



Audit fundamentals, process and findings

Electricity networks audit guideline

June 2023

Energy >>

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Energy Network Regulation Committee Members

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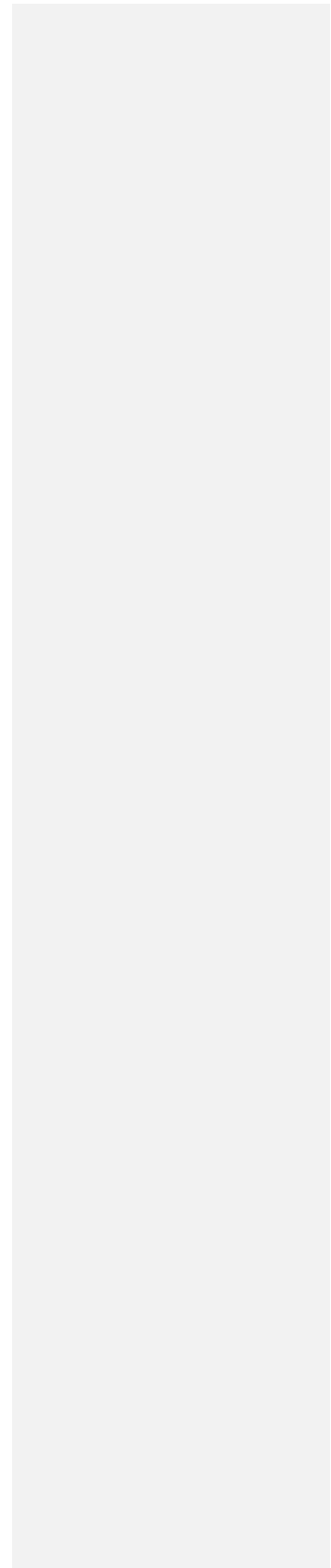
The Independent Pricing and Regulatory Tribunal

IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from [IPART's website](#).

Amendment record

Date issued	Amendments made
Jun 2016	First release of final Audit Guideline.
May 2017	<ul style="list-style-type: none">• Addition of Ms Deborah Cope as a Committee member, replacing Ms Catherine Jones.• Amendments to Chapter 3 and appendix A regarding audit process.• Addition of section 3.5.5.• Removal of section 3.7.1 from previous version. Various further amendments unrelated to the audit process.
May 2017	<ul style="list-style-type: none">• Various amendments unrelated to the audit process.
Oct 2017	<ul style="list-style-type: none">• Separate Audit Guidelines published.• Various amendments to section 1.2,3.3, Chapter 4 and Appendix C to reference new audit guidelines.• Updates to the Audit Services Panel section on page 4 to reflect the current standing.
Sep 2018	<ul style="list-style-type: none">• Changes to contact details.• Changes to section 2.1 under 'Conflict of Interest', and to the 'Conflict of interest statement' template at Appendix D.
Jun 2019	<ul style="list-style-type: none">• Amendment to Section 3.3 regarding details of previous audit outcomes.
June 2023	<ul style="list-style-type: none">• Addition of Ms Carmel Donnelly PSM as Chair of the Committee, replacing Ms Sandra Gamble.• Addition of guidance for auditors and requirements for network operators.• Changes to 'Conflict of Interest' section and 'Conflict of interest statement' (template removed from this Audit Guideline and placed on IPART website).• Removal of the requirement for non-panel member auditors to provide a statement of independence.

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- Addition of Appendix C on audit report requirements.
 - Additional guidance on site visits and inclusion of guidance on remote auditing.



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1 Purpose of this document

IPART is responsible for regulating the safety and licensing obligations of electricity transmission and distribution network operators in NSW.

We monitor the electricity network operators' compliance with their obligations using a risk-based reporting and auditing regime in accordance with our *Compliance and Enforcement Policy*.^a Independent audits of key systems and compliance with regulatory obligations are an important part of IPART's risk-based electricity network compliance framework. These include assessing the performance against obligations to comply with electricity network safety management system requirements and, for licensed network operators' licence conditions.

This Audit Guideline provides lead auditors and their teams information on IPART's approach to third party audits and the principles that apply when providing an audit service to IPART or to the businesses regulated by IPART. This Audit Guideline also provides information to prospective auditees (i.e. network operators) to assist them in engaging auditors and preparing for audits.

The information and processes in this Audit Guideline are intended to apply to audits initiated by network operators (e.g. as a requirement of a licence condition or to meet a regulatory obligation) and IPART audit directions issued to network operators. However, IPART may engage an auditor and in this instance, this Audit Guideline may not apply and further guidance will be provided by IPART.

This Audit Guideline is not binding on IPART. IPART may depart from this Audit Guideline where we consider it to be appropriate or necessary to ensure that a network operator complies with the requirements under legislation and licence obligations (if applicable). Auditors and network operators^b should, however, endeavour to comply with the Audit Guideline or provide reasons why they have not complied.

If this Audit Guideline is unclear, auditors and network operators should seek clarification from IPART. In these cases, we may provide specific advice on the application of the Audit Guideline or appropriate departures from it where necessary.

1.1 The status of this document

IPART issues audit guidelines and will review and amend them from time to time. This Audit Guideline is intended to supplement (and not replace) the application of recognised audit standards outlined in section 2.5.

