

Proposed changes to participant audit regime

Consultation Paper

Submissions close: 5pm on 22 December 2015

10 November 2015

Executive summary

The participant audit regime is the audit, certification, and approval processes that apply to auditors, participants, and the Electricity Authority (Authority) under Parts 10, 11, and 15 of the Electricity Industry Participation Code 2010 (Code).

The Authority is proposing changes to:

- clarify the purpose of the audit regime, and ensure it is well-defined and aligned with the Authority's statutory objective
- improve the governance of the audit regime and better align it with international audit best practice
- improve the operational efficiency of the audit regime and support for the decisions being made as a result of audits.

The proposed changes have an operational focus and are designed to improve participants' compliance with the Code, and reduce their costs associated with the audit regime.

The proposed changes directly affect:

- approved test houses
- auditors¹
- dispatchable load purchasers
- distributors
- metering equipment providers
- reconciliation participants
- the Authority.

This consultation paper seeks feedback on proposed improvements to the audit regime.

The proposals are separated into the following three areas:

Area A: clarifying the purpose of the participant audit regime

Area B: improving the governance of the audit regime, and better aligning it with international audit best practice by:

- setting formal auditor assurance standards
- adopting a risk-based audit planning procedure
- more directly managing auditor objectivity and conflicts of interests

¹ Both Authority-approved auditors and ISO 9001:2008 auditors.

Area C: improving the operational efficiency of the audit regime and better aligning it with the Authority's statutory objective through addressing operational issues with:

- decision-making
- transparency in decisions
- participant education
- manual processes
- quality certification
- new entrant retailers
- distributed unmetered load.

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1. Your feedback is welcome

1.1 What this paper is about

- 1.1.1 The Electricity Authority (Authority) has identified three key opportunities to improve the efficiency of the participant audit regime (audit regime).
- 1.1.2 The Authority proposes to:
 - (a) clarify the purpose of the audit regime and ensure it is well-defined and aligned with the Authority's statutory objective
 - (b) introduce more rigorous governance of the audit regime to better align the regime with international electricity audit best practice
 - (c) address a number of operational inefficiencies with the audit regime.
- 1.1.3 The purpose of this paper is to consult with participants and persons that the Authority thinks are likely to be affected by the proposed amendments to the Code and operational changes to the audit regime.
- 1.1.4 Section 39(1)(c) of the Electricity Industry Act 2010 (Act) requires the Authority to consult on any proposed amendment to the Code and the regulatory statement. Section 39(2) of the Act provides that the regulatory statement must include a statement of the objectives of the proposed amendment, an evaluation of the costs and benefits of the proposed amendment, and an evaluation of alternative means of achieving the objectives of the proposed amendment.
- 1.1.5 The regulatory statement for the Authority's proposals is set out in section 6 of this consultation paper.
- 1.1.6 The proposed Code amendment is attached as Appendix A.
- 1.1.7 The Authority invites you to make a submission on the regulatory statement and the proposed Code amendment.

1.2 How to make a submission

- 1.2.1 The Authority is likely to make your submission available to the public on the Authority's website. If necessary, please indicate any documents attached in support of your submission and any information that is provided to the Authority on a confidential basis. However, you should be aware that all information provided to the Authority is subject to the Official Information Act 1982.
- 1.2.2 The Authority prefers to receive submissions in electronic format (Microsoft Word) in the format shown in Appendix B. Submissions in electronic form should be emailed to submissions@ea.govt.nz with

“Consultation Paper—Proposed changes to participant audit regime” in the subject line.

- 1.2.3 Do not send hard copies of submissions to the Authority unless it is not possible to do so electronically. If you cannot or do not wish to send your submission electronically, you should post one hard copy of the submission to either of the addresses provided below or you can fax it to 04 460 8879. You can call 04 460 8860 if you have any questions.

Postal address

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Physical address

Submissions
Electricity Authority
Level 7, ASB Bank Tower
2 Hunter Street
Wellington

1.3 Deadline for receiving a submission

- 1.3.1 Submissions should be received by **5pm** on **22 December 2015**. Please note that late submissions are unlikely to be considered.
- 1.3.2 The Authority will acknowledge receipt of all submissions electronically. Please contact the Submissions' Administrator if you do not receive electronic acknowledgement of your submission within two business days.

2. Issue the Authority would like to address

2.1 Background

The participant audit regime

- 2.1.1 The participant audit regime (audit regime) comprises the audit, certification, and approval processes followed by approved auditors, participants, and the Authority in accordance with Parts 10, 11 and 15 of the Code.
- 2.1.2 The audit regime directly involves the following stakeholders:
- (a) audited entities, namely:
 - (i) reconciliation participants
 - (ii) dispatchable load purchasers
 - (iii) metering equipment providers (MEPs)
 - (iv) approved test houses (ATHs)
 - (v) distributors
 - (b) agents and contractors performing auditable tasks on behalf of audited entities
 - (c) approved auditors²
 - (d) the Authority.
- 2.1.3 The audit regime allows the Authority to verify that the systems, data, and processes that are used to create inputs into the settlement of the wholesale market are accurate and meet the requirements of the Code.
- 2.1.4 The output of the audit regime is an audit report that each audited participant submits to the Authority.
- 2.1.5 Based on its consideration of the audit report, the Authority makes the following decisions:
- (a) the certification of reconciliation participants and dispatchable load purchasers, including certification expiry dates
 - (b) the approval of test houses, including the approval period and next audit date
 - (c) the next audit date for MEPs.

² Approved auditors are a person approved by the Authority to carry out audits.
<http://www.ea.govt.nz/operations/retail/audits-approvals-and-certification/approved-auditors/>

- 2.1.6 Based on the information contained in the audit report, the Authority may contact the audited entity and auditor for further information or clarification before making a decision based on the audit report.
- 2.1.7 The Authority also decides whether any of the breach allegations raised in the audit report should be considered by the Compliance Committee, a sub-committee of the Board.

2.2 The 2015 review of the audit regime

- 2.2.1 The audit requirements and purpose have evolved since the audit regime was last formally reviewed in 2008. This review was required to ensure that the regime is aligned with both the Authority's and industry's needs and objectives.
- 2.2.2 In January 2015, the Authority sought initial feedback from audit stakeholders and other external parties to identify:
 - (a) auditing best practices in the electricity industry
 - (b) any operational issues with the existing audit regime.
- 2.2.3 The Authority published a short paper on the Authority's website about the audit regime and requested feedback from audited participants on:
 - (a) the purpose of the audit regime
 - (b) ways to improve the audit regime, to improve audited entities' compliance with the Code, to reduce costs and increase the efficiency of the audit regime.
- 2.2.4 In March 2015, the Authority ran a half-day workshop with approved auditors to help identify:
 - (a) issues with the audit regime
 - (b) areas in which the audit regime could be improved.
- 2.2.5 Between January 2015 and April 2015, the Authority met and discussed the existing audit regime with the following external parties that have experience with other national and international audit regimes:
 - (a) PA Consulting Limited
 - (b) External Reporting Board
 - (c) Audit New Zealand
 - (d) Gas Industry Company.
- 2.2.6 In April 2015, the Authority engaged PA Consulting Limited to:

- (a) provide information on international practices in electricity industry auditing
- (b) develop a comparison framework to allow the Authority to evaluate the existing audit regime against international best practice.

Summary of feedback received during review

2.2.7 Feedback from audited participants identified that:

- (a) the purpose of the audit regime should focus on the material impacts audited entities' actions can have on the accurate settlement of the wholesale market
- (b) opportunities exist to improve the operational efficiency of the audit regime and to improve participants' compliance with the Code.

2.2.8 Feedback from the auditors at the auditor workshop identified that:

- (a) there is scope to improve the audit regime
- (b) audits should be risk-based
- (c) audits should provide meaningful impact assessments for any alleged breaches.

2.2.9 Feedback from PA Consulting Limited, the External Reporting Board, Audit New Zealand, and the Gas Industry Company identified that:

- (a) audit engagement and audit governance are key areas where the existing audit regime could be improved
- (b) there are current international audit engagement standards the Authority could use as the basis for developing an audit engagement standard suitable for the New Zealand electricity industry audit regime.

2.2.10 Application of the audit best practice framework (see supplementary information to this consultation paper) identified the following areas where the electricity audit regime scored poorly (score of 0) against best practice:³

- (a) **Assurance: Governance of audit process** – The Authority does not specify an audit's scope or requirements and does not approve audit plans for specific audits.
- (b) **Assurance: Formal assurance requirements** – The Authority does not require auditors to follow any formal assurance requirements and

³ See *Benchmarking of audit regime against audit best practice* available from <https://www.ea.govt.nz/development/work-programme/retail/review-of-participant-audit-regime/consultations/#c15626>

does not require audited entities to change lead auditors after a period of time.

- (c) **Logistics: Appointment of auditors** – The Authority does not appoint the auditor for each audited entity and does not seek to achieve a reduction in costs through a competitive tender process for audit services.

2.3 The review concluded that opportunities exist to improve the audit regime

2.3.1 The Authority considers that:

- (a) the purpose of the audit regime has not been clearly conveyed to stakeholders
- (b) opportunities exist to improve the governance of the audit regime and better align it with international audit best practice
- (c) opportunities exist to improve the operational efficiency of the audit regime and better align it with the Authority's statutory objective.

2.3.2 This consultation paper considers these issues and proposes a suite of changes that will improve the audit regime through:

- (a) better aligning the audit regime with international best audit practice
- (b) better aligning the audit regime to the Authority's statutory objective
- (c) increasing the benefits of the audit regime to the industry.

Question 1 Do you agree the opportunities to improve the audit regime identified by the Authority are worthy of attention?

2.4 Structure of this paper

2.4.1 This consultation paper seeks feedback on proposed improvements to the audit regime. The proposals are separated into the following three areas that were identified during the review:

- (a) Area A: clarifying the purpose of the participant audit regime (section 3)
- (b) Area B: improving the governance of the audit regime and better aligning it with international audit best practice (section 4)
- (c) Area C: improving the operational efficiency of the audit regime and better aligning it with the Authority's statutory objective (section 5).

2.4.2 This paper proposes:

- (a) amendments to the Code

- (b) changes to existing processes (both Code and non-Code)
- (c) introducing new processes
- (d) changes to existing published guidelines
- (e) the creation of new guidelines.

2.4.3 The Authority considers it is impractical to set out a separate regulatory statement for each of the proposed changes to the audit regime. The approach adopted in this consultation paper is to treat the whole set of technical and operational changes, including Code amendments, as a package and to set out a regulatory statement in respect of the whole package. This is because all of the proposed changes share the same set of high level objectives and benefits/costs.

2.4.4 Currently, the audit requirements for different participants are set out in Parts 10, 11, and 15. The proposed Code amendment proposes to relocate audit requirements from each of those parts into one new part: Part 15A (Audits).

2.4.5 The proposed new Part 15A sets out the audit requirements for:

- (a) metering equipment providers
- (b) approved test houses
- (c) audits requested by the Authority and participants
- (d) distributors
- (e) reconciliation participants
- (f) dispatchable load purchasers
- (g) distributed unmetered load.

2.4.6 In addition to the proposed Code amendments being consulted on in this paper, changes have also been made to improve the readability and clarity of the Code.

2.4.7 The drafting of the proposed Code, including the proposed part 15A can be found in Appendix A.

2.5 Issues outside of the scope of this consultation

2.5.1 The following issues are outside of the scope of this consultation:

- (a) market operations service provider audits
- (b) profile audits
- (c) commercial relationships between parties involved in the audit process

- (d) anything that is not related to the audit process, including comments on the Code that are not directly related to the audit process.

3. Area A: Clarification on purpose of the audit regime

3.1 Clarifying the purpose of the audit regime

- 3.1.1 To ensure the audit regime delivers improvements that align with the Authority's statutory objective, it is important to clearly define the underlying purpose of the audit regime.

Current purpose

- 3.1.2 The current purpose of the audit regime focuses on determining whether an audited entity complies with the Code.

- 3.1.3 Each audit conducted under the audit regime:

- (a) checks that an audited entity is complying with the Code
- (b) ensures the integrity of the audited entity's processes.⁴

- 3.1.4 Additionally these audits provide assurance to market stakeholders that:

- (a) buyers in the electricity market are correctly invoiced for their purchases
- (b) sellers (eg, generators) are complying with their Code requirements.⁵

- 3.1.5 Clause 11.10(3) of the Code (Distributor's processes to be audited) defines the purpose of distributor audits as:

The purpose of each **audit** conducted under this clause is to determine whether the processes and procedures used by the **distributor** to create and maintain information under this Part comply with this Code.

- 3.1.6 Although clause 11.10(3) aligns with the current focus of the audit regime, it is specific to distributor audits. It does not include the decision-making role the Authority has for other audited entities when determining their certification, approval, or next audit date.

⁴ <http://www.ea.govt.nz/operations/retail/audits-approvals-and-certification/>

⁵ <http://www.ea.govt.nz/operations/retail/audits-approvals-and-certification/about-audits/>

3.2 **Issue A.1.1: the current focus of the audit regime does not full satisfy the Authority's statutory objective**

- 3.2.1 The current focus of the audit regime is to assess whether an audited entity has complied with the Code. This focus is problematic because it:
- (a) does not fully satisfy the Authority's statutory objective
 - (b) does not give the Authority enough information to make an informed decision regarding a participant's application for certification, approval, or next audit date. The Authority's statutory objective includes promoting the efficient operation of the electricity industry for the long term benefit of consumers. Achieving this objective requires the audit regime to focus on more than just an assessment of the level of compliance of the audited participant. The audit regime also needs to encompass actions taken by the audited participant to improve its compliance with the Code as a result of the audit outcomes.
- 3.2.2 In order to make an informed decision the Authority needs to know more than just whether an audited entity complies with the Code. Additional information required includes:
- (a) the reasons for any non-compliance
 - (b) action being taken by the audited entity to address the non-compliance
 - (c) action being taken by the audited entity to prevent future non-compliance
 - (d) timeframes for resolution.

Question 2 Do you agree that the problems identified with the existing purpose of the audit regime are correct? If not, why not?

3.3 **Proposed solution**

- 3.3.1 The Authority considers that the purpose of the audit regime should align with:
- (a) the Authority's statutory objective and compliance philosophy⁶
 - (b) audited entities' requirements.
- 3.3.2 Table 1 sets out the Authority and audited entities' requirements for the audit regime.

⁶ <https://www.ea.govt.nz/code-and-compliance/compliance/about-compliance/>

Table 1: Authority and participants' requirements for the audit regime

Authority wants the audit regime to	Participants want the audit regime to
Assess the audited entities' compliance with the Code.	Help them understand their level of compliance with the Code.
Assess audited entities future compliance risks.	Help identify measures to improve their compliance with the Code.
<p>If the audited entity is not compliant with the Code, identify:</p> <ul style="list-style-type: none"> • the reason for the breach • the actions being taken to remedy the breach (including controls to prevent future breaches) • the likely market impact of the breach (both the actual impact and the potential impact) • if the breach is systemic or ongoing • the 'severity' of the breach. 	Identify compliance risks that affect the audited entity.
Evaluate the risk the audited entity poses to the accurate settlement of the market.	Provide them with an understanding of how other audited entities' actions are affecting their business.
Identify trends in the compliance performance of audited entities and other participant behaviour.	Exchange information about how other audited entities operate and manage similar issues and compliance risks.

Proposed solution is to redefine the purpose of the audit regime

3.3.3 Having considered the Authority and participants' requirements, the Authority proposes to define the purpose of the audit regime as:

The purpose of the audit regime is to:

- evaluate participants' compliance with the Code and to help ensure the ongoing accurate and efficient operation of the wholesale electricity market settlement process
- enable the Authority to make an informed decision regarding the certification, approval, and audit frequency of participants.

- 3.3.4 Having a redefined purpose will ensure audits are approached by audit stakeholders in a way that supports the Authority's statutory objective of promoting efficiency for the long term benefit of consumers.
- 3.3.5 The proposed purpose of the audit regime would apply more broadly than the purpose of the proposed new Part 15A. For this reason, the proposed purpose of the audit regime:
- (a) will be incorporated into documents that support the audit regime, such as the auditing guidelines
 - (b) will not be incorporated directly into the Code.

Question 3	Do you agree with the proposed purpose of the audit regime? If not, why not?
Question 4	Do you agree with the proposed purpose of the audit regime being incorporated into guidelines but not the Code? If not, why not?

- 3.3.6 As a consequence of the clarified purpose of the audit regime, the Authority proposes revoking clause 11.10(3).
- 3.3.7 Revoking clause 11.10(3) will allow the Authority to define a single purpose for all audits conducted as part of the participant audit regime.
- 3.3.8 The drafting of the proposed Code is in Appendix A.

3.4 Alternatives considered

Status quo

- 3.4.1 The Authority considers the status quo does will not address the problem identified and will not fulfil the Authority and audited entities' requirements for the audit regime (Table 1).

Inclusion of the Authority's statutory objective in the purpose

- 3.4.2 The Authority has considered feedback that the purpose of the audit regime should include references to the efficient operation of the wholesale electricity market for the long term benefit of consumers.⁷
- 3.4.3 The ongoing accurate and efficient operation of the wholesale electricity market settlement process supports the statutory objective because the process verifies that all electricity traded at an installation control point (ICP) is ultimately purchased from the wholesale market.

⁷ Auditor workshop 4 March 2015.

3.4.4 The Authority does not consider that the incorporation of its statutory objective into the purpose statement would assist the audit regime to meet the requirements identified in Table 1. This is because:

- (a) a narrower purpose statement will better enable stakeholders to understand the objectives of the audit regime
- (b) the purpose's explicit reference to "efficient operation" demonstrates how the audit regime contributes to the statutory objective.

3.4.5 For this reason, the Authority does not consider it appropriate to incorporate the statutory objective into the purpose of the audit regime.

Inclusion of participant education as a third purpose of the audit regime

3.4.6 A proposed third purpose of the audit regime was to educate participants in their Code obligations and the impact their actions have on them as well as other businesses.

3.4.7 The Authority considers this third purpose is unnecessary. Educating participants is implicit in the purpose of helping ensure the ongoing accurate and efficient operation of the wholesale electricity market settlement process.

4. Area B: Alignment with auditing best practices

4.1 Background

4.1.1 In early 2015, Authority staff met with four external organisations to discuss their auditing experience and to gain an understanding of auditing best practices that could be applied to the audit regime. The four organisations were:

- (a) PA Consulting Limited
- (b) External Reporting Board
- (c) Audit New Zealand
- (d) Gas Industry Company.

4.1.2 In addition, PA Consulting Group were engaged to develop an audit comparison framework:

- (a) setting out the dimensions of auditing best practice
- (b) defining auditing best practice in the New Zealand for these dimensions
- (c) developing a scoring framework for the Authority to benchmark and evaluate the audit regime against best practice.

4.1.3 The consultation with external parties and the application of the scoring framework revealed best practice gaps in the:

- (a) governance of the audit regime
- (b) approach used to focus audit effort
- (c) appointment of auditors.

4.1.4 Background information on the Authority's engagement of the external parties, and application of the best practice framework against the existing audit regime, can be found in the supplementary information for this consultation paper.⁸

4.2 The Authority has identified three issues with its alignment to auditing best practices

4.2.1 There are three key areas in which the audit regime performs poorly compared to auditing best practices.

⁸ See *Summary of consultation with audit experts* available from <https://www.ea.govt.nz/development/work-programme/retail/review-of-participant-audit-regime/consultations/#c15626>

Issue B.1.1: Governance of the audit regime

- 4.2.2 The Authority:
- (a) has limited control over the scope, direction, and outputs of audits
 - (b) does not have the ability to prescribe formal assurance requirements.
- 4.2.3 This lack of governance by the Authority can compromise⁹:
- (a) the quality of audits, and result in audits producing outputs and outcomes that are not aligned with the Authority's objectives or the objectives of the audit regime
 - (b) the integrity of the audit process as once an auditor is approved there is little assurance with respect to ongoing auditor competence, independence and objectivity or robustness of the audit approach.

Issue B.2.1: Approach used to focus effort:

- 4.2.4 Risk and materiality are not considered by the auditor or Authority when setting the scope of an audit, the focus of audit activities, or when reporting audit findings.
- 4.2.5 As a result:
- (a) audits may not be focused appropriately in areas where compliant performance is most important or where non-compliance can result in the most material impacts
 - (b) audit findings cannot be categorised by severity.

Issue B.3.1: Appointment of auditors:

- 4.2.6 The Authority cannot appoint auditors or require an audited participant to rotate the auditor it engages. Because of this, auditor independence and objectivity cannot be adequately assured.

⁹ This review considers the issues related to the governance of the audit regime and does not reflect the performance of individual approved auditors

Question 5	Do you agree with the problems identified with the governance arrangements of the audit regime? If not, why not?
Question 6	Are there any other gaps in auditing best practices not identified here that should be addressed as part of this review?

4.3 Proposed solution for issue B.1.1: Governance of the audit regime

- 4.3.1 Under the Authority's current governance approach, the direction and outputs of some audits are inconsistent with the Authority's objectives and the audit regime's objectives.
- 4.3.2 In particular, the Authority does not:
- (a) specify the audit's scope or auditor's approach to auditing the participant
 - (b) approve a participant's audit plans before its audit starts
 - (c) specify reporting requirements for audits.
- 4.3.3 Under this approach, there is no formal assurance that audits are being conducted:¹⁰
- (a) robustly, because there is no assurance that all instances of non-compliance and compliance risk are being discovered and acted upon; or
 - (b) independently, because there is no assurance of auditor objectivity.
- 4.3.4 This governance approach does not align with auditing best practices in the New Zealand context. It is unlikely to deliver compliance improvements or efficient outcomes that are consistent with the Authority's objectives.¹¹
- 4.3.5 The auditing best practice approach requires auditors to meet formal assurance requirements such as ISAE (NZ) 3000¹² as part of ensuring there is adequate oversight of the audit regime and its outputs.¹³

¹⁰ Formal assurance requirements or auditing standards typically prescribe requirements and rules with respect to the approach taken to plan and undertake audits, and the ethical, professional, and quality control requirements.

¹¹ See *Benchmarking of audit regime against audit best practice* available from <https://www.ea.govt.nz/development/work-programme/retail/review-of-participant-audit-regime/consultations/#c15626> for a comparison of the audit regime against best practice.

¹² A copy of ISAE (NZ) 3000 is available from <http://xrb.govt.nz/includes/download.aspx?ID=135611>

¹³ PA Consulting Group and the External Reporting Board have both commented that full adoption of a standard such as ISAE (NZ) 3000 will be onerous for auditors under the current regime; however, a subset of the requirements and rules contained within the standard can still be applied, and should be applied to increase the robustness and integrity of the regime.

- 4.3.6 The proposed formal assurance requirements will:
- (a) ensure audits align with the audit regime's objectives
 - (b) assure the quality of audit outputs through increased oversight by the Authority
 - (c) provide assurance to the Authority and participants that:
 - (i) audits are conducted in a robust and defensible manner
 - (ii) audit outputs are of high quality
 - (iii) auditors are professionally competent and independent.

Preferred solution: Tailored auditor protocol

- 4.3.7 The Authority's preferred solution is to require auditors to follow a subset of ISAE (NZ) 3000 requirements. These requirements could be applied to the audit regime to achieve governance that more closely aligns with auditing best practice without imposing onerous requirements on auditors or participants.
- 4.3.8 The Authority has developed a draft protocol (based on the ISAE (NZ) 3000 standard) that auditors would be required to comply with. The proposed protocol (Appendix D) describes:
- (a) criteria for auditors when accepting or continuing with an audit engagement
 - (b) audit planning requirements
 - (c) the nature, extent, and timing for audit procedures, including:
 - (i) how to obtain appropriate evidence; in particular, determining whether evidence is reliable, relevant, and sufficient (given the level of risk in the area being reviewed)
 - (ii) how to modify audit procedures during the audit process
 - (d) the requirements for evaluating any instances of non-compliance
 - (e) the criteria for forming qualified conclusions
 - (f) how to form audit conclusions
 - (g) reporting requirements
 - (h) administrative requirements
 - (i) ethical and professional requirements (to provide assurance around auditor independence, objectivity and competence).
- 4.3.9 The proposed protocol will add rigour into the audit regime by incorporating aspects of the ISAE (NZ) 3000 standard relating to:
- (a) how audits should be carried out
 - (b) professional and ethical requirements for auditors.

- 4.3.10 Auditors will be assessed for compliance with the protocol during Engagement Quality Control Reviews.¹⁴

The Authority prefers a tailored protocol

- 4.3.11 In the Authority's view, aligning the audit regime to the relevant parts of the ISAE (NZ) 3000 standard will:
- (a) provide assurance to the Authority and audited entities regarding the robustness of the audit process and the competence and independence of the auditor
 - (b) support the consistent reporting of audit findings by auditors.
- 4.3.12 A robust and rigorous audit regime is more likely to discover instances of non-compliance and compliance risks. It would improve the market's operational efficiency by reducing:
- (a) participants' compliance risk
 - (b) the risk of adverse financial and reputational impacts on the market.

Alternative 1: Use of full ISAE (NZ) 3000 standard

- 4.3.13 Application of the full ISAE (NZ) 3000 standard would provide assurance regarding the robustness of the audit process, the competence and independence of the auditor, and ensure consistent reporting of audit findings.
- 4.3.14 The ISAE (NZ) 3000 standard can be applied across a range of auditable disciplines. It is used when auditing entities such as regulated monopolies (eg, electricity distributors, gas distributors and transmission companies, airports, and fibre companies) for compliance against Part 4 of Commerce Act 1986.
- 4.3.15 Full adoption of the ISAE (NZ) 3000 standard can be problematic for small firms that may not have the following policies and controls required to comply with the standard:
- (a) formal codes of conduct and conflict detection
 - (b) formal resolution policies
 - (c) robust confidentiality, data protection, and quality control policies and procedures.

¹⁴ An Engagement Quality Control Review is conducted by the Authority on the audit to form a view of the auditor's compliance with the auditor requirements and auditing standards.

Alternative 2: Status quo

- 4.3.16 An alternative to requiring auditors to comply with the auditing standards is to continue the current practice of governance, where the auditor is solely responsible for determining how to plan and execute an audit.
- 4.3.17 This option is unlikely to improve the governance of the audit regime. The Authority would need to incorporate the risks this approach places on the outcomes of the audit when making decisions as a result of the audit.

Question 7	Do you agree with the proposed used of tailored Auditor Protocol? If not, why not?
Question 8	Do you have any feedback on the proposed tailored Auditor Protocol attached as Appendix D?

