

# Appendix C:

## Audit scope and method

### Scope of this audit

#### Who we examined

We examined the following agencies:

| Agency                | Their key responsibilities  |
|-----------------------|---|
| Greater Western Water | Delivering essential water services to Victorians, including:   |
| Melbourne Water       | <ul style="list-style-type: none"> <li>supplying safe drinking water</li> </ul>                               |
| South East Water      | <ul style="list-style-type: none"> <li>collecting, treating and disposing of sewage</li> </ul>                |
| Yarra Valley Water    | <ul style="list-style-type: none"> <li>maintaining the infrastructure that supports these services</li> </ul> |

#### Our audit objective

To determine whether metropolitan water corporations' sustainability reporting is complete and reliable.

#### What we examined

We examined if metropolitan water corporations:

- measure sustainability metrics correctly
- identify, manage and monitor their climate-related risks and opportunities
- have appropriate governance and assurance arrangements to support reliable sustainability reporting.




#### Aspects of performance examined

Our mandate for performance audits and reviews includes the assessment of economy, effectiveness, efficiency and compliance (often referred to as the '3Es + C').

In this audit we focused on the following aspects:

| Economy   | Effectiveness   | Efficiency  | Compliance  |
|---|---|---|---|
|  |  |  |  |

Key:

-  Primary focus
-  Secondary focus
-  Not assessed

## Conducting this audit

**Assessing performance** To form a conclusion against our objective we used the following lines of inquiry and associated evaluation criteria.

| Line of inquiry   | Criteria   |
|---|--|
| 1. Sustainability reporting is underpinned by accurate information and effective internal processes | 1.1 Sustainability metrics are measured correctly.   |
|   | 1.2 Climate-related risks and opportunities are identified, managed and monitored.                       |
|   | 1.3 Governance arrangements and assurance processes support the reliability of sustainability reporting. |

**Our methods** As part of the audit we:

- reviewed metropolitan water corporations' 2024–25 annual reports to see if they met all their Victorian sustainability reporting requirements
- engaged subject matter experts to:
  - recalculate water corporations' reported emissions, energy figures and other sustainability metrics to check them for accuracy
  - review the datasets water corporations used to calculate their reported figures against the National Scheme's general reporting principles
- assessed if water corporations had a structured approach for:
  - identifying climate risks and opportunities
  - managing actions to address climate risks
- interviewed senior executives to understand management's attitude towards climate reporting fraud
- reviewed governance documentation to determine whether water corporations were overseeing the integrity of their sustainability reporting
- consulted with DEECA, DTF and the Essential Services Commission to understand their roles and responsibilities in relation to Victorian sustainability reporting.

### Level of assurance

In an assurance review, we primarily rely on the agency's representations and internally generated information to form our conclusions. By contrast, in a performance audit, we typically gather evidence from an array of internal and external sources, which we analyse and substantiate using various methods. Therefore, an assurance review obtains a lower level of assurance than a performance audit (meaning we have slightly less confidence in the accuracy of our conclusion).

**Our approach to materiality** We applied a materiality threshold of 5 per cent to assess water corporations' FRD 24, letter of expectations and National Scheme reporting. This is consistent with industry practice.

Where an activity made up 5 per cent or more of a water corporation's total emissions, energy production or energy use we:

- re-performed its calculations
- reviewed the quality of its underlying data.

When we identified a calculation error we compared the variance to the entity's total reported emissions, energy production or energy use. If the variance was 5 per cent or more we assessed the error as a material misstatement.

We also assessed immaterial misstatements in aggregate to ensure they did not exceed the 5 per cent threshold.

We used this threshold for other reported figures not directly related to emissions, for example, water use metrics.

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#### Compliance

We conducted our audit in accordance with the *Audit Act 1994* and ASAE 3500 *Performance Engagements* to obtain reasonable assurance to provide a basis for our conclusion.

We complied with the independence and other relevant ethical requirements related to assurance engagements.

We also provided a copy of the report to the Department of Premier and Cabinet.

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#### Cost and time

The full cost of the audit and preparation of this report was \$807,000.

The duration of the audit was 12 months from initiation to tabling.

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