



Independent Pricing and Regulatory Tribunal
New South Wales

Electricity networks audit guideline – Audit fundamentals, process and findings



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Amendment record

| Issue | Date issued | Summary of amendments made |
|---|----------------|--|
| ENRAG - original | June 2016 | First release of final Audit Guideline. |
| ENRAG v2 | May 2017 | 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. |
| ENRAG v3 | May 2017 | Various amendments unrelated to the audit process. |
| ENRAG – audit fundamentals, process and findings | October 2017 | 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. |
| ENRAG – audit fundamentals, process and findings v2 | September 2018 | Changes to contact details Changes to section 2.1 under 'Conflict of Interest', and to the 'Conflict of interest statement' template at Appendix D. |

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1 Purpose of this document

IPART is the safety and reliability regulator for the NSW electricity networks.

Electricity network operators (network operators) continue to have the primary responsibility for safety and reliability in relation to their network, and discharge this responsibility through the implementation of their safety management systems and compliance with reliability standards.

Independent audits of key systems and of compliance with regulatory obligations is an important part of IPART's electricity network compliance framework. These include assessing the performance against obligations (applicable to only some network operators) to comply with critical infrastructure licence provisions and environmental code of practice requirements.

This Audit Guideline (Guideline) is intended to provide lead auditors and their teams with an understanding of 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 Guideline also provides information to prospective auditees to assist them in engaging auditors and preparing for audits.

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

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

1.1 The status of this document

Audit Guidelines are issued by IPART. IPART will review and amend these Guidelines from time to time.

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

This document provides detailed information regarding each type of audit that is required for network operators to meet their regulatory audit obligations. It identifies the objective of the audit, the scope of the audit, specific expertise that audit teams may be required to have and the audit criteria against which an auditor is expected to test audit evidence to determine compliance with obligations.

1.2 Audit Guidelines published by IPART

IPART has published the following Audit Guidelines for electricity network operators in NSW, which are available from www.ipart.nsw.gov.au:

- ▼ Safety management systems audits.
- ▼ Critical infrastructure licence condition audits.
- ▼ Reliability licence conditions audits.
- ▼ Employment Guarantees audits.
- ▼ Compliance with NSW Code of Practice for Authorised Network Operators.

2 Audit fundamentals

2.1 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 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).

Where the auditor has identified a conflict or 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 auditor¹ should not be used for more than three times in every five audits for a particular audit category. The ‘three in five audit rule’ ensures that each auditee is audited by different auditors over time. This allows 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 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 won’t be compromised.

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

2.2 Expertise

By using external or third party auditors, IPART and the businesses regulated by IPART have the flexibility to access expert auditors and subject matter experts on an as-needs basis. Auditors must ensure that they have a sufficient level of expertise to undertake technically complex audits to a high standard.

Auditor nomination procedure

IPART has developed an auditor nomination procedure where approval of the 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 procedure is detailed in Appendix C.

Audit Services Panels

IPART has established an audit panel of pre-approved auditors to assist network operators in engaging suitable auditors for particular audits. Further information about the Audit Services Panel, including how auditors can apply to join is available from IPART’s website at the link provided

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

When an approved audit panel member for a specific audit category is undertaking an audit for a network, IPART still may ask for additional expertise to be added to the audit team for a specific audit depending on the scope.

¹ This refers to the audit firm, not just the lead auditor or audit team.

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

Lead auditors

A lead auditor must be nominated for each audit being undertaken for electricity network regulation purposes.

Lead auditors are expected to be highly experienced auditors, operating at a senior level within their organisation.

The lead auditor is responsible 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 auditee 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 experts.

In particular, the lead auditor must:

- ▼ ensure that the audit proposal is approved by IPART and the audit deed has been executed by IPART before works commence
- ▼ 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
- ▼ ensure that the evidence in the audit report supports all conclusions.

Audit team

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

In some circumstances, auditors may wish to sub-contract subject matter experts to provide specialist expertise. In this case, the lead auditor retains responsibility for the conduct of the audit and for all audit findings.

Training of audit personnel should cover the specific legislative requirements and required audit procedures for the area being audited.

2.3 Quality

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*, Australian Auditing Standards (AUS 108 and AUS 110)
- ▼ AS/NZS ISO 19011 - *Guidelines for auditing management systems*, Standards Australia, and
- ▼ ISAE 3000 - International Standard on Assurance Engagements.

