

Information paper for approved auditors when auditing reconciliation participants and distributors

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Version control

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1.0	8 Aug 08	Creation of information paper
2.0	3 Aug 09	Amended to reflect updated Rules and provide clarity

Disclaimer

1. This information paper is designed to highlight key areas for approved auditors relating to the audit process for reconciliation participants and distributors. It is designed to provide guidance, but does not replace the obligations under the Rules.
2. Although the Commission has taken every care in the preparation of the content of this information paper, the Commission offers no warranty (express or implied) as to the accuracy, completeness, or legality of its content. The Commission is not liable or responsible to any persons for direct or indirect loss or damage that may result from, or is in connection with:
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 - (d) the action or failure to act by any person in reliance on this information paper.
3. The publishing of this information paper by the Commission does not place any obligation on the Commission to follow any interpretation contained in the information paper when carrying out any of its functions under the Electricity Act 1992.

Glossary of abbreviations and terms

Approved auditor	An auditor approved by the Board in accordance with rule 5 of schedule J1 of part J.
Commission	Electricity Commission
List	List of auditors approved to carry out an audit for Rules purposes
Policy	Retail workstream auditor approval policy RET 01
Rules	Electricity Governance Rules 2003

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Introduction

1. In accordance with parts E¹ and J² of the Electricity Governance Rules 2003 (Rules), some participants (reconciliation participants and distributors) are required to undergo an audit to ensure compliance with the relevant requirements of the metering, switching, and reconciliation process. The audits must be performed by Electricity Commission (Commission) approved auditors³.
2. The purpose of the audits is to ensure compliance with the Rules and integrity of participant processes to ensure that volumes allocated to purchasers and generators are correct within the reconciliation process. These volumes are passed to the clearing manager for production of debit or credit invoices.
3. The Commission is required to publish a list of auditors⁴ approved for particular types of audit (List). To become an approved auditor, an auditor must be successful in completing the Commission's approval process outlined in the Retail Workstream Auditor Approval Policy RET 01⁵ (Policy).
4. This information paper is designed to briefly highlight important areas for approved auditors. The Commission recommends that approved auditors are familiar with:
 - (a) the Rules;
 - (b) the Certified Reconciliation Participant Audit Guidelines⁶;
 - (c) the Distributor Audit Guidelines⁷; and
 - (d) the Terms and Conditions of appointment as an Approved Retail Auditor.⁸

¹ Rule 10 of part E of the Rules.

² Rules 3.2, 6.3 and 6.6 of schedule J1 of part J of the Rules.

³ See Rule 18 of part J of the Rules.

⁴ See Rule 18 of part J and rule 5.1B of schedule J1 of part J of the Rules.

⁵ A copy of the Policy may be viewed at <http://www.electricitycommission.govt.nz/pdfs/opdev/retail/audits/approval-policy.pdf> .

⁶ These guidelines can be viewed at <http://www.electricitycommission.govt.nz/opdev/retail/retailaudits>.

⁷ These guidelines can be viewed at <http://www.electricitycommission.govt.nz/opdev/retail/retailaudits>.

⁸ Approved auditors are required to sign the terms and conditions and should have their original copies; however there is a copy on the Commission's website at <http://www.electricitycommission.govt.nz/opdev/retail/retailaudits>.

5. The Commission has created an audit template to promote standardisation of audit reports. If you require this template, please contact the Commission using the contact details provided at the end of this information paper.

Participants' audits

6. From the List, a participant may select either:
 - (a) an individual auditor; or
 - (b) a firm, where the individual(s) who are responsible for and sign off on the audit have met the Commission's criteria and have been approved (including passing the relevant examination(s)).
7. An approved auditor must produce a draft audit report which is to be provided to the audited party for comment.⁹
8. Once the audit report has been finalised, the audited party must ensure that the final audit report is provided to the Commission within the timeframes detailed in tables 1 and 2, below.

⁹ Rules 6.1 and 6.2 of schedule J1 of part J of the Rules.