^a <https://www.ipart.nsw.gov.au/Home/Industries/Special-Reviews/Reviews/IPART-Regulation/Compliance-and-Enforcement-Policy>.

^b Licensed network operators are required to comply with any audit guidelines issued by IPART.

1.2 IPART publishes audit guidelines

In addition to this Audit Guideline, IPART has published a number of other audit guidelines for specific types of electricity network audits.^c

All audits must be carried out in accordance with this Audit Guideline and the relevant audit guidelines listed below (where applicable):

- Safety management system audits
- Critical infrastructure licence conditions audits
- Distribution reliability and performance licence conditions audits
- Transmission reliability standard audits
- Compliance with NSW Code of Practice for Authorised Network Operators.

For example, a critical infrastructure audit must be carried out in accordance with this Audit Guideline and the *Electricity networks audit guideline - Critical infrastructure licence conditions audits*.

^c <https://www.ipart.nsw.gov.au/Home/Industries/Energy/Energy-Networks-Safety-Reliability-and-Compliance/Electricity-networks/Electricity-Networks-Auditing>.

2 Guidance for auditors

This chapter summarises our guidance and expectations for audit firms conducting audits under this guideline.

2.1 We maintain a panel of approved auditors

IPART has established a panel of pre-approved auditors (Audit Panel) to assist network operators in engaging suitable auditors for particular audits.

Organisations apply for inclusion on the Audit Panel and nominate individuals into specific 'classifications', including 'lead auditor', 'auditor' and 'area specialist', within the relevant audit categories. A lead auditor automatically qualifies to be included as an auditor for the same category of audit. Therefore, lead auditors do not need to apply as auditors for a particular category.

Further information about the Audit Panel, including how auditors can apply to join, is available on IPART's website.^d

2.2 Auditors must be independent

Auditors must conduct all audits independently of the network operator.

Box 1 Conflict of interest statement

Each audit proposal submitted to IPART by an auditor must contain a conflict of interest statement. A conflict of interest statement template is available on IPART's website.^d

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) and describe how it would be managed.

Where the auditor has identified a conflict of interest (whether actual, potential or perceived), the auditor must specify steps that it 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 network operator will need to engage a different auditor.

^d <https://www.ipart.nsw.gov.au/Home/Industries/Energy/Energy-Networks-Safety-Reliability-and-Compliance/Electricity-networks/Electricity-Networks-Auditing>.

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

- an auditor or member of the audit team is engaged in providing other fee-paying services to the network operator during the course of the audit services or is in the process of making an offer to do so
- a material proportion of the auditor's total annual revenue is derived from fee-paying services provided to the network operator
- the auditor is not independent of the scoped audit items
- the auditor is the incumbent internal auditor for the network operator, or
- the auditor has performed advisory services or technical functions for the network operator in relation to the particular obligation being audited or on a topic/project related to the audit subject matter within the last 2 years.

If the auditor becomes aware of a conflict of interest (whether actual, potential or perceived) after being appointed by the network operator to conduct an audit, they must notify the network operator 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 any relevant 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.

2.3 Auditors must have expertise

Auditors must ensure that they have a sufficient level of expertise to undertake technically complex audits to a high quality in accordance with recognised audit standards. Expertise must be relative to the qualifications or technical requirements described in each of the relevant audit guidelines outlined in section 1.2 above.

Depending on the scope of the audit, IPART may ask the auditor to add specific expertise to the audit team or ask the network operator to select another auditor with appropriate expertise to conduct the audit.

The auditor may assemble a team

The lead auditor must ensure that the audit team has the required skills and expertise to satisfactorily prepare for and carry out all aspects of an audit. To cover the necessary skills and expertise, audit teams may need to be multidisciplinary and may include other auditors, assurance practitioners, engineers, environmental scientists and financial, legal, corporate, or other technical experts.

The audit team can be comprised of individuals performing the specific roles of 'lead auditor', 'auditor' and 'area specialist'. We have discussed these specific roles under separate headings below.

Any other staff, employees or contractors may only help the audit team in areas such as administrative support and/or auditor training.

Lead auditors

The audit firm must nominate a lead auditor for each audit being undertaken for electricity network regulation purposes.

We expect lead auditors to:

- have extensive auditing experience
- have experience in the type of audit being conducted
- have experience applying the type of audit standard being used
- operate at a senior level within their organisation (e.g. Principal, Head or Director), and
- have recognised lead auditor qualifications.

The lead auditor must ensure for the quality of the audit and for timely delivery against agreed milestones. Lead auditors must use suitably qualified personnel and employ sufficient resources and labour to complete all work as scheduled.

The lead auditor should be involved in all communications with IPART and the network operator and supervise and direct the work of the key personnel that make up the audit team, including responsibility for the work of any subcontractors or area specialists (which are discussed below).

In particular, the lead auditor must:

- not commence the audit works before the audit proposal is approved by IPART and the audit deed has been executed by IPART
- ensure that the audit proposal and audit reports have been reviewed and checked for accuracy and quality assurance purposes
- communicate significant issues arising from the audit to IPART
- be present at the audit opening, issues and closing meetings, and
- support all conclusions in the audit report with evidence.

Auditors

We consider it desirable for auditors to have recognised auditor qualifications and/or auditing experience.

