



WHAT

IPART has updated the *Audit Guideline – Public Water Utilities* (PWU Audit Guideline).

The PWU Audit Guideline establishes our expectations for Public Water Utility (PWU) audits. We audit PWUs annually to assess their compliance with their licence conditions.

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



WHY

We updated the PWU Audit Guideline to:

- ▼ Improve the efficiency of our audit process
- ▼ Clarify our approach
- ▼ Reflect learnings from previous audits and stakeholder feedback.



WHO

The PWU Audit Guideline applies to the three PWUs:

- ▼ Hunter Water
- ▼ Sydney Water
- ▼ WaterNSW.



HOW

We made the draft PWU Audit Guideline available on our website for stakeholder and public submissions. The submissions we received are available on our website.

We have analysed and addressed the submissions in the final PWU Audit Guideline. The final PWU Audit Guideline is consistent with IPART's *Compliance and Enforcement Policy, December 2017*.



WHAT NEXT

We have published the final PWU Audit Guideline on IPART's website.

IPART, PWUs and auditors will use the updated PWU Audit Guideline for the 2019 audits.

If you wish to discuss any matters in the guideline, please contact:

Mamata Titus, Principal Analyst:

(02) 9113 7750

mamata_titus@ipart.nsw.gov.au

1 What changes have we made to the PWU Audit Guideline?

We have made the following changes to the previous 2018 PWU Audit Guideline document (this includes changes we included in the draft PWU Audit Guideline and others that we have included as a result of the stakeholder comments received in June 2019):

- ▼ Including in the list of responsibilities that PWUs must cooperate throughout the entire audit process (Table 1.1, page 1).
- ▼ Clarifying that the audits are undertaken at the PWU's expense (as provided for in legislation). Any out-of-scope items for the auditor appointment by IPART, including additional meetings (subsequent to the audit interviews) and some instances of engaging the escalation process, are also at the PWU's expense (pages 4, 21 and 25).
- ▼ Removing the statement that we will give notice in newspapers about our public consultation on PWU performance with operating licences. This is consistent with recent changes to various NSW legislation to remove requirements for publishing of notices in newspapers. We will continue to invite public comments through our website, and write to stakeholders referred to in PWU licences seeking feedback on PWU performance for the audit period. In the past, we have not received substantial public interest by advertising in newspapers (page 5).
- ▼ Including the Natural Resources Access Regulator (NRAR) in the list of targeted stakeholders that we engage with during the audit process. The WaterNSW operating licence was amended in July 2019 to include a Memorandum of Understanding with NRAR, making NRAR a relevant stakeholder for the WaterNSW audit (page 5).
- ▼ Including an allowance for the auditor to contact IPART if it considers that consulting with the PWU's customers would assist with the audit. IPART will consider the most appropriate way to manage any information requests on a case-by-case basis. This is not likely to be applicable to private individuals but is rather intended to include large customers such as councils (page 5).
- ▼ Clarifying that for certification reports accepted by IPART (in lieu of a formal audit of a management system), our auditor may review the reports to assess whether they demonstrate compliance with the PWU's licence obligation(s). Where compliance cannot be established, the auditor will note their findings and make recommendation(s) to the PWU to improve its management system to achieve compliance. Should the auditor identify that it is not possible to determine compliance or to make recommendations to achieve compliance based on the certification reports, the auditor should advise IPART and IPART will decide if an additional audit the PWU's management system is required (page 7).
- ▼ Clarifying that if any member of an audit team, or if the audit firm to which an audit team member belongs, has previously provided services to a PWU, the audit proposal must include a table summarising the history of the paid work between the parties in the past two years. Further, the audit proposal should identify and describe any conflicts of interest (including any actual, potential or perceived conflict), as required in the conflict of interest statement (pages 8 and 15).