Reconciliation participants

9. The following table shows the audit requirements for reconciliation participants.

Table 1 Audit requirements for reconciliation participants

Type of reconciliation participant	Audit requirements		ISO 9001:2000
	Initial final audit report must be made available to the Commission	Subsequent final audit reports must be made available to the Commission	
<p>Reconciliation participants that are required under the Rules to supply submission information to the reconciliation manager or perform other functions that require certification¹⁰, namely:</p> <ul style="list-style-type: none"> • Retailers¹¹ • Embedded generators¹² • Generators • Persons who purchase or sell directly to or from the clearing manager • Embedded network owners for gateway meters • Network owners for interconnection points • Grid owners 	<p>Within 1 month of becoming a reconciliation participant.¹³</p>	<p>Annually- two months before expiry of certification.¹⁴</p>	<p>Required¹⁵ or a quality certification that the Board deems equivalent.¹⁶</p>

¹⁰ Rule 19 of part J of the Rules.

¹¹ Only when purchasing electricity from, or selling electricity to, the clearing manager (rule 1 of part A of the Rules).

¹² Rule 19 of part J of the Rules excludes embedded generators selling directly to another reconciliation participant.

¹³ Rules 3.3.1 and 6.6 of schedule J1 of part J of the Rules.

¹⁴ Rules 3.4, 6.3, and 6.6 of schedule J1 of part J of the Rules.

¹⁵ Rule 7 of schedule J1 of part J of the Rules.

¹⁶ Rule 7 of schedule J1 of part J. Q-base and ISO 9001:2008 have been deemed equivalent by the Board. Further information can be found at <http://www.electricitycommission.govt.nz/advisorygroups/pjtteam/reconproject>.

10. Reconciliation participants must provide a Rules' audit report when applying for certification for any of the functions listed in table 1.¹⁷ To ensure applications are processed on time, the Commission recommends that the audit report is provided together with the application for certification.
11. A reconciliation participant's audit demonstrates that its facilities, processes, and procedures to gather, process or manage information comply with the Rules. If a reconciliation participant intends to make any material changes to its facilities, processes, procedures or any other relevant items which are at the time certified, there is a possibility that the participant may no longer be in compliance with the Rules. If this is the case, the basis for certification would no longer be applicable. In such cases, the reconciliation participant must undergo an audit which confirms that the participant is still compliant with the relevant rules.¹⁸ Changes such as software bug fixes, upgrades to database management operating systems, communications and other third party software are not regarded as material.

¹⁷ Rule 3.1.2 of schedule J1 of part J of the Rules.

¹⁸ Rule 3.5 of schedule J1 of part J of the Rules.

Distributors

12. The following table shows the audit requirements for distributors.

Table 2 Audit requirements for distributors

Type of participant	Audit requirements		ISO 9001:2000
	Initial audit	Subsequent audits	
Distributors (for registry ICP creation, maintenance of ICP information, and loss factor creation and maintenance). ¹⁹	<p>Within 6 months of the date part J became effective.²⁰</p> <p>For new distributors: the Commission recommends within 6 months of the date of becoming a distributor.²¹</p>	Annually ²² , subsequent audits must be completed every 12 months thereafter.	Not required.

13. When a distributor is undergoing an audit in accordance with rule 10 of part E of the Rules, its audit must be conducted in accordance with rules 5 and 6 of schedule J1 of part J of the Rules.²³ The final audit report produced is to be provided to the Commission by the distributor.

Approved auditors²⁴

14. As part of the approval process, applicant auditors must sign the Terms and Conditions of Appointment as an Approved Retail Auditor, before their appointment as approved auditors can be confirmed. An approved auditor must comply with these Terms and Conditions.

¹⁹ Rule 10 of part E of the Rules.

²⁰ Rule 10 of part E of the Rules.

²¹ There are no current rule requirements for this. The Commission will be proposing amendments to this area of the Rules.

²² Rule 10 of part E of the Rules.

²³ Rule 10 of part E of the Rules.

²⁴ The information contained in this section can be found in the 'Terms and Conditions of Appointment as an Approved Retail Auditor' which is published on the Commission's website at <http://www.electricitycommission.govt.nz/opdev/retail/retailaudits>. The Commission recommends that auditors become familiar with their signed terms and conditions.

