Audit and Review Guidelines:

Electricity and Gas Licences

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Economic Regulation Authority
WESTERN AUSTRALIA

This document is available from the Economic Regulation Authority's website at www.erawa.com.au. For further information, contact:

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1 Purpose of these Guidelines

The purpose of the Audit and Review Guidelines: Electricity and Gas Licences (**Guidelines**) is to inform electricity and gas service providers licensed by the Economic Regulation Authority (**Authority**) and external auditors about the Authority's requirements regarding the conduct of performance audits (**audits**) and asset management system reviews (**reviews**) of licensees.

The Guidelines are designed to promote consistency of audits and reviews through:

- informing licensees and auditors about the legislative framework applicable to auditing licensee's compliance with licence conditions;
- informing licensees and auditors about the approach to examine the effectiveness of the reviews;
- describing a framework for the conduct of audits and reviews based on Australian Auditing and Assurance Standards;
- adopting a risk based approach to planning audits and reviews using the risk assessment process in standard AS/NZS 31000:2009;
- promoting consistency of reporting on audits by mandating a 4-point compliance rating scale and a 4-point adequacy of controls rating scale for higher risk obligations;
- promoting consistency of reporting on reviews by mandating separate adequacy and performance rating scales; and
- providing a framework for:
  - the criteria the Authority will consider when approving auditors;
  - the format and content of audit and review plans;
  - the conduct of audits and reviews with reference to the Australian Auditing and Assurance Standards; and
  - the format and content of the audit and review reports.

The use of common rating scales to measure compliance with licence conditions and effectiveness of asset management processes enables the Authority to benchmark individual licensees and groups of licensees over time. The Authority intends to reduce the frequency of audits and reviews for licensees that can demonstrate consistent and effective compliance with licence requirements. This approach will benefit the licensee through reducing the costs and resources needed for audit and review activities over time.

The Authority will publish separate Guidelines for water licenses (Audit and Review Guidelines: Water Licences) due to the different legislative framework relating to the audits and reviews of water licensees.[1]

[1] The *Water Services Act 2012* includes provision for the Authority to appoint the auditors that undertake audits and reviews of water licences.

2 Implementation of these Guidelines

Licence audits and reviews that commence on or after the date that these Guidelines are published by the Authority are to be conducted in accordance with the requirements set out in these Guidelines.[2]

3 Mandatory Auditing Requirements

In order to promote consistency of reporting on audits and reviews, the Authority has identified a number of mandatory requirements in respect of the:

- Adoption of a risk based approach to auditing with a preference for the risk evaluation model set out in AS/NZS 31000:2009;
- compliance rating scales to be used to assess compliance with licence conditions;
- effectiveness rating scales to be used to assess effectiveness of asset management processes;
- terms and conditions of engagement for auditors employed to undertake audits and reviews of licences;
- format and content of an audit plan for audits and reviews;
- format and content of the auditor's audit and/or review report; and
- format and content of post-audit and post-review implementation plans.

The Authority has identified the mandatory requirements through the use of the words "must" and "requires" in the text of these Guidelines.

4 The Licensing Framework for Electricity and Gas Licences

4.1 The Role of the Authority

Under the provisions of the *Economic Regulation Authority Act 2003* (**ERA Act**) section 25, it is a requirement that the Authority administers the licensing schemes for the provision of electricity and gas services.

In performing its functions, the Authority, under section 26 of the ERA Act, must have regard to:

- promoting regulatory outcomes that are in the public interest;
- the long-term interests of consumers in relation to the price, quality and reliability of goods and services provided in the relevant markets;
- encouraging investment in relevant markets;
- the legitimate business interests of investors and service providers in relevant markets;
- promoting competitive and fair market conduct; and

[2] The auditor nomination is received by the Authority after this date.

- preventing abuse of monopoly or market power.

Licences are granted subject to conditions intended to promote the objectives of the legislation including supply quality (public health and safety issues), supply reliability (connections and supply), consumer protection (customer service levels and prices) and regulatory compliance (compliance with legislation and standards). These conditions are supported by various technical and industry codes and standards.

The Authority has the responsibility for granting licences with appropriate conditions, monitoring compliance, reviewing performance reports received from the licensees and enforcing compliance or revoking licences.

The Governing Body of the Authority is assisted by the Secretariat, which consists of a Chief Employee and public service officers appointed or made available under Part 3 of the *Public Sector Management Act 1994.* The Secretariat is the initial point of contact in the Authority's day-to-day dealings on matters relating to gas and electricity regulation. While the Secretariat may provide assistance on these matters, it is the Governing Body that has ultimate responsibility for regulatory functions and decisions.

4.2 Legislation Governing Electricity and Gas Licensing

The legislation that governs the licensing of providers of electricity and gas services respectively is:

- *Electricity Industry Act 2004 (WA) (**Electricity Act**);* and
- *Energy Coordination Act 1994 (WA) (**Gas Act**),*

which together are the Industry Acts.

Sections 13-14 of the Electricity Act and sections 11Y &11ZA of the Gas Act place the following obligations on licensed service providers:

- provide the Authority with an performance audit conducted by an independent expert acceptable to the Authority not less than once in every 24 month period (or such longer period as the Authority allows); and
- provide the Authority with a report by an independent expert acceptable to the Authority as to the effectiveness of the asset management system not less than once in every 24 month period (or such longer period as the Authority allows).

Regular audits of a licensee by an independent expert (auditor) provide the Authority with a level of assurance that the licensee is complying with its obligations with regard to supply quality, supply reliability, consumer protection and regulatory compliance.

Regular reviews by an independent expert (auditor) provides the Authority with a level of assurance that the licensee is maintaining an effective asset management system.

The Authority requires both audits and reviews to be undertaken to a sufficient level of scrutiny that confidently assesses if the licensee has complied with its licence conditions, and/or has an effective asset management system. The required level of scrutiny corresponds to the Auditing standards definition of a reasonable assurance engagement. [3]

[3] Refer to Aus 7.4 of the Framework for Assurance Engagements (issued by Auditing and Assurance Standards Board (AUASB) in April 2010). The asset management system review as defined by the Industry

All electricity and gas licences include conditions in respect of audits and reviews, except electricity retail licences and gas trading licences, which are not subject to conditions regarding reviews.[4]

Under the Industry Acts the Authority is required to provide a report on the audit to the Minister within two months of its receipt from the licensee.[5]

4.3 Licence Conditions Related to Audits and Reviews

The Authority has developed licences for electricity and gas services that are consistent with the corresponding legislation. The licences include conditions dealing with the conduct of audits and reviews, as applicable, and also require licensees and auditors to comply with the requirements of these Guidelines.

The reader is referred to the electricity and gas licences that are published on the Authority's website (www.erawa.com.au) for more information on the relevant licence conditions.

5 Australian Auditing Standards

The following sections of these Guidelines refer to the principles outlined in the Australian Auditing Standards and Standards on Assurance Engagements (the Standards) issued by the Auditing and Assurance Standards Board.[6] While the Standards have been developed by the accounting profession, the audit principles in the Standards apply equally well to audits and reviews.

Persons conducting audits and reviews are required to familiarise themselves with the standards that are identified in these Guidelines.

The Authority expects the audits and reviews of licensees to be conducted in accordance with the principles described in the standards that are referenced in these Guidelines. However, there is scope for the auditor to apply their professional judgement when they apply the principles to an audit or review.

6 Audit and Review Purpose, Scope, Risk and Frequency

The audits and reviews described in section 4.2 have a separate and distinct purpose and scope, which are described in more detail below.

Acts should not be confused with the definition in Aus 7.5 of the Framework for Assurance Engagements which defines a review as a limited assurance engagement.

[4] Energy retailers do not operate the infrastructure that is used to supply gas and electricity to customers.

[5] The Industry Acts do not require the Authority to report to the Minister in respect of reviews.

[6] Available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

6.1 Audit

The purpose of the audit is to assess the effectiveness of measures taken by the licensee to meet the conditions referred to in the licence including the legislative obligations called up by the licence.

The audit focuses on the systems and effectiveness of processes used to ensure compliance with the standards, outputs and outcomes required by the licence; the audit report should identify areas where improvement is required and recommend corrective action as necessary.

The scope of the audit must include the adequacy and effectiveness of performance against the requirements of the licence by considering:

- **process compliance** - the effectiveness of systems and procedures in place throughout the audit period, including the adequacy of internal controls;
- **outcome compliance** – the actual performance against standards prescribed in the licence throughout the audit period;
- **output compliance** – the existence of the output from systems and procedures throughout the audit period (that is, proper records exist to provide assurance that procedures are being consistently followed and controls are being maintained);
- **integrity of reporting** – the completeness and accuracy of the compliance and performance reports provided to the Authority; and
- **compliance with any individual licence conditions** – the requirements imposed on the specific licensee by the Authority or specific issues that are advised by the Authority.

Adjustment of the audit scope in the audit plan stage may be considered by the Authority on a case by case basis, in respect of individual licensee's or classes of licensee.[7]

6.2 Review

The purpose of the review is to assess the measures taken by the licensee for the proper management of assets used in the provision and operation of services and, where appropriate, the construction or alteration of relevant assets.

The review focuses on the asset management system, including asset management plans, which set out the measures that are to be taken by the licensee for the proper operation and maintenance of assets. The plans must convey the licensee's business strategies to ensure the effective management of assets over at least a five year period.

The scope of the review must include an assessment of the adequacy and effectiveness of the asset management system by evaluating the 12 key asset management processes mandated in Appendix 4:

- asset planning;
- asset creation/acquisition;
- asset disposal;
- environmental analysis;

[7] This is discussed further in section 7.1 of these Guidelines.

- asset operations;
- asset maintenance;
- asset management information system;
- risk management;
- contingency planning;
- financial planning;
- capital expenditure planning; and
- review of the asset management system.

The effectiveness criteria that are to be used in the review are described in Table 22 of Appendix 4.

6.3 Risk Based Approach to Audits and Reviews

The primary purpose of an audit and review is to assess the effectiveness of measures taken by the licensee to ensure compliance with licence conditions or effective management of assets. These Guidelines incorporate a risk-based approach to assessing the appropriate risk factors in order to focus the audit and review on higher risk areas, with less intensive coverage of medium and lower risk areas. The Authority requires auditors to apply a risk based approach to planning and conducting an audit or review.

In order to obtain greater consistency of risk assessment across the different utility sectors and licensees, these Guidelines provide detailed guidance on the Authority's preferred risk evaluation model, which is based on Australian/New Zealand Standard 31000:2009 (Risk Management – Principles and Guidelines), refer to Appendix 2. Applying this methodology in audits and reviews requires auditors to apply a greater focus and depth of procedures for higher risk areas compared to medium and lower risk areas.

6.4 Frequency of Audits and Reviews

The Industry Acts prescribe a minimum interval of time between audits and reviews of 24 months, commencing from the date that the licence is granted (see section 4.2). There is also provision for the Authority, at its discretion, to extend or reduce the interval between audits and reviews from the standard 24 month period.

Audits and reviews impose direct and indirect costs on the licensee and the Authority. The Authority's policy is to minimise the cost of regulation on licensees, subject to maintaining an appropriate level of oversight of the licensee's compliance with its regulatory obligations under the licence. For audits and reviews, the cost of regulation may be reduced if the interval between audits and reviews is increased. Hence, the Authority is prepared to, within reasonable bounds, extend the interval between audits and reviews for low risk licensees, i.e. those licensees who are demonstrating high levels of compliance with licence conditions, or asset management system effectiveness, as applicable.

Licensees who are assessed as:

- having a strong compliance framework that is achieving a high level of compliance with the conditions of the licence; or

- operating an effective asset management system that has strong controls to maintain a high level of effectiveness,

may be rewarded with an increased interval between audits and reviews.

Conversely, licensees who are assessed as:

- having a weak compliance framework that is achieving an inadequate level of compliance with the conditions of the licence; or
- operating an ineffective asset management system,

may have the interval between audits and reviews reduced. If the audit or review period is reduced the Authority may also serve a notice of contravention on the licensee under the applicable legislation.

7 The Audit and Review process

The audit framework contemplated by the Industry Acts places the onus on the licensee to demonstrate compliance with the conditions of their licence by engaging independent experts (auditors) to conduct audits and reviews, as applicable, and report their findings to the licensee. The licensee is then responsible for providing the report to the Authority.[8]

Please refer to the flowchart and process template in Appendixes 3 and 5 respectively for an overview of the audit and review process.

7.1 Areas of Special Focus for Audits and Reviews

At the initiation of an audit or review, the Authority's Secretariat may inform the licensee that specific licence obligations, aspects of the asset management system, or the inspection of specific asset infrastructure is an area of special focus that must be given a high audit or review priority. The areas of special focus are usually selected in response to information that the Authority has obtained from a range of sources, including previous audits or reviews, annual compliance reports, media reports and referrals from other government agencies. The auditor may also be required to focus on the licensee's compliance with new or amended legislation that has been implemented since the previous audit was concluded.

The Secretariat will strive to provide the licensee with advance notice of areas of special focus. This may be by including the information in the Authority's letter reminding the licensee of the upcoming audit and/or review of its licence (normally sent three months prior to the end of the audit/review period), or by communicating the information directly to the licensee at some earlier time.

