



Independent Pricing and Regulatory Tribunal  
New South Wales

# Draft Audit Guideline

## Public Water Utilities

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## Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

### Submissions are due by 1 May 2018

We would prefer to receive them electronically via our online submission form <[www.ipart.nsw.gov.au/Home/Consumer\\_Information/Lodge\\_a\\_submission](http://www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission)>.

You can also send comments by mail to:

**Review of Public Water Utility Audit Guideline**

Independent Pricing and Regulatory Tribunal

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Late submissions may not be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our website <[www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)> as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed above.

We may choose not to publish a submission - for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. However, it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

If you would like further information on making a submission, IPART's submission policy is available on our website.

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# 1 Introduction

## 1.1 Purpose

The purpose of this Audit Guideline (**guideline**) is to set out IPART's expectations regarding the conduct of operational audits of public water utilities (**PWUs**), and to guide auditors and PWUs in carrying out their responsibilities in connection with operational audits. Table 1.1 provides an outline of responsibilities.

**Table 1.1 Responsibilities**

IPART	Auditor	PWU
Sets the framework to prepare for and conduct operational audits efficiently and effectively	Uses the audit scope to investigate the PWU's operations and systems	Provides information to the auditor and IPART Provides access to the auditor and IPART to works, premises or offices Permits the auditor and IPART to carry out certain inspections and investigations
Makes recommendations to the PWU	Documents audit findings	Completes its requirements as outlined in its Reporting Manual
Reports to the Minister(s)	Provides recommendations and opportunities for improvement	Provides a commitment to address audit findings

IPART audits the operating licences (**licences**) of the following PWUs:

- ▼ Hunter Water Corporation
- ▼ Sydney Water Corporation, and
- ▼ Water NSW.

The guideline may not provide complete guidance in all circumstances, in which case auditors and PWUs should seek clarification from IPART. In these cases, we will provide specific advice on the application of the guidelines or appropriate departures from the guidelines where necessary.

Basic requirements for operational audits and the related obligations of PWUs are set out in the licences of PWUs. This guideline sets out more detailed expectations for the conduct of operational audits. To the extent of any inconsistency between this guideline and the requirements of a relevant licence, the licence requirements will prevail. Additional obligations of auditors will be set out in a contract between IPART and the auditor.

## 1.2 Structure of the guideline

The guideline is structured as follows:

### Chapter 1 – Introduction

This chapter outlines the purpose of the guideline and provides an overview of the regulatory context.

### Chapter 2 - Audit fundamentals

This chapter outlines:

- ▼ how and why we undertake audits
- ▼ the appropriate auditing standards
- ▼ how to deal with matters outside the audit scope
- ▼ requirements in relation to conflicts of interest, and
- ▼ quality assurance requirements.

### Chapter 3 - Operational Audit Procedure

This chapter outlines:

- ▼ the audit process – details of the steps in the audit process, including actions, responsibilities and outputs
- ▼ escalation of issues – details the process for the escalation of issues, and
- ▼ audit timetable – details of the timing of the steps in the audit process.

## 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, and
- ▼ improve the audit process.

Before we change the guideline significantly, we will consult relevant PWUs and other relevant 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 consider the time required for PWUs to implement new arrangements.

## 1.4 Auditor or PWU feedback

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

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## 1.5 National Water Initiative audits

The Bureau of Meteorology (**BOM**) produces an annual Urban National Performance Report (**Urban NPR**) as part of the National Water Initiative (**NWI**). The Urban NPR publicly and independently reports on the performance of PWUs across Australia. The Urban NPR is based on data from NWI performance indicators about customers, health, water resources, assets, environment, pricing and finances.

We undertake audits of the NWI performance indicators as part of the operational audits.<sup>1</sup> However, this guideline does not apply to the National Water Initiative component of the operational audits.

The *National Urban Water Utility Performance Reporting Framework* outlines the auditing requirements in relation to NWI performance indicators and provides an audit report template for use by PWUs in collecting data and reporting on a set group of indicators. We use this framework for NWI audits, rather than the guideline. For further information on these audits, please contact us and we can provide the latest handbook from the BOM.

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<sup>1</sup> We undertake this work as part of our obligations as Data Coordinator and Audit Coordinator for NSW PWUs in the National Framework for Reporting on Performance of Urban Water Utilities Deed.

## 2 Audit fundamentals

### 2.1 Introduction

We undertake an operational audit of each PWU annually to assess the PWU's compliance with:

- ▼ its operating licence conditions
- ▼ its Reporting Manual, and
- ▼ any matters required by the Minister.

In order to assess a PWU's compliance with the above requirements, the audit may also review the PWU's compliance with relevant legislation and recommendations from previous operational audits.

In particular, the audit assesses whether the PWUs provide services that meet the performance standards and other criteria set out in the operating licence. Audits also provide an opportunity to identify where PWUs have demonstrated best practice and exceeded the standard.

We engage independent consultants to audit each PWU. Auditors are engaged to assess compliance against quantitative and qualitative criteria and to provide their professional judgement in a formal report. Auditors must remain independent at all times during the audit process and PWUs must respect that independence.

#### Risk-based approach

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

- ▼ efficiently allocate our focus to areas of higher consequences due to non-compliance
- ▼ minimise costs to our regulated PWUs, and
- ▼ avoid broader costs to the community.

Risk is a function of both consequence and likelihood. In assessing the risk of harm, we consider the likelihood that harm will eventuate in the absence of our Compliance and Enforcement policy.<sup>2</sup> We then consider the consequences for the health and safety of people, property and the environment. We then assess the overall risk of harm, using a risk matrix.<sup>3</sup> Using this risk-based approach, we focus on those licence conditions that have the highest risk of non-compliance.

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<sup>2</sup> IPART, *Compliance and Enforcement Policy, December 2017*, available on our website, <https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/licensing-policy-cross-industry-review-of-ipart-compliance-and-enforcement-policy-2017/ipart-compliance-and-enforcement-policy-december-2017.pdf>

<sup>3</sup> Ibid, p7



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For this reason, we do not require all clauses in the PWU's licence to be audited every year. The audit frequency of a clause will depend on the **risk** that non-compliance poses, as well as the PWU's previous performance. Our approach will ensure that auditing reflects the type, size, complexity and consequences of non-compliance. Further, when combined with likelihood, our approach determines the level of risk associated with the PWU's activities.<sup>4</sup>

All auditable 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 more comprehensive in order to help identify any areas that we should focus on through the licence period.

