

# **The Authority's policy for the approval of auditors for the purposes of Parts 10, 11 and 15 of the Code**

**Version 1.3**



## Version control

Version	Date amended	Comments
1.0	18 February 2008	Draft for Board Approval
1.1	1 November 2010	Updated for transition to the Electricity Authority
1.2	7 February 2013 (to apply from 6 June 2013)	Review and update of approval policy, including 6 June 2013 update to Part 10 of the Code.
1.3	11 June 2014	Policy scope increased to include dispatchable load purchaser



## **Overview**

This policy is designed to assist Electricity Authority (Authority) staff in the approval, management and removal process for auditors for the purposes of Parts 10, 11 and 15 of the Electricity Industry Participation Code 2010 (Code).

This policy is published so as to explain the approval, management and removal process to stakeholders.



## **Glossary of abbreviations and terms**

<b>Authority</b>	Electricity Authority
<b>Board</b>	Electricity Authority Board
<b>Code</b>	Electricity Industry Participation Code 2010



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## Scope and objective

1. Reconciliation participants, distributors, test houses and metering equipment providers (auditees) are required by the Code to undergo an audit to demonstrate compliance with aspects of the Code. The clauses in the Code that require audits to be conducted are:
  - (a) clause 2 of Schedule 10.3 (approved test houses)
  - (b) clause 1 of Schedule 10.5 (metering equipment providers)
  - (c) clause 11.10 (distributors)
  - (d) clause 15.38(1) (reconciliation participants)
  - (e) clause 15.38(1A) (dispatchable load purchasers).
2. An auditee must have their audit conducted by an auditor from the list of auditors approved by the Authority.<sup>1</sup>
3. The Authority may approve auditors in accordance with:
  - (a) clause 9 of Schedule 15.1 (reconciliation participant, dispatchable load purchaser and distributor auditors)
  - (b) clause 1 of Schedule 10.2 (metering equipment provider and approved test house auditors).
4. These clauses of the Code also define aspects of the approval process, such as the timeframe within which the Authority must make its decision and the requirement for the application to be made on the Authority's prescribed form.
5. This policy is a high-level statement of the principles and process the Authority will adhere to when managing the auditor approval, management and removal process.

## General principles

6. The following general principles apply to the approval, management and removal of auditors by the Authority Board or its appropriately approved delegate (Approving Body)<sup>2</sup>:
  - (a) Honesty and fairness - the Approving Body will act honestly and fairly in the approval, management and removal of auditors.
  - (b) Accountability and transparency - the Approving Body's process of appointment, management, and removal of auditors will be open, clear, and defensible.

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<sup>1</sup> Available from <https://www.ea.govt.nz/dmsdocument/6129>

<sup>2</sup> The Board has the ability to delegate its functions and powers under sections 73-76 of the Crown Entities Act 2004.

- (c) Legality of decision - the Approving Body will comply with all legal obligations.
  - (d) No conflict of interest - any person involved in the process of approving, managing or removing an auditor with a conflict of interest or potential conflict of interest will declare and address that interest as soon as that person becomes aware of the conflict or potential conflict.
  - (e) No anti-competitive practices - the Approving Body will not engage in practices that are anti-competitive.
  - (f) No improper advantage - the Approving Body will not engage in practices that aim to give an improper advantage to any party.
  - (g) Co-operation - the Approving Body will maintain relationships with auditors based on open and effective communication, respect and trust, and will adopt a non-adversarial approach to dispute resolution.
7. Auditors will be approved by the Approving Body. There will be no relationship (employment, contractual, partnership or agency) between an auditor and the Approving Body or the Authority.
8. The audit relationship (for audits initiated by the auditee) is between the auditor and the auditee.
9. The Approving Body is not responsible for the quality of the audit or audit reports, nor liable for any loss suffered as a result of poor quality audits, regardless of whether the auditor is appointed by the participant or the Authority.

## **Selection Criteria**

10. In approving auditors, the Approving Body will assess the auditor against the following high-level selection criteria (Selection Criteria):
- (a) be a fit and proper person or company
  - (b) have relevant experience within the New Zealand electricity industry
  - (c) have adequate report writing and communication skills
  - (d) have adequate investigative skills
  - (e) have an understanding of participants' systems and processes
  - (f) have a proven understanding and interpretation of the Code.
11. The auditor's fulfilment of the Selection Criteria will be determined by a selection panel comprising at least three Authority staff members, representing at least two teams within the Authority (Selection Panel). The Selection Panel makes a recommendation to the Approving Body as to whether the auditor should be approved.