The Secretariat may also wish to meet with the licensee and the auditor to discuss the handling of any areas of special focus in the audit or review plan before the plan is submitted to the Authority for approval.

The following sections discuss the three stages of the audit and review process - auditor selection, audit/review plan approval and audit/review report approval - in more detail.

[8] Under the Industry Acts, audits and reviews must be undertaken by independent experts. These Guidelines uses the term 'auditor' to denote the independent expert that undertakes the audit and/or review.

8 Auditor Selection

Under the Industry Acts, the Authority must approve the auditor nominated by the licensee prior to their appointment by the licensee to undertake the audit or review. The Authority must be satisfied that an auditor nominated by a licensee has the required expertise and experience to conduct the audit or review to an acceptable standard. The Authority will also give consideration to the independence of the auditor in relation to the licensee. The remainder of this section sets out the criteria that the Authority will consider when determining the suitability of an auditor to conduct an audit or review.

It is anticipated the licensee will undertake a selection process to identify an auditor that is able to conduct the audit or review to a satisfactory standard and in a cost effective manner.[9] The licensee, in seeking the Authority's approval of their nominated auditor, must provide the Authority with a copy of the auditor's submission,[10] which should address the criteria set out in the remainder of this section.

8.1 Competence and Capacity of an Auditor to Perform the Audit or Review

8.1.1 Audits

In determining the suitability of an auditor to conduct an audit, the Authority will give consideration to the following factors:

- The experience of the auditor in performance and compliance auditing. It is desirable for the auditor to demonstrate experience of undertaking regulatory audits or non-financial assurance audits of utilities or other regulated businesses within the previous 3 years; and
- The audit skills and experience of each member of the audit team. The Authority will give particular consideration to:
  - each audit team member's audit expertise and audit experience; and
  - the lead auditor's (e.g. partner, manager, senior engineer or similar) knowledge and experience of conducting regulatory audits or non-financial audits of utilities or other regulated businesses.

8.1.2 Reviews

In determining the suitability of an auditor to conduct an asset management system effectiveness review, the Authority will give consideration to the following factors: [11]

- The experience of the auditor in asset management practice. It is desirable for the auditor to demonstrate relevant asset management experience in utilities or other regulated businesses within the previous 3 years. Relevant experience might

[9] The Secretariat can request changes to an auditor's audit procedures at the draft audit/review report stage if deemed necessary by the Secretariat. Licensees may wish to consider this possibility during contract negotiations with potential auditors. For further details refer to section 11.5.

[10] It is left to the discretion of the licensee whether they provide the financial and pricing component of the submission/tender.

[11] The Authority uses the term 'auditor', rather than the term 'reviewer' to denote the independent experts that undertakes reviews.

include asset management system development, asset valuations, asset performance reviews, asset project management or strategic asset planning; and

- The engineering and technical expertise of each member of the review team. The Authority will give particular consideration to:
  - each review team member's professional qualifications relevant to the licence that is the subject of the review;
  - each review team member's knowledge and experience of asset management practice in the utility sector relevant to the licence; and
  - the lead auditor's (e.g. partner, manager, senior engineer or similar) knowledge and experience of managing effectiveness reviews of asset management systems.

8.2 Quality of Previous Audit and Review Work

During the appointment process consideration will be given to the quality of previous audits and reviews that have been conducted by the auditor nominated by the licensee. The Authority may, through the application of the discretion provided for in the Industry Acts, decide not to approve an auditor if it is of the view that previous audits or reviews have not been performed to a satisfactory standard.

Prior to nominating an auditor to the Authority for its approval, licensees are encouraged to make the necessary enquiries of prospective auditors to determine whether the Authority has expressed dissatisfaction with the quality of previous audits or reviews that they have conducted.

8.3 Auditor Independence

During the appointment process consideration will be given to the professional independence of the auditor in relation to the licensee and any related entity,[12] particularly where the auditor undertakes other professional work for the licensee or a related entity.

Auditor independence requires that the auditor and the licensee take appropriate measures to avoid conflict of interest situations in respect of the audit or review. Section 324CD of the *Corporations Act 2001 (Cth)* (**Corporations Act**) states that:

> A conflict of interest situation exists in relation to an audited body at a particular time if, because of circumstances that exist at that time:
>
> - the auditor, or a professional member of the audit team, is not capable of exercising objective and impartial judgement in relation to the conduct of the audited body; or
> - a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the auditor, or a professional member of the audit team, is not capable of exercising objective and impartial judgement in relation to the conduct of the audit of the audited body.

Section 324CD of the Corporations Act includes a comprehensive framework for identifying circumstances that give rise to conflicts of interest. The Authority notes that the

[12] A related entity has the same meaning as in section 9 of the Corporations Act 2001 (Cth)

professional codes of conduct for audit and assurance practitioners are broadly consistent with the Corporations Act, but may be less prescriptive in their approach to resolving conflicts of interest. The Authority expects that auditors who are members of a professional accounting body will be governed by the code of ethics of that body when determining whether they meet the minimum standards for professional independence in relation to an audit or review of a licensee. However, the Authority also recognises that some audits and reviews are conducted by auditors who may not be members of a professional accounting body. The remainder of this section outlines the factors, drawn from the Corporations Act and APES 110,[13] that the Authority requires all auditors to take into account when assessing whether they meet the minimum standards for auditor independence.

All persons that will be engaged in performing an audit or review are required to provide to the Authority a declaration of independence at the time they are nominated by the licensee, either individually or, where they are employed by the same entity, collectively (see section 8.5).

8.3.1 Threats to Independence

When nominating an auditor for the Authority's approval, a licensee and the auditor should satisfy themselves that there are no conflicts of interest that might give rise to an independence threat. Of particular interest are independence threats due to:

- self-interest – occurs when:
  - an auditor or a member of the audit team could benefit from a financial or non-financial interest in a licensee or a related entity; or
  - the total fees from the licensee represents a large proportion of the fees of the auditor expressing the audit opinion.[14]
- self-review – occurs when:
  - the auditor or a member of the audit team has undertaken other non-audit work for the licensee that is being evaluated in relation to the audit/review; or
  - when a member of the audit team was previously an officer or director of the licensee; or
  - where a member of the audit team was previously an employee of the licensee who was in a position to exert direct influence over matters that will be subjected to examination during an audit or review.

Auditors are encouraged to assess the risk of a self-review threat based on work that:

- has been undertaken by the auditor, or a member of the audit/review team, for the licensee within the previous 24 months; or
- the auditor is currently undertaking for the licensee; or
- the auditor has submitted an offer, or intends to submit an offer, to undertake for the licensee within the next 6 months; and

[13] Accounting and Professional Ethical Standards Board, Compiled APES 110 Code of Ethics for Professional Accountants (February 2008).

[14] The Australian Accounting Bodies Independence Guide discusses a scenario where the auditor assesses the self-interest threat to their independence when the client contributes 16%, or more, of the auditor's total fees.

- familiarity – occurs when, by virtue of a close family relationship with a licensee, its directors, officers or employees, an auditor or a member of the audit team is or is perceived to be too sympathetic to the licensee's interests.

These, and other, independence threats are discussed in more detail in sections AUST290.4 – 290.231 of APES 110.

Auditors are required to consider a number of relevant relationships when assessing whether circumstances exist that might create an independence threat. These relationships are considered in more detail in Appendix 1.

8.4 Auditor Rotation

8.4.1 Consecutive Audits or Reviews Conducted by the Same Auditor

There is a self-review or familiarity threat to auditor independence where the same auditor conducts consecutive audits of the same business. To mitigate against this risk, auditor rotation is common practice for other types of statutory audit.[15]

The Authority's policy with respect to auditor rotation is to limit the number of consecutive audits or reviews that can be conducted by the same auditor to two (2). Where an auditor is unable to conduct an audit or review because of the rotation criterion, at least one audit or review must be conducted by another auditor before that auditor is eligible to conduct a subsequent audit or review.

8.4.2 Application of the Auditor Rotation Policy to Audits and Reviews

The auditor rotation policy in section 8.4.1 applies to persons who play a significant role in the audit or review. A person who plays a significant role in an audit or review includes:

- if the person is appointed as an individual auditor:
  - the person; and
  - a service company, or similar, through which the auditor provides the audit service; or
- if an audit company is appointed as the auditor:
  - the lead auditor, i.e. the person who is primarily responsible to the audit company for the conduct of the audit or review;[16] and
  - the review auditor, i.e. the person who is primarily responsible to the audit company for reviewing the performance of an audit or review.

For example, where an audit is to be undertaken by the same audit company that completed the previous audit, and the audit company nominates different lead and review auditors, then the audit team would meet the requirements of the Authority's auditor rotation policy.

[15] The Corporations Act (section 324DA), and the professional codes of conduct for auditors and assurance practitioners set limits on the number of consecutive audits that can be undertaken by an auditor. The Corporations Act also prohibits an auditor from conducting financial audits of the same business for more than 5 out of 7 successive years.

[16] The Authority will apply this test to persons, other than the person who approves the audit report, if it considers that this person will have a direct influence over the development of the opinion of the audit company in relation to an audit/review.

8.5 Declaration of Independence

The Authority requires auditors to provide to the Authority a declaration of independence to accompany the auditor nomination documents provided by the licensee.

The declaration is to include a statement that the auditor, and each individual participating in the audit or review, is, and will remain, compliant with the independence criteria set out in these Guidelines throughout the audit or review. The Authority has left it to the discretion of the auditor to determine the format of the declaration. However, the Authority notes that some professional bodies have developed their own declaration templates. Should this be the case, the declaration should include specific reference to the requirements set out in these Guidelines.

8.6 Summary of Required Documents for Auditor Approval

The following documents and information must be submitted to the Authority when seeking approval of the proposed auditor:

- a formal request (i.e. letter or email) from the licensee requesting the Authority to approve the nominated auditor;
- a copy of the Curriculum Vitae for each audit/review team member demonstrating their skills and experience relevant to the audit or review;[17]
- for audit companies, a business profile, or similar, demonstrating their capability and capacity to undertake the audit or review;
- a document containing an approximate timeline for the audit or review – the Authority requires a high level work program and confirmation that the audit or review report will be provided to the Authority by the due date;[18] and
- a declaration of independence prepared by the auditor.

9 Audit and Review Plan Approval

9.1 Responsibility for Developing the Audit or Review Plan

Throughout this section, reference to an audit plan is to be read as a reference to the plan in relation to an audit or review, as applicable.

The auditor is responsible for developing the audit plan. However, the Industry Acts do not include explicit provision for auditors to submit audit plans directly to the Authority.

The Authority requires either:

[17] If at any time a new member is added to the audit/review team, the auditor is required to provide a copy of the new member's Curriculum Vitae to the Authority.

[18] The Authority notes that the responsibility for the timely delivery of the audit or review jointly rests with the auditor and the licensee. For those licensees who have business operations over a number of facilities distributed across the State, the Authority recommends the auditor nomination acknowledge the need to visit more than one facility during the audit/review engagement.

- with the licensee's consent, the auditor submit the audit plan to the Authority for its approval, with a copy provided to the licensee; or
- the licensee submit the audit plan to the Authority, on behalf of the auditor.

9.2 General requirements for Audit/Review Plans

The assurance engagement standard, ASAE 3000[19] states that:

> The assurance practitioner shall plan an assurance engagement so that it will be performed effectively.
>
> [...]
>
> Planning involves developing an overall strategy for the scope, emphasis, timing and conduct of the assurance engagement, and an assurance engagement plan, consisting of a detailed approach for the nature, timing and extent of evidence-gathering procedures to be performed and the reasons for selecting them.[20]

ASAE 3000 also provides a list of examples of the main matters to be considered in the engagement plan:

- the terms of the assurance engagement;
- the characteristics of the subject matter and the identified criteria;
- the assurance engagement process and possible sources of evidence;
- the assurance practitioner's understanding of the entity and its environment, including the risks that the subject matter information may be materially misstated;
- identification of intended users and their needs, and consideration of materiality and the components of assurance engagement risk; and
- personnel and expertise requirements, including the nature and extent of experts' involvement.

The remainder of this section outlines the Authority's requirements in respect of an audit plan.

9.2.1 Audit or Review Objectives

The audit plan must include a statement setting out the objectives and purpose of the audit or review. The inclusion of an audit, or review objectives statement enables the Authority to confirm that the audit or review is being performed in accordance with the regulatory framework prescribed in the Industry Acts and complies with these Guidelines.

9.2.2 Scope of Work

The audit plan should include the scope of work, which comprises a number of components:

- a review of the actions taken to address the issues and recommendations identified during the previous audit or review – the audit plan should include a copy

[19] The assurance standard for engagements to audit other than historical financial information (ASAE 3000) was released by the Australian Government's Auditing and Assurance Standards Board in July 2007.

[20] ASAE 3000, paragraph 26

of the issues and recommendations from the previous audit or review, updated to provide the status of the actions taken to address each recommendation;

- facilities that will be visited by the auditors during the audit or review – this enables the Authority to determine whether the audit or review will examine an appropriate proportion of the licensee's business operations, particularly where these operations are geographically distributed;
- for each facility, the persons who will be interviewed, and the documentation that will be examined;[21] and
- work schedule – details of the key activities that will be performed during the audit or review (including report preparation), the audit or review team members who will be undertaking the activities and the amount of time that has been allocated to each activity.