It is the auditor's responsibility to select an acceptable standard. If an auditor has identified a more suitable standard for a particular audit or type of audit, they must contact IPART before submitting their audit proposal for review.

In the audit proposal and the audit report, auditors must state 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:


- ▼ should be equivalent or higher in authority and experience to the audit team leader
- ▼ should 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 demonstrable professional equality with, or authority over, the lead auditor, particularly for assurance, to objectively evaluate the significant judgements the lead auditor has made and the conclusions they have reached to formulate their opinion. 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

Where IPART considers that an audit or auditor has failed to apply the level of professionalism or rigour expected by IPART, the auditor will be provided with feedback and asked 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 ameliorative action.

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 review the auditor's membership of the IPART Audit Services Panel and terminate the Panel Agreement with that auditor.

3 Audit process

This chapter describes the audit process that must be followed when undertaking an audit in accordance with this Guideline, from audit initiation to the delivery of final report, and outlines IPART's process for obtaining an auditee's response to audit findings.

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

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

3.1 Audit initiation

IPART or the regulated business may be responsible for initiating an audit. In most cases, where the regulated business is required to undertake an audit to meet a regulatory obligation, they will be required to initiate the audit.

Table 3.1 provides a summary of the timeframes for completion of steps in the audit process involved when undertaking an audit. This is provided to ensure that adequate time is allowed for a comprehensive audit to take place. It is the responsibility of the auditee to manage the audit and allow sufficient time for all steps of the process.

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 auditee can nominate a preferred auditor for approval. Allow at least 10 working days for the Tribunal's assessment of an auditor not on the panel. Contingencies should also be factored in to allow for 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 by other parties. |
| Deed | Allow adequate time for the Deed to be signed by the necessary parties, and submitted to IPART five working days before the opening meeting of the audit is scheduled. |
| Audit work | Variable |
| Issue of draft report | Allow five working days for IPART to review and an additional five working days for the auditor to follow up on any comments by IPART. Allow 10 working days for the auditee to review and provide comment. |

3.2 Auditor nomination procedure

Unless the auditor is a member of the Audit Services Panel, the auditee is required to submit an auditor nomination to IPART for approval prior to the audit commencing. IPART's auditor nomination procedure is described in Appendix C of this document.

When assessing an auditor nomination, IPART will consider:

- ▼ the auditor's audit experience and audit qualifications
- ▼ the auditor's expertise and experience in relation to the audit subject matter
- ▼ the auditor's documented quality assurance processes, and
- ▼ any other matters identified in the auditor nomination procedure (see Appendix C).

The auditor nomination procedure will generally be superseded once an Audit Services Panel (the panel) for electricity network regulation has been established. Auditors will be pre-approved for membership on the panel and auditees will be able to select an auditor from this group without seeking IPART's approval.

Auditor nomination may still be required where the panel is unable to satisfy the specific auditor requirements for an audit.

3.3 Audit proposal

An audit proposal is required to be submitted to IPART for approval. Prior to developing a proposal, the specific information provided in this Guideline should be reviewed, and relevant elements will need to be addressed in the proposal. At a minimum, an audit proposal should:

- ▼ Address independence – refer to section 2.1.
- ▼ Include the audit standard to be applied – refer to section 2.3.
- ▼ Address the audit objective – refer to IPART's published Audit Guidelines.
- ▼ Include the audit scope – refer to IPART's published Audit Guidelines.
- ▼ Address the audit criteria – refer to IPART's published Audit Guidelines and appendices.
- ▼ Include a description of the audit team and the expertise that they will provide, including for their quality and assurance process and peer review – refer to section 2.2.
- ▼ 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.
- ▼ Include time and cost allowances.
- ▼ Address details of previous audit outcomes.
- ▼ Include a schedule for audit timing addressing each of the milestones in the audit and expected completion date.

IPART will endeavour to approve an audit proposal addressing each of the points above within 10 working days after submission of the proposal. However, should additional information be required, the 10 working-day period will re-set from the time at which the information is provided.

3.4 Submitting the audit deed

The Tripartite Audit Deed – Nominated Auditors should be used by the networks 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 auditee.

