit	We have not incorporated this change. As above, we have not incorporated this change as we consider that the benefit of the audit summary report is delivered by focusing on issues that are likely to be contentious early in the audit reporting process. The PWUs will be able to see the auditor's suggested OFIs in the draft operational audit report.
16	Section 3.1.1 Reporting on the operational audit Figure 2 on page 19	 Sydney Water suggests in Figure 2, the operating licence objective(s) should be noted with the stated licence obligation,	Section 3.1.1 Reporting on the operational audit Table 3-1	<p>We have clarified in Figure 2 that when discussing shortcomings and non-compliances, the auditor should identify the objectives of the licence obligation that is being audited.</p> <p>We consider that there is more value in incorporating the relevant licence objectives in the discussion rather than listing the overall objectives next to the stated licence obligation. There may be some licence obligations with multiple objectives and listing them all together does not clarify their relevance to the audit findings.</p>
		 The anonymous submission suggests that the auditor should identify areas of good practice (by the PWU) in the draft/final audit reports instead of the Audit Summary Report.	<p>Section 3.1.1 Reporting on the operational audit Table 3-1</p> <p>Section 3.2.2 Detailed audit findings Table 3-2</p>	<p>We consider that there is benefit in including areas of good practice observed by the auditor in the Audit Summary Report. However, we have clarified in the Guideline that this is up to the discretion of the auditor and can wait until the draft operational audit report.</p>
17	Section 3.2.2 Detailed audit findings Table 1 on page 27	 WaterNSW suggests that in Table 1, under the column "What is the risk of the inconsistency?", IPART defines the overarching risk posed by not having a management system consistent with identified standards, as well as taking into consideration the role of the PWU within the water supply system. This will guide the residual risk of inconsistencies identified through auditing.	Section 3.2.2 Detailed audit findings Table 3-2	As stated previously, the Tribunal has decided that we will provide additional guidance to auditors on interpreting operating licence obligations and the evidence that we would expect to be sighted. We do not propose to provide auditors with general risk statements for the licence obligations.
		 Sydney Water queries if Table 1 should refer to section 4.4 instead of 4.3.		Corrected as suggested.

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		 <p>The anonymous submission suggests that in Table 1, the format (landscape with multiple columns) is outdated, and the Guideline should instead use the format adopted in recent years.</p>		Changed format to portrait format.
18	Section 3.2.4 Summary of field verification visits on page 28	 <p>WaterNSW recommends that the summary of field verification visits include the reason why a site was chosen and how it is relevant to the operational audit scope.</p>	Section 3.2.4 Summary of field verification visits	Clarified as suggested.
19	Section 3.2.5 Appendices on page 28	 <p>The anonymous submission suggests that the "auditor's declaration" is better placed in the Executive Summary.</p>	Moved to section 3.2.1 – Executive Summary	Moved to the executive summary in section 3.2.1 as suggested.
20	Section 4.1 Assigning audit grades Figure 4 – Guidance for assigning Compliance grades on page 30	 <p>WaterNSW suggests that in Figure 4, further guidance could be added to distinguish between "minimal risk to the licence objectives" (compliant – minor shortcomings) and "non-material risk to the licence objectives" (non-compliant-non-material)". And that this risk should be the residual risk. For example, for compliant (minor shortcomings), the PWU is technically compliant, but there are minor issues that could be addressed to eliminate any residual risk. In contrast to non-compliant (nonmaterial), where the PWU is technically non-compliant, but the non-compliances pose a non-material residual risk to the outcome being sought.</p>  <p>WaterNSW suggests that when determining an audit grade, the residual risk is considered in the broader context of the entire management system, the current and required funding, and the ability to comply with the licence obligations, which may entail reprioritising resourcing within the business.</p>	Section 4.1 Assigning audit grades Figure 4-1 (Guidance for assigning compliance grades) and supporting notes	<p>We have clarified the guidance in the now Figure 5, to clarify that minor shortcomings are unlikely to have an impact on the PWU meeting the objectives of the audited licence obligation, unlike with non-compliances.</p> <p>The auditor should assign a Compliant (minor shortcomings grade) if they are satisfied that there is sufficient evidence to confirm that the PWU has materially met the operating licence obligation during the audit period. 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.</p> <p>The Guideline includes a note to this figure to clarify that the risk identified should be the residual risk, after the PWU has implemented risk controls. We have removed reference to 'risk' when describing shortcomings and limited reference to the residual risk posed by non-compliances, for clarity.</p>

