

## **Information paper**

### **Applying to become an approved auditor to provide services under the Electricity Industry Participation Code 2010**

10 January 2008

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# **Applying to become an approved auditor to provide services under the Electricity Industry Participation Code 2010**

## **Introduction**

1. The Authority is a crown entity that is responsible for providing oversight of the operation and governance of the New Zealand electricity market in accordance with the Electricity Act 1992, and with the Electricity Industry Participation Code 2010 (Code).
2. Under the Code:
  - (a) auditor is defined as “a person selected to carry out an audit”;
  - (b) audit is defined as “a process of inspection of procedures, facilities and other relevant items to confirm compliance with the rules”; and
  - (c) the term audited has a corresponding meaning.
3. This application process provides a formal path for auditors to gain approval to provide audit services under the Code.

## **Background**

4. In accordance with the relevant provisions of parts 10, 11, 13, and 15 of the Code, some participants are required to undergo an audit to ensure compliance with the relevant requirements of the metering, switching and reconciliation process as set out in the Code. In most cases, the audits must be performed by Authority approved auditors.
5. The purpose of the audits is to ensure compliance with the Code and integrity of participant processes in order to make certain that retailers are correctly invoiced for purchases and that generators are correctly paid during the reconciliation process.
6. The new reconciliation rules, which came into force on 1 May 2008, resulted in a number of changes to participants’ audit and certification requirements. As a

result there will be a significant increase in the number and the frequency of audits required. To meet this increased demand, the industry will require a greater number of approved auditors to conduct the audits.

## **Timetable**

7. Applications to become an approved auditor will be considered by the relevant body under the Code (Approving Body). In most cases this will be the Authority (either in its own role or in its role as the market administrator). The Approving Body will notify applicants within 10 working days of receipt of completed documentation, following which time selected applicants will need to proceed through the selection process set out in the Authority's Retail workstream auditor approval policy (Policy)<sup>1</sup>, before being approved if they are successful in that process.
8. In most cases, approval will be for a period of two years, after which time auditors will need to reapply for approval to remain on the list of approved auditors.

## **Requirements for audits**

9. In the retail workstream context, the following areas require an Authority approved auditor to perform audits in accordance with the Code:
  - (a) class A test houses and class B testhouses;
  - (b) certified reconciliation participants; and
  - (c) distributors.
10. The main Code requirements for audits are as follows:
  - (a) Test houses may be requested by the Market Administrator or its appointed agent (auditor) to undergo an audit during their application for approval as a test house<sup>2</sup>. They may also be required to undergo an audit if they have supplied unsatisfactory information during their annual renewal of test house approval<sup>3</sup>.

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<sup>1</sup> A copy of the Policy can be found <http://www.ea.govt.nz/industry/market/retail-audits/approved-auditors/>.

<sup>2</sup> In accordance with clause 7 of code of practice 10.2 of schedule 10.1 of the Code.

<sup>3</sup> In accordance with clause 7 of code of practice 10.2 of schedule 10.1 of the Code.

- (b) Class A test houses and class B test houses will be required to undergo regular audits on a three-yearly and a two-yearly basis respectively<sup>4</sup> from the anniversary of the initial audit.
- (c) In addition to the regular audits for approved test houses, a participant may request an audit of a test house where they reasonably believe the test house in question no longer meets the requirements for approval<sup>5</sup>.
- (d) New reconciliation participants<sup>6</sup> will be required to undergo an audit within two months of the intended date of certification.
- (e) Thereafter, reconciliation participants will be required to undergo an audit on an annual basis as part of the Authority's process to renew a participant's certification<sup>7</sup>.
- (f) A reconciliation participant may request an audit of any participant if they reasonably consider that the participant may no longer comply with all relevant rules for gathering, processing or management of information<sup>8</sup>.
- (g) Distributors will be required to undergo an initial audit within six months of 1 May 2008, and one further audit within twelve months of the date of the initial audit<sup>9</sup>. Thereafter, distributors will be required to undergo at least one audit every twelve months from the anniversary of the initial audit<sup>10</sup>.

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<sup>4</sup> In accordance with clause 8 of code of practice 10.2 of schedule 10.1 of the Code.

<sup>5</sup> See clause 8 code of practice 10.2 of schedule 10.1 of the Code.

<sup>6</sup> Clause 4 of schedule 15.1 of the Code sets out the reconciliation participants requiring certification as: retailers who purchase electricity from or sell electricity directly to the clearing manager; direct purchasers; grid owners; and generators, including embedded generators who sell directly to the clearing manager.

<sup>7</sup> See clause 7 of schedule 15.1 of the Code.

<sup>8</sup> See clause 12 of schedule 15.1 of the Code.

<sup>9</sup> See clause 11.10 of the Code.