12. The Approving Body reserves the right to require auditors to provide evidence of their qualifications. For instance, it may be desirable for auditors of approved test houses to hold some form of electrical qualification (e.g. registered electrician, electrical engineering qualification).

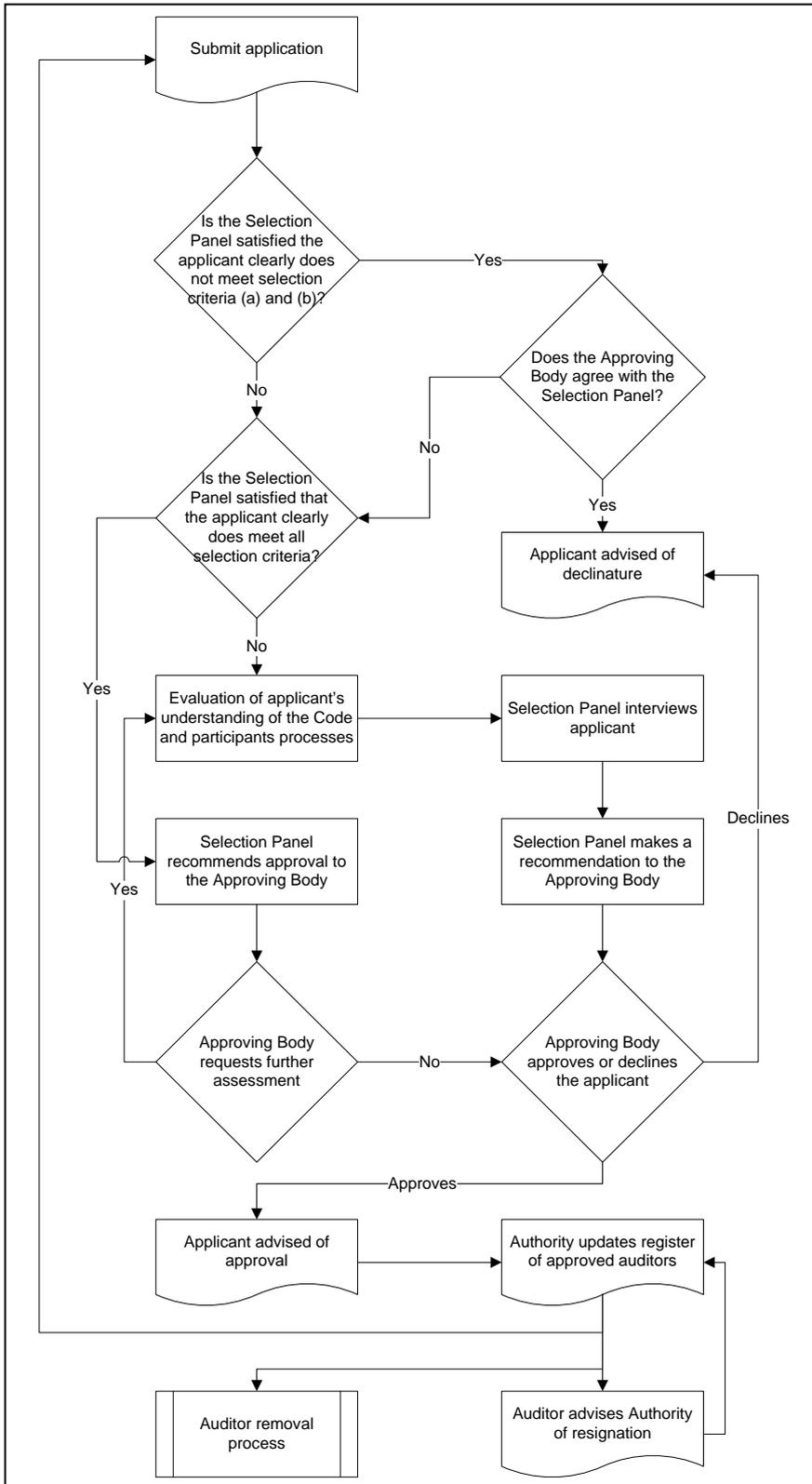
## Approval process

13. The flowchart below sets out the auditor approval, management and removal process that the Approving Body will follow, unless the Authority Board agrees otherwise.
14. The Approving Body will notify the auditor of its decision and the reasons for it.
15. Approvals will be given for a two-year period, subject to the auditor's acceptance of any terms and conditions that are specified by the Approving Body.
16. An auditor's approval may be terminated earlier in accordance with the process set out in paragraphs 19 – 25 below.
17. The terms and conditions for auditors<sup>3</sup> outline the Authority's expectations of auditors if they are to remain on its list of approved auditors for the duration of their approval period. The terms and conditions:
  - (a) require auditors to:
    - (i) be and remain familiar with the Code
    - (ii) continue to meet the Selection Criteria for auditors as set out in this policy
    - (iii) carry out any audits in accordance with the Code as it applies at the time of the audit
    - (iv) manage actual and perceived conflicts of interest
    - (v) not audit any participant they have advised in relation to the process to be audited in the six months prior to the audit
    - (vi) obtain and maintain adequate insurance coverage for the purpose of recompensing participants for losses incurred by inadequate or inaccurate audits
  - (b) specify that:
    - (i) any material the Authority provides to the auditor to assist in the audit process is intended to be useful background information for the auditor and participant, and although the Authority takes care in preparing this background material, the primary obligations for auditors and participants are under the Code and the Authority accepts no liability for any inaccuracies in any of the background material

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<sup>3</sup> Available from <https://www.ea.govt.nz/operations/retail/audits-approvals-and-certification/approved-auditors/>

- (ii) there will be no expectation of the auditor's approval being automatically renewed on the expiry of the two-year period
- (iii) there is no employment, contractual, agency or partnership relationship between the auditor and the Authority.



Application needs to be submitted in prescribed form and include signed terms and conditions.  
 Applications for renewal of approval are required to be received three months prior to expiry in order to assure timely approval.

If the Selection Panel is satisfied that the applicant clearly meets the selection criteria, the evaluation phase may be skipped.

The evaluation usually takes the form of a written examination, held in Wellington.

An approval can be conditional on obtaining insurance. If an auditor receives conditional approval, failure to provide evidence of suitable insurance may result in removal.

## Resignation of auditors

18. If an auditor provides the Authority with a written request for removal from the list of approved auditors, the Authority will remove the auditor from the list of approved auditors commencing on the date specified in the request, and for the relevant categories of approval. The assent of the Approving Body is not required.