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		<p> Sydney Water suggests that the guidance for determining a Compliant (minor shortcomings) grade may not be adequately flexible and could cause minor issues to be identified as non-material non-compliances. By contrast, the decision tree in the 2019 PWU Audit Guideline allows for a negative response to the question of whether there is sufficient evidence to demonstrate the licence obligation was met, however, if it is determined that there is sufficient evidence to confirm the shortcomings are minor, the requirement is assessed as Compliant (minor shortcomings).</p> <p> Sydney Water suggests amending the wording in Figure 4 for the description of Non-Compliant grades to "...inconsistencies or deficiencies..."</p> <p> The anonymous submission queries if in Figure 4 under Non-Compliant (non-material) and Non-Compliant (material), the word "inconsistencies" should be changed to "deficiencies" or "inadequacies",</p> <p> WaterNSW suggests that in the second note/ box of Figure 4, the risk for each obligation should be articulated by IPART to avoid variances between auditors about the risks that the licence obligations pose.</p>		<p>Clarified as suggested in the now Figure 5.</p> <p>As stated previously, the Tribunal has decided that we will provide additional guidance to auditors on interpreting operating licence obligations and the evidence that we would expect to be sighted. We do not propose to provide auditors with general risk statements for the licence obligations.</p>
21	Section 4.2 Recommendations to rectify shortcoming and non-compliances on page 32	<p> WaterNSW requests that auditors and the PWU have an opportunity to negotiate the date by which the PWU can reasonably complete the recommendation.</p>	Section 4.2 Recommendations to rectify shortcoming and non-compliances	<p>PWUs should make any comments on the auditor's recommendations, including the suggested timeframe, in its review of the audit reports (see section 2.6.2 of the Guideline). We have made reference to this in this section 4.2.</p> <p>The auditor will consider the PWU's comments before finalising the audit report.</p>

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22	Section 4.3 Auditing rectification of previous non-compliances and completion of recommended actions on page 32	 The anonymous submission recommends that IPART should be rational regarding how "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". There may be cases where the non-compliance is not repeated during the audit period, but the recommendation to address a previously identified non-compliance may not yet be complete.	Section 4.3 Auditing rectification of previous non-compliances and completion of recommended actions	<p>We have not made any changes to the Guideline.</p> <p>A PWU remains non-compliant until the non-compliance is rectified. Where a discrete non-compliance occurs, for example a failure to report a reportable incident, that non-compliance does not persist. However, if the non-compliance occurs because the PWU's notification protocol is not compliant, that non-compliance will persist until the notification protocol has been rectified.</p>
23	Section 5.1 Example 1 – when a Compliant grade is assigned on page 36	 WaterNSW notes that surveillance audits undertaken may use different terminology other than non-material inconsistency. The materiality of that non-conformance may not necessarily align with IPART's audit grades.	Section 5.1 Example 1 – when a Compliant grade is assigned	<p>We have updated the guidance in this example to reflect that the auditor should use their judgement to determine if inconsistencies identified in 3rd party audits of management systems materially impact the PWU's compliance with its licence obligation.</p> <p>Corrected as suggested.</p>
		 (Minor editorial comment) The anonymous submission noted where it says "consistency" at the end of the Note, it should instead read "inconsistency".		
24	Section 6.1 Conduct during audits on page 41	 WaterNSW suggests including a section about the role of IPART during the audits. This should include: <ul style="list-style-type: none"> managing the auditor's focus on audit areas to be consistent with the audit scope providing guidance to auditors on how to interpret and apply the audit scope. <p>This would assist a PWU from responding to extraneous activity (questions, evidence and resourcing) that is inconsistent with our understanding of the audit scope, but we respond to in an effort to comply with auditor requests.</p>	Section 6.1 Conduct during audits	<p>We have not made any changes because we consider that this does not need to be articulated in the Guideline.</p> <p>Section 2.4.4 of the Guideline clarifies that IPART will review the audit questionnaire and all audit reports prior to providing to the PWU to ensure that they are consistent with the audit scope and our expectations.</p> <p>This will give comfort to PWUs that requests from the auditor are consistent with the audit scope and IPART's expectations. It will allow the PWU to focus on providing the requested compliance evidence and comments on the auditor findings and recommendations in reports,</p> <p>We intend to provide greater guidance to auditors for interpreting and applying the licence obligations. We are trialling this in 2023 with the Hunter Water operational audit and intend to roll this out for the other PWUs in future audits.</p>

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25	Section 6.4 Escalation of issues on page 42	 WaterNSW recommends clarifying that escalation to IPART can occur at any stage of the audit process and the issue(s) should be brought to the attention of the IPART representative as soon as possible,	Section 6.4 Escalation of issues	Clarified as suggested.
26	General editing	 WaterNSW suggests amending the number style in the guidelines for consistency or providing a footer reference on page 44 to avoid confusion: There are Roman numeral footnotes throughout the document. For example, three footnotes on page five (i, ii, iii). However, the numerals do not have corresponding footnotes on the page. Instead, the footer cross-referencing is on a different page (page 44). In contrast, the Arabic numbering which is also present (1, 2, 3) has the corresponding footnotes on the page.	General editing	IPART document style is for endnotes (the roman numerals) to be used for references and footnotes for clarifications. The full list of endnote references is at the end of the document.