### **Statement of Compliance**

All licence obligations are also subject to a statement of compliance from the PWU.<sup>5</sup> The PWU is to complete the statement of compliance to the best of its knowledge and have it signed by the CEO (or Managing Director or equivalent) and Chairman of the Board or otherwise an authorised Board Director.

### **Stakeholder consultation**

IPART engages with stakeholders during the operational audit process. We also 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 that they wish to raise regarding the audits or PWU performance. In determining the audit scope we consider issues identified by the public in our public consultation process.

Further, prior to finalising the audit scope, IPART will seek feedback from relevant government agencies (ie, those that are referred to in a PWU's licence) regarding the performance of the PWU during the audit period for the functions administered or regulated by the agency.

Agencies may include NSW Health, Environment Protection Authority, Department of Planning and Environment, Department of Industry – Water (including the Water Administration Ministerial Corporation), and/or Fire & Rescue NSW. If necessary, IPART will follow up with the relevant government agencies in relation to submissions received.

If the auditor considers that further consultation would assist its conduct of the audit, the auditor should contact IPART and all information requests to government agencies should be submitted by IPART, in writing, to the relevant agency contact person.

### **Overlap with other audits**

PWUs may have parts of their operation audited under other frameworks, such as certification schemes or other legislation. We have progressively moved licences towards systems-based licence conditions, which require licensees to have Environmental Management Systems, Asset Management Systems, and/or Quality Management Systems in place.

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<sup>4</sup> For example, a non-compliance in the area of water quality is more likely to present significant consequences to human health than the consequences of late reporting about customer complaints. Hence, we audit water quality performance every year and retail clauses less frequently.

<sup>5</sup> The template for the statement of compliance will be available in the amended Reporting Manuals for each PWU.

Where a system is subject to an operational audit under the PWU's operating licence, the PWU may present the outcome of any surveillance or certification (or re-certification) report to the auditor, in lieu of a formal audit. The auditor may utilise the evidence provided in its audit report. Where certified systems are not in place, we will provide specific guidance for the auditor and PWU in the audit scope on the requirements for compliance.

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

PWUs should inform IPART of any upcoming management system audits. This will allow IPART to attend and provide input to an audit where the PWU is seeking consideration of audit results. IPART reserves its right to attend or not attend certification and/or surveillance audits.

## **2.2 Matters outside the audit scope**

In general, we require auditors 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.

If these issues relate to the licence conditions 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 conditions, IPART will refer the matter to the relevant agency.

The auditor should detail any out of scope findings in a covering letter attached to the audit report. The letter may also include any specific concerns the auditor has relating to trends in performance that may lead to potential future non-compliance. The auditor should consult with IPART about where and how to document out of scope findings.

## **2.3 Immediate risk to public health**

Where auditors or IPART staff attending an audit identify an immediate risk to public health, IPART will contact NSW Health.

## **2.4 Independence**

### **Conflict of interest**

Auditors must conduct all audits with sufficient independence and without actual or potential conflicts of interest.

An auditor must not conduct an audit in respect of any of the matters covered by this guideline if the auditor has a conflict of interest.

Possible conflicts of interest may arise where:

- 
- ▼ an auditor or member of the audit team is engaged in providing other fee-paying services to the PWU during the course of the audit services or is in the process of making an offer to do so
  - ▼ the auditor has advised or consulted for the PWU within the last three years
  - ▼ a material proportion of the auditor's total annual revenue is derived from fee-paying services provided to the PWU
  - ▼ the auditor is not independent of the scoped audit items
  - ▼ the auditor is the incumbent internal auditor for the PWU, or
  - ▼ the auditor has performed an advisory or technical function for the PWU in relation to the particular project being audited.

An auditor who has been nominated or appointed by IPART to conduct an audit must notify IPART as soon as they become aware of an actual or potential conflict of interest. The auditor must provide any information to IPART, on request, concerning any actual or potential conflict of interest. The auditor must have adequate internal procedures to identify and manage potential conflicts of interest before accepting any IPART engagements.

Where a conflict of interest becomes apparent after an auditor has been engaged, we may require the auditor to withdraw from the engagement.

Every audit proposal submitted to IPART must contain a statement that confirms that the auditor does not have a conflict of interest with the PWU or, where appropriate, describes any potential conflict and how this potential conflict will be managed. A template for this statement is attached at **Appendix A**.

### **The 'three in five' rule**

The same auditor<sup>6</sup> should not be used more than three times in every five audits for a particular audit category. The 'three in five audit rule' ensures that each PWU is audited by different auditors over time. This allows a new perspective and helps to ensure the auditor's independence.

This is our preferred and general approach. We may approve an exemption to this rule if there is a shortage of suitable auditors, and if we are satisfied that a new perspective can be offered (eg, a different audit team), and that the auditor's independence won't be compromised.

## **2.5 Quality**

IPART holds auditors undertaking audits for IPART to high professional standards and expects that auditors will conduct audits and prepare reports with rigour.

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<sup>6</sup> This refers to the audit firm, not just the lead auditor or audit team.

## Application of auditing standards

We require all auditors to use a systematic approach to:

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

**It is the auditor's responsibility** to select an appropriate standard. Appropriate standards may include:

- ▼ ASAE 3000 - *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*,
- ▼ AS/NZS ISO 19011 - *Guidelines for auditing management systems*, Standards Australia, and
- ▼ ISAE 3000 - *International Standard on Assurance Engagements*.

Auditors must disclose the standard they have used to conduct the audit in the final audit report.

The auditing principles set out in **Appendix B** apply to the conduct of audits, regardless of the auditing standard used. We expect auditors to adopt the audit methods set out in **Appendix C**, and ensure those methods meet the principles outlined in Appendix B.

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

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 securely and confidentially maintained for a reasonable period (and no less than seven years), given the sensitivity of the material.

## Peer review

Peer review is an important quality control process under the IPART audit framework and IPART requires auditors to arrange for peer review of audit reports. A peer reviewer:

- ▼ should be equivalent or higher in authority and experience to the audit team leader
- ▼ should not be involved in the conduct of the audit or approval of audit reports, and
- ▼ may be within, or external to the audit firm.

The peer reviewer must have professional experience that is demonstrable equal with, or has authority over, the lead auditor, particularly for assurance. The peer reviewer must be able to objectively evaluate the significant judgements the lead auditor has made and the conclusions they have reached to formulate their opinion. The individual proposed to perform the peer review must be nominated in the audit proposal.

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The appointment of a peer reviewer should not limit or preclude the lead auditor from using other expertise from outside the audit team to review or assist with particular technical elements of the engagement.

