

3 May 2018

Mr Hugo Harmstorf
Chief Executive Officer
Independent Pricing and Regulatory Tribunal of NSW
PO Box K35
Haymarket Post Shop NSW 1240

Submission on Draft IPART Public Water Utility Audit Guideline

Dear Mr Harmstorf

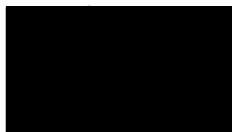
Thank you for the opportunity to comment on the Draft Public Water Utility Audit Guideline. Sydney Water's detailed comments are provided in the table **attached**.

Our general position on the key changes is summarised below.

- Sydney Water supports simplifying the audit grades however we are concerned that the proposed grades will have the effect of categorising requirements that are considered compliant under the current framework, as potentially non-compliant under the revised framework. Sydney Water has proposed a modified set of audit grades for consideration.
- We support minimising audit duplication by leveraging third party audit reports such as ISO certification and surveillance audits of our management systems. However, the language seems open to interpretation and we would like to see clearer direction provided to the auditor.
- Sydney Water welcomes the introduction of a risk-based approach to the frequency for auditing elements of the water quality guidelines.
- While we support the approach for rolling up of audit grades assigned to individual elements of the water quality guidelines, we consider that awarding compliance grades at an element level is unhelpful and grades should only be applied at the overall licence clause level.

If you or your staff have any questions regarding this submission, please contact [REDACTED] Corporate Compliance Manager on [REDACTED].

Yours sincerely



Kevin Young
Managing Director

Comments on IPART 2018 Draft Public Water Utility Audit Guideline

#	Report reference/	Text from IPART Draft Audit Guideline	Discussion	Suggested Change
1	Section 2.1 Risk based approach (page 4/5)	<p>We then assess the overall risk of harm, using a risk matrix. Using this risk-based approach, we focus on those licence conditions that have the highest risk of non-compliance.</p> <p>The audit frequency of a clause will depend on the risk that non-compliance poses, as well as the PWU's previous performance.</p>	<p>The commentary in this section outlines a risk-based approach that considers both the consequence and likelihood of non-compliance. However, we consider some minor suggested wording changes would provide further clarity.</p>	<p>Suggest rewording to:</p> <p>...we focus on those licence conditions that have the highest <i>evaluated</i> risk.</p> <p>The audit frequency of a clause will depend on the risk that a <i>potential</i> non-compliance poses, as well as the PWU's previous performance.</p>
2	Section 2.1 Introduction Overlap with other audits (page 6)	<p>PWUs should inform IPART of any upcoming management system audits. This will allow IPART to attend and provide input to an audit where the PWU is seeking consideration of audit results. IPART reserves its right to attend or not attend certification and/or surveillance audits.</p>	<p>We suggest the Audit Guideline should clarify that IPART's attendance at certification or surveillance audits should not impact the consideration of the results of third party audits by the operational auditor.</p>	<p>Suggest modifying the sentence along the lines of:</p> <p>IPART reserves its right to attend or not attend certification and/or surveillance audits, <i>however this will not affect our recognition of the audit results.</i></p>
3	Section 2.1 Overlap with other audits (page 5/6)	<p>Where a system is subject to an operational audit under the PWU's operating licence, the PWU may present the outcome of any surveillance or certification (or re-certification) report to the auditor, in lieu of a formal audit. The auditor may utilise the evidence provided in its audit report. Where certified systems are not in place, we will provide specific guidance for the auditor and PWU in the audit scope on the requirements for compliance.</p> <p>We will adjust our operational audit scopes to take account of these other audits. We encourage our auditors to use the data and audit opinion from other relevant audits rather than duplicating the audit effort.</p>	<p>We support IPART's approach to reduce duplication of audits for requirements that have been independently audited under other frameworks, such as ISO certification or other legislation.</p> <p>Therefore, Sydney Water, suggests that where a PWU has a certified management system in place, the auditor should use this as the basis of their assessment rather than duplicating the accredited independent third-party assessment.</p> <p>The current wording in the audit guideline is unclear on this point. It states that IPART will adjust its audit scopes to take account of other audits, however, it also seems to provide the auditor with the flexibility to decide whether to accept the validity of these audits:</p> <p>'The auditor may utilise the evidence provided in its audit report.'</p>	<p>To provide PWUs with more certainty, we suggest use of the term must rather than may and the use of the term require rather than encourage.</p> <p>Sydney Water also suggests that this section be broken into two distinct parts to provide more clarity;</p> <ol style="list-style-type: none"> 1. Certified system – auditor to accept third party certification/surveillance audit reports. 2. Non-certified system – auditor to assess compliance in accordance with IPART audit scope.

