



Audit Guideline

under the *Water Industry Competition Act 2006 (NSW)*

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ISBN 978-1-76049-428-5

The Independent Pricing and Regulatory Tribunal (IPART)

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Version control

Revision	Date issued	Notes
1	11 September 2018	Revised audit guideline incorporating new audit grades, internal process changes, merging the superseded 'brownfield' and 'greenfield' Audit Guidelines.
2	1 July 2020	Updated to align with implementation of the Water Industry Licence Management Application (WILMA).





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1 Introduction

The *Water Industry Competition Act 2006* (**WIC Act**) was established to encourage competition from private sector entrants in relation to the supply of water and wastewater services to customers in NSW. IPART is the regulator for the regime established under the WIC Act.

As part of our responsibilities under the WIC Act, we monitor and report to the Minister on a licensee's compliance with the conditions of its licence.¹ To exercise these functions, we conduct audits of licence conditions. Our audits help to ensure that licensed schemes are constructed, operated and maintained in a manner that effectively manages the risks to public health, the environment and consumers.

The Audit Guideline (**guideline**) provides general guidance on the manner in which IPART exercises its licence auditing functions under the WIC Act. The guideline is not binding on IPART. We may depart from the guideline where we consider it to be appropriate or necessary to do so, for example, to ensure that a licensee complies with its licence conditions. Auditors and licensees should, however, endeavour to comply with the guideline or provide a written explanation, with reasons, why they will not be able to comply with the guideline (before the audit takes place). Licensees are required to comply with the guideline as a condition of their licence.

The guideline may not always provide complete guidance in which case auditors and licensees should seek clarification from IPART. For example, licensees of schemes that existed before 8 August 2008 ('Brownfield'² schemes) should contact IPART for specific guidance on compliance matters.

Where there is any inconsistency between this guideline and the requirements of legislation, the legislative requirements will prevail.

¹ WIC Act, section 85(1).

² Greenfield schemes are those that use new infrastructure. Brownfield schemes are those that use existing infrastructure. The *Water Industry Competition (General) Regulation 2008* (WIC Regulation), considers "new infrastructure" to include any water or sewerage infrastructure that began construction after 8 August 2008. Any infrastructure that was in existence, or began construction, prior to this date is considered to be 'existing infrastructure'. Brownfield schemes will also include limited types of infrastructure that may have been built under transitional licensing arrangements, granted until 17 December 2010, under Clause 19A of the WIC Regulation.

1.1 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
- ▼ Appropriate auditing standards
- ▼ How to deal with matters outside the audit scope
- ▼ Requirements in relation to conflicts of interest and quality assurance requirements, and
- ▼ Audit grades and how to apply them.

Chapter 3 – Audit framework

This chapter outlines the different types of audits, and notes when, how and who is responsible for initiating the audit.

Chapter 4 – Audit procedure

This chapter outlines the audit process, including actions, responsibilities and outputs.

1.2 Purpose and objectives

The purpose of the guideline is to set out IPART's expectations regarding the conduct of audits of WIC Act licensees (**licensees**), and to guide auditors and licensees in carrying out their responsibilities in connection with audits.

The guideline also informs prospective licensees of the audit process and the requirements of various audits.

The objectives of the guideline are to explain how:

- ▼ The audit scope is set, and by whom
- ▼ Audits are conducted, including frequency and types of audit
- ▼ Audit outcomes are reported and managed.

1.3 Changing the guideline

IPART issues the guideline and will review and amend it from time to time.

We may change the guideline for reasons including to:

- ▼ Reflect changes in the legislation or licence conditions
- ▼ Amend the audit information that must be provided to IPART
- ▼ Improve the audit process.

The guideline is intended to supplement (and not replace) the application of recognised audit standards.

Before we substantially change the guideline, we will consult relevant licensees, members of the Technical Services and Water Licensing Audit Panel (**Panel**),³ and other interested stakeholders. We will notify stakeholders of any changes to the guideline and the start date for any new auditing arrangements, and we will ensure there is enough time for licensees to implement new arrangements.

1.4 Auditor and licensee feedback

Over time, approved auditors and licensees may identify opportunities for improving the audit framework, or other aspects of the audit process. We encourage Panel members and licensees to provide feedback to make the audit process or the licensing framework more efficient and effective.

³ Members of our Technical Services and Water Licensing Audit Panel, referred to as “Panel Members”, include organisations and individual sole traders. Where Panel Members are organisations, they must nominate individuals as approved area specialists or auditors.

2 Audit fundamentals

The licensee is responsible for engaging an independent consultant from our Panel to conduct the audit. Auditors assess compliance against quantitative and qualitative criteria and provide their professional judgement in a formal report. We require auditors to remain independent and expect licensees to respect that independence.

This chapter outlines how auditors and licensees manage the administrative issues and auditing fundamentals associated with our audit process.

2.1 Roles

Table 2.1 provides an outline of roles for IPART, auditors and licensees in relation to audits:

Table 2.1 Roles

IPART	Auditor	WIC Act Licensee
Determines the scope for operational audits.	Uses the audit scope to: <ul style="list-style-type: none">▼ Investigate the licensee's operations and systems▼ Assess New Infrastructure and Licence Plans▼ Otherwise assess compliance with the licence conditions.	Provides information to the auditor and IPART. Provides access and cooperation necessary for the conduct of the audit. Permits the auditor and IPART to carry out certain inspections and investigations relevant to its licence.
Implements our <i>Compliance and Enforcement Policy</i> , including undertaking enforcement action for non-compliances.	Documents audit findings.	Addresses directions from IPART/the Minister on audit findings/non-compliances.
Reports audit outcomes and makes recommendations to the Minister.		

2.2 Audit scoping

Chapter 3 details the different types of audits. In general, licensees require different types of audits depending on whether they have begun commercial operation or not.

The auditor, based on the requirements of the licence, determines the audit scopes for audits of pre-commercial operation audits. Licence Plans audits address the adequacy of Licence Plans. New Infrastructure audits assess whether the infrastructure complies with the licence conditions, including whether it is capable of operating safely and in accordance with its Licence Plans.

Once commercial operation commences, IPART specifies audit scopes for the annual (or biennial) operational audits.

Risk-based approach

We do not require all conditions of a licensee's licence to be audited every year. We will seek to audit all conditions at least once during a 5-year licence period. However, the audit frequency for a particular condition will depend on the risk that non-compliance poses, as well as the licensee's previous performance. Our approach will ensure that auditing reflects the type, size, and complexity of each scheme and the risk of non-compliance.⁴

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. Similarly, the audit in the fifth year and every five years thereafter may be more comprehensive than the previous year to inform the upcoming 5-year licence review.

Details of IPART's risk-based approach to compliance can be found in the published *Compliance and Enforcement Policy, December 2017 (C&E Policy)*.⁵

Scope to reduce audit frequency

We may decide to reduce the frequency of audits for licensees with a good compliance history after operating for at least five years. We define 'good compliance' for a licensee when it has no material non-compliances, and minimal non-material non-compliances:

- ▼ Over the past three consecutive audits, and
- ▼ The last three annual compliance reports.

We consider non-material non-compliances to be "minimal" if there are:

- ▼ No repeat non-compliances
- ▼ No more than two non-material non-compliances identified in any one audit or annual compliance report, and
- ▼ No more than four non-material non-compliances in total over the past three consecutive pre-operational and operational audits and annual compliance reports, on a rolling year-to-year basis.

We may combine audits of similar schemes, if those schemes are operated by a related entity. We may align audit scopes and audit periods for similar schemes to achieve more efficient and cost-effective audit outcomes for IPART and the licensee. We may combine the audit scopes where the licences have common elements, for example, where a licensee uses the same licence management plans for similar schemes across multiple licences.

⁴ 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 submission of annual statement of compliance. Therefore, we audit water quality performance frequently and reporting clauses less frequently.

⁵ IPART, *Compliance and Enforcement Policy*, December 2017, <https://www.ipart.nsw.gov.au/Home/Industries/Special-Reviews/Reviews/IPART-Regulation/Compliance-and-Enforcement-Policy/19-Dec-2017-Final-Policy/IPART-Compliance-and-Enforcement-Policy-December-2017>

2.3 Stakeholder consultation

IPART may engage with NSW Ministry of Health (**NSW Health**) and other relevant stakeholders during the audit process. IPART will seek NSW Health's comments on water quality plans and technology assessment reports.

If the auditor considers that further consultation is necessary, the auditor should contact IPART and we will submit all information requests, in writing, to other government agencies.

2.4 Auditing of water quality plans

Auditing of water quality plans 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)*. The auditor may assign grades for each audited element to inform its overall assessment grade.

We do not require an auditor to assign audit grades to individual elements; this is a decision for the auditor. Further, we do not apply any 'rule' of assigning an overall grade based on the lowest grade assigned to an individual element. Instead, the auditor must assign an overall grade which, in the auditor's opinion, weights the relative significance of the individual element grades.

We will consult with NSW Health prior to finalising our audit scopes. The final audit scope may provide the auditor with additional direction regarding Licence Plans and/or operational issues to address based on NSW Health's advice.

2.5 Overlap with other audits

Licensees may have parts of their operation audited under other frameworks, such as certification schemes or other legislation. For example some licensees may choose to have Environmental Management Systems, Asset Management Systems, and/or Quality Management Systems in place.

Where a system is subject to an operational audit under the licensee's network operator's or retail supplier's licence, the licensee may present the outcome of any surveillance or certification (or re-certification) report to the auditor as evidence in a formal audit. The auditor may use the evidence provided in that report. As the private water utility industry is relatively young, we require auditors to audit the Licence Plans in full.

2.6 Matters outside the audit scope⁶

We provide an audit scope to the auditor. However, occasionally the auditor may identify issues that fall outside the scope of the audit but may pose a significant risk to public health or the environment.

⁶ In practice, this section only relates to operational and incident-related audits.

We require the auditor to notify IPART if such an issue is identified (via the IPART representative in attendance at the audit in the first instance). IPART will determine, in consultation with the auditor and licensee if appropriate, whether to adjust the scope of the audit, or whether to investigate the issue further outside the audit scope. Where necessary, IPART will refer the matter to the relevant agency.