Area specialists

In some circumstances, a lead auditor may wish to utilise a subject matter expert (known as an 'area specialist') to provide specialist expertise and experience relating to the audit subject matter. For example, a lead auditor auditing compliance with critical infrastructure licence conditions may utilise an area specialist who is a cyber security expert to provide technical advice on the audit.

An area specialist is not expected to have auditing experience. Unless IPART determines that an area specialist has the necessary skills and expertise to conduct a particular aspect of an audit, an area specialist must be accompanied by a lead auditor (or a member of the audit team with audit qualifications, as determined by IPART) while the audit is conducted. If an area specialist is utilised for a particular audit, the lead auditor retains responsibility for the conduct of the audit and for all audit findings.

2.4 IPART must approve an audit proposal before the audit begins

IPART must approve the audit proposal^e before an audit can commence. The audit proposal must:

- Address independence (refer to section 2.2 for further information).
- Include a table summarising the audit history to demonstrate compliance with the '3 in 5' rule^f (refer to section 3.1 for further information).
- State the audit standard to be applied (refer to section 2.5 for further information) and state the audit will be performed in accordance with this Audit Guideline and any other IPART audit guideline relevant to the audit category.
- Include the audit objective (refer to IPART's published audit guidelines for further information).
- Include the audit scope (refer to IPART's published audit guidelines for further information).
- Include the audit criteria (refer to IPART's published audit guidelines for audit criteria).
- Include a description of the audit team and the expertise that they will provide (refer to section 2.3 for further information).
- Include a description of the quality and assurance process and peer review.
- Include a schedule of audit procedures including desktop reviews, site visits and sampling approaches to be carried out in order to address each of the audit criteria. The audit procedures should be developed in line with the auditor's nominated audit standard (refer to section 2.5 for further information).
- Include a summary of key audit milestones (opening meeting, fieldwork, draft report, closing meeting, final report, etc.) and their anticipated completion dates.
- Include cost allowances.
- Address details of previous audit outcomes:

Unless otherwise specified or agreed to by IPART (e.g. in the audit scope, or agreement between IPART and the network operator or auditor), the audit proposal must outline the steps that the auditor will take to assess the network operator's rectification of any non-compliances identified in the previous audit of the same audit category, for example:

- a critical infrastructure audit shall include an assessment of whether the rectifications of any non-compliances from the previous critical infrastructure audit have been undertaken and are effective, and

^e IPART may also refer to the audit proposal as a 'scope of works'.

^f This is only required if an auditor has previously been utilised by an auditee.

- an electricity network safety management system (ENSMS) audit shall include an assessment of whether the rectifications of any non-compliances from the previous ENSMS audit have been undertaken and are effective.

The auditor's assessment must include a review of the network operator's progress against the rectification plan and timeframes provided to IPART. Where the rectification date for a non-compliance is in the future and, as a result, extends beyond the audit period, the auditor should assess the network operator's status and progress towards addressing the rectification action(s). The auditor's assessment should indicate whether the network operator is in a position to rectify the non-compliance by the specified rectification date.

2.5 IPART expects quality work

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

Application of auditing standards

We expect that audits for electricity network regulation are conducted to one of the following standards:

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

The auditor is responsible for selecting an acceptable audit standard. If an auditor has identified a more suitable audit standard for a particular audit or type of audit, they must contact IPART before submitting their audit proposal for review.

The auditor must:

- state in the audit proposal which audit standard they propose to use to conduct the audit, and
- state in the audit report which standard they used to conduct the audit and that the audit was conducted in accordance with the standard.

Peer review

Peer review is an important quality control process under the IPART audit framework. A peer reviewer:

- must be equivalent or higher in authority and experience to the lead auditor
- must not be involved in the conduct of the audit or approval of audit reports, and
- may be within, or external to the audit firm.

The peer reviewer must have equal professional standing with, or have authority over, the lead auditor, particularly for assurance, to objectively evaluate the lead auditor's conclusions and findings. The individual 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, such as ISO 9001 - *Quality Management*.

While providing a robust framework, these systems may not have been designed with consideration of risks specific to IPART audits. Therefore, as part of the audit planning, the lead auditor should check that their quality control framework will be effective in managing any associated audit risk.

Auditor feedback

IPART may provide an auditor with feedback during or after an audit engagement. Where IPART considers that an audit or auditor has failed to apply the level of professionalism or rigour expected by IPART, we will provide the auditor with constructive feedback and ask them to take steps to address any inadequacies. This may occur when the draft report is delivered to IPART. In some circumstances, a meeting between IPART and the auditor may be required to discuss the issue and agree on corrective action.

Where IPART considers that an auditor has not demonstrated capability to provide audit services to the standard required, IPART may review the auditor's Audit Panel membership, which may lead to the panel agreement with that auditor being terminated.

2.6 Opening and closing meetings

Auditors should schedule an opening meeting between the auditor, the network operator and IPART prior to the commencement of the audit. The meeting may be held by teleconference, video conference or in person.

Opening meetings provide the auditor with an opportunity to outline the proposed audit procedures, discuss any logistical concerns regarding the provision of documents or site visits and discuss any unresolved issues. The auditor may have preliminary questions for the network operator or may wish to discuss the outcomes of previous audits where these are available.

