



Independent Pricing and Regulatory Tribunal

Audit Guideline

Public Water Utilities

**Water — Guideline
July 2014**

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Amendment Record

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Revision 1	February 2012	Release of draft guidelines for comment
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Revision 3	May 2012	Revised compliance grades for 2011-12 audits
Revision 4	May 2013	Revised guidance for site visits, opportunities for improvement, panel classifications and categories, and report template for 2012-13 audits
Revision 5	July 2014	Minor editorial Updated audit report template Addition of management system reviews

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1 Introduction

1.1 Purpose

The purpose of this Audit Guideline (the guideline) is to provide a framework to help auditors to conduct operational audits of public water utilities efficiently and effectively. It also informs public utilities of the audit process and the requirements of the operational audits.

This document is only a guideline and is not binding. We may depart from the guidelines where we consider it appropriate.

1.2 Structure of the guideline

The guideline is structured into the following chapters:

Operational Audit Procedure

This chapter includes:

- ▼ audit steps – details of the steps in the audit process, including actions, responsibilities and outputs
- ▼ audit schedule – details of the timing of the steps.

Audit Panel

This chapter includes:

- ▼ panel classifications – lead auditors, auditors and area specialists
- ▼ panel categories – defining the disciplines of the auditors
- ▼ auditor training.

1.3 Changing the guideline

We may change this guideline to:

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

Before we change the guideline significantly, we will consult relevant utilities, audit panel members and other interested stakeholders. We will then notify stakeholders of the changes to the guideline and the start date for any new auditing arrangements. In determining the start date, we will make sure there is enough time for utilities to implement new arrangements.

1.4 Auditor or utility feedback

Over time, auditors and public water utilities are likely to identify opportunities for improving the audit framework, or other aspects of the audit process. We encourage auditors and utilities to provide feedback on any issues or recommendations to make the audit process or the licensing framework more efficient and effective.

1.5 National Water Initiative audits

The National Water Commission produces an annual National Performance Report as part of the National Water Initiative. The purpose of the report is to publicly and independently report on the performance of water utilities across Australia. The National Performance Report is based on data from performance indicators about customers, health, water resources, assets, environment, pricing and finances.

The National Water Initiative audits are undertaken as part of Operational audits. However, this audit guideline does not apply to the National Water Initiative component of the Operational audits.

The National Performance Framework outlines the auditing requirements and provides an audit report template. We use this framework for National Water Initiative audits, rather than this audit guideline. For further information on these audits please contact us and we can provide the latest National Performance Framework.

2 Operational Audit Procedure

2.1 Introduction

Operational audits are conducted annually for the financial year period. We engage independent consultants to audit each utility.

The objective of the audit is to check the utilities compliance with:

- ▼ Operating Licence conditions
- ▼ the relevant Act
- ▼ Ministerial requirements.

The audit is a compliance audit, which checks that the utilities provide services to the standards set out in the Operating Licence.

Further, we are moving to a systems standard approach of regulation with obligations to establish management systems in areas such as water quality, assets and environment. Management systems have an element of continual improvement inherent in the standard. Checking compliance with the management system licence clauses will therefore include whether there has been continual improvement within the area of operation.

Risk-based approach

We use a risk-based approach to the operational audits to minimise the regulatory burden while meeting the objectives of the operational audits.

A risk-based approach means we do not require all clauses in the utility's licence to be audited every year. The audit frequency of a clause will depend on the risk a non-compliance poses and a utility's previous performance. This approach will ensure auditing reflects the type, size, complexity and level of risk associated with the utility's activity.

For example, a non-compliance in the area of water quality is more likely to present a risk to human health than late reporting about customer complaints. Hence, we audit water quality every year and retail clauses less frequently.

Most clauses will be audited at least once during a 5-year licence period. The audit of the first year of a new licence is likely to be a more comprehensive audit to help identify any areas that we should focus on through the licence period.

All licence obligations are also subject to a statement of compliance from the public utility (see Appendix B for a template). The utility is to complete the Statement of Compliance to the best of their knowledge and have it signed by the CEO and Chairman of the Board or otherwise authorised Board member.

Overlap with other audits

Utilities may have parts of their operation audited under other frameworks, such as certification schemes or other legislation. An example may be a document control system audited under ISO9001 accreditation.

We will adjust our operational audit scopes to take account of these other audits and encourage our auditors to use the data and audit opinion from other relevant audits rather than duplicating the audit effort.

2.2 Matters outside the scope

In general, auditors are required to stay within the scope of the audit. However, occasionally the auditor may identify issues that may pose a significant risk to public health or the environment which falls outside the scope of the audit. These out of scope issues may or may not relate to licence conditions.

In these circumstances, the auditor may continue the investigation of the “out of scope” issue with the concurrence of the IPART representative in attendance.

The auditor should detail any outside of scope findings in a covering letter attached to the audit report. The letter may also include specific concerns the auditor may have relating to trends in performance that may lead to potential failures. The auditor should not document outside of scope findings within the audit report.

