

## WICA FACT SHEET

# Summary of audit framework under the *Water Industry Competition Act 2006*

August 2008

### Introduction

The following information outlines the aspects of the licensing scheme under the *Water Industry Competition Act 2006* (the Act) that are to be subjected to independent third party audit.

The key objectives of the audit framework are to:

- ▼ support the policy objectives of the legislative framework
- ▼ minimise the risk of supply failure
- ▼ assist the Minister for Water (the Minister) or IPART in monitoring compliance with the requirements of the legislation and licence conditions
- ▼ assist the Minister or IPART to review licences
- ▼ ensure licensees develop adequate infrastructure operating, water quality, sewage management or retail supply management plans (as relevant)
- ▼ ensure infrastructure is maintained in a satisfactory condition
- ▼ support the general transparency and integrity of the scheme.

### What is audited?

The following aspects of the licensing scheme are subject to audit:

- ▼ the adequacy of infrastructure operating, water quality, sewage management or retail supply

management plans (as is relevant to a particular licence),

- ▼ new infrastructure prior to commercial operation,
- ▼ the condition of infrastructure, and
- ▼ regulatory compliance and licence review.

### Scope of Audit

The scope of the audit activity will vary dependent on the aspect of the scheme being audited as indicated below:

#### Plans and infrastructure audits

The Minister or IPART can require the licensee to provide a report prepared by an approved auditor as to the condition of the infrastructure and the adequacy of the infrastructure operating, water quality, sewage management or retail supply management plans (as is relevant to the particular licence).

#### Commercial operation of new infrastructure audits

Before any new water or sewerage infrastructure can be brought into commercial operation, the *Water Industry Competition (General) Regulation 2008* (the Regulation) requires the licensee to obtain the approval of the Minister. Such approval will not be given unless the Minister is provided with a report prepared by an approved auditor that indicates the new infrastructure complies with the

requirements of the Regulation and any licence conditions, and is capable of operating safely and in accordance with the infrastructure operating plan and water quality or sewage management plan (as is relevant).

See Fact Sheet “Commercial operation of new infrastructure under the WIC Act” for further information at

<http://www.ipart.nsw.gov.au/water/private-sector-licensing/fact-sheets.asp>.

### **Regulatory compliance and licence reviews**

IPART is required to monitor and report to the Minister on a licensee’s compliance with the conditions of the licence. In particular, IPART is required to report on licence compliance to the Minister by 31 October each year. This report is to be laid before both Houses of Parliament.

Compliance will be assessed by a combination of exception reporting and in some cases the performance of compliance audits by approved auditors.

IPART is also required to review each licence at intervals of not more than every 5 years (from the date the licence commences). IPART may require an audit of the licence as part of its licence review process (alternatively, this review may form part of a compliance audit).

### **When are audits conducted?**

#### **Audits of plans**

Infrastructure operating, water quality, sewage management or retail supply management plans (as is relevant to a particular licence) are required to be implemented and adhered to by all licensees.

Under the Regulation, these plans are required to be provided to IPART either prior to commencing commercial operation (in the case of a network operator’s licence) or prior to commencing to carry out activities under the licence (in the case of a retail supplier’s licence).

However, IPART recommends that licensees provide the final plans as soon as possible, preferably prior to construction. Licensees should note that:

- ▼ IPART will require the adequacy of these plans to be audited
- ▼ the adequacy of these plans are subject to further audit if any significant changes are made to them by the licensee.

### **Commercial operation of new infrastructure audits**

A regulatory and licence compliance audit must be conducted by an approved auditor before any new water or sewerage infrastructure is brought into commercial operation.

New infrastructure is infrastructure that comes into operation after 8 August 2008. New infrastructure does not include infrastructure that extends or expands existing infrastructure, unless its design, construction or operation involves different technology to that used in connection with the existing infrastructure or is inconsistent with the infrastructure operating plan, water quality plan and/or sewage management plan (as is relevant) for the existing infrastructure.

### **Regulatory compliance and licence review audits**

The Act and Regulation do not prescribe any frequency for audits that IPART may require as part of its compliance reporting or licence review process. IPART will use a risk based approach in order to determine when and how often a compliance audit must be conducted, based on the nature, scale and potential impacts of the licensed activity being undertaken and the licensee’s record of compliance. It is possible that compliance audits will be required annually for some licensees. At a minimum, an audit will be required at least every 5 years to assist in the licence review process.

## Audit guidelines

IPART is currently developing Audit Guidelines which will include the audit approach, detailed audit scopes and reporting templates for each type of audit. The Guidelines are currently being developed and will be available from IPART's website at

<http://www.ipart.nsw.gov.au/water/private-sector-licensing/audit-panel.asp>.

## Who will conduct the audits?

Only an approved auditor can conduct audits on behalf of the Minister, IPART or a licensee for the purposes of the licensing scheme under the Act. An approved auditor is a person nominated by IPART, chosen by the licensee from a panel of persons nominated by IPART or nominated by the licensee and approved by IPART.

## The Water Licensing Audit & Technical Services Panel

IPART's preferred approach is that an approved panel be used for the appointment of approved auditors. IPART is therefore in the process of establishing an audit panel, the Water Licensing Audit and Technical Services Panel (the Panel).

Auditors may apply to become a member of the Panel at any time subject to satisfying the selection criteria. See Fact Sheet "Joining the audit panel for the purposes of the WIC Act" for further information at

<http://www.ipart.nsw.gov.au/water/private-sector-licensing/fact-sheets.asp>.

A list of approved auditors on the panel will soon be available on IPART's website at

<http://www.ipart.nsw.gov.au/water/private-sector-licensing/audit-panel.asp>.

## Costs of audits

The cost of any audit must be borne by the licensee.

## Further information

For any further information on the audit framework or the licensing scheme generally, please contact IPART's Utility Licensing team either by:

- ▼ **phone**  
(02) 9290 8400 (general number)
- ▼ **email**  
[compliance@ipart.nsw.gov.au](mailto:compliance@ipart.nsw.gov.au)

## Legal context for this Fact Sheet

IPART has prepared this Fact Sheet as a general summary of relevant parts of:

- ▼ **the Act**  
Water Industry Competition Act 2006.
- ▼ **the Regulation**  
Water Industry Competition (General) Regulation 2008.

This Fact Sheet should not be relied on as a substitute for legal advice, and is designed to be read in conjunction with the above source documents.