9.3 Risk based approach to Audits and Reviews

9.3.1 Audit Methodology

The audit plan must apply the Authority's mandatory methodology for assessing risk, which is based on Australian/New Zealand Standard 31000:2009 (Risk Management – Principles and Guidelines). The methodology is described in more detail in Appendix 2. The output of the risk assessment process is the determination of an audit priority for each licence compliance obligation or each asset management system component. The calculated audit priority determines the nature and extent of audit procedures for each compliance obligation or asset management component.

9.3.2 Proposed Audit and Review Procedures

9.3.2.1 Overview

The Authority's preferred risk based methodology (based on Australian/New Zealand Standard 31000:2009 (Risk Management – Principles and Guidelines)) is intended to ensure that the depth of procedures in an audit or review is commensurate with the risk. There should be more extensive audit procedures performed on higher risk areas of the licensee's operations.

The Authority expects the auditor will apply ASAE 3000, ASA 500 (Audit Evidence) and ASA 530 (Audit Sampling) when determining the level and type of audit procedures to be applied to each licence condition or asset system effectiveness process. Generally, it is left to the professional judgement of the auditor to determine the audit procedures performed for each level of audit or review priority rating. The Authority expects items with a priority rating of 1 or 2 to be subject to extensive examination involving process reviews, interviews of relevant staff and, where applicable, sample procedures of process outputs. Items with a lower audit priority rating may be adequately examined through desktop reviews of procedures and confirmatory discussion with relevant staff.

It is acceptable for an auditor to use the recent work (i.e., within the last nine months of the audit or review period) of other independent experts (e.g.; EnergySafety Division of the Department of Commerce) when formulating the audit or review procedures to be

[21] Should the Authority require further information regarding these documents it will contact the auditor directly.

performed. Where the auditor is relying on the work of other parties, this should be explicitly disclosed in the audit plan.

9.3.2.2 Sample Procedures

Paragraph A52 of ASA 500 states:

> An effective test provides appropriate audit evidence to an extent that, taken with other audit evidence obtained or to be obtained, will be sufficient for the auditor's purposes. In selecting items for procedures, the auditor is required by paragraph 7 to determine the relevance and reliability of information to be used as audit evidence; the other aspect of effectiveness (sufficiency) is an important consideration in selecting items to test. The means available to the auditor for selecting items for procedures are:
>
> (a) Selecting all items (100% examination);
>
> (b) Selecting specific items; and
>
> (c) Audit sampling.

The Authority considers that audit sampling may be particularly appropriate for licence conditions that require an action to be completed within a specified timeframe, and where the strength of controls for that condition is rated as weak or moderate.

With regard to the selected sample size, ASA 530 (Audit Sampling) states:

> The level of sampling risk that the auditor is willing to accept affects the sample size required. The lower the risk the auditor is willing to accept, the greater the sample size will need to be. [22]
>
> […]
>
> The sample size can be determined by the application of a statistically-based formula or through the exercise of professional judgement.[23]

While specific details of the sample procedures to be undertaken are not required to be provided in the audit plan, the auditor should collect "sufficient appropriate evidence" commensurate with the audit or review priority of the licence obligation, or asset management effectiveness criteria, as applicable.

9.3.2.3 Examination of Compliance Reports and Compliance Registers

The Authority expects licensees to maintain a compliance (or breach) register in respect of their licence conditions. Auditors are required to incorporate the items in the compliance register into the audit plan, that is, the audit priority ratings in the audit plan should take into consideration the contraventions in the compliance register that were present during the period of time covered by the audit.

Licensees are required to provide to the Authority an annual compliance report detailing contraventions of licence conditions for the each financial year. Auditors are required to determine whether the compliance reports sent to the Authority during the audit period are consistent with the compliance register.

[22] Paragraph A10 of ASA 530.

[23] Paragraph A11 of ASA 530.

9.3.2.4 General discussion of Audit procedures

Auditors are required to provide a high level tabular summary of the type of audit procedures that may be applied for each audit or review priority level. An example is provided in Table 1.

Table 1: Example of possible audit procedures for each audit priority

Example of overview of audit procedures to be applied		
Audit priority (refer Appendix 2)		Example of possible audit procedures that may be applied
1	High Priority	Interviews with supervisory and operational personnel; Inspection of relevant documents; Obtain evidence that policies, procedures and controls are in place and working effectively;[24] Examine compliance reports and breach register; Obtain confirmations from third parties if applicable; Examine reports and correspondence with other regulators (e.g., EnergySafety); Close inspection of applicable asset infrastructure; Examination of asset management system effectiveness criteria; High level sampling may be applicable for output and timeliness procedures; and Recalculation of a sample of relevant performance indicators.
2		
3	Moderate Priority	Interviews with supervisory and operational personnel; Inspection of relevant documents; Obtain evidence that policies, procedures and controls are in place and that controls are working effectively;[25] Examine compliance reports and breach register; Physical examination of applicable asset infrastructure; Examination of asset management system effectiveness criteria; Sampling may be applicable for output and timeliness procedures; and Walkthrough the process to calculate relevant performance indicators.
4		
5	Lowest Priority	Interviews with supervisory or operational personnel; Desktop review of relevant documents; Desktop review of policies, procedures and controls in place; View compliance reports and breach register; Visit applicable asset infrastructure; Desktop review of asset management system effectiveness criteria; and Low level Sampling may be applicable for output and timeliness procedures.

Table 1 is provided for illustrative purposes only; auditors should apply their own policies in respect of audit and review procedures when they prepare the audit plan. The audit plan should provide sufficient information about these policies to enable the Authority to understand the scope of procedures that will be applied in respect of each audit priority rating.

[24] A controls assessment is mandatory for audit priority 1 and 2.

[25] This is mandatory for audit priority 3, and optional for audit priority 4.

9.3.3 Reporting

The audit plan should include a statement confirming that the audit or review report prepared by the auditor will comply with the format prescribed in section 11 of these Guidelines.

9.4 Specific Requirements for Audit Plans

The primary objective of an audit is to provide to the Authority an independent assessment of a licensee's compliance with all of the relevant obligations under the licence. Accordingly, the Authority requires the auditor to undertake a comprehensive review of the licensee's compliance with the licence, which requires an examination of each and every applicable compliance obligation relevant to the licence in the context of the licensee's business operations. The risk based audit approach described in section 9.3 and Appendix 2 should be applied when developing the audit plan.

It is assumed that the areas of special focus identified by the Authority will have audit procedures commensurate with the procedures applied for Audit priorities 1, 2 or 3, which includes assessing the effectiveness of controls. Similarly, the Authority requires auditors to assign a priority of 1, 2 or 3, as applicable, to obligations that were rated non-compliant in the previous audit that have not been rectified at the time that the audit plan is being prepared.

The remainder of this section details two possible approaches to determining the audit priority for the licensee's compliance obligations under the relevant Industry Act:

- application of an audit priority to each compliance obligation: or
- aggregation of similar compliance obligations with similar audit priorities.

9.4.1 Singular Audit Priority Assessment

The singular approach is where the auditor uses the compliance obligation framework in the relevant compliance manual[26] published by the Authority to identify the licence obligations[27] applicable to a licence, and then calculates an audit priority for each obligation. This is the most granular approach to calculating audit priorities.

9.4.2 Aggregated Audit Priority Assessment

Auditors may elect to apply the audit priority assessment framework at a level that captures more than one compliance obligation. Common approaches to aggregation include calculating an audit priority for:

- each licence clause;
- a component part of a legislative instrument such as acts, regulations and codes;[28] or

[26] Electricity Compliance Reporting Manual or Gas Compliance Reporting Manual.

[27] Each compliance obligation is given a unique number in the relevant compliance manual.

[28] For example, a single audit priority might be applied to whole or part of a code or a regulation, including sub-regulations.

- a group of compliance obligations that map onto the licensee's business processes (e.g. a common manager or business function is responsible for complying with the obligations).

Where aggregation has been applied to determining audit priority, the Authority will assume that the stated audit priority applies to each and every applicable compliance obligation, as defined in the relevant compliance manual, unless otherwise stated. Also, where the auditor has selected the third option in the above list, the audit plan should explicitly detail the obligation numbers that are included in the aggregated group of compliance obligations.

9.4.3 Presentation of Audit Priority in the Audit Plan

The final draft of the audit plan must include for each compliance obligation, licence clause, legislative instrument, or group of compliance obligations, as applicable, a table that identifies the risk assessment and audit priority rating. Table 2 provides an example based on licence clauses.

When developing the audit plan, the auditor may identify that one or more licence clauses/obligations do not apply to the licensee's business operations. Should this be the case, the auditor is required to identify the clauses/obligations in the audit plan and briefly explain why these obligations should not be tested by the audit.

Table 2: Presenting audit priority ratings in performance audit plans

Compliance Obligation Reference No. (Refer Electricity or Gas Compliance Reporting Manual)	**Compliance Obligation** (Cl.=clause, Sch.=schedule)	**Consequence** (1=minor, 2=moderate, 3=major)	**Likelihood** (A=likely, B=probable, C=unlikely)	**Inherent Risk** (Low, Medium, High)	**Adequacy of existing controls** (S=strong, M=moderate, W=weak)	**Audit Priority** (Refer to **Table 20** for audit priority ratings)					
						1	2	3	4	5	N/A
1.	Electricity Industry Customer Transfer Code Cl. 2.2(1)(a)	1	C	Low	Strong					✓	
2.	Electricity Industry Customer Transfer Code Cl. 2.2(1)(b)	2	C	Medium	Strong				✓		
etc.											

The auditor may wish to reduce the audit priority for some licence obligations (or group of obligations) from that calculated through the application of Appendix 2 if the licensee has demonstrated a high level of compliance over previous consecutive audits. If the auditor wishes to exercise this option then they must explain this approach in the audit plan. A request to reduce the audit priority would be considered by the Authority on a case by case basis. However, all licence obligations that are applicable to the licensee's operations must be subject to some level of audit procedures.

Where the Authority has advised the licensee, or the auditor, that it is of the opinion that a specific licence condition or obligation is relevant to the licensee's operations, and should be included in the scope of the audit, the auditor is required to amend the audit plan accordingly.

9.5 Specific Requirements for Review Plans

The primary objective of an asset management system effectiveness review is to provide to the Authority an independent assessment of the effectiveness of the licensee's asset management system in respect of the assets that are delivering the services covered by the licence.

To assist licensees and auditors, the Authority has developed a mandatory framework comprising 12 key asset management processes to be used to assess asset management effectiveness – refer to Appendix 4 for a description of the framework. Each asset management process details the desired outcome(s) if the process is being performed effectively, along with a minimum set of effectiveness criteria.

The Authority requires auditors to base their assessment of the licensee's asset management system on the framework described in Appendix 4. By applying the risk based audit approach described in section 9.3 and Appendix 2, auditors are able to determine the extent of examination and procedures that is to be applied to each asset management process. This ensures that high risk asset management processes are subjected to more detailed examination than lower risk processes.

9.5.1 Presentation of Audit Priority in the Review Plan

The final draft of the review plan should include a table containing the twelve asset management processes, the risk assessment and the review priority rating (see Table 3). Auditors may also wish to provide the review priority rating for each of the effectiveness criteria associated with each asset management system component.

Table 3: Asset management system review plan

Asset management system components	**Consequence** (1=minor, 2=moderate, 3=major)	**Likelihood** (A=likely, B=probable, C=unlikely)	**Inherent Risk** (Low, Medium, High)	**Adequacy of existing controls** (S=strong, M=moderate, W=weak)	**Review Priority** (Refer to **Table 20** for audit priority ratings)					
					1	2	3	4	5	N/A
Asset planning	1	C	Low	Strong					✓	
Asset creation and acquisition	2	C	Medium	Strong				✓		
etc.										

In developing the review plan, the auditor may identify that one or more asset management component/criterion does not apply to the licensee's asset management system. Should this be the case, the auditor is required to identify the asset management components/criterion in the review plan and briefly explain why it is being excluded from the review.

There are circumstances where some elements of the asset management framework, in particular asset planning, asset creation/disposal and financial planning, are performed by other entities on behalf of the licensee. This scenario frequently occurs where the licensee is a special purpose vehicle whose sole function is to operate the assets covered

by the licence on behalf of the asset owners, or where some functions are outsourced to a contractor. In this case, the auditor is required to make the necessary enquiries of the owning entity, or the contractor when preparing the audit plan.

9.6 Assistance Provided by the Authority

The licensee's previous audit or review report is available from the Authority's website (www.erawa.com.au).

The Authority may also, upon request from the licensee or the auditor, meet with the auditor to discuss any specific issues related to the audit or review planning process.

10 Conducting the Audit/Review

This section outlines some general principles to be followed by the auditor and the licensee to ensure the audit or review is conducted in a thorough and timely manner.