The auditor should consult with IPART about where and how to document such findings.

2.7 Independence

Conflict of interest

Auditors must conduct all audits independently of the licensee.

Every audit proposal submitted to IPART by an auditor must contain a conflict of interest statement. A template conflict of interest statement is attached at **Appendix A**.

In the conflict of interest statement, the auditor must either:

- ▼ Confirm that the auditor has no conflict of interest, or
- ▼ Identify and describe any conflict of interest (including any actual, potential or perceived conflict).

Where the auditor has identified a conflict of interest (whether actual, potential or perceived), the auditor must specify steps that the auditor proposes to take to manage the conflict. IPART will then consider whether the conflict of interest can be appropriately managed. Where IPART does not consider that the conflict of interest can be appropriately managed, the licensee will need to engage a new auditor.

While IPART will consider conflicts of interest on a case by case basis, conflicts of the following type would not generally be capable of being appropriately managed:

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

If the auditor becomes aware of a conflict of interest (whether actual, potential or perceived) after being appointed by the licensee to conduct an audit, they must notify the licensee and IPART as soon as possible after the discovery. The auditor must provide any information to IPART, on request, concerning any 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 the auditor may be required to withdraw from the engagement.

The ‘three in five’ rule

The same auditor⁷ should not be used more than three times in every five audits for a particular audit category. This rule ensures that over time, each licensee is audited by different auditors. This allows a new perspective and helps to ensure the auditor’s independence.

In exceptional circumstances we may approve an exemption to this rule (eg, 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 will not be compromised.

If an auditor has previously been used by a licensee, the audit proposal should include a table summarising the audit history.

2.8 Quality

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

Application of auditing standards

We require all auditors to use a systematic approach when:

- ▼ Defining the requirements of the audit
- ▼ Planning the audits
- ▼ Interpreting licence conditions
- ▼ Collecting audit evidence
- ▼ Objectively assessing the evidence
- ▼ Reporting in a clear and accurate manner.

It is the auditor’s responsibility to select an acceptable standard. These may include the most recent versions of:

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

⁷ This refers to the audit firm, not just the lead auditor or audit team.

Auditors must disclose the standard they propose to use to conduct the audit in their audit scope⁸ and the final audit report. We will review the appropriateness of the selected standard as part of the audit proposal submission and approval process (see section 4.1 of the guideline).

Audit methods and principles

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 determine the mix of audit methods needed to obtain sufficient evidence to support an opinion on each item within the scope.

Auditors must keep 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 no less than seven years.

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
- ▼ Is required to demonstrate the same level of independence as the auditor in respect of the licensee (and submit a Conflict of Interest statement, as per Appendix A)
- ▼ May be within, or external to the audit firm.

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(s) proposed to perform the peer review must be nominated in the audit proposal.

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, based on standards such as ISO 9001 - *Quality Management Systems - Requirements*.

As part of the audit planning the lead auditor should ensure that their quality control framework will be effective in managing any associated audit risk.

⁸ An auditing standard can be adapted if appropriate for the audit.

Auditor feedback

Where we consider that an audit or auditor has failed to apply the required level of professionalism or rigour, we will provide the auditor with feedback and ask them to take steps to address any inadequacies.⁹ This may occur when the auditor delivers the draft report to IPART. In some circumstances, a meeting between IPART and the auditor may be required to discuss the issue and agree on ameliorative action.

Please note that IPART may periodically review auditor performance.¹⁰ Where IPART considers that an auditor is unable to provide audit services to the standard required, IPART may decline to approve future auditor nominations for that auditor, or where applicable, may terminate the Panel agreement with that auditor.

2.9 Audit grades



An auditor must assess a licensee's compliance with its licence conditions in accordance with the audit scope and assign grades for each audited licence condition. When assessing a licensee's assets, the auditor will assess from catchment to consumer (or the equivalent water cycle components applicable to the scheme).

As set out in section 2.4, auditing of water quality management systems may require assessment of the individual elements that make up the water quality management systems framework provided by ADWG and AGWR. Section 2.4 provides guidance to auditors to minimise 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.

Pre-operational audits must meet the adequacy provisions in the WIC Regulation.¹¹ The auditor will assess adequacy of the Licence Plans and issue an audit grade accordingly.

The grades for all audits are shown in Table 2.2 below.

Table 2.2 Grades for WIC Act Audits



Grades of compliance		Description
	Compliant	Sufficient evidence is available to confirm that the requirements have been met.
	Non-compliant (non-material)	Sufficient evidence is not available to confirm that the requirements have been met and the deficiency does not adversely impact the ability of the licensee to achieve defined objectives or assure controlled processes, products or outcomes.

⁹ IPART's standard practice is to check that:

- ▼ the audit scope has been fully addressed
- ▼ the report is correct and contains sufficient, clear and concise explanation of issues and grades, and
- ▼ the report has been peer reviewed.

¹⁰ *Technical Services and Water Licensing Audit Panel Agreement*, Clause 8.

¹¹ WIC Regulation, Schedule 1, clauses 6(3), 7(5), 13(3) and 14(4); Schedule 2, clause 7A(3)).

Grades of compliance	Description
 Non-compliant (material)	Sufficient evidence is not available to confirm the requirements have been met and the deficiency does adversely impact the ability of the licensee to achieve defined objectives or assure controlled processes, products or outcomes.
 No Requirement	There is no requirement for the licensee to meet this criterion within the audit period.

Appendix D provides a decision-tree to help identify the correct audit grade for the auditor to assign.

We note that IPART's *Audit Guideline - Public Water Utilities, June 2018* contains five audit grades, comprising two "Compliant" grades, two "Non-compliant" grades and one "No Requirement" grade. The public water utilities audit guideline has the additional compliant grade because of a wider range of services and a larger number of licence clauses that are audited each year.

We have maintained the four current audit grades for WIC Act licensees in this revised guideline.

2.10 IPART consideration of an audit report

Audits by panel auditors form an important component of IPART's compliance framework by allowing compliance issues to be efficiently identified and actioned. However, where an auditor fails to identify a compliance issue, or inaccurately assesses a compliance issue, IPART and the Minister are not precluded from taking compliance action in relation to the non-compliance, including action different from, or additional to, that recommended by the auditor.

IPART does not endorse audit findings but will determine the significance of any non-compliance identified by an auditor. IPART will also assess the suitability of an auditor's recommendations, as well as any alternatives proposed by licensees.

2.11 Submitting audit documentation

All audit documentation (eg, audit scopes, proposals, draft and final audit reports) must be submitted via the Water Industry Licensing Management Application (WILMA). A step-by-step guide detailing how to use WILMA is available on our website.¹²

¹² <https://www.ipart.nsw.gov.au/Home/Industries/Water/Compliance/WILMA>

3 Audit framework

The audit framework for WIC Act licensees outlines the process, management and responsibility for the different types of audits.

We undertake various types of audit of each licensee. We undertake pre-operational audits to assess compliance with licence conditions applying before the infrastructure is brought into commercial operation, including assessing the adequacy of Licence Plans, and of new water industry infrastructure. We report our findings to the Minister, who may approve bringing the new infrastructure into commercial operation. We also undertake operational audits, either annually or biennially, to assess the licensees' compliance with its licence conditions.

There are minor differences in audit requirements for some schemes in operation before the implementation of the WIC Regulation.¹³ Potential licensees of these schemes should contact IPART for further information.

3.1 Audit types

This section outlines the types of audits, including their timing and content.

Different audits are required:

- ▼ Before the licensee commences commercial operation (of a scheme), and
- ▼ After the licensee has commenced commercial operation.

3.1.1 Before commercial operation

We require licensees to prepare and submit to us copies of the Licence Plans¹⁴ and the outcome of the Licence Plans and New Infrastructure audits.¹⁵ We will give licensees a direction to undertake these audits when we issue notification to them of the Minister's decision to grant a licence. We will forward the audit reports to the Minister to approve the licensee commencing commercial operation and/or commencing retail supply to customers.

Voluntary assessments

Before starting construction, we strongly recommend that licensees undertake a **Technology Assessment** and a **Sustainability Assessment**. If a licensee chooses to undertake either of these assessments and engages the same auditor to undertake the Licence Plans audit, the assessments can form part of the Licence Plans audit avoiding duplication. These assessments are outlined below.

¹³ WIC Regulation, clauses 19 A and 33

¹⁴ WIC Regulation, Schedule 1, clauses 6(1), 7(1), 13(1), 14(1).

¹⁵ WIC Regulation, Schedule 1, clauses 6(3), 7(5), 13(3), 14(4).

- ▼ **Technology and Sustainability Assessments.** Licensees may wish to have certain aspects of their Licence Plans assessed before construction. These early assessments may reduce the risks to licensees of non-compliant design and potential additional costs after construction.

The **Technology Assessment** is essentially a partial assessment of the Water Quality Plan. It will help determine whether the proposed infrastructure will provide water which is fit for purpose. We consider that an early partial assessment will reduce the risks of building infrastructure that does not provide fit and proper water. Relevant aspects may include:

- Element 2:
 - an evaluation of the system flow diagram from source to end user, and
 - an evaluation of log-reduction values for the treatment process
 - Element 3: an evaluation of system critical control points for the control of pathogens/chemical contaminants, and
 - Element 9: validation of treatment processes, including pre-validated processes, and provision of a validation plan to prove Log Reduction Values (LRVs) for the treatment process.
- ▼ The **Sustainability Assessment** is essentially a partial assessment of the Sewage Management Plan. An early assessment of the following aspects of the plans will assist in determining whether the proposed infrastructure will be able to dispose of treated effluent in a sustainable manner. We consider that an early partial assessment will reduce the risk of building a scheme that does not sustainably dispose of the effluent and the potentially substantial costs that may be involved in correcting the problem. Relevant aspects may include:
- The water balance calculations for the scheme, covering all disposal paths, including production of recycled water and disposal to land and water.
 - A land capability assessment where there is disposal to land, and hence the sustainable rate of application of treated effluent.
 - The type of treatment infrastructure being proposed and whether this infrastructure can provide adequate removal of contaminants to enable the sustainable application of treated effluent.
 - The capacity of storage and buffering infrastructure of the scheme, including wet weather storage capacity.

