



Electronic  
submission

7 August 2018

Ms Christine Allen  
Director, Compliance & Enforcement  
Independent Pricing and Regulatory Tribunal  
PO Box K35, Haymarket Post Shop  
NSW 1240

Dear Christine,

**RE: WIC Act – Draft Audit Guideline – July 2018**

Flow Systems (Flow) welcomes the opportunity to review IPART's *Draft Audit Guideline July 2018*.

Flow also welcomes IPART's efforts to incorporate learnings from previous audits and to address stakeholder feedback.

Flow's suggestions in relation to the *Draft Audit Guideline* are as follows:

1. Previous audit findings to be taken into account

Flow appreciates that it is difficult to have completely objective audits, and that auditors on the IPART audit panel will have differing risk appetites and perspectives on the application of compliance grades. We believe however that it should not be possible for an auditor to deem a document or process as compliant, and a subsequent auditor to deem the same process as non-compliant if there has been no change in the document/process and/or its application.

We suggest that the *Audit Guideline* should include a requirement for an auditor to review the last relevant audit report when making decisions about a non-compliance matter.

2. Dispute resolution

The *Draft Audit Guideline* indicates that audit opening meeting should include a protocol for dispute management between the auditor and the licensee.

We suggest that the *Audit Guideline* goes one step further and provides a protocol for dispute management between the auditor and the licensee and the role that IPART will take in making a final determination on any dispute.

3. IPART's view on audit findings

Flow assumes that audits conducted by IPART's auditors are independent of IPART and IPART may not necessarily share the same view as the auditor. The *Draft Audit Guideline* does not provide any guidance on whether a final audit report is endorsed by IPART given that IPART had an opportunity to comment on the audit report.

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We suggest that the *Audit Guideline* should include a clear explanation of whether audit reports and the audit findings are endorsed in their entirety by IPART.

4. Closing out non-compliances identified in audits

The *Draft Audit Guideline* does not contain any guidance on how audit issues are closed out.

We suggest that guidance is provided to licensees on how non-compliances raised in audits are closed out.

5. Auditor's recommendations of ways of achieving compliance

The *Draft Audit Guideline* states that at the close-out meeting the auditor should present, amongst other things, "ways of achieving compliance". Although it is helpful to receive advice on how to address a non-compliance, providing recommendations does not support an independent approach to auditing and can result in an auditor providing consulting advice. Furthermore, the *Draft Audit Guidelines* pg.33 states in relation to opportunities for improvement that "the observation should outline the purpose or benefit that could be achieved by implementation of the recommendation **without instructing the licensee** on the manner in which the recommendation is to be undertaken". The same requirement should be applied across the board to all audit findings.

We suggest that the Audit Guidelines should state that auditors should only identify non-compliances and should prohibit auditors from providing recommendations on how to address a non-compliance

6. End-to-end audit process

The *Draft Audit Guideline* states that IPART will consider any non-compliances raised by audits in accordance with IPART's C&E Policy. It is difficult to get a picture of the audit process end-to-end because of the use of two documents to describe one process.

We suggest that the Audit Guidelines should include an overview of the whole audit process including the steps of IPART receiving the audit report, reviewing the non-compliances raised, making recommendations to the Tribunal, issuing enforcement action as determined by the tribunal, and close out of non-compliances.

7. Reporting non-compliances

IPART's *Network Operators' Reporting Manual Section 2.1 Immediate non-compliance reporting* states that "as soon as a licensee becomes aware that a non-compliance requiring immediate reporting is likely to occur, or has occurred, the licensee should notify IPART". We assume that non-compliances identified through audits do need to then be reported by the licensee immediately to IPART, however it is not explicitly stated in either the *Reporting Manual* or the *Draft Audit Guideline*.

As the *Reporting Manuals* were only recently reissued we suggest that the *Audit Guideline* should include a notice to state that non-compliances reported in audits must be included in the relevant annual report (i.e. network or retail) but do not need to be immediately reported to IPART.

8. Grades for WIC Act Audits

We understand that IPART is aligning the audit grades with those used in IPART's Compliance and Enforcement Policy. However, the use of the term "non-material" in relation to a non-compliance provides a connotation that the non-compliance is exactly that, non-material. These audit findings are reported by WIC Act licensee compliance teams to staff, management and boards, and the term "non-material" is not helpful when trying to highlight the importance of addressing a non-compliance.

We strongly suggest the use of a different term to indicate the grade of non-compliance, or simply removing the classification of "non-material".

9. Repeated auditing

Flow is audited repeatedly on the same plans, electronic systems and processes. This is a waste of resources, both for Flow and IPART, that could otherwise be deployed on addressing non-compliances or improving systems. A recent audit was conducted for three Flow schemes with three of the same findings raised across three schemes, resulting in three audit reports with the same findings. The auditor looked at the relevant Flow document once to make the finding but had to raise the finding in three audit reports as it was relevant to the three separately licensed schemes.

We suggest that where a licensee operates to one system with high levels plans and processes across the various licenced schemes/sites, a regular audit could be conducted of the overall system with supporting audits conducted using the risk-based approach across licensed schemes/sites.

Thank you again for the opportunity to contribute to the review of the *IPART Draft Audit Guideline 2018*. Please do not hesitate to contact me if you have any questions in relation to this submission.

Kind regards,



Kirsten Evans  
Executive Manager – Risk & Compliance  
Flow Systems Pty Ltd