10.1 Assistance Provided by the Licensee

The Authority requires licensees to facilitate the audit or review process by providing to the auditor, as needed and in a timely manner:

- access to the facilities and business premises identified in the audit or review plan;
- access to required materials and information sources that the auditor needs to conduct the audit or review, including data, performance reports, records and any other relevant information;
- access to the relevant person(s) in each of the licensee's business units that are being audited; and
- an introduction to persons, other than employees of the licensee, who are relevant to the audit or review.

10.2 Deviation from the Approved Audit Plan

When the audit plan has been approved by the Authority, the auditor will then conduct the audit or review in accordance with the audit plan. However, as the audit or review progresses there may be a need to revise the audit plan based on the findings of the audit or review. The Authority requires that revisions to an audit plan that result in a higher or lower audit priority being assigned to a compliance obligation or asset management component, as applicable, are identified in the audit or review report along with a brief explanation of the reason for increasing/decreasing the audit priority. If the audit priority is raised to either a 1, 2 or 3 then the auditor is required to rate the adequacy of controls.

10.3 Fieldwork

During the audit or review, the auditor is required to undertake one or more visits, as needed, to the licensee's organisation to access information, make enquiries and interview key personnel. The auditor should assess compliance with the requirements of the licence through the application of audit procedures:

- **the control environment** – licensee's management philosophy and operating style, organisational structure, assignment of authority and responsibilities, the use of internal audit, the use of information technology and the skills and experience of the key staff members;
- **the information system** – the appropriateness of the licensee's information systems to record the information needed to comply with the licence, accuracy of data, security of data and documentation describing the information system;
- **control procedures** – the presence of systems and procedures to monitor compliance with the licence or the effectiveness of the licensee's asset management system and to detect or prevent instances of non-compliance or under-performance;
- **compliance attitude** - the action taken by the licensee in response to any previous audit/review recommendations, and an assessment of the licensee's attitude towards compliance; and
- **outcome compliance** – the actual performance against standards prescribed in the licence throughout the audit period.

10.4 Audit Evidence

ASAE 3000 (paragraphs 56-63) provides guidance on the quantity and quality of audit evidence to be obtained when conducting an audit or review. The standard states an auditor:

> shall obtain sufficient appropriate evidence on which to base the conclusion.

It is left to the auditor to use their professional judgement to determine what constitutes sufficient audit evidence for each audit or review they perform.[29] However, the Authority requires the auditor to develop a comprehensive set of working papers throughout the audit or review. The working papers need to be sufficiently detailed to provide a high standard of evidence to support the auditor's opinions and recommendations that are included in the audit report. The auditor is required, upon request, to provide the Authority with access to the working papers.

10.4.1 Specific Requirements for Procedures Output Compliance

There are licence conditions and obligations arising under the legislation, regulations and codes that require licensees to develop processes to ensure that activities are completed within prescribed timeframes. Examples include responding to customer complaints, connecting and re-connecting customers on time and providing annual compliance and performance reports to the Authority. The Authority expects auditors to perform appropriate audit procedures to determine whether a licensee has complied with the obligation. The nature and extent of the procedures will be guided by the audit priority of the licence obligation. If a licensee has a strong control environment with high level of visibility of the required compliance outcomes, then it may be appropriate for the auditor to rely on the available data provided by the licensee to assess compliance. However, if the licensee is assessed as having a weak control environment, then the Authority expects the auditor to perform more detailed audit procedures, including audit sampling, to assess the level of compliance.

[29] Reference is also made to section 9.3.2 of these Guidelines with relation to audit procedures.

10.5 Professional Scepticism

The auditor is expected to adopt an attitude of professional scepticism throughout the audit/review. ASAE 3100 (paragraph 11(a)) states that having an attitude of professional scepticism:

> means the assurance practitioner makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents and responses to enquiries and other information obtained from management and the responsible party.

11 Audit and Review Reports

The auditor is required to provide a comprehensive report to the licensee and the Authority that clearly expresses the opinion of the auditor in respect of the findings of the audit or review. ASAE 3000 provides a useful reference framework of the structure and content of assurance reports.[30]

The remainder of this section sets out the minimum set of information to be included in an audit or review report provided to the Authority for approval. This does not preclude the auditor from including in the report other information that they deem relevant to the audit or review outcomes.

11.1 Executive Summary

11.1.1 Performance Audits

The executive summary of the audit report must include:

- a statement that the audit has been conducted in order to assess the licensee's level of compliance with the conditions of its licence;
- a brief description of the type of licence held by the licensee, the business that is the subject of the licence, and any major changes to either since the previous audit;
- an summary assessment of the actions taken by the licensee in response to the recommendations in the previous audit report with reference to Table 4 (section 11.3);
- a summary of issues and recommendations arising from the current audit;
- the opinion of the auditor on the control environment operated by the licensee;
- an overall assessment of compliance with the licence, including the licence contraventions found by the audit and the integrity of the licensee's reporting to the Authority and other statutory organisations; and
- any other information the auditor considers relevant to include in the summary.[31]

[30] Refer to paragraphs 78 – 80 of ASAE 3000.

[31] If the post-audit and/or post-review implementation plans are incorporated into the audit and/or review report, the auditor should specify that the post-audit and/or post-review implementation plans are prepared by the licensee and do not form part of the auditor's opinion.

11.1.2 Asset Management System Reviews

The executive summary of the review report must include:

- a statement that the review has been conducted in order to assess the effectiveness of the licensee's asset management system;
- a brief description of the assets that have been reviewed and any major changes to those assets since the previous review;
- an assessment of the actions taken by the licensee in response to the recommendations in the previous review report, with reference to Table 5 in section 11.3;
- a summary of issues and recommendations arising from the current review in a tabular form (asset management system component, issue and recommendation);
- the opinion of the auditor on the control environment operated by the licensee;
- an overall assessment of the effectiveness of the licensee's asset management system; and
- any other information the auditor considers relevant to the review.

11.2 Scope of Work

The audit or review scope of work must include:

- a description of the audit or review objectives and the methodology used to conduct the audit or review;
- the interval of time covered by the audit or review and the previous audit or review, if applicable;
- the period over which the audit or review has been performed;
- details of the licensee's representatives participating in the audit or review;
- details of key documents and other information sources examined by the auditor during the course of the audit or review;
- details of the audit or review team members and hours utilised by each member; and
- any other information the auditor considers relevant to the audit or review scope of work.

11.3 Licensee's Response to Previous Recommendations

The audit or review report must provide details of:

- the recommendations from the previous audit using the format specified in Table 4 below;
- the recommendations from the previous review using the format specified in Table 5 below,

as applicable.

Table 4 provides a breakdown of the recommendations from the previous audit into three groupings: recommendations resolved before the end of the previous audit period, recommendations resolved during the current audit period and recommendations outstanding at the end of the current audit period.

Table 5 provides a breakdown of the recommendations from the previous review into three groupings: recommendations resolved before the end of the previous review period, recommendations resolved during the current review period and recommendations outstanding at the end of the current review period.

Table 4: Previous audit non compliances and recommendations

Table of Previous Non Compliances and Audit Recommendations				
A. Resolved before end of previous audit period				
Reference (no./year)	**(Compliance rating/ Legislative Obligation/ details of the issue)**	**Auditors' Recommendation or action taken**	**Date Resolved**	**Further action required (Yes/No/Not Applicable) & Details of further action required including current recommendation reference if applicable**
01/2013	*Non-compliant - 2* *Code of Conduct for the Supply of Electricity to Small Use Customers - Clause 5.2(2).* Credit card payment numbers are not checked against customer details prior to processing the payment.	The Licensee should introduce a validation protocol that confirms the credit card payment number against customer details prior to processing the payment.	1/07/13	Yes - The protocol should be regularly updated to allow for credit card changes (refer to recommendation 02/2015)
etc.				
B. Resolved during current Audit period				
Reference (no./year)	**(Compliance rating/ Legislative Obligation/ details of the issue)**	**Auditors' Recommendation**	**Date Resolved**	**Further action required (Yes/No/Not Applicable) & Details of further action required including current recommendation reference if applicable**
02/2013	*Non-compliant - 2* *Electricity Industry Customer Transfer Code Annex 6* - Clause A6.2 (a) Licensee does not have an IT disaster recovery plan.	The Licensee should develop and implement an IT Disaster Recovery Plan.	20/3/14	No
etc.				
C. Unresolved at end of current Audit period				
Reference (no./year)	**(Compliance rating/ Legislative Obligation/ details of the issue)**	**Auditors' Recommendation**		**Further action required (Yes/No/Not Applicable) & Details of further action required**
03/2013	*Non-compliant - 2* *Code of Conduct for the Supply of Electricity to Small Use Customers - Clause 5.3.* A review of the incident register identified that the Licensee had experienced a system defect within its IVR process. It is understood that the system error did not enable customer credit card payments to be correctly processed so that funds could be withdrawn in accordance with the authorisation.	The Licensee continues to investigate and rectify the cause of the system error to ensure the system is accurately complying with the customer's instructions during the IVR process.		Yes - complete the actions addressing the recommendation.

Table 5: Previous review ineffective components recommendations

Table of Previous Review Ineffective Components Recommendations				
A. Resolved before end of previous review period				
Reference (no./year)	**(Asset management effectiveness rating/ Asset Management System Component & Criteria / details of the issue)**	**Auditors' Recommendation or action taken**	**Date Resolved**	**Further action required (Yes/No/Not Applicable) & Details of further action required including current recommendation reference if applicable**
01/2013	*B3* Asset Planning – Likelihood and consequence of asset failure is predicted. Likelihood and consequence of asset failure has not been predicted. In the asset management plan.	Likelihood and consequence of asset failure should be predicted in the asset management plan for key infrastructure assets.	15/05/13	Yes – while key assets have been assessed, the asset management plan does not require regular updates to be undertaken. Amend the asset management plan to include a procedure for ongoing review of likelihood and consequence of failure of assets. (refer to recommendation 02/2015)
etc.				
B. Resolved during current Review period				
Reference (no./year)	**(Asset management effectiveness rating/ Asset Management System Component & Criteria / details of the issue)**	**Auditors' Recommendation**	**Date Resolved**	**Further action required (Yes/No/Not Applicable) & Details of further action required including current recommendation reference if applicable**
02/2013	*A3* Asset Operations – assets are documented in the asset register. The condition assessment of transmission assets is not undertaken on a regular basis.	Update the transmission assets structural condition on a regular basis.	20/3/14	No
etc.				
C. Unresolved at end of current Review period				
Reference (no./year)	**(Asset management effectiveness rating/ Asset Management System Component & Criteria / details of the issue)**	**Auditors' Recommendation**		**Further action required (Yes/No/Not Applicable) & Details of further action required**
03/2013	*A4* Contingency Planning – Plans are documented, understood and tested to confirm operability and cover higher risks. The contingency plan for loss of gas supply to the generation plant had not been tested for four years.	Test the contingency plan for loss of gas supply to the generation plant on a regular basis and at least every two years.		Yes - complete the actions addressing the recommendation.

11.4 Performance Summary

As discussed in section 6, the purpose and scope of performance audits is different to those of an asset management system review. The performance summary of the audit or review report must report according to the relevant rating framework described in the following sections.

11.4.1 Performance Audit Compliance Summary

The performance audit report must provide a table that summarises the compliance rating for each licence condition using the two-dimensional rating scale described in Table 6.

Each obligation must be rated for both the adequacy of existing controls and the compliance with the relevant licence obligation.

The overall compliance rating applied to each licence condition or obligation is left to the judgement of the auditor. However, the auditor is required to tabulate the risk ratings and the overall compliance and adequacy of controls rating for each licence condition in a format consistent with Table 6. For guidance on the definition of minor, moderate and major impacts mentioned in Table 6 please refer to the consequence ratings in Table 15 of this Guideline.

Table 6: Audit compliance and controls rating scales

Performance audit compliance and controls rating scales			
Adequacy of Controls Rating		**Compliance Rating**	
Rating	**Description**	**Rating**	**Description**
A	Adequate controls – no improvement needed	1	Compliant
B	Generally adequate controls – improvement needed	2	Non-compliant – minor impact on customers or third parties
C	Inadequate controls – significant improvement required	3	Non-compliant – moderate impact on customers or third parties
D	No controls evident	4	Non-compliant – major impact on customers or third parties

The overall compliance ratings applied to each licence condition or obligation is left to the judgement of the auditor. However, the auditor is required to tabulate the risk ratings and the overall compliance and adequacy of controls rating for each licence condition in a format consistent with Table 7.

The concept of materiality is important to the auditor's assessment of the compliance rating for each licence condition. ASAE 3000 states:

> Materiality is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and extent of the effect of these factors on the evaluation or measurement of the subject matter, and the interests of the intended users.

The primary objective of the audit is to provide the Authority with an independent assessment of a licensee's compliance with its licence conditions. The primary users of

the audit report are the licensee and the Authority.[32] The audit report must inform the licensee and the Authority of any contraventions of the licence during the audit period.

Consistent with the objective of the audit, any evidence that a licence condition has been contravened during the audit period should result in the auditor rating the licence condition as non-compliant. This includes the situation where the auditor needs to assess a large number of manual or electronic records to determine a licensee's compliance with a particular licence condition, and only a small number (including single occurrences) of contraventions are identified by the auditor.