If a licensee chooses to undertake one or both of these assessments, the licensee may not have to re-audit these aspects of their Licence Plans at a later date (when the remaining aspects are audited), provided the same auditor is used, and the assessment results are satisfactory.

General audit types

In general, the following types of audits are required before commencing commercial operation:

- ▼ **Licence Plans audits.** These assess the adequacy of the Licence Plans (as a whole) that licensees prepare.¹⁶ These plans may include the Infrastructure Operating Plan, Water Quality Plan, Sewage Management Plan and Retail Supply Management Plan.¹⁷ These audits do not check the licensee's operational compliance with its licence.

IPART provides guidance to licensees on the need to prepare Licence Plans, and to audit these plans, when we notify the outcome of the licence application. The auditor assesses the adequacy of the Licence Plans and provides audit grades for each obligation under the WIC Act, WIC Regulation and the licence as necessary. We determine whether compliance action is required for an identified non-compliance. The types of actions we take may include follow-up audits, submission of amended plans or additional expert reports to address specific non-compliances or gaps in licence plans.

Licensees may undertake Licence Plans audits before or after construction. They should, however, be conducted after detailed design has been completed.

Licence Plans which contain some non-material non-compliances may still be deemed adequate. The auditor should express an opinion on the adequacy of the Licence Plans (as a whole) in the audit report.

- ▼ **Follow-up Licence Plans audits.** In some cases, we may require licensees to undertake a follow-up Licence Plans audit. IPART will review and determine the scope of the follow-up audit. Possible situations that require follow-up audits include:

- An audit has identified several non-material non-compliances
- An audit has identified material non-compliances
- The risk to public health and/or the environment is such that more frequent audits are required.¹⁸

Follow-up Licence Plans audits are also required where Licence Plans are significantly changed and a review is required to determine their adequacy.¹⁹

- ▼ **New Infrastructure audits.** A network operator cannot bring any new water or sewerage infrastructure into commercial operation without the Minister's prior written approval.²⁰

¹⁶ IPART or the Minister may demand that the licensee provide a report prepared by an approved auditor as to the adequacy of the plans (WIC Regulation, Schedule 1, clauses 6(3), 7(5), 13(3) and 14(4); Schedule 2, clause 7A(3)). In the case of Infrastructure Operating Plans (IOP), the report must also address the condition of the infrastructure, having regard to the purpose for which it is licensed. IOP cannot be audited in full before construction of the treatment plant is completed.

¹⁷ Under the WIC Regulation, licensees are only required to develop plans which are relevant to the scheme. For example, a water supply scheme may not need to produce a Sewage Management Plan. Also, Retail Supply Management Plans prepared by retail suppliers may also be audited depending on the complexity of the scheme. Licensees should speak to us about whether an audit of a Retail Supply Management Plan is required for their scheme.

¹⁸ For instance, we may require a Follow-up Licence Plans audit where we, NSW Health, or the NSW Environment Protection Authority, are concerned with a performance issue (which may suggest aspects of the Licence Plans are not compliant).

¹⁹ WIC Regulation, Schedule 1, clauses 6(3), 7(5), 13(3) and 14(4); Schedule 2, clause 7A(3)).

²⁰ WIC Regulation Schedule 1, clause 2(1): Licensees are required to undertake New Infrastructure audits. The Minister requires a report on the New Infrastructure audit before he/she can grant the licensee permission to commence commercial operation.

The Minister cannot give approval without a New Infrastructure audit that indicates the infrastructure:

- Complies with the licence and the WIC Regulation
- Is capable of operating safely and in accordance with its Licence Plans.

New Infrastructure audits can only be conducted after the licensee has completed construction of the water industry infrastructure specified in its licence. For schemes with staged development plans, IPART will provide specific guidance to licensees.

The final report must contain a clear description of the infrastructure that is the subject of the audit, and it must match the language used in the licence where possible. The Minister's approval will be consistent with the description provided in the audit report.

Licensees may conduct Licence Plans and New Infrastructure audits separately or together after construction as this will help reduce audit costs.

3.1.2 After starting commercial operation

We may require the following audits:

- ▼ **Operational audits** which check if the licensee is operating in compliance with the conditions of its licence. The frequency of such audits will be based on a risk assessment by us, but will be at intervals of no more than five years.²¹ The risk assessment would consider the compliance history of the licensee in determining the frequency of the audits.
- ▼ **Incident-related audits** in response to an incident in the conduct of licensed activities that threatens, or could threaten, water quality, public health or safety, to identify any non-compliance with licence conditions. In such circumstances, licensees are required to immediately notify us, the Minister for Health (or delegate), the Minister responsible for the WIC Act (or delegate), and any other licensed retail supplier or network operators that may be affected.²²
- ▼ **Licence Plans audits** may be required in response to significant changes to Licence Plans, any directions from the Minister or follow up any material non-compliances with the licence identified in a previous audit. A follow-up audit may also be required where an auditor has identified significant risks to public health and the environment.

The following figures show how the different audit types fit into project phases and what documents and obligations are checked in each audit type. The audit types vary depending on the licence held, ie, a network operator's or retail supplier's licence.

²¹ We generally audit every year for the first five years of a licence. We may review audit frequency based on compliance history and associated risks to public health and safety and the environment.

²² For further information see IPART, *Incident Notification by Network Operators and Retail Suppliers, Water Industry Competition Act 2006, Water – Incident Notification*, February 2018, at <https://www.ipart.nsw.gov.au/Home/Industries/Water/Alternate-water-utilities-WICA/Licence-Compliance-Reporting/Incident-notification-Incident-notification-by-network-operators-and-retail-suppliers-February-2018>.

Figure 3.1 Network operator licence audit types

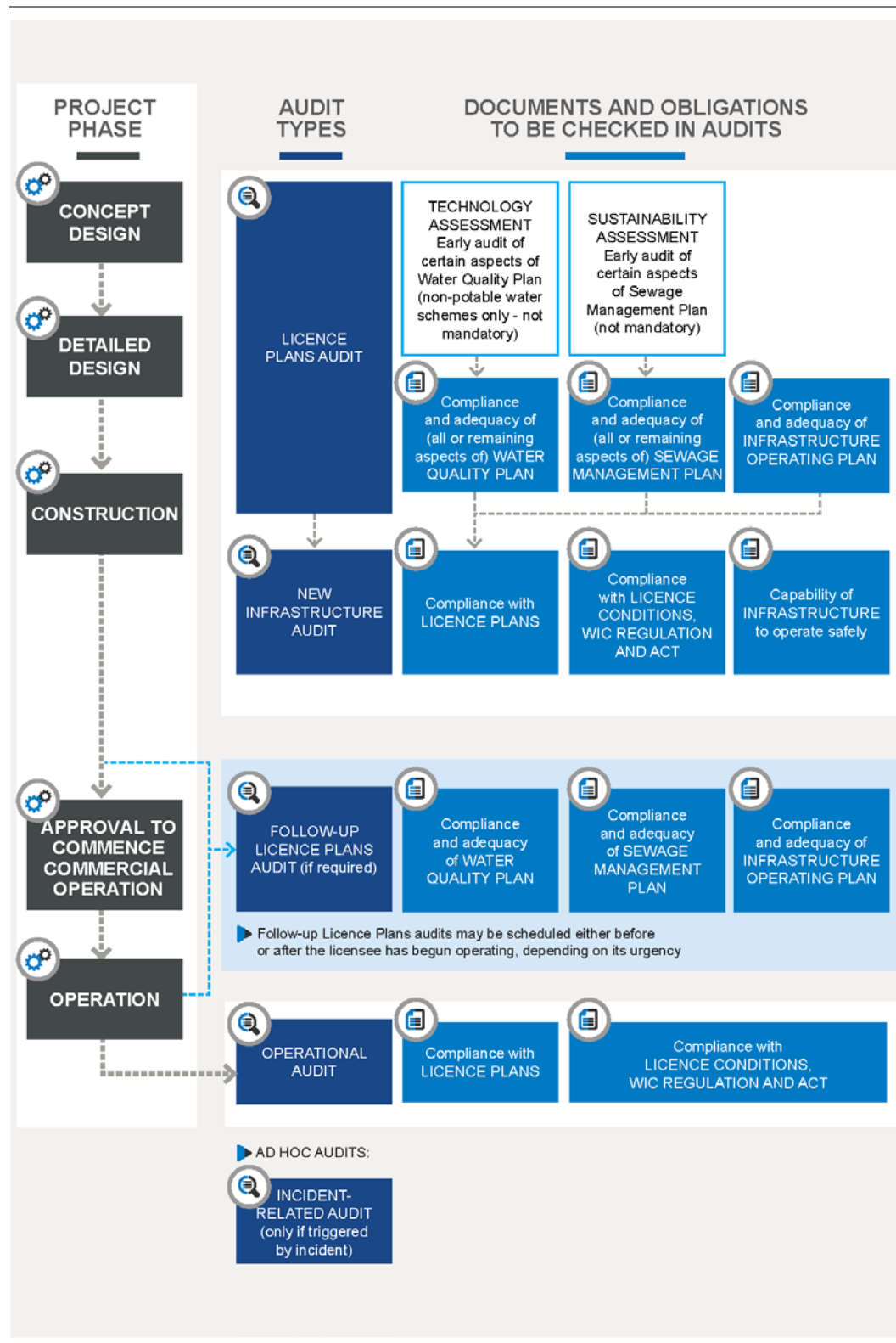
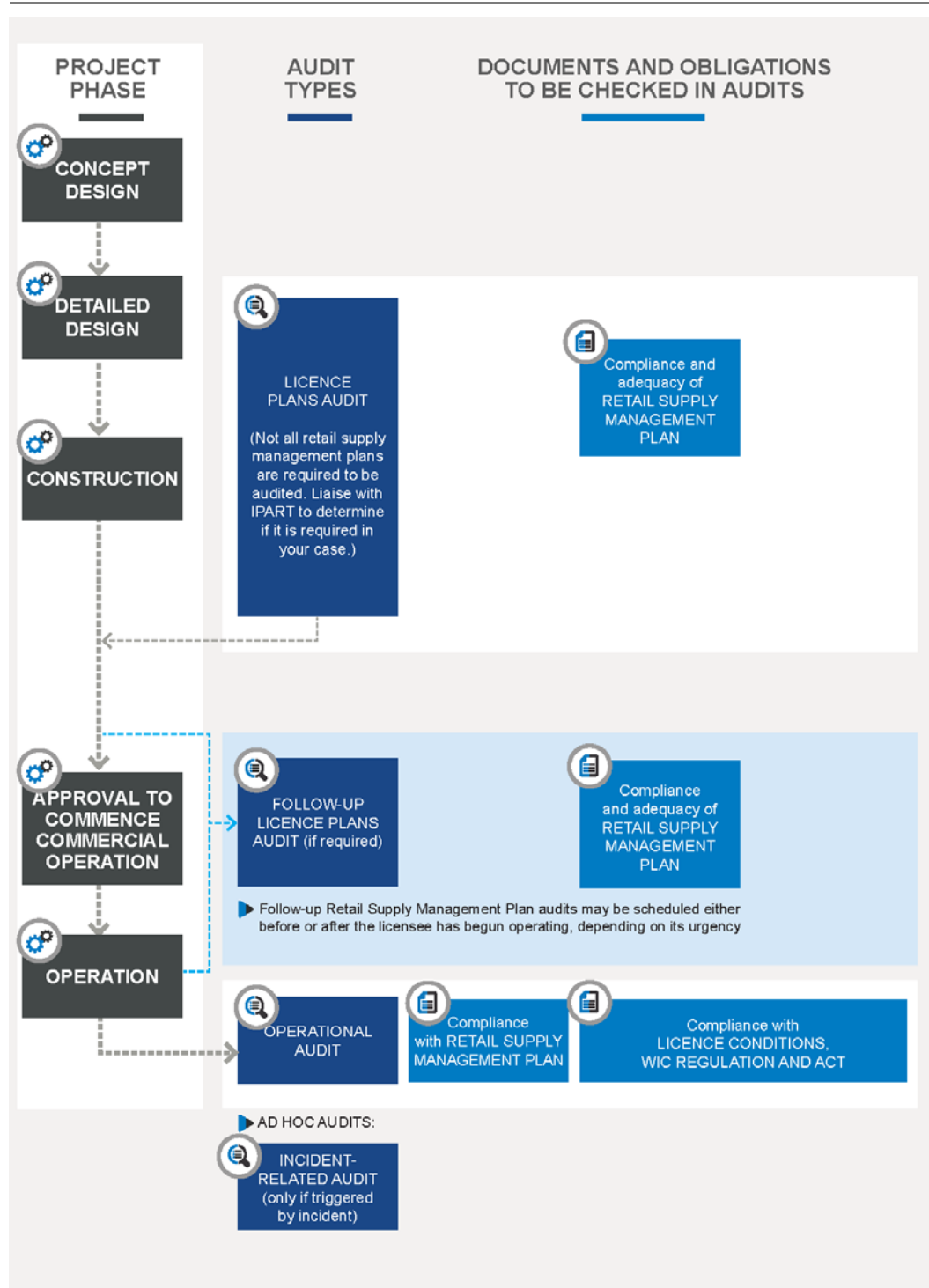