- ▼ Clarifying that the purpose of the auditor's questionnaire is for the PWUs to provide evidence of their compliance during the audit period. The PWU's response to the questionnaire informs the auditor about what they should follow up or clarify at the audit interviews (page 15).
- ▼ Clarifying that the evidence the PWU provides must be indexed, well referenced and clearly identified. We seek to improve audit efficiency by reducing the time required for auditors to find the documents or information that is relevant to the audit requirements (page 15).
- ▼ Clarifying that if the auditor and PWU agree to run separate interview streams in parallel, this must be discussed with IPART as early as possible. Different parts of the audit scope can be shared between audit team members, depending on the expertise of the team members. The auditors can run separate interviews with the relevant PWU staff in parallel (eg, in different locations) or in separate 'streams'. This can offer some time efficiency advantages, particularly for large audit scopes (page 16).
- ▼ Stating that IPART will make best endeavours to understand from the PWUs early in the audit process (before appointing an auditor) if the PWU would be open to running separate interview streams in parallel. This will allow auditors to better estimate the time required and costs involved with undertaking audits before submitting proposals to IPART (page 18).
- ▼ Clarifying that we may consider web-based audit interviews (eg, Skype) on request by the PWU to allow PWU employees or contractors to participate in the interviews remotely. The PWU should ensure that it has the appropriate facilities and infrastructure in place to allow for this (page 19).
- ▼ Clarifying that the relevant members of the audit team should be present at all interviews. (page 19).
- ▼ Clarifying that it is the responsibility of the auditor to clearly articulate any additional evidence required from PWUs during the audit interviews. It is the responsibility of the PWUs to take note of the evidence requested by the auditor during the audit interviews and subsequently provide the evidence within the timeframe agreed with the auditor (pages 19 and 21).
- ▼ Clarifying that in some cases, the auditor may request the PWU to explain its understanding of a clause(s) being audited. This could help to determine the PWU's compliance with its operating licence and if any additional evidence is required (page 19).
- ▼ Clarifying that during the site visit, the auditor may seek access to personnel, information, systems and assets to assess implementation of management systems, plans and procedures (page 19).
- ▼ Clarifying that our process for selecting sites for field visits may be informed by emerging issues raised by the public or stakeholders during consultation (page 18).
- ▼ Clarifying that there should be no more than three site visits conducted in a single day. For larger PWUs (eg, WaterNSW), we may consider up to five visits over two days. Our preference is that PWUs and auditors avoid multiple streams (ie, the audit team splitting up to attend different sites) for site visits as far as possible. We consider that visiting

fewer sites focuses the audits and allows for better information collection and engagement with site staff (page 20).

- ▼ Clarifying that it is the PWU's responsibility (and not the auditor's) to introduce and familiarise the audit participants with the site(s) being visited (page 20).
- ▼ Clarifying that the questions the auditor asks at a site should primarily be relevant to the site being visited. In accordance with the PWU Audit Guideline, PWUs ensure that staff with specialist knowledge relevant to the site are present for the site visit. Therefore, considering questions relevant to that site provides most value for the audit (page 20).
- ▼ Clarifying the importance of the Quality Assurance process for the audit report (page 21).
- ▼ Clarifying that when reviewing the first draft audit report, a PWU must provide any comments it has on the auditor's recommendations and not only on the audit findings and grades. We seek to improve the review process for the audit report as this is the main opportunity for a PWU to clarify its position and provide any additional evidence (Box 3.1, page 23).
- ▼ Clarifying that any issues PWUs wish to raise with IPART should be done directly through email or telephone. The comments register is intended for the auditor's use when producing the second draft report (Box 3.1, page 23).
- ▼ Including that PWUs can comment on the auditor's recommendations when reviewing the second draft audit report. At present, the PWU Audit Guideline only allows PWUs to request editorial changes to the second draft report and clarifications of data. However, we consider that it is appropriate to also allow PWUs to comment on the auditor's recommendations. In some instances, these may be substantially different to what was presented in the first draft audit report. This may particularly be the case if there were substantial changes to the audit findings after the auditor has reviewed all comments and compliance evidence provided in response to the first draft audit report (page 24).
- ▼ Including that the auditor should include a record of changes between the first draft and second draft audit report for ease of comparison (page 24).
- ▼ Clarifying that any additional meetings that PWUs may initiate after the audit interviews, must be conducted during the review period for the first draft of the audit report. In some cases, IPART may chair a meeting(s) or teleconference(s) to discuss disagreements about assigned audit grades or commentary noted in the first draft report. The meeting(s) can also be used to discuss issues that the PWU considers were not raised, or not adequately discussed in the audit interviews. However, this will be granted at IPART's discretion (by the Director, Regulation and Compliance) where IPART considers that the PWU is engaging appropriately with the audit process (page 23).
- ▼ Clarifying that for recommendations that IPART makes to the Minister, we will provide the PWU with an opportunity to comment on the wording and timing of IPART's draft recommendation(s), where they differ from those made by the auditor, prior to the report being finalised by the Tribunal. The PWUs have an opportunity to consider the auditor's findings and recommendations made by the auditor in the existing guideline (page 24).

- ▼ Clarifying that the escalation process is available in case of dispute, and should only be used as a last resort. The PWU should instigate the escalation process as early as possible. We encourage PWUs to try and resolve issues through the standard audit process before escalation. We consider that it is appropriate that the escalation process is flexible as this allows us to consider the individual issues on a case by case basis and provide a tailored approach (page 26-27).
- ▼ Including more guidance on the audit report template example in Appendix F of the PWU Audit Guideline. Through the suggested template, we seek to make the audit reports clearer. In particular, the auditor’s discussion should more clearly (Appendix F, Table 2.1, page 43):
 - ▽ Describe how the evidence demonstrates the PWU’s compliance with the licence obligation or that the PWU has not met the full requirement of the obligation.
 - ▽ Describe how the evidence demonstrates where there is a shortcoming or deficiency.
 - ▽ Identify whether any deficiencies are material or non-material.
 - ▽ Explain how the shortcomings or deficiencies contribute to the audit grade.
- ▼ Other minor editorial and formatting changes.