The Deed Poll – Audit Panel Members 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. The approved (final) version of the audit proposal must be attached.

3.5 Undertaking the audit

3.5.1 Opening and closing meetings

Auditors should schedule an opening meeting between the auditor, the auditee and IPART prior to the commencement of the audit. The meeting may be held by telephone 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 for any unresolved issues to be discussed. The auditor may have preliminary questions regarding the business or may wish to discuss the outcomes of previous audits where these are available.

Closing meetings should be arranged by the auditor to discuss audit findings and recommendations and provide the auditee with an opportunity to raise any concerns or discuss issues. Auditors must invite IPART to participate in closing meetings.

3.5.2 Site visits

Most audits will require that an auditor visit the auditee'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. These should be conducted in line with the requirements of the auditor's nominated audit standard.

Site visits should be arranged in a timely manner with consideration of the resourcing needs of both parties. IPART must also be notified in a timely manner to enable IPART officers the option to attend. Auditors should seek information regarding any site specific safety requirements or other logistical constraints that may need to be addressed.

3.5.3 Communication with IPART regarding issues of concern

Where an issue arises during the course of an audit, auditors or auditees 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 auditee to address the issue. This may result in additional clarification being provided to the auditor or to the auditee by IPART, changes to the audit scope (audit variation) to address an unforeseen issue or a matter of disagreement or other action to be decided by IPART.

3.5.4 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 auditee 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 separately explained.

3.5.5 Interpretation of a licence or instrument

If, during the course of an audit, there is a disagreement between the auditor and the auditee as to the interpretation of a licence or another instrument, the auditor is to refer the disagreement to IPART. IPART may provide the auditor with guidance as to how the licence or instrument is to be interpreted for the purposes of the audit.

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

3.6 Submitting audit reports

Audit reports should be developed in line with the auditor's nominated audit standard. IPART requires that they:

- ▼ 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.

3.6.1 Draft Report

Unless otherwise specified, a draft audit report should be provided to IPART to review and to the auditee initially for information. After IPART's review, an updated version will be released to the auditee for comment.

IPART will review the draft report for completeness, accuracy and clarity and may seek amendments where the report does not sufficiently address the audit criteria identified in the audit proposal or where the audit report is unclear or erroneous. This stage in the process is not for IPART to assess findings and recommendations. IPART may refuse to accept receipt of audit reports that are not of a sufficiently quality or that do not comply with auditing standards.

When planning the audit process, a minimum of five working days must be allowed for IPART to conduct its review of the draft report, and a further five working days must be allowed for the auditor to incorporate any changes to the draft, if required. IPART will complete its review in a timely manner and once it is satisfied that the draft audit report has met the requirements, it will request that the auditor release an updated draft report to the auditee.

Auditees should consider how much time to allow for review of the draft audit report when agreeing a timeframe with the auditor at the planning stage. Ideally, auditees should have at least 10 working days to provide a written response to the draft audit findings for the auditor to consider. The auditees' review time may increase depending on the size and scope of the audit and should be confirmed in the audit proposal. In some circumstances, an issues meeting may be required to address an issue of concern (see sections 3.5.3 and 3.5.4).

3.6.2 Final Report

Final reports are to be submitted to IPART by the auditor and released to auditees as directed by IPART. Once final reports are issued and any closing meetings have been held, IPART will consider the audit complete.

3.7 Post audit

After delivery of the final report, the auditee will usually be required to provide to IPART a response to the findings of the audit report. This would include, for instance, proposed actions and timeframes to rectify any non-compliances and a response to any opportunities for improvement.

IPART will consider the final audit report, the auditee's responses and any other relevant information. Possible actions depend on the audit type and outcome, and may be in the form of directions for improvement or rectification of the auditee's systems to rectify non-compliances, or imposition of monetary penalties for significant non-compliances.

3.8 Summary

A summary of this audit process is provided in Appendix A.

4 Audit 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 with regard to 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 the network operators' regulatory obligations. Where non-compliances are identified, IPART expects that auditors will make recommendations in relation to the non-compliance. 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 an auditee's processes. These will not normally relate to a non-compliance.

4.1 Compliance audits

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 standard, and cite evidence for audit findings of compliance or non-compliance against the specific relevant licence conditions and other regulatory obligations. The auditor can also present opportunities for improvement.