There are also situations where a contravention of a licence condition results in consequential contraventions of related licence conditions. Auditors are advised to provide additional information to explain this to the reader.

Where the contravention of a licence condition was present for only a portion of the audit period, and the issue was resolved before the expiry of the audit period, the auditor should rate the licence condition as non-compliant. In this case, it is possible that the auditor will not provide a recommendation in the audit report if satisfied that the cause(s) of the contravention have been satisfactorily addressed. The audit report should disclose how the cause(s) of the contravention was resolved.

It is mandatory for the auditor to provide an adequacy of controls rating for licence obligations with audit priorities 1, 2 or 3. Auditors are also required to provide an adequacy of controls rating for all obligations that are rated non-compliant during the course of the audit (see Table 6).

Table 7: Audit Obligation Ratings

Compliance Obligation Reference No. (Refer Electricity or Gas Compliance Reporting Manual)	**Licence Reference**	**Audit Priority applied** (rated 1 (Highest) to 5 (Lowest))	**Adequacy of Controls Rating** (Refer to the 4-point rating scale in Table 6 for details) (NP = Not Performed)					**Compliance Rating** (Refer to the 4-point rating scale in Table 6 for details)			
			A	B	C	D	NP	1	2	3	4
1	Electricity Industry Customer Transfer Code Cl. 2.2(1)(a)	2		✓						✓	
2	Electricity Industry Customer Transfer Code Cl. 2.2(1)(b)	5					✓	✓			
etc.											

Where it is not possible to provide a compliance rating because no activity has taken place to exercise the obligation during the audit period, the auditor is required to state that they have not rated the obligation for the reason provided. Obligations that have not been given a compliance rating are to be detailed in a separate part of the report.

Obligations that were determined to be "not applicable" during the audit planning stage should not be included in the audit report. However, any obligations identified as 'not

[32] The Minister for Energy is also an indirect user as the Authority must provide a report on the audit to the Minister within two months of receipt of the audit report.

applicable' during the course of the audit should be identified as such in the Audit report by the auditor.

The auditor is required to include additional information in the observations section of the audit report (see section 11.5) that supports the ratings in the summary table.

The Authority expects auditors who have rated a compliance obligation as C, D, 2, 3 or 4 to also make recommendations to address the issue(s) that have resulted in that rating. Auditors may, optionally, include recommendations to address opportunities for improvement (for items rated A, B or 1) in the audit report.

11.4.2 Asset Management Review Effectiveness Summary

The asset management review report must provide a table that summarises the auditor's assessment of each of the 12 key asset management processes together with the effectiveness criteria for each key component (refer to Table 10), based on the rating scales in Table 8 (process and policy definition) and Table 9 (performance). It is left to the judgement of the auditor to determine the most appropriate rating for each asset management process and criteria.

The overall effectiveness rating for each asset management process is based on the combination of the process and policy adequacy rating and the performance rating.

Table 8: Asset management process and policy definition adequacy rating

Rating	Description	Criteria
A	Adequately defined	• Processes and policies are documented. • Processes and policies adequately document the required performance of the assets. • Processes and policies are subject to regular reviews, and updated where necessary. • The asset management information system(s) are adequate in relation to the assets that are being managed.
B	Requires some improvement	• Process and policy documentation requires improvement. • Processes and policies do not adequately document the required performance of the assets. • Reviews of processes and policies are not conducted regularly enough. • The asset management information system(s) require minor improvements (taking into consideration the assets that are being managed).
C	Requires significant improvement	• Process and policy documentation is incomplete or requires significant improvement. • Processes and policies do not document the required performance of the assets. • Processes and policies are significantly out of date. • The asset management information system(s) require significant improvements (taking into consideration the assets that are being managed).
D	Inadequate	• Processes and policies are not documented. • The asset management information system(s) is not fit for purpose (taking into consideration the assets that are being managed).

Table 9: Asset management performance ratings

Rating	Description	Criteria
1	Performing effectively	• The performance of the process meets or exceeds the required levels of performance. • Process effectiveness is regularly assessed, and corrective action taken where necessary.
2	Opportunity for improvement	• The performance of the process requires some improvement to meet the required level. • Process effectiveness reviews are not performed regularly enough. • Process improvement opportunities are not actioned.
3	Corrective action required	• The performance of the process requires significant improvement to meet the required level. • Process effectiveness reviews are performed irregularly, or not at all. • Process improvement opportunities are not actioned.
4	Serious action required	• Process is not performed, or the performance is so poor that the process is considered to be ineffective.

Table 10 provides a template summary table that is to be used to report effectiveness in review reports. The auditor is required to replicate this table in order to facilitate comparison and benchmarking of review outcomes.

Table 10: An example of an asset management system effectiveness summary

ASSET MANAGEMENT SYSTEM COMPONENT & EFFECTIVENESS CRITERIA (Refer Table 22)	Asset management process and policy definition adequacy rating	Asset management performance rating
Asset planning	B	2
Asset management plan covers key requirements	B	1
Planning process and objectives reflect the needs of all stakeholders and is integrated with business planning	A	1
Service levels are defined Non-asset options (e.g. demand management) are considered	C	2
Lifecycle costs of owning and operating assets are assessed Funding options are evaluated	B	3
etc.	etc.	etc.

The auditor may include additional information in the observations section of the audit report (see section 11.5) that supports the review findings.

The Authority requires auditors who have rated:

- the adequacy of the process and policy definition process as C or D; or
- the asset management performance as 3 or 4,

to also make recommendations to address the issue(s) that have resulted in that rating.

Auditors may also include recommendations to address opportunities for process improvements (for items rated A, B, 1 or 2) in the review report.

11.5 Observations

The observations section of the audit or review report expands on the findings presented in the compliance summary (performance audits) or effectiveness summary (asset management system reviews). The observations should be detailed enough to inform the Authority of the basis for the auditor arriving at the findings and recommendations contained in the report including:

- key findings of the audit or review fieldwork;
- sources of information used to assess compliance or effectiveness, as appropriate;
- audit procedures performed (including, if applicable, details of sample procedures and the sample size used) to assess compliance or effectiveness;[33]
- reviews of systems and/or procedures that were performed during the audit or review;
- interviews with relevant personnel, including licensee's staff or external experts; and
- the overall level of compliance or effectiveness demonstrated by the licensee during the time period covered by the audit or review.

Licensees should be aware that, after its review the draft audit or review report, the Authority retains the right to request the auditor to perform further audit procedures (including an increased level of sampling) should this be deemed necessary by the Authority. This situation may arise when the Authority considers that the audit procedures undertaken by the auditor have not adequately examined the licensee's compliance with a particular licence obligation(s) or the effectiveness of a particular component(s) of the licensee's asset management system commensurate with the audit or review priority in the audit or review plan.

To facilitate cross-referencing, the use of a tabular format to present the observations and recommendations, along with references to the summary findings is required.

11.6 Recommendations

The auditor is required to provide detailed recommendations on the actions to be taken by the licensee to address non-compliances or controls improvements (audits); or process deficiencies (reviews).

[33] If sampling has been used to assess the compliance of licence conditions during the audit, the auditor must provide the sample size in the observations in the audit report. Where sample procedures have been performed, the size of the sample for each relevant licence condition should be disclosed in the audit report. Licensees should be aware that the Authority reserves the right to request the auditor to undertake further audit procedures (including an increased level of sampling) should it consider the audit procedures performed to be inadequate. This may occur when the Authority considers that the original audit procedures did not adequately examine the Licensee's compliance with a particular licence obligation(s), or the effectiveness of a particular component(s) of its asset management system to a level that is commensurate with the audit priority in the audit plan.

The audit and review recommendations are required to be 'stand-alone'; the reader should be able to understand the findings that led to the recommendation without having to refer to other parts of the audit or review report. Auditors should also avoid the repetition of recommendations where possible, if a recommendation relates to multiple obligations or licence conditions, then it should be stated once in the report and then referenced elsewhere in the report. Recommendations addressing non-compliances or asset management system process deficiencies should avoid terminology that makes implementing the recommendation optional.[34]

The Authority requires recommendations to be presented in a tabular format consistent with Table 11 (audits) or Table 12 (reviews).

[34] For these recommendations the auditor should avoid phrases such as 'the licensee should investigate…' or 'the licensee may consider…'.

Table 11: Current audit non-compliances and recommendations

Table of Current Audit Non Compliances/Recommendations			
A. Resolved during current Audit period			
Manual Ref.	**Non Compliance/Controls improvement (Rating / Legislative Obligation / Details of Non Compliance or inadequacy of controls)**	**Date Resolved (& management action taken)**	**Auditors comments**
19	C3 *Electricity Industry Customer Transfer Code* - Clause 3.9(4) Licensee did not keep the customers verifiable consent for at least two years.	20/3/14 – The Licensee has implemented a system change ensuring verifiable consents are kept for at least 2 years.	No further action required.
etc.			

B. Unresolved at end of current Audit period			
Reference (no./year)	**Non Compliance/Controls improvement (Rating / Legislative Obligation / Details of Non Compliance or inadequacy of controls)**	**Auditors' Recommendation**	**Management action taken by end of Audit period**
01/2015	B2 *Code of Conduct for the Supply of Electricity to Small Use Customers - Clause 2.4.* It was noted that the billing agents are provided with letters of instructions by the licensee on customer requirements and obligations. It may be more effective to summarise requirements in a compliance guide and check compliance regularly. There were findings through the audit (e.g. due date for payment on bills) that showed that compliance is not yet achieved and better enforcement is required.	A concise compliance guide /flowchart or procedure should be implemented to assist the licensee and billing agents in fulfilling their obligations.	Draft flowchart has been designed. Next step is to rollout the new process to the billing agents.
02/2015	B1 *Code of Conduct for the Supply of Electricity to Small Use Customers - Clause 5.2(2).* While management has implemented a system that confirms customer details before the credit card payment is processed, however, the protocol should be regularly updated to allow for credit card changes.	The protocol should be regularly updated to allow for credit card changes. This should be automated if possible.	The project to address this issue has been approved, but will not be implemented until 31/12/2015

Table 12: Table of Current Review Asset System Deficiencies/Recommendations

Table of Current Review Asset System Deficiencies/Recommendations			
A. Resolved during current Review period			
Ref.	**Asset System Deficiency (Rating / Asset Management System Component & Effectiveness Criteria / Details of Asset System Deficiency)**	**Date Resolved (& management action taken)**	**Auditors comments**
1	A3 Asset Management Information System – Logical Security access controls appear adequate, such as passwords. For 6 months during the review period, the password system for the Asset Management Information System could be easily by-passed by any staff member.	20/3/14 – The Licensee has implemented a system change ensuring the integrity of password security of the IT system. Only relevant staff with unique passwords can now access the Asset Management Information System.	No further action required.
etc.			

B. Unresolved at end of current Review period			
Reference (no./year)	**Asset System Deficiency (Rating / Asset Management System Component & Effectiveness Criteria / Details of Asset System Deficiency)**	**Auditors' Recommendation**	**Management action taken by end of Audit period**
01/2015	A3 Asset Maintenance – maintenance Plans are documented and completed on schedule Preventative maintenance plans for some generation plant are not completed on schedule with some plans around 8 months late.	Focus on completing the outstanding preventative maintenance plans. Examine and address the reasons for the delay.	Reasons for the delay have been addressed. An extra maintenance staff member was employed during review period to focus on the preventative maintenance plans which are still outstanding at the end of the review period.
02/2015	C2 Asset Planning – Likelihood and consequence of asset failure is predicted. Likelihood and consequence of asset failure should be predicted in the asset management plan for key infrastructure assets. While key assets have been assessed, the asset management plan does not require regular updates to be undertaken.	Amend the asset management plan to include a procedure for ongoing review of likelihood and consequence of failure of key assets.	The recommendation has not been addressed.

Tables 11 and 12 provide breakdowns of the non-compliances and asset system deficiencies identified by the current audit and review respectively. Each table provides a breakdown of non-compliances/deficiencies that were resolved before the end of the current audit and review period and non-compliances/deficiencies outstanding at the end of the current audit and review period. The auditor is requested to reference the recommendations using the numbering convention described in Tables 11 and 12. This will be helpful in tracking non-compliances and asset system deficiencies over multiple audits and reviews.

11.7 Approval of the Report by the Auditor

The auditor is required to confirm their approval of the content of the audit or review report by:

- including a statement to the effect that the audit or review report is an accurate presentation of their findings and opinions;
- attaching the signature of a person authorised to make the above statement on behalf of the auditor;
- stating the date on which the above signature was attached to the report; and
- providing the address and contact details for the auditor.

Alternatively, the above information may be provided in a dated covering letter attached to the audit or review report.

11.8 Post-Audit and Post-Review Implementation Plans

The licensee must provide to the Authority a post-audit or post-review implementation plan, as appropriate, with the audit or review report. The post-audit or post-review implementation plan can be either a separate document attached to the audit or review report, or incorporated into the report as an attachment.

It is the responsibility of the licensee to develop the post-audit or post-review implementation plan. If the post-audit or post-review implementation plan is included in the audit or review report then it should be clearly stated that the plan does not form part of the audit findings. It is left to the discretion of the auditor and the licensee to determine whether this distinction can be best achieved by providing two separate documents, or by the auditor including a caveat in the final report stipulating that the plan does not form part of their opinion.