<sup>10</sup> See clause 11.10 of the Code.

## **Requirements for auditors**

11. The Authority is seeking reliable, proven, and service-oriented auditors who can exceed the stringent requirements of quality and performance, and who have knowledge of the Code and the electricity industry. Auditors must possess appropriate audit capabilities.

### ***Auditor attributes***

12. To be considered as an approved auditor, the applicant must be able to demonstrate and provide evidence of the following attributes:
  - (a) a fit and proper person or company;
  - (b) relevant experience within the New Zealand electricity industry;
  - (c) report writing and communication skills;
  - (d) investigative skills;
  - (e) understanding of systems and processes of participants; and
  - (f) proven understanding and interpretation of the Rules.

### ***Organisation attributes***

13. In addition to the above, the following areas will be considered by the Authority when approving an organisation or an individual to carry out the audits.
  - (a) *Financial stability* (including indemnity insurance);
  - (b) *Availability* to complete the audits;
  - (c) *Specialist expertise* – the organisation must be able to demonstrate its ability to access a broad range of skills in different operational areas; and
  - (d) *Cost* – the organisation must be able to provide competitive rates for the costs of the audits.

## **Selection process**

14. The following general principles apply to the approval, management and removal of auditors by the Approving Body:

- (a) *Honesty and fairness* - The Approving Body will act honestly and fairly in all approval processes and business relationships.
- (b) *Accountability and transparency* - The process of appointment, management, and removal of auditors by the Approving Body will be open, clear, and defensible.
- (c) *Legality of decision* - The Approving Body will comply with all legal obligations.
- (d) *No conflict of interest* - Any person involved in the approval process with a conflict of or potential conflict of interest will declare and address that interest as soon as the conflict or potential conflict is known.
- (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 business relationships based on open and effective communication, respect and trust, and adopt a non-adversarial approach to dispute resolution.

## **Approval process**

15. The approval process is outlined in the Policy<sup>11</sup>. You should familiarise yourself with this process before submitting your application. Some key steps involved in process are:
- (a) *Application form* – in the form attached as appendix 1;
  - (b) *Examinations* – involves open book examinations relating to the category(s) in which you wish to be approved; and
  - (c) *Interview* with the Selection Panel at the Authority's offices.

## **Application content and format**

16. Your application should include the following:
- (a) a cover letter;

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<sup>11</sup> A copy of the Policy can be found at <http://www.ea.govt.nz/industry/market/retail-audits/approved-auditors/>.

- (b) an Application to be an Approved Auditor (in the form attached as appendix one);
- (c) a copy of your curriculum vitae;
- (d) 2 written references; and
- (e) a signed Application statement (in the form attached as appendix two).  
The approval of an auditor is conditional on a number of terms and conditions relating to the expectations the Authority has of auditors if they are to be and remain on its list of approved auditors.

## Appendix 1 Application to be an approved auditor

<b>Organisation:</b>	
<b>Applicant:</b>	

<b>Address:</b>	
<b>Phone number:</b>	
<b>Email:</b>	

Please address your application and any related communication to:

Market Administrator  
Electricity Authority  
PO Box 10041  
Wellington  
NEW ZEALAND  
Phone: + 64 4 460 8860  
Facsimile: + 64 4 460 8879  
Email: [retailoperations@ea.govt.nz](mailto:retailoperations@ea.govt.nz)

### CHECKLIST

*Before sending your application, please ensure that you have completed and attached the following:*

- Cover Letter;
- Curriculum Vitae;
- 2 written references;
- Appendix One: Application for Accreditation as an Approved Auditor; and
- Appendix Two: Certification Statement.



**Activities for which approval is sought: (please tick appropriate box)**

<b>Test House Audits</b>	
<input type="checkbox"/>	Class A & B test houses
<b>Distributor</b>	
<input type="checkbox"/>	Registry obligations
<input type="checkbox"/>	Creation and maintenance of loss factors
<b>Reconciliation participants</b>	
<input type="checkbox"/>	Maintaining registry information and performing customer and embedded generator switching
<input type="checkbox"/>	Gathering and storing raw meter data
<input type="checkbox"/>	Creation and management (including validating, estimating, storing, correcting and archiving) of volume information
<input type="checkbox"/>	Calculation of ICP days
<input type="checkbox"/>	Provision of submission information for reconciliation
<input type="checkbox"/>	Provision of metering information to the pricing manager in accordance with subpart 4 of part 13 of the Code

**Reconciliation participant audits - Maintaining registry information and performing customer switching and embedded generator switching.**

<p>Describe in your own words the requirements of this function.</p>	
<p>Provide details of the roles you have held that involve this function.</p>	
<p>Provide details of the databases and systems you have been involved in with regard to this function.</p>	
<p>Provide other information to support your application.</p>	

**Reconciliation participant audits - Gathering and storing raw meter data.**

<p>Describe in your own words the requirements of this function.</p>	
<p>Provide details of the roles you have held that involve this function.</p>	
<p>Provide details of the databases and systems you have been involved in with regard to this function.</p>	
<p>Provide other information to support your application.</p>	

**Reconciliation participant audits - Creation and management (including validating, estimating, storing, correcting and archiving) of volume information.**

Describe in your own words the requirements of this function.	
Provide details of the roles you have held that involve this function.	
Provide details of the databases and systems you have been involved in with regard to this function.	
Provide other information to support your application.	

**Reconciliation participant audits - Calculation of ICP days.**

<p>Describe in your own words the requirements of this function.</p>	
<p>Provide details of the roles you have held that involve this function.</p>	
<p>Provide details of the databases and systems you have been involved in with regard to this function.</p>	
<p>Provide other information to support your application.</p>	

**Reconciliation participant audits - Provision of submission information for reconciliation.**

<p>Describe in your own words the requirements of this function.</p>	
<p>Provide details of the roles you have held that involve this function.</p>	
<p>Provide details of the databases and systems you have been involved in with regard to this function.</p>	
<p>Provide other information to support your application.</p>	

**Reconciliation participant audits - Provision of submission information to the pricing manager in accordance with subpart 4 of part 13 of the code.**

<p>Describe in your own words the requirements of this function.</p>	
<p>Provide details of the roles you have held that involve this function.</p>	
<p>Provide details of the databases and systems you have been involved in with regard to this function.</p>	
<p>Provide other information to support your application.</p>	

# Distributor audits - Registry obligations

<p>Describe in your own words the requirements of this function.</p>	
<p>Provide details of the roles you have held that involve this function.</p>	
<p>Provide details of the databases and systems you have been involved in with regard to this function.</p>	
<p>Provide other information to support your application.</p>	



**Distributor audits - Calculation of loss factors and use of loss factors for reconciliation purposes.**

<p>Describe in your own words the requirements of this function.</p>	
<p>Provide details of the roles you have held that involve this function.</p>	
<p>Provide details of the databases and systems you have been involved in with regard to this function.</p>	
<p>Provide other information to support your application.</p>	

**Class A test house and class B test house audits**

<p>Describe in your own words the requirements of this function.</p>	
<p>Provide details of the roles you have held that involve this function.</p>	
<p>Provide details of the technical training you have received with regard to this function.</p>	
<p>Provide other information to support your application.</p>	

## **Appendix 2 Application Statement**

### **Information and confidentiality**

In the course of the application and approval process and subsequent auditor management process, the Approving Body will necessarily gather and store personal information regarding applicants. Applicants understand that the Approving Body will need to use the personal information it collects for a range of purposes connected with auditor approval, management, and removal process. By submitting an application to the Approving Body, applicants authorise the use of their personal information for these purposes and the disclosure of that information to the Authority and others involved in the approval process including the Selection Panel. If applicants do not provide this information it will affect their application. Submission of an application will also be deemed an acknowledgement of the applicant's right of access to, and correction of personal information.

Applicants should note that once an application is made to the Authority, its content will be subject to the Official Information Act 1982 (OIA). If the Authority receives a request under the OIA for the release of information contained in an application, it will be required to consider the request in terms of the criteria set out in the OIA. This would be done in consultation with the applicant concerned.

Subject to the Authority's obligations under the OIA, all information the Authority receives or holds relating to an auditor's application, performance, management, and removal will be treated as confidential. Such information will not be disclosed to a third party unless:

- the disclosure of the information is required by law;
- the information is or becomes publicly available; or
- the auditor first consents to its disclosure.

*Please sign and complete the following statement and submit with your application.*

I, \_\_\_\_\_, [an authorised representative of (organisation name) \_\_\_\_\_,] agree to the terms and statements outlined in this application, and the Authority's Market Operations workstream auditor approval policy. I acknowledge that:

- (a) submission of this application does not guarantee further consideration in the selection process;
- (b) appointment by the relevant Approving Body to the Authority's list of approved auditors does not guarantee the purchase of any of our services;
- (c) in most cases, a contract for the provision of audit services will be negotiated with the participant(s) requiring an audit under the Code, and not the Authority;
- (d) if successful in my application, I will be required to agree to the Authority's terms and conditions for the appointment of approved auditors;
- (e) all materials and information submitted by us and any secondary contractor to our application becomes the property of the Authority on submission.

**Name (print):** \_\_\_\_\_

**Signature:** \_\_\_\_\_

**Title:** \_\_\_\_\_

**Date:** \_\_\_\_\_