



## WHAT

IPART is updating the *IPART Audit Guideline – Public Water Utilities* (PWU Audit Guideline).

The PWU Audit Guideline establishes our expectations about the PWU 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

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 guidelines will apply to the three PWUs:

- ▼ Hunter Water
- ▼ Sydney Water
- ▼ Water NSW.



## HOW

Our draft PWU Audit Guideline is available for stakeholder comment. Our proposed changes are highlighted in yellow.

We are seeking input from PWUs, auditors, government agencies and other interested parties.

We will consider all stakeholder submissions and undertake our own analysis before issuing a final PWU Audit Guideline.



## WHAT NEXT

Stakeholder submissions are open for four weeks and close on **25 June 2019**.

We will release the final PWU Audit Guideline in July 2019.

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

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

We propose the following changes to the existing PWU Audit Guideline document:

- ▼ Including in the list of responsibilities that PWUs must adequately cooperate in 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 24).
- ▼ 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 Water NSW 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).
- ▼ 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 auditor 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 advantages in time efficiency particularly for a large audit scope (page 16).
- ▼ 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 17).
- ▼ 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 17).

- ▼ Clarifying that should be no more than three site visits in one day. For larger PWUs (eg, Water NSW), we may consider up to five visits over two days. PWUs and auditors should 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 17).
- ▼ Clarifying that the questions the auditor asks at a site should primarily be about 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 18).
- ▼ Clarifying that when reviewing the first draft audit report, PWUs 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 PWUs to clarify their position and provide any additional evidence (Box 3.1, page 20).
- ▼ 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. Particularly 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 21).
- ▼ Including that the auditor should include a record of changes between the first draft and second draft audit report for ease of comparison (page 21).
- ▼ 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 20).
- ▼ 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 21).

- ▼ Emphasising the importance of the Quality Assurance process for the audit report (page 19).
- ▼ 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 39):

- ▽ 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.
- ▼ 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 24).
- ▼ Other minor editorial and formatting changes.