Closing meetings must be arranged by the auditor with the network operator and IPART to discuss audit findings and recommendations, and provide the network operator with an opportunity to raise any concerns or discuss issues.

2.7 Site visits and remote auditing

Most audits will require that an auditor visit the network operator's administrative office to review documents, data and systems. Site visits to view network assets, vegetation management or other works subject to audit may also be required.

Some audits may be able to be performed remotely. The auditor is to conduct site visits in accordance with the audit notice provided to the network operator or as directed by IPART prior to the audit.

Site visits should be arranged in a timely manner with consideration of the resourcing needs of both parties. IPART must also be notified of site visit meeting times and locations as soon as practicable prior to site visits to ensure that IPART is given sufficient notice to attend. Where practicable, we recommend that network operators provide IPART with this information a minimum of **5 working days** prior to the site visit. Auditors should seek information from the network operator regarding any site-specific safety requirements or other logistical constraints that may need to be addressed.

2.8 Communication with IPART regarding interpretation or issues of concern

Where an issue arises during the course of an audit, auditors or network operators may contact IPART to seek clarification of IPART requirements or to address issues that are outside the audit scope or a matter of disagreement. IPART may request that the auditor organise an issues meeting with the network operator to address the issue.

This may result in IPART:

- providing additional clarification to the auditor or to the network operator
- facilitating changes to the audit scope (audit variation) to address an unforeseen issue or a matter of disagreement, or
- undertaking other action to be decided by IPART.

The auditor may also request guidance from IPART on the interpretation of a licence or other instrument in the absence of a disagreement.

If during a site visit or audit interview, the auditor identifies an issue that poses a significant risk (e.g. relating to safety), the auditor should notify the network operator and IPART at the time of the observation.

2.9 Audit variation

Where an audit variation has been requested or agreed to by IPART, the auditor must prepare a revision to the audit proposal with a revised quote for services and revised timeframe. The audit variation will be presented to the network operator for agreement and approved by IPART before the audit can continue.

Audit variations must be addressed as a separate section within the audit report so that pre-audit variation findings can be identified and additional audit procedures and findings under the audit variation are separately explained.

2.10 Submitting audit reports

Audit reports should be developed in line with the auditor's nominated audit standard.

IPART requires that audit reports meet all requirements set out in Appendix C. In particular, IPART requires that reports:

- are comprehensive – addressing all audit criteria and providing sufficient detail to allow IPART to understand the audit procedures that were carried out to support the audit findings
- are clear – reports should be written using plain English and should be unambiguous
- are evidence based – all statements should be substantiated with evidence
- have outcomes focussed recommendations, and
- are free of errors.

Draft report

Unless otherwise specified, the auditor must provide a draft audit report to IPART to review and to the network operator initially for information. After IPART's review, the auditor must provide an updated version to the network operator for comment. At both stages, the auditor must provide the draft audit report as a Microsoft Word file to facilitate IPART and the network operator reviewing and adding comments to the document.

IPART will review the draft audit report for completeness, accuracy and clarity and may seek amendments where the draft audit report does not sufficiently address the audit criteria identified in the audit proposal or where it is unclear or erroneous. IPART may refuse to accept receipt of draft audit reports that are not of acceptable quality or do not comply with the reporting requirements of this Audit Guideline.

When planning the audit process, a minimum of **5 working days** must be allowed for IPART to conduct its review of the draft audit report, and a further **5 working days** must be allowed for the auditor to incorporate any changes to the draft, if required. The auditor must not release an updated draft audit report to the network operator unless IPART has consented.

Ideally, network operators should have at least **10 working days** to comment on the draft audit findings for the auditor to consider. The network operator's review time may increase depending on the size and scope of the audit and should be confirmed in the audit proposal.

The network operator's comments should be limited to ensuring that the audit report is comprehensive and factually correct. For example, the network operator may comment on the draft audit report where it believes the auditor has not considered all available evidence, or the auditor has misinterpreted a piece of information. **The network operator should not provide alternative wording for the audit report to the auditor in any circumstances.**

The auditor may need to issue multiple versions of the draft audit report to address feedback from IPART and the network operator.

Please refer to Appendix C for further guidance to auditors on preparing audit reports.

Final report

For ease of comparison, the auditor should include a separate record of changes between the draft and subsequent issues of the report (e.g. if using Microsoft Word to prepare the draft reports, the auditor should provide a copy of the report showing tracked changes).

Once the auditor has addressed any feedback from IPART and the network operator on the draft report, IPART will advise the auditor that the audit report can be finalised for submission to IPART. Following receipt of the final audit report from the auditor, the network operator must submit the final audit report to IPART in line with the relevant submission deadline. Once final reports are issued and any closing meetings have been held, IPART will consider the audit complete.

3 Audit requirements for network operators

This chapter describes the audit requirements that must be followed when undertaking an audit in accordance with this Audit Guideline.

Network operators must be aware of the steps requiring IPART involvement and, when preparing for an audit, allow adequate time before and during the audit for these to be satisfied. **Table 3.1** below summarises the time allowances.

We have provided a summary of the entire audit process including major milestones and indicative dates in Appendix A.

