

Draft Public Water Utilities Audit Guideline – proposed changes

5 April 2018



WHAT

IPART is updating its Public Water Utilities (PWUs) Audit Guideline. The guideline sets out our expectations for auditors and PWUs regarding the conduct of operational audits.

IPART audits the PWUs annually to check they comply with their licence conditions.

We apply a risk-based regulatory model which allows us to focus on allocating resources to areas of higher risk.



WHY

The objectives of this update are to:

- ▼ improve the efficiency of our audit process
- ▼ address recent changes to each of the PWU operating licences
- ▼ clarify our approach, and
- ▼ reflect learnings from previous audits and stakeholder feedback.

We also propose to amend the audit grades currently used, to enhance consistency across the compliance functions undertaken by IPART.



WHO

The guidelines once in place will apply to:

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



HOW

Our draft audit guideline is available for stakeholder comment.

We are seeking input from public water utilities, auditors, government agencies and other interested parties.

We will consider all stakeholder submissions and undertake our own analysis before issuing a final audit guideline.



WHEN

Stakeholder submissions are open for four weeks and close on 3 May 2018.

We will release the final audit guideline in June 2018. IPART, PWUs and auditors will then use the revised guideline for the 2017-18 audits.



WHAT NEXT

We have published the draft audit guideline on IPART's website.

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1 What changes are proposed in the audit guideline?

The following changes have been proposed in the existing audit guideline document:

- ▼ Amending our guidance on how we audit the various management systems, for those that are certified to the relevant standard and for those that are not. For the latter, the auditor needs to assess the licence requirement that the systems are ‘consistent with’ the relevant standards.
- ▼ Clarifying the process regarding the rolling up of compliance grades related to water quality clauses with requirements for the Australian Drinking Water Guidelines (ADWG) and Australian Guidelines for Water Recycling (AGWR). The auditor must assign an overall compliance grade for the water quality clauses. If the auditor assigns an element-by-element compliance grade, this overall compliance grade should not apply a ‘rule’ of rolling up to the lowest grade assigned to an element but rather assign an overall grade which, in the auditor’s opinion, weighs the relative significance of the individual element grades.
- ▼ Adjusting the audit schedule to respond to feedback from PWUs regarding resourcing constraints at particular steps in the audit process, as well as providing flexibility in the timing of audits and the audit period to minimise the constraints imposed by a limited pool of auditors.
- ▼ Amending the audit grades to align with IPART’s audit grades for energy networks.¹ We seek to improve consistency, provide certainty for the regulated entities and the public and avoid auditor interpretation issues which we currently face (our existing grades have three different ‘compliant’ audit grades).
- ▼ Including an ‘Audit Fundamentals’ section. This is consistent with IPART’s Electricity Networks Audit Guideline, and allows us to clarify administrative issues for auditors and PWUs.
- ▼ Removing the Statement of Compliance template from Appendix A. We recommend this template be placed in the Reporting Manual for each utility. We intend to make this change when we release draft reporting manuals under the current water utility performance indicator review.
- ▼ Removing the ‘Auditor Selection’ section from the body of the document to the appendices as we now use the NSW Government’s Performance and Management Services Scheme (PMSS) to engage auditors.
- ▼ Providing a modified Audit Report Template in the appendices, to reflect the consensus of the workshop with PWUs for a simplified audit report.
- ▼ Removing repetition and references to out-of-date standards.
- ▼ General editing.

¹ IPART, *Electricity Networks Audit Guideline – Audit fundamentals, process and findings*, October 2017, p 14.

We are seeking input from public water utilities, auditors, government agencies and other interested parties on these changes. We will consider all stakeholder submissions and undertake our own analysis before issuing a final audit guideline.

What other changes to our compliance framework are we considering?

There are a range of other issues related to our compliance framework that are outside the scope of the audit guideline. These include:

- ▼ Improving how we interact with the PWUs and auditors during the process of collecting and collating comments to the draft audit reports, to simplify use, and reduce the potential for confusion.
- ▼ Whether we should have a risk-based assessment of individual elements of the ADWG and AGWR within water quality licence clauses, instead of auditing all 12 elements annually for each clause.
- ▼ Providing a user guide for the software we use for collecting and collating audit evidence and comments.

2 What is the timetable for the update?

Table 1 Timetable for review of guidelines

Milestone	Indicative date - PWU audit guidelines review
Draft audit guideline released for consultation	5 April 2018
Submissions close	3 May 2018
Release new audit guideline	June 2018
Audit guideline comes into effect	1 July 2018

We prefer submissions are made through the IPART website. The submissions page can be accessed [here](#).