The post-audit or post-review implementation plan must identify for each of the auditor's recommendations (refer to section 11.6):

- the action(s) the licensee proposes to take to address the auditor's recommendations;
- the position(s) or business function(s) in the licensee's organisation that will be responsible for undertaking the proposed action(s); and
- the date by which the proposed action(s) will be completed.

It is mandatory that the post-audit or post-review implementation plan includes actions to address licence obligations that have been rated C, D, 2, 3 or 4 or asset management process deficiencies (rated C, D, 3 or 4). It is left to the discretion of the licensee to determine whether to also include in the post-audit or post-review implementation plan

actions to address recommendations made by the auditor that represent opportunities to improve licence compliance (rated A, B or 1) or asset management effectiveness (rated A, B, 1 or 2).

The Authority will not commence the audit or review report approval process until both the audit or review report and the related post-audit or post-review implementation plans have been received. The post-audit or post-review implementation plan will be published on the Authority's website.

11.9 Disagreement between the Auditor and the Licensee

There may be circumstances where the auditor and licensee are not able to agree on either the audit or review findings, or the auditor's recommendations. Should this situation arise, the auditor and licensee are encouraged to take all reasonable steps to resolve the issue. If it is not possible for the auditor and licensee the reach a resolution, then the auditor is required to include details of the points of disagreement in the audit report. This section must identify:

- the auditor's original finding and or recommendation;
- the licensee's response to the auditor's finding and or recommendation; and
- if applicable, the amendment to the audit report requested by the licensee.

11.10 Reporting to the Authority

The licensee is encouraged to forward a draft audit or review report to the Authority for comment prior to submitting the final report for approval. However, the Authority will not commence the approval process until it has received the final audit or review report and the related post-audit or post-review implementation plan (see section 11.8).

The auditor is responsible for producing the audit or review report and providing the required copies of the report to the licensee. The final version of the report is to be submitted to the Authority for approval in electronic format in both Microsoft Word[35] and Adobe Acrobat format on a CD-ROM, or transmitted by email to records@erawa.com.au. The PDF version of the report must have the electronic signature of the auditor which will be redacted before publication by the Authority.

11.11 Repeat Audit

The Authority may require the licensee to repeat the audit or review using the same auditor, or an alternative auditor of the Authority's choosing, in the event that one or more of the following occur:

- the auditor has not conducted the audit or review in accordance with the approved audit plan, subject to reasonable variation as described in section 10.2;
- the audit team is changed during the course of the audit or review in a way that, in the view of the Authority, unacceptably compromises the conduct of the audit or review;

[35] The Word version of the document will be used solely for the purpose of extracting information for inclusion in documents prepared within the Authority and to prepare a version of the audit report in Adobe PDF format for publication on the Authority's website. The Word document will not be circulated outside the Authority.

- the auditor has not observed its responsibility to the Authority by withholding relevant information in the audit or review report; or
- the audit or review report does not comply with the mandatory components of these Guidelines, or the report is deemed to be of an unacceptable quality by the Authority.

The Authority will give the auditor an opportunity to resolve any issues with the audit or review before requiring the audit or review to be repeated.

12 Reporting by the Authority

When the Authority has approved the audit or review report, it will:

- provide a copy of the report to the Minister for Energy within 2 months of the receipt of the final report; and
- subsequent to the report being provided to the Minister, the Authority will publish a copy of the audit or review report, and the related post-audit or post-review implementation plan on its website: www.erawa.com.au

13 Commercial Confidentiality

In performing its licensing functions under the Industry Acts, the Authority has an obligation to promote transparent decision making and undertake public consultation. Consistent with these aims, the Authority will publish on its website each audit and review report received from a licensee.

Where, in the licensee's reasonable opinion, the audit or review report contains confidential or commercially sensitive information, the licensee should clearly identify the information that is claimed to be confidential or commercially sensitive. "Confidential or commercially sensitive information" is information of the type that would ordinarily be covered by the *Freedom of Information Act 1992* - Schedule 1, clause 4. That is, information such as trade secrets or sensitive commercial information that would cause detriment to the organisation if disclosed.

Licensees are encouraged to carefully review the basis on which they wish to claim information in the audit or review report is confidential or commercially sensitivity before submitting their claim to the Authority. A licensee must not make a blanket claim of confidentiality or commercial sensitivity in relation to an audit or review report, but clearly identify the exact information covered by the claim, along with information to substantiate the claim. Where, in the Authority's view, a claim is excessive or not substantiated, the Authority may request the licensee to amend their claim.

14 Amendments

The Authority may amend or revoke these Guidelines.

Any significant amendments will be made available to licensees and interested parties for comment prior to their release by the Authority.

Appendix 1 – Relevant Relationships for Assessing Auditor Independence

Section 324CH of the *Corporations Act 2001 (Cth)* (**Corporations Act**) describes a number of relevant relationships that need to be considered by auditors for the purposes of determining whether a conflict of interest situation may exist in respect of the proposed audit/review of the licensee. These relationships are reproduced in this Appendix to clarify the extent to which the Authority requires auditors to examine the potential for a conflict of interest situation in respect of the audit/review.

Table 13: Relevant relationships applicable to assessing auditor independence

Relevant Relationships
The following relationships apply to a person (or, if applicable, an audit company) at a particular time that the person (or audit company):
Is an officer of the licensee
Is an audit-critical employee of the licensee
Is a partner of: • an officer of the licensee; or • an audit-critical employee of the licensee.
Is an employer of: • an officer of the licensee; or • an audit-critical employee of the licensee.
is an employee of: • an officer of the licensee; or • an audit-critical employee of the licensee.
Is a partner or employee of an employee of: • an officer of the licensee; or • an audit-critical employee of the licensee.
Provides remuneration to: • an officer of the licensee; • an audit-critical employee of the licensee, for acting as a consultant to the person.
Was an officer of the licensee at any time during: • the period to which the audit/review relates; or • the 12 months immediately preceding the beginning of the period to which the audit/review relates; or • the period during which the audit/review is being conducted or the audit/review report is being prepared.
Was an audit-critical employee of the licensee at any time during: • the period to which the audit/review relates; or

Relevant Relationships
• the 12 months immediately preceding the beginning of the period to which the audit/review relates; or • the period during which the audit/review is being conducted or the audit/review report is being prepared.
Has an asset that is an investment in the licensee.
Has an asset that is a beneficial interest in an investment in the licensee and has control over that asset.
Has an asset that is a beneficial interest in an investment in the licensee that is a material interest.
Has an asset that is a material investment in an entity that has a controlling interest in the licensee.
Has an asset that is a material beneficial interest in an investment in an entity that has a controlling interest in the licensee.
Owes an amount to: • the licensee; or • a related entity; or • an entity that the licensee controls.
Is owed an amount by: • the licensee; or • a related entity; or • an entity that the licensee controls.
Is liable under a guarantee of a loan made to: • the licensee; or • a related entity; or • an entity that the licensee controls.
Is entitled to the benefit of a guarantee given by: • the licensee; or • a related entity; or • an entity that the licensee controls.

Notes to Table 13:

1. An officer is a person who is:
   - a partner in a partnership; or
   - an office holder in an unincorporated association; or
   - a person who:
     - makes, or participates in making, decisions that affect the whole, or a substantial part, of the business of the entity; or
     - who has the capacity to affect significantly the licensee's financial standing.

2. An entity can be any of the following:
   - a body corporate;
   - a partnership;
   - an unincorporated body;
   - an individual;
   - for a trust that has only 1 trustee--the trustee; or

- for a trust that has more than 1 trustee--the trustees together.

3. Audit company means:

- an individual auditor; or
- a service company or trust acting for, or on behalf of, an individual auditor, or another entity serving a similar function; or
- a body corporate; or
- a partnership; or
- an unincorporated body.

4. Where the person referred to in Table 13 is a member of the audit team then the personal relationship tests should be applied to that person and their immediate family members, which includes:

- the person's spouse, *de facto* or partner; or
- a person who is wholly or partially dependent on the person.

5. An audit-critical employee is a person who is in a position to exert influence over the matters being audited or the conduct of the audit.

6. Table 13 and the attached notes are a summary of the requirements of section 324CH of the *Corporations Act 2001* only. *A*uditors and licensees should refer to both the Corporations Act and relevant professional standards when assessing the independence of auditors.

Appendix 2 – Risk Based Approach to Audits and Reviews

Assessing Risk

The first stage of an audit or review is to conduct a preliminary assessment of the risks of non-compliance with the licence conditions or ineffective management of assets respectively in order to identify higher risk areas for procedures and focus the audit/review accordingly.

The preliminary risk assessment is to be documented in the audit plan, which is then presented to the Authority and the licensee for approval prior to the fieldwork commencing. The risk assessment should be reviewed during the fieldwork phase of the audit/review and may need to be updated in accordance with the audit/review findings.

The risk assessment approach to the conduct of audits and reviews is based on the Australian/New Zealand Standard AS/NZS 31000:2009 Risk Management as shown in Diagram 1.

Diagram 1 – Risk management approach

The main elements of the risk assessment process relevant to an audit/review are described below.

Establish the Context

The context is:

- the business objectives of the licensee;
- organisational culture, structure, roles and accountabilities;
- the relevant legal and regulatory environment that applies to the particular industry;
- industry codes;
- the licence conditions;
- the Authority's regulatory functions and objectives; and
- for reviews, effective asset management practices.

Identify Risks

For audits, examine the licence conditions and identify the risks that may affect compliance with these conditions. Consider where, when, why and how events could prevent, degrade or delay compliance with the licence obligations.

For reviews, examine the asset management processes and identify the risks that may adversely impact on the process and result in ineffective asset management processes.

The following steps in the risk evaluation process are common to audits and reviews. It is left to the auditor to apply the principles to the audit/review based on their knowledge of the licensee's business[36] and the relevant regulatory framework. For the purposes of illustration the remainder of this appendix focuses on audits, but the processes leading to the calculation of audit priorities can be equally applied to determining the audit priority for asset management processes in a review.

Licences are granted by the Authority subject to conditions intended to promote the objectives of the legislation governing the Authority. The conditions relevant to the licensing of service providers have been used to frame the types of risk as shown in Table 14.

Table 14: Types of compliance risk

Type of Risk	Examples
Supply quality and reliability	Delays in new connections, excessive supply interruptions, supply quality standards not met.
Consumer protection	Customer service levels not met, incorrect bills, disconnection and reconnection standards not met, customers unable to access financial hardship assistance.
Legislation/licence	Breach of industry Acts, regulations and codes, contravention of licence conditions.

Analyse Risks

One approach to analysing the compliance risks involves a two-stage process:

1) Identify the consequences and likelihood of the inherent risks to give an overall inherent risk rating.

2) Identify and assess the strength of the existing internal controls that mitigate the inherent risks.

These steps are explained in more detail below.

1. Identify the consequences and likelihood of the inherent risks to give an overall inherent risk rating

An "inherent risk" is the risk of an event assuming there are no effective controls. For example, the inherent risk of an electricity distributor failing to create and maintain a priority restoration register is higher than an electricity retailer that does not record its complaints correctly due to the potential direct impact on public health if the electricity supply is restored by the distributor without reference to their priority restoration register.

[36] It is anticipated that the auditor will develop their knowledge of the licensee's business in consultation with the licensee.

The consequences of the risk occurring is assessed using the 3-point rating scale described in Table 15. The more significant the consequences, the higher the rating value allocated.

Table 15: Consequence ratings

	Rating	Examples of non-compliance		
		Supply quality and reliability	Consumer protection	Breaches of legislation or other licence conditions
1	Minor	Breaches of supply quality or reliability standards – affecting small number of customers. Delays in providing a small proportion of new connections.	Customer complaints procedures not followed in a few instances. Small percentage of disconnections or reconnections not completed on time. Small percentage of bills not issued on time.	Legislative obligations or licence conditions not fully complied with, minor impact on customers or third parties Compliance framework generally fit for purpose and operating effectively.
2	Moderate	Supply quality breach events that significantly impact customers; large number of customers affected and/or extended duration and/or damage to customer equipment. Supply interruptions affecting significant proportion of customers on the network for up to one day. Significant number of customers experiencing excessive number of interruptions per annum. Significant percentage of new connections not provided on time/ some customers experiencing extended delays.	Significant percentage of complaints not being correctly handled. Customers not receiving correct advice regarding financial hardship. Significant percentage of bills not issued on time. Ongoing instances of disconnections and reconnections not completed on time, remedial actions not being taken or proving ineffective. Instances of wrongful disconnection.	More widespread breaches of legislative obligations or licence conditions over time. Compliance framework requires improvement to meet minimum standards.
3	Major	Supply interruptions affecting significant proportion of customers on the network for more than one day. Majority of new connections not completed on time/ large number of customers experiencing extended delays.	Significant failure of one or more customer protection processes leading to ongoing breaches of standards. Ongoing instances of wrongful disconnection.	Wilful breach of legislative obligation or licence condition. Widespread and/or ongoing breaches of legislative obligations or licence conditions. Compliance framework not fit for purpose, requires significant improvement.