#	Report reference/	Text from IPART Draft Audit Guideline	Discussion	Suggested Change
			<p><i>'We encourage our auditors to use the data and audit opinion from other relevant audits rather than duplicating the audit effort.'</i></p>	
4	<p>2 Section.2 Matters outside the audit scope Para 3 (page 6)</p>	<p><i>The auditor should detail any out of scope findings in a covering letter attached to the audit report. The letter may also include any specific concerns the auditor has relating to trends in performance that may lead to potential future non-compliance. The auditor should consult with IPART about where and how to document out of scope findings.</i></p>		<p>We suggest the inclusion of a sentence noting that the PWU will be provided a copy of any letter detailing out of scope audit findings.</p>
5	<p>Section 2.5 Quality Auditor feedback Para 3 (page 9)</p>	<p><i>A variety of factors will affect the reliability of audit evidence, including the following:</i></p> <ul style="list-style-type: none"> • <i>Independence of evidence – IPART considers that evidence from outside the utility is generally more reliable than evidence generated internally.</i> • <i>Knowledge and lack of bias of the person providing the evidence to the auditor, and the attention paid to the auditor's request for evidence.</i> • <i>The directness in which the evidence is obtained – IPART considers that evidence that is received directly by the auditor is generally more reliable than evidence received indirectly.</i> • <i>Control systems – IPART considers that internal licensee-generated evidence prepared under systems of strong internal control is more reliable than licensee-generated evidence under systems of weak internal controls.</i> 	<p>This information seems misplaced and unrelated to the section on auditor feedback.</p> <p>We suggest that discussion on the reliability of audit evidence would be better placed in the section that covers the audit process.</p>	<p>Consider relocating information concerning the reliability of audit evidence to a more appropriate section of the Audit Guideline.</p>

#	Report reference/	Text from IPART Draft Audit Guideline	Discussion	Suggested Change
6	<p>Figure 2.1 Audit Grades (page 10)</p> <p>Appendix D (page 31)</p>	<p>The Audit Guideline proposes four audit grades:</p> <ul style="list-style-type: none"> • Compliant • Non-compliant (non-material) • Non-compliant (material) • No requirement 	<p>While Sydney Water supports simplifying the current audit grades, we believe the proposed grading descriptions remain subjective and open to interpretation. We are particularly concerned that the grading system has the potential to categorise performance that is considered compliant under the current framework as non-compliant in future.</p> <p>The proposed grading system may have the effect of pushing any area where the auditor identifies a non-material minor shortcoming into an audit grade of non-compliant. This is a substantially different concept to the current compliance framework, which acknowledges that there can be varying levels of compliance. While an auditor may identify an area where the utility's compliance could be strengthened (ie a minor shortcoming), it does not follow that the utility should be deemed non-compliant with the obligation (either technically or materially).</p> <p>Further, IPART's proposed description of Non-compliant (non-material) is that the PWU has generally met the requirements. It seems contradictory and ambiguous to label performance as Non-compliant when the utility has demonstrated that overall it has met (ie complied with) the requirement.</p> <p>This may have the effect of creating unwarranted concern from the public, media or other stakeholders regarding the PWU's performance and the reliability of its services.</p> <p>We consider the grade of Non-compliant (non-material) is appropriate in a situation where the utility is 'technically' non-compliant. An example would be where a report was delivered later than the specified date. In this example, the utility has not strictly complied with the requirement,</p>	<p>Sydney Water suggests an alternative grading system that provides scope to acknowledge where the utility has achieved overall compliance despite some minor shortcomings being identified by the auditor.</p> <ul style="list-style-type: none"> • Fully compliant • Compliant (minor shortcomings) • Non-compliant (non-material) • Non-compliant (material) • No requirement <p>A more detailed description of each proposed grade is provided below.</p> <p>Note: our proposed amendments (if accepted) also require amendment to the decision tree on page 31.</p>