Figure 3.2 Retail supplier licence audit types



4 Audit process

This chapter describes the audit process to be followed when undertaking an audit, from audit initiation to the delivery of final report.

Who will be responsible for initiating an audit, and the type of audit required, depends on whether the scheme has been approved for commercial operation by the Minister.

Figures 4.1 and 4.2 outline the four steps for planning and conducting audits, and then following up with any non-compliance matters identified during the audits.

This method applies to all audits or assessments. The detailed requirements for each of the steps are contained in the sections that follow.

Note: IPART advises licensees that the Minister will grant commercial operation after reviewing and approving Licence Plans and New Infrastructure audits. We provide this information in the letter we send advising licensees that the Minister has granted the licence.

Figure 4.1 Audit procedure – pre-operational audits

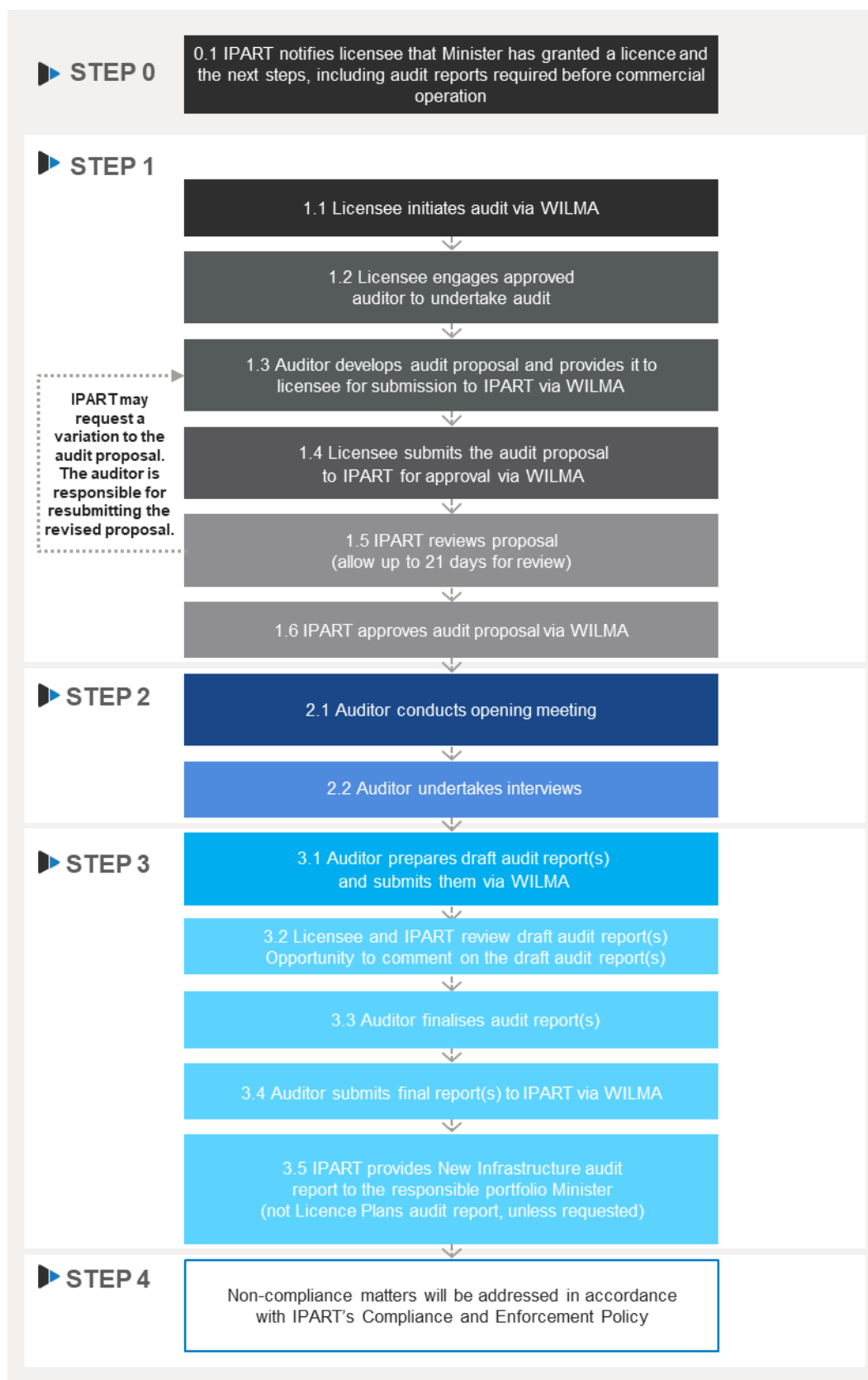
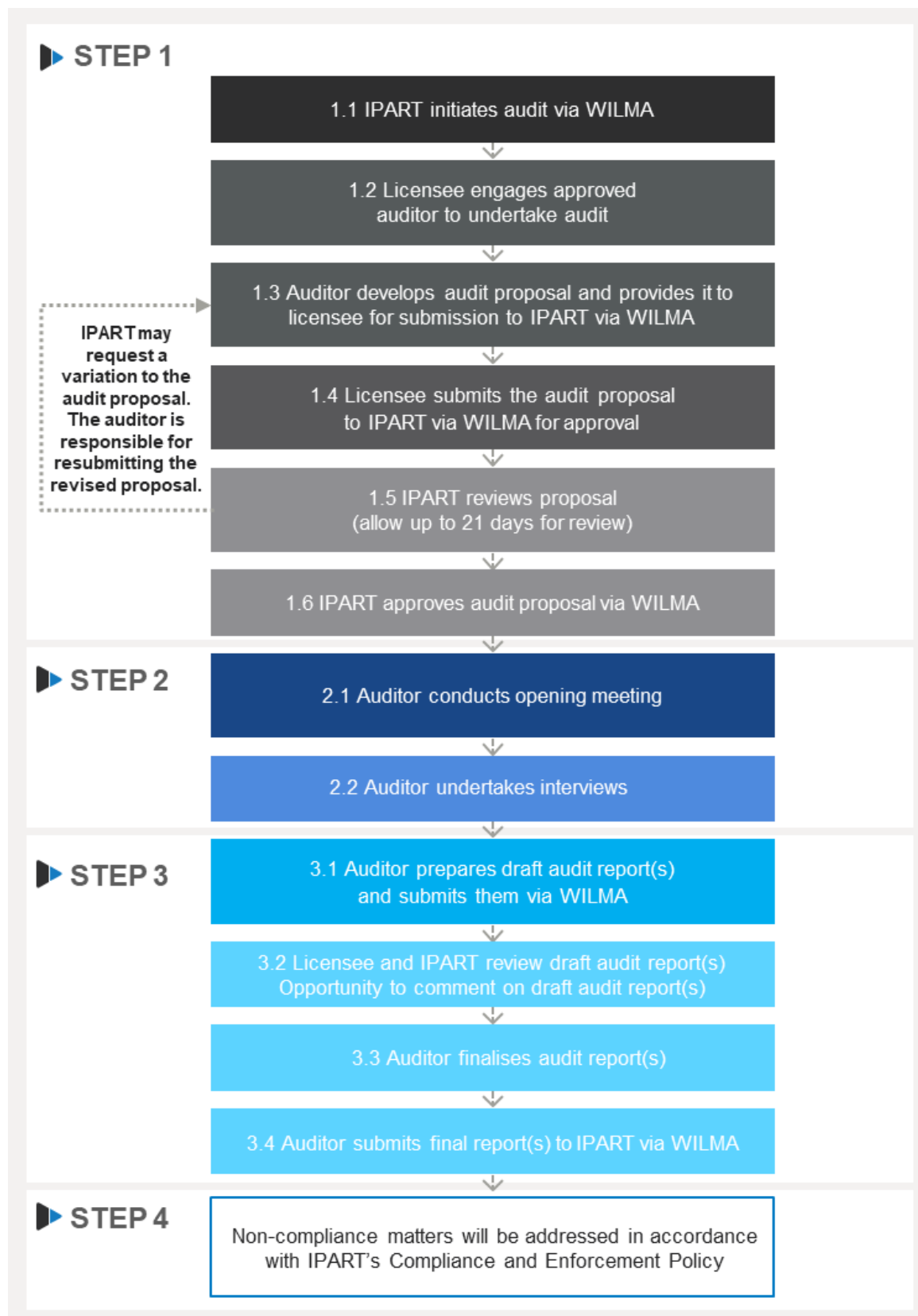