Implementation of Management Systems

Licences now include systems-based licence conditions, many of which include transitional periods for implementation. Systems-based licence conditions relate to requirements to have certain Environmental Management Systems, Asset Management Systems and Quality Management Systems in place.

Where a system is required to be developed and/or implemented by a date outside of the audit period, we require the utility to provide a verbal update on progress during the audit interviews. Management systems to be reviewed will be identified in the audit scope.

The purpose of the update from the utility is to inform IPART and the auditor of progress that has been made in developing an effective management system by the due date required in the licence. It is anticipated that this will be a verbal update. However, the utility may choose to provide a visual presentation as well.

The auditor is requested to provide a summary of this update and whether, in the auditor's opinion, sufficient progress has been made to meet the future licence requirement.

The summary should not be included in the audit report. Rather, it should form an attachment to the cover note to the audit report. However, a draft attachment should be prepared and submitted at the first draft report stage to enable review by the utility and IPART.

2.3 Steps for an audit

This section of the guideline outlines the steps involved in the audit process. We have adopted a systematic audit method to promote consistency across auditors and over time. There are 8 steps to an audit, and all parties involved (utility, auditor and IPART) are responsible for completing some of the steps. Table 2.1 below outlines the steps. The detailed requirements for each of the steps are contained in the sections that follow.

Table 2.1 Audit steps

Step	Description	Responsibility
Step 1	Audit Scoping	IPART
Step 2	Appointment of auditor	IPART
Step 3	Audit preparation	Auditor/Utility/IPART
Step 4	Audit Interview	Auditor/Utility
Step 5	Field verification site visits	Auditor/Utility
Step 6	Wrap up and close out meetings	Auditor/Utility
Step 7	Assessing and reporting	Auditor/Utility/IPART
Step 8	Reporting to Minister	IPART
Step 9	Reporting on recommendations	Utility

Step 1: Audit Scoping

The scope of the audit shows which clauses in the utility's licence will be audited and is determined by IPART. It determines the scope of the auditor's contract and it shows the utility which parts of their business will be covered in the audit.

We do not require all clauses in the utility's licence to be audited every year. The frequency of auditing of a clause will depend upon the risk of non-compliance and a utility's previous performance. This approach will ensure auditing reflects the type, size, complexity and level of risk associated with the utility's activity.

All licence obligations are also subject to a statement of compliance from the public utility (see Appendix B for a template).

We are required to advertise the audits in relevant newspapers and invite submissions from the public. This allows the public to contribute to the operational audits if they have particular issues they want checked in the utility. Any issues identified by the public may be included in the audit scope.

Step 2: Appointment of auditor

We invite quotes from consultants on our panel¹ and select auditors based on criteria that considers team experience, technical and audit expertise, resource availability and cost.

We request quotes from at least 3 consultants on our panel for each audit of a public water utility. This gives us a good understanding of the market rate, and ensures we are able to appoint quality auditors.

Where possible, we do not intend to use the same auditor for a utility operational audit more than 3 times in a 5-year period. Larger audit firms may be able to rotate audit teams to satisfy this requirement.

We engage the auditors and set the dates for the audit milestones at this time. To make sure the right utility staff are available for the audit, we will consult the utility and auditor about the timing of the milestones. In general the timing is consistent with the schedule outlined in Section 2.4, but can be adjusted to make sure we get the best outcome from the audit.

An auditor briefing meeting is held between IPART and the appointed auditor. The meeting will cover the expectations of IPART, field verification site visit locations and any concerns raised by stakeholders.

Step 3: Audit Preparation

The auditor and utility will exchange information in this step to ensure the audit interview is as efficient and effective as possible. There is also consultation with other government agencies and the public.

¹ See **Chapter 4 - Audit Panel** for details.

The auditor will prepare a **questionnaire** based on the scope of the audit. The utility will **answer the questionnaire** and provide a **statement of compliance**. All these documents will be posted to a confidential data upload point on IPART's website before the audit interviews. The auditor, the utility and IPART will have access to this information on the website. For more detail on the content of the questionnaire and answers to the questionnaire, please see **Appendix A**. The statement of compliance template is in **Appendix B**.

Evidence provided by utilities should be well referenced, clearly identifying relevant page numbers and/or paragraphs of long documents.

The auditor must read the answers and evidence provided before the interview. This allows for an efficient interview process (ie, the auditor should only need to test and validate evidence, clarify any uncertainties and ask for information to fill gaps, rather than covering all the evidence provided in the interview). The auditors may still request additional information or ask additional questions during the interviews.

IPART will contact the relevant agencies prior to finalising the scope of the operating licence audit. We will seek formal feedback on the utility's performance in the audit period for the areas where the agency works with or regulates the utility. The auditor must follow up with the relevant government agencies in regards to submissions received by IPART. The auditor should confirm the relevant agencies with IPART before consultation. Agencies may include NSW Health, Environment Protection Authority, Office of Environment and Heritage, NSW Office of Water and/or the Dam Safety Committee.