#	Report reference/	Text from IPART Draft Audit Guideline	Discussion	Suggested Change
			however there is no material impact on the delivery of its services to customers.	
	Figure 2.1 Audit Grades (page 10) Appendix D (page 31)	<p>Compliant:</p> <p>Description: Sufficient evidence to confirm that the requirements have been fully or substantially met.</p>	<p>The distinction between requirements being <u>substantially</u> met (Compliant grade) and <u>generally</u> met (Non-compliant (non-material) grade) is unclear. Both imply there are minor shortcomings in the utility's performance. We consider this does not alleviate the current issues experienced by PWU's with the subjectivity of audit grades.</p> <p>Sydney Water suggests deleting 'substantially' to remove subjectivity from the description.</p>	<p>Amend grade from 'Compliant' to 'Fully compliant'</p> <p>Description: Sufficient evidence to confirm that the requirements have been fully met.</p>
	Figure 2.1 Audit Grades (page 10) Appendix D (page 31)	N/A	<p>Sydney Water suggests including an additional tier of compliance where minor shortcomings have been identified.</p> <p>The additional grade acknowledges that despite some minor shortcomings, the utility has demonstrated overall compliance with the requirements.</p> <p>This grade would cover those areas that are typically categorised as High or Adequate compliance under the current framework.</p>	<p>Insert additional grade: Compliant (minor shortcomings)</p> <p>Description: Sufficient evidence to confirm that the requirements have generally been met apart from minor shortcomings which to date have not compromised the ability of the utility to achieve defined objectives or assure controlled processes, products or outcomes.</p>
	Figure 2.1 Audit Grades (page 10) Appendix D (page 31)	<p>Non-compliant (non-material)</p> <p>Description: Sufficient evidence to confirm that the requirements have generally been met apart from minor shortcomings which to date have not compromised the ability of the utility to achieve defined objectives or assure controlled processes, products or outcomes.</p>	<p>We consider this grade and its associated description are at odds.</p> <p>The description of Non-Compliant (non-material) does not align with being non-compliant ie Sufficient evidence to confirm that the requirements have <u>generally been met</u>.</p> <p>It is also inconsistent with the decision tree diagram on page 31, which describes what we</p>	<p>Non-compliant (non-material)</p> <p>Amend description to: <i>Sufficient evidence has not been provided to confirm that the requirements have been met, however the deficiency is of a technical nature that does not compromise the ability of the utility to achieve defined objectives or assure controlled processes, products or outcomes.</i></p>

#	Report reference/	Text from IPART Draft Audit Guideline	Discussion	Suggested Change
			<p>would typically call a 'technical non-compliance' for example, a missed a reporting date.</p> <p>Sydney Water recognises the value of an additional non-compliance grade that distinguishes between material and non-material breaches.</p>	
	<p>Figure 2.1 Audit Grades (page 10) Appendix D (page 31)</p>	<p>Non-compliant (material)</p> <p><i>Description:</i> 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.</p>	<p>No changes suggested to IPART's proposal.</p>	
	<p>Figure 2.1 Audit Grades (page 10)</p>	<p>No requirement:</p> <p><i>Description:</i> There is no requirement for the utility to meet this criterion within the audit period.</p>	<p>No changes suggested to IPART's proposal.</p>	
<p>7</p>	<p>Section 3.1 The audit process Step 3: Audit preparation Para 2 (page 14)</p>	<p><i>The auditor will prepare the audit questionnaire and IPART will consult with stakeholders to inform the final audit scope. The auditor will be responsible for scheduling interviews and the field verification site visit(s).</i></p>		<p>To improve clarity, we suggest modifying the sentence to:</p> <p><i>The auditor will be responsible for scheduling interviews and the field verification site visit(s) in consultation with the PWU.</i></p>