3.1 The '3 in 5' rule

The same auditor^g should not be used for more than 3 times in every 5 audits for a particular Audit Panel category (e.g. the applicable audit categories are ENSMS, critical infrastructure, reliability and performance, etc. as per our published categories^h or where specified in any audit notice).

The '3 in 5' audit rule ensures that each network operator is audited by different auditors over time. This allows for a new perspective and helps to ensure the auditor's independence.

This is our preferred and general approach. We may approve an exemption to this rule at our discretion. For example, we may approve an exemption if there is a shortage of suitable auditors available for a particular engagement.

If an auditor has previously been utilised by a network operator, the audit proposal should include a table summarising the audit history (including the names of the audit firms who have undertaken the 5 most recent IPART directed audits for the particular audit category).

3.2 Audit initiation

IPART or the network operator may initiate an audit. In most cases, where the network operator is required to undertake an audit in response to a direction from IPART or to meet a regulatory obligation, it will be required to initiate the audit.

Table 3.1 below provides a summary of the timeframes for completion of steps in the audit process involved when undertaking an audit. Network operators must ensure that adequate time is allowed for a comprehensive audit to take place. The network operator is responsible for managing the audit and allowing sufficient time for all steps of the process.

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

^h The audit panel categories are available at: <https://www.ipart.nsw.gov.au/Home/Industries/Energy/Energy-Networks-Safety-Reliability-and-Compliance/Electricity-networks/Electricity-Networks-Auditing/List-of-Approved-Auditors>.

Table 3.1 Summary of timeframes for completion of steps in the audit process

Step	Time to allow
Nominate auditor	When an appropriate pre-approved auditor on the Audit Panel cannot be engaged, the network operator can nominate a preferred auditor for approval. Allow at least 10 working days for IPART's assessment of an auditor not on the Audit Panel. The network operator should factor in contingency time allowances in the event of a non-approval of the nominated auditor.
Submit audit proposal	Allow a minimum of 10 working days for IPART to review the audit proposal and any required amendments to be incorporated.
Deed	Allow adequate time for the deed (where applicable) to be signed by the necessary parties and submitted to IPART 5 working days before the opening meeting of the audit is scheduled.
Audit work	Variable.
Issue of draft report	Allow 5 working days for IPART to review and an additional 5 working days for the auditor to address any comments by IPART. Allow 10 working days for the network operator to review and provide comment.

3.3 Auditor nomination procedure

A network operator has the option of selecting an auditor from the Audit Panel or nominating an auditor from outside of the Audit Panel to conduct an audit.

The table below summarises the documentation requirements for each type of auditor selection. The following sections set out the requirements in detail.

Table 3.2 Auditor documentation requirements

Documentation requirement	Audit Panel member	Non-Audit Panel member
Nomination email or letter from network operator	Not required	Required
Auditor nomination form (available on IPART's website)	Not required	Required
Conflict of interest statement (template on IPART's website)	Required	Required

Audit services panel auditors

IPART has established the Audit Panel to assist network operators in engaging suitable auditors for particular audits.

Should a network operator select an Audit Panel member to undertake an audit, IPART may still ask for additional expertise to be added to the audit team depending on the audit scope.

If an Audit Panel member is undertaking an audit on behalf of a network operator, the network operator does not need to submit an auditor nomination.ⁱ However, a conflict of interest statement must be submitted along with the audit proposal.

ⁱ For reference, an auditor nomination comprises a nomination email or letter from the auditee and an auditor nomination form.

Nominating an auditor from outside of the Audit Panel

If a network operator intends to use an auditor who is not an Audit Panel member, the network operator must nominate the auditor via the auditor nomination procedure explained below. Under this procedure, IPART's approval of a nominated auditor is required prior to an audit commencing. This procedure ensures that IPART is satisfied that the nominated auditor has the necessary independence, experience and qualifications to carry out the audit.

The network operator is responsible for submitting an auditor nomination to IPART. An auditor nomination should be in the form of an email or letter to energy@ipart.nsw.gov.au and must identify the audit to be undertaken and nominate an audit firm and audit team. An auditor nomination form^j must be attached to provide IPART with sufficient information to make a decision about the suitability of the auditor. This must include attachments providing evidence that the auditor has the following:

- adequate and suitable experience in auditing
- staff with professional qualifications, and adequate and suitable experience in the field of the particular audit
- staff with suitable audit experience, including 'lead auditor' with extensive experience
- expertise specific to each audit, as are detailed in the audit guidelines published on IPART's website, and
- peer review and quality assurance processes.

The network operator must ensure that IPART is provided with a conflict of interest statement signed by the auditor that there are no conflicts of interest with the auditor and the proposed audit (or where there is doubt, details of the actual, potential or perceived conflicts of interest).

Once IPART has received an auditor nomination from a network operator, IPART will make an assessment of the auditor's capacity and suitability to undertake the audit based on the auditor's qualifications, experience and expertise.

IPART will consider the nominations in a timely manner. IPART may:

- approve a nominated auditor
- defer approval and recommend that the auditor engage further expertise, or
- refuse the nomination (if, for instance, a conflict of interest arises or if IPART considers that the auditor has inadequate qualifications, experience or expertise).

3.4 Audit proposal

The network operator is required to submit an audit proposal to IPART for approval. Prior to developing a proposal, the network operator should review the specific information provided in this Audit Guideline and address relevant elements in the proposal. See section 2.4 for the minimum requirements of an audit proposal.