At a minimum, the auditor will be required to liaise with NSW Health. **Any requests should be made in writing and addressed to the Chief Health Officer at the NSW Ministry for Health.**

The auditor and utility will organise an **interview timetable**. The auditor will indicate how many interview hours are needed for each licence obligation category. The utility will identify which business areas will be interviewed for these clauses, and will draft the timetable accordingly. After the audit interviews and field verification, a period of time (eg, half a day) should be set aside to review any outstanding matters or conduct additional interviews that were not able to be held in the scheduled interview times.

During the audit, we will require a field verification site visit. We will determine together with the auditor what type of facilities will be inspected and will notify the utility at this time. Facilities include assets, property or physical elements related to the utility's operations, such as areas of a catchment or waterways. Any facility relevant to the licence obligations being audited may be selected for the site visit. To inform the selection of facilities, we will provide the lead auditor with a list of facilities visited in the previous five years. We anticipate that at

least 1 day should be set aside for field verification site visits depending on what facilities are inspected.

The utility and auditor are to discuss with us as early as possible whether there will be multiple interview streams or a single stream. Multiple interview streams is more time efficient, provided all parties involved are able to resource the streams effectively. The advantage of single stream audits is where there are overlaps between disciplines they can be dealt with in one session, the specific utility staff members only have to attend one interview. Also, there can be some advantage to having multiple auditors with different disciplines in the one interview.

STEP 4: Audit interview

The interview step covers the meetings at the utility's offices and facilities. Both IPART staff and auditors will be present at all interviews. Utilities are responsible for ensuring the most appropriate staff members attend the relevant interviews.

There will be an **opening meeting** to set the scene for the audit, establish the protocols for the audit² and ensure that all necessary arrangements are in place and agreed. The meeting will cover the audit approach and the timescale for undertaking the audit. This meeting is usually held at the start of the interviews.

Through the interviews in the utility offices and field verification site visits, auditors must get sufficient evidence to be able to provide an audit opinion in accordance with an adopted audit standard. **Appendix E** discusses appropriate audit standards. Auditors will conduct the interviews by using the audit methods outlined in **Appendix F**.

Lead auditors must use their professional judgement to determine the mix of audit methods needed to get enough evidence to support an opinion on each item within the scope.

Utilities may wish to start each interview on a specific part of the licence with a brief **presentation** outlining how the business operates in this area. This will help set the scene for the auditor and also help the utility ensure the right staff members are present and are prepared. The utility should discuss this approach with the auditor before the interviews to see if this approach will work for the audit team.

We require auditors to maintain an accurate record of documents sighted. Auditors do not need to submit this record with the final audit report; however, records of audits must be maintained for a reasonable period (ie, 7 years).

² For example, the process for managing any disagreements between the auditor and the utility.

STEP 5: Field Verification Site visits

The purpose of a field verification site visit is for the auditor to investigate how effectively the requirements of the operating licence are met in practice. This includes identifying how management systems, plans and procedures are implemented under actual working conditions, and any gaps in implementation.

During a field verification site visit, the auditor will review aspects of the utility's operations and consider compliance using the audit methods outlined in **Appendix F**. The auditor is expected to ask a utility's operational staff about the operation of the system and application of management systems, plans or procedures. Utilities are responsible for ensuring the appropriate operational staff are available during a site visit.

During a field verification site visit, the auditor may identify issues that pose a significant risk to public health or the environment but are outside the scope of the audit. If this occurs the auditor will notify the utility and IPART at the time of the observation. Section 2.2 of this Guideline contains further details on "out of scope" issues and findings.

STEP 6: Wrap up and Close out sessions

The final session of the audit interview process should involve the following:

- ▼ A final wrap up - this session is to cover any outstanding matters. For example, to discuss any concerns from the site verification visits, to answer any questions taken on notice or complete any interviews that ran over time or where staff were not available when required. It is anticipated that this extra time allocated to the audit interviews will save time and improve the outcomes of the audit reporting step. **This wrap up may not be required if both the utility and the auditors are confident there are no outstanding issues to be covered.**
- ▼ A **close out meeting**. It is recommended that auditors, senior management from the utility and IPART staff are present. The auditor will flag any clauses where full compliance may not be awarded. The auditor should also summarise any outstanding information required or identify any other actions for the utility or IPART to complete prior to finalising the audit reports.

The two sessions can be held as one meeting. However, it is important that suitable personnel are present for the close out meeting.

Step 7: Audit assessment and reporting

The auditor is to assess the compliance that a utility has achieved over the audit period. The auditor must prepare a report that addresses all of the elements identified in the audit scope. The details of what is required in the report are in the audit report template in **Appendix D**.

After the audit interview and field verification site visits, the auditor will continue to assess the evidence provided at the interview. Throughout this step, there may be further communication between the auditor and utility. We request that all correspondence be sent to IPART for document control purposes. Should any meeting or teleconferences take place, IPART should be invited to participate.