4.4 Proposed solution issue B.2.1: Approach to focus audit effort

- 4.4.1 Under the current audit regime, the Authority, participants, and auditors do not undertake a risk assessment of the audited entity as part of the audit process.
- 4.4.2 Specifically the current audit regime does not take into account risk and materiality when setting audit scope and focus or when reporting audit findings.
- 4.4.3 As a result, it is not clear whether:
- (a) audit activities have been planned in a logical and structured manner that takes into account materiality
 - (b) audits provide the best value for money.
- 4.4.4 Further, this approach does not give any indication of the relative severity of audit findings. This makes it problematic for the auditor and audited entity to prioritise remedial actions.
- 4.4.5 This approach is inconsistent with auditing best practices (see supplementary information for this consultation paper), in which risk assessments are used to focus the auditor's effort in a structured and logical manner.¹⁵

¹⁵ See *Summary of consultation with audit experts* available from <https://www.ea.govt.nz/development/work-programme/retail/review-of-participant-audit-regime/consultations/#c15626>

Preferred solution: Risk-based audit planning

- 4.4.6 The Authority's preferred solution is to adopt a risk-based approach to determine scope and focus effort.
- 4.4.7 To achieve this the Authority proposes to expand its role in audit planning to:
- (a) specify the scope and focus areas for audits based on a risk assessment of participants
 - (b) specify materiality levels to be used to report audit findings.¹⁶
- 4.4.8 The principles that would form the basis of risk-based audit planning procedures can be found in the supplementary information for this consultation paper.¹⁷

The Authority prefers a risk-based approach for auditing because:

- 4.4.9 A risk-based approach for auditing will ensure that:
- (a) audit scope and activities are focused on areas where instances of non-compliance are likely to have the greatest impact on other participants and the market
 - (b) the level of scrutiny and effort in a given area is directly related to risk (so that higher risk areas involve more intensive auditing and lower risk areas, such as documentation reviews, involve light-touch auditing)
 - (c) risk areas are rotated regularly (so that specific low and medium risk areas are reviewed in greater detail during a given audit) to ensure that lesser risk areas are not disregarded
 - (d) audit findings can be categorised by impact to facilitate the prioritisation of remedial measures
 - (e) audit recommendations can be tailored to address the risks in a given area (ie, an in-depth understanding of risks enables auditors and the Authority to design solutions that will treat and mitigate the relevant risks).

¹⁶ For the purposes of risk-based planning, materiality is considered in the context of the qualitative impact the participant can have on the industry, participants, customers and other organisations. This includes assessing materiality in terms of the decisions made as a result of the audit finding.

For example, assessing the materiality resulting from the population of inaccurate distributed generation information on the registry by a distributor requires consideration of not just the breach in the context of the market but also the impact this inaccurate information can have on other organisations, such as solar installers and investors.

All breaches of the Code should be addressed and materiality should be used to give an order of priority for resolution.

¹⁷ See *Draft risk-based planning principles* available from <https://www.ea.govt.nz/development/work-programme/retail/review-of-participant-audit-regime/consultations/#c15626>

- 4.4.10 Greater involvement by the Authority in audit planning will help ensure audits align with the audit regime's objectives. This will improve the quality of audit outputs.
- 4.4.11 The efficiency of the audit regime will be improved by allowing the Authority to set audit parameters based on a structured risk assessment. This approach will allow the Authority to focus the audit's efforts in areas the Authority considers important.
- 4.4.12 An increase of the Authority's scrutiny in a participant's higher risk areas will increase the likelihood of discovering any instances of non-compliance and compliance risk in these areas. This will provide the participant with an opportunity to institute remedial measures to mitigate the risk of material breaches.
- 4.4.13 Risk-based audits will improve the operational efficiency of the market by reducing:
- (a) the time and effort spent on auditing low risk areas
 - (b) the risk of adverse financial and reputational impacts on the market
 - (c) the risk of other participants, particularly small participants and new entrants, being adversely affected.
- 4.4.14 Applying a risk-based audit planning approach will give the Authority greater oversight and control over audit direction. This will help to ensure audit outcomes are better aligned with the Authority's objectives and the objectives of the audit regime.
- 4.4.15 Setting materiality levels will enable consistent reporting of audit findings, and help the Authority and participants to prioritise remedial measures effectively, thereby improving the operational efficiency of the market.

Question 9 Do you agree with the proposal for the Authority to set audit scope, focus and materiality levels through risk-based planning? If not, why not?

Alternative 1: Status quo

- 4.4.16 An alternative to applying risk-based audit planning is to continue the Authority's current practice of not considering risk and materiality when planning the audit.
- 4.4.17 This is likely to result in the misallocation of participants' resources as all areas of potential non-compliance are assessed the same regardless of risk and materiality.

4.5 Proposed solution to issue B.3.1: Appointment of auditors

- 4.5.1 One of the fundamental principles of auditing best practice is to ensure the objectivity of auditors. The current approach for appointing auditors is inconsistent with this fundamental principle.
- 4.5.2 In particular, the current approach opens the possibility that:
- (a) audited entities may select auditors whom they are able to influence
 - (b) long-standing relationships between auditor and audited entity poses risks to objectivity (through over-familiarity)
 - (c) an auditor has a conflict of interest that may compromise their objectivity.
- 4.5.3 Although the Authority approves the pool of auditors for the audit regime, it is ultimately the audited entity who selects its auditor. Participants are not currently required to regularly change their auditors.
- 4.5.4 This approach is inconsistent with auditing best practices (see supplementary information for this consultation paper) where the governing body requires auditors to be rotated from time to time.¹⁸
- 4.5.5 The manner in which auditors are appointed under the current audit regime does not address potential conflicts of interest or adequately ensure auditors' independence and objectivity.

Preferred solution: Amend the Code and terms and conditions of auditor approval to assure auditor independence and objectivity

- 4.5.6 The Authority considers that the issues with the consecutive use of the same auditor can be addressed by amending the Code and terms and conditions for auditor appointment.
- 4.5.7 The amendments to the Code would allow the Authority to:
- (a) Require participants to change auditors at regular intervals.¹⁹ Auditor rotation provides greater assurance around auditor objectivity.²⁰
 - (b) Approve or decline the nomination of an auditor by a participant.

¹⁸ See *Benchmarking of audit regime against audit best practice* available from <https://www.ea.govt.nz/development/work-programme/retail/review-of-participant-audit-regime/consultations/#c15626>

¹⁹ For example every 2 audits.

²⁰ For clarity these proposed amendments are not retrospective, so if implemented auditor rotation would only be required after the second audit following the Code amendment coming into force.

- 4.5.8 The amendments to the terms and conditions for auditor appointment would require auditors, at time of initial appointment to the auditor pool and prior to starting any audit, to:
- (a) declare any conflicts of interests or other threats that may impact on their objectivity
 - (b) disclose any procedures they have to identify and address conflicts of interest and other threats.
- 4.5.9 Based on the information an auditor provides to the Authority, the Authority may decline to approve the appointment of an auditor. (See also Appendix D for the draft Auditor Protocol relating to identifying and addressing threats and conflicts of interest.)
- 4.5.10 The Authority believes that the terms and conditions for auditor approval need to be amended to allow the Authority to require auditors to undergo further training as considered appropriate.²¹
- 4.5.11 Reasons for the Authority to require an auditor to undergo further training include:
- (a) the audit outputs are consistently misaligned with the Authority's requirements
 - (b) an Engagement Quality Control Review (see also Appendix D) of the auditor indicates material non-compliance with the auditor protocol
 - (c) an Engagement Quality Control Review of the auditor identifies potential issues with auditor competence.
- 4.5.12 A copy of the proposed Code amendment is attached as Appendix A.²²
- The Authority prefers amendments to the Code and terms and conditions of auditor approval***
- 4.5.13 Allowing the Authority to decline the appointments of auditors and require auditor rotation will:
- (a) mitigate threats to auditor independence
 - (b) align the current audit regime with auditing best practices
 - (c) enhance the credibility and quality of audit outputs.
- 4.5.14 This will provide added assurance that instances of non-compliance and compliance risk are investigated objectively, reported objectively, and subsequently addressed by the participant.

²¹ The terms and conditions for auditor approval can be found at: <http://www.ea.govt.nz/dmsdocument/85>

²² See clauses 15A.2, 15A.3 and 15A.7

- 4.5.15 The changes to auditor appointment are expected to contribute to increased participant compliance, and consequently improve the operational efficiency of the market.

Alternative 1: Authority to appoint auditors

- 4.5.16 An alternative to requiring participants to change auditors at regular intervals would be to amend the code to shift the responsibility for appointing auditors from the participant to the Authority.
- 4.5.17 The responsibility for payment of the costs of the audit would remain with the audited participant.
- 4.5.18 The Authority considers that mandated appointment of auditors will not deliver any additional benefits compared to the Option A proposal, and it would introduce additional costs through the administrative overhead of managing this process.

Alternative 2: Status quo

- 4.5.19 An alternative to changing the manner in which auditors are appointed would be to keep the existing process where auditors are approved by the Authority and participants select auditors.
- 4.5.20 The status quo will not improve the quality and credibility of audit outputs and outcomes
- 4.5.21 As a result the Authority would need to incorporate the risks the status quo has on the outcomes of the audit when making decisions as a result of the audit.

Question 10	Do you agree with the proposed changes to auditor appointment? If not, why not?
Question 11	Do you agree with the proposed Code amendments? If not, why not?

5. Area C: Proposed amendments to improve the operational efficiency of the audit regime

5.1 Problem definition

- 5.1.1 The Authority conducted a review of the audit regime between January 2015 and June 2015. This review determined that the existing audit regime is inefficient and does not align with the Authority's statutory objective or the audit regime's purpose.²³
- 5.1.2 The primary reasons for the inefficiencies in the audit regime have been separated into the following categories:
- (a) **Issue C.1: Decision-making:** decisions, including the next audit date, are made on incomplete information
 - (b) **Issue C.2: Transparency:** there is inadequate transparency in audits and actions taken as a result of audits
 - (c) **Issue C.3: Education:** there is no consistent industry-wide education on auditable areas
 - (d) **Issue C.4: Manual processes:** a large number of manual processes are used in delivering and processing audits
 - (e) **Issue C.5: Quality certification:** quality certification requirements are considered too onerous
 - (f) **Issue C.6: New entrant retailers:** the audit requirement for new entrant retailers does not reflect the risk they pose to the market or practical limitations on timeframes for obtaining quality certification audits
 - (g) **Issue C.7: Distributed unmetered load:** The audit requirements for distributed unmetered load (DUML) and the methodology for auditing DUML databases are not clear. The identification and resolution of inaccuracies in submission information sourced from DUML databases is slow and leads to inaccurate settlement in the market.
- 5.1.3 While the impact of the individual inefficiencies is small, the combined effect is large enough to justify investigations into possible actions to

²³ 3.3.3 of this consultation paper established the proposed purpose as:

The purpose of the audit regime is to:

- evaluate participants' compliance with the Code and to ensure the ongoing accurate and efficient operation of the wholesale electricity market settlement process
- enable the Authority to make an informed decision regarding the certification, approval, and audit frequency of participants.

address them. A suite of solutions is proposed below that will deliver net benefits to the audit regime for the long-term benefit of consumers.

5.2 Issue C.1: Decision-making

5.2.1 As identified in paragraph 2.1.5, the Authority makes decisions that affect participants based on the content of their audit reports. The most common of these decisions is the date the participant must next be audited by.

5.2.2 Decisions made based on audit reports are more likely to be high quality decisions when:

- (a) the information in the audit report is clear
- (b) there is no uncertainty about the actions required as a result of the audit.

5.2.3 Any uncertainty about the information in an audit report is likely to encourage the Authority to be conservative in any decision it makes based on that report.

Issues with decision-making and the audit regime

5.2.4 The Authority commonly requires more information than is available in the audit report to make well-informed decisions. This can result in:

- (a) a delay to the decision while additional clarification is sought
- (b) a conservative approach to the decision being made to account for any risks and assumptions made.

5.2.5 During the review of the audit regime, the Authority also identified that the frequencies of audits are not consistent across all participants, and do not take into account the size or compliance level of the participant.

5.2.6 The following issues have been identified where improvements to the decision making process can be made:

- (a) **Issue C.1.1: It is unclear what actions have been taken as a result of the audit:** The Authority's decisions are not solely made on the content of the audit report, but rather on the actions the participant will be taking as a result of the audit report.
- (b) **Issue C.1.2: Participants do not always know if an alleged breach is isolated or part of a wider industry issue:** The Authority's decisions need to be made in the context of the wider industry so appropriate actions can be taken. If an issue is isolated, a targeted approach is appropriate. However, if the issue is prevalent across a number of participants, wider engagement may be more effective.

- (c) **Issue C.1.3: Definition of material change:** The requirements for participants to undergo a 'material change' audit are subjective and left to the discretion of the participant as to what constitutes a material change. The basis for determining whether a change is a material change is not consistent across all participants, with distributors able to make material changes to their systems and processes without requiring an audit to demonstrate compliance. There are risks that a participant will implement a change that is not considered material but ultimately impacts other participants and the accurate settlement of the wholesale market.
- (d) **Issue C.1.4: Definition of next audit date:** The way the Code describes the date of the next audit differs between participants, which creates confusion about when the next audit is due. For example, reconciliation participants must submit an audit at least two months prior to certification, while metering equipment providers must be audited within a period specified by the Authority and submit the audit no more than one month after completion.
- (e) **Issue C.1.5: Frequency of audits:** The frequency of audits are not consistent across all participants and do not always take into account the size or the compliance level of the participant.
- (f) **Issue C.1.6: Timing of agent audits:** Audits of agents used by the participant can be conducted up to 12 months prior to the participant audit. This creates an element of risk as the agent audit is not necessarily relevant or representative of the compliance achieved in the current audit period.
- (g) **Issue C.1.7: Fixed auditor approval term:** The Authority can only approve auditors for a fixed term of two years (24 months). This can lead to administrative issues, eg, where an auditor is seeking re-approval during the period they are already approved for. The fixed period also results in the Authority taking a conservative approach to approving auditors because auditors cannot be approved for a lesser period of time or on a shortened, trial basis.
- (h) **Issue C.1.8: Limited access to information to enable audits to be conducted:** Participants are required to undergo an audit but do not have any obligation under the Code to provide information for the audit. This can result in auditors being unable to identify breaches or issues due to not enough information being supplied to form a conclusion. This in turn affects decision made as a result of the audit.
- (i) **Issue C.1.9: Inconsistent allocation of payment of auditor's costs for Authority and participant requested audits:** Parts 10, 11, and 15 have different processes for determining how an auditor's costs are allocated following an Authority or participant requested audit.

Proposed solution

- 5.2.7 The Authority proposes to address the issues identified through the following actions described in Table 2 below.

Table 2: Solutions to improve the audit decision making process

Issue	Option	Description	Rationale
C.1.1: It is unclear what actions have been taken as a result of the audit	Preferred Solution: Require participants to submit a compliance plan	<p>Require the participant to submit a compliance plan. This plan will describe the intended actions to address each instance of non-compliance identified in the audit.</p> <p>Amend the Code to require the participant to submit the compliance plan when submitting the audit report to the Authority.</p> <p>A template for the proposed compliance plan would be developed prior to implementation.</p> <p>The proposed Code amendment can be found in Appendix A.²⁴</p>	<p>The Authority's decisions should be made on the actions the participant is taking to address issues identified in the audit report, and not solely the content of the audit report.</p> <p>A compliance plan will provide this information in a standardised format and be used to support more informed decisions.</p>
	Alternative 1: Require participants to submit a draft audit for comment and follow-up	<p>Require participant to submit a draft copy of the audit which the Authority can review and identify areas where more information is needed before a decision can be made.</p> <p>Auditor can then complete the audit and</p>	<p>This solution would result in double handling of audits, with the Authority reviewing the audit twice in order to make the decision.</p> <p>It is expected that this would also add cost as the auditor would be required</p>

²⁴ See clause 15A.14.

Issue	Option	Description	Rationale
		<p>a final audit can be submitted by the participant.</p> <p>Amend the Code to require the submission of a draft audit report.</p>	to update parts of the audit following the review.
	Alternative 2: Retain status quo	Continue with the existing process where follow-up queries are raised following submission of the audit.	This will not improve the decision-making process.
C.1.2: Participants do not always know if an alleged breach is isolated or part of a wider industry discussion	Preferred Solution: Creation of an 'issues register'	<p>Creation of a register of issues where the action taken is not specific to the participant. For example where a Code change is required or industry discussion is needed before action can be taken.</p> <p>This register would list common known issues where immediate action is not expected to be taken by the participant to address compliance problems.</p>	An issues register will allow the Authority to identify and collate and industry-wide issues. This information will support a consistent and informed decision-making process and enable the ongoing improvement of the Code and operation of the market.
	Alternative 1: Retain status quo	This solution would leave issues as items identified only in individual audits.	This solution does not address the issue identified.
C.1.3: Definition of material change	Preferred Solution: Define 'material change' and require all audited	Amend the Code to remove the ambiguity in material change and define it in terms of the impact the change can	Clarifying definition of material change will allow Code to be clear and

Issue	Option	Description	Rationale
	participants to be subject to material change audits	<p>have on other participants.</p> <p>Update the Code to include the requirement all audited participants to be subject to material change audits.</p> <p>The proposed Code amendment can be found in Appendix A.²⁵</p>	<p>enforceable</p> <p>Applying the material change audit requirements across all auditable participants will remove risks associated with some participants changing systems or processes in a manner that can impact the accurate settlement of the wholesale market.</p>
	Alternative 1: Require all audited participants to be subject to material change audits	Update the Code to include the requirement all audited participants to be subject to material change audits.	<p>Applying the material change audit requirements across all auditable participants will remove risks associated with some participants changing systems or processes in a manner that can impact the industry.</p> <p>The problem with what constitutes a 'material change' is not addressed and remains a risk to the accurate settlement of the market.</p>
	Alternative 2: Retain status quo	This solution would mean that the definition of what constitutes a material	This solution does not address the issues identified.

²⁵ See clause 15A.11.

Issue	Option	Description	Rationale
		change would remain with at the discretion of the audited participant and distributors would not be required to conduct material change audits.	
C.1.4: Definition of next audit date	Preferred Solution: Standardise next audit date	<p>Amend the Code to include reference to a 'next audit date'.</p> <p>Clarify that the Code to ensure that audit completion date refers to the date the audit report is submitted to the Authority by.</p> <p>The proposed Code amendment can be found in Appendix A.²⁶</p>	<p>Standardising all audits to key off a 'next audit date' will introduce administrative efficiencies and reduce the likelihood of participants breaching the requirements for completion and submission of audits because of differences in wording of the Code.</p> <p>Clarifying what constitutes audit completion will remove ambiguity as to when an audit is considered 'complete'.</p>
	Alternative 1: Retain status quo	Retain the existing Code requirements where the next audit date needs to be considered in context of the clause that is requiring the audit to be conducted.	This solution does not address the issue identified.

²⁶ See clause 15A.14.

Issue	Option	Description	Rationale
C.1.5: Frequency of audits	Preferred solution: Variable audit period for all participants	<p>Amend the Code to allow the Authority to set the audit period to be between 3 and 36 months for distributors, certified reconciliation participants and dispatchable load purchasers.</p> <p>Amend the Code to allow the Authority to certify reconciliation participants and dispatchable load purchasers for up to 24 months.²⁷</p> <p>This would separate out the certification period from the audit period for reconciliation participants and dispatchable load purchasers. This is consistent with how test houses are approved for 12 months but can have audit frequencies of up to 36 months.</p> <p>The proposed Code amendments can be found in Appendix A.²⁸</p>	<p>This solution would standardise the next audit date and deliver efficiencies, in the form of less frequent audits, to participants that comply with the Code and manage their compliance risk.</p> <p>Participants with poor controls and/or poor compliance with the Code would be audited more often.</p> <p>Separating certification and audit will allow the Code to:</p> <ul style="list-style-type: none"> (a) provide a standard 36 month maximum audit period for all participants (b) limit reconciliation participants to a 24 month certification cycle.
	Alternative 1: Fixed audit period for all	Amend the Code to require all participants to be audited at fixed	This solution would provide efficiency gains by allowing participants and

²⁷ While it is proposed that the Authority would be able to certify reconciliation participants and dispatchable load purchasers for up to 24 months, this is a maximum not the standard. It is expected that most reconciliation participants and dispatchable load purchasers would be certified for a lesser period.

²⁸ See clause 15A.14 and 7 of Schedule 15.1.

Issue	Option	Description	Rationale
	participants	<p>(yearly) intervals.</p> <p>This would impact certified reconciliation participants, dispatchable load purchasers, metering equipment providers and approved test houses.</p>	<p>auditors certainty regarding when the next audit will be due. This will help participants and auditors to schedule resources well in advance of the audit.</p> <p>This option is not desirable as it does not consider the risks the participant's level of compliance poses to the industry.</p>
	Alternative 2: Retain status quo	<p>Leave the audit requirements as they stand.</p> <p>Approved test houses and metering equipment providers will have next audit dates set between 3 and 36 months.</p> <p>Certified reconciliation participants and dispatchable load purchasers will have certification (and by implication audit) periods of between 0 and 12 months.</p> <p>Distributors will remain on a fixed 12 month audit cycle, based on the date of their initial audit.</p>	<p>This solution will not address the problem identified.</p>
C.1.6: Timing of agent audits	Preferred Solution: Require all agent audits to be conducted within 7	Amend the audit guidelines to require auditors to only consider agent audits where the agents have been audited	This proposal will require agents to be audited in the same manner as if the participant performed the function

Issue	Option	Description	Rationale
	months of the participant audit timeframes	within 7 months of the start of the audit.	<p>itself. This proposal will help ensure that the agent audit is relevant to the period the participant is being audited for.</p> <p>This requirement will become more relevant if the proposal to introduce variable audits is implemented.</p>
	Alternative 1: Require agents to be audited at the same time as the participant	Amend the audit guidelines to require auditors to audit agents at the same time as they are auditing the responsible participant.	<p>This replicates the process that is followed when participant fulfil the obligations directly. It will ensure that that agent audit is completely relevant to the participant audit.</p> <p>This is not a preferred solution as it would introduce inefficiencies into agent audits as agents would need to be audited separately for each participant they provide services for.</p>
	Alternative 2: Amend the Code to specify the timeframe for agent audits	Amend the Code to specify when agent audits must be completed by.	<p>Auditors have discretion over what information is considered when creating the audit report. This includes the use of agent audits.</p> <p>Amending the Code would require auditors to use the audit if produced within a specific timeframe, even if the</p>

Issue	Option	Description	Rationale
			auditor considers that the agent audit is of insufficient quality to be included as part of the audit of the participant.
	Alternative 3: Retain status quo	Retain the current practice of using the most recent agent audit when auditing the participant, regardless of the age of the audit.	<p>The risk the agent poses to the market will need to be considered as part of the audit review.</p> <p>Any uncertainty will result in a more conservative decision by the Authority regarding the next audit date.</p>
C.1.7: Fixed auditor approval term	Preferred Solution: Amend the Code to allow for a variable auditor approval period	<p>Amend the Code to allow the Authority to approve auditors for up to 36 months. This replaces the existing obligation that requires the Authority to approve auditors for 24 months.</p> <p>The proposed Code amendments can be found in Appendix A.²⁹</p>	<p>This will provide administrative flexibility to the approval of auditors.</p> <p>Allows the Authority to approve auditors for a shorter period as an alternative to declining the application for approval.</p> <p>Allows the Authority to approve auditors for a period exceeding 24 months where circumstances support a longer approval period.</p>

²⁹ See clause 15A.5.

Issue	Option	Description	Rationale
	Alternative 1: Retain status quo	Retain the current wording of the Code.	This solution will not address the problem identified.
C.1.8: Limited access to information to enable audit to be conducted	Preferred Solution: Amend the Code to require participants to provide access to information	Amend the Code to require participants to provide the auditors or the Authority full access to information that may be required to carry out the audit. The proposed Code amendments can be found in Appendix A. ³⁰	This is an extension of the existing obligations to provide the Authority (or auditor appointed by the Authority) full access for the purposes of carrying out the audit. This solution is expected to provide qualitative benefits due to removing barriers to access to information for the purposes of the audit.
	Alternative 1: Retain status quo	Retain the current wording of the Code.	This solution will not require participants to give auditors access to information required to carry out the audit. Any limitations on access will result in a more conservative decision by the Authority regarding the next audit date.
C.1.9: Inconsistent	Proposed Solution:	Amend the Code to provide a single	Will improve the clarity of the Code

³⁰ See clause 15A.4.

Issue	Option	Description	Rationale
allocation of payment of auditor's costs for Authority and participant requested audits	Amend the Code to include one clause covering the payment of costs for all Authority and participant requested audits.	<p>process for determining how costs should be allocated following an Authority or participant requested audit.</p> <p>This clause will allow the Authority to allocate costs in the case of a participant called audit, and provide clear determination of costs in the event of an Authority called audit.</p> <p>This proposal will not alter the allocation of costs for regular audits where it has been proposed that the Authority determines the next audit date.</p> <p>The proposed Code amendments can be found in Appendix A.³¹</p>	and provide a single process for determining the allocation of costs as a result of Authority or participant requested audits.
	Alternative 1: Retain the status quo	Retain the current wording of the Code for each type of Authority or participant called audit.	This will not address the solution and will result in inconsistent allocation of costs as a result of Authority and participant requested audits.

³¹ See clause 15A.16.

Question 12 Do you agree with the issues identified in this section and that the proposed solutions adequately address the issues?

Question 13 Are there any other solutions that the Authority should be considering in relation to the decision-making process?

5.3 Issue C.2: Transparency and accountability

- 5.3.1 Audits have historically been considered commercially sensitive. The Code has been drafted to protect participants from the risk of having their compliance and business practice information published.
- 5.3.2 Feedback received by the Authority in early 2015 from participants, auditors, Authority staff, and other audited industries identified transparency as an area for improvement.

Issues with transparency and the audit regime

- 5.3.3 A lack of transparency in the audit regime has led to a lack of industry accountability. Information is partitioned between each audit, which means it is not clear:
- (a) on what basis the Authority made its decisions regarding certification, approval or next audit date
 - (b) which issues are widespread and which are isolated to a small number of parties
 - (c) what actions have been taken by other participants to successfully address compliance issues
 - (d) how other auditors are assessing similar issues.
- 5.3.4 As an independent crown entity the transparency and accountability of the Authority is regulated through the Official Information Act 1982.³² However this legislation is reactive and information is only released on request, if certain conditions are met.
- 5.3.5 The following has been identified as an area to improve transparency and accountability in the audit regime:
- (a) **Issue C.2.1: Audit outputs and decisions not publicly available:** Information such as the date of the next audit, the audit report and the participant's plan for achieving compliance is currently kept confidential. This limits the accountability and transparency of audits and decisions made as a result of the audits. Issues also arise where changes in staff result in participants not knowing their next audit date, or the actions they agreed to undertake as a result of the last audit.