^j The auditor nomination form is available at <https://www.ipart.nsw.gov.au/Home/Industries/Energy/Energy-Networks-Safety-Reliability-and-Compliance/Electricity-networks/Electricity-Networks-Auditing>.

The network operator should submit the audit proposal to IPART in accordance with the timeframes set out in Appendix A. Where no timeframe is specified for submitting the audit proposal (e.g. for ENSMS audits), the audit proposal must be submitted in a timely manner, having regard to time required to perform the entire audit procedure (including audit interviews and fieldwork) and the audit report due date.

IPART will endeavour to determine an audit proposal within **10 working days** after submission of the proposal. However, should additional information be required, the 10 working-day period will reset from the time at which the information is provided.

3.5 Submitting the audit deed

The *Tripartite Audit Deed*^k should be used when a nominated auditor outside of IPART's Audit Panel is undertaking an audit. This audit deed is a tripartite agreement between IPART, the auditor and the network operator.

Where required under the Audit Panel agreement, the *Deed Poll* should be used when an Audit Panel member is undertaking an audit. The deed poll is an undertaking given by the network operator to IPART in relation to engaging an Audit Panel member.

The signed audit deeds are to be submitted to IPART a minimum of **five working days** prior to the opening meeting of the audit.

If the tripartite audit deed or deed poll is executed under power of attorney, a copy of the power of attorney must be submitted to IPART with the relevant audit deed.

3.6 IPART invitation to audit meetings

The network operator must ensure that IPART is invited to all audit interview meetings and any other key audit meetings where IPART is required as a participant (including opening meetings, closing meetings and issues meetings). IPART must be notified of confirmed audit meeting details as soon as practicable prior to the audit meetings to ensure that IPART is given sufficient notice to attend the audit meetings. The auditor or the network operator must also send all audit meeting invitations to IPART (via energy@ipart.nsw.gov.au).

3.7 Post audit

After delivery of the final report, the network operator is required to provide to IPART a response to the findings of the audit report. The network operator's response should include:

- whether it accepts the audit findings
- proposed actions and timeframes to rectify any non-compliances (Rectification Plan), and
- its position on any identified opportunities for improvement.

^k The *Tripartite Audit Deed* is available at <https://www.ipart.nsw.gov.au/Home/Industries/Energy/Energy-Networks-Safety-Reliability-and-Compliance/Electricity-networks/Electricity-Networks-Auditing>.

Unless otherwise advised by IPART, the network operator's response must be provided to IPART (via energy@ipart.nsw.gov.au) no later than 3 weeks after the network operator has submitted the final audit report to IPART.

IPART may take enforcement action as a result of the audit findings in accordance with our Compliance and Enforcement Policy. In determining this, IPART will consider the obligation audited, the final audit report, the network operator's Rectification Plan, the network operator's compliance history and any other relevant information.

4 Audit types and findings

The audits conducted by auditors on behalf of IPART or network operators regulated by IPART vary in nature. They include audits of the adequacy and implementation of systems as well as compliance audits and assurance audits. IPART has published audit guidelines on its website which identify the specific requirements for each audit type. However, in general, these audits are driven by regulatory obligations and IPART requires audit findings that identify compliance or non-compliance with a network operator's regulatory obligations. Auditors must make recommendations in relation to any non-compliances identified. Recommendations should be clearly stated and outcomes focussed where appropriate.

Opportunities for improvement may also be identified where auditors feel they can add value to a network operator's processes.

4.1 Compliance audits

Compliance audits are 'reasonable assurance' engagements. Compliance audits are conducted to check that the network operator is complying with regulatory obligations. The auditor should conduct this audit in accordance with the proposed audit standard and cite evidence for audit findings of compliance or non-compliance against the relevant licence conditions or other regulatory obligations.

Compliance audits are required for regulatory obligations relating to:

- Critical infrastructure
- Electricity network safety management systems
- NSW Code of Practice for Authorised Network Operators
- NSW Public Lighting Code
- Reliability and performance¹, and
- other licence conditions as directed by IPART.

Compliance grades must be assigned in accordance with IPART's electricity networks grading system as outlined in Table 4.1.

¹ Includes transmission and distribution reliability and performance audits.

Table 4.1 Compliance grades

Grades of compliance	Description
Compliant	Sufficient evidence to confirm that the requirements have been fully met.
Non-compliant (non-material)	Sufficient evidence to confirm that the requirements have generally been met apart from a number of minor shortcomings which do not compromise the ability of the utility to achieve defined objectives or assure controlled processes, products or outcomes.
Non-compliant (material)	Sufficient evidence has not been provided to confirm that all major requirements are being met and the deficiency adversely impacts the ability of the utility to achieve defined objectives or assure controlled processes, products or outcomes.
No Requirement	The requirement to comply with the licence condition or other regulatory obligation does not occur within the audit period or there is no requirement for the network operator to meet this assessment criterion.

4.2 Assurance audits

A limited assurance audit is required to audit the network operator’s performance against the reliability and performance standards. A limited assurance is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement. The audit opinion is expressed in a negative form of assurance. A limited assurance audit should be conducted in accordance with ASAE 3000 or an equivalent standard.