The auditor is to write up the assessment in the **1st draft audit report**. **This report must be complete** – ie, no sections should be left for completion in the second draft. Should further evidence be provided after the first draft, details in the report may change. Where full compliance was not awarded, the auditor should identify what is needed for full compliance to be achieved. If further evidence has been requested but not supplied, the auditor should make an assessment base on the information/evidence already provided.

Compliance grades are defined in **Appendix C**. Details of the other parts of the report are in the audit report template in **Appendix D**.

Both the utility and IPART will **comment** on the 1st draft audit report, including providing further evidence and clarification if needed. **This is the last opportunity** for the utility to attempt to provide more evidence or clarify information that may influence the compliance grade. If the parties do not agree on the grade or evidence required, we require the utility and the auditor to discuss with us what additional evidence is required to improve a compliance grade before the utility's comments are finalised.

In our comments, we may clarify the intention of licence clauses or audit procedures. We will not make comments that compromise the independent assessment of the auditor. Comments from IPART and the utility should focus on the report content, rather spelling or typographical mistakes. The report will be subject to quality assurance by the audit team prior to issuing the final report.

After receiving comments, the auditor will write the **2nd draft audit report**. This report will reflect the new evidence and clarification and include the final compliance grades. All the changes to the report from this point should be editorial only.

The utility and IPART may **comment** on the 2nd draft audit report, but comments should be factual and editorial issues only. There is no opportunity to provide further evidence at this point, except in mitigating circumstances that we accept. We envisage that there are very few circumstances where we will allow this, and the utility should not assume it will be able to provide more evidence at this stage.

The auditor will write up the **final report** and provide it to us by the milestone date agreed in the contract. All final audit reports will be provided to the Minister and appear on IPART's website. The final report must be quality assured by another auditor/lead auditor on our Panel, with the relevant experience necessary to undertake this task.

Step 8: Report to Minister

We must report to the relevant Minister on the utility's performance in the audit. We will base the IPART report to the Minister on the audit report and include the audit report as an appendix.

If relevant, we will make recommendations to the Minister that the utility improves its operational systems, programs and/or procedures as a result of the compliance grades awarded. Where possible, our recommendations will be outcomes focused to allow the utility to determine the most efficient way to meet the desired outcomes. This may mean our recommendations do not reflect the specific recommendations or opportunities for improvement made by the auditor. Our recommendations may also differ from those made by the auditor to balance service standards with our understanding of customers' willingness to pay.

We may identify opportunities for improvement in our report as well as recommendations. We do not require the utility to report back on opportunities for improvement. For more information on auditor's recommendations and opportunities for improvement see **Appendix D**.

The Ministers responsible for Sydney Water and the Sydney Catchment (SCA) Authority must table the reports on their performance in parliament within a month of receiving the report.

All the IPART reports and appendices (including the auditor's report) will be posted on our website after they have been sent to the relevant Minister (Hunter Water and State Water) or tabled in parliament (Sydney Water and SCA).

Step 9: Report on audit recommendations

Utilities are to report to IPART on the status of recommendations identified in IPART's report to the Minister, by 31 March each year. In some cases, we may require a different reporting date for specific recommendations, if there is a higher or lower risk posed by not making the changes.

The report has to include a:

- ▼ progress report on implementation of recommendations from IPART's report to the Minister
- ▼ status update on any outstanding audit recommendations or accepted improvement opportunities from previous years.

2.4 Schedule for an operational audit

The following schedule outlines the timeframes in which each of the steps will happen for an operational audit. The exact dates of when outputs are due will vary from year to year and the dates will be set during step 2 and step 3 of the process.

Table 2.2 Audit Schedule

Audit Step	Output	Responsibility	Timing
Step 1 – Scoping	Audit scope	IPART	April - June
Step 2 – Appointment	Letter of appointment	IPART/Auditor	June - July
Step 3 – Preparing	Questionnaire	Auditor	July - September
	Consultation letters	Auditor	
	Answer to questionnaire	Utility	
	Statement of compliance	Utility	
	Advertisement	IPART	
Step 4 – Interview		Auditor/Utility	September
Step 5 – Field verification site visits		Auditor/Utility	September
Step 6 – Close out sessions		Auditor/Utility	September
Step 7 – Assessing and reporting	1 st draft audit report	Auditor	October - November
	Comments on 1 st draft	Utility / IPART	
	2 nd draft audit report	Auditor	
	Utility and IPART response	Utility / IPART	
	Final audit report	Auditor	
Step 8 – Reporting to Minister	IPART report to Minister	IPART	November/ December
Step 9 – Reporting on recommendations	Utility report on recommendations	Utility	March

3 | Audit Panel

The Water Licensing Audit and Technical Services Panel (the panel) operated by IPART is a panel of approved auditors and area specialists. The panel was developed to identify pre-approved auditors to make the auditor selection process simpler.