Figure 4.2 Audit procedure – operational audits



4.1 Step 1: Audit planning

As noted, we will notify licensees when the Minister grants the licence. The notification will also advise the types of audit reports required before the Minister grants commercial operation. These audits may be initiated by either the licensee, or IPART via WILMA.

Table 4.1 below identifies the steps in initiating an audit, both before and after the Minister grants approval for commercial operation.

For all schemes, IPART will initiate operational audits once commercial operation is granted by the Minister, and periodically thereafter.²³

Table 4.1 Audit planning

Pre-operational audits	Operational audits
<p>Initiate an audit:</p> <ul style="list-style-type: none"> ▼ Licensees must initiate the audits needed before starting to operate commercially. ▼ Licensees are responsible for scheduling audits to meet their individual milestones. 	<p>Initiate an audit:</p> <ul style="list-style-type: none"> ▼ We will generally initiate the operational audit by notifying a licensee in writing. ▼ We will provide the licensee with details of the audit scope, audit period and timeframe for submitting the final audit report.
<p>Engage an auditor:</p> <ul style="list-style-type: none"> ▼ Licensees must engage an approved auditor from the Panel. ▼ Licensees must ensure the selected auditors are in the correct categories to audit the Licence Plans or New Infrastructure. 	<p>Engage an auditor:</p> <ul style="list-style-type: none"> ▼ Licensees must engage an approved auditor from the Panel. ▼ Licensees must ensure the selected auditors are in the correct categories to audit licence compliance. ▼ Licensees/Auditors are responsible for submitting a final report within the timeframe specified.
<p>Submit an audit proposal:</p> <ul style="list-style-type: none"> ▼ Licensee enters an agreement with the auditor. Agreement must confirm the licensee's liability to the auditor for payment of the auditor's costs and expenses. ▼ Licensees/Auditors must submit the following information to us, for our approval: <ul style="list-style-type: none"> – An audit proposal (which includes the information outlined in Box 4.1), after seeking the licensee's approval – Any conflict of interest issues (see section 2.8) – Copies of the licensee's final Licence Plans to be audited,²⁴ and, where relevant, a copy of any previous Technology Assessment or Sustainability Assessment undertaken for the scheme. 	<p>Submit an audit proposal:</p> <ul style="list-style-type: none"> ▼ Licensee enters an agreement with the auditor. Agreement must confirm the licensee's liability to the auditor for payment of the auditor's costs and expenses. ▼ Licensees/Auditor must submit the following information to us, for our approval: <ul style="list-style-type: none"> – an audit proposal (which includes the information outlined in Box 4.1), after seeking the licensee's approval – any conflict of interest issues (see section 2.8) ▼ Auditors must submit the following information to us, for our approval: <ul style="list-style-type: none"> – Particulars of the auditor's current public liability, professional indemnity, and workers compensation insurance policies

²³ We generally audit annually. However, we may agree to biennial audits for licensees who establish a history of good compliance after operating for at least five years.

²⁴ Licensees must submit the final version of these plans to the auditor before the auditor submits the Audit Proposal to us. Auditors must not review any updated versions of Licence Plans after executing the Deed Poll without our express approval.

Pre-operational audits	Operational audits
<p>▼ Auditors must submit the following information to us, for our approval:</p> <ul style="list-style-type: none"> – Particulars of the auditor's current public liability, professional indemnity, and workers compensation insurance policies – An executed Deed Poll,²⁵ which confirms the auditor's obligations to us under the Panel Agreement, that it will provide audit services with due care, skill, and diligence for our benefit. We require the executed Deed Poll to be submitted to us at least seven days before the commencement of the audit. 	<ul style="list-style-type: none"> – An executed Deed Poll, which confirms the auditor's obligations to us under the Panel Agreement, that it will provide audit services with due care, skill, and diligence for our benefit. We require the executed Deed Poll to be submitted to us at least seven days before the commencement of the audit.
<p>Approve audit proposal:</p> <p>▼ We will approve audit scopes within 21 days. If the audit scope includes a Water Quality Plan audit or Technology Assessment, we will consult with NSW Health. Further, we may require changes to the scope, team composition or schedule in the proposal if we, or NSW Health, have any concerns.</p> <p>Auditors must not start any audits (including desktop reviews) before we approve the audit proposal. Further, auditors must not start any audits before submitting the executed Deed Poll (signed by the licensee) to us. It is the responsibility of the auditor to submit the executed Deed Poll to us.</p>	<p>Approve audit proposal:</p> <p>▼ We will approve audit scopes within 21 days. We may require changes to the scope, team composition or schedule in the proposal if we have any concerns.</p> <p>▼ Auditors must not start any audits (including desktop reviews) before we approve the audit proposal. Further, auditors must not start any audits before submitting the executed Deed Poll (signed by the licensee) to us. It is the responsibility of the auditor to submit the executed Deed Poll to us.</p>

Note: All documents related to an audit must be submitted via [WILMA](#).

For **pre-operational audits**, we encourage licensees to initiate the Technology Assessment and/or Sustainability Assessment **before** detailed design is finished, to allow time to make any changes recommended by the auditor before beginning construction.

For New Infrastructure audits, there should be only six weeks between the audit interview and the day the auditor issues the final report to IPART.

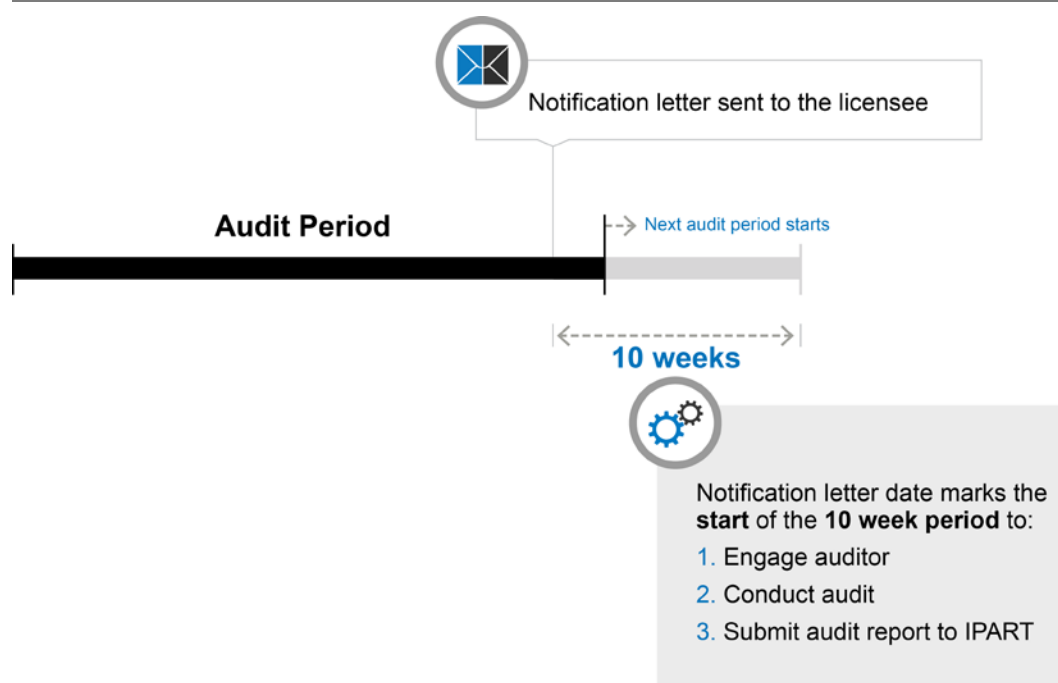
IPART will require 28 days to review reports and/or submit requests to the Minister to grant commercial operation to the licensee.

For **operational audits**, the audit period will cover the time from the last operational audit, or start of commercial operation, until the last Friday of the month in which we notify licensees, in writing, of an audit requirement. Once notified, **it is the responsibility of the licensee** to engage an auditor to conduct the audit, for the period specified.

²⁵ Deed Polls must be signed by the licensee.