#	Report reference/	Text from IPART Draft Audit Guideline	Discussion	Suggested Change
8	<p>Section 3.1 The audit process- Scheduling of interviews and field verification site visit</p> <p>Para 3 (page 15)</p>	<p><i>During the audit, we require at least one field verification site visit. Together with the auditor, we will determine the types of facilities to be inspected and will notify the PWU of the preferred types of facilities for inspection during the scheduling period. Facilities include assets, property or physical elements related to the PWU's operations, such as treatment plants, catchment areas or waterways. Any facility relevant to the matters being audited may be selected for a site visit. To inform the selection of facilities, we will provide the lead auditor with a list of facilities visited in the previous five audits. We anticipate that at least one day should be set aside for field verification site visits depending on the location and type of facilities to be inspected.</i></p>	<p>We request that no more than one site for an asset class be included in the audit site visits (eg site audits for multiple WFPs or WWTPs should be avoided). This is to minimise the impact on BAU for limited resources at these sites.</p> <p>Also request that the selection of site visit locations be confirmed prior to issuing of the questionnaire, particularly in cases where the auditor would like the questionnaire to focus on assets that will covered in the site visits. This early notification will also ensure sufficient lead time to arrange the site visits.</p>	<p>Suggest inclusion of commentary noting that:</p> <ul style="list-style-type: none"> • no more than one of each asset class should be inspected in the site visit • selection of locations for site visits be confirmed prior to issuing of the audit questionnaire.
10	<p>Section 3 Operational audit procedure - Step 5: Audit grades (page 18)</p>	<p><i>Appendix D provides a decision-tree to help identify the correct audit grade for the auditor to assign. However, auditing of water quality management systems may require assessment of the individual elements that make up the water quality management systems framework provided by the Australian Drinking Water Guidelines (ADWG) and the Australian Guidelines for Water Recycling (AGWR).</i></p>	<p>The draft audit guideline currently focuses strongly on the auditor needing to perform a detailed audit of implementation of the ADWG and AGWR frameworks. Consideration of the frameworks is an important aspect for grading of water quality management performance.</p> <p>However, the draft audit guideline has little focus on the role of NSW Health in guiding establishment and implementation of the frameworks, which is an integral aspect of the relevant Operating Licence conditions.</p>	<p>We suggest that the audit guideline should acknowledge the role of NSW Health in the auditor's assessment of the implementation of the guidelines (ie. PWU Licences require that water quality management systems be implemented to the satisfaction of NSW Health)</p>
11	<p>Section 3 Operational audit procedure - Step 5: Audit grades (page 18)</p>	<p><i>...The auditor can assign audit grades to individual elements, but IPART does not require this...</i></p>	<p>While we recognise the need for the auditor to assess satisfactory implementation of each element of the water quality guidelines, we do not believe it is helpful for auditor to assign compliance grades to each individual element. Rather, compliance should be assessed on the</p>	<p>While we support the rule of rolling up, Sydney Water's preference is that water quality guideline elements should not be individually graded.</p>