To find out how to apply for the panel, or to see the list of approved auditors on the panel, go to our website at: www.ipart.nsw.gov.au.

3.1 Panel classifications

There are 3 classifications on the Panel:

1. **Area Specialists** are senior technical professionals with specific skills, competencies and experience in their industry fields. An Area Specialist may not have the necessary skills and experience to conduct audits.

We may engage Area Specialists to provide specialist water industry advice, or assist Lead Auditors and Auditors, if required and if approved by us.

2. **Lead Auditors** are recognised as competent to undertake audits independently (although they are required to be part of a project team to comply with quality assurance and peer review requirements), or to lead an audit team. Only Lead Auditors can direct and supervise audit teams, and sign written reports submitted by a Panel Member.
3. **Auditors** are recognised as competent to undertake audits as a member of an audit team. Auditors may not have sufficient experience to lead an audit.

Any other staff, employees or contractors may only help the audit team in areas such as administrative support and/or auditor training. All work by non-Panel Members must be undertaken within the direct control and supervision of the Lead Auditor.

Box 3.1 Conflict of interest

Licensees, auditors and area specialists need to be conscious of the need to ensure that conflict of interest issues are managed appropriately for the engagement of audit panel members (as individuals or as organisations) for both audit and non-audit purposes.

For the purpose of undertaking audits of public utilities, a conflict of interest is defined as any actual, potential or perceived conflict of interest (including, but not limited to, any past, present, or anticipated agreement, arrangement, understanding or activity) which may affect the panel member's ability to perform any audit service.

IPART takes a conservative approach to assessing conflicts of interest. In assessing whether a conflict of interest exists, we will be guided by whether:

- ▼ The auditor has assisted the utility in preparing any of the plans or systems required as a licence condition – either directly or indirectly.
- ▼ A high proportion of the auditor's firm's revenue is derived from the utility (or a related entity).
- ▼ The audit firm is the incumbent internal auditor to the utility or a related entity.

Full details of the requirement to disclose conflicts of interest are contained in the Water Licensing Audit and Technical Services Panel Agreement, which is available on our website (www.ipart.nsw.gov.au).

3.2 Panel categories

We have established 8 categories based on the audit requirements in the *Water Industry Competition Act 2006* and the legislation for public water utilities. Only 5 of the categories are relevant to the public water utilities and are explained below.

Audit personnel may only conduct audits within the categories for which they are listed for the Audit Panel.

3.2.1 Infrastructure performance

Auditors in this category will assess the adequacy of infrastructure to achieve safe, reliable and continuous performance. It may also include assessing the adequacy of:

- ▼ infrastructure performance
- ▼ infrastructure management
- ▼ monitoring.

3.2.2 Drinking water quality

Auditors in this category will assess how adequately a utility implements the *Australian Drinking Water Guidelines*. It may also include assessing the adequacy of:

- ▼ any risk assessment
- ▼ the measures adopted to control risks
- ▼ the water quality supplied, ie, that it is fit-for-purpose.

Auditors in this category will also assess the adequacy of catchment management practices, including the adequacy of relevant risk assessments and their outcomes.

3.2.3 Recycled water quality

Auditors in this category will assess how adequately a utility implements the *Australian Guidelines for Water Recycling*. It may also include assessing the adequacy of:

- ▼ any risk assessment
- ▼ the measures adopted to control risks
- ▼ the water quality supplied, ie, that it is fit-for-purpose.

3.2.4 Retail supply

Auditors in this category will assess the adequacy of the utility's systems developed to manage proposed customer interactions. This includes:

- ▼ complaint handling procedures
- ▼ dispute resolution processes
- ▼ hardship and debt management.

3.2.5 Environmental management

Auditors in this category will assess the adequacy of environmental management practices including the adequacy of relevant risk assessments.

3.3 Auditor Training

We may require all auditors to undertake training on our expectations of auditors using this guideline. We will provide the guideline training periodically, at no cost to the auditors, in the Sydney central business district. The training is intended to help auditors comply with the audit guideline, and to effectively plan, execute and report on audits.



Appendices

A Questionnaire template

Table A.1 is a template for the auditor's questionnaire and the utility's response. This is used before the audit interview and the auditor will prepare a questionnaire based on the scope of the audit for the utility. The utility will answer the questionnaire before the audit interviews.

The evidence the utility provides will be in separate documents and systems. The questionnaire answer must reference the evidence clearly - including, where relevant, chapter numbers or page numbers. All referenced documents must be provided with the questionnaire answer. All referenced systems must be available in the interview for the auditor to test. Reports can be provided as evidence, however, information contained in the reports should be referenced (chapter and page numbers) in the questionnaire.

The questionnaire answer and referenced documents will be large and may be difficult to transmit to multiple parties. We have set up a data upload facility, which all 3 parties can use to upload and see the documents. We will send details of the facility to each party when the auditor is appointed.