The next step towards assessing inherent risk is to determine the likelihood of the risk occurring. This likelihood is assessed using the 3-point rating scale described in Table 16.

Table 16: Likelihood ratings

	Level	Criteria
A	Likely	Non-compliance is expected to occur at least once or twice a year
B	Probable	Non-compliance is expected to occur once every three years
C	Unlikely	Non-compliance is expected to occur once every 10 years or longer

The combination of consequence rating and likelihood rating is used to arrive at an overall inherent risk rating using a 3-point rating scale, which is quantified in Table 17.

Table 17: Inherent risk rating

Likelihood	Consequence		
	1. Minor	2. Moderate	3. Major
A. Likely	Medium	High	High
B. Probable	Low	Medium	High
C. Unlikely	Low	Medium	High

The 3 inherent risk ratings, low, medium and high, are described in Table 18.

Table 18: Description of inherent risk ratings

Level	Description
High	Likely to cause major damage, disruption or breach of licence obligations
Medium	Unlikely to cause major damage but may threaten the efficiency and effectiveness of service
Low	Unlikely to occur and consequences are relatively minor

2. Identify and assess the strength of the existing internal controls that mitigate the inherent risks

Once the inherent risks have been identified and classified, it is important to assess the strength of the existing internal controls that mitigate each inherent risk. Licensees who have recognised risk events that carry a high inherent risk and implemented appropriate controls to mitigate these risks carry a lower risk of the event being realised than licensees that have not. There are a number of internal control components that need to be examined to assess the licensee's ability to manage its risks. Internal control,[37] as it applies to a licensee, consists of the following components:

- Control environment (corporate culture, corporate governance, organisation structure, assignment of authority and responsibility, documentation of policies and procedures, human resource practices, records management, etc.);
- Licensee's risk assessment process;
- Information systems, including management and regulatory reporting and the related business processes relevant to the licence conditions;

[37] Auditing and Assurance Standard ASA 315 June 2011, Auditing and Assurance Standards Board.

- Control activities (authorisation, segregation of duties, physical controls and security, IT controls etc.); and
- Monitoring of controls (management review, internal audit, other audits, veracity of management information etc.).

The adequacy of controls is assessed using the 3-point rating scale described in Table 19.

Table 19: Preliminary Adequacy ratings for existing controls

Level	Description
Strong	Controls that mitigate the identified risks to an appropriate level
Moderate	Controls that only cover significant risks; improvement required
Weak	Controls are weak or non-existent and have minimal impact on the risks

A preliminary assessment of controls is usually made during the planning stage of the audit. The risk assessment is revised during the audit as evidence is gathered on the effectiveness of the controls in place, with the updated assessment forming part of the final audit report.

Evaluate Risks

The next stage in the audit planning process is to determine audit priorities for each of the licence conditions based on the combined rating for inherent risk and control adequacy. Table 20 identifies a 5-level audit priority scale.

Table 20: Assessment of audit priority

		Preliminary Adequacy of existing controls		
		Weak	Moderate	Strong
Inherent Risk	High	Audit priority 1	Audit priority 2	
	Medium	Audit priority 3	Audit priority 4	
	Low	Audit priority 5		

The assessment of audit priority is used to determine the audit objectives, and the nature and extent of the audit procedures required.

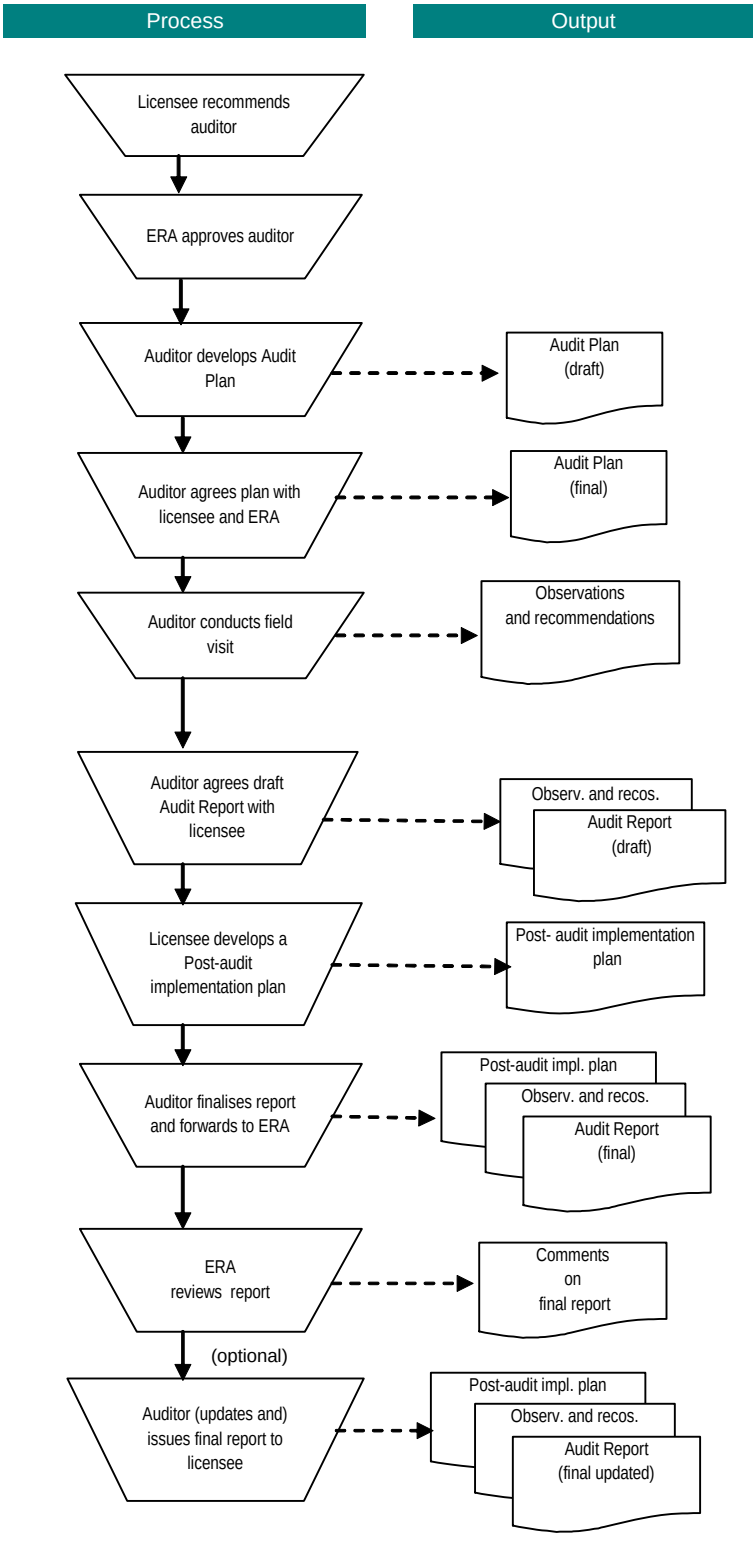
It is left to the professional judgement of the auditor to determine the audit procedures required for each of the licence conditions., However, it is anticipated an audit Priority 1 is a 'high risk' area and would usually require extensive controls and/or substantive procedures to provide adequate assurance that no major breaches of the relevant licence obligation had occurred during the audit period. Conversely, an audit Priority 5 is a 'low risk' area and would only require confirmation by discussion and desktop review of documented procedures to confirm that adequate controls exist to ensure compliance with the licence obligation.

Treat Risks

The auditor's assessment of compliance with the licence obligations may identify risks which are not adequately mitigated by the internal control environment. The auditor is expected to include recommendations in the audit report to address each risk item that requires corrective action or improvement.

In extreme cases where significant risk issues are identified the Authority may seek a direct response from the management and/or Board of the licensee.

Appendix 3 – Process Flowchart for Audits and Reviews



Appendix 4 – A Guide to the Asset Management System Effectiveness Framework

An asset management system comprises the processes and plans needed to ensure the physical assets continue to provide a specified level of service in a cost-effective manner throughout their useful life.

Assets should only exist to support service delivery objectives. When a service is in the planning stage it is necessary to identify the assets that are needed to meet a specified level of service. The extended life of assets involved in the delivery of electricity and gas services requires the decisions involving asset acquisition to take account of the full operating costs over the asset's design life. It is therefore essential to consider the asset life-cycle.

Asset Life-Cycle

The fact that assets have a life-cycle distinguishes them from other program resource inputs. The six phases of the asset life-cycle, which are described in Table 21 below, provide a structure to incorporate the entity's asset requirements into its broader strategic and corporate planning documentation.[38]

The life-cycle of an asset or group of assets has six distinct phases – planning, capital budgeting, acquisition, accounting, management and disposal.

Typically, those responsible for planning, capital budgeting and acquisition decisions in an organisation differ from those responsible for managing and accounting for the assets, or asset disposal. Problems may arise as a consequence of this fragmentation of management responsibilities for the assets over the asset life-cycle.

Table 21: Asset life cycle

Activity	Supporting documentation
Planning	An asset management strategy is an integral element of an entity's corporate planning and is based upon life-cycle methodologies. Assets usually exist only to support the entity's program delivery.
Capital Budgeting	A capital management plan consolidates the initiatives, objectives and strategies underlying the current and future management of an entity's asset base. It sets out a projected long-term outlook and details the asset budget funding strategies for asset acquisitions as well as projected financial impacts on the entity's financial reports.
Acquisition	As an element of an asset management strategy, the acquisition plan sets out a rationale for the acquisition or replacement of assets and feeds into the capital management plan.

[38] Source: Better Practice Guide on the Strategic and Operational Management of Assets by Public Sector Entities – September 2010 (Australian National Audit Office).

Activity	Supporting documentation
Accounting	A comprehensive asset management policies and procedures guide is important in identifying requirements for compliance with relevant legislation and accounting standards. An effective risk-based internal control structure will ensure that assets are safeguarded against loss, damage or misappropriation.
Management	Asset management is integrated into the organisational planning and strategic outlook. Asset performance indicators are applied to the non-financial asset base to establish the condition of an asset and the necessary level and frequency of maintenance. Required standards reflect the quality levels required for optimum asset efficiency and management.
Disposal	A disposal plan establishes the rationale for, and timing of, asset disposals, and considers the optimal strategy for disposal.

Asset Management System Key Processes

The key processes in the asset management life-cycle are:

1) Asset planning (including development and maintenance of an asset management plan);
2) Asset creation and acquisition;
3) Asset disposal;
4) Environmental analysis (all external factors that affect the system);
5) Asset operations;
6) Asset maintenance;
7) Asset management information system;
8) Risk management;
9) Contingency planning;
10) Financial planning;
11) Capital expenditure planning; and
12) Review of AMS.

Table 22 examines each of these asset management processes in more detail and provides auditors and licensees with guidance on each process with regard to the desirable outcomes, effectiveness criteria and an approach to reviewing the effectiveness. The suggested review approach is intended to provide an example only and the auditor should, based on their professional judgement, adapt the approach to each review.

Table 22: Asset management system key processes and effectiveness criteria

Key process	Outcome	Effectiveness criteria	Example of review approach
1. Asset planning Asset planning strategies are focused on meeting customer needs in the most effective and efficient manner (delivering the right service at the right price).	Integration of asset strategies into operational or business plans will establish a framework for existing and new assets to be effectively utilised and their service potential optimised.	▪ Asset management plan covers key requirements ▪ Planning process and objectives reflect the needs of all stakeholders and is integrated with business planning ▪ Service levels are defined ▪ Non-asset options (e.g. demand management) are considered ▪ Lifecycle costs of owning and operating assets are assessed ▪ Funding options are evaluated ▪ Costs are justified and cost drivers identified ▪ Likelihood and consequences of asset failure are predicted ▪ Plans are regularly reviewed and updated	▪ Assess the adequacy of the asset planning process ▪ Assess the adequacy of the asset management plan ▪ Assess whether the asset management plan is up-to-date and implemented in practice ▪ Assess whether the plan clearly assigns responsibilities and whether these have been applied in practice
2. Asset creation and acquisition Asset creation/acquisition means the provision or improvement of an asset where the outlay can be expected to provide benefits beyond the year of outlay.	A more economic, efficient and cost-effective asset acquisition framework which will reduce demand for new assets, lower service costs and improve service delivery.	▪ Full project evaluations are undertaken for new assets, including comparative assessment of non-asset solutions ▪ Evaluations include all life-cycle costs ▪ Projects reflect sound engineering and business decisions ▪ Commissioning tests are documented and completed ▪ Ongoing legal/environmental/safety obligations of the asset owner are assigned and understood	▪ Assess the adequacy of policies and procedures covering the creation and acquisition of assets ▪ Select a sample of creations/ acquisitions over the review period and confirm that adequate procedures have been followed and actual costs are as predicted
3. Asset disposal Effective asset disposal frameworks incorporate consideration of alternatives for the disposal of surplus, obsolete, under-performing or unserviceable assets. Alternatives are evaluated in cost-benefit terms.	Effective management of the disposal process will minimise holdings of surplus and under-performing assets and will lower service costs.	▪ Under-utilised and under-performing assets are identified as part of a regular systematic review process ▪ The reasons for under-utilisation or poor performance are critically examined and corrective action or disposal undertaken ▪ Disposal alternatives are evaluated ▪ There is a replacement strategy for assets	▪ Assess the adequacy of policies and procedures covering the identification of under-performing assets, disposal of assets and replacement strategy ▪ Determine whether a regular review of the usefulness of assets is performed ▪ Select a sample of disposals over the review period and confirm that adequate procedures have been followed