### **Quality assurance**

A robust system of quality control must be in place for all auditors. Many auditors or their employers will have existing quality control frameworks in place, such as AS/NZS ISO 9001 - *Quality Management*.

While providing a robust framework, these systems may not have been designed with consideration of risks specific to IPART audits. Therefore, as part of the audit planning the lead auditor should check that their quality control framework will be effective in managing any associated audit risk.

### **Auditor feedback**

Where we consider that an audit or auditor has failed to apply the level of professionalism or rigour expected, we will provide the auditor with feedback and ask the auditor to take steps to address any inadequacies. This may occur when the auditor delivers the draft report to us. In some circumstances, a meeting between IPART and the auditor may be required to discuss the issue and agree on amendments.

Where we consider that an auditor is unable to provide audit services to the standard required, we may decline to approve future auditor nominations for that auditor.

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

- ▼ Independence of evidence – IPART considers that evidence from outside the utility is generally 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 the evidence is obtained – IPART considers that evidence that is received directly by the auditor is generally more reliable than evidence received indirectly.
- ▼ Control systems – IPART considers that internal licensee-generated evidence prepared under systems of strong internal control is more reliable than licensee-generated evidence under systems of weak internal controls.





## **2.6 Audit grades**

An auditor must assess a licensee's compliance with its licence conditions in accordance with the scope specified by IPART, and assign grades for those requirements. When assessing a licensee's assets, the auditor will assess from catchment to consumer (or the equivalent water cycle components applicable to a PWU's operations).

The audit grades are shown in Figure 2.1.

Further guidance on determining audit grades can be found in **Appendix D**, and in section 3.1.

**Figure 2.1    Audit Grades**

Grades of compliance	Description
 <b>Compliant</b>	Sufficient evidence to confirm that the requirements have been fully or substantially met.
 <b>Non-compliant (non-material)</b>	Sufficient evidence to confirm that the requirements have generally been met apart from <b>minor shortcomings</b> which to date have not compromised the ability of the utility to achieve defined objectives or assure controlled processes, products or outcomes.
 <b>Non-compliant (material)</b>	Sufficient evidence has <b>not</b> 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.
 <b>No Requirement</b>	There is no requirement for the network operator to meet this criterion within the audit period.

## 3 Operational audit procedure

### 3.1 The audit process

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. The auditor is an independent expert acting on behalf of IPART. However, we reserve the right to accept, amend or reject the auditor's assigned audit grades and recommendations.

There are seven steps to an audit, and each of the parties (the PWU, auditor and IPART) is responsible for completing some of the steps. **Figure 3.1** provides an overview of each party's responsibilities in the audit process, and the sections that follow provide more detail on these processes.

The operating licences require PWUs to provide certain assistance to IPART and auditors throughout the audit process, including by providing information, providing access to certain works or premises, and permitting other investigations or inspections to be carried out as specified in each licence.

#### Step 1: Audit scoping

We will determine the scope of the audit. The audit scope is based on the conditions in the operating licence (which, in turn is based on the requirements of the enabling legislation) and cover the breadth of a PWU's business. The audit scope also determines the scope of the auditor's contract with IPART.

We use a risk-based approach (described in Section 2.1) to determine which conditions to include in the audit scope, and consider issues identified by relevant government agencies and the public during our consultation process. All licence obligations are also subject to a statement of compliance from the PWU and this also informs our risk-based approach.

#### Step 2: Appointment of the auditor

IPART will request quotes from at least three auditors for each audit of a PWU, where possible. This gives us a good understanding of the market rate, and ensures we are able to appoint quality auditors. We reserve the right to undertake single-source tendering if market conditions do not permit competitive tendering.

We engage suitably qualified auditors through the NSW Government's Performance and Management Services Panel for PWU audits. Our assessment criteria for engaging auditors includes relevant team experience, technical and audit expertise, resource availability and cost.



Auditors are assessed against three classifications:

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.
2. **Lead Auditors** are recognised as competent to undertake audits independently<sup>7</sup> or to lead an audit team. All audit work including sign-off on audit reports, must be undertaken by, or under the direct control and supervision of, a Lead Auditor.
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.

Auditors who submit a scope of work in response to our RFQs for the PWU audits must demonstrate that their proposed team members meet the requirements of relevant categories as outlined in Table 3.1.