The auditor must read the answers and evidence provided before the interview. This method allows for efficient interviews, as the auditor sees much of the evidence before the interview. Then, in the interview, the auditor can test and verify the evidence provided, clarify any uncertainties and ask for information to fill gaps, rather than covering all the content from the beginning.

Table A.1 Questionnaire template

Auditor Questionnaire			Utility Response	
Licence Clause	Questions	Type of evidence	Discussion	Evidence
	Questions that detail what the auditor expects to see to show compliance with the clause	Examples of documents or systems which might answer the question	Discussion of how the evidence answers the question	<p>Hyperlinks to documents or systems, or detailed naming of documents.</p> <p>To improve audit efficiency, chapter or page numbers for references should be included, where relevant.</p> <p>Providing unreferenced information can increase time and cost to audits.</p>

B Statement of compliance

Statement of compliance *[Insert Year]*

For 20__/__/__

Submitted by *[utility]*

To: The Chief Executive Officer
Independent Pricing and Regulatory Tribunal of NSW
PO Box Q290
QVB Post Office NSW 1230

[utility] reports as follows:

1. This statement documents compliance during *[financial year]* with all obligations to which *[utility]* is subject by virtue of its operating licence.
2. This report has been prepared by *[utility]* with all due care and skill to the best of our knowledge of conditions to which it is subject under the *[utility legislation]*.
3. Schedule A provides information on all obligations with which *[utility]* did not comply during *[financial year]*.
4. Other than the information provided in Schedule A, *[utility]* has complied with all conditions to which it is subject.
5. This compliance report has been approved by the Chief Executive Officer (or equivalent) and the Chairman of the Board of Directors of *[utility]*/ Duly authorised Board Member of *[utility]*.

DATE:

DATE:

Signed

Signed

Name:

Name:

Designation:

Designation:

Schedule A Non Compliances³

Table #	List obligations breached, including a brief description of each obligation	Describe:
		<ul style="list-style-type: none">i Date or period of non-complianceii Nature and extent of non-compliance (including whether and how many customers have been affected)iii Results of any monitoring (where applicable)iv Reasons for non-compliancev Remedial action takenvi Actual/anticipated date of full compliance






³ Utilities should report only non-compliances that were identified during the reporting period.

C Compliance grades

An auditor is to assess the adequacy or compliance that a licensee has achieved for each requirement for different audits and award grades for each requirement. The grades are to be awarded at the clause level. For example, if the clause is 3.2.1 (a)-(d), the grade would be awarded at the level of 3.2.1 and not at a lower sub-clause level. All letter and Roman numeral clauses are considered sub-clauses.

The proposed grades for all audits are shown in Table C.1. The grades are a traffic light approach and different to what has been used historically.

Table C.1 Compliance grades for public utilities

Grades of compliance	Description
Full Compliance 	Sufficient evidence to confirm that the requirements have been fully met.
High Compliance 	Sufficient evidence to confirm that the requirements have generally been met apart from very few minor shortcomings which do not compromise the ability of the utility to achieve defined objectives or assure controlled processes, products or outcomes.
Adequate Compliance 	Sufficient evidence to confirm that the requirements have generally been met apart from a number of minor shortcomings which do not compromise the ability of the utility to achieve defined objectives or assure controlled processes, products or outcomes.
Non compliant 	Sufficient evidence has not been provided to confirm that all major requirements are being met and the deficiency adversely impacts the ability of the utility to achieve defined objectives or assure controlled processes, products or outcomes.
No Requirement 	The requirement to comply with the licence condition does not occur within the audit period or there is no requirement for the utility to meet this assessment criterion.

D Audit report template

Report content and layout

The following pages are a template outlining what we require in an audit report as a minimum. Auditors do not have to use the formatting of the template, we expect they will use their company's formatting protocols. The template only provides the content and layout of what is needed.

The report should include a chapter for each licence obligation category (ie, Water Quality, Asset Management, Customers, etc), and a separate chapter addressing past IPART recommendations. Each chapter should clearly state compliance grades for each clause and include a summary of findings, including a brief discussion as to why a compliance grade was awarded.

The 1st draft report must be complete - ie, no sections should be left for completion in the second draft.

Where the auditor is waiting on further information, an assessment should be made based on information available to the auditor at the time of finalising the first draft audit report.

Report writing style

The final audit report will be attached to our report to the Minister and so will be posted on our website. The auditor must write the report in a manner that is appropriate to be made public. This means the writing style should be accessible and professional, and not inflammatory. The report should also not contain any specific material that could pose security issues for the utility. However, this should be balanced with the need to provide enough detail to support the awarding of an audit grade.

We acknowledge that the audit report will be prepared by more than 1 auditor. However, we expect that a consistent approach to formatting, referencing and abbreviations be applied when preparing the audit reports.

Recommendations

Auditors are to make recommendations as to how the utility could improve its compliance with each clause where full compliance was not awarded. The recommendations should address the gaps found in the evidence and help the utility identify ways to rectify these gaps. The only exception to this requirement is where compliance is dependent on someone or something that is out of the utility's control. In this event, the auditor should state this in the recommendations column of the template. Where full compliance is awarded, an auditor should not make a recommendation, as we want to balance performance and the investment required to improve it. That is, we want to consider the pricing implications of continual improvement and value for money to the customer before recommending that utilities implement improvements.

Opportunities for improvement

If the auditor sees an area where an improvement could be made to ensure compliance is maintained, the auditor can identify this as an "opportunity for improvement". The auditor may identify an opportunity where full compliance or less than full compliance is awarded. The utility can decide whether to implement an opportunity, based on their own assessment of whether the improvement is a prudent and efficient way to achieve its outcomes.

If we adopt the opportunity for improvement in our report to the Minister, the utility can decide whether or not it will report on implementation. Any information provided by the utility on their response to the opportunity for improvement will be provided to the auditor prior to the next audit. However, we will not follow up the opportunity for improvement in subsequent audits.



Independent Pricing and Regulatory Tribunal

Audit Report Template

Public Water Utility — Audit Report

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Executive Summary

In the summary, the auditor is to provide an audit opinion on the compliance of the utility with its licence.

The audit opinion should include a statement that:

- ▼ the auditor has seen sufficient evidence on which to base their conclusions
- ▼ the audit findings accurately reflect the professional opinion of the auditor
- ▼ the lead auditor and team members have noted what this guideline and the Request for Quote requires when conducting the audit, determining audit findings and preparing the report
- ▼ the audit findings have not been unduly influenced by the utility and/or any of its associates.

This summary will also highlight the major findings of the audit and any major recommendations and summarise compliance. For any non-compliances or inadequacies, the auditor should discuss the risk which a non-compliance poses to public health, the environment, customer relations, operations or financial areas of the business.

The summary should include a list of the recommendations made, with the relevant clauses indicated. The summary should not include opportunities for improvement.

The summary should not refer to findings or analyses that are not included elsewhere in the report.

1 Introduction

This is the template for the audit report for a public water utility audit.

The first draft audit report must be complete – ie, no sections should be left for completion in the revised draft.

1.1 Objectives

Statement of the objective of the audit.

1.2 Audit method

1.2.1 Audit scope

Identify the scope of the audit, as not all clauses are audited each audit.

1.2.2 Audit standard

Identify the audit standard used in the audit.

1.2.3 Audit steps

Briefly summarise the audit steps undertaken, or refer to the Audit Guidelines.

1.2.4 Audit team

Identify the audit team and the roles of each member.

1.2.5 Audit grades

Provide the audit grade definitions used in assessing the licensee's performance against the requirements.

1.3 Regulatory regime

This section should discuss the regulatory framework the utility operates under. This will cover areas such as the utility's Act and Regulation, the operating licence, environmental legislation, Memoranda of Understanding, etc.

1.4 Quality assurance process

This section should discuss the quality assurance process undertaken when preparing this report to ensure the integrity of the information provided.

All final audit reports must be quality assured by another Panel Member acceptable to IPART.

2 Licence obligation category – (ie, Water Quality, Asset Management)

The audit report should contain a chapter for each licence obligation category that is audited. A separate chapter for outstanding recommendations from previous audits should also be created. The following headings will apply to each chapter.

2.1 Summary of findings

This section must include a summary of the requirement and findings, a description of the auditor's activities, audit methods and evidence sighted that led to awarding the compliance grade. This section should also include a discussion of evidence and observations considered during the field verification site visit.

Full details of the audit findings must be provided in Appendix A.

Formatting of this section should be logical, with clear headings. The clause number and grade should be stated before the findings and reason for the grade.

A hypothetical example of a summary is:

Clause 3.1 - High Compliance

This clause requires Utility X to develop an asset management system consistent with ISO 55 001 by 1 July 2016.

A review of Asset Management System (AMS) output documents (including an asset management policy and strategy, asset management plans and state of the assets report) shows that Utility X has started the development of the AMS that meets the principles of ISO 55 001, however a number of documents are still in draft form. Additionally, the system is yet to be reviewed and endorsed by the Executive.

Clause 3.2 – Full Compliance

This clause requires Utility X to fully implement the AMS by 1 July 2017.

All aspects of the system we audited are in place. In our opinion, in practice Utility X has been following many of the principles of ISO 55 001 for a number of years. Site interviews during the field verification at water treatment plant Y confirmed that the staff audited at utility X are aware of the documents that make up the AMS and are following the processes and procedures effectively.

2.2 Recommendations

Auditors are to make recommendations as to how the utility could improve its compliance with every clause where full compliance was not awarded. The recommendations should address the gaps found in the evidence and help the utility identify ways to rectify these gaps.

Where full compliance is awarded, an auditor should not make a recommendation, as we want to balance performance and the investment required to improve it. That is, we want to consider the pricing implications of continual improvement and value for money to the customer before recommending utilities implement improvements.

2.3 Opportunities for improvement

If the auditor sees an area where an improvement could be made to ensure compliance is maintained, the auditor can identify this as an “opportunity for improvement”. The auditor may identify an opportunity where full compliance or less than full compliance is awarded. The utility can decide whether to implement an opportunity, based on their own assessment of whether the improvement is a prudent and efficient way to achieve its outcomes/objectives.

It is not our intent to follow up the opportunity for improvement in subsequent audits.



Appendices

A Detailed audit findings

The following table shows the minimum requirements for the write up of the audit assessment. Most readers will focus in the body of the report. The appendix is there for reference if the reader is interested in the details of a specific finding.

Table A.1 Detailed audit findings – hypothetical example

Sub-clause	Requirement	Compliance grade
2.1	eg, Utility must manage drinking water quality to the satisfaction of NSW Health in accordance with the ADWG.	High compliance See Appendix C for Compliance grades
Risk		Target for full compliance
Describe risk posed to public health and environment by non-compliance.		Discuss what must be provided to be awarded full compliance.
Evidence sighted		
List reference documents and systems provided as evidence.		
Summary of reasons for grade		
Briefly summarise the reasons provided for the grade. This summary should provide a concise analysis of the evidence. It should specifically focus on how the evidence demonstrates compliance with the sub-clause, or how it indicates that the utility has fallen short of the target. This section should not contain extended discussion, nor notes from interviews and site visits.		
Discussion and notes		
Discuss evidence and how it demonstrates compliance or how it indicates that the utility has fallen short of the target. Notes from interviews and site visits may be included in this section.		
Recommendation		
Recommendations that relate to a particular sub clause should be included in this section. The auditor may only identify a recommendation where less than full compliance is awarded.		
Opportunities for improvement		
Opportunities for improvement that relate to a particular sub clause should be included in this section. The auditor may identify an opportunity where full compliance or less than full compliance is awarded.		

E Audit standards and principles

No specific auditing standard is required for the audits. We require all auditors use a systematic approach to:

- ▼ planning the audits
- ▼ interpreting licence conditions
- ▼ collecting audit evidence
- ▼ objectively assessing the evidence
- ▼ reporting in a clear and accurate manner.

Acceptable standards that may help auditors with this approach include: ISAE 3000, Australian Auditing Standards (AUS 108, AUS 110) or ISO 19011.

Auditors must identify the standard they will use in the tender. These standards can be adapted, if appropriate, for the audit. The final report must state the audit was done according to the identified standard.

Auditors are responsible for ensuring the audit procedures they use meet the following audit principles:

- ▼ Faithful representation - information should faithfully represent the outputs and outcomes of the audit. Uncertainties should be minimised, identified and quantified where possible.
- ▼ Completeness - information should be as complete as possible, such that information is not misleading or unreliable.
- ▼ Consistency - consistent methods should be used so comparative assessments can be made over time.
- ▼ Reliability - information and source data should be free of material mis-statement and able to be relied upon by users of the information.
- ▼ Transparency - data shall be capable of replication by a third party through adequate record keeping. Reference sources, methodologies and approaches to data generation shall be clearly documented. Changes to data and methodologies over time shall be clearly documented.

F | Audit methods

Table F.1 Audit methods

Principle	Definition	Example of method
Inspection	Examining records, documents or physical assets. The auditor must consider the source of the documentation for differing degrees of reliability.	Obtain a summary of licensee water supply main breaks and customers affected and trace figures back to source documentation, and reconcile to the participant's internal record keeping system.
Observation	Looking at a process or procedure being performed by the participant. Generally, this audit procedure is conducted when the particular process ordinarily leaves no audit trail.	Observe the record keeping process and documented procedures in operation.
Inquiry and confirmation	Seeking appropriate information of knowledgeable persons inside or outside the organisation. The response to an inquiry to corroborate information contained in the records.	Inquire how the field work crews collect data and how this data is logged into the data collection system. Confirm data recording is accurate.
Computation	Checking the accuracy of source documents and accounting records, or of performing independent calculations.	Consider sampling of customer property numbers for several main failures via alternative computation methods.
Analytical procedures	Investigation and analysis of data fluctuations and relationships to determine whether there are inconsistencies with other relevant information, or deviations from predicated amounts.	Confirm interpretations of definitions and compare with other interpretations, for example counting of flats and units in customer property numbers. Consider errors and confidence limits.

A variety of factors will affect the reliability of audit evidence, including:

- ▼ independence of evidence - evidence from outside the organisation is generally considered more reliable than evidence generated internally
- ▼ knowledge and lack of bias of the person providing the evidence to the auditor, and the attention paid to the auditor's request for evidence
- ▼ the directness in which it is obtained - evidence received directly by the auditor is generally considered to be more reliable than evidence received indirectly
- ▼ control systems - evidence prepared by utilities under systems of strong internal control is considered more reliable than evidence prepared under systems of weak internal controls.

Auditors should adopt an attitude of professional objectivity throughout the audit in order to ensure information provided is accurate and complete.