Key process	Outcome	Effectiveness criteria	Example of review approach
4. Environmental analysis Environmental analysis examines the asset system environment and assesses all external factors affecting the asset system.	The asset management system regularly assesses external opportunities and threats and takes corrective action to maintain performance requirements.	▪ Opportunities and threats in the system environment are assessed ▪ Performance standards (availability of service, capacity, continuity, emergency response, etc.) are measured and achieved ▪ Compliance with statutory and regulatory requirements ▪ Achievement of customer service levels	▪ Review achievement of performance and service standards over the audit period ▪ Investigate any breaches and assess corrective action taken ▪ Review the adequacy of reporting and monitoring tools
5. Asset operations Operations functions relate to the day-to-day running of assets and directly affect service levels and costs.	Operations plans adequately document the processes and knowledge of staff in the operation of assets so that service levels can be consistently achieved.	▪ Operational policies and procedures are documented and linked to service levels required ▪ Risk management is applied to prioritise operations tasks ▪ Assets are documented in an Asset Register including asset type, location, material, plans of components, an assessment of assets' physical/structural condition and accounting data ▪ Operational costs are measured and monitored ▪ Staff resources are adequate and staff receive training commensurate with their responsibilities	▪ Assess the adequacy of policies and procedures covering operations functions ▪ Assess the adequacy of staff resourcing and training ▪ Confirm the policies and procedures have been followed during the review period by procedures of asset register, observation of operational procedures, analysis of costs, etc. ▪ Assess the significance of exceptions identified and whether adequate corrective action has been taken
6. Asset maintenance Maintenance functions relate to the upkeep of assets and directly affect service levels and costs.	Maintenance plans cover the scheduling and resourcing of the maintenance tasks so that work can be done on time and on cost.	▪ Maintenance policies and procedures are documented and linked to service levels required ▪ Regular inspections are undertaken of asset performance and condition ▪ Maintenance plans (emergency, corrective and preventative) are documented and completed on schedule ▪ Failures are analysed and operational/maintenance plans adjusted where necessary ▪ Risk management is applied to prioritise maintenance tasks ▪ Maintenance costs are measured and monitored	▪ Assess the adequacy of policies and procedures covering maintenance functions ▪ Confirm the policies and procedures have been followed during the review period by procedures of maintenance schedules, analysis of costs, etc. ▪ Assess the significance of exceptions identified and whether adequate corrective action has been taken

Key process	Outcome	Effectiveness criteria	Example of review approach
7. Asset Management Information System (MIS) An asset management information system is a combination of processes, data and software that support the asset management functions.	The asset management information system provides authorised, complete and accurate information for the day-to-date running of the asset management system. The focus of the review is the accuracy of performance information used by the licensee to monitor and report on service standards.	▪ Adequate system documentation for users and IT operators ▪ Input controls include appropriate verification and validation of data entered into the system ▪ Logical security access controls appear adequate, such as passwords ▪ Physical security access controls appear adequate ▪ Data backup procedures appear adequate and backups are tested ▪ Key computations related to licensee performance reporting are materially accurate ▪ Management reports appear adequate for the licensee to monitor licence obligations	▪ Assess the adequacy of policies and procedures covering the general control and security of the computer systems used to provide management information on service standards/licence obligations ▪ Confirm that management reports on service standards/licence obligations are being reviewed and significant exceptions to service standards are promptly followed up and actioned
8. Risk management Risk management involves the identification of risks and their management within an acceptable level of risk.	An effective risk management framework is applied to manage risks related to the maintenance of service standards	▪ Risk management policies and procedures exist and are being applied to minimise internal and external risks associated with the asset management system ▪ Risks are documented in a risk register and treatment plans are actioned and monitored ▪ The probability and consequences of asset failure are regularly assessed	▪ Assess whether significant risks have been identified ▪ Assess the adequacy of policies and procedures covering risk management and contingency planning ▪ Assess whether the risk management policies and procedures have been applied in practice ▪ Assess the adequacy of staff understanding and training on risk management
9. Contingency planning Contingency plans document the steps to deal with the unexpected failure of an asset.	Contingency plans have been developed and tested to minimise any significant disruptions to service standards.	▪ Contingency plans are documented, understood and tested to confirm their operability and to cover higher risks	▪ Determine whether contingency plans have been developed and are current ▪ Determine whether contingency plans have been tested. If so, review the results to confirm that any improvements identified have been actioned.

Key process	Outcome	Effectiveness criteria	Example of review approach
10. Financial planning The financial planning component of the asset management plan brings together the financial elements of the service delivery to ensure its financial viability over the long term.	A financial plan that is reliable and provides for the long-term financial viability of the services.	▪ The financial plan states the financial objectives and strategies and actions to achieve the objectives ▪ The financial plan identifies the source of funds for capital expenditure and recurrent costs ▪ The financial plan provides projections of operating statements (profit and loss) and statement of financial position (balance sheets) ▪ The financial plan provide firm predictions on income for the next five years and reasonable indicative predictions beyond this period ▪ The financial plan provides for the operations and maintenance, administration and capital expenditure requirements of the services ▪ Significant variances in actual/budget income and expenses are identified and corrective action taken where necessary	▪ Obtain an understanding of the financial planning, budgeting and reporting process and assess its effectiveness ▪ Obtain a copy of the current financial plan (including budget/actual) and assess whether the process is being followed
11. Capital expenditure planning The capital expenditure plan provides a schedule of new works, rehabilitation and replacement works, together with estimated annual expenditure on each over the next five or more years. Since capital investments tend to be large and lumpy, projections would normally be expected to cover at least 10 years, preferably longer. Projections over the next five years would usually be based on firm estimates.	A capital expenditure plan that provides reliable forward estimates of capital expenditure and asset disposal income, supported by documentation of the reasons for the decisions and evaluation of alternatives and options.	▪ There is a capital expenditure plan that covers issues to be addressed, actions proposed, responsibilities and dates ▪ The plan provides reasons for capital expenditure and timing of expenditure ▪ The capital expenditure plan is consistent with the asset life and condition identified in the asset management plan ▪ There is an adequate process to ensure that the capital expenditure plan is regularly updated and actioned	▪ Obtain an understanding of the capital expenditure planning process and assess its effectiveness ▪ Obtain a copy of the capital expenditure plan for the current year and assess whether the process is being followed

Key process	Outcome	Effectiveness criteria	Example of review approach
12. Review of AMS The asset management system is regularly reviewed and updated.	Review of the Asset Management System to ensure the effectiveness of the integration of its components and their currency.	▪ A review process is in place to ensure that the asset management plan and the asset management system described therein are kept current ▪ Independent reviews (e.g. internal audit) are performed of the asset management system	▪ Determine when the asset management plan was last updated and assess whether any significant changes have occurred ▪ Determine whether any independent reviews have been performed. If so, review results and action taken ▪ Consider the need to update the asset management plan based on the results of this review ▪ Determine when the AMS was last reviewed.

Appendix 5 – Audit and Review Process Summary Template

Please note the purpose of the template is to summarise the audit and review processes that are required to be undertaken by the licensee, the auditor and the Authority. The reader is referred to the relevant sections of the Guidelines for more information.

Table 23: Audit and Review processes template

Process no.	Summary of Process/Task	Who is responsible?	When should this be done?	Section in Guidelines	Summary of documents to be lodged with Authority
A.	Prior to audit and/or review process commencing				
1)	Audit and/or Review Reminder letter sent to the licensee.	Authority's Secretariat provides this service to licensees on a voluntary basis.	Approximately six months before the final audit or review report is due to be provided to the Authority.	7.1	N/A
2)	Licensee may be advised of specific areas of focus in the audit and/or review.	Secretariat	If required, the audit/review reminder letter (see 1 above) will detail any areas of focus.	7.1	N/A
3)	Process is initiated to engage potential auditors to undertake the audits and/or review.	Licensee	At the discretion of the Licensee, however, normally commences when the licensee receives the audit/review reminder letter from the Authority.	8	N/A

Process no.	Summary of Process/Task	Who is responsible?	When should this be done?	Section in Guidelines	Summary of documents to be lodged with Authority
B.	Auditor Nomination				
4)	The preferred auditor is selected.	Licensee	At the discretion of the Licensee, however, normally not less than three months before the final audit or review report is due to be provided to the Authority.	8	N/A
5)	Licensee nominates preferred auditor to the Authority for its approval by forwarding the required documents with a request for approval.	Licensee	At the discretion of the Licensee, however, normally not less than three months before the final audit or review report is due to be provided to the Authority.	8	☐ Licensee's formal Request to approve auditor ☐ Business Profile for audit company ☐ CV's for each audit team member ☐ Work program & audit timeline ☐ Declaration of auditor independence
6)	Auditor nomination documents are reviewed for completeness and adequacy and any amendments are identified and communicated to the Licensee.	Secretariat	Upon receipt	N/A	N/A
7)	Amended auditor nomination documents are forwarded to the Authority.	Licensee	As soon as possible.	8	Refer to item 5.
8)	Nominated auditor is approved or rejected by the	Authority	Aim to have Authority's	8	N/A

Process no.	Summary of Process/Task	Who is responsible?	When should this be done?	Section in Guidelines	Summary of documents to be lodged with Authority
	Authority and communicated to the Licensee in writing. Should Licensee need to nominate another auditor refer to item 5.		decision communicated within 10 business days of receipt of auditor nomination.		
C.	Audit and Review Plan				
9)	Auditor prepares draft audit and/or review plan. Licensee (or auditor, if consent given by licensee) provides the draft audit and/or review plan to the Secretariat.	Licensee	At the discretion of the Licensee, however, normally two to three months before the final audit or review report is due to be provided to the Authority	9	Draft audit /review plan must include: ☐ Consideration of ASAE 3000 requirements for assurance engagement plans ☐ Audit or review purpose statement ☐ Key licensee personnel assisting audit or review ☐ Audit/review team members ☐ Key audit work activities and time allocated for each ☐ Confirmation that review of previous recommendations will be undertaken and list of previous recommendations ☐ List of documents to be reviewed ☐ Details of facilities to be visited ☐ Summary of possible audit and review procedures per audit or review priority ☐ Statement that the audit or review

Process no.	Summary of Process/Task	Who is responsible?	When should this be done?	Section in Guidelines	Summary of documents to be lodged with Authority
					report will comply with the Authority's Audit Guidelines ☐ Standard table(s) providing audit and/or review priority ratings for licence obligations and asset management system review components ☐ Details of any deviation from normal audit or review priority ratings (for example, the obligation is not applicable, or the Secretariat has requested a higher priority be undertaken).
10)	Secretariat reviews draft audit or review plan and provide feedback to the licensee or auditor.	Secretariat	Aim to have Secretariat's response communicated within 10 business days of receipt of audit or review plan.	9	N/A
11)	Licensee provides amended draft audit or review plan to the Authority.	Licensee	As soon as possible.	9	See item 9
12)	Draft audit plan is approved or rejected by the Authority and communicated to the Licensee in writing.	Authority	Aim to have Authority's decision communicated within 10 business days of receipt of auditor nomination.	9	N/A

Process no.	Summary of Process/Task	Who is responsible?	When should this be done?	Section in Guidelines	Summary of documents to be lodged with Authority
D.	Audit and Review Report				
13)	Auditor undertakes audit and/or review, prepares draft audit or review report and gives to licensee.	Auditor	As soon as possible.	10 & 11	N/A
14)	Licensee reviews draft report and provides draft audit and/or review report (and post-audit/review implementation plan) to the Authority.	Licensee	By due date	11	Draft audit /review report must include: ☐ Consideration of ASAE 3000 requirements for structure and content of audit or review reports. ☐ Executive Summary ☐ Scope of audit or review ☐ Review of previous audit and/or review recommendations ☐ Performance Summary including tabular audit and review ratings ☐ Observations ☐ Issues and recommendations ☐ Signed auditor's statement ☐ Post audit and/or review implementation plan

Process no.	Summary of Process/Task	Who is responsible?	When should this be done?	Section in Guidelines	Summary of documents to be lodged with Authority
15)	Secretariat reviews draft audit or review report and provide feedback to the licensee or auditor.	Secretariat	Aim to have Secretariat's response communicated within 10 business days of receipt of audit or review report.	N/A	N/A
16)	Licensee provides amended draft audit or review report to the Authority.	Licensee	As soon as possible	11	See item 14
17)	Secretariat reviews report and if acceptable requests licensee to finalise report.	Secretariat	As soon as possible	11	N/A
18)	Licensee provides final PDF and Word versions of report to the Authority.	Licensee	As soon as possible	11	See item 14
19)	Authority considers the audit and/or review report and provides a written response to the licensee, forwards report to the Minister for Energy and publishes report on the Authority's website.	Authority	Within two months from receipt of final audit and/or review report	12	N/A

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