Options to improve transparency in the audit regime

- 5.3.6 The Authority has considered options to address the issue with the transparency and accountability of the audit regime. The options for

³² <http://www.legislation.govt.nz/act/public/1982/0156/latest/DLM65364.html>

resolution, including identification of the preferred solution can be found in Table 3 below.

Table 3: Proposed solutions to improve transparency and accountability in audit regime

Issue	Option	Description	Rationale
C.2.1: Audit outputs and decisions not publicly available	Preferred solution: Publish all information relating to audit reports, including next audit date, audit report and compliance plan. ³³	<p>Amend the Code to require the Authority to publicise:</p> <ul style="list-style-type: none"> • A copy of the lead audit report submitted • A copy of the compliance plan (if available) • each participants “next audit date”. <p>Amend the Code to no longer require the Authority to publish a summary of the audit report.³⁴</p> <p>Authority also proposes to publicise a register of</p>	<p>This solution is consistent with the conditions under which information, including audit reports are currently required to be released under the Official Information Act 1982.</p> <p>The guiding principle of the Official Information Act 1982 is that information must be made available unless good reason exists under the Act for withholding it.</p> <p>Publication of this information is consistent with, and is seen as beneficial in similar audited industries.³⁶</p> <p>Where the audit report contains information that would disclose a trade secret or would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information³⁷, the Authority intends to adopt a regime similar to the GIC, where the participant can include in its submission an alternative version of the audit report that has this</p>

³³ The publication of a compliance plan would only occur if the proposed Code amendment in Table 2 to require the use of a compliance plan is adopted.

³⁴ See revocation of clause 9 of Schedule 10.2, clause 11.13, clauses 11 and 18 of Schedule 15.1.

Issue	Option	Description	Rationale
		<p>reported ‘issues’</p> <p>The proposed Code amendments can be found in Appendix A.³⁵</p>	<p>information removed.</p> <p>Publication of this information will provide qualitative benefits in the form of improved compliance and learnings from other participants.</p> <p>The information available in the summary of the audit report is also available in the full audit so does not need to be published separately.</p>
	Alternative 1: Publish only the next audit date and compliance plan	<p>Require the Authority to publish:</p> <ul style="list-style-type: none"> • each participants’ “next audit date” • a copy of the compliance plan (if available). <p>Amend the Code to require the Authority to publish this information.</p>	<p>This solution will provide limited transparency regarding how participants are addressing non-compliances; however this solution is not consistent with the level of transparency demonstrated by similar audit regimes.</p>

³⁶ For example the Gas Industry Company audit regime (www.gasindustry.co.nz/work-programmes/downstream-reconciliation/operations/audits/) and the Economic Regulation Authority (of Western Australia) electricity licencing regime (<https://www.erawa.com.au/electricity/electricity-licensing/document-archive/audit-reports>).

³⁷ Section 9 of the Official Information Act 1982 (<http://www.legislation.govt.nz/act/public/1982/0156/latest/DLM65371.html>)

³⁵ Clause 15A.15.

Issue	Option	Description	Rationale
	Alternative 2: Publish only the next audit date	<p>The Authority will only publish the next audit date for each participant.</p> <p>No code amendment is required to implement this.</p>	<p>This solution is not a preferred option as it does not address the concerns raised around the transparency of audits and audit findings.</p> <p>This solution will allow participants to better manage their audits and allow auditors to approach participants and offer to provide audit services at times when audits are required.</p>
	Alternative 3: Retain status quo	This solution would result in no changes or increase in the publication of information.	This solution does not address the issues identified.

5.4 Issue C.3: Education

5.4.1 For the audit regime to achieve the goal of ensuring the ongoing accurate and efficient settlement of the wholesale market, participants need to:

- (a) be audited on their obligations
- (b) understand their obligations, the audit process, audit requirements, and the audit findings.

Issues with the current audit education framework

5.4.2 The current audit regime does not consistently provide enough information to audited participants. Some participants do not understand the audit process and what is required of them when being audited.

5.4.3 There is a lack of transparency in the audit process and the expectations set by the Authority during the audit and decision making process.

5.4.4 The following issues have been identified where improvements to the education process can be made:

- (a) **Issue C.3.1: Breach materiality classification is not practical** – The financial tolerances set by the current audit guidelines are not clearly defined and difficult to accurately assess.³⁸ This results in most non-compliances being assessed against the impact on the participant being audited, not the wider industry or other affected participants.
- (b) **Issue C.3.2: Authority not involved in setting the scope of the audit or level of investigation required** – The Authority is not involved in helping set the scope of the audit. As a result the audit does not always target the issues or areas of concern to the Authority.
- (c) **Issue C.3.3: The audit and audit review process is not always clear** – Audited participant do not always understand the audit and audit review process, particularly where there are staff changes

³⁸ The current breach materiality classifications are available in the audit guidelines and are described as.

The current impact classifications are:

- High (includes financial impacts >\$100,000 to the electricity market or >\$1,000 to consumer invoicing)
- Medium (includes financial impacts >\$50,000 to the electricity market or <\$1,000 to consumer invoicing)
- Low (includes financial impacts >\$1,000 to the electricity market and no impact on consumer invoicing)
- None (includes financial impacts <\$1,000 to the electricity market and no impact on consumer invoicing)
- Unknown (includes 'too tough to assess').

between audits. This can lead to audits that are submitted late and participant comments that are missing or insufficient to inform decisions made by the Authority.

- (d) **Issue C.3.4: Agent audit requirements are unclear** – The Code is not clear on how agent audits should be treated in the context of a participant audit. This can result in a duplication of effort, or audit that does not identify issues that are specific to the participant under audit.

Proposed solution

- 5.4.5 The Authority proposes to make the following changes to address education related issues associated with the audit regime.

Table 4: Solutions to assist in achieving better understanding

Issue	Option	Description	Rationale
C.3.1: Breach materiality classification is not practical	Preferred Solution: Redefine the breach materiality criteria in terms of the action or potential impact the breach has on the participant or other participants.	Use ordinal breach materiality ratings. Use risk management framework to determine risk to market. The proposed breach materiality classifications can be found in the proposed auditor protocol in Appendix D. The principals that will be used to develop a risk management framework are available as supplementary information for this consultation paper. ³⁹	This solution aligns with audit best practice and can be used to feed into the risk-based audit planning and decision-making. This solution will consider more than the directly quantifiable impact of the breach on the participant.
	Alternative 1: Retain status quo	This solution would result in no changes or increase in the publication of information.	This solution does not address the issues identified.
C.3.2: Authority not involved in setting the scope of the audit or level of investigation	Preferred Solution: The Authority is involved in setting scope and level of investigation required for	Changes the audit engagement process to require the participant to advise the Authority in writing of the name of the auditor that it has	Allowing the Authority to require emphasis on a particular subject ensures that the auditor and participant know what information is

³⁹ See *Draft risk-based planning principles* available from <https://www.ea.govt.nz/development/work-programme/retail/review-of-participant-audit-regime/consultations/#c15626>

Issue	Option	Description	Rationale
required	each audit	<p>appointed no later than 15 business days before the audit commences.</p> <p>Provides the Authority with the ability to require an individual audit to have particular emphasis on any areas of concern.</p> <p>The proposed Code amendment can be found in Appendix A.⁴⁰</p>	required to assist the Authority in its decision making process prior to starting the audit.
	Alternative 1: Retain status quo	This solution would mean the content of the audit report may not fully inform the decision made by the Authority.	This solution does not address the issue identified.
C.3.3: The audit and audit review process is not always clear	Preferred Solution: Develop guideline for participants who are audited	<p>Develop a guideline that describes the audit and audit review process to allow participants to efficiently engage auditors and allocate resource to providing quality outputs.</p> <p>The content of the guideline is dependent on the outcome of the consultation so is not attached.</p>	Will provide transparency and a consistent approach by audited entities.

⁴⁰ See clause 15A.9.

Issue	Option	Description	Rationale
	Alternative 1: Retain status quo	<p>This solution would mean no specific guidance document is made available for participant.</p> <p>This information will remain available in the Code and audit guidelines.</p>	This solution does not address the issue identified.
C.3.4: Agent audit requirements are unclear	Preferred Solution: Clarify agent audit requirements in the Code	<p>Amend the Code to recognise agent audits and regulate their role in contributing to the participant audit and participant audit report.</p> <p>The proposed Code amendment can be found in Appendix A.⁴¹</p>	<p>This proposal will ensure that agent audits are treated in the same manner as if the participant performed the function itself by placing a clear obligation on the participant to ensure that:</p> <p>(a) its agent is audited to the same standard as the participant</p> <p>(b) this information is included in the participant's audit report.</p> <p>The agent audit must reflect the participant (not the agent's) compliance with the Code.</p>
	Alternative 1: Clarify agent audit requirements in	Update guidelines to clarify agent	This solution does not place an obligation on the participant to

⁴¹ See clause 15A.10.

Issue	Option	Description	Rationale
	guidelines	audit requirements.	ensure the agent audit is complete and reflects the participant's compliance with the Code.
	Alternative 2: Retain status quo	This solution would mean that agent audits requirements would not be clarified in the Code or guidelines.	This solution does not address the issue identified.

Question 14	Do you agree there is a need for improving education within the audit regime and has the issue been correctly identified?
Question 15	What other improvements do you believe the Authority should consider?

5.5 Issue C.4: Manual processes

- 5.5.1 Within the audit regime, manual processes are used when preparing and creating audit reports as well as, processing and publishing audit reports. These processes are labour intensive and increase the possibility of errors and inconsistencies occurring.
- 5.5.2 The significant number of manual processes in the audit regime needs to be considered, with a goal of automating these where possible, subject to the benefits of automation exceeding the costs.

Issues with the use of manual processes

- 5.5.3 Manual processes can be inefficient and result in high ongoing costs. This is because regular repeatable tasks are completed by people rather than systems.
- 5.5.4 The automation of regular manual processes can create longer term savings. However, these normally also involve higher upfront capital costs.
- 5.5.5 The following problems have been identified related to manual processes:
- (a) **Issue C.4.1: Inconsistent analysis of registry information by auditors:** The requirement for auditors to analyse registry files when assessing compliance is not clear and results in an inconsistent approach to the analysis of registry files. This affects the auditors' conclusions and ultimately confidence that the Authority has in the auditors' conclusions.
 - (b) **Issue C.4.2: Unclear prescribed form for audit reports:** Audit reports are submitted in a 'portable document format' (PDF). Opportunities exist to develop a more flexible audit report format that can reduce the duplication of information and effort in creating and managing audit reports.

Options to reduce manual processes in audit regime

- 5.5.6 The Authority has considered options to address the candidates for automation above. Consideration of the options, including identification of the preferred solutions, can be found in Table 5 below.

Table 5: Proposed solutions to reduce manual processes in audit regime

Issue	Option	Description	Rationale
C.4.1: Inconsistent analysis of registry information	Preferred Solution: Production of compliance information directly from registry	<p>Enhance the registry to allow participants to receive a suite of compliance information from the registry on a regular basis.</p> <p>This information can be used by the auditors and audited participants to identify areas of obvious non-compliance based solely on registry information.</p> <p>This information would reduce, but not eliminate the need for auditors to perform analysis on registry data when conducting an audit.</p>	<p>Estimated savings of \$21,000 per annum.⁴²</p> <p>The costs for producing information directly from the registry are estimated to be approximately \$40,000.</p> <p>As part of the registry functionality this information will remain a central source of 'truth' following any registry system changes.</p>
	Alternative 1: Provision of a standalone registry analysis tool	Authority to provide a stand-alone tool for analysing registry files.	<p>This solution is expected to deliver less benefits than producing the information from the registry.</p> <p>This solution will require ongoing costs to maintain the tool and is expected to result in multiple versions of the tool being used by different participants and auditors over time. As a result we expect that this solution would result</p>

⁴² Assuming time savings of 1 ½ hours per audit (across auditor, participant, and Authority) at \$80 per hour, across 175 audits.

Issue	Option	Description	Rationale
			in less consistent reporting than producing the information directly from the registry.
	Alternative 2: Publication of registry analysis specifications	This solution would involve publication of the minimum requirements for reporting but require each auditor and participant to develop the solution to deliver these reports.	<p>This is not a preferred option as many approved auditors lack the resources required to develop their own solution based on a set of minimum requirements</p> <p>This solution would result in a duplication of effort as each auditor develops a solution based on the requirement.</p>
	Alternative 3: Retain status quo	This solution would leave the scope and nature of registry analysis up to each individual auditor.	This solution does not address the issue identified.
C.4.2: Unclear prescribed form for audit reports	Preferred Solution: Provide a mechanism for auditors to place observations and audit summaries online and directly into the audit database	<p>Update the Authority's audit portal to include an online audit report which auditors would fill in and submit.</p> <p>No Code amendments are expected as the process will not change, only the format for</p>	<p>Qualitative benefits are expected to include consistent audit reports being produced regardless of the auditor. This will reduce the risk of auditors missing key obligations.</p> <p>It is also expected that an online form will allow audits to be stored in a searchable database format for analysis.</p>

Issue	Option	Description	Rationale
		audit reports.	This proposal will also realise the benefits identified through automated breach reporting and automated publication of audit summaries.
	Alternative 1: Retain status quo	This solution would leave the creation of audit reports to each auditor.	<p>This solution does not address the issue identified.</p> <p>This would leave audits as static stand-alone documents.</p>

- Question 16 Do you agree with the issues leading to the requirement to automate systems?
- Question 17 Do you agree with the requirement to automate systems? If not, why not?
- Question 18 Apart from the proposed solutions given in the table, are there any other improvements that the Authority should consider?

5.6 Issue C.5: Quality certification

- 5.6.1 The Code requires certified reconciliation participants and ATHs to hold a quality certification.⁴³
- 5.6.2 The most common form of quality certification held by reconciliation participants and ATHs is AS/NZS ISO 9001:2008.
- 5.6.3 ISO 9001:2008 Quality Management System certification is a generic quality management standard. It focusses on the holder's commitment to quality and customer satisfaction, as well as continuous improvement.
- 5.6.4 The ISO 9001 standard is a general standard and is not tailored for the New Zealand electricity industry. Its components must be carefully interpreted to be relevant to the New Zealand electricity industry.
- 5.6.5 The Authority sees benefits from the requirement for ATHs and certified reconciliation participants to hold quality certification because the quality certification framework:
- (a) promotes continual improvement
 - (b) supports controlled, documented processes
 - (c) requires high level management oversight and commitment to the quality management system
 - (d) considers the resources required to manage the quality system and deliver the outputs required
 - (e) ensures consistent outputs aligned to requirements
 - (f) monitors the system and outputs
 - (g) controls changes to systems and processes
 - (h) provides a framework to manage issues and customer complaints.

Issues with quality certification

- 5.6.6 The review of the audit regime has identified inefficiencies in the way quality certification is managed which can result in inefficient or undesirable outcomes.
- 5.6.7 These inefficiencies primarily relate to the quality certification held by reconciliation participants. Other than a minor Code drafting change, the

⁴³ Clause 3(1)(d) of Schedule 10.3 and clause 4(1)(a) of Schedule 10.3 requires approved test houses to hold AS/NZS ISO 9001:2000. Clause 5(b) of Schedule 15.1 prevents a reconciliation participant from being certified unless they hold AS/NZS ISO 9001:2008, or an Authority approved equivalent.

review has not identified any issues with the quality certification held by ATHs.

5.6.8 The following issues have been identified with the requirements to hold quality certification:

- (a) **Issue C.5.1: Quality certification scope not defined:** The scope of quality certification held by reconciliation participants is not defined. The quality certificates provided to reconciliation participants by ISO auditors have inconsistent scope and do not always reflect the scope required for certification as a reconciliation participant.
- (b) **Issue C.5.2: Quality certification audits not aligned to Code requirements:** The independent quality certification audits of reconciliation participants consider ISO requirements in the context of a business, rather than in the context of the Code obligations. This can lead to corrective actions being raised in areas that do not align with the purpose of the audit regime.⁴⁴
- (c) **Issue C.5.3: No explicit obligation on the reconciliation participant to hold quality certification:** The wording of the Code prevents the Authority from granting certification unless the reconciliation participant holds quality certification. There is no explicit obligation on the reconciliation participant to hold quality certification
- (d) **Issue C.5.4: Approved Test House ISO requirements out of date:** The Code requires ATHs to hold AS/NZS ISO 9001:2000. Test house approval is based on ATHs holding the more recent ISO 9001:2008.⁴⁵

5.6.9 The Authority has considered options to address the four issues above. Consideration of the options, including identification of the preferred solution, can be found in Table 6 below.

⁴⁴ Examples provided include requiring call centre scripts, quality systems for software development and electrical testing of office appliances none of which support compliance with clause 15.38 of the Code.

⁴⁵ The Authority is aware that an updated version of ISO 9001, known as ISO 9001:2015 is due out in 2015. It is likely that this standard will replace ISO 9001:2008 however is not a recognised standard at the time of writing.

Table 6: Proposed changes to quality certification requirements

Problem	Option	Description	Rationale
C.5.1: Quality certification scope not defined	Preferred Solution: Define the quality certification scope in audit and participant guidelines	Work with ISO auditors and industry to develop examples of minimum ISO scope statements. These scope statements would be incorporated into associated audit guidelines. Hold a training session with ISO auditors known to audit reconciliation participants for compliance with ISO 9001:2008. ⁴⁶ This training would introduce the ISO auditors to the electricity industry and Authority's scope requirements for participants holding ISO 9001:2008.	This solution will clarify the ISO 9001:2008 scope requirements without limiting the scope if the participant chooses to expand the scope beyond what is expected by the Authority.
	Alternative 1: Define quality certification scope in the Code	Amend the Code to specify the required scope for quality certification.	This solution would require participants to have a specific scope for their quality certification, reducing flexibility and the ability for participants to take innovative approaches to holding quality certification.

⁴⁶ The Authority is aware that an updated version of ISO 9001, known as ISO 9001:2015 is due out in 2015. It is likely that this standard will replace ISO 9001:2008 however is not a recognised standard at the time of writing.

Problem	Option	Description	Rationale
	Alternative 2: Retain status quo	Retain the current requirement for holding quality certification without specifying the required scope of quality certification.	This solution will not address the problem, and the scope of quality certification held by each participant would differ.
C.5.2: Quality certification audits not aligned to Code requirements	Preferred Solution: Work with approved ISO 9001:2008 auditors to improve alignment	<p>Hold a training session with auditors known to audit reconciliation participants for compliance with ISO 9001:2008 to introduce the ISO auditors to the electricity industry and Authority's scope requirements for participants holding ISO 9001:2008.</p> <p>Investigate opportunities for existing Code auditors to be accredited to audit to AS/NZS ISO 9001 standards.</p> <p>Monitor the issues raised and determine if further intervention is required to ensure audits remain relevant to Authority Code requirements.</p>	<p>This solution will help ensure that the Authority, ISO auditors and participants are all aware of the expectations of ISO audits required under the Code.</p> <p>This solution does not prevent the Authority from taking further action if education and collaboration does not address the issues identified.</p>
	Alternative 1: Develop a Code mandated alternative quality certification	Develop Code-regulated quality certification requirements similar to those for AS/NZS ISO 9001 that can be audited by existing approved auditors.	<p>This solution would replace an existing standard, with the only key difference being the person approved to perform the audit.</p> <p>As an international standard</p>

Problem	Option	Description	Rationale
			<p>auditing to the ISO 9001 standard is subject to a higher level of rigour than an Authority audit.</p> <p>The AS/NZS ISO 9001:2008 requirements are approximately 30 pages long. It is expected there would be a high cost associated with replicating these requirements within the Code.</p>
	Alternative 2: Remove requirement for certified reconciliation participants dispatchable load purchasers to hold quality certification.	Amend the Code to remove the requirement for reconciliation participants and dispatchable load purchasers to hold quality certification before they can be granted certification.	This reduces the Authority's confidence that the participant is committed to quality, customer satisfaction and continual improvement.
	Alternative 3: Retain status quo	Retain the current obligations and allow ISO audits to be conducted without influence from the Authority.	This does not address the issue identified.
C.5.3: No explicit obligation on the reconciliation participant or dispatchable load purchasers to hold	Preferred Solution: Amend the Code to remove quality certification as condition of certification and place obligation on participant to hold quality	<p>Amend the Code to place an obligation on reconciliation participants and dispatchable load purchasers to hold quality certification.</p> <p>Amend the Code to require the</p>	A breach of the quality certification requirements would become a factor in determining if a participant is granted certification and for how long, rather than a factor that prevents certification from being

Problem	Option	Description	Rationale
quality certification	certification	<p>Authority to take into account whether the participant holds quality certification when making a decision regarding whether to grant certification.</p> <p>Revoke clause 5(1)(b) of Schedule 15.1 which prevents the Authority from granting certification to a reconciliation participant unless they first hold quality certification.</p> <p>The proposed Code amendment can found in Appendix A.⁴⁷</p>	<p>granted.</p> <p>For example, under this proposal the Authority would be able to make a decision to certify a reconciliation participant that had received a positive ISO 9001:2008 audit, but due to administrative delays had not yet been granted quality certification.</p>
	Alternative 1: Amend the Code to place obligation on participant to hold quality certification	<p>Amend the Code to place an obligation on reconciliation participants and dispatchable load purchasers to hold quality certification.</p>	<p>This solution will not address the issue that the Authority cannot grant certification unless the reconciliation participant holds an approved form of quality certification.</p> <p>This solution would only clarify that there is an obligation on the reconciliation participant to hold quality certification.</p>

⁴⁷ See clauses 15.38A and 5(1A) of Schedule 15.1.

Problem	Option	Description	Rationale
	Alternative 2: Retain status quo	Retain the existing obligation which prevents the Authority from certifying reconciliation participants and dispatchable load purchasers unless they hold quality certification.	This solution does not address the issue identified.
C.5.4: Approved Test House ISO requirements out of date	Preferred Solution: Amend the Code to refer to the latest version of AS/NZS ISO 9001.	Amend the Code to refer to the latest version of AS/NZS 9001. This will include transitional provisions for when AS/NZS 9001:2015 comes into force. The proposed Code amendment can found in Appendix A.	This will ensure that the Code requirements for approved test houses are up to date and relevant.
	Alternative 1: Status quo	Retain the requirement for ATHs to hold ISO 9001:2000.	This solution does not address the issue identified.

Question 19 Do you agree with the issues identified in this section?

Question 20 Are there other possible solutions that the Authority should consider in regards to the requirements to hold quality certification?

5.7 Issue C.6 New entrant retailers

- 5.7.1 New entrant retailers are confronted with many complex issues when trying to establish trading processes.
- 5.7.2 These issues include requirements to undergo quality audits and Code audits prior to or immediately after trading commences.
- 5.7.3 During these initial audits there is often very little or no data produced by the new entrant retailer to audit. Instead the auditors conduct a desk top audit based on the intended processes of that participant. These processes have not been put into practice, and may not have been sufficiently tested to ensure they will be compliant with the Code.

Issues with how the audit regime handles new entrant retailers

- 5.7.4 The current audit regime does not:
 - (a) recognise the challenges that new entrant retailers face in establishing a business
 - (b) consider the timeframes required to obtain quality certification
 - (c) consider the level of risk small new entrant retailers pose to the market.
- 5.7.5 Over the past three years, a significant number of new entrant retailers have applied for exemptions for the requirement for certification as part of their entry into the electricity market.
- 5.7.6 Ideally exemptions should be applied for when there is a unique reason that the applicant believes that they should not comply with the Code. The number of exemptions applied for by new entrant retailers suggests that:
 - (a) there is an issue with the way the Code operates
 - (b) a Code amendment would be a better long term solution.
- 5.7.7 The following areas have been identified as candidates for improving the audit regime for new entrant retailers:
 - (a) **Issue C.6.1: Initial Audit requirements:** It is not clear what the requirements of the initial audit are. This leads to an inconsistent approach by auditors and participants as to the content and scope of the audit report.
 - (b) **Issue C.6.2: Quality Certification requirement and timeframes:** The Authority is unable to certify reconciliation participants unless they hold an approved form of quality certification. Commonly, quality certification is only granted several months after trading has commenced, once the quality management framework is established and operational

- (c) **Issue C.6.3: Timeframes for requiring certification:** Over the past three years, seven reconciliation participants have applied for exemptions to the requirement to hold certification. The common reason for participants applying for exemptions is their small size and the time needed to embed their processes and demonstrate compliance. The opportunity exists to amend the Code to reflect the Authority's approach to considering exemptions to the requirement to hold certification.

Table 7: Proposed solutions for addressing issues with new entrant retailer requirements

Problem	Option	Description	Rationale
C.6.1: Initial audit requirements	Preferred Solution: Replace current audit requirements with requirement to have Authority approval before accessing market systems.	<p>Replace the existing requirements to hold certification within 3 months of trading, and to be audited 2 months prior to holding certification, with a requirement to obtain Authority approval before accessing market systems.</p> <p>This change also affects new entrant dispatchable load purchasers who would be required to submit an audit within 4 calendar months and be certified within 6 months.</p> <p>The proposed Code amendment is in Appendix A.⁴⁸</p>	<p>The existing Code requirements allow a new entrant retailer to access the market systems without express Authority approval or being able to demonstrate an understanding and ability to use the market systems in a manner that complies with the Code.</p> <p>Replacing this requirement with the requirement to satisfy the Authority prior to using the systems will deliver qualitative benefits through improved controls over which traders are permitted to access market systems. Without these controls traders could undertake activities such as switching in a manner that compromises efficient market operation, and it could be several months before the issue is addressed through the audit or Code compliance process.</p>
	Alternative 1: Clarify initial audit requirements in guidelines but do not	Clarify the initial audit requirements in guidelines, but do not amend the Code.	This would keep the Code ambiguous and is less likely to result in a consistent view

⁴⁸ See clause 2A of Schedule 15.1, 15A.23 and 15A.24.