The licensee must ensure that the audit is carried out, and the audit report is submitted to us within the timeframe that we specify in the audit notification letter. This is usually around 10 weeks from the end of the audit period, as shown in Figure 4.3 below.²⁶

Figure 4.3 Audit period and interview and reporting time



²⁶ For example, if a licensee began commercial operation on 6 August 2012, and we notify the licensee of an audit requirement on 14 January 2013, the audit period will be from 6 August 2012 to 25 January 2013 (the last Friday in January 2013). The licensee will then have to engage an auditor to conduct the audit, and provide the audit report to us within 10 weeks of 25 January, ie, by 5 April 2013 (or as specified in the notification letter to the licensee).

Box 4.1 What is in an audit proposal?

An audit proposal (issued to IPART by the auditor) must include the following information:

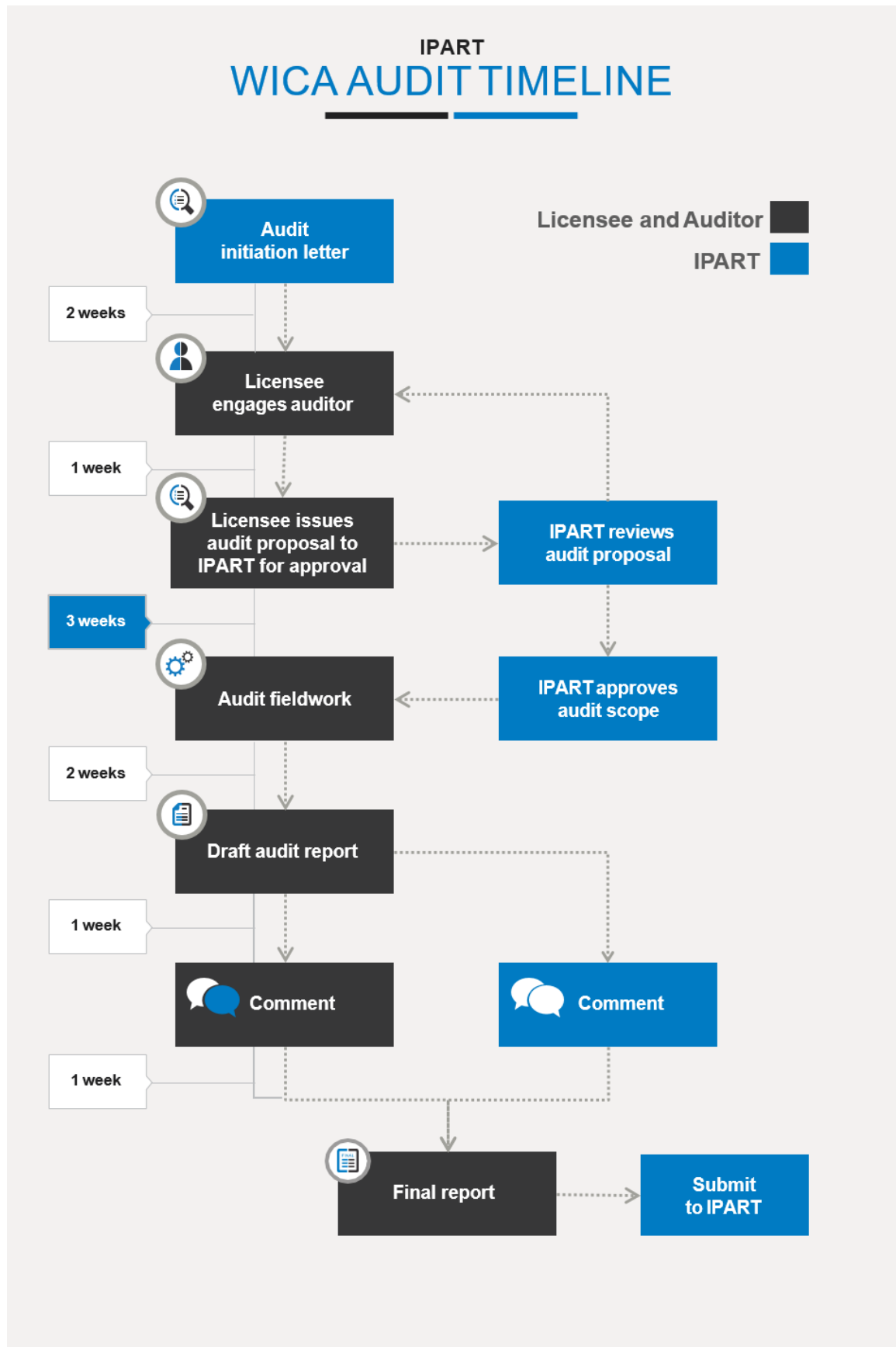
- ▼ The audit standards to be used for the audit.
- ▼ The detailed scope of the audit, including the audit type, relevant guidelines, actions from previous audits, and/ or legislation against which it will be audited.
- ▼ The audit team composition^a covering Panel membership qualifications, skills, acceptability, location, category on the Panel and Quality Assurance reviewers.
- ▼ A work schedule outlining the dates of the audit, as agreed by the auditor, licensee and IPART. The schedule should include details and sequence of the key activities (including report preparation), the audit team members and the amount of time allocated to each activity.
- ▼ Where relevant, the facilities to be visited by the auditors during the audit, including the types of activities to be audited, the key personnel who will be interviewed, and the types of documents to be examined.
- ▼ A timeline of events including the date:
 - of the audit interview(s),
 - by which subsequent information must be provided,
 - by which a draft report will be provided by the auditor to the licensee and IPART,
 - by which the licensee will provide comments on the draft report and any additional information to be presented, and
 - by which the auditor will release the final audit report.

For New Infrastructure audits, there should be no more than **six weeks** between the audit interview and the day the final report is released by the auditor. The licensee and auditor should agree on key milestone dates to achieve this.

It is the responsibility of the auditor to ensure that the audit scope is appropriate for assessing the licensee's compliance with the legal requirements.

^a Any other staff, employees or contractors may only help the audit team in areas such as administrative support and/or auditor training. All work by non-Panel Members must be undertaken within the direct control and supervision of the Lead Auditor.

Figure 4.4 Operational audit process timeline



4.2 Step 2: Audit fieldwork

The auditor must request evidence of the licensee's performance from the licensee and gather further evidence through audit fieldwork. Lead auditors must choose the mix of audit methods²⁷ needed to get enough evidence to support an opinion on each item within the scope.

Each of these items within the audit scope must be addressed and supported by evidence, otherwise the audit is considered incomplete. If the licensee is unable or unwilling to provide evidence for any of these items, the auditor must assign a non-compliant grade for that item.

Auditors must offer IPART staff the opportunity to attend all audit fieldwork, after notifying the licensee to make any necessary arrangements, such as organising safety inductions.

Opening meeting

The auditor should set the scene for the audit at the opening meeting, ensuring that all necessary arrangements are in place, and establishing protocols for the audit.

The meeting should cover, as a minimum:

- ▼ The audit objectives, scope and criteria
- ▼ Confirm the audit plan and audit timetable
- ▼ Communication channels between the auditor and licensee
- ▼ A protocol for dispute management between the auditor and the licensee
- ▼ All relevant OH&S procedures
- ▼ The timeframe for completing the draft and final audit reports.

The actions of the opening meeting should be conducted to an appropriate standard (eg, ISO19011 section 6.4.2).

Gathering audit evidence

The auditor should attempt to gather and assess the majority of the licensee's compliance evidence prior to the interview stage.

The auditor should note, and request the provision of, any outstanding or additional evidence required to determine the licensee's compliance during site interviews. **It is the auditor's responsibility** to gather sufficient evidence to form an audit opinion, by using any of the audit methods.

The auditor should maintain an attitude of professional objectivity throughout the audit to ensure information provided by the licensee is accurate and complete.

²⁷ See section 2.5 and Appendix C of this guideline for details of types of audit methods.

IPART routinely seeks NSW Health's comments with respect to water quality plans and technology assessment reports. If the auditor wishes to clarify NSW Health's expectations for particular technologies or procedures, the auditor must contact us and we will liaise with NSW Health. While this can be done at any stage in the interview process, the auditor should not place unreasonable timeframes on NSW Health, or IPART.

The auditor must maintain an accurate record of documents sighted as evidence to support the audit opinion and make this information available to licensees. Auditors do not need to submit this record unless required by IPART. However, records of audits must be securely maintained for seven years.

Licensees must maintain records of the documents sighted by the auditor, which provide evidence to support the audit opinion.

For **operational audits**, auditors should assess the licensee's compliance based on the evidence provided for the audit period, and assign an appropriate audit grade. The auditor should note in the audit report any evidence provided by the licensee *subsequent* to the audit period, that may conflict with the auditor's opinion of the licensee's operation *during* the audit period. If the licensee provides further evidence from outside the audit period, we provide the following guidance for auditors:

- ▼ The auditor may consider any new evidence submitted by the licensee, but evidence of events occurring or action taken outside the audit period should not affect the audit grade.
- ▼ The auditor may review and assess new evidence from outside the audit period in its commentary, and subsequent recommendations or opportunities for improvement. The commentary may note that new evidence has already addressed a non-compliance and make no recommendation.

We advise the auditor to keep its review of audit documents to the minimum number necessary to complete the audit. We note if the auditor provides multiple reviews of a licensee's operational and Licence Plans, there is the potential for the auditor's independence to come into question.

Field verification site visits

The purpose of these site visit is to enable the auditor to verify:

- ▼ How effectively the licensee is implementing the requirements of the licence in practice
- ▼ Whether new infrastructure is capable of operating safely and in accordance with the licence.

The 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 audited site(s). It is also an opportunity for the licensee to demonstrate its compliance with the licence conditions in the course of its everyday operations. As part of this process, the auditor should note any gaps in the implementation of relevant management systems, plans and procedures.

Before the 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 be relevant to the audit
- ▼ Provide system schematics, maps, technical specifications, design drawings
- ▼ Provide an opportunity for guidance on personal protective equipment (PPE).

During a site visit, the auditor will review relevant aspects of the licensee's operations and consider compliance with the licence conditions. During the site visit:

- ▼ IPART expects the auditor to ask a licensee's operational staff about relevant site operations and the application of management systems, plans or procedures while on site.
- ▼ Licensees are responsible for ensuring the appropriate operational staff members are available during a site visit and access to an agreed site is secured.