Compliance audits are required for regulatory obligations relating to:

- ▼ Electricity Network Safety Management Systems
- ▼ NSW Code of Practice for Authorised Network Operators
- ▼ Critical Infrastructure, and
- ▼ Employment guarantees.

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

Table 4.1 Compliance Grades

| Grades of compliance | Description |
|---|--|
| Compliant Compliant | Sufficient evidence to confirm that the requirements have been fully met. |
| Non-compliant (non-material) NC (NM) | 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) Non- Compliant | 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 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. This should be conducted in accordance with ASAE 3000 or equivalent standard.

The auditor's report should include recommendations based on their findings which indicate actions to be taken to address any non-compliances. Where a finding does not result in a non-compliance but the auditor identifies opportunities for improvement, these should be specified.

4.3 Addressing auditor findings and non-compliances

IPART will rely on the auditor's findings and recommendations in relation to the identification of material and non-material non-compliances. Auditees will be expected to respond to the findings, non-compliances and opportunities for improvement of an audit. However, IPART determines the significance of any non-compliance in relation to the network operator and their obligations, and the suitability of the auditor's recommendations or alternatives proposed by the auditee. We will consider opportunities for improvement as distinct from non-compliances.

When addressing a non-compliance, IPART will consider all relevant information, including:

- ▼ the findings and recommendations of relevant audit reports
- ▼ information provided by the network operator in response to the findings and recommendations of the audit reports, and
- ▼ IPART's Energy and water licence compliance policy which is published on the IPART website.²

² IPART, *Energy and water licence compliance policy*, July 2013.



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 regulated business to undertake an audit, they will be required to initiate the audit. In other cases, IPART may initiate an audit, for instance with regard to the DP&E's Code of Practice for Authorised Network Operators, with a direction to the network operator. | 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 | Network Operator 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 in Appendix C. (IPART intends to develop an Audit Services Panel of approved auditors by mid-2017 from which the network operators will be able to select an auditor. In most cases this will supersede the audit nomination step.) | Variable. 31 May for critical infrastructure auditors. By 1 May for reliability and performance compliance ^a . 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. |

A Audit process summary

| 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 must be signed by authorised persons and submitted to IPART. | At least five 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. | 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 auditee. 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. |
| 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 | To be addressed in the schedule of the audit proposal. | Auditor | Network operator will receive a copy at the same time and can provide comments on the report after inclusion of | 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 auditees to comment on IPART may provide comment or |

| Task | Description and minimum requirements | Timing | Lead responsibility | Other input | IPART involvement |
|----------------------------------|--|---|--------------------------------|---|---|
| | unambiguous. | | | updates required by IPART. | 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 auditee, for resolution in the Final Report. |
| Closing meeting | A meeting with all stakeholders to confirm the audit has been finalised and the requirements in the Audit Guidelines has been achieved. May discuss draft audit report and any concerns. This may be held as a teleconference. | 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. |
| Auditee response to final report | The auditee will usually be required to provide to IPART a response to the findings of the audit report. | To be confirmed in writing from IPART after receipt of the final report. Likely to be around 4 weeks. | Auditee | Potential communication with IPART staff. | Communications with auditee. |
| Final outcomes | Determination of required actions emerging from the audit. | Ongoing | IPART and the network operator | | Audit findings, auditee'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. |

^a Licence condition 18.8, Reliability and Performance Licence Conditions for Electricity Distributors

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 two-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 licensee. (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, auditors should assign individual grades for each reported figure where a licence holder reports more than one figure for the standard. At the same time, auditors should provide an overall accuracy grade for the standard based on a 'weighted average'. For example, a licence holder may report up to 8 figures for SAIDI and SAIFI for various feeder types. Here, an overall accuracy grade should be weighted for customer numbers in each feeder type. In addition, individual grades should be given for each of the 8 reported figures.

C Auditor nomination process

C.1 Auditor nomination

Network operators are required to undertake a range of audits to meet their regulatory obligations. Audits undertaken to satisfy obligations regulated by IPART must be undertaken by an auditor approved by IPART. For electricity network operators, this includes:

- ▼ audits of electricity network safety management systems
- ▼ audits of compliance with reliability and performance licence conditions
- ▼ audits of compliance with critical infrastructure licence conditions, and
- ▼ audits of compliance with the NSW Code of Practice for Authorised Network Operators (published by the Department of Planning and Environment) (the Code).
- ▼ Audits of employment guarantees.