15. A participant's internal auditor may prepare documents and conduct preliminary reports to contribute to the final audit required by the Rules. However, all material prepared by internal auditors should be considered and verified by an approved auditor. When an approved auditor is relying on the work done by an internal auditor, the approved auditor should be satisfied that the requirements of the NZICA Auditing Standard AS-604, or the requirements of the relevant Institute of Internal Auditors Guidance (Practice Advisory 1210.A1) are fulfilled.
16. Approved auditors may use their own suitably qualified employees or subcontractors to assist them in carrying out parts of the audit tasks. However, the approved auditor is the one responsible for the accuracy and quality of the final audit.

Independence and conflicts

17. Approved auditors must:²⁵
 - (a) be completely independent from the participant with whom they have contracted to conduct the audit for;
 - (b) have not advised the participant in relation to any of the processes relevant to the audit in the six months prior to the audit; and
 - (c) not have any interest, obligation or duty (whether to the participant or to any other person) which is or could reasonably be seen to be in conflict with their duties as auditors.
18. If at any stage during the performance of an audit, the approved auditor becomes aware of circumstances which could be deemed a conflict of interest between the approved auditor and the participant being audited, then the approved auditor must:²⁶
 - (a) immediately notify the Commission and the participant concerned; and
 - (b) if the participant wishes that approved auditor to continue carrying out the audit, seek the Commission's approval to continue. The Commission may give approval subject to conditions.

²⁵ Clause 9 of the Terms and Conditions of Appointment as an Approved Retail Auditor.

²⁶ Clause 10 of the Terms and Conditions of Appointment as an Approved Retail Auditor.

Contractual relationship

19. The Commission recommends that the approved auditor enters into a written contract with the participant for whom the audit is to be performed.
20. The Commission strongly recommends that the approved auditor considers maintaining professional indemnity insurance and public liability insurance for a term after approval as an auditor has ceased, to reduce any financial risk. It is recommended that appropriate contractual arrangements be made with the participant to resolve any potential claims, which may arise at a time when the approved auditor is no longer approved.
21. As stated above, the approved auditor must be completely independent from the participant being audited. The Commission recommends that the contract between the approved auditor and the participant contains a clause confirming that the approved auditor meets the requirements outlined in paragraph 17 of this information paper.
22. The Rules permit the Commission to remove an approved auditor from the List.²⁷ Such a removal will not affect any audits completed by that approved auditor prior to the removal. It will however invalidate any audits the approved auditor had in progress at the time of removal. The Commission recommends that the contract an auditor has with a participant provides means of determining who bears the costs of the audit, should the approved auditor be removed from the List while an audit is still in progress.

Confidentiality of information and records

23. Participants should provide an approved auditor with all information the approved auditor reasonably requires to complete the audit report.
24. The Commission is required to publish a summary of the audit report. All details of the report that are not published in the summary will remain confidential between the participant and the Commission, unless otherwise agreed.²⁸ Participants and approved auditors may negotiate a confidentiality provision when entering into a contractual agreement.

²⁷ Rule 5.1 of schedule J1 of part J of the Rules.

²⁸ Rule 6.7 of schedule J1 of part J of the Rules.

Overview of the Commission's role

25. The Commission has taken care in the preparation of this document, the published guidelines and other materials relating to the audit process and takes care in the selection of auditors. However, its obligations are limited to:
- (a) approval of auditors (and any subsequent removal from the List)²⁹ in line with the Policy;
 - (b) publication of the List;³⁰
 - (c) publication and maintenance of a list of persons or entities used by certified reconciliation participants to perform the tasks requiring certification,³¹ and
 - (d) publication of a summary of audit reports.³²

How to contact the Commission

26. If you require further information from the Commission, please contact the Retail Operations Team:

Email: retailoperations@electricitycommission.govt.nz

Phone: 04 460 8860

²⁹ Rule 5 of schedule J1 of part J of the Rules.

³⁰ Rule 18.1 of part J and rule 5.1B of schedule J1 of part J of the Rules.

³¹ Rule 4 of schedule J1 of part J of the Rules.

³² Rule 6.7 of schedule J1 of part J of the Rules.