Problem	Option	Description	Rationale
	change the Code.		<p>of the requirements.</p> <p>This would not address the issue of consistency where under the existing Code some participants can operate without being able to demonstrate an ability to use market systems.</p>
	Alternative 2: Retain status quo	Continue with the initial audit requirements.	<p>This will not improve the process and is likely to continue the current misconception that an initial audit requires history in order to be audited.</p> <p>This would not address the issue of consistency where under the existing Code some participants can operate without being able to demonstrate an ability to use market systems.</p>
C.6.2: Quality certification requirement and timeframes	Preferred Solution: Change timeframes for holding quality certification	<p>Amend the Code to require participants to hold quality certification at least two months before they intend to become a certified reconciliation participant.</p> <p>Note that the outcome of this proposal is dependent on the outcome of the proposal to amend the wider quality certification requirements see section 5.6.</p>	Will provide sufficient time for new entrant retailers to embed their processes before obtaining quality certification.

Problem	Option	Description	Rationale
		The proposed Code amendment is in Appendix A. ⁴⁹	
	Alternative 1: Retain status quo	This solution would retain the requirement for participants to hold quality certification before certification is granted.	This solution does not address the issue identified.
C.6.3: Timeframes for holding certification	Preferred Solution: Amend the timeframes for holding certification	Amend the Code to allow new entrant retailers who have been approved to access market systems, to operate without certification for up to 12 months if the participant only trades on less than 100 ICPs with only Category 1 metering installed, or 6 months in any other case. The proposed Code amendments can be found in Appendix A. ⁵⁰	This process will remove barriers to entry by providing a Code-mandated alternative to certification for new entrant retailers. The 12 month timeframe will replicate the decisions that have been made when exemptions to the requirement to hold certification have been considered. The six month alternative timeframe will provide enough trading history to allow auditors to review the historical compliance of the new entrant retailer.
	Alternative 1: Retain status quo	This solution would mean that the new entrant retailers would need to apply for	This solution does not address the issue identified.

⁴⁹ See clause 15.38A.

⁵⁰ See clause 2 of Schedule 15.1.

Problem	Option	Description	Rationale
		certification in the first month of trading and hold certification before 3 months of trading.	

Question 21 Do you agree with the proposed solutions to assist new entrants? If not, why not?

Question 22 Are there other possible solutions that the Authority should consider?

5.8 Issue C.7: Distributed Unmetered Load

- 5.8.1 Distributed unmetered load (DUML) is defined as unmetered load with a single profile applied to a single customer across more than 1 point of connection. The most commonly recognised form of DUML is streetlights.
- 5.8.2 DUML is required to be included in the annual audit of the reconciliation participant, and must include an audit of the databases of DUML to verify that the volume information is being calculated and applied accurately.⁵¹
- 5.8.3 The reconciliation participant trading at a DUML ICP is responsible for ensuring the DUML database is up-to-date and maintained. Reconciliation participants commonly outsource DUML database obligations to other parties (agents). These agents are often local councils who are also the customer responsible for purchasing the electricity consumed by the DUML.
- 5.8.4 The Authority is aware of emerging technology that can be used to more accurately quantify the electricity consumed by DUML ICPs. This topic is out of scope of this consultation as the focus is on the audit requirements for DUML, not how these emerging technologies fit into the existing DUML database requirements.

Issues with DUML audits

- 5.8.5 Reconciliation participants have raised concerns regarding the lack of control they have over the accuracy and reliability of the DUML databases used in the settlement of the electricity market. Often reconciliation participants do not have mechanisms in place to ensure that the Code obligations in relation to DUML are passed through to their customer.
- 5.8.6 Clause 11 of Schedule 15.2 links the DUML audit requirements to the reconciliation participants audit requirements, however the Code is not explicit as to how often DUML audits should be conducted.
- 5.8.7 The estimated inaccuracies in DUML submissions identified in DUML audits are disproportionately high compared to other methods of quantification. These inaccuracies need to be considered as part of a reconciliation participant's application for certification.
- 5.8.8 There is no prescribed approach or guidelines for auditing DUML, leading to inconsistent audit reports.
- 5.8.9 There is no standardised expectation regarding how much energy a standard lamp (including its control equipment) will consume, leading to

⁵¹ Clause 11 of Schedule 15.3 and Clause 15.2.

inconsistent assessments of the level of inaccuracy in each DUMML database.

5.8.10 The Authority would like to propose solutions that will make the context of DUMML audits within the audit regime clear and aligned with the proposed purpose of the audit regime.

5.8.11 The following issues have been identified with DUMML audits:

- (a) **Issue C.7.1: Code requirements for DUMML audits unclear:** The Code requirement for DUMML audits is unclear regarding the frequency and timing of audits.
- (b) **Issue C.7.2: Audit requirements:** It is unclear how to approach and conduct DUMML audits.
- (c) **Issue C.7.3: Level of compliance of DUMML customers not transparent:** DUMML customers are contestable but there is no visibility of whether an audit has been carried out and what (if any) outstanding issues exist with the DUMML database. This can result in DUMML being switched on the incorrect assumption the underlying database is compliant and accurate.
- (d) **Issue C.7.4: Use of consistent and accurate streetlight data:** It is unclear what wattages to use to determine if the database is accurate.

Table 8: Proposed changes to DUML audit regime

Problem	Option	Description	Rationale
C.7.1: Code Requirements for DUML audits unclear	Preferred Solution: Independent distributed unmetered load (DUML) audits	<p>Amend the Code to require retailers to arrange for independent DUML audits that are separate from a participant's certification audit. These audits would need to be 'signed off' by an Authority-approved auditor.</p> <p>Amend the Code to include requirements for a full field audit of all items of load, separate to the audit of the database itself.</p> <p>Amend the code to allow the Authority to specify the frequency of DUML audits and DUML field audits</p> <p>The proposed Code amendments can be found in Appendix A.⁵²</p>	<p>One of the most common causes of inaccurate submission information is DUML.</p> <p>Separating DUML database audits from the application for certification will mean that poor quality DUML information will not directly affect the wider application for certification and can be managed independently from the application for certification.</p> <p>Separating administrative database audits from field audits of the actual load will clarify the requirements of DUML audits by setting separate requirements for:</p> <ul style="list-style-type: none"> • verifying the database is operating in accordance with the Code • verifying that the contents of the database contains all items of load consuming electricity in the field. <p>Amending the Code to allow the Authority to specify the frequency of DUML audits will allow DUML to be handled in a manner consistent</p>

⁵² See clauses 15.37B and 15A.25.

Problem	Option	Description	Rationale
			with other audits in the participant audit regime.
	Alternative 1: Remove DUMML from Code	Amend the Code to remove DUMML as an option for the quantification of electricity.	<p>The use of a DUMML database is an alternative to quantifying electricity using a metering installation which would increase costs by requiring metering to be installed or as standard unmetered load which would increase costs by requiring and ICP to be created and maintained for each point of connection.</p> <p>The existing DUMML database and audit obligations have been in force since the implementation of global reconciliation in 2008. Despite having over seven years to address issues and comply with the Code, most DUMML databases do not meet Code requirements and do not accurately quantify the electricity conveyed.</p> <p>Removing the ability to use DUMML would reflect that the DUMML audit regime has been unable to support the ongoing accurate and efficient operation of the wholesale electricity market settlement process</p> <p>This alternative option would require alternative Code-compliant solutions to be implemented by reconciliation participants instead of pursuing changes further changes to a DUMML audit regime that has not been able to deliver</p>

Problem	Option	Description	Rationale
			<p>compliant and accurate DUMML databases.</p> <p>This is not the Authority's preferred solution as it disadvantages the minority of DUMML databases that are accurate and do comply with the Code.</p>
	Alternative 2: DUMML working group	Arrange for a DUMML working group to consider the DUMML audit requirements and DUMML audit regime.	<p>This will not address the problem that DUMML audits have not resulted in DUMML database compliance and accurate DUMML settlement.</p> <p>The Authority understands that an independent voluntary working group was established by industry participants to address DUMML challenges. This group ran from 2012 - 2013. It The Authority has not formally received any outputs from this working group.</p>
	Alternative 3: Retain status quo	Continue with the initial audit requirements.	This will not improve the process and is unlikely to address the problems identified.
C.7.2: Audit requirements	Preferred Solution: Publish DUMML audit guidelines	Publish DUMML audit guidelines for DUMML auditors to follow.	DUMML audit guidelines will provide a clear set of expectations for auditors to follow when auditing DUMML and DUMML databases.

Problem	Option	Description	Rationale
	Alternative 1: Retain status quo	This solution would leave the DUML audit requirements in the Code with no further guidance given.	This solution does not address the issue identified.
C.7.3: Level of compliance of DUML customers not transparent	Preferred Solution: Publish copy of each DUML database audit as well as the next audit date for each DUML audit	<p>Amend the Code to require the Authority to publicise a copy of the DUML audit.</p> <p>Publicise the next audit dates for DUML audits.⁵³</p> <p>The next audit dates will be linked to a DUML database and will not change if the DUML database switches retailer.</p> <p>The proposed Code amendments can be found in Appendix A.⁵⁴</p>	<p>DUML is an area where reconciliation participants struggle to meet their regulatory obligations. This issue is accentuated when ICPs with non-compliant DUML databases switch rather than take action to address issues.</p> <p>Publication of audits and next audit dates would allow potential gaining traders to know what issues exists with the DUML database and when the next audit is due prior to becoming responsible for the DUML ICP.</p> <p>This solution would align the DUML audit publication with the proposed publication of other participant audit reports.</p>
	Alternative 1: Publish summary of each	Amend the Code to require the Authority to publish a summary of	A register of compliance and next audit dates would allow potential gaining traders to know

⁵³ Next audit date will only be published if proposal for variable DUML audits proceeds.

⁵⁴ See clause 15A.15.

Problem	Option	Description	Rationale
	DUML databases compliance	<p>the outcome of the audit and the next audit date for DUML audits.⁵⁵</p> <p>The next audit date will be linked to a DUML database and will not change if the DUML database switches retailer.</p>	<p>the high level issues associated with becoming responsible for the accurate quantification of the DUML load and associated DUML audits.</p> <p>A register of compliance does not give the gaining trader the detailed information required to pursue corrective actions prior to the next audit due date.</p>
	Alternative 2: Retain status quo	<p>This solution would leave the DUML audits as proprietary to the participant responsible for the DUML audit at the time of audit.</p>	<p>This solution does not address the issue identified.</p> <p>DUML would switch without the gaining trader having visibility of the issues associated with the DUML and DUML database.</p>
C.7.4: Use of consistent and accurate streetlight data	Preferred Solution: Publication of a standardised table of wattages	<p>Publish a standardised table of wattages for use by all participants and auditors.</p> <p>Maintain this table as needed.</p>	<p>Provides a single source of information for determining the expected consumption of commonly used streetlight fittings.</p> <p>Can be updated to include new technologies, such as LED lighting as these technologies are deployed.</p>
	Alternative 1: Retain	<p>This solution would leave the requirement for auditors to</p>	<p>This would leave different auditors applying different expectations as to what constitutes</p>

⁵⁵ Next audit date will only be published if proposal for variable DUML audits proceeds.

Problem	Option	Description	Rationale
	status quo	determine what the correct wattage is for each lamp type.	accurate streetlight consumption, resulting in uncertainty in the accuracy of reconciled DUML information.

Question 23 Do you agree with the issues identified in this section for DUML?

Question 24 Are there other possible solutions that the Authority should consider in regards to DUML audits?

6. Regulatory statement

6.1 The Authority's proposed changes to the audit regime

6.1.1 The Authority's proposed changes to the audit regime are summarised in Appendix C.

6.1.2 The Authority's proposed changes include:

- (a) amendments to the Code
- (b) the introduction of new guidelines for:
 - (i) participant audits
 - (ii) DUMML audits
- (c) updates to the following existing guidelines for:
 - (i) test house audits⁵⁶
 - (ii) distributor audits⁵⁷
 - (iii) reconciliation participant audits⁵⁸
 - (iv) metering equipment provider audits⁵⁹
 - (v) dispatchable load purchaser audits⁶⁰
- (d) updates to the terms and conditions for auditor approval⁶¹
- (e) the introduction of an auditor protocol
- (f) the introduction of a risk-based audit planning procedure
- (g) the introduction of a standardised table of streetlight wattages
- (h) changes to registry to allow participants to receive compliance information.

⁵⁶ Current version available at: <http://www.ea.govt.nz/operations/retail/audits-approvals-and-certification/audit-regimes/test-house-audits/>

⁵⁷ Current version available at: <http://www.ea.govt.nz/operations/retail/audits-approvals-and-certification/audit-regimes/distributor-audits/>

⁵⁸ Current version available at: <http://www.ea.govt.nz/operations/retail/audits-approvals-and-certification/audit-regimes/certified-reconciliation-participant-audits/>

⁵⁹ Current version available at: <http://www.ea.govt.nz/operations/retail/audits-approvals-and-certification/audit-regimes/metering-equipment-provider-audits/>

⁶⁰ Current version available at: <http://www.ea.govt.nz/operations/retail/audits-approvals-and-certification/audit-regimes/dispatchable-load-purchaser-audits/>

⁶¹ Current version available at: <http://www.ea.govt.nz/operations/retail/audits-approvals-and-certification/approved-auditors/>

- 6.1.3 The regulatory statement considers each proposed change listed in paragraph 6.1.2. It is considered impractical to set out a separate regulatory statement for each of the proposed changes to the audit regime.
- 6.1.4 For the drafting of the proposed:
- (a) Code amendment, see Appendix A
 - (b) auditor protocol, see Appendix D.
- 6.1.5 This paper does not include:
- (a) proposed participant audit guidelines
 - (b) proposed DUML audit guidelines
 - (c) marked up versions of the proposed amendments to existing guidelines.
- 6.1.6 Proposed guidelines and changes to existing guidelines will be developed and published prior to implementation.

6.2 The objectives of the proposed changes

- 6.2.1 The objectives of the proposed changes are:
- (a) to ensure the purpose of the audit regime is clear, well-defined, and aligned with the Authority's statutory objective
 - (b) to improve participants' compliance with the Code
 - (c) to increase the operational efficiency of the audit regime.

Question 25	Do you agree with the objectives of the proposed amendment? If not, why not?
Question 26	Can you see any options or implications that have not been considered as part of this consultation paper? If so please elaborate.

6.3 The proposed changes are expected to meet the Authority's statutory objective

The proposed changes will ensure the purpose of the audit regime is clear, well-defined, and aligned with the Authority's statutory objective

- 6.3.1 The proposed changes include:
- (a) revoking the purpose of distributor audits set out in clause 11.10(3) of the Code

- (b) defining a single purpose for all audits in the audit regime in the proposed auditor protocol and participant audit guidelines.

6.3.2 The proposed definition of the purpose of the audit regime is:

The purpose of the audit regime is to:

- evaluate participants' compliance with the Code and to ensure the ongoing accurate and efficient operation of the wholesale electricity market settlement process
- enable the Authority to make an informed decision regarding the certification, approval, and audit frequency of participants.

6.3.3 The Authority considers that the proposed definition of the purpose of the audit regime is clear and well-defined.

6.3.4 The first part of the proposed purpose of the audit regime promotes the efficiency limb of the Authority's statutory objective by helping ensure the ongoing accurate and efficient operation of the wholesale electricity market settlement process.

The proposed amendment will improve participants' compliance with the Code

6.3.5 The proposed amendments to the governance of the audit regime (covered in section 4), as well as some of the proposed amendments to improve the operational efficiency of the participant audit regime (covered in section 5), will improve participants' compliance with the Code.

6.3.6 Participants' compliance with the Code will be improved by:

- (a) The proposed tailored protocol for auditors based on the ISAE 3000 (NZ) standard will make the audit regime more robust and rigorous. This will make it more likely that instances of non-compliance and compliance risk are discovered, therefore encouraging greater compliance with the Code by participants.
- (b) The proposal to use a risk-based approach to determine audit scope and focus effort will increase scrutiny in higher-risk areas. This will also increase the likelihood that instances of non-compliance and compliance risk will be discovered and therefore encourage greater compliance with the Code by participants.
- (c) The proposed changes to the Code and terms and conditions of auditor approval to ensure auditor independence and objectivity will provide added assurance that instances of non-compliance and compliance risk are investigated and reported objectively.
- (d) The proposal to publish all information relating to audit reports, including compliance plans, will allow participants to learn from the mistakes and successes of other participants and therefore improve their compliance.

- (e) The education initiatives, including the proposal for a participant audit guideline, will improve compliance through better understanding of the obligations, audit outcomes and audit process.
- (f) The proposal for variable audits will provide incentives for participants to achieve Code compliant outcomes and to have controls in place to give the Authority confidence that they will comply with the Code in the future.

The proposed changes will increase the operational efficiency of the audit regime

6.3.7 The proposed changes include changes to improve the operational efficiency of the audit regime (covered in section 5). In addition, some of the proposed changes to the governance of the participant audit regime (covered in section 4) will also improve operational efficiency. Specifically, these proposed changes will improve operational efficiency of the audit regime by:

- (a) improving decision-making processes so that the Authority has the information it needs to make decisions efficiently
- (b) increasing transparency to allow auditors and participants to learn off other audits and undertake their audits more efficiently
- (c) providing more education to auditors and participants on undertaking audits
- (d) making manual processes more automated
- (e) improving the administration of quality certification
- (f) changing the auditing requirements for new entrant retailers to reduce the number of exemptions applied for
- (g) improving the operation efficiency of auditing DUML
- (h) providing more robust and rigorous guidelines and protocol on how to undertake audits
- (i) focussing audit effort on high-risk areas.

6.4 The benefits of the proposed changes are expected to outweigh the costs

6.4.1 The key benefit of the proposed changes is expected to be productive efficiency gains. These productive efficiency gains will largely come through reduced operational costs for audits.

6.4.2 The productive efficiency gains will be offset to some extent by additional costs incurred by the Authority, audited participants, and auditors under the proposed changes. However, these costs are expected to be small.

6.4.3 The Authority has not separately estimated the costs and benefits for each area of the proposal. Many of the expected benefits are driven by more than one area of the proposal and can be dependent on many parts of the proposed changes being implemented.

6.4.4 In undertaking the cost-benefit analysis, the Authority has:

- (a) estimated the following costs of the proposed changes:
 - (i) one-off/implementation costs
 - (ii) ongoing costs, excluding any costs due to an increase in the number of hours worked (by auditors, audited participants and the Authority) per audit⁶²
- (b) estimated the economic benefits of the proposed changes from:
 - (i) a reduction in the frequency of audits for reconciliation participants, distributors and DUMML databases
 - (ii) a net reduction in the number of hours worked (by auditors, audited participants, and the Authority) per audit
 - (iii) assessing fewer exemption requests for new entrants
- (c) calculated the net present value of the costs and benefits in (a) and (b)
- (d) performed sensitivity analysis on the estimates of:
 - (i) the reductions in the frequency of audits for reconciliation participants, distributors and DUMML databases
 - (ii) changes in the number of hours worked (by auditors, audited participants and the Authority) per auditto determine the impact on the net present value estimated in (c)
- (e) noted other benefits that the Authority expects from the proposed changes but are difficult to quantify.

6.4.5 The costs and benefits are estimated relative to the status quo, using a term of ten years and a discount rate of 8%.

Costs of the proposed amendment are expected to be small

6.4.6 The Authority expects the proposed changes to incur some costs for the Authority and auditors (including ISO auditors).

6.4.7 The Authority expects to incur the following implementation costs for the proposed changes:

⁶² The Authority expects the number of hours worked per audit to increase in some parts of the audit process and decrease in other parts of the audit process under the proposed changes. These increases and decreases are best considered together, so the Authority has assessed the net benefit of changes in the hours worked per audit in the benefits section of the cost-benefit analysis.

(a) **Authority: Development of new automated processes**

The Authority estimates this will cost \$82,350.

(b) **Authority: Implementing DUML audit changes**

The Authority estimates this will cost \$10,260.

(c) **Authority: Enhancing the registry to allow participants to receive compliance information**

The Authority estimates this will cost \$40,000.

(d) **Authority: Development of guidelines**

The Authority estimates this will cost \$10,000.

(e) **Auditors: Understanding new requirements**

The Authority estimates that each auditor will need to spend one hour (at \$175 per hour) to gain a better understanding of the new requirements. This is equal to \$875.⁶³

6.4.8 The expected value of all the implementation costs is \$143,000.

6.4.9 The Authority expects the proposed changes to incur the following ongoing costs:

(a) **Authority: Maintenance of standard issues register**

The Authority estimates this will require 10 hours work per annum, at a total cost of \$800 per annum.

(b) **Authority: Training of ISO auditors**

The Authority expects to hold one ISO training course per annum, with the course running for one day and one day's worth of preparation being required by the Authority. This is estimated to cost \$1,280 per annum.

(c) **ISO auditors: Annual training course**

The opportunity cost for ISO auditors to attend a one day training course each year is estimated to be \$7,000 per annum. This assumes five auditors attend a one day course at \$175 per hour.⁶⁴

(d) **Auditors: Keeping up with auditor protocol based on ISAE 3000 (NZ) standard**

The Authority expects that each auditor will need to spend one hour per annum (at \$175 per hour) to maintain their knowledge of the new auditor protocol. This is estimated to cost \$875 per annum.

(e) **Potential increase in number of agent audits per annum**

⁶³ Any costs and benefits related to auditors assume there are five auditors (the current number of auditors).

⁶⁴ This assessment has not taken into account auditor travel costs (if any).

One of the proposed changes is to amend the audit guidelines to require auditors to only consider agent audits where the agents have been audited within seven months of the start of the audit. The Authority considers that this will lead to between one and two additional agent audits being conducted per annum to ensure that agent audits are within that seven month period.

Over time, the number of agent audits required per annum may reduce as the average frequency of reconciliation participants and distributors audits reduces. However, as an agent audit can apply to more than one reconciliation participant or distributor it is difficult to ascertain whether there would be such a decrease and if so, quantify this decrease.

The Authority has estimated the cost of an extra 1.5 agent audits per annum is \$6,000 per annum. Over a 10 year period this equates to a present value of \$42,000. Because the Authority expects that over time the number of agent audits required per annum could reduce, the Authority considers that this \$42,000 is an upper bound of the cost of changes in the number of agent audits and considers that there may even be a benefit over the 10 year period.

(f) **Increase in number of material change audits per annum**

One of the proposed changes is to require all participants to do an audit when they make a material change. The Authority is also proposing to more clearly define what a material change is.

Under the proposed changes, the Authority is expecting between one and two additional material change audits to be conducted per annum. This is expected to cost \$8,700 per annum, or in present value terms \$60,000 over a 10 year period.

6.4.10 The present value of the ongoing costs listed in paragraph 6.4.9 is \$172,000 over a 10 year period.

Question 27	Do you consider that the Authority has captured all the costs of the proposed changes? If not, what other costs to you expect will be incurred due to the proposed changes?
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The proposed changes are expected to reduce the average frequency of audits for reconciliation participants, distributors, and DUML databases

6.4.11 The Authority expects the proposed changes to reduce the average frequency of audits for reconciliation participants, distributors, and DUML databases.

The average frequency of audits for reconciliation participants and distributors is expected to fall.

- 6.4.12 The Authority expects the frequency of audits for reconciliation participants and distributors to reduce (on average) under the proposed changes. This will lead to a reduction in the number of audits undertaken per annum. Under the status quo, reconciliation participants and distributors are audited 12-monthly. Under the proposed changes, all audited participants will face variable audit periods of 3 to 36 months.
- 6.4.13 The change to variable audits for reconciliation participants and distributors will mean that participants that comply with the Code and manage their compliance risk will face less frequent audits, while participants with poor controls and/or a low level of compliance will face more frequent audits.
- 6.4.14 The Authority expects that in the first year under the proposed changes, the average audit frequency for reconciliation participants and distributors will reduce from 12-monthly to 19-monthly. This assumes some reconciliation participants and distributors will see their audit frequency increase, some will see it remain 12-monthly and some will see an increase in audit frequency.
- 6.4.15 The Authority has assumed that on average low complexity audits are more likely to see a reduced audit frequency than medium or high complexity audits. High complexity audits cost more than low (or medium) complexity audits, so while the average audit frequency is expected to reduce by over 50 percent initially, the cost of reconciliation participant and distributor audits is not expected to reduce by as much.⁶⁵
- 6.4.16 Over time, the Authority expects the average audit frequency for reconciliation participants and distributors to fall even further under the proposed changes. This is because (but not limited to):
- (a) the introduction of variable audits will encourage participants to put more effort into complying with the Code and managing their compliance risk to reduce their audit frequency
 - (b) the adoption of a risk-based approach to determine audit scope and to focus effort will encourage better compliance in high-risk areas, supporting less frequent audits
 - (c) publication of audit information (including compliance plans) will encourage better compliance, supporting less frequent audits
 - (d) the involvement of the Authority in setting the scope and level of investigation required for each audit will improve the quality of audits and decision making, supporting the ability to the extend audit periods.

⁶⁵ This ignores any changes per cost of audit under the proposed changes, which are discussed below in paragraphs 6.4.27 to 6.4.31.

- 6.4.17 The Authority has assumed that average audit frequency will eventually fall to 23-monthly for reconciliation participants and distributors. The Authority has assumed that these further reductions in audit frequency will occur by the fifth year.
- 6.4.18 The present value of the efficiency benefit due to changes in audit frequency for reconciliation participants and distributors is expected to be \$2.3 million over a ten year period.

The frequency of DUMML database audits is expected to fall over time

- 6.4.19 Under the proposed changes, audits of DUMML databases will face a variable audit frequency of 3 to 36 months. Under the status quo, DUMML databases are expected to be audited annually.⁶⁶
- 6.4.20 The Authority considers that currently about half of the DUMML database audits are of poor quality and the other half of audits are of good quality. The Authority expects that, on average, poor quality DUMML database audits will see an increase in audit frequency to six-monthly, while good quality DUMML database audits will see a reduction in audit frequency to 24-monthly.
- 6.4.21 On average, audits of poor quality DUMML databases cost more than audits of good quality DUMML databases. Therefore, in the first year the total cost of DUMML database audits is expected to be higher under the proposed changes than under the status quo (\$136,000 versus \$101,000).
- 6.4.22 However, over time the Authority expects that the introduction of variable audits will encourage participants to put more effort into complying with the Code in relation to their DUMML databases to reduce their audit frequency. Therefore, over time the Authority expects all audits of DUMML databases to become good quality and only require auditing every 24 months on average.
- 6.4.23 The Authority has assumed that by the third year all DUMML database audits are of good quality and only require auditing every 24 months on average.
- 6.4.24 The present value of the efficiency benefit due to the changes in audit frequency for DUMML database audits is expected to be \$268,000 over a ten year period.

Overall impact of changes in audit frequency

- 6.4.25 The overall impact of changes in audit frequency for reconciliation participants, distributors and DUMML audits is expected to be an economic benefit of \$2.6 million over ten years in present value terms.

⁶⁶ Clause 11(5) of Schedule 15.3 requires the annual audit of a reconciliation participant which is a retailer must include an audit of the DUMML databases. In practice, DUMML databases are not always audited annually.

- 6.4.26 There is some uncertainty as to the magnitude of audit frequency changes. The Authority has undertaken sensitivity analysis to test the impact of the assumptions made on the expected net present value of the proposed changes. This sensitivity analysis is discussed in paragraphs 6.4.38 to 6.4.49.

The cost per audit is expected to reduce under the proposed changes

- 6.4.27 Many of the proposed changes will have an impact on the time spent by auditors, audited participants and the Authority on each audit.
- 6.4.28 Table 9, below, indicates:
- (a) where the Authority expects there to be increases and decreases in time spent on each audit
 - (b) the Authority's estimates of the how much the time spent on each audit will change under the proposed changes.

Table 9: Expected increases and decreases in time spent per audit under the proposed changes

Proposed change	Any expected increase in time spent per audit?	Any expected decrease in time spent per audit?
A.1 Clarify purpose of audit regime in guidelines	None	None
B.1 Alignment with auditing best practices	<p>Authority – due to greater involvement in auditing planning (such as auditor vetting) (+0.5 hours)</p> <p>Auditor – due to auditor rotation (getting up to speed with participants they have not audited before) (+0.5 hours)⁶⁷</p>	<p>Authority – reduced work load at end of audit due to greater involvement in planning (-0.5 hours)</p> <p>Participant – reduced effort spent on low-medium risk areas (-0.5 hours)</p>
C.1 Decision making	Participant – preparation of compliance plan (+0.5 hours)	Authority – compliance plan makes it easier for Authority to decide on actions in response to audit; less time spent on common issues due to standardised issues register (-0.5 hours)

⁶⁷ Equivalent to an extra hour every second audit.

Proposed change	Any expected increase in time spent per audit?	Any expected decrease in time spent per audit?
		<p>hours)</p> <p>Auditor – less time spent on common issues due to standardised issues register (-0.25 hours)</p> <p>Participant – submission of compliance plan reduces time spent interacting with Authority to decide on actions in response to audit; less time spent on common issues due to standardised issues register (-0.5 hours)</p>
C.2 Transparency and accountability	None	<p>Auditor – publication of information will provide more guidance to auditors on how to undertake audits (-0.25 hours)</p> <p>Participant - publication of information will provide more guidance to participants on how to undertake audits (-0.25 hours)</p>
C.3 Education	Authority – involvement in setting audit scope (+0.5 hours)	<p>Participant – redefining breach materiality will better focus the participant on important issues; participant guideline will provide more guidance to participants, helping them to carry out audits more efficiently (-0.75 hours)</p> <p>Authority – helping set the scope of audits will reduce the level of Authority involvement required at the end of each audit (-0.5 hours)</p>
C.4 Manual processes	None	<p>Authority – production of compliance information directly from registry will make it easier to undertake audits (-0.25 hours)</p> <p>Auditor – production of compliance information directly from registry will make it easier to undertake audits (-0.50 hours)</p>

Proposed change	Any expected increase in time spent per audit?	Any expected decrease in time spent per audit?
		Participant – production of compliance information directly from registry will make it easier to undertake audits (-0.25 hours)
C.5 Quality certification	None	ISO auditor – defining quality certification scope in audit and participant guidelines and training will make the audit process more straightforward for auditors (-1 hour for reconciliation participant audits only)
C.6 New entrant retailers	None	None
C.7 Distributed unmetered	Authority – publishing DUML audits (+2 minutes for DUML audits only)	Auditor – less time spent on DUML audits as DUML audit guidelines provide clarity on key issues (-0.25 hours for DUML audits only)
TOTAL	Auditor: +0.50 hours Participant: +0.50 hours Authority: +1.00 hours <i>(plus +2 minutes per DUML audit)</i>	Auditor: -1.00 hours <i>(plus -0.25 hours per DUML audit)</i> Participant: -2.25 hours Authority: -1.75 hours ISO Auditor: -1.00 hours (for reconciliation participant audits only)

6.4.29 The Authority has calculated the economic value of these expected changes in the time worked per audit.

6.4.30 Where the proposed changes are expected to increase the time worked per audit, costs are expected to increase by \$27,000 in the first year, with a present value of \$170,000 over a 10 year period. Where the proposed changes are expected to reduce the time worked per audit, costs are expected to reduce by \$75,000 in the first year, with a present value of \$466,000 over a 10 year period. The net present value of the impact of the proposed changes on time worked per audit is expected to be \$296,000 over a 10 year period.

- 6.4.31 There is considerable uncertainty in the estimates of how much the hours worked on audits will increase and decrease as a result of the proposed changes. The Authority has undertaken sensitivity analysis to test the impact of the estimates of time increases and decreases on the expected net present value of the proposed changes. This sensitivity analysis is discussed in paragraphs 6.4.38 to 6.4.49.

The proposed changes will reduce the number of exemption requests the Authority has to assess

- 6.4.32 Currently, many new entrant retailers are applying for exemptions from the requirement of certification as part of their entry into the electricity market. Under the proposed changes, participants will be allowed six months of operation before they need to hold quality certification. In addition, the Authority will be allowed to postpone the requirement to hold certification for no more than 12 months. These changes will reduce the number of exemption requests the Authority has to assess.
- 6.4.33 Under the proposed changes the Authority expects to receive three less exemption requests per annum compared to the status quo. Assessing an exemption request requires between 2.5 and 3.5 days of work for the Authority. The Authority has assumed that on average an exemption request requires three days of work.
- 6.4.34 The Authority expects to make a saving of \$5,760 per annum under the proposed changes by having fewer exemption requests to assess. This is a benefit of \$40,000 in present value terms over a ten year period.

The net present value of the costs and benefits is positive

- 6.4.35 The Authority has estimated the net present value of:
- (a) the one-off/implementation costs of the proposed changes
 - (b) the ongoing costs of the proposed changes
 - (c) the efficiency gains from reductions in the frequency of audits
 - (d) the efficiency gains from the net reduction in the number of hours worked per audit
 - (e) the efficiency gains from fewer exemption requests for new entrants.
- 6.4.36 Table 10 presents the present value of each of the items listed in paragraph 6.4.35 and the net present value.

Table 10: Net present value of proposed changes

Cost/benefit	Present value (\$k)
Implementation/one-off costs	-143

Cost/benefit	Present value (\$k)
Ongoing costs (excluding any changes to hours work required per audit)	-172
Total costs	-315
Efficiency gains from reductions in the frequency of audits	2,584
Efficiency gains from the net reduction in the number of hours worked per audit	296
Efficiency gains from fewer exemption requests for new entrants	40
Total benefits	2,920
TOTAL (NPV)	2,605

6.4.37 The expected net present value of the quantifiable costs and benefits is clearly positive, with the expected benefits significantly outweighing the costs.

Sensitivity analysis indicates that net present value of proposed changes will still be positive even under alternative assumptions

6.4.38 There is significant uncertainty around some of the assumptions made to estimate the expected benefits of the proposed changes. The Authority has performed sensitivity analysis on these assumptions to determine the impact on the net present value.

6.4.39 The Authority has performed sensitivity analysis on:

- (a) the reductions in the frequency of audits for reconciliation participants, distributors, and DUMML databases
- (b) changes in the number of hours worked (by auditors, audited participants and the Authority) per audit.

Reductions in audit frequency under different scenarios still lead to significant benefits

6.4.40 The Authority has considered the impact of changing the assumptions on how much and over what timeframe the audit frequencies for reconciliation participants, distributors and DUMML databases reduce. The Authority has

focused on the downside – that is, the impact of audit frequencies not reducing by as much as expected in the central assumption.

6.4.41 Table 11 below, sets out the assumptions for the reductions in audit frequencies for:

- (a) the central assumptions used in the cost-benefit analysis
- (b) three other scenarios where the reduction in the frequency of audits happens over a longer period of time and/or the reduction in frequency is not as great as under the central assumptions.

Table 11: Impact of alternative assumptions for the reductions in audit frequency on economic benefit

Scenario	Initial average audit frequency under proposed changes (months)	Final average audit frequency under proposed changes (months)	Years to get to final audit frequency	Present value over ten years (\$k)
A. Central assumption	Reconciliation participants: 19 Distributors: 19 DUML databases: 15	Reconciliation participants: 23 Distributors: 23 DUML databases: 24	Reconciliation participants: 5 Distributors: 5 DUML databases: 3	2,584
B. Takes longer for audit frequency to reduce	Same as (A)	Same as (A)	Reconciliation participants: 10 Distributors: 10 DUML databases: 6	2,186
C. Average audit frequency reduces by less	Reconciliation participants: 15 Distributors: 15 DUML databases: 12	Reconciliation participants: 18 Distributors: 18 DUML databases: 18	Reconciliation participants: 5 Distributors: 5 DUML databases: 3	1,282
D. Average audit frequency reduces by less and	Same as (C)	Same as (C)	Reconciliation participants: 10 Distributors: 10 DUML	829

Scenario	Initial average audit frequency under proposed changes (months)	Final average audit frequency under proposed changes (months)	Years to get to final audit frequency	Present value over ten years (\$k)
takes longer to reduce			databases: 6	

6.4.42 Table 11 above, shows that even if the average audit frequency does not reduce by as much as the central assumption and takes twice as long to fully reduce (scenario D), the present value of the benefit from the audit frequency reductions is still significant with a value of \$829,000 over ten years.

Changes in the number of hours worked per audit under different scenarios still lead to benefits

6.4.43 The Authority has considered the impact of changing the assumptions on how much the hours worked per audit would change under the proposed changes. The Authority has focused on considering the downside – that is, the impact of larger than expected increases in time spent per audit and smaller than expected reductions in time spent per audit.

6.4.44 Table 12 sets out the Authority's central assumption and two alternative scenarios.

Table 12: Impact of alternative assumptions for changes in number of hours worked per audit on economic benefit

Scenario	Expected increase in time spent per audit	Expected decrease in time spent per audit	Net benefit over ten years (\$k)
1. Central assumption	Auditor: 0.50 hours Participant: 0.50 hours Authority: 1.00 hours (<i>plus 2 minutes per DUML audit</i>)	Auditor: 1.00 hours (<i>plus 0.25 hours per DUML audit</i>) Participant: 2.25 hours Authority: 1.75hours ISO Auditor: 1.00 hours for reconciliation participant audits only	296

Scenario	Expected increase in time spent per audit	Expected decrease in time spent per audit	Net benefit over ten years (\$k)
2. Increases in hours are 25% greater and decreases in hours are 25% smaller	Auditor: 0.63 hours Participant: 0.63 hours Authority: 1.25 hours (<i>plus 2.5 minutes per DUMML audit</i>)	Auditor: 0.75 hours (<i>plus 0.19 hours per DUMML audit</i>) Participant: 1.69 hours Authority: 1.31 hours ISO Auditor: 0.75 hours for reconciliation participant audits only	137
3. Increases in hours are 40% greater and decreases in hours are 40% smaller	Auditor: 0.70 hours Participant: 0.70 hours Authority: 1.40 hours (<i>plus 2.8 minutes per DUMML audit</i>)	Auditor: 0.60 hours (<i>plus 0.15 hours per DUMML audit</i>) Participant: 1.35 hours Authority: 1.05 hours ISO Auditor: 0.60 hours for reconciliation participant audits only	41

6.4.45 Both scenario 2 and scenario 3 still lead to a net benefit despite both scenarios assuming substantially higher costs and lower benefits than the central assumption.

Proposed changes are still net present value positive under alternative scenarios

6.4.46 Even if benefits are significantly lower than what the Authority expects in its central assumptions, the proposed changes will still be net present value positive.

6.4.47 Assuming the economic benefit from reductions in audit frequency is \$829,000 (scenario D in Table 11) and the economic benefit from changes in the number of hours worked per audit is \$41,000 (scenario 3 in Table 12) the net present value of the proposed changes would still be \$596,000.

6.4.48 Table 13 presents the expected net present value under both:

- (a) the central assumptions
- (b) the lowest benefit scenarios in the sensitivity analysis (scenario D and scenario 3) with the central assumptions for all other costs and benefits.

Table 13: Net present value of central assumption and low benefit scenarios

Cost/benefit	Present value (\$k)	
	Central assumption	Low benefit scenarios
Implementation/one-off costs	-143	-143
Ongoing costs (excluding any changes to hours work required per audit)	-172	-172
Total costs	-315	-315
Efficiency gains from reductions in the frequency of audits	2,584	829
Efficiency gains from the net reduction in the number of hours worked per audit	296	41
Efficiency gains from fewer exemption requests for new entrants	40	40
Total benefits	2,920	911
TOTAL (NPV)	2,605	596

6.4.49 The Authority considers that the low benefit scenarios are quite extreme and it is unlikely the benefits would be this low. Therefore, the Authority considers that the sensitivity analysis indicates that the risk of the proposed changes being net present value negative is near zero.

The Authority expects there to be other economic benefits from the proposed changes that are difficult to quantify

6.4.50 The proposed changes are also expected to lead to benefits that are more difficult to quantify in an economic sense. These benefits include:

- (a) better compliance with the Code by audited participants (eg, variable audit times and publication of audit information will encourage compliance)
- (b) improved accuracy (eg, through using more consistent and accurate streetlight data)

- (c) reduced costs for new entrant retailers (eg, by giving them more time to become certified)
- (d) greater consistency and clarity (eg, by clarifying the purpose of the audit regime).

- 6.4.51 The Authority considers that greater compliance with the Code and improved accuracy will enable more accurate quotation, billing, and reconciliation. This will result in more accurate allocation of costs between market participants, which is a transfer of wealth between participants rather than an economic benefit. However, it is also likely to indirectly promote a more efficient electricity market by enabling participants to make more efficient production and consumption decisions.
- 6.4.52 A reduction in costs for new entrant retailers is a productive efficiency gain and could also lead to a dynamic efficiency gain by encouraging further entry into the retail electricity market.
- 6.4.53 The Authority considers that greater consistency and clarity in the outputs of the audit regime could contribute to the productive efficiency gains from reduced time worked per audit. However, it is difficult to quantify what contribution greater consistency and clarity would have.

Question 28	Do you consider that the Authority has captured all the benefits of the proposed amendment? If not, what other benefits do you expect the proposed changes to lead to?
Question 29	Do you agree the benefits of the proposed changes outweigh the costs? If not, why not?

6.5 The Authority has identified alternative options for addressing the objectives, but considers the proposed Code amendment is preferable

- 6.5.1 In sections 3 to 5 the Authority has identified and considered alternative options for addressing each of the issues identified. In each case the alternative options either do not satisfactorily address the relevant issue and/or are higher cost. The rationale for discarding each of these alternative options is provided in sections 3 to 5.
- 6.5.2 The Authority has also considered retaining the status quo. The cost-benefit analysis shows that the Authority expects the proposed changes to be net present value positive relative to the status quo.

Question 30	Do you agree the proposed changes are preferable to the other options? If you disagree, please explain your preferred option in
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terms consistent with the Authority's statutory objective in section 15 of the Electricity Industry Act 2010.

6.6 The proposal complies with section 32(1) of the Act

6.6.1 Table 14 (below) demonstrates how the proposal complies with section 32(1) of the Act.

Table 14: How proposal complies with section 32(1) of the Act

Requirement	Comment
The proposal is consistent with the Authority's objective under section 15 of the Act, which is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.	The proposal will improve the efficiency of the participant audit regime. This will promote the efficient operation of the electricity industry for the long-term benefit of consumers by reducing the Authority's and audited participants' costs. The proposal will also lead to greater compliance with the Code and improved accuracy, which will indirectly promote a more efficient electricity market by enabling participants to make more efficient production and consumption decisions.
The proposed amendment is necessary or desirable to promote any or all of the following:	
(a) competition in the electricity industry;	The proposed amendment will not have a material effect on competition.
(b) the reliable supply of electricity to consumers;	The proposed amendment will not have a material effect on the reliable supply of electricity to consumers.
(c) the efficient operation of the electricity industry;	The proposed amendment will promote efficiency by improving the operational efficiency of the participant audit regime.
(d) the performance by the Authority of its functions;	<p>The proposed amendment will make it easier for the Authority to carry out the following functions under section 16 of the Act:</p> <ul style="list-style-type: none"> • monitor compliance with the Code • investigate and enforce compliance with the Code

Requirement	Comment
	<ul style="list-style-type: none"> undertake market-facilitation measures (such as providing education, guidelines, information, and model arrangements). <p>The proposed amendment will achieve this by:</p> <ul style="list-style-type: none"> requiring each participant to submit a compliance plan when submitting an audit report to the Authority publishing auditing guidelines.
(e) any other matter specifically referred to in this Act as a matter for inclusion in the Code.	The proposed amendment will not materially affect any other matter specifically referred to in the Act for inclusion in the Code.

Question 31 Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?

6.7 The Authority has given regard to the Code amendment principles

6.7.1 When considering amendments to the Code, the Authority is required by its consultation charter⁶⁸ to have regard to the following Code amendment principles, to the extent that the Authority considers that they are applicable. Table 15 describes the Authority's regard for the Code amendment principles in the preparation of the proposal.

Table 15: Regard for Code amendment principles

Principle	Comment
1. Lawful	The proposal is lawful, and is consistent with the statutory objective (see section 6.6), and with the empowering provisions of the Act.
2. Provides clearly identified efficiency gains or addresses market or regulatory failure	The efficiency gains are set out in the evaluation of the costs and benefits (section 6.4).

⁶⁸ The consultation charter is one of the Authority's foundation document and is available at: <http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/foundation-documents/>

Principle	Comment
3. Net benefits are quantified	The proposed amendment will provide a net economic benefit and most of these benefits have been quantified. Some benefits have not been quantified (section 6.4).
<i>Because principles 1 and 2 are satisfied, and the analysis concludes that the proposed amendment is the best option (section 6.5), there is no need to apply principles 4-9.</i>	

Question 32	Do you have any comments on the drafting of the proposed amendment?
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Glossary of abbreviations and terms

Act	Electricity Industry Act 2010
ATH	Approved Test House
Authority	Electricity Authority
Board	Electricity Authority Board
Code	Electricity Industry Participation Code 2010
MEP	Metering Equipment Provider

Appendix A Proposed Code amendment

Changes to Part 1

auditor means,—

- (a) for the purposes of Parts 10, 11, and 15 ~~and 15A~~, a person—
 - (i) approved or appointed by the **Authority** to carry out an **audit**; or
 - (ii) the Authority, if the **Authority** carries out an **audit** itself; and
- (b) for all other Parts of this Code, a person carrying out an **audit**

~~**relevant participant** means, for the purposes of Part 10, a **metering equipment provider** or an **ATH**~~

Changes to Part 10

...

10.1 Contents of this Part

This Part provides for—

...

- ~~(e) the processes and procedures that apply to **auditing ATHs** and **metering equipment providers**; and~~

...

10.17 Audits

- ~~(1) The **Authority** may require a **relevant participant** to have an **audit** undertaken.~~
- ~~(2) An **audit** must be undertaken by an **auditor** included in the list of approved **auditors published** by the **Authority** under clause 1(7) of Schedule 10.2.~~
- ~~(3) Schedule 10.2 applies to every such **audit**.~~

10.17A Metering equipment providers and ATHs to arrange for regular audits

Each **metering equipment provider** and each **ATH** must arrange to be **audited** regularly in accordance with Part 15A in respect of the **metering equipment provider's** or **ATH's** obligations under this Part.

10.17B Authority and participant requested audits

- (1) The **Authority** may at any time carry out, or appoint an **auditor** to carry out, an **audit of a participant** in respect of the **participant's** obligations under this Part.
- (2) If a **participant** considers that another **participant** may not have complied with this Part, the **participant** may request that the **Authority** carry out, or appoint an **auditor** to carry out, an **audit of the other participant**.
- (3) Part 15A applies to an **audit** carried out under this clause.

...

~~10.20 Obligations of metering equipment provider~~

~~A **metering equipment provider** must—~~

- ~~(a) ensure that it is **audited** in accordance with all applicable requirements in this Part including Schedule 10.5; and~~
- ~~(b) comply with all of its obligations in this Code including the obligations under Schedules 10.6, 10.7, and 10.8.~~

...

10.40 General requirements for approval as ATH

- (1) A person wishing to be approved as an **ATH**, or an **ATH** wishing to renew its approval, must apply to the **Authority**—
 - (a) at least 2 months before the intended effective date of the approval or renewal; and
 - (b) in writing; and
 - (c) in the **prescribed form**; and
 - (d) in accordance with Schedule 10.3.
- (2) A person making an application must satisfy the **Authority** (providing, where appropriate, suitable evidence) that the person—
 - (a) has the facilities and procedures to reliably meet, for the requested term of the approval, the minimum requirements of this Code for the class or classes of **ATH** for which it is seeking approval; and
 - (b) has had an **audit** under Part 15A~~Schedule 10.3~~; and
 - (c) is a fit and proper person for approval.
- (3) Any **approved test house** operated solely by an **ATH** is, for all purposes of this Code and the **Act**, deemed to be approved in accordance with the procedures in the Code.

...

Schedule 10.2

Audits

1—Auditors

- ~~(1) The **Authority** may approve a person to act as, and to perform the functions of, an **auditor**, for a specified type of **audit**, in accordance with this Schedule.~~
- ~~(2) Approval lasts for 24 months from the date of the approval unless it is cancelled under subclause (8).~~
- ~~(3) An **auditor** must be approved, under this clause, when it carries out an **audit**, and must not have received notice from the **Authority** of the cancellation of its approval.~~
- ~~(4) A person applying to the **Authority** for approval, or for renewal of an existing approval, as an **auditor** must—~~
 - ~~(a) use the **prescribed form**; and~~
 - ~~(b) respond to the **Authority**, as quickly as practicable, providing any clarification, further data, or information that the **Authority** may request.~~
- ~~(5) The **Authority** has not more than 2 calendar months from the date on which it receives a completed application, to assess and, if in the **Authority's** view it is appropriate, to approve the application.~~
- ~~(6) The **Authority** may require an applicant to attend an interview or undertake an examination, or both.~~
- ~~(7) The **Authority** must **publish**, and keep updated, a list of **auditors** approved for specific types of **audits**.~~
- ~~(8) The **Authority** may, at any time with immediate effect by giving written notice to the **auditor**, cancel an **auditor's** approval and if it does this, must remove the **auditor** from the list of approved **auditors**.~~
- ~~(9) The cancellation of an **auditor's** approval does not invalidate an **audit** previously completed by the **auditor**. However, an **audit** in progress or completed after the date on which the **auditor's** approval is cancelled is not a valid **audit** for the purposes of this Code.~~

2—Audits

~~A **relevant participant** must ensure that an **auditor** undertaking an **audit** under this Part complies with the following requirements:~~

- ~~(a) the **audit** report must be in the **prescribed form**;~~
- ~~(b) the **auditor** must send a draft of the **audit** report setting out the provisional findings of the **audit** to the **relevant participant** to whom the **audit** relates;~~
- ~~(c) the **auditor** must give the **relevant participant** a reasonable opportunity to comment on the draft **audit** report;~~
- ~~(d) the **auditor** must consider any comments it receives from the **relevant participant** about the draft **audit** report;~~

- (e) ~~the **auditor** must produce a final **audit** report and provide that report to the **relevant participant** within 10 **business days** of receiving any comments under paragraph (d): **Electricity Industry Participation Code 2010**~~
Schedule 10.2
- (f) ~~the final **audit** report must—~~
 - (i) ~~specify conditions (if any) that the **auditor** considers the **relevant participant** must satisfy for the **relevant participant** to comply with this Part, and any action that the **relevant participant** has taken in respect of those conditions; and~~
 - (ii) ~~include the **relevant participant's** comments, if any, on the draft **audit** report; and~~
 - (iii) ~~include a summary that specifies—~~
 - (A) ~~the date of the **audit** report; and~~
 - (B) ~~the name of the **audited relevant participant**; and~~
 - (C) ~~the scope of the **audit**; and~~
 - (D) ~~whether or not the **audit** established that the **relevant participant's** processes and procedures have complied with this Part; and~~
 - (E) ~~the name of the **auditor**.~~

3—Authority and participant requested audits

- (1) ~~The **Authority** may, in its discretion, carry out an **audit**, or appoint an **auditor** to carry out an **audit**, to determine whether a **relevant participant** has complied with this Part.~~
- (2) ~~If a **participant** reasonably considers that a **relevant participant** may not have complied with this Part, the **participant** may request in writing to the **Authority** that the **Authority** carry out an **audit** of the **relevant participant** or that the **Authority** appoints an **auditor** to carry out an **audit**.~~
- (3) ~~Nothing in this Schedule affects the **Authority's** rights under the **Act** or the **regulations**.~~

4—Scope of audits

~~An **audit** must address such matters as the **Authority** reasonably requires, having regard to the reasons for which the **Authority** considers that the **audit** is required, and any matters that arise during the **audit**.~~

5—Authority or auditor may request information, carry out inspections and audit participant's facilities, processes, procedures, and other items

~~The **Authority** or the **auditor** may, in accordance with the **Act**, to enable it to carry out an **audit**,—~~

- (a) ~~require the **relevant participant** being **audited** to provide additional information:~~

- (b) ~~carry out inspections of the **relevant participant's** facilities, processes, and any other items used by the **relevant participant** being **audited**:~~
- (c) ~~**audit** the **relevant participant's** facilities, processes, procedures, and any other items used by the **relevant participant**, that the **Authority** or the **auditor** considers necessary.~~

6—Participants to provide access

- (1) ~~A **relevant participant** must provide, at no charge, to the **Authority** or an **auditor** appointed by the **Authority** for this purpose, full access to all relevant facilities, processes, procedures, and other relevant items, personnel, records, and manuals at any time within normal working hours.~~
- (2) ~~The **relevant participant** must provide information at no charge and within 20 **business days** after receiving a request from the **Authority** or the **auditor**, as the case may be.~~

7—Production of audit report

The **Authority**, or the **relevant participant**, must ensure that an **auditor** produces an **audit** report that—

- (a) ~~addresses the matters required of it; and~~
- (b) ~~identifies, if the **Authority** so requires, the extent to which the **relevant participant** failed to comply with this Part, both at the time of the **audit** and historically; and~~
- (c) ~~identifies any areas for improvement.~~

8—Authority to make determination

- (1) ~~This clause applies to an **audit** carried out under clause 3.~~
- (2) ~~The **Authority** must, after considering the **audit** report and any other matters as appropriate,—~~
 - (a) ~~determine any instances of non-compliance; and~~
 - (b) ~~if it determines that there has been 1 or more instances of non-compliance, report those instances to the non-compliant **relevant participant**.~~
- (3) ~~The **relevant participant** must, by no later than 10 **business days** after it receives a report referred to in subclause (2)(b), submit to the **Authority** details of action that the **relevant participant** has taken to correct each instance of non-compliance.~~

9—Authority to publish summary of audit report

The **Authority** must **publish** the summary of the **audit** report, required under clause 2(f)(iii).

~~10 — Payment of auditor's costs~~

- ~~(1) If an **audit** establishes, to the **Authority's** reasonable satisfaction, that the **relevant participant** alleged to be in breach has complied with this Part, or the non-compliance is minor—~~
 - ~~(a) for an **audit** carried out under clause 3(1), the **Authority** must pay the **auditor's** costs; and~~
 - ~~(b) for an **audit** carried out under clause 3(2), the **participant** who requested the **audit** must pay the **auditor's** costs within 10 **business days** of being advised of them.~~
- ~~(2) If an **audit** establishes, to the **Authority's** reasonable satisfaction, that the **relevant participant** alleged to be in breach has not complied with this Part, and the non-compliance is not minor,—~~
 - ~~(a) for an **audit** carried out under clause 3(1), the **relevant participant** and the **Authority** must pay the **auditor's** costs, in proportions determined by the **Authority**; and~~
 - ~~(b) for an **audit** carried out under clause 3(2), the **relevant participant** and the **participant** who requested the **audit** must pay the **auditor's** costs, in proportions determined by the **Authority**, within 10 **business days** of being advised of them.~~

Schedule 10.3

ATHs – approval, expiry, cancellation, and renewal of approval

1 Applications for approval and renewal of approval

- (1) A person wishing to be approved as an **ATH**, or an **ATH** wishing to renew its approval, must apply, in the **prescribed form**, to the **Authority** at least 2 months before the intended effective date of the approval or renewal.
- (2) An applicant must—
 - (a) include in its application—
 - (i) the final **audit** report obtained under ~~Part 15A~~ clause 2, together with its responses to the report; and
 - (ii) a copy of any quality management certificates it holds; and
 - (iii) a copy of its most recent quality management audit report; and
 - (iv) the class of **ATH** for which it is seeking approval; and
 - (v) the functions under clauses 3(2) and 4(2) for which it is seeking approval; and
 - (vi) the **calibration** expiry date of each of its **working standards** and **reference standards**; and
 - (b) provide promptly any other information or documentation the **Authority** may reasonably request.
- ...
- (4) If an application is approved, the **Authority** must issue a certificate of approval specifying the—
 - (a) period of the term of approval, which must not exceed 12 calendar months from the date of approval; and
 - (b) functions that the applicant has been approved to carry out; and
 - ~~(c) date of the next scheduled **audit**, which must be at least 3 months, and no more than 36 months, from the date of approval; and~~
 - (d) date of approval.

~~2 Audits~~

- ~~(1) An applicant under clause 1(1) must ensure that an **audit** is carried out in accordance with Schedule 10.2, with all necessary amendments.~~
- ~~(2) An applicant applying for renewal of approval must ensure that the final **audit** report includes—~~
 - ~~(a) a list of all contractors that the applicant has engaged for any purpose under this Part since the applicant's last **audit**; and~~
 - ~~(b) details of the activities that each contractor has performed for the applicant since the applicant's last **audit**.~~
- ~~(3) An applicant applying for approval, or renewal of approval, as a **class B ATH** to **calibrate metering components**, must ensure that the final **audit** report includes a list of all relevant requirements of NZ/AS ISO 17025 for **calibration**, and all relevant methodologies, for which the applicant has been **audited**.~~

...

Schedule 10.5

Metering equipment provider audits

1—Metering equipment provider must ensure audits are carried out

- (1) ~~A metering equipment provider must—~~
- (a) ~~ensure that an initial **audit** by an **auditor** under subclause (2) is completed—~~
 - (i) ~~in the case of a **participant** who becomes a **metering equipment provider** on or after 29 August 2013, within 3 calendar months after the date on which the **metering equipment provider** first becomes a **metering equipment provider**; or~~
 - (ii) ~~despite anything else in this Code, in the case of a **participant** who becomes the **metering equipment provider** under clause 10.19(1), by no later than 28 February 2014; and~~
 - (b) ~~ensure that an **audit** of its compliance with this Part and Part 11 under subclause (2) is carried out within a period specified by the **Authority**, which period must be at least 3 months, but no more than 36 months, after the date of the **audit** report for the **metering equipment provider's** previous **audit**; and~~
 - (c) ~~ensure that an **audit** under paragraph (a) or (b) is carried out in accordance with Schedule 10.2, with all necessary amendments; and~~
 - (d) ~~ensure that the **auditor** includes in the **audit** report a recommendation on the date by which the **metering equipment provider** must have completed its next **audit** and **audit** report; and~~
 - (e) ~~provide the finalised **audit** report to the **Authority** within 1 month of the **audit** being completed, or within such other timeframe determined and **published** by the **Authority**; and~~
 - (f) ~~pay the costs of an **audit** required under this clause in accordance with the terms of the applicable arrangement with the **auditor**.~~
- (2) ~~A **metering equipment provider** must ensure an **auditor** carrying out an **audit** under subclause (1) **audits** the following processes and procedures:~~
- (a) ~~the appropriate management and maintenance of each **metering installation** for which the **metering equipment provider** is responsible, including—~~
 - (i) ~~maintenance of **metering records**; and~~
 - (ii) ~~maintenance of **metering components**; and~~
 - (iii) ~~**certification** of **metering components** and **metering installations**; and~~
 - (iv) ~~**metering installations** that have been **certified** at a lower category under clause 6 of Schedule 10.7; and~~

- (v) ~~inspections in accordance with this Code; and~~
- (vi) ~~investigations under clause 10.43(4); and~~
- (b) ~~the metering equipment provider's provision of metering records to—~~
 - (i) ~~the registry; and~~
 - (ii) ~~the reconciliation manager; and~~
- (c) ~~the metering equipment provider's provision of access under this Part to—~~
 - (i) ~~raw meter data;~~
 - (ii) ~~metering records;~~
 - (iii) ~~the metering installation; and~~
- (d) ~~the security of—~~
 - (i) ~~each metering installation for which the metering equipment provider is responsible; and~~
 - (ii) ~~if relevant, the metering equipment provider's back office; and~~
 - (iii) ~~if relevant, the communication between the metering equipment provider's back office and the metering installation.~~

2—Metering equipment provider audit reports

Despite anything in Schedule 10.2, a ~~metering equipment provider~~ must also ensure that the ~~auditor~~ includes in the final ~~audit~~ report under clause 1—

- (a) ~~any conditions that the auditor considers the metering equipment provider would need to satisfy for the metering equipment provider to comply with this Code, and any action the metering equipment provider has taken in respect of satisfying those conditions; and~~
- (b) ~~a list of all contractors engaged by the metering equipment provider to perform the metering equipment provider's activities under this Part, and details of the obligations that each of those contractors perform.~~

3—Changes to metering equipment provider's facilities, systems, and processes

If a ~~metering equipment provider~~ intends to materially change any of its facilities, processes, or procedures, the ~~metering equipment provider~~ must, at least 10 ~~business days~~ before the change is to take effect,—

- (a) ~~advise the Authority of all relevant details of the change; and~~
- (b) ~~ensure that an audit of its facilities, processes, and procedures has been undertaken; and~~
- (c) ~~submit to the Authority an audit report confirming that the metering equipment provider will continue to meet its requirements under this Code after the change has been made.~~

Changes to Part 11

...

11.8B Metering equipment providers to arrange for regular audits

Each A metering equipment provider must arrange to be audited regularly in accordance with Part 15A in respect of the metering equipment provider's obligations under this Part.

- ~~(a) arrange for an audit of its registry processes and procedures under this Part; and~~
- ~~(b) ensure that an audit under paragraph (a) is carried out under Schedule 40.5 (with all necessary amendments).~~

...

11.10 ~~Distributors' processes to be audited~~ to arrange for regular audits

- (1) Each **distributor** must arrange to be audited regularly in accordance with Part 15A in respect of the distributor's obligations under this Part. ~~for the conduct of audits by an auditor, and provide final audit reports to the Authority as follows:~~
 - ~~(a) an initial audit completed within 3 calendar months after the date on which the distributor has the first NSP identifier or ICP identifier recorded on the registry as being part of the distributor's network;~~
 - ~~(b) a further audit completed within 12 months after the date of the initial audit;~~
 - ~~(c) at least 1 annual audit completed no later than each anniversary date of the initial audit.~~
- ~~(1A) If a distributor appoints a contractor to perform the distributor's registry obligations under this Code—~~
 - ~~(a) the distributor must provide the contractor's audit report to the Authority; and~~
 - ~~(b) the contractor's audit report must be prepared in accordance with subclause (1), as if it were a distributor's audit report; and~~
 - ~~(c) the distributor must provide the contractor's audit report to the Authority with the distributor's final audit report.~~
- ~~(2) Each audit required by this clause must be conducted by an auditor.~~
- ~~(3) The purpose of each audit conducted under this clause is to determine whether the processes and procedures used by the distributor to create and maintain information under this Part comply with this Code.~~
- ~~(4) The distributor's processes and procedures that must be audited include—~~
 - ~~(a) the creation of ICP identifiers for ICPs; and~~
 - ~~(b) the provision of ICP information to the registry and the maintenance of that information; and~~
 - ~~(c) the creation and maintenance of loss factors.~~
- ~~(5) An audit required by this clause must be conducted in accordance with the procedure set out in clause 11.12.~~
- ~~(6) The distributor is responsible for the costs of audits required by this clause.~~

11.11 ~~Audits requested by Authority and or participant requested audits~~

- (1) The **Authority** may ~~at any time carry out, or appoint an auditor to carry out, an audit of a participant in respect of the participant's obligations under this Part, in accordance with clause 12(1) of Schedule 15.1 (with all necessary amendments).~~
- (2) ~~If a participant considers that another participant may not have complied with this Part, the A participant may request that the Authority carry out, or appoint an auditor to carry out, an audit of the other participant, in accordance with clause 12(2) of Schedule 15.1 (with all necessary amendments).~~
- (3) ~~Part 15A applies to an audit carried out under this clause. An audit requested by the Authority or a participant must be carried out in accordance with clauses 13 to 19 of Schedule 15.1 (with all necessary amendments).~~

11.12 ~~Audits~~

~~A distributor must ensure that an auditor undertaking an audit in accordance with clause 11.10 complies with the following requirements:~~

- ~~(a) the audit report must be in the prescribed form;~~
- ~~(b) the auditor must send a draft of the audit report setting out the provisional findings of the audit to the distributor to whom the audit relates;~~
- ~~(c) the auditor must give the distributor a reasonable opportunity to comment on the draft of the audit report;~~
- ~~(d) the auditor must consider any comments it receives from the distributor about the draft of the audit report;~~
- ~~(e) the auditor must produce a final audit report and provide the report to the distributor;~~
- ~~(f) the final audit report must—~~
 - ~~(i) specify conditions (if any) that the auditor considers the distributor must satisfy for the distributor to comply with this Code, and any action that the distributor has taken in respect of those conditions; and~~
 - ~~(ii) include a list of all agents engaged by the distributor to perform the distributor's information gathering, processing, and managing obligations with respect to the registry process, and details of the obligations that each of those agents perform; and~~
 - ~~(iii) include a summary that specifies—~~
 - ~~(A) the date of the audit report; and~~
 - ~~(B) the name of the audited participant or agent; and~~
 - ~~(C) the scope of the audit; and~~
 - ~~(D) whether or not the audit established that the distributor's processes and procedures comply with this Code in respect of the matters set out in clause 11.10(4); and~~
 - ~~(E) the name of the auditor.~~

11.13 ~~Audit reports provided to Authority~~

- ~~(1) A distributor must, no later than 1 month after receiving a final audit report, provide a copy of the final audit report to the Authority.~~
- ~~(2) The Authority must publish the summary required under clause 11.12(f)(iii).~~

~~(3) Except for the summary referred to in subclause (2), an **audit** report is confidential to the **distributor**, the **auditor**, and the **Authority**, unless otherwise agreed between the **distributor** and the **Authority**.~~

Changes to Part 15

15.1 Contents of this Part

This Part provides for the following:

- ...
- (i) requirements for **audits**, ~~**auditors**~~, approvals and **certifications**.

...

~~15.37 Audits~~

- ~~(1) An **audit** to be undertaken in accordance with this Code must be undertaken by an **auditor** included in the list of approved **auditors** published by the **Authority** in accordance with clause 9(7) of Schedule 15.1.~~
- ~~(2) The **Authority** may require a **participant** to have an **audit** undertaken.~~
- ~~(3) Clauses 12 to 19 of Schedule 15.1 apply to every such **audit**.~~

15.37A Reconciliation participants and dispatchable load purchasers to arrange for regular audits

Each **reconciliation participant** and each **dispatchable load purchaser** must arrange to be **audited** regularly in accordance with Part 15A in respect of the **reconciliation participant's** or **dispatchable load purchaser's** obligations under this Part.

15.37B Retailers to arrange for audits in respect of distributed unmetered load

Each **retailer** that is responsible for **distributed unmetered load** must arrange for the following **audits** to be carried out in accordance with Part 15A in respect of the **distributed unmetered load**:

- (a) **audits** ("database **audits**") that verify that—
 - (i) the **retailer's distributed unmetered load** database complies with clause 11 of Schedule 15.3; and
 - (ii) **volume information** for the **distributed unmetered load** is being calculated accurately and that **profiles** have been correctly applied:
- (b) **audits** ("field **audits**") that verify, by inspection of each item of load listed in the **retailer's distributed unmetered load** database, that the entry in the database for the item of load complies with clause 11(2) of Schedule 15.3.

15.37C Authority and participant requested audits

- (1) The **Authority** may at any time carry out, or appoint an **auditor** to carry out, an **audit** of a **participant** in respect of the **participant's** obligations under this Part.
- (2) If a **participant** considers that another **participant** may not have complied with this Part, the **participant** may request that the **Authority** carry out, or appoint an **auditor** to carry out, an **audit** of the other **participant**.

(3) Part 15A applies to an **audit** carried out under this clause.

15.38 Functions requiring certification

- (1) Subject to clause 2 of Schedule 15.1, a **A reconciliation participant** (except an **embedded generator** selling **electricity** directly to another **reconciliation participant**) must obtain and maintain **certification** in accordance with Schedule 15.1 in order to be permitted to perform, or to have performed by way of an agent or agents, any of the following functions in compliance with this Code:
- (a) maintaining **registry** information and performing **customer** and **embedded generator** switching (except if the maintenance of **registry** information is carried out by a **distributor** in accordance with Part 11):
 - (b) gathering and storing **raw meter data**:
 - (c) creating and managing (including validating, estimating, storing, correcting and archiving)—
 - (i) **half hour volume information**; or
 - (ii) non **half hour volume information**; or
 - (iii) **half hour** and non **half hour volume information**; or
 - (iv) **dispatchable load information**:
 - ~~(d) calculation of the number of **ICP days** and delivery of a report under clause 15.6:~~
 - ~~(da) delivery of **electricity supplied** information under clause 15.7:~~
 - ~~(db) delivery of information from **retailer** and **direct purchaser half hourly** metered **ICPs** under clause 15.8:~~
 - (d) delivery of:
 - (i) a report under clause 15.6 and the calculation of the number of **ICP days** detailed in the report:
 - (ii) **electricity supplied** information under clause 15.7:
 - (iii) information from **retailer** and **direct purchaser half hourly** metered **ICPs** under clause 15.8:
 - (e) provision of **submission information** for reconciliation:
 - (f) provision of **metering information** to the **pricing manager**grid owner in accordance with subpart 4 of Part 13.
- (1A) A **dispatchable load purchaser** must obtain and maintain **certification** in accordance with Schedule 15.1 in order to be permitted to perform, or to have performed by way of an agent or agents, any of the following functions in compliance with this Code:
- (a) gathering and storing **raw meter data**:
 - (b) creating and managing (including validating, estimating, storing, correcting, and archiving)—
 - (i) **half hour volume information**; or
 - (ii) non **half hour volume information**; or
 - (iii) **half hour** and non **half hour volume information**; or

- (iv) **dispatchable load information:**
- (c) providing **dispatchable load information**.
- (1B) For the purposes of subclause (1A), each reference to a **reconciliation participant** in Schedule 15.1 is to be read as a reference to a **dispatchable load purchaser**.
- ~~(2) To avoid doubt, the performance of any of the functions in subclause (1) by a **reconciliation participant**, or its agent or agents, without the **reconciliation participant** having **certification**, is a breach of this Code by the **reconciliation participant**.~~

15.38A Reconciliation participants and dispatchable load purchasers to obtain quality certifications

Each **reconciliation participant** and each **dispatchable load purchaser** must, no later than 2 months before the date on which the **reconciliation participant** or **dispatchable load purchaser** intends to be **certified** in accordance with Schedule 15.1, obtain 1 of the following forms of quality certification:

- (a) AS/NZS ISO 9001:2008:
- (b) a quality certification that the **Authority** deems to be equivalent to AS/NZS ISO 9001:2008.

...

Schedule 15.1 ~~Audit and~~ Certification processes

1 Contents of this Schedule

This Schedule sets out—

- ~~(a) the processes by which **audits** must be undertaken by **reconciliation participants**; and~~
- (b) the requirement for **reconciliation participants** to be **certified** to perform the functions specified in clause 15.38, and the process for obtaining and renewing that **certification**; and
- ~~(c) the processes by which **Authority audits** and **audits** requested by **participants** are undertaken.~~

2 Requirement for certification

- (1) Despite clause 15.38(1) anything else in this Code, a **reconciliation participant** that ~~who~~ is required to obtain **certification** under clause 15.38 must obtain **certification** in accordance with this Schedule no later than—

- (a) in the case of a **reconciliation participant** that is recorded in the **registry** as being responsible for fewer than 100 **ICPs** of the kind described in subclause (2), 12 months after the **reconciliation participant** first performs a function specified in clause 15.38(1); or
- (b) in every other case, the later of—
 - (i) ~~no later than 36 calendar months after the date on which the that~~ **reconciliation participant** first performs a function specified in clause 15.38(1); or becomes a **reconciliation participant** in accordance with this Code.
 - (ii) the date on which the **reconciliation participant** is recorded in the **registry** as being responsible for more than 100 **ICPs** of the kind described in subclause (2).

- (2) The kind of **ICP** referred to in subclause (1) is an **ICP** at which there is—

- (a) 1 or more **category 1 metering installations** and no other kind of **metering installation**; and
- (b) no **unmetered load**.

2A Reconciliation participants to obtain Authority approval before performing certain functions

- (1) A **reconciliation participant** that proposes to perform a function listed in clause 15.38(1) without obtaining **certification** (in reliance on clause 2) must obtain the **Authority's** prior approval.
- (2) The **Authority** must give its approval if it is satisfied, on the basis of information provided to it by the **reconciliation participant**, that the **reconciliation**

participant complies with such of the requirements specified in subclause (3) as are relevant to the **reconciliation participant**.

- (3) The requirements are that the **reconciliation participant** must—
- (a) be capable of producing **submission information** accurately;
 - (b) be capable of performing the functions described in clause 15.38(1)(d);
 - (c) be capable of switching an **ICP** in accordance with Schedule 11.3;
 - (d) be capable of managing an **ICP** in accordance with Schedule 11.1;
 - (e) understand its obligations under the Code.

3 Performance of reconciliation participant's obligations by agent

A **reconciliation participant** may perform any obligation under this Schedule by an agent, and for that purpose, every act or omission of a **reconciliation participant's** agent is deemed to be an act or omission of the **reconciliation participant**.

4 Obtaining certification

- (1) A **reconciliation participant** requiring **certification** to perform the functions specified in clause 15.38 must apply in writing to the **Authority** in the **prescribed form**, at least 2 months before the intended date of **certification**.
- (2) The **reconciliation participant** must promptly provide such other information as the **Authority** may reasonably request.
- (3) The **reconciliation participant** must indicate to the **Authority** the information gathering, processing and management functions it intends to perform and who it intends to use to perform those functions.

5 Granting certification

- (1) The **Authority** must grant **certification** to a **reconciliation participant** only if—
 - (a) the **Authority** is satisfied, on the basis of an **audit** report provided to the **Authority** under Part 15A clause 44, that the **reconciliation participant** meets the requirements relevant to the functions specified in clause 15.38 for which the **reconciliation participant** is seeking **certification**; and
 - ~~(b) the **reconciliation participant** has 1 or more of the following forms of quality certification:~~
 - ~~(i) AS/NZS ISO 9001:2000;~~
 - ~~(ii) AS/NZS ISO 9001:2008;~~
 - ~~(iii) a quality certification that the **Authority** deems to be equivalent to AS/NZS ISO 9001:2000 or AS/NZS ISO 9001:2008.~~
- (1A) In determining whether to grant **certification**, the **Authority** must have regard to whether the **reconciliation participant** has the quality certifications required under clause 15.38A.
- (2) A **reconciliation participant** is responsible for appointing an **auditor** to undertake the **audit** required by subclause (1).

- ~~(3) A **reconciliation participant** is responsible for the costs of the **audit** required by subclause (1).~~

6 Lists of certified reconciliation participants and agents

The **Authority** must ~~publish~~**publicise**, and keep updated—

- (a) a list of **certified reconciliation participants**, that includes, for each **reconciliation participant**, the date on which the **certification** expires and the period for which each **reconciliation participant** is **certified**; and
- ~~(b) a list of agents used by **certified reconciliation participants**.~~

7 Renewal of certification

- (1) **Certification** must not be granted for a term of more than 24~~42~~ calendar months.
- (2) The **Authority** must renew a **reconciliation participant's certification** for a further term of not more than 24~~42~~ calendar months if the **Authority** is satisfied on the basis of an **audit** report provided to the **Authority** under Part 15A~~clause 44~~ that the **reconciliation participant** continues to meet the requirements specified in clause 5.

8 Changes that affect certification

- ~~(1) If a **reconciliation participant** intends to make a change to any of its facilities, processes or procedures that the **reconciliation participant** considers is material, the **reconciliation participant** must, at least 5 **business days** before the change is to take place,—~~
 - ~~(a) notify the **Authority** of the change; and~~
 - ~~(b) submit to the **Authority** an **audit** report confirming that, after the change has come into effect, the **reconciliation participant** will continue to meet the requirements specified in clause 5.~~
- (1A) If there is a material change to a **reconciliation participant's** systems or processes such that an **audit** is required under clause 15A.11, the **Authority** must, on receiving the **audit** report required by that clause, decide whether to continue the **reconciliation participant's certification**.
- (2) The **Authority** must, by notice to the **reconciliation participant**, continue ~~the~~**a **reconciliation participant's certification**** if the **Authority** is satisfied that the **reconciliation participant** will continue to meet the requirements in clause 5 after the change has come into effect.
- (3) A **reconciliation participant's certification** is deemed to be revoked if—
 - (a) a **reconciliation participant** fails to provide an **audit** report to the **Authority** in accordance with clause 15A.11~~give the notice required by subclause (1)~~; or
 - (b) the **Authority** notifies the **reconciliation participant** that the **Authority** is not satisfied that the **reconciliation participant** will continue to meet the requirements in clause 5 after the change has come into effect.

8A Timeframe for auditing a change extended

- (1) This clause applies if a **reconciliation participant** intends to make a change to any of its facilities, processes, or procedures that—
 - (a) the **reconciliation participant** considers is material; and
 - (b) is required to implement the Electricity Industry Participation (Metering Arrangements) Code Amendment 2011.
- (2) Despite clause 8(1), a **reconciliation participant** must, no later than 4 months after the amendment comes into force—
 - (a) notify the **Authority** of the change; and
 - (b) submit to the **Authority** an **audit** report confirming that, after the change came into effect, the **reconciliation participant** continued to meet the requirements specified in clause 5.
- (3) Despite clause 8(3), a **reconciliation participant's certification** is only deemed to be revoked if—
 - (a) the **reconciliation participant** fails to give the advice required by subclause (2); or
 - (b) the **Authority** advises the **reconciliation participant** that the **Authority** is not satisfied that the **reconciliation participant** continued to meet the requirements in clause 5 after the change came into effect.
- (4) To avoid doubt, if this clause applies, the **Authority** must comply with clause 8(2).

9 Auditors

- (1) The **Authority** may, from time to time, approve persons to act as, and to perform the functions of, **auditors**, for particular types of **audits**, in accordance with this Code.
- (2) An approval may (but does not have to) be given by the **Authority**, at its absolute discretion. If approval is given, it will last for 2 years from the date of the approval unless it is withdrawn in accordance with subclause (8).
- (3) An **auditor** must be approved, in accordance with this clause, at the time it carries out an **audit**, and must not have received notification from the **Authority** of the withdrawal of the approval.
- (4) A person applying to the **Authority** for approval, or the renewal of an existing approval, as an **auditor**—
 - (a) must use the **prescribed form**; and
 - (b) must respond to the **Authority**, as quickly as practicable, providing any clarification, further data or information that the **Authority** may request.
- (5) The **Authority** has not more than 2 calendar months from the date on which the completed application is received by the **Authority**, to assess, and if in the **Authority's** view it is appropriate, to approve, the application.
- (6) The **Authority** may require the person to attend such interviews and undertake such examinations as the **Authority** thinks fit.

- (7) ~~The **Authority** must **publish**, and keep updated, a list of **auditors** approved for particular types of **audits**.~~
- (8) ~~The **Authority** may, at any time with immediate effect by giving written notice, remove an **auditor** from the list of approved **auditors**.~~
- (9) ~~The removal of an **auditor** does not invalidate any **audit** previously completed by the **auditor**. However, any **audits** in progress on or completed after the date on which the **auditor** is removed from the list of approved **auditors** is not a valid **audit** for the purposes of this Code.~~

10—Audits

~~A **reconciliation participant** must ensure that an **auditor** undertaking an **audit** in accordance with this Part complies with the following requirements:~~

- ~~(a) the **audit** report must be in the **prescribed form**;~~
- ~~(b) the **auditor** must send a draft of the **audit** report setting out the provisional findings of the **audit** to the **reconciliation participant** to whom the **audit** relates;~~
- ~~(c) the **auditor** must give the **reconciliation participant** a reasonable opportunity to comment on the draft of the **audit** report;~~
- ~~(d) the **auditor** must consider any comments it receives from the **reconciliation participant** about the draft of the **audit** report;~~
- ~~(e) the **auditor** must produce a final **audit** report and provide that report to the **reconciliation participant**;~~
- ~~(f) the final **audit** report must—~~
 - ~~(i) specify conditions (if any) that the **auditor** considers the **reconciliation participant** must satisfy in order for the **reconciliation participant** to comply with this Code, and any action that the **reconciliation participant** has taken in respect of those conditions; and~~
 - ~~(ii) include a list of all agents engaged by the **reconciliation participant** to perform the functions specified in clause 15.38, and details of the functions that each of those agents performs; and~~
 - ~~(iii) include a summary that specifies—~~
 - ~~(A) the date of the **audit** report; and~~
 - ~~(B) the name of the **audited reconciliation participant** or agent; and~~
 - ~~(C) the scope of the **audit**; and~~
 - ~~(D) whether or not the **audit** established that the processes and procedures comply with this Code; and~~
 - ~~(E) the name of the **auditor**.~~

11—Audit reports provided to Authority

- ~~(1) A **reconciliation participant** who is applying for **certification** or renewal of **certification** must provide a copy of the final **audit** report that relates to the~~

~~reconciliation participant's~~ application to the **Authority** at least 2 months before the intended date of **certification** or renewal of **certification**.

- ~~(2) The **Authority** must publish the summary required under clause 10(f)(iii).~~
- ~~(3) Except for the summary referred to in subclause (2), an **audit** report is confidential to the **reconciliation participant**, the **auditor**, and the **Authority**, unless otherwise agreed between the **reconciliation participant** and the **Authority**.~~

12—Authority and participant requested audits

- ~~(1) If at any time the **Authority** reasonably considers that a **participant** may not have complied with a clause in this Part or Part 11, the **Authority** may **audit** the **participant** or appoint an auditor to carry out an **audit**.~~
- ~~(2) If a **participant** reasonably considers that another **participant** may have not complied with a clause in this Part or Part 11, the **participant** may request in writing to the **Authority** that the **Authority** **audit** the **participant** or that the **Authority** appoints an **auditor** to carry out an **audit**.~~

12A Auditor for audits

An **audit** must be undertaken by—

- (a) the **Authority**; or
- (b) an **auditor** included in the list of approved **auditors** published by the **Authority** under clause 9(7) as being approved for the type of **audit** required under clause 12.

13—Scope of audits

~~An **audit** must address such matters as the **Authority** reasonably requires, having regard to the reasons for which the **Authority** considers that the **audit** is required under clause 12, and any matters that arise during the **audit**.~~

14—Authority may request information

~~The **Authority** or its **auditor** may request additional information and carry out inspections of the **participant** alleged to be in breach and **audit** the **participant's** facilities, processes, procedures, and any other relevant items used by the **participant** that the **Authority** considers necessary to enable it or the **auditor** to carry out the **audit** and, if appropriate, make recommendations to the **Authority**.~~

15—Participants to provide access and information

~~A **participant** must provide the **Authority** or an **auditor** appointed by the **Authority** for this purpose full access to all relevant facilities, processes, procedures and other relevant items, personnel, records and manuals at any time within normal working hours, and must provide to the **Authority** or **auditor**~~

(as the case may be) any additional information that the **Authority** or **auditor** reasonably considers is necessary.

16—Production of audit report

The **Authority**, or, if relevant the **auditor**, must produce an **audit** report that addresses the matters required of it and identifies, if the **Authority** so requires, the extent to which the **participant** alleged to be in breach, complied with this Part or Part 11, both at the time of the **audit** and historically, and also identify any areas for improvement.

17—Authority to make determination

- (1) After consideration of the **audit** finding or any other input as deemed appropriate, the **Authority** must determine any instances of non-compliance and report back to the non-compliant **participant**.
- (2) Details of action that has been taken by the non-compliant **participant** to correct a non-compliance must be submitted to the **Authority** by that **participant** no later than 10 **business days** after the **participant** receives the report.

18—Authority to publish summary of audit report

—The **Authority** must publish a summary of the **audit** report, including if appropriate, any responses from the **participant**.

19—Costs of audit

Despite clause 5(3), the costs of an **audit** carried out in accordance with clauses 12 to 18 must be paid as follows:

- (a) if an **audit** establishes to the satisfaction of the **Authority** that the **participant** alleged to be in breach has not committed the alleged breach—
 - (i) for an **audit** carried out in accordance with clause 12(1), the **Authority** is responsible for the costs of the **audit**; and
 - (ii) for an **audit** carried out in accordance with clause 12(2), the **participant** who requested the **audit** is responsible for the costs of the **audit**;
- (b) if an **audit** establishes, to the satisfaction of the **Authority**, that the **participant** alleged to be in breach has committed the alleged breach, the costs of the **audit** must be paid by—
 - (i) for an **audit** carried out in accordance with clause 12(1), the **participant** who is the subject of the **audit** and the **Authority**, in proportions determined by the **Authority**; and
 - (ii) for an **audit** carried out in accordance with clause 12(2), the **participant** who is the subject of the **audit** and the **participant** who requested the **audit**, in proportions determined by the **Authority**.

...

Schedule 15.3

Calculation and provision of submission information

...

11 Distributed unmetered load database

- (1) A **retailer** must ensure that an up-to-date database is maintained for each type of **distributed unmetered load** for which it is responsible. The methodology for deriving **submission information** in the database must comply with Schedule 15.5.
- (2) The database must contain at a minimum—
 - (a) the item or items of **distributed unmetered load** associated with each **ICP identifier** associated with the ~~distributed unmetered load~~; and
 - (b) the location of each item ~~of load~~; and
 - (c) a description of load type for each item ~~of load~~ including any assumptions made in the assessment of its capacity; and
 - (d) the capacity of each item ~~of load~~ in kW.
- (2A) Each **retailer** must ensure that each item of **distributed unmetered load** for which the **retailer** is responsible is recorded in the database in accordance with this clause.
- (3) The database must track the time of additions and changes in a way that enables the total load in kW to be retrospectively derived for any day.
- (4) The database must incorporate an audit trail of all additions and changes identifying the before and after values for changes, date and time of the change or addition, and the person making the change or addition.
- ~~(5) The annual **audit** of a **reconciliation participant** who is a **retailer** in accordance with Schedule 15.1 must include an **audit** of the databases of **distributed unmetered load** to verify that the **volume information** is being calculated accurately and that **profiles** have been correctly applied.~~

...

New Part 15A

Audits

15A.1 Contents of this Part

This Part specifies the requirements that must be followed in respect of **audits** required under the following clauses:

- (a) 10.17A (Metering equipment providers and ATHs to arrange for regular audits):
- (b) 10.17B (Authority and participant requested audits):
- (c) 11.8B (Metering equipment providers to arrange for regular audits):
- (d) 11.10 (Distributors to arrange for regular audits):
- (e) 11.11 (Authority and participant requested audits):
- (f) 15.37A (Reconciliation participants and dispatchable load purchasers to arrange for regular audits):
- (g) 15.37B (Retailers to arrange for audits in respect of distributed unmetered load):
- (h) 15.37C (Authority and participant requested audits).

Subpart 1—Conduct of audits generally

15A.2 Auditors

- (1) An **audit** must be undertaken by—
 - (a) the **Authority**; or
 - (b) an **auditor** appointed by the **participant** that is the subject of the proposed **audit**, from the list of **auditors publicised** by the **Authority** under clause 15A.5(6).
- (2) A **participant** that is the subject of a proposed **audit** must advise the **Authority** in writing of the name of the **auditor** that it has appointed no later than 15 **business days** before the **audit** commences.
- (3) Despite subclause (1)(b), if an **audit** is carried out under clause 10.17B, 11.11, or 15.37C,—
 - (a) the **Authority** must carry out the **audit** or appoint an **auditor** to carry out the **audit**; and
 - (b) an **auditor** appointed by the **Authority** need not be an **auditor** from the list of **auditors publicised** by the **Authority** under clause 15A.5(6).

15A.3 Authority may reject auditors

- (1) Despite clause 15A.2(1)(b), the **Authority** may reject a **participant's** choice of **auditor** if the **Authority** considers that the **auditor** is not suitable to carry out the **audit** that it is proposed that the **auditor** carry out, for example because of a conflict of interest.
- (2) If the **Authority** exercises its power under subclause (1), it must—
 - (a) do so no later than 5 **business days** after being advised of the name of the **auditor** that the **participant** has appointed; and

- (b) give its reasons for doing so.
- (3) If the **Authority** rejects a **participant's** choice of **auditor**, the **participant** must appoint another **auditor**, and clause 15A.2 and this clause apply to the appointment of that **auditor**.

15A.4 Participants to give access

- (1) A **participant** must give the **Authority** or an **auditor** full access to all information that may be required for the purposes of carrying out an **audit**.
- (2) The **participant** must provide the information—
 - (a) at no charge; and
 - (b) no later than 15 **business days** after receiving a request for the information from the **Authority** or an **auditor**, as the case may be.

15A.5 Approval of auditors by the Authority

- (1) The **Authority**—
 - (a) may approve a person to be an **auditor**; and
 - (b) must specify the types of **audits** for which each such person is approved.
- (2) An applicant for approval as an **auditor**, or renewal of an existing approval, must apply to the **Authority** using the **prescribed form**.
- (3) The **Authority** may require an applicant to do any or all of the following:
 - (a) provide additional information or clarify any information provided;
 - (b) attend an interview;
 - (c) undertake an examination.
- (4) The **Authority** must, no later than 2 months after receiving an application and, if applicable, the applicant has complied with subclause (3)—
 - (a) make a decision in relation to the application; and
 - (b) advise the applicant of the decision.
- (5) If the **Authority** approves an application, the **Authority** must specify the date on which the approval expires in its advice to the applicant under subclause (4)(b), which must not be more than 36 months after the date of the approval.
- (6) The **Authority** must **publicise**, and keep updated, a list of the **auditors** that the **Authority** has approved, and the types of **audits** for which each **auditor** is approved.

15A.6 Expiry and cancellation of approval

- (1) An **auditor's** approval expires on the date specified for its expiry under clause 15A.5(5).
- (2) The **Authority** may cancel an **auditor's** approval at any time by advising the **auditor** in writing.
- (3) The cancellation or expiry of an **auditor's** approval does not invalidate an **audit** previously completed by the **auditor**, but an **audit** completed after the date on which the **Authority** cancelled the **auditor's** approval, or after the date on

which the **auditor's** approval expired, is not a valid **audit** for the purposes of this Code.

15A.7 Participant not to use same auditor more than twice consecutively

- (1) A **participant** must not appoint an **auditor** to carry out a type of **audit** if the **auditor** has performed the last 2 **audits** of that type in respect of the **participant**.
- (2) For the purposes of subclause (1), a type of **audit** refers to an **audit** under any 1 of paragraphs (a), (c), (d), (f) or (g) of clause 15A.1.

15A.8 Combined audits

- (1) A **participant** that is required to carry out an **audit** in accordance with this Part under more than 1 clause of this Code must arrange for a single **audit** report to be completed in respect of all of its obligations that relate to its role as a single type of industry **participant** or industry service provider.
- (2) A **participant** that is required to carry out an **audit** in accordance with this Part in relation to more than 1 of its roles as an industry **participant** or industry service provider must arrange for a separate **audit** report to be completed in respect of its obligations for each of those roles.
- (3) For example, a **participant** that is both a **metering equipment provider** and a **reconciliation participant**—
 - (a) must arrange for a single **audit** report to be completed that relates to all of its obligations as a **metering equipment provider**; and
 - (b) must arrange for a separate **audit** report to be completed that relates to its obligations as a **reconciliation participant**.
- (4) Despite subclauses (1) and (2), a **retailer** that is responsible for **distributed unmetered load** must ensure that a separate **audit** report is completed in respect of the **distributed unmetered load** from any other **audit** report required under this Code.

15A.9 Authority may specify emphasis or scope of audit

- (1) If the **Authority** advises a **participant** that it requires an **audit** to give emphasis to any aspect of the **participant's** systems or processes, the **participant** must instruct the **auditor** to give emphasis to those aspects in the **audit** report.
- (2) If an **audit** is carried out under clause 10.17B, 11.11, or 15.37C, the **Authority** may specify the scope of the **audit**.

15A.10 Agent audits

If a **participant** appoints an agent to perform any of the **participant's** obligations under this Code in respect of which an **audit** is required under the any of the clauses specified in clause 15A.1, the **auditor** carrying out the **audit** of the **participant** must ensure that—

- (a) the agent has been **audited** to a standard that would have been required if the **participant** had performed the obligations itself; and

- (b) the information produced as a result of the **audit** of the agent is included in the **auditor's audit** report produced under clause 15A.12.

15A.11 Audit required if participant makes material change

- (1) If there is a material change to any of a **participant's** systems or processes that are the subject of regular **audits** under clause 10.17A, 11.8B, 11.10, 15.37A or 15.37B, the **participant** must arrange for an additional **audit** to be completed in accordance with this Part no later than 5 **business days** before the change is proposed to be implemented.
- (2) For the purposes of subclause (1), a material change to a system or process is a change that could affect the ability of the **participant** to comply with any relevant provision of the Code.
- (3) Examples of a material change include the following:
 - (a) a **participant** deciding to outsource the performance of a function that the **participant** previously performed itself:
 - (b) a **reconciliation participant**—
 - (i) changing the software it uses to comply with obligations under this Code to which an **audit** relates; or
 - (ii) updating its system to accommodate additional **registry** file formats;
 - or
 - (iii) updating its algorithm for the calculation of **ICP days**:
 - (c) a **distributor** changing the process it follows in relation to new **connections**.

15A.12 Process for completion of audits

- (1) Subject to subclause (2), a **participant** that is the subject of an **audit** must ensure that the **auditor** carrying out the **audit** complies with the following requirements:
 - (a) the **audit** report must be in the **prescribed form**:
 - (b) the **auditor** must send a draft of the **audit** report, setting out the provisional findings of the **audit**, to—
 - (i) the **participant** that is the subject of the **audit**; and
 - (ii) the **Authority**:
 - (c) the **auditor** must consider any comments it receives from the **participant** and the **Authority** about the draft **audit** report:
 - (d) the **auditor** must produce a final **audit** report and give the report to the **participant** after considering any comments under paragraph (c):
 - (e) the final **audit** report must—
 - (i) list each agent engaged by the **participant** to perform any of the **participant's** activities under the relevant provisions of the Code, and details of the obligations that the agent performs; and
 - (ii) identify, in relation to the relevant period, the extent to which the **participant** has failed to comply with the provisions of the Code to which the **audit** relates; and
 - (iii) identify any areas for improvement; and

- (iv) specify any conditions that the **auditor** considers the **participant** must satisfy in order to comply with the provisions of the Code to which the **audit** relates, and any action that the **participant** has taken in respect of those conditions; and
 - (v) include a recommendation as to the date by which the **auditor** considers that the **participant** should complete its next **audit**; and
 - (vi) include any of the **participant's** comments on the draft **audit** report that the **auditor** considers relevant.
- (2) If the **Authority** carries out the **audit**, or appoints an **auditor** to carry out the **audit**, the **Authority** must ensure that the requirements specified in subclause (1) are complied with.

15A.13 Participants to give final audit report and compliance plan to the Authority

- (1) A **participant** must give the final **audit** report to the **Authority** no later than the date by which the **audit** is due to be completed.
- (2) Each **participant** must submit a compliance plan to the **Authority** when it gives a final **audit** report to the **Authority** under subclause (1).
- (3) Each compliance plan and **audit** report must be in the **prescribed form**.
- (4) Each compliance plan must specify—
 - (a) the actions that the **participant** intends to take to address any issues identified in the **audit** report; and
 - (b) the time frames within which the **participant** intends to complete those actions.
- (5) Subclause (2) does not apply if the relevant **audit** report in relation to a **participant** identifies no breaches or potential breaches of the Code.

15A.14 Authority to make determination as to next audit date

- (1) The **Authority** must, after receiving a final **audit** report and compliance plan (if any) from a **participant**, advise the **participant** of the date by which the next **audit** of the **participant** must be completed, which must be—
 - (a) no earlier than 3 months after the date on which the **Authority** advises the **participant** under this subclause; and
 - (b) no later than 36 months after the date of the last **audit**.
- (2) For the purposes of subclause (1) and clauses 15A.17, 15A.19, 15A.21, 15A.23, 15A.24, and 15A.25, an **audit** is complete when the **participant** that is the subject of the **audit** gives the **Authority** the final **audit** report and a compliance plan (if any) under clause 15A.13.
- (3) This clause does not apply to **audits** carried out under clause 10.17B, 11.11, 15.37C, or 15A.11.

15A.15 Authority to publicise information

- (1) The **Authority** must **publicise** the following information no later than 20 **business days** after receiving it:
 - (a) each final **audit** report received under clause 15A.13;
 - (b) the compliance plan (if any) that the relevant **participant** submitted in relation to each final **audit** report:

- (c) the date by which the next **audit** of the **participant** must be completed, as determined under clause 15A.14.
- (2) The **Authority** is not required to **publicise** information if doing so—
 - (a) would disclose a trade secret; or
 - (b) would be likely unreasonably to prejudice the commercial position of the person who supplied or is the subject of the information.

15A.16 Costs of audits

- (1) The cost of an **audit** carried out under clause 10.17A, 11.8B, 11.10, 15.37A, 15.37B, or 15A.11 must be met by the **participant** that is the subject of the **audit**.
- (2) The cost of an **audit** carried out under clause 10.17B, 11.11, or 15.37C must be met in accordance with subclauses (3) to (5).
- (3) If an **audit** establishes that the **participant** that was the subject of the **audit** has breached the relevant provisions of the Code, the cost of the **audit** must be met by—
 - (a) in respect of an **audit** carried out as a result of the **Authority** initiating the **audit**, the **participant** that was the subject of the **audit** and the **Authority**, in proportions to be determined by the **Authority**;
 - (b) in respect of an **audit** carried out in response to a request to the **Authority** under clause 10.17B(2), 11.11(2), or 15.37C(2), the **participant** that was the subject of the **audit** and the **participant** that requested the **audit**, in proportions to be determined by the **Authority**.
- (4) If the **audit** establishes that the **participant** that was the subject of the **audit** has not breached the relevant provisions of the Code, or if there was a breach but the **Authority** considers it to be minor, the cost of the **audit** must be met by—
 - (a) in respect of an **audit** carried out as a result of the **Authority** initiating the **audit**, the **Authority**;
 - (b) in respect of an **audit** carried out in response to a request to the **Authority** under clause 10.17B(2), 11.11(2), or 15.37C(2), the **participant** that was the subject of the **audit** and the **participant** that requested the **audit**, in proportions to be determined by the **Authority**.
- (5) The costs under subclauses (3) and (4)(b) must be paid by the **participants** no later than 10 **business days** after being advised of the amount owing.

Subpart 2—Metering equipment provider audits

15A.17 Time frame for metering equipment provider audits

In relation to **audits** required under clauses 10.17A and 11.8B, a **metering equipment provider** must ensure that—

- (a) an initial **audit** is completed no later than 3 months after the date on which the **metering equipment provider's** obligations under Part 10 commence in accordance with clause 10.19; and

- (b) further **audits** are completed as specified by the **Authority** under clause 15A.14.

15A.18 Additional requirements for metering equipment provider audits

In addition to the requirements specified in clauses 15A.2 to 15A.16, a **metering equipment provider** must ensure that an **auditor** carrying out an **audit** required under clause 10.17A or 11.8B **audits**—

- (a) the management and maintenance of each **metering installation** for which the **metering equipment provider** is responsible, including—
 - (i) maintenance of **metering records**; and
 - (ii) maintenance of **metering components**; and
 - (iii) **certification of metering components and metering installations**; and
 - (iv) **metering installations** that have been **certified** at a lower category under clause 6 of Schedule 10.7; and
 - (v) inspections of **metering installations** in accordance with this Code; and
 - (vi) investigations under clause 10.43(4); and
- (b) the **metering equipment provider's** provision of **metering records** to—
 - (i) the **registry**; and
 - (ii) the **reconciliation manager**; and
- (c) the **metering equipment provider's** provision of access under Part 10 to—
 - (i) **raw meter data**;
 - (ii) **metering records**;
 - (iii) the **metering installation**; and
- (d) the security of—
 - (i) each **metering installation** for which the **metering equipment provider** is responsible; and
 - (ii) if relevant, the **metering equipment provider's back office**; and
 - (iii) if relevant, the **communication between the metering equipment provider's back office and the metering installation**.

Subpart 3—ATH audits

15A.19 Time frame for ATH audits

In relation to **audits** required under clause 10.17A, an **ATH** (or an applicant for approval as an **ATH**) must ensure that—

- (a) an initial **audit** is completed no later than 2 months before the date on which the **ATH** (or the applicant for approval as an **ATH**) intends to be approved as an **ATH** under clause 1 of Schedule 10.3; and
- (b) further **audits** are completed as specified by the **Authority** under clause 15A.14.

15A.20 Additional requirements for class B ATH audits

In addition to the requirements specified in clauses 15A.2 to 15A.16, a **class B ATH** (or an applicant for approval as a **class B ATH**) must ensure that the **auditor** carrying out an **audit audits** the **class B ATH** (or the applicant) in respect of the requirements of NZ/AS ISO 17025 for **calibration** that apply to the performance of the functions for which the **class B ATH** (or the applicant) is being **audited**.

Subpart 4—Distributor audits

15A.21 Time frame for distributor audits

In relation to **audits** required under clause 11.10, an **distributor** must ensure that—

- (a) an initial **audit** is completed no later than 3 months after the date on which the **distributor** has the first **NSP identifier** or **ICP identifier** recorded on the **registry** as being part of the **distributor's network**; and
- (b) further **audits** are completed as specified by the **Authority** under clause 15A.14.

15A.22 Additional requirements for distributor audits

In addition to the requirements specified in clauses 15A.2 to 15A.16, a **distributor** must ensure that the **auditor** carrying out an **audit audits** the **distributor's** processes and procedures in relation to—

- (a) the creation of **ICP identifiers** for **ICPs**; and
- (b) the provision of **ICP** information to the **registry** and the maintenance of that information; and
- (c) the creation and maintenance of **loss factors**.

Subpart 5—Reconciliation participant audits

15A.23 Time frame for reconciliation participant audits

In relation to **audits** required under clause 15.37A, a **reconciliation participant** (or an applicant for **certification** as a **reconciliation participant**) must ensure that—

- (a) an initial **audit** is completed no later than 2 months before the date on which the **reconciliation participant** (or the applicant for **certification** as a **reconciliation participant**) is required to be **certified** as a **reconciliation participant** under clause 2 of Schedule 15.1; and
- (b) further **audits** are completed as specified by the **Authority** under clause 15A.14.

Subpart 6—Dispatchable load purchaser audits

15A.24 Time frame for dispatchable load purchaser audits

In relation to **audits** required under clause 15.37A, a **dispatchable load purchaser** must ensure that—

- (a) an initial **audit** is completed no later than 4 months after the date on which the **system operator** approves the first device or group of devices in respect of the **purchaser** to be a **dispatch-capable load station** under clause 13.3A; and
- (b) further **audits** are completed as specified by the **Authority** under clause 15A.14.

Subpart 7—Distributed unmetered load audits

15A.25 Time frame for distributed unmetered load audits

- (1) In relation to database **audits** required under clause 15.37B(a), a **retailer** that is responsible for **distributed unmetered load** must ensure that—
 - (a) an initial **audit** is carried out in respect of the **distributed unmetered load** no later than 3 months after the date on which information about an **ICP** associated with the **distributed unmetered load** is first provided by the **retailer** to the **reconciliation manager** as **submission information** under clause 15.4; and
 - (b) further **audits** are completed as specified by the **Authority** under clause 15A.14.
- (2) In relation to field **audits** required under clause 15.37B(b), a **retailer** that is responsible for **distributed unmetered load** must ensure that—
 - (a) an initial **audit** is carried out in respect of the **distributed unmetered load** no later than 3 months after the date on which the initial **audit** under clause 15.37B(a) was completed; and
 - (b) further **audits** are completed as specified by the **Authority** under clause 15A.14.
- (3) If responsibility for **distributed unmetered load** switches from one **retailer** to another, the **retailer** to which the responsibility switches must ensure that **audits** are completed in respect of the **distributed unmetered load** on the dates that would apply if the switch had not occurred.

Changes to Part 17

Transitional provisions relating to Part 15A

17.291A Metering equipment provider audits

- (1) If, on the date that the *[name of amendment]* comes into force, the **Authority** has specified a date under clause 1(1)(b) of Schedule 10.5 by which a **metering equipment provider** must ensure that an **audit** is carried out, the **metering equipment provider** must ensure that an **audit** is completed in accordance with Part 15A by the later of—

 - (a) the date that the **Authority** has specified; or
 - (b) the date that is 1 month after the date that the *[name of amendment]* comes into force.
- (2) If, on the date that the *[name of amendment]* comes into force, the **Authority** has not specified a date under clause 1(1)(b) of Schedule 10.5 by which a **metering equipment provider** must ensure that an **audit** is carried out,—

 - (a) the **Authority** must, no later than 1 month after the date that the *[name of amendment]* comes into force, specify a date by which the **metering equipment provider** must ensure that an **audit** is carried out in accordance with Part 15A; and
 - (b) the **metering equipment provider** must comply with that requirement.
- (3) Clause 15A.17 applies to a **metering equipment provider** to which subclauses (1) or (2) apply as if the **audit** completed under those subclauses were the initial **audit** required under clause 15A.17(a).

17.291B ATH audits

- (1) If, on the date that the *[name of amendment]* comes into force, the **Authority** has specified a date under clause 1(4)(c) of Schedule 10.3 by which an **ATH** must ensure that an **audit** is carried out, the **ATH** must ensure that an **audit** is completed in accordance with Part 15A by the later of—

 - (a) the date that the **Authority** has specified; or
 - (b) the date that is 1 month after the date that the *[name of amendment]* comes into force.
- (2) If, on the date that the *[name of amendment]* comes into force, the **Authority** has not specified a date under clause 1(4)(c) of Schedule 10.3 by which an **ATH** must ensure that an **audit** is carried out,—

 - (a) the **Authority** must, no later than 1 month after the date that the *[name of amendment]* comes into force, specify a date by which the **ATH** must ensure that an **audit** is carried out in accordance with Part 15A; and
 - (b) the **ATH** must comply with that requirement.
- (3) Clause 15A.19 applies to an **ATH** to which subclauses (1) or (2) apply as if the **audit** completed under those subclauses were the initial **audit** required under clause 15A.19(a).