The auditor's report should include recommendations based on their findings which indicate actions to be taken to address any non-compliances. The auditor can also present opportunities for improvement.

Appendices

A Audit process summary

Table A.1 Audit process summary and example timelines

Task	Description and minimum requirements	Timing	Lead responsibility	Other input	IPART involvement
Audit initiation	Where legislation requires the network operator to complete an audit by a certain date, the network operator will be required to initiate the audit (i.e. for critical infrastructure and distribution reliability and performance audits). In other cases, IPART may issue a network operator with a direction to undertake an audit.	Variable, may be legislated.	Network operator	IPART	IPART will monitor network operators' compliance with their legislative obligations. IPART can also initiate audits as spot audits or on an ad hoc basis.
Auditor nomination (applicable to non-Audit Panel members only)	Network operators can nominate a preferred audit firm for IPART approval. IPART requires information on the audit firm's: <ul style="list-style-type: none"> auditing expertise and experience audit area specific expertise quality assurance or peer review process, and any other matters identified. 	Variable. By 1 May for distribution reliability and performance audits. By 31 May for critical infrastructure audits. Other dates to be advised (at IPART's discretion).	Network operator	IPART may request auditor to provide information to the network operator.	IPART will assess and approve or not approve the auditors based on their capabilities. IPART also has power to nominate an auditor for any of the audits if either the network operator does not nominate an auditor, or the auditor nominated by the network operator is not considered to be appropriate to carry out the audit.

Task	Description and minimum requirements	Timing	Lead responsibility	Other input	IPART involvement
Audit proposal approval	The audit proposals must be submitted to IPART for approval. These should be comprehensive and cover the audit team's experience, audit standards used, scope and approach to the audit and the time schedule. It should provide the proposed procedures and methods that will be used during the audit to address the objectives, scope and criteria provided in IPART's audit guidelines.	30 June for annual audits.	Network operator	Auditors would develop the audit proposal for the network operator. Auditors should refer to IPART's audit guidelines when preparing the proposal.	IPART will assess and either approve or not approve the audit proposal. IPART may require additions or amendments to any aspects of the audit proposal to ensure it aligns with and is likely to achieve the objectives, scope and criteria provided in IPART's audit guidelines. This includes adding additional expertise which may mean adding team members.
Audit deed	The audit deed (if applicable) must be signed by authorised persons and submitted to IPART.	At least 5 working days before audit starts.	Network operator	Auditor	Submitted to IPART for signature.
Opening meetings	A meeting of all stakeholders to ensure clarity and understanding of the expectations in the audit guidelines. May discuss preliminary concerns including logistics. This may be held as a teleconference or video conference.	To be addressed in the schedule of the audit proposal.	Auditor	Network operator to attend.	IPART staff will attend.
Audit	Undertake the audit as per audit proposal. Variations should be agreed by IPART and the network operator. There will likely be site visits and other communications with stakeholders.	To be addressed in the schedule of the audit proposal.	Auditor	Co-operation of the network operator.	IPART staff may attend some audits, or some stages of audits.
Site Visits	The auditor is to conduct site visits in accordance with the audit notice provided to the network operator or as directed by IPART prior to the audit.	Site visits should be arranged in a timely manner with consideration of the resourcing needs of both parties. IPART must also be notified as soon as practicable prior to the site visit (minimum 5 business days where practicable) with details of the meeting times and locations.	Auditor	Co-operation of the network operator. Auditors should seek information from the network operators regarding any site-specific safety requirements or other logistical constraints that may need to be addressed.	IPART staff may attend some site visits, or some stages of the site visits.

Task	Description and minimum requirements	Timing	Lead responsibility	Other input	IPART involvement
Draft report	The draft report should be peer reviewed and should, at a minimum, address preliminary findings and present recommendations against the criteria in the audit guidelines. It should be comprehensive, clear and unambiguous. It should address comments received by the network operator and IPART on the draft report.	To be addressed in the schedule of the audit proposal.	Auditor	Network operator will receive a copy and can provide comments on the report after inclusion of updates required by IPART.	IPART will review the draft report for clarity, accuracy and completeness against the audit guidelines, and approve the report (with updates as needed) for the network operators to comment on. IPART may provide comments or request some further investigation. The draft report should not be used to elicit advice from IPART as to the findings an auditor should make. IPART may be required to address any issues that have been escalated to IPART, either by the auditor or the network operator, for resolution in the final report.
Closing meeting	A meeting with all stakeholders to confirm the audit has been finalised and that audit guidelines requirements have been met. Participants may discuss the draft audit report and any concerns. Meeting may be held as a teleconference or video conference.	To be addressed in the schedule of the audit proposal.	Auditor	Network operator to attend.	IPART staff will attend.
Final report	The final report will present findings and recommendations resulting from the audit, against the criteria in the audit guidelines. It should address comments received by the network operator and IPART on the draft report.	Within one week after the closing meeting, unless otherwise agreed.	Auditor	Network operator will receive a copy of the report.	IPART will receive a copy of the report.
Network operator response to final report	The network operator will usually be required to provide to IPART a response to the findings of the audit report.	Unless otherwise advised by IPART, the network operator's response must be provided to IPART (via energy@ipart.nsw.gov.au) no later than 3 weeks after the network operator has submitted the final audit report to IPART.	Network operator	Potential communication with IPART staff.	Communications with network operator.