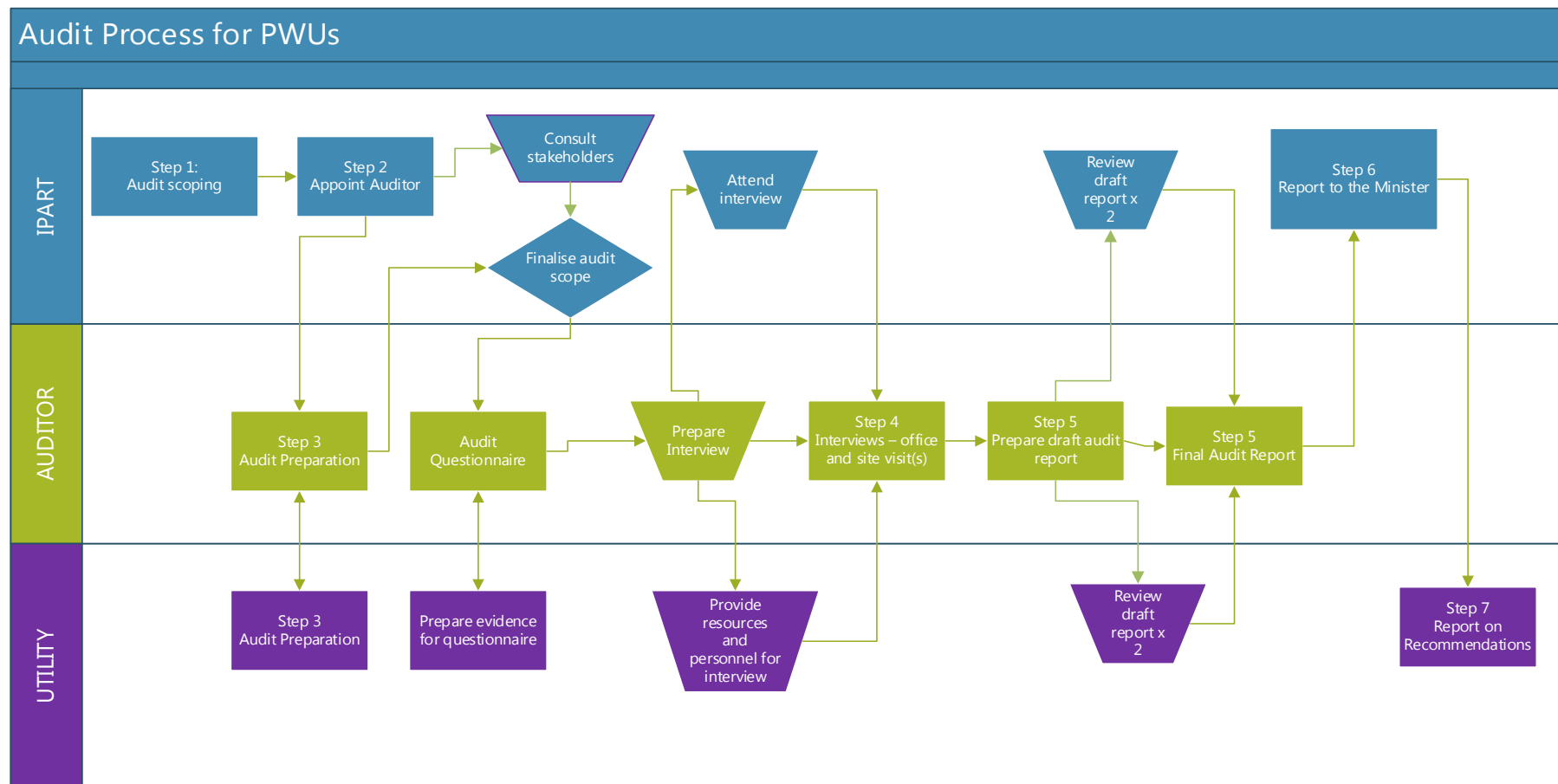
**Table 3.1 Auditor categories**

Categories	Auditor requirements
Infrastructure performance	Assess adequacy of infrastructure to achieve safe, reliable and continuous performance. It may also include assessing the adequacy of: <ul style="list-style-type: none"> <li>▼ infrastructure performance</li> <li>▼ infrastructure management, and</li> <li>▼ monitoring.</li> </ul>
Drinking water quality	Assess how adequately a PWU implements the <i>Australian Drinking Water Guidelines</i> (ADWG). It may also include assessing the adequacy of: <ul style="list-style-type: none"> <li>▼ any risk assessment</li> <li>▼ the measures adopted to control risks, and</li> <li>▼ the water quality supplied, ie, that it is fit-for-purpose.</li> </ul> Assess the adequacy of catchment management practices, including the adequacy of relevant risk assessments and their outcomes.
Recycled water quality	Assess how adequately a PWU implements the <i>Australian Guidelines for Water Recycling</i> (AGWR). It may also include assessing the adequacy of: <ul style="list-style-type: none"> <li>▼ any risk assessment</li> <li>▼ the measures adopted to control risks, and</li> <li>▼ the water quality supplied, ie, that it is fit-for-purpose.</li> </ul>
Retail supply	Assess the adequacy of the PWU's systems developed to manage customer interactions. This includes: <ul style="list-style-type: none"> <li>▼ complaint handling procedures</li> <li>▼ dispute resolution processes, and</li> <li>▼ hardship and debt management.</li> </ul>
Environmental management	Assess the adequacy of environmental management practices including the adequacy of relevant risk assessments.

<sup>7</sup> They are however required to be part of a project team to comply with quality assurance and peer review requirements.



**Figure 3.1 Public Water Utility Audit Process**



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If an auditor has previously provided services to a PWU, the audit proposal should include a table summarising the history of paid work between the parties and a conflict of interest assessment and declaration.

After engaging the auditors, we set the initial schedule for audit milestones. To ensure the appropriate PWU staff members are available for the audit, we will consult the PWU and auditor about our initial milestone schedule. We can adjust this schedule to ensure we get the best outcome from the audit. In general, the final schedule will be consistent with the milestones outlined in Section 3.3.

### **Step 3: Audit preparation**

Once IPART appoints the auditor, we will hold a briefing meeting with them. The meeting will cover IPART's expectations, potential locations for field verification site visits and any relevant concerns raised by stakeholders. IPART will also provide contact details of all relevant IPART staff to the PWU and the auditor.

The auditor and PWU will exchange information to ensure the audit interview is as efficient and effective as possible. The auditor will prepare the audit questionnaire and IPART will consult with stakeholders to inform the final audit scope. The auditor will be responsible for scheduling interviews and the field verification site visit(s).

### **Audit questionnaire**

The auditor will prepare a questionnaire based on the scope of the audit. IPART may review and comment on the questionnaire before it is issued to the PWU. The PWU will provide the evidence necessary to answer the questionnaire and provide a statement of compliance. IPART will post all of these documents to a confidential file-sharing site on our website before the audit interviews. Only the auditor, the PWU and IPART will have access to this information on the website. **Appendix E** provides a template guide for the form of the questionnaire.

Evidence provided by PWUs should be well referenced, and clearly identify relevant page numbers and/or paragraphs of any documents provided.

The auditor must read the answers and evidence provided by the PWU before the interview. This allows for an efficient interview process (ie, in the interview, 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 response to the audit questionnaire). The auditors may still request additional information or ask additional questions during the interviews.

### **Scheduling of interviews and field verification site visit**

In consultation with IPART, the auditor and PWU will organise an interview timetable.

- ▼ The **auditor** will indicate how many interview hours are needed for each licence category or licence clause.

- ▼ The **PWU** will identify which business functional areas and personnel will be interviewed by the auditor for these clauses, and will draft the timetable accordingly.

An appropriate period of time (eg, half a day) should be set aside to review and clarify any outstanding matters that were not able to be held/completed in the scheduled interview times.

During the audit, we require at least one field verification site visit. Together with the auditor, we will determine the types of facilities to be inspected and will notify the PWU of the preferred types of facilities for inspection during the scheduling period. Facilities include assets, property or physical elements related to the PWU's operations, such as treatment plants, catchment areas or waterways. Any facility relevant to the matters being audited may be selected for a site visit. To inform the selection of facilities, we will provide the lead auditor with a list of facilities visited in the previous five audits. We anticipate that at least one day should be set aside for field verification site visits depending on the location and type of facilities to be inspected.<sup>8</sup>

It is helpful to schedule site visits on the second day of an interview program in order to allow time in the office on the days before and after to discuss any matters arising from the interview or the site visit. A short (30 minute) session should be scheduled on day one to outline the field verification site visits (see Step 4 for more details).