The Audit Guidelines published on IPART's website provide the legislative background, objectives, criteria and deliverables for each type of audit.

IPART has established an audit panel and may authorise more panel members joining in the future. Please check the list of approved auditors on our website which is updated from time to time when a new auditor joins the panel.

The networks have the option of selecting an auditor from the audit services panel or nominating an auditor from outside the panel to conduct an audit. If the Network Operator does not nominate a suitable auditor for a specific audit, IPART will assign one.

C.2 Selecting an auditor

Nominating an auditor (from outside of the audit panel)

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

An auditor nomination should be in the form of a letter identifying the audit to be undertaken and nominating an audit firm and lead auditor. An auditor information form should be attached to provide IPART with sufficient information to make a decision about the suitability of the auditor. This will include attachments providing evidence that the auditor:

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

IPART must also be provided with:

- ▼ a statement signed by the auditor of the independence of the auditor from the network operator, and
- ▼ a signed statement that there are no conflict of interests with the auditor and the proposed audit (where there is doubt, the nomination can include details of potential or perceived conflicts of interests for IPART's assessment).

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. IPART will consider the nominations in a timely manner.

Selecting an auditor from the audit panel

A network may select an auditor from our audit panel to conduct an audit under a certain audit category. The network does not have to send in an auditor nomination form when selecting an auditor from the panel. However, the auditor has to submit a conflict of interest statement along with the proposal to be considered for the audit.

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

How to apply

This application form is for network operators to nominate individuals and organisations for approval by IPART to undertake an audit as part of the legislative obligations.

To apply:

- ▼ Submit this completed form.
- ▼ Attach the CV of at least one lead auditor from the organisation. This should demonstrate the lead auditor's qualifications, experience and capacity to undertake the audit by meeting the elements of expertise outlined in IPART's Audit Guidelines (see www.ipart.nsw.gov.au).
- ▼ Attach a CV for each member of the audit team being identified as holding specific expertise to address the audit requirements.

The audit proposal will also have to be approved by IPART. The network operator can choose to submit the proposal at this stage, but this can also be finalised after the auditor has been approved.

For further information, see IPART's Audit Guidelines, available to download from our website.

Please mail the complete application form with any supporting information to:

Director, Energy Licensing and Compliance

Independent Pricing & Regulatory Tribunal of NSW
PO Box K35
Haymarket Post Shop
SYDNEY NSW 1240

Please also send an electronic copy of the application form to energy@ipart.nsw.gov.au.

Nomination information

Which network operator is submitting this nomination form?

What type of audit does this nomination apply to? (delete all that are not relevant.)

- ▼ Safety management systems
- ▼ Bushfire risk management
- ▼ Reliability and performance (compliance with licence conditions)
- ▼ Critical infrastructure (compliance with licence conditions)
- ▼ The Department of Planning and Environment's NSW Code of Practice for Authorised Network Operators.

Auditor general information

Nominated organisation name

Primary contact person (name)

Contact number

Email address

Postal address

Secondary contact person (name)

Contact number

Email address

Postal address

Type of business:

Sole Trader Company Partnership

Other (please describe) _____

Australian Company Number (ACN) _____

Australian Business Number (ABN) _____

Auditor experience, expertise and resourcing capacity

Provide a brief summary for each of the items listed below, on the auditor's resourcing capacity, and audit and industry experience, and their ability to provide specialist advice specific to the type of audit this nomination is for. Attach documents to this form as deemed necessary.

- ▼ Internal quality management processes and accreditation/certification [if available, attach a copy of the relevant certification (eg, accreditation to ISO 9000)]

[Click here to enter text.](#)

- ▼ Audit standards and/or frameworks previously applied in audits

[Click here to enter text.](#)

- ▼ Auditing expertise that will be made available to undertake this audit

[Click here to enter text.](#)

- ▼ Specific subject matter expertise that will be made available to undertake this audit

[Click here to enter text.](#)

- ▼ Audit report peer review and sign-off protocols

[Click here to enter text.](#)

D 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: