

Auditor Requirements - Electricity Governance Rules
(A discussion document for the code of practice D5 review panel)

Background:

Under the MARIA requirements, auditors were “approved” by the Administration Manager, and they were engaged in the role acting for the Administration Manager in most cases (even though the responsibility for payment for the services was directly between the auditor and the requesting MARIA party).

The auditors approved in the last round (15 January 2002) were:

- *Ernst & Young*
- *John Moore & Associates Limited*
- *PricewaterhouseCoopers*
- *Telarc Limited*
- *Tri-Sheras Limited*
- *Utility Professional Services Limited*
- *Whitlow & Associates Limited*

These auditors were selected following a request for proposals from M-co, acting as the Administration Manager for MARIA.

The original criteria document has been lost to unknown archives, but from memory the base requirements were:

- **Membership of the Institute of Internal Auditors.**
This provided a common ground for audit ethics, and gives some confidence that applicants have a suitable background for the task.
- **Statement of experience and skills appropriate to the tasks.**
A CV of the intended applicant, detailing skills and experience.
- **Ability to provide Professional Indemnity Insurance of \$500,000.**
(From memory the requirement for Indemnity cover was originally higher than \$500,000 but some discussions resulted in a recommendation or agreement of a lower figure). It is uncertain if all the approved auditors actually engaged the cover however.

Applications were considered by the Administration Manager and the resulting list was notified on 15 January 2002.

The situation under the Electricity Governance Rules.

Under the Electricity Governance rules, the term “**auditor**” is defined as:

*“**auditor**” means a person selected to carry out an **audit**;*

while an audit is defined as:

*“**audit**” means a process of inspection of procedures, facilities and other relevant items to confirm compliance with the **rules** and “**audited**” has a corresponding meaning;*

(Electricity Governance Rules Part A, rule 1 defined terms).

The **Electricity Governance Regulations 2003** refer to both an audit and an auditor, and the reference to auditor (regulation 52) is in the context of auditing the software used by a service provider. The regulations are clear however that such a person must be approved by the Board, the rules are not clear.

There is a further reference to an auditor in regulation 71, where the investigator has the power to appoint an auditor or technical expert, and again in regulation 104 where the Rulings Panel may also seek advice or assistance from similar people.

The issue that has highlighted this matter is to do with the requirement of approved test houses to complete an audit to prove compliance with the Electricity Governance Rules. (Schedule D1 code of practice D2, rule 7)

The use of the auditors on the MARIA list no longer appears to give any assurance of compliance, and there is no formal path for any organisation to now gain approval to provide these services.

One organisation (BVQI, not presently on the old MARIA list) has now requested that they be permitted to provide a test house audit service. This matter has been raised with Robert Riley of the Commission, and a request for a review of the situation as it stands was made, hence this document.

There is no perceived issue with the selection criteria originally used. Of the seven approved auditors, only three are known to have provided any significant services in this area, however that would reflect the very low level of work that has historically existed.

With test house audits every two or three years and with only 14 test houses operating, the level of compliance related work will never be high. Presently it is believed that one auditor (TELARC) provides much of this service by combining both the ISO and MARIA audits, and this would likely give test houses some economies of compliance costs. BVQI would have similar aims I believe.

Other audit functions that arise from time to time involve reconciliation audits, and while these at times may require a good metering and technical knowledge they also require an entirely separate knowledge of the reconciliation processes.

Audits of the registry would require an entirely different skill set to the above, but would still need an understanding of the fundamental issues of switching and reconciliation.

The issue of where in the rules (or regulations) the process for gaining approval should be located is not immediately apparent and may best be decided by the Commission legal advisers. In the old MARIA rules it was located in Chapter 1, rule 4.2, as below:

4.2 How the auditor is selected

4.2.1 Administration Manager to maintain a list of auditors

*The **Administration Manager** will establish and maintain a list of persons selected by the **Administration Manager** as competent to carry out **audits**, together with a brief description of each **auditor's** relevant experience and qualifications, and will make the list available to all **Participants**.*

These areas did not carry over to the Electricity Governance Rules however.

The matters needing input from the panel as I see it are:

How is the competency of a company to be assessed, and by whom, in order for that company become an “auditor” for the purposes of the regulations and rules?

How and where should the process be included in the rules or regulations?