Task	Description and minimum requirements	Timing	Lead responsibility	Other input	IPART involvement
Final outcomes	Determination of required actions emerging from the audit.	Ongoing	IPART and the network operator.		Audit findings, network operator's responses and any other relevant information will be considered by IPART. IPART may give directions for improvement, or impose monetary penalties for significant non-compliances.

B Data reliability and accuracy of grades

The compliance grades used to assess regulatory information in relation to a licence obligation focus on the reliability of the procedures for generating the information and the accuracy of the data. Data accuracy should be determined by the measurement systems used to generate the data and the methods used, if any, to extrapolate or estimate it.

A 2-part grade (for example: B2, CX, etc) should be assigned for each separate licence condition using **Table B.1** and **Table B.2**.

Table B.1 Data reliability

Grade	Reliability Assessment
A	All data is based on sound information systems and records and on documented policies, practices and procedures which are followed by the network operator. (Note: Procedures may not always be explicitly stated, they can for instance, be implicit in an IT system. However, it is important that processes and procedures are followed by the licence holder staff.)
B	Most data conforms to the requirements of grade A. Data which does not has a minor impact on overall data integrity. For example, a minority of data may be based on minor variations from documented procedures or reliance on unconfirmed reports.
C	In many cases but not all, data does not conform with grade A or B.
D	None of the requirements of A, B or C are met.

Table B.2 Data accuracy

Grade	Assessed level of accuracy
1	± 1%
2	± 5%
3	± 10%
4	± 25%
5	± 50%
6	± 100%
X	For small samples where an accuracy cannot be calculated or percentage error would be more than 100%

Note: In relation to the network overall reliability and individual feeder standards, where a licence holder reports more than one figure for the standard, auditors should provide an overall 2-part grade for the licence condition based on a 'weighted average'. For example, a licence holder may report multiple figures for SAIDI and SAIFI for various feeder types. Here, auditors should assess each reported standard and provide an overall 2-part grade for the licence condition based on the weighted average of the customer numbers in each feeder type.

C Audit report requirements

C.1 General requirements

Report writing style

Audit reports must be written in plain English. The auditor must provide sufficient information in the report to enable stakeholders who may not have specialist knowledge of the subject to understand the information.

Report length

The length of the audit report will vary depending on the audit scope. If the auditor has nominated ASAE 3000 as the audit standard, the auditor must write the audit report in the 'long form' style.

Other guidance

The following general requirements apply to audit reports:

- acronyms and abbreviations must be defined when first used and be included in the glossary
- audit reports must include the audit standard that has been applied and note the IPART audit guidelines the audit has been performed in accordance with, and
- where appropriate, procedural information (e.g. lists of reviewed artefacts and interviewees) should be placed in appendices rather than in the body of the audit report.

C.2 Guidance on specific sections of an audit report

We expect that auditors structure audit reports in line with the relevant audit standard used. To assist auditors in drafting audit reports, we have provided guidance on some of the key sections of an audit report below.

Status of previous audit findings

The auditor must assess the network operator's rectification of any non-compliances identified in the previous audit of the same audit category. The auditor must describe the actions taken by the network operator to rectify each non-compliance and provide a compliance grade. Please refer to section 2.4 for further information.

Non-compliances/Key findings

The auditor is to provide an opinion on the compliance of the network operator with the relevant obligation. Audit grades must be assigned for each obligation in line with the relevant grading system specified by IPART. For all audit findings, the auditor must:

- clearly and succinctly explain the issue or deficiency that has resulted in the non-compliance and state which obligation the network operator is non-compliant with as a result of the issue or deficiency
- include a copy of the relevant IPART grading system in the audit report, and
- number non-compliances throughout the audit report (e.g. Year NC-1, Year NC-2, etc.).

Recommendations

This section must include recommendations to rectify any non-compliances.

Opportunities for improvement

In addition to recommendations, the auditor may identify an opportunity for improvement (OFI) against the relevant obligation if they identify an area where an improvement could be made to the operation of the network operator's activities and functions. The auditor may identify an OFI for any obligation, including those where the network operator has been assigned a 'Compliant' grade.

The network operator should decide whether to implement an opportunity based on its own assessment of whether the improvement is a prudent and efficient way to achieve its outcomes. OFIs must be numbered (OFI-1, OFI-2, etc.).

Detailed findings

The audit report should contain a detailed findings section with a compliance grade against each obligation that has been audited. Where relevant, this section should include a full copy of the obligation relevant to each compliance grade (e.g. the detailed findings section of a critical infrastructure audit report should include a full copy of the licence condition relevant to the compliance grade).

The detailed findings section must:

- explain the reasons provided for the grade
- provide justification for the materiality of each non-compliance with reference to the relevant obligation (i.e. legislative clause, standard or licence condition)
- discuss the analysis of evidence and how it demonstrates:
 - compliance with the obligation, or
 - that the network operator has not met the full requirement of the obligation (where the auditor has identified deficiencies and has not assigned a 'compliant' grade), and

- explain clearly how the deficiencies contribute to the audit grade.

Glossary of terms

The audit report should contain a glossary of an alphabetically ordered list of key technical terms, abbreviations and acronyms used throughout the audit report.

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