The PWU and auditor must discuss with IPART as early as possible whether separate interview streams will run in parallel or all interview questions will run in a single interview. Multiple interviews running in parallel are often more time efficient. However, auditors and PWUs must be able to resource the separate interviews effectively, and ensure the interviews are appropriately transcribed. IPART considers that it may be necessary for an auditor to have an assistant or junior colleague available to take notes at the interviews, especially where more complex clauses are being audited.

#### **Step 4: Audit interviews**

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

There will be an opening (inception) meeting to establish the protocols for the audit<sup>9</sup> and ensure that all necessary arrangements are in place and agreed.

- ▼ We will address the audit approach and the timelines for undertaking the audit.
- ▼ The auditor may also wish to provide an introduction to their team and preferred auditing requirements.

This meeting is usually the first interview session on the first day.

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<sup>8</sup> We note that Water NSW will require at least 1.5 days to account for the distances between assets.

<sup>9</sup> For example, the process for managing any disagreements between the auditor and the PWU.

Through the interviews and field verification site visits, auditors must obtain sufficient evidence to be able to provide an audit opinion in accordance with a suitable audit standard. It is the responsibility of the auditor to determine the level of sufficient evidence required.<sup>10</sup>

### Field verification site visits

The purpose of a field verification site visit is to enable the auditor to verify how effectively the PWU is implementing the requirements of the licence in practice.

The field verification site visit is part of the audit. As such, it is appropriate for the auditor to include questions about implementation of management systems, plans and procedures at the nominated sites in the audit questionnaire.

It is also an opportunity for the PWU to demonstrate its compliance with the licence in the course of its everyday operations. As part of this process, the auditor should note any gaps in implementation. The auditor must link the field verification site visit back to one or more of the sections of the licence that are being audited. Facilities will be selected by the auditor in consultation with the PWU and IPART, having regard to the audit scope, asset classes of previous site visits, and practical and safety aspects (such as travel or a high risk site) as advised by the PWU.<sup>11</sup>

Before the field verification site visit(s), the auditor should schedule a short session during the interviews to:

- ▼ introduce and familiarise the participants with the site(s)
- ▼ explain how the site visit(s) will demonstrate compliance with the licence
- ▼ provide system schematics, maps, technical specifications, design drawings, and
- ▼ provide an opportunity for guidance on personal protective equipment (PPE).

During a field verification site visit, the auditor will review aspects of the PWU's operations and consider compliance with the licence.

- ▼ IPART expects the auditor to ask a PWU's operational staff about site operations and the application of management systems, plans or procedures while on site.
- ▼ PWUs are responsible for ensuring the appropriate operational staff members are available during a site visit and access to an agreed site is secured. This includes sites that are managed by contractors or other third parties.

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 PWU and IPART at the time of the observation. Section 2.2 of this guideline contains further details on "out of scope" issues and findings.

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<sup>10</sup> We require auditors to maintain an accurate record of documents sighted; documents must be maintained for a reasonable period and no less than seven years; they must be maintained securely and confidentially, given the sensitivity of the material.

<sup>11</sup> Site inductions are mandatory – the auditor and IPART must not touch equipment or enter sites without an induction or appropriately trained personnel in attendance.

## Wrap up and close out sessions

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

- ▼ A **final wrap up**. This item 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. This wrap up may not be necessary if both the PWU and the auditors are satisfied there are no outstanding issues to be covered.
- ▼ A **close out meeting**. IPART recommends that auditors, senior management from the PWU and IPART staff are present. The auditor may flag any clauses where full compliance may not be assigned, or identify areas of concern. Ways of achieving compliance should be discussed and form part of the auditor's recommendations (see Step 7). The auditor should also summarise any outstanding information required or identify any other actions for the PWU or IPART to complete prior to finalising the audit reports.

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

## Step 5: Audit assessment and reporting

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 PWU. IPART should be copied in on all correspondence between the auditor and PWU for document control purposes. The PWU and/or the auditor should upload all additional evidence supplied by the PWU to the data transfer site used for the audit.

The auditor must assess the compliance that a PWU has achieved during the audit period. The auditor must prepare a report that addresses all of the elements identified in the audit scope. Where relevant, the auditor should identify where PWUs have demonstrated best practice and exceeded the standard(s) or licence requirements. We have presented the required level of detail and format of the report in the audit report template in **Appendix F** of this document.

When preparing the audit report, the auditor should use language that is appropriate for a public document.

- ▼ Language should be objective and factual, and should not be overly complex or unnecessarily emotive or alarmist.
- ▼ The report should not include names or other personal details (emails, etc) of PWU or IPART staff members.
- ▼ The report should not contain any specific material that could pose security issues for the PWU. However, this should be balanced with the need to provide enough detail to support the assigning of an audit grade.

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

The auditor must write up the assessment in the first draft audit report. This report must be complete with no sections being left for completion in the second draft. Should the PWU provide further evidence after the first draft, the auditor may alter the audit report to reflect the new evidence. Where the auditor did not assign full compliance, the auditor should identify what is needed for the PWU to achieve full compliance. If the auditor has requested further evidence but the PWU has not supplied it, the auditor should make an assessment based on the information/evidence the PWU has already provided.

## **Audit grades**

Appendix D provides a decision-tree to help identify the correct audit grade for the auditor to assign. However, auditing of water quality management systems may require assessment of the individual elements that make up the water quality management systems framework provided by the Australian Drinking Water Guidelines (ADWG) and the Australian Guidelines for Water Recycling (AGWR).

We consider the licence clauses regarding water quality management systems are high risk, and therefore we generally include them in the audit scope every year. However, each of the 12 elements in ADWG and AGWR do not carry the same level of risk and therefore do not necessarily require the same audit frequency.

The audit scope will provide a breakdown of the elements to be audited each year for the nominated water quality clauses. We will apply a risk-based approach to the audit scope to identify the relevant elements to be audited.

Additionally, we note IPART does not apply any 'rule' of rolling up to the lowest grade assigned to an element. Rather, the auditor must assign an overall grade which, in the auditor's opinion, weights the relative significance of the individual element grades. This will minimise the level of confusion regarding the roll-up of elements into audit grades. The auditor can assign audit grades to individual elements, but IPART does not require this.

## **Commenting on draft reports**

Both the PWU and IPART will comment on the first draft audit report, including providing further evidence and clarification if needed using the issues register process (see Box 3.1).