#	Report reference/	Text from IPART Draft Audit Guideline	Discussion	Suggested Change
			<p>satisfactory implementation of the water quality framework overall.</p> <p>In the past, the practice of auditors assigning compliance grades and findings to individual framework elements has caused:</p> <ul style="list-style-type: none"> • single findings against Operating Licence conditions being apparently 'amplified' through the attribution of impact against more than one framework element • findings applying to multiple Operating Licence conditions but of apparently different severities without delineation of the rationale for individual clauses • performance against the specific requirements of the Operating Licence being obscured by the additional unnecessary gradings. 	
12	<p>Section 3 Operational audit procedure - Step 5: Audit grades (page 18)</p>	<p><i>We consider the licence clauses regarding water quality management systems are high risk, and therefore we generally include them in the audit scope every year. However, each of the 12 elements in ADWG and AGWR do not carry the same level of risk and therefore do not necessarily require the same audit frequency.</i></p> <p><i>The audit scope will provide a breakdown of the elements to be audited each year for the nominated water quality clauses. We will apply a risk-based approach to the audit scope to identify the relevant elements to be audited.</i></p>	<p>Sydney Water supports IPART's proposed risk-based approach to determining the audit scope for the water quality guideline elements.</p> <p>The ADWG and AGWR frameworks are not standards and cannot be specifically certified. However, they share general elements with other quality management systems for which Sydney Water holds ISO certification. For example, element 10 of the ADWG/AGWR 'Management of documents and records' is fully covered by the 'Documentation requirements' element of the ISO 9001 standard.</p>	<p>Suggest that these two paragraphs belong in the 'Risk based approach' section on page 4, as they are primarily about the application of the risk based approach when developing the audit scope for water quality.</p> <p>Suggest that in applying the risk based approach to determine the frequency of audit for water quality elements, consideration should be given to whether the element correlates directly with an element of an implemented management system that meets or is certified to an ISO standard.</p> <p>This will allow for greater focus on the implementation of elements of the ADWG and AGWR framework that pose the greatest risk to public health rather than on elements that are</p>

#	Report reference/	Text from IPART Draft Audit Guideline	Discussion	Suggested Change
			<p>The scope of Sydney Water's Quality Management System (QMS) ISO 9001 certification includes the 'Drinking Water Process' and 'Recycled Water Process', which largely cover the quality management elements of the ADWG and AGWR frameworks. Appendices 1 and 2 attached provide a correlation between the ISO 9001 standard and the ADWG and AGWR frameworks.</p>	<p>already subject to detailed third party audits against the ISO standards through certification.</p>
13	<p>Table 3.2 Indicative Audit Schedule</p> <p>Page 23</p>		<p>The timeline column is confusing.</p> <p>For example, Step 4 shows that it should be completed within 2 weeks of Step 4. We assume this is intended to mean within 2 weeks of the commencement of Step 4.</p>	<p>Improve clarity in the Timeline column of Table 3.2</p>
14	<p>Table 3.2 Indicative Audit Schedule (page 23)</p>	<p>Step 5 "Audit assessment and reporting" provides 2 weeks for comments on first draft report.</p>	<p>It appears that the timing for the utility to provide comments on the first draft audit report has been reduced from 3 weeks to 2. As this is the only opportunity for the PWU to provide substantive comment and additional evidence, we consider that this step should remain as 3 weeks.</p>	<p>Suggest that 3 weeks remain for the period provided to respond to the 1st draft audit report. This will help to ensure that PWUs have sufficient time to prepare a thorough response.</p>
15	<p>Appendix D Audit grade decision tree</p>	<p>Decision box: <i>Is the shortcoming:</i></p> <ul style="list-style-type: none"> • A minor non-compliance that doesn't affect water quality, public health and safety or the environment? • A reporting non-compliance? 	<p>We question the inclusion of 'safety' as a factor to determine compliance, given PWU operating licences do not contain any specific safety related requirements.</p>	<ul style="list-style-type: none"> • Suggest removing reference to safety. • Refer also to comments at item 6 concerning audit grades.

Appendix 1: ADWG–ISO 9001 cross-reference

Notes:

+++ Aspect explicitly stated

+ Aspect not explicitly stated but interpreted to include

Source: ADWG.