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 must notify the licensee and IPART at the time of the observation. Section 2.6 of the guideline contains further details on "out of scope" issues and findings.

Summary meeting

IPART recommends the auditor, licensee management and IPART staff are present at a summary meeting for each operational audit. We recommend the meeting is held at the conclusion of the site interviews. During this meeting, the auditor (or IPART) is to outline the timeline of the reporting process and the requirements of the licensee at each date. Also the licensee and auditor should attempt to resolve any diverging opinions regarding the audit findings. If not resolved, the issue should be noted for further discussion.

The summary meeting should present an overview of the audit process that was undertaken. The auditor should, where possible:


- ▼ Outline the draft audit findings and grades, identify areas of concern (ie, any licence clauses that will be assigned a non-compliant (material) audit grade) and discuss ways of achieving compliance. We expect the auditor to **outline** areas of non-compliance to allow the licensee to take the appropriate action quickly. We do not expect a detailed review of findings.
- ▼ Summarise any outstanding information required or identify any other actions for the licensee to complete prior to finalising the audit reports.

A licensee may present additional information subsequent to the summary meeting at the auditor's request. This information must be provided within a reasonable time and as agreed with the auditor.

The actions of the summary meeting should be conducted to an appropriate standard (eg, ISO19011 section 6.4.9).

4.3 Step 3: Audit reporting

The following table sets out the roles and responsibilities for the auditor to issue the draft report and for the auditor and licensee to submit the final audit report to IPART.



Please note that we no longer attach the audit templates in the Appendices. We expect auditors to issue reports that address the audit scope and audit process, and comply with ISO 19011 or an equivalent auditing standard.

Table 4.2 Roles and responsibilities - reporting

Activity	Pre-operational audits	Operational audits
Step 3: Audit reporting Draft Report	<ul style="list-style-type: none"> ▼ The auditor must not assist the licensee in developing or improving any non-compliant systems that are subject to the audit. The auditor should outline the non-compliance matters and state the reasons for this assessment in the draft audit report. ▼ The auditor must provide the licensee with a copy of the Draft Report and allow the licensee the opportunity to address any non-compliance matters within the timeframe agreed with the auditor (one to four weeks). If the auditor has identified non-compliant (material) matters, we request early warning so we can quickly raise the matter with the licensee and find out if the licensee is taking remedial action, or to recommend remedial action and timeframe. ▼ The licensee or auditor must provide the Draft Report to us for comment. 	<ul style="list-style-type: none"> ▼ The auditor must provide the Draft Report to the licensee to fix any factual inaccuracies only, within the timeframe agreed with the auditor (minimum one week) to allow the final audit report to be submitted to us within our specified timeframe. ▼ The licensee or auditor must provide the Draft Report to us for comment. The auditor must alert us to any non-compliance matters not discussed at the summary meeting. ▼ The licensee will not have an opportunity to change or review practices in order to change the audit findings. The audit is assessing previous performance. Therefore, the licensee has either complied with the requirements, or not. Refer section 4.2 for further information.
<p>Audit findings must identify the issues and contain these three elements:</p> <ol style="list-style-type: none"> 1. a clear and concise non-blaming statement of fact (compliance or non-compliance) 2. the objective evidence obtained and verified during the audit, and 3. a direct reference to the audit criteria. 		
Step 3: Audit reporting Final Report	<ul style="list-style-type: none"> ▼ The auditor is responsible for assessing if the infrastructure complies with the requirements of the WIC Regulation and the licence conditions and is capable of operating safely and in accordance with its Licence Plans. NSW Health may guide the auditor on how to interpret the <i>Australian Guidelines for Water Recycling</i> in this area. However the auditor must not contact NSW Health directly. All queries must be directed to us and we will consult with NSW Health on behalf of the auditor. 	<p>Either the licensee or the auditor must provide us with a copy of the final operational audit report via WILMA, by the date nominated in our audit notification letter to the licensee.</p> <p>We will use the results reported in the operational audit report, in our annual compliance report to the Minister. We will also use the results to inform future audits, such as concentrating on areas where the licensee has been awarded a non-compliant grade, and any subsequent enforcement action.</p>

Activity	Pre-operational audits	Operational audits
	<ul style="list-style-type: none"> ▼ Either the licensee or the auditor must supply the final report to us (a combined report may be submitted for both audits) via WILMA. For Water Quality Plan audits, we will consult NSW Health about the auditor's findings. We will provide the New Infrastructure audit report²⁸ to the Minister, noting the auditor's opinion about whether the licensee is ready to operate commercially. ▼ The licensee is responsible for ensuring that we receive the final New Infrastructure audit report with sufficient time before the licensee wishes to start operating commercially. We will require at least four weeks to review the report and submit it to the Minister. We cannot provide definite guidance on how long it will take to receive the Minister's approval. ▼ If the auditor identifies non-compliant matters in the audit or assessment(s), the final audit report should cover: <ol style="list-style-type: none"> 1. actions taken by the licensee to address the non-compliant matters raised in the draft audit report (if any), and 2. the auditor's assessment on whether the revised Licence Plans or assessment(s) are now compliant, and if there are any parts that are not compliant with the legal requirements or licence conditions. <p>In the case of a New Infrastructure audit, the final audit report must contain a clear description of the infrastructure that is the subject of the audit.</p> <p>It must also contain a statement that indicates the infrastructure:</p> <ol style="list-style-type: none"> 1. complies with the requirements of the Regulation and any licence conditions, and 2. is capable of operating safely and in accordance with its Infrastructure Operating Plan, Water Quality Plan and /or Sewage Management Plan. 	

²⁸ The New Infrastructure audit report submitted to the Minister may include information on the Licence Plans audit, if the audits were undertaken at the same time.

Activity	Pre-operational audits	Operational audits
	<p>▼ The New Infrastructure audit report will inform the Minister's decision to grant permission for the licensee to start operating commercially. The report will be publicly available and should be written using appropriate and professional language. Further, it should identify any issues or non-compliant matters without compromising the licensee's security and intellectual property.</p>	
	<p><u>For all audits:</u></p> <p>Non-compliance matters identified by the auditor will generally be addressed in accordance with our C&E Policy. In all audit cases, we will rely on the audit report and the auditor remains accountable to us for the quality and independence of the audit.</p> <p>We require an electronic copy of the final audit report. The report must be submitted via WILMA. The auditor must be available to brief us on its audit findings, if requested. We may use the results reported in the audit report in our annual compliance report to the Minister. We will also use the results to inform future audits.</p> <p>All final audit reports must be quality assured by an individual on our Panel, with the relevant experience necessary to undertake this task. The quality assurance reviewer may be a member of the audit team, as agreed with us during the audit proposal stage.</p> <p>Recommendations: An auditor will make recommendations as to how the licensee 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 licensee identify ways to rectify these gaps. That is, the auditor will not provide specific advice on actions for the licensee to undertake; rather it will identify where the shortcoming is, and provide general advice on how to achieve compliance. The only exception to this requirement is where compliance is dependent on someone or something that is out of the licensee's control. In this event, the auditor should state this in the report. Where the auditor assigned full compliance, an auditor should not make a recommendation.</p> <p>Opportunities for improvement: An auditor may identify opportunities and make general recommendations on areas for improvement. The purpose of identifying these opportunities is to highlight potential weaknesses in, or opportunities to improve, the licensee's systems. The observation does not constitute a non-compliance and should not be reported as a non-compliance matter. The observation should outline the purpose or benefit that could be achieved by implementation of the recommendation without instructing the licensee on the manner in which the recommendation is to be undertaken.</p>	

Note: All audit documents (including draft and final reports) must be submitted via [WILMA](#).

4.4 Step 4: Follow-up

If the auditor has identified non-compliant matters in the final audit report, we will consider the non-compliance in accordance with our C&E Policy.²⁹

We may use our compliance monitoring and reporting powers to address non-material non-compliances. This could include undertaking a Follow-up Licence Plans audit, re-auditing any operational non-compliances or requesting reports on actions taken/planned to fix the matters.

Where a voluntary undertaking is provided by a licensee to rectify minor non-compliances by a set date, we may:

- ▼ Include these non-compliances in the audit scope for the next audit and the auditor will advise whether they have been rectified, or
- ▼ Agree another method of confirming completion of non-compliances (eg, desktop audits, experts reports or other specific actions).

If an auditor conducts a Follow-up Licence Plans audit at the same time as an operational audit, the auditor must submit two separate reports.

We have discretion to take enforcement action to address non-compliant matters. For material matters, our C&E Policy provides guidance on our approach to enforcement. Where relevant we may seek information from other agencies to guide our enforcement decisions.

²⁹ The C&E Policy notes that we will consult with stakeholders and regulated entities before making key decisions about compliance or enforcement actions and explain our decisions once we make them.



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 in respect of the audit;
or
- ▼ the Auditor included in the attached document a description of all conflicts
of interest, actual or perceived conflicts of interest, to the best of my
knowledge, in respect of the audit, 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 whether the audit was done according to an identified standard, and if so, which one.

Auditors are responsible for ensuring the audit procedures they use meet the following audit principles:

- ▼ **Integrity** – the foundation of professionalism.

Auditors should:

- perform their work with honesty, diligence and responsibility
- observe and comply with any applicable legal requirements
- demonstrate their competence while performing their work
- perform their work in an impartial manner, and
- be sensitive to any influences that may be exerted on their judgement while carrying out an audit.

- ▼ **Fair presentation:** the obligation to report truthfully and accurately.

Audit findings, audit conclusions and audit reports should reflect truthfully and accurately the audit activities. Obstacles encountered and divergent opinions should be reported.

- ▼ **Due professional care:** the application of diligence and judgement in auditing.

Auditors should exercise due care in accordance with the importance of the task they perform and the confidence placed in them by the audit client. The auditor should have the ability to make reasoned judgements in all audit situations.

- ▼ **Confidentiality:** security of information.

Auditors should exercise discretion in the use and protection of information acquired in the course of their duties. This concept includes the proper handling of sensitive or confidential information.