### Box 3.1 Comments register process

PWU and IPART comments on the draft report must be made in the template issues register provided by IPART on the file sharing website used for the audit. This allows the auditor to compile comments in a central location, as the auditor will need to respond to them and submit its response with the second draft report. Comments by the PWU disputing the auditor's opinion on an assigned audit grade need to be accompanied by supporting evidence. It is not sufficient to make comments such as "we strongly disagree..." without substantiating evidence or justification.

Auditors must respond to all comments using the comments register procedure, explaining whether they have or have not incorporated the comments in the report as well as noting whether they have considered any new evidence. Using this register makes it clear that the auditor considered all issues raised, even if there was no obvious change to the report.

It is the PWU's responsibility to identify any factual errors, omissions, or required clarifications in the first draft audit report. This is the last opportunity for the PWU to attempt to provide more evidence or clarify information that may influence the compliance grade assigned by the auditor. If the parties do not agree on:

- ▼ the grade assigned by the auditor
- ▼ the evidence provided by the PWU or
- ▼ the evidence required by the auditor,

then we require the PWU and the auditor to discuss this issue with us.

We may recommend that an initial meeting or teleconference, chaired by IPART be held to discuss controversial matters or disagreements on assigned audit grades and commentary noted in the first draft report. The auditor may or may not be required to attend. We expect the PWU to initiate this discussion with the nominated IPART staff member assigned to the audit. The auditor may be asked to clarify its commentary or grades, or to further discuss evidence provided by the PWU. The auditor will not be asked or coerced into modifying its commentary or grades.

In the discussion, we may clarify the intention of licence clauses or audit procedures. We may discuss the provision of additional evidence to revisit a compliance grade. We will not make comments that compromise the independent assessment of the auditor. Comments from IPART and the PWU should focus on the report content, rather than spelling or typographical mistakes. The report will be subject to quality assurance by the audit team to address these issues prior to issuing the final report.

After receiving comments, the auditor will prepare the second draft audit report. The auditor must accompany the second draft audit report with the completed issues register which includes responses to all PWU and IPART comments. This report will reflect any new evidence presented by the PWU, clarify any identified issues and include the auditor's final compliance grades. Any changes to the report from this point should be editorial only.



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The PWU and IPART may comment on the second draft audit report, but comments should be limited to matters of fact only. There is no opportunity to provide further evidence or dispute opinion at this stage. The process for escalation of issues outlined in Section 3.2 should be followed if an issue relating to the audit arises which cannot be resolved through the normal audit process.

The auditor will then compile the final report and provide it to IPART by the milestone date agreed in the contract between IPART and the auditor. Both IPART and the PWU will receive the final report at the same time. IPART will provide all final audit reports to the relevant Ministers and we will make them publicly available on our website. The final reports must be quality assured by an appropriately qualified person, with the relevant experience necessary to undertake this task.

### **Step 6: Report to the Minister**

IPART must report to the relevant Minister on a PWU's compliance with its licence conditions.<sup>12</sup> We will use the auditor's findings as the basis of our Report to the Minister and include the auditor's report as an appendix. If we are aware of other non-compliances throughout the year, either through our regulatory relationship, the statement of compliance, out of scope audit findings or other methods, we will also report these in our Report to the Minister in accordance with the requirements of relevant legislation.

The audit grades in our Report to the Minister may differ from those assigned by the auditor. If IPART decides to depart from the auditor's assigned audit grades, we will write to the PWU as soon as possible to explain the reason for the difference.

If relevant, we will make recommendations to the PWU to improve its operational systems, programs and/or procedures to achieve compliance. Where possible, our recommendations will be outcomes focused to allow the PWU to determine the most efficient way to achieve compliance. Our recommendations may also differ from those made by the auditor to balance service standards with our understanding of customers' willingness and ability to pay.

We may identify opportunities for improvement in our Report to the Minister as well as recommendations. Subject to the requirements set out in the PWU's reporting manual, we do not require the PWU to report back to IPART on opportunities for improvement, although they may choose to do so through the statement of compliance. For more information on auditors' recommendations and opportunities for improvement see the Audit Report template in Appendix F.

PWUs will receive a copy of IPART's Report to the Minister immediately following our submission of the report to the Minister.

The relevant legislation requires that the Minister responsible for Sydney Water and the Minister responsible for Water NSW must table the reports on their compliance performance in both Houses of Parliament within a month of receiving the report(s). There is no requirement for the Minister to table Hunter Water's report in Parliament.

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<sup>12</sup> Legislation applicable to each PWU requires IPART to monitor and report to the Minister on each PWU's compliance with its operating licence and in respect of certain PWUs, in relation to specific matters arising from the operational audit.



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We will post IPART's various Reports to the Minister and appendices (including the auditor's report) on our website after they have been sent to the relevant Minister (for all PWUs) and, where relevant, tabled in parliament.

### **Step 7: Report on audit recommendations**

PWUs are to report to IPART on the status of recommendations identified in IPART's report to the Minister by the date specified in its reporting manual. In some cases, we may require a different reporting date for specific recommendations, in accordance with the reporting manual.

The report must include a:

- ▼ progress report on implementation of recommendations from IPART's report to the Minister, and
- ▼ status update on any outstanding audit recommendations or accepted improvement opportunities from previous years (if the PWU chooses to report on opportunities for improvement, subject to the terms of its reporting manual).

### **Evaluation: Feedback from auditors and PWUs**

At the conclusion of the audit, following submission of all the reports to the relevant Ministers, we will schedule a workshop-style meeting with the PWUs to identify improvements for the following years' audits.

Our intention is to improve the audit process incrementally, and to minimise regulatory burden on the PWUs. We will also seek auditors feedback through a survey, or similar, to gain an understanding of their views for improving PWU performance and minimising regulatory burden and costs.

## **3.2 Escalation of issues**

The audit process requires auditors, PWUs and IPART analysts to communicate on numerous complex issues relating to a PWU's operations and management.

From time to time there will be differences in opinion or understanding regarding aspects such as adequacy of information, interpretation of obligations or audit grades. This is a normal part of the audit process. We have written the audit process and these guidelines with this in mind.

To afford the audit team every opportunity to efficiently gather and analyse evidence, the audit guideline has a variety of communication steps, including:

- ▼ written questionnaires
- ▼ file transfer capabilities
- ▼ audit interviews
- ▼ site visits
- ▼ two draft reports, and
- ▼ a comments register.

IPART will assign each audit with a nominated IPART representative to oversee the audit. The nominated IPART representative is familiar with the PWU and the scope of the audit and should attend the audit interviews.