ADWG elements and components	ISO 9001
Element 1: Commitment to drinking water quality management	
1.1 Drinking water quality policy	+++
1.2 Regulatory and formal requirements	+++
1.3 Engaging stakeholders	
Element 2: Assessment of the drinking water supply system	
2.1 Water supply system analysis	
2.2 Assessment of water quality data	
2.3 Hazard identification and risk assessment	
Element 3: Preventive measures for drinking water quality management	
3.1 Preventive measures and multiple barriers	+
3.2 Critical control points	
Element 4: Operational procedures and process control	
4.1 Operational procedures	+++
4.2 Operational monitoring	+++
4.3 Corrective action	+++
4.4 Equipment capability and maintenance	+++
4.5 Materials and chemicals	+++
Element 5: Verification of drinking water quality	
5.1 Drinking water quality monitoring	+++
5.2 Customer satisfaction	+++
5.3 Short-term evaluation of results	+++
5.4 Corrective action	+++
Element 6: Management of incidents and emergencies	
6.1 Communication	
6.2 Incident and emergency response protocols	Error! Reference source not found.
Element 7: Employee awareness and training	
7.1 Employee awareness and involvement	+++
7.2 Employee training	+++
Element 8: Community involvement and awareness	
8.1 Community consultation	+++

ADWG elements and components	ISO 9001
8.2 Communication	+
Element 9: Research and development	
9.1 Investigative studies and research monitoring	
9.2 Validation of processes	+++
9.3 Design of equipment	+++
Element 10: Documentation and reporting	
10.1 Management of documentation and records	+++
10.2 Reporting	
Element 11: Evaluation and audit	
11.1 Long-term evaluation of results	+
11.2 Audit of drinking water quality management	+++
Element 12: Review and continual improvement	
12.1 Review by senior executive	+++
12.2 Drinking water quality management improvement plan	+++

Appendix 2: Correlations between ISO 9001 and the ADWG Framework

Source: ADWG

ISO 9001	ADWG Framework
Quality management system	
General requirements	See Section 2.5 Applying the Framework
Documentation requirements	Management of documentation and records (element 10)
Management responsibility	
Management commitment	Drinking water quality policy, regulatory and formal requirements (element 1)
	Review by senior executive, drinking water quality management improvement plan (element 12)
Customer focus	Regulatory and formal requirements (element 1)
	Community consultation (element 8)
Quality policy	Drinking water quality policy (element 1)
Planning	Regulatory and formal requirements (element 1)
	Operational monitoring (element 4)
	Drinking water quality monitoring (element 5)
Responsibility, authority and communication	See Section 2.5 Applying the Framework
Management review	Long-term evaluation of results, audit of drinking water quality management (element 11)
	Review by senior executive, drinking water quality management improvement plan (element 12)
Resource management	
Provision of resources	Drinking water quality management improvement plan (element 12)
Human resources	Employee awareness and involvement, employee training (element 7)
Infrastructure	Equipment capability and maintenance (element 4)
	Design of equipment (element 9)
Work environment	
Product realisation	
Planning of realisation processes	Preventive measures and multiple barriers, critical control points (element 3)
Customer-related processes	Community consultation, communication (element 8)
	Regulatory and formal requirements (element 1)
Design and development	Investigative studies and research monitoring, validation of processes, design of equipment (element 9)
Purchasing	Materials and chemicals (element 4)
Production and service provision	Operational procedures, operational monitoring, corrective action, equipment capability and maintenance (element 4)

	Validation of processes (element 9)
Control of measuring and monitoring devices	Equipment capability and maintenance (element 4)
Measurement, analysis and improvement	
General	
Monitoring and measurement	Operational monitoring (element 4)
	Drinking water quality monitoring, consumer satisfaction (element 5)
	Audit of drinking water quality management (element 11)
Control of nonconforming product	Corrective action (elements 4 and 5)
	Incident and emergency response protocols (element 6)
	Reporting (element 10)
Analysis of data	Operational monitoring (element 4)
	Short-term evaluation of results (element 5)
	Long-term evaluation of results (element 11)
Improvement	Review by senior executive, drinking water quality management improvement plan (element 12)