## Removal of auditors

19. The Approving Body may, at any time, remove, with immediate effect, an auditor from the list of approved auditors.
20. The Authority may review the quality of audit reports and/or an auditor's performance. If the Approving Body has any concerns regarding the quality of audit reports or an auditor's performance (whether of its own volition, as a result of a review undertaken by the Authority, or raised by any other person):
  - (a) it must notify the auditor concerned
  - (b) if it decides that the concerns are sufficiently serious to warrant a review of the auditor's performance, it will refer the matter to the Selection Panel.
21. The Selection Panel will:
  - (a) review all information it considers relevant
  - (b) allow the auditor and any person who has raised reasonable concerns in relation to the auditor the opportunity to be heard
  - (c) reassess the auditor based on the Selection Criteria
  - (d) make a recommendation to the Approving Body as to whether the auditor should remain on the list of approved auditors or should be removed.
22. The Approving Body will make the final decision on whether to remove the auditor from the list of approved auditors, taking into account the recommendation of the Selection Panel.
23. The Approving Body will notify the auditor of its decision and the reasons for it.
24. The Approving Body may remove an auditor from the list of approved auditors immediately on notice to the auditor without following the process set out in paragraphs 19 to 23 above if the auditor:
  - (a) is convicted of an offence under any of sections 377 to 380 of the Companies Act 1993 or of any crime involving dishonesty as defined in section 2(1) of the Crimes Act 1961
  - (b) is, becomes, or is deemed to be, insolvent or bankrupt

- (c) is or becomes subject to a property order made under section 30 or section 31 of the Protection of Personal and Property Rights Act 1988.

## **Information and confidentiality**

- 25. In the course of the approval process and auditor management process, the Authority will necessarily gather and store personal information regarding applicants.
- 26. Applicants will be informed that:
  - (a) the Authority will need to use the personal information it collects for a range of purposes connected with the auditor approval, management and removal process
  - (b) by submitting an application to the Authority, applicants authorise the use of their personal information for these purposes and the disclosure of that information to the Selection Panel and Approving Body
  - (c) if applicants do not provide this information it will affect their application
  - (d) submission of an application will also be deemed an acknowledgement of the applicant's right of access to, and right to correct personal information.
- 27. Subject to the Authority's obligations under the Official Information Act 1982, all information the Authority receives or holds relating to an auditor's application, performance, management and removal must be treated as confidential. Such information must not be disclosed to a third party unless:
  - (a) the disclosure of the information is required by law;
  - (b) the information is or becomes publicly available; or
  - (c) the auditor first consents to its disclosure.