Where an issue relating to the audit arises that cannot be resolved through the normal audit process, it should always be raised in the first instance with the nominated IPART representative, as early as possible. A PWU or an auditor may escalate an issue.

### **Box 3.2      Content or Process?**

An issue of content is an issue relating to a difference of opinion regarding technical issues. These could be a difference of opinion about an obligation, application of drinking water or recycled water management guidelines, or best practice in asset management. These issues usually relate to provision of specific evidence which could be used to support an argument for or against a given audit grade.

An issue of process relates to the conduct of the audit. Behaviours of auditors, IPART or PWU staff, and deviations from the audit guidelines or wording of reporting might be examples of process issues.

IPART will decide if the issue is an issue of content or an issue of process.

If an issue is being escalated, initial correspondence should be made by email to the nominated IPART representative, clearly setting out the issue. The Director, Regulation and Compliance at IPART should be copied in for information. Once the nominated IPART representative has an email outlining the issue, we will call or meet with the notifier to discuss the issue.

The only exception to this is where the issue relates to the behaviour of IPART staff, whereby the Director, Regulation and Compliance should be emailed directly with the General Manager, Regulation and Compliance copied in for information. From there the Director will arrange a meeting.

All parties should endeavour to keep content issues (see Box 3.2) at an officer level (the nominated IPART representative). It is not appropriate for senior levels of management who were not present at the audit or involved in reviewing evidence and reporting to be discussing technical details of content.

Importantly, auditors have been engaged to exercise their professional opinion as an experienced industry member. Auditors must remain independent at all times during the audit process. Escalation of issues should only be raised by PWUs with IPART, not with the auditor, and should not be used in any way to influence the auditor. Communication with the auditor must always occur within the audit process described (comments register – see Box 3.1) or with IPART copied in. If the independence of the auditor is in question, IPART will consider appropriate action.

### 3.3 A summary of major milestones for an operational audit

Each audit is for the audit period. The following schedule outlines the expected timeframes to carry out each step of 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 3.2 Indicative Audit Schedule**

Audit Step	Output	Responsibility	Timeline
Step 1 – Audit scoping	Audit scope	IPART	6 weeks
	Stakeholder consultation letters & public advertisement	IPART	4 weeks following audit scope
Step 2 – Appointment of the auditor	Letter of appointment	IPART/Auditor	6 weeks following audit scope
Step 3 – Audit preparation	Questionnaire	Auditor	3 weeks after Step 3
	Answer to questionnaire	PWU	+ 4 weeks
	Statement of compliance	PWU	Date set by IPART
Step 4 – Audit interview		Auditor/PWU (IPART present)	Within 2 weeks of Step 4
Step 5 – Audit assessment and reporting	First draft audit report	Auditor	3 weeks after Step 5
	Comments on first draft	PWU / IPART	2 weeks after Draft report
	Meeting (if required)	IPART/PWU/ Auditor	During Comments period
	Second draft audit report	Auditor	2 weeks after Comments
	PWU and IPART response	PWU / IPART	2 weeks after Second Draft Report
	Final audit report	Auditor	1 week after Final comments
Step 6 – Report to Minister	IPART report to Minister	IPART	4 weeks after Final Report
Step 7 – Reporting on recommendations	PWU report on recommendations	PWU	8 weeks after Minister receives Report or submits to Parliament
Evaluation – Feedback from auditors and PWUs	Survey/workshop to discuss lessons learnt	Auditor/PWUs/ IPART	Following final report submitted to Minister





## Appendices



## A Conflict of interest statement

This conflict of interest statement is given by  
..... (**Auditor**) in  
connection with the proposed audit of  
..... (**Auditee**) for the  
[audit name/type] .....  
which is intended to take place from .....[date] to  
.....[date]

I, ..... [full name], of the Auditor, declare that I  
am authorised to provide this declaration and that:

- ▼ the Auditor does not have any conflicts of interest with the Auditee; or
- ▼ the Auditor included in the attached document a description of all  
conflicts of interest, real or potential, or perceived conflicts of interest,  
to the best of my knowledge, with of the Auditee, and an explanation  
of how such conflicts will be managed.

*[Attach a separate document providing an explanation of all the conflicts of interest,  
and the proposed process to manage them. Submit this with the audit proposal.]*

Date:.....

Signed:.....

Name:.....

Designation: .....

## B Audit standards and principles

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

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

Acceptable standards that may help auditors with this approach include: ASAE/ISAE 3000, or AS/NZS 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 misstatement and able to be relied upon by users of the information.
- ▼ Transparency - data should be capable of replication by a third party through adequate record keeping. Reference sources, methodologies and approaches to data generation should be clearly documented. Changes to data and methodologies over time should be clearly documented.