- ▼ **Independence:** the basis for the impartiality of the audit and objectivity of the audit conclusions.

Auditors should be independent of the activity being audited wherever practicable, and should in all cases act in a manner that is free of bias and conflicts of interest. Auditors should maintain objectivity throughout the audit process to ensure that the audit findings and conclusions are based only on the audit evidence.

- ▼ **Evidence-based approach:** the rational method for reaching reliable and reproducible audit conclusions in a systematic audit process.

Audit evidence should be verifiable. An appropriate use of sampling should be applied, since this is closely related to the confidence that can be placed in the audit conclusions.³⁰

³⁰ Standards Australia, AS/NZS ISO 19011:2014 – *Guidelines for auditing management systems*, section 4, pp 4-5.

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.	Interview relevant personnel and/or 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.

Source: Adapted from AS/NZS ISO 19011:2014

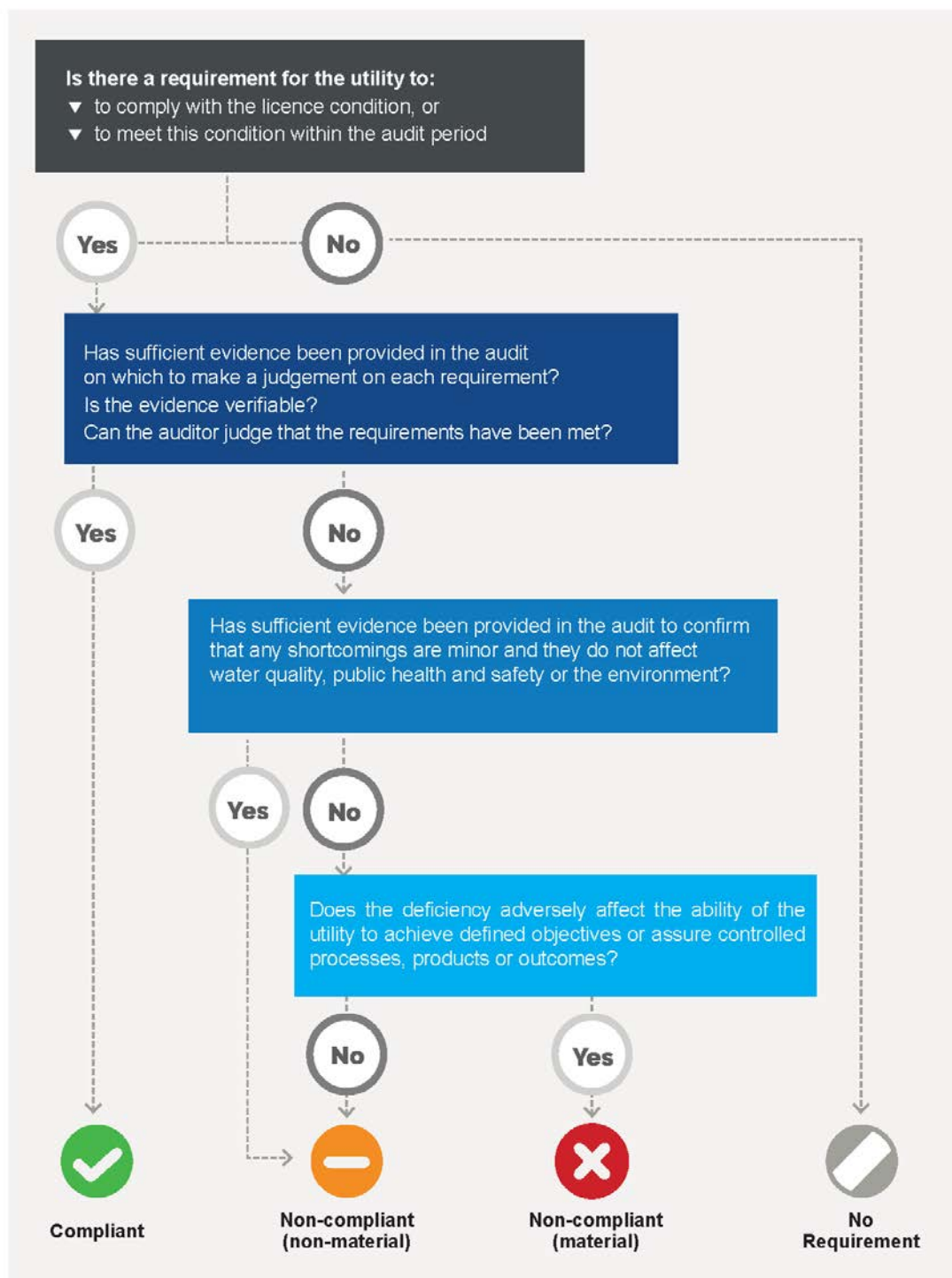
A variety of factors will affect the reliability of audit evidence, including:

- ▼ independence of evidence - evidence from outside the organisation 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 WIC Act licensees 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 Audit report requirements

Audit reports may be required either before or after the Minister's granting of written approval to bring infrastructure into commercial operation. When considering a licensee's assets or infrastructure, the auditor should assess the licensee's arrangements from catchment to consumer, to ensure that services will be supplied to the customer, as intended.

All audit reports must be submitted via WILMA.³¹

Licence Plans audit reports:

- ▼ **Infrastructure Operating Plan audit** - audits the adequacy of a licensee's Infrastructure Operating Plan in accordance with the requirements of Schedule 1 clause 6(1) and/or clause 13(1) of the WIC Regulation.
- ▼ **Water Quality Plan audit** - audits the adequacy of a licensee's Water Quality Plan, and its compliance with legislative requirements, in accordance with the requirements of Schedule 1 clause 7(1) of the WIC Regulation. A licensee's Water Quality Plan for drinking water or non-potable water must be consistent with the actions outlined in the 12 framework elements of the ADWG (for drinking water)³² and the AGWR (for non-potable water).³³
- ▼ **Sewage Management Plan** - audits the adequacy of a licensee's Sewage Management Plan, in accordance with the requirements of Schedule 1 clause 14(1) of the WIC Regulation, and the general principles of undertaking an ecological and health risk assessment as adapted from the AGWR.
- ▼ In adopting this audit template, there is an exemption from the requirement to prepare a Sewage Management Plan where an Environmental Protection Licence (EPL) is in place for the sewerage infrastructure under the *Protection of the Environment Operation Act 1997*. This is because the risks will be managed within the EPL framework.
- ▼ **Retail Supply Management Plan** - audits the adequacy of a licensee's Retail Supply Management Plan in accordance with the requirements of Schedule 2 clause 7A of the WIC Regulation.

³¹ <https://wilma.ipart.nsw.gov.au/>

³² <https://www.nhmrc.gov.au/guidelines/publications/eh52>

³³ <http://webarchive.nla.gov.au/gov/20130904202017/http://www.environment.gov.au/water/publications/quality/water-recycling-guidelines-health-environmental-21.html>

New Infrastructure audit reports:

Before New Infrastructure³⁴ can commence commercial operation the WIC Act licensee must provide the Minister with a report from an IPART approved auditor confirming the infrastructure is capable of operating safely and in accordance with the licensee's Licence Plans, and complies with the WIC Regulation and any licence conditions.

Other Licence Plans reports:

The **Technology Assessment** is essentially part of the Water Quality Plan audit. An early assessment of parts of the Water Quality Plan will help determine whether the proposed infrastructure will provide water which is fit for purpose. We consider that an early assessment of this type prior to the construction of the scheme will reduce the risks of building infrastructure that does not provide water that is fit for purpose. If infrastructure is not fit for purpose, the licensee may incur substantial costs to fix the problem. The requirements to be evaluated include:

- ▼ the system flow diagram (element 2 of AGWR)
- ▼ all the critical control points in the process (element 3 of AGWR)
- ▼ water treatment performance targets, that is, LRVs of treatment processes used (element 2 of AGWR), and
- ▼ validation plan to prove LRVs, including for pre-validated processes (element 9 of AGWR).

The land application area **Sustainability Assessment** is essentially part of the Sewage Management Plan audit. An early assessment of the following aspects of the plan will assist in determining whether the proposed infrastructure will be able to dispose of treated effluent in a sustainable manner. We consider that an early assessment of this type prior to construction of the scheme will reduce the risk of building a scheme that does not sustainably dispose of the effluent and the potentially substantial costs that may be involved in correcting the problem. The requirements to be evaluated include:

- ▼ The water balance calculations for the scheme, covering all disposal paths, including disposal of treated effluent to land.
- ▼ A land capability assessment where there is disposal to land, and hence the sustainable rate of application of treated effluent.
- ▼ The type of treatment infrastructure and whether this infrastructure can provide adequate removal of contaminants to enable the sustainable application of treated effluent.

³⁴ 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.

- ▼ The capacity of storage and buffering infrastructure of the scheme, including wet weather storage capacity.

Operational Audit reports:

The primary objective of an operational audit is to provide a periodic independent assessment of a licensee's compliance with all its licence conditions. This audit focuses on compliance with obligations that are relevant once the licensee has started commercial operations.

The risk based audit approach enables IPART to adjust the audit scope and frequency in line with the calculated risk of non-compliance. We will subject licence obligations that are higher risk to more detailed and frequent examination compared to lower risk licence obligations.

The intention is that the operational audit will examine:

- ▼ the implementation of the various plans and the ongoing operation of the licensed activity being audited, and
- ▼ any other licence conditions applicable to the licensee.

The auditor must check that the licensee has addressed any outstanding items from previous Licence Plans audits. The auditor will check these outstanding items for adequacy and compliance with the relevant legislative requirements, before assessing the implementation of the plans.

Finally, licensees should ensure that third parties responsible for any aspect of the licensee's infrastructure (including building owners and developers) are present at the audit. If a third party is not present at an audit, and a licensee is not able to provide the auditor with all of the relevant information, then the auditor will not be able to complete the audit. Consequently, the licensee may be subject to further auditing and related costs.

IPART will issue an audit scope for all operational audits, with the audit initiation letter.