17.291C Distributor audits

- (1) If, immediately before the *[name of amendment]* comes into force, a **distributor** was required to arrange for an **audit** to be completed by a date determined in accordance with clause 11.10(1)(b), the **distributor** must ensure that an **audit** is completed in accordance with Part 15A by the later of—
- (a) the date determined in accordance with clause 11.10(1)(b); or
 - (b) the date that is 1 month after the date that the *[name of amendment]* comes into force.
- (2) Clause 15A.21 applies to a **distributor** to which subclause (1) applies as if the **audit** completed under that subclause were the initial **audit** required under clause 15A.21(a).

17.291D Reconciliation participant audits

- (1) If, immediately before the *[name of amendment]* comes into force, a **reconciliation participant** was required to provide a final **audit** report to the **Authority** by a date determined in accordance with clause 11(1) of Schedule 15.1, the **reconciliation participant** must ensure that an **audit** is completed in accordance with Part 15A by the later of—
- (a) the date determined in accordance with clause 11(1) of Schedule 15.1; or
 - (b) the date that is 1 month after the date that the *[name of amendment]* comes into force.
- (2) Clause 15A.23 applies to a **reconciliation participant** to which subclause (1) applies as if the **audit** completed under that subclause were the initial **audit** required under clause 15A.23(a).

17.291E Dispatchable load purchaser audits

- (1) If, immediately before the *[name of amendment]* comes into force, a **dispatchable load purchaser** was required to provide a final **audit** report to the **Authority** by a date determined in accordance with clause 11(1) of Schedule 15.1, the **dispatchable load purchaser** must ensure that an **audit** is completed in accordance with Part 15A by the later of—
- (a) the date determined in accordance with clause 11(1) of Schedule 15.1; or
 - (b) the date that is 1 month after the date that the *[name of amendment]* comes into force.
- (2) Clause 15A.24 applies to a **dispatchable load purchaser** to which subclause (1) applies as if the **audit** completed under that subclause were the initial **audit** required under clause 15A.24(a).

17.291F Distributed unmetered load audits

- (1) A retailer that is responsible for **distributed unmetered load** on the date that *[name of amendment]* comes into force must ensure that an **audit** is completed in accordance with Part 15A no later than 12 months after that date.

- (2) Clause 15A.25(1) applies to a **retailer** to which subclause (1) applies as if the **audit** completed under that subclause were the initial **audit** required under clause 15A.25(1)(a).

Appendix B **Format for submissions**

Submitter	
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#	Question	Comment
Question 1	Do you agree the opportunities to improve the audit regime identified by the Authority are worthy of attention?	
Question 2	Do you agree that the problems identified with the existing purpose of the audit regime are correct? If not, why not?	
Question 3	Do you agree with the proposed purpose of the audit regime? If not, why not?	
Question 4	Do you agree with the proposed purpose of the audit regime being incorporated into guidelines but not the Code? If not, why not?	
Question 5	Do you agree with the problems identified with the governance arrangements of the audit regime? If not, why not?	
Question 6	Are there any other gaps in auditing best practices not identified here that should be addressed as part of this review?	
Question 7	Do you agree with the proposed use of tailored Auditor Protocol? If not, why not?	
Question 8	Do you have any feedback on the proposed tailored Auditor Protocol attached as Appendix D?	
Question 9	Do you agree with the proposal for the Authority to set audit scope, focus and materiality levels through risk-based planning? If not, why not?	

#	Question	Comment
Question 10	Do you agree with the proposed changes to auditor appointment? If not, why not?	
Question 11	Do you agree with the proposed Code amendments? If not, why not?	
Question 12	Do you agree with the issues identified in this section and that the proposed solutions adequately address the issues?	
Question 13	Are there any other solutions that the Authority should be considering in relation to the decision-making process?	
Question 14	Do you agree there is a need for improving education within the audit regime and has the issue been correctly identified?	
Question 15	What other improvements do you believe the Authority should consider?	
Question 16	Do you agree with the issues leading to the requirement to automate systems?	
Question 17	Do you agree with the requirement to automate systems? If not, why not?	
Question 18	Apart from the proposed solutions given in the table, are there any other improvements that the Authority should consider?	
Question 19	Do you agree with the issues identified in this section?	
Question 20	Are there other possible solutions that the Authority should consider in regards to the requirements to hold quality certification?	

#	Question	Comment
Question 21	Do you agree with the proposed solutions to assist new entrants? If not, why not?	
Question 22	Are there other possible solutions that the Authority should consider?	
Question 23	Do you agree with the issues identified in this section for DUML?	
Question 24	Are there other possible solutions that the Authority should consider in regards to DUML audits?	
Question 25	Do you agree with the objectives of the proposed amendment? If not, why not?	
Question 26	Can you see any options or implications that have not been considered as part of this consultation paper? If so please elaborate.	
Question 27	Do you consider that the Authority has captured all the costs of the proposed changes? If not, what other costs do you expect will be incurred due to the proposed changes?	
Question 28	Do you consider that the Authority has captured all the benefits of the proposed amendment? If not, what other benefits do you expect the proposed changes to lead to?	
Question 29	Do you agree the benefits of the proposed changes outweigh the costs? If not, why not?	
Question 30	Do you agree the proposed changes are preferable to the other options? If you disagree, please explain your preferred option in terms consistent with the Authority's statutory objective in section 15 of the Electricity Industry Act 2010.	

#	Question	Comment
Question 31	Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?	
Question 32	Do you have any comments on the drafting of the proposed amendment?	

Appendix C Summary of proposed changes to the audit regime

Area	Reference	Description	Proposed Changes	Impacts
Clarifying the purpose of the audit regime	A.1.1	Clarifying the purpose of the audit regime	<p>Define the purpose of the audit regime as: <i>The purpose of the audit regime is to</i></p> <ul style="list-style-type: none"> <i>evaluate participants' compliance with the Code and to ensure the ongoing accurate and efficient operation of the wholesale electricity market settlement process</i> <i>enable the Authority to make an informed decision regarding the certification, approval, and audit frequency of participants.</i> <p>Revoke the purpose of distributor audits as defined by clause 11.10(3) of the Code.</p>	<p>Auditor protocol (Appendix D)</p> <p>Proposed Code Amendments (Appendix A)</p> <p>Proposed participant audit guidelines</p>
Alignment with auditing best practices	B.1.1	Governance of the audit regime	Produce tailored auditor protocol incorporating relevant aspects of ISAE 3000 (NZ) that auditors must follow.	Auditor protocol (Appendix D)
	B.2.1	Approach used to focus effort	Authority to adopt a risk-based audit planning procedure.	Proposed risk-based planning procedure
	B.3.1	Appointment of auditors	<p>Amend the Code to:</p> <ul style="list-style-type: none"> require auditor rotation every 2 audits allow Authority to approve / disapprove nomination of auditor by participant. <p>Amend the Terms and Conditions for auditor approval to:</p> <ul style="list-style-type: none"> declare conflicts of interest 	<p>Proposed Code Amendments (Appendix A)</p> <p>Terms and Conditions for auditor approval</p>

Area	Reference	Description	Proposed Changes	Impacts
			<ul style="list-style-type: none"> disclose procedures used to identify and declare conflicts of interest require, auditors to undergo further training at the Authority's discretion. 	
Changes to improve operational efficiency of the participant audit regime	C.1.1	Clarify action taken as a result of the audit	Amend the Code to require participants to submit a compliance plan.	Proposed Code Amendments (Appendix A)
	C.1.2	Clarify what are industry issues	Create a standardised issues register where action taken is not specific to the participant (for example where a Code change is required).	Proposed issues register
	C.1.3	Definition of material change	Amend the Code to more clearly define what constitutes a material change.	Proposed Code Amendments (Appendix A)
	C.1.4	Standardise next audit date	Amend the Code to refer to 'next audit date' for all classes of audits. Amend the Code to clarify what a 'next audit date' is	Proposed Code Amendments (Appendix A)
	C.1.5	Introduce variable audits	Amend the Code to allow the Authority to set a next audit date of between 3 and 36 months for all audited participants. Amend the Code to allow the Authority to certify reconciliation participants and dispatchable load purchasers for up to 24 months.	Proposed Code Amendments (Appendix A)

Area	Reference	Description	Proposed Changes	Impacts
	C.1.6	Clarify timing of agent audits	Amend audit guidelines to only be able to use agent audits if the agent audits are relevant to the participant and audit period (completed within the past 7 months).	Audit guidelines
	C.1.7	Variable auditor approval term	Amend the Code to allow the Authority to approve auditors for up to 24 months.	Proposed Code Amendments (Appendix A)
	C.1.8	Access to information	Amend the Code to require participants to provide the Authority and auditor access to information required to carry out the audit.	Proposed Code Amendments (Appendix A)
	C.1.9	Consistent allocation of costs	Amend to Code to provide a single process for determining the allocation of costs as the result of an Authority or participant called audit	Proposed Code Amendments (Appendix A)
	C.2.1	Publication of additional information	Amend the Code to require the Authority to publicise: <ul style="list-style-type: none"> • a copy of the lead audit report submitted • a copy of the compliance plan (if available). Authority also to publicise <ul style="list-style-type: none"> • each participants 'next audit date' • a register of reported issues. 	Proposed Code Amendments (Appendix A)
	C.3.1	Improved breach materiality classification	Update breach materiality classifications in auditor protocol and risk-based planning procedure.	Proposed auditor protocol (Appendix D) Proposed risk-

Area	Reference	Description	Proposed Changes	Impacts
				based planning procedure.
	C.3.2	Setting audit scope	Amend the Code to provide the Authority the opportunity to request an audit has particular emphasis on any areas of concern.	Proposed Code Amendments (Appendix A)
	C.3.3	Clarification of audit review process	Develop an audit guidelines for participants.	Proposed participant audit guideline
	C.3.4	Clarification of agent audit requirements	Amend the Code to recognise agent audits and regulate their role in contributing to the participant audit and participant audit report.	Proposed Code Amendments (Appendix A)
	C.4.1	Registry compliance information	Enhance registry to produce a suite of compliance information on a regular basis.	Registry changes
	C.4.2	Prescribed form for audit reports.	Update audit portal to include an online form for the audit report which auditors to updated and submit.	Audit portal
	C.5.1	Clarification of ISO 9001 certification scope	Work with ISO 9001 auditors to develop examples of minimum scoping statements. Hold a training session with ISO 9001 auditors known to audit reconciliation participants.	
	C.5.2	Alignment of	Hold a training session with ISO 9001 auditors known to	

Area	Reference	Description	Proposed Changes	Impacts
		quality certification requirements with Code requirements	audit reconciliation participants. Investigate opportunities for Code auditors to be accredited to audit AS/NZS ISO 9001 standards. Monitor issues raised to determine if this addresses the underlying issues.	
	C.5.3	Place obligation on reconciliation participants and dispatchable load purchasers to hold quality certification	Amend the Code to require reconciliation participants and dispatchable load purchasers to hold an approved form of quality certification.	Proposed Code Amendments (Appendix A)
	C.5.4	Update quality certification references for approved test houses	Amend the Code to require ATHs to hold the latest version of AS/NZ ISO 9001.	Proposed Code Amendments (Appendix A)
	C.6.1	Update initial audit requirements for certification reconciliation participants.	Amend the Code to require Authority approval before accessing market systems rather than to hold certification within three months of trading.	Proposed Code Amendments (Appendix A)
	C.6.2	Update quality certification requirements and	Amend the Code to require reconciliation participants and dispatchable load purchasers to hold quality certification at least two months before being certified under the	Proposed Code Amendments (Appendix A)

Area	Reference	Description	Proposed Changes	Impacts
		timeframes	Code. Amend the Code to require Authority to have regard to if the participant holds quality certification when making a decision to certify.	
	C.6.3	Update timeframes for holding certification	Amend the Code to require reconciliation participants to hold certification within 6 calendar months or trading, or within 12 months under certain situations.	Proposed Code Amendments (Appendix A)
	C.7.1	Independent DUML audits	Amend the Code so that DUML audits are separate from a participants Code audit.	Proposed Code Amendments (Appendix A)
	C.7.2	Clarify DUML audit requirements.	Create and publicise DUML audit guidelines.	Proposed DUML audit guidelines
	C.7.3	Publication of DUML information	Amend the Code to require Authority to publicise copies of DUML audits. Publicise the next audit dates for DUML audits.	Proposed Code Amendments (Appendix A)
	C.7.4	Publication of standardised table of wattages	Create, maintain and publicise a standardised table of streetlight wattages.	Proposed standardised table of streetlight wattages

Appendix D **Draft Auditor Protocol**

- D.1 This appendix sets out draft Auditor Protocol that Authority approved auditors would need to comply with when carrying out audits under the participant audit regime.
- D.2 This protocol is based on relevant requirements set out in the ISAE 3000 (NZ)⁶⁹ and is divided into two sections as follows:
- How to conduct an audit, including:
 - Rules auditors must follow when deciding to accept or continue with an audit engagement
 - Rules and guidelines auditors must follow when planning and performing an audit
 - Audit reporting requirements
 - Audit administration.
 - Professional and ethical requirements covering:
 - Identifying and addressing threats to objectivity (including conflicts of interest)
 - Professional competence and due diligence requirements.

Auditor Conduct

Introduction

- D.3 The Authority shall approve auditors subject to the auditor complying with this protocol.
- D.4 The Authority may remove an auditor from a specific audit engagement or from the auditor pool if an auditor is materially non-compliant with the provisions set out in this protocol.
- D.5 The Authority may require auditors to provide recommendations to mitigate participant compliance risk.

Acceptance and continuance of an audit engagement

- D.6 An auditor shall not accept or continue an audit engagement if any of the ethical and professional requirements set out in Section Professional and Ethical Requirements are not met.

⁶⁹ The ISAE (NZ) 3000 standard includes requirements for assurance practitioners to comply with:

- (a) professional and ethical standards as prescribed by IFAC Code of Ethics for Professional Accountants or, in New Zealand, Professional and Ethical Standards: Code of Ethics for Assurance Practitioners (PES1)
- (b) International Standards on Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements (ISQC3), or in New Zealand, Professional and Ethical Standards 3: Quality Control for Firms that Perform Audits and Reviews of Financial Statements (PES3).

- D.7 The auditor shall, at time of approval and prior to the start of any audit, declare
- (a) Threats to the five fundamental principles of audit best practice – see Sections Fundamental principles of audit best practice and Identifying and addressing threats and conflicts of interest
 - (b) Conflicts of interest – see Section Identifying and addressing threats and conflicts of interest.
- D.8 The Authority may, at its discretion approve or decline the nomination of an auditor by a participant.⁷⁰

Audit planning

- D.9 The Authority shall apply *Risk-based Planning Procedures*⁷¹ to specify:
- (a) The scope⁷² for audits
 - (b) Audit Priority areas⁷³ for audit
 - (c) Materiality ratings to be used to categorise instances of non-compliance (Compliance Ratings) and general audit findings (Risk Ratings).
- D.10 In planning an audit, the auditor must
- (a) Follow the guidance set out in Section Audit performance of this document
 - (b) Follow any relevant requirements in the proposed *Risk-based Planning Procedures*
 - (c) Provide the Authority with an Audit Planning Report that sets out:
 - (i) areas/obligations that the auditor shall be reviewing/auditing
 - (ii) software/tools/information systems that the auditor plans to review (where applicable)
 - (iii) procedures that the auditor shall employ to scrutinise the above areas
 - (iv) timing for undertaking audit procedures and producing audit reports

⁷⁰ See proposed clauses 15A.2 and 15A.3

⁷¹ The risk-based planning procedures are yet to be developed, however the principles that risk-based planning procedures will be based on are available as supplementary information.

⁷² Scope can include operational compliance, software and IT systems review. Scope will vary depending on the risk profile of the participant being audited.

⁷³ Focus areas relate to business processes and systems used to implement specific Code obligations. Areas can also be defined as clusters of obligations or individual obligations.

- (v) a list of auditors involved in the audit.

D.11 When planning the audit under this Section Audit planning and carrying out the audit under Section Audit performance, the auditor shall take into account:

- (a) any comments the Authority has provided on the Audit Planning Report submitted under item D.10(c)
- (b) any self-reported instances of non-compliance and relevant internal audit findings, and shall modify audit procedures accordingly.

Audit performance

Audit procedures

D.12 The Auditor shall perform audit procedures in accordance with the following requirements (taking into account the Authority's *Risk-based Planning Procedures*):

- (a) Audit Priority 1 areas (AP1) (eg, representing significant and high risks with weak to moderate controls):
 - (i) undertake thorough compliance testing (ie, moderate-high sample sizes, test all obligations)
 - (ii) undertake business process walkthroughs (ie, shadowing personnel on tasks)
 - (iii) examine effectiveness and verify application of controls.
- (b) Audit Priority 2 areas (AP2) (eg, representing high and medium risks with weak to moderate controls):
 - (i) undertake moderate compliance testing (moderate-low sample sizes, test selected obligations)
 - (ii) undertake business process walkthroughs for selected business processes
 - (iii) examine effectiveness and verify application of controls (for selected processes).
- (c) Audit Priority 3 areas (AP3) (eg, representing medium to low risks with weak, moderate or strong controls):
 - (i) undertake light compliance testing (low sample sizes, test a small number of obligations)
 - (ii) review controls for a small sample of selected business processes.

D.13 Audit Priority 4 areas (AP4) (eg, representing low risks with moderate to strong controls)

- (i) undertake desk-top review (eg, review procedures)

- (ii) conduct interviews (to verify how business processes are implemented and to ascertain what controls are used).

D.14 The auditor will modify their procedures if their assessment of risk changes during the course of the audit. For example, if a particular area appears to have weaker controls than previously assumed or if material instances of non-compliance are discovered, then the auditor shall either increase the level of scrutiny applied in that area or provide a qualified conclusion (see item D.22 below for guidance on qualified conclusions).

Obtaining evidence

D.15 The auditor shall consider the adequacy of information that they request as evidence. Particularly, they will consider whether the evidence is:

- (a) Relevant – does it enable them to form an unqualified conclusion with respect to the participant’s compliance?
- (b) Reliable – is the evidence accurate, true and untampered with?
- (c) Sufficient – does the evidence provide adequate assurance (ie, has enough evidence been requested and/or is additional information or data required?).

D.16 If the auditor notes any inconsistencies in the evidence requested, or doubts the reliability of the evidence requested, the auditor shall modify their procedures accordingly (for example, by requesting different information; increasing the sample size; interviewing relevant personnel to understand how the evidence has been produced, etc.)

Evaluating instances of non-compliance

D.17 If the auditor suspects instances of non-compliance, the auditor shall investigate further to determine whether it is a genuine non-compliance.

D.18 For all confirmed instances of non-compliance (including self-reported) the auditor shall

- (a) investigate the circumstances and cause of the non-compliance and remedial measures (existing or planned) to mitigate the risk of the non-compliance recurring
- (b) evaluate the non-compliance with respect to the materiality levels prescribed by the Authority under Section Audit planning, item D.9(c).

Forming an Audit Conclusion

D.19 The auditor shall form a conclusion or view with respect to:

- (a) the extent to which the participant (being audited) is compliant with their Code obligations
- (b) the adequacy of the participant’s business processes, procedures, systems and controls with respect to managing compliance risk.

- D.20 When forming a conclusion with respect to items D.19(a) and D.19(b) above, the auditor shall evaluate the appropriateness and sufficiency of evidence requested, and if necessary will request further information.
- D.21 The auditor shall provide an unqualified conclusion if they are satisfied that the participant being audited has complied with their obligations.
- D.22 The auditor shall provide a qualified conclusion where:
- (a) Instances of non-compliance are noted; or
 - (b) A scope limitation exists, whereby the auditor is unable to form a view with respect to the level of compliance as a result of (but not limited to) the following:
 - (i) The participant is unable or unwilling to provide the evidence (data, information or access to business processes/systems)
 - (ii) The participant or other relevant party has placed a limitation on the scope of audit activities to be performed
 - (iii) The nature of the evidence is such that it does not enable the auditor to fully assess the level of compliance
 - (iv) The auditor is unable to evaluate an instance of non-compliance or other audit finding with respect to the materiality ratings prescribed by the Authority under Section Audit planning, item D.9(c).

Reporting of audit findings

- D.23 The auditor shall submit an audit report to the Authority that meets the requirements set out in this section.
- D.24 The audit report shall include a clear expression of the auditor's conclusion as formed in Section Audit performance, item D.19. The auditor shall follow the language guidelines prescribed by the Authority with respect to unqualified⁷⁴ and qualified⁷⁵ conclusions/opinions.
- D.25 Audit reports shall contain the following information:

⁷⁴ For example, an unqualified conclusion or opinion could be stated as "We have not noted any incidents or issues that suggest participant X has not complied with their obligations under the Electricity Industry Participation Code." This language is consistent with a negative assurance opinion.

⁷⁵ For example, a qualified conclusion or opinion could be stated as

- i. Where instances of non-compliance have been noted: "With the exception of the incidents noted in Section X, we have not noted any incidents or issues that suggest participant X has not complied with their obligations under the Electricity Industry Participation Code." This language is consistent with a negative assurance opinion
- ii. Where the auditor has been unable to obtain sufficient or reliable evidence: "Note further that due to the issues stated in Section X, we are not able to form a view with respect to participant X's compliance with obligation A, B and C."

- (a) an informative summary of audit procedures performed. The summary does not need to be overly detailed, but should not be ambiguous. Specifically, it must contain enough information to clearly convey the following information:
 - (i) obligations that have been tested/reviewed
 - (ii) business processes/procedures and systems that have been reviewed
 - (iii) nature of audit procedures performed in the areas above (eg, compliance testing, business process walkthroughs, documentation reviews, etc.)
 - (iv) timing of the audit procedures.
- (b) A summary of findings that, subject to D.22(b)(iv) shall be presented as follows:
 - (i) Instances of non-compliance shall be categorised in accordance with the Compliance Ratings prescribed by the Authority under Section Audit planning, item D.9(c)
 - (ii) General audit findings shall be categorised in accordance with the Risk Ratings prescribed by the Authority under Section Audit planning, item D.9(c)
 - (iii) Where the Authority has requested proposed measures to address audit findings, a summary of recommendations.

Audit administration

- D.26 For each audit engagement, the auditor shall maintain an audit trail thorough enough to understand the nature, timing and extent of procedures performed and significant matters raised. This shall include (but not be limited to):
- (a) minutes of all meetings and interviews
 - (b) written representations. For example, where a participant makes an assertion with respect to their compliance, use of controls, business processes/systems used to implement obligations, etc., the auditor shall ensure that assertion is confirmed in written form.
 - (c) files, documents and data containing proof of audit procedures performed
 - (d) electronic communications between the auditor, the Authority and the participant being audited.
- D.27 The above documentation shall be maintained for a period of no less than three years.

Professional and Ethical Requirements

Fundamental principles of audit best practice

- D.28 Auditors shall comply with the five fundamental principles of audit best practice, namely:
- (a) integrity – to be straightforward and honest
 - (b) objectivity – to not allow bias, conflict of interest or undue influence override professional judgement
 - (c) professional competence and due care – to maintain knowledge and skill at a level necessary to competently undertake the relevant audit
 - (d) confidentiality – to respect confidentiality of information acquired in the course of audits and not disclose such information to third parties without proper authority (unless there is a legal/regulatory reason to do so)
 - (e) professional behaviour – to be compliant with relevant laws and regulations and not act in a manner that discredits the auditor's profession.

Identifying and addressing threats and conflicts of interest

- D.29 Auditors shall maintain appropriate policies and procedures to enable them to identify and mitigate the following threats and conflicts:
- (a) self-interest threats. For example:
 - (i) if an auditor has financial interest in the audited participant's organisation
 - (ii) if an auditor has a relationship with a person of influence in the audited participant's organisation
 - (iii) if the audited participant's business comprises a large proportion of the auditor's revenue.
 - (b) self-review threats. For example, where an auditor has to review or audit a process/document/system of controls or other system that they have been involved in designing and/or implementing.
 - (c) advocacy threats. For example, where an auditor promotes the audited participant's position to the point that the auditor's objectivity is compromised.
 - (d) familiarity threats. For example, where a long-standing or close relationship with a client causes an auditor to be overly sympathetic thereby compromising their objectivity.
 - (e) intimidation threats. For example:

- (i) if an auditor is deterred from acting objectively because of actual or perceived pressures, including attempts by the audited participant to exercise undue influence over the auditor
 - (ii) if the audited participant's business comprises a large proportion of the auditor's revenue.
 - (f) Conflicts of interest. This can arise where the auditor undertakes an engagement for two or more parties whose interests with respect to the relevant matter are in conflict. For example if the auditor is auditing two market participants, and providing an adverse opinion for one of the entities is aligned with the interests of the second audited party; this scenario can arise where the compliance risks of two organisations are related or dependent.
- D.30 If an auditor identifies a threat or conflict (as described in item D.29 above), the auditor shall immediately:
- (a) declare that threat or conflict to the Authority
 - (b) specify mitigation measures that the auditor shall employ to eliminate or reduce (to acceptable levels) the threat or conflict.
- D.31 Subject to the information provided in item D.30 above, the Authority may remove the auditor from an audit engagement or the auditor pool.
- D.32 The Authority shall, at time of auditor appointment, and may, at any time thereafter, request an auditor to disclose the policies, procedures and systems used to identify and address the threats and conflicts described in item D.29 above.

Professional competence and due diligence requirements

- D.33 Auditors shall ensure they maintain their skills and knowledge at a level that enables them to conduct audits diligently, robustly and in accordance with this protocol.
- D.34 Auditors shall ensure all personnel on audit teams possess the requisite skills, knowledge and practical experience to conduct audits diligently, robustly and in accordance with this protocol.
- D.35 Auditors shall arrange and undergo relevant training if required by the Authority.
- D.36 The Authority may require an auditor to undergo an Engagement Quality Control Review in respect of a given audit.⁷⁶
- D.37 Where the Authority subjects an audit to an Engagement Quality Control Review, the auditor shall make available to the Engagement Quality Control Reviewer:

⁷⁶ An Engagement Quality Control Review is conducted by the Authority on the audit to form a view of the auditor's compliance with the auditor requirements and auditing standards.

- (a) all relevant audit documentation (as collated under Section Audit administration, item D.26)
- (b) within reason, any other information required by the Engagement Quality Control Reviewer to form a view with respect to the auditor's compliance with this protocol.