## C Audit methods

**Table C.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.

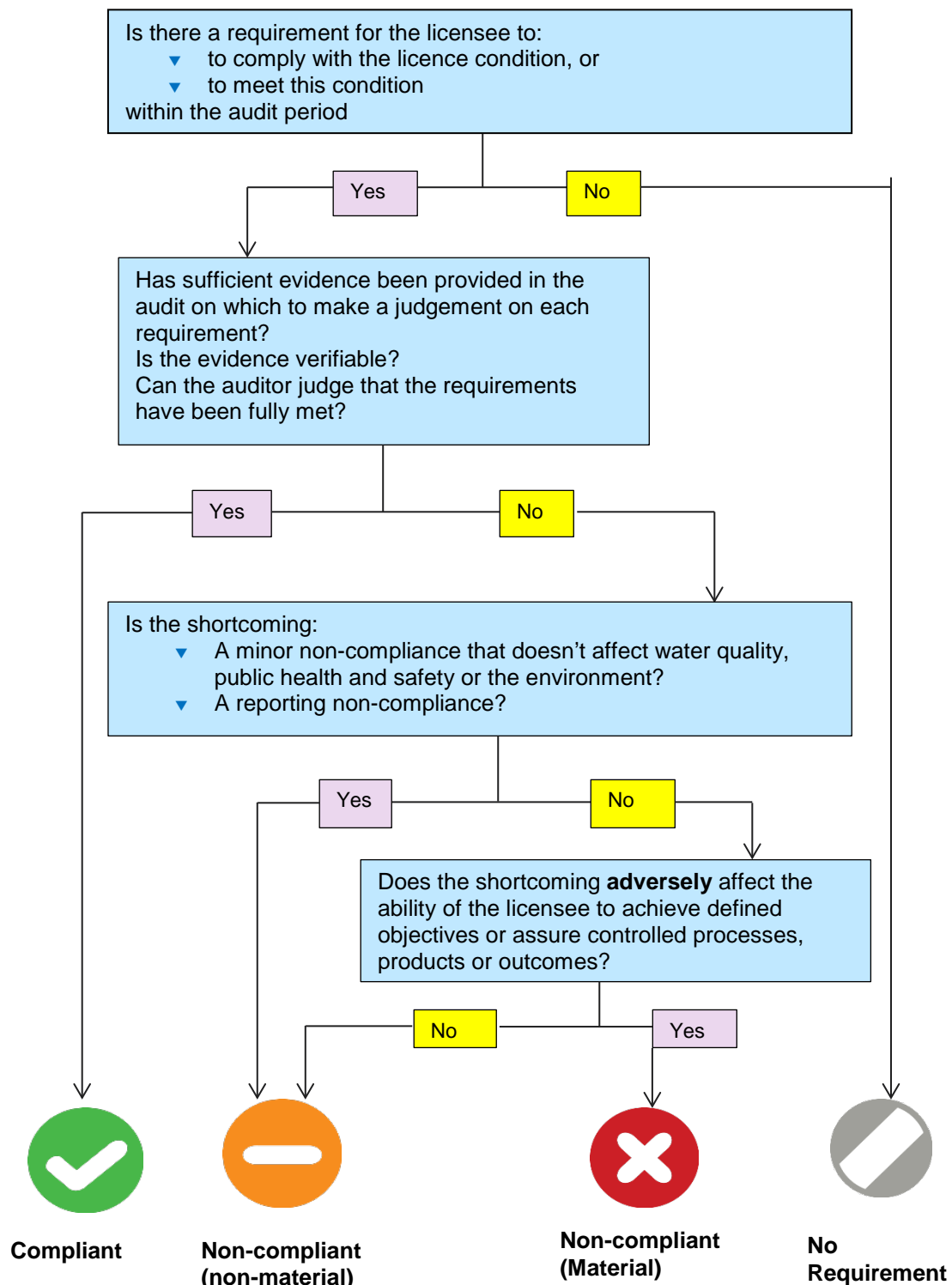
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A variety of factors will affect the reliability of audit evidence, including:

- ▼ independence of evidence - evidence from outside the utility 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, and
- ▼ control systems – evidence prepared by PWUs 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.

## D Audit grade decision tree



## E Questionnaire template

Table E.1 is a template for the auditor's questionnaire and the PWU's response, to be used before the audit interview. The auditor will prepare a questionnaire based on the scope of the audit for the PWU. The PWU will then answer the questionnaire before the audit interviews.

The evidence the PWU 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 completed questionnaire. All referenced systems must be available in the interview period 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 completed questionnaire 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 three 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 E.1 Questionnaire template**

Auditor Questionnaire			PWU Response	
Licence Clause	Questions	Type of evidence	Discussion	Evidence
	Questions that detail what the auditor expects to see to show compliance with the licence clause	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 of audits.</p>

## F Audit report template

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, as we expect they will use their company's formatting protocols. The template only provides the content and layout of what is required.

The report should include a chapter for each licence obligation category (ie, Water Quality, Asset Management, Customers, etc), and a separate chapter addressing previous 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 assigned.

The first draft report must be complete: ie, the auditor should not leave any sections for completion in the second draft.

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

### **Recommendations**

Auditors will make recommendations as to how the PWU could improve its compliance with each clause where the auditor did not assign full compliance. The recommendations should address the gaps found in the evidence and help the PWU 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 PWU's control. In this event, the auditor should state this in the recommendations column of the template. Where the auditor assigned full compliance, 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 PWUs implement improvements.

### **Opportunities for improvement**

In addition to recommendations, if the auditor sees an area where an improvement could be made to the operation of the PWU's activities and functions, the auditor can identify this as an "opportunity for improvement". The auditor may identify an opportunity where they have assigned full compliance or less than full compliance. The opportunity for improvement may not have an impact on compliance, but may contribute to the overall improvement of the PWU operations. The PWU 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 PWU can decide whether or not it will report on implementation, subject to the requirements of its

reporting manual. We will supply to the auditor any information that the PWU provides outlining its response to the opportunity for improvement prior to the next audit. However, we will not follow up the opportunity for improvement in subsequent audits.

## **Report contents**

The following is a guide on the minimum requirements for the audit report.

- ▼ An Executive Summary, summarising the outcome of the audit and the administrative requirements of the report.
- ▼ An Introduction providing more detail on the administrative requirements, audit methods, standards and quality assurance.
- ▼ A detailed audit findings section, providing a full account of the audit findings, audit evidence and discussion of grades, recommendations and opportunities for improvement (if any). We recommend a short summary of the site visits also be included.
- ▼ Previous recommendations and progress to date.

## **Executive Summary**

In the summary, the auditor is to provide an audit opinion on the compliance of the PWU 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, and
- ▼ the audit findings have not been unduly influenced by the PWU 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 new recommendations made, with the relevant clauses indicated. The summary should not include opportunities for improvement, and should not contain progress made on previous recommendations.

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

## **Chapter 1 Introduction**

### **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 PWU operates under. This will cover areas such as the PWU'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 peer reviewed.

## **Chapter 2 Detailed Audit Findings**

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

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



## 2.1 Site visit report

Provide a short summary of the site visited, the assets inspected, the issues reviewed/identified and the evidence presented.

## 2.2 Detailed audit findings by clause

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

The following table shows the minimum requirements for the write up of the audit assessment.

**Table 2.1 Detailed audit findings – hypothetical example**

Sub-clause	Requirement	Compliance grade
2.1	eg, PWU must manage drinking water quality to the satisfaction of NSW Health in accordance with the ADWG.	<b>Compliant</b> <b>See Appendix X for Compliance grades</b>
<b>Risk</b>	<b>Target for full compliance</b>	
Describe risk posed to public health and environment by non-compliance.	Discuss what must be provided to be assigned full compliance.	
<b>Evidence sighted</b>	List reference documents and systems provided as evidence.	
<b>Summary of reasons for grade</b>	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 PWU has fallen short of the target. This section should not contain extended discussion, nor notes from interviews and site visits.	
<b>Discussion and notes</b>	Discuss evidence and how it demonstrates compliance or how it indicates that the PWU has fallen short of the target. Notes from interviews and site visits may be included in this section.	
<b>Recommendation</b>	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 assigned.	
<b>Opportunities for improvement</b>	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 assigned.	