

Memo

To Approved auditors
From Jonathon Staite
Date 20 April 2017
Subject Precision and accuracy of audit reporting

For your information

A recent independent external review of audit quality has identified some issues with the precision and accuracy of some audit reports.

As a result of this review the Authority wishes to remind auditors that:

1. statements made in audit reports should be precise and accurate
2. each auditable obligation should have a conclusion
3. assessment of compliance with clauses 10.6 , 11.2, and 15.2 should consider corrections, and if those corrections were made as soon as practicable.

The Authority relies on the content of audit reports when making decisions regarding certification and next audit dates. Unclear or inaccurate audit conclusions can undermine the Authority's confidence in the outcome of the audit, and ultimately the decisions made as a result of the audit.

Statements made in audit reports should be precise and accurate

A recent external review of audit quality has identified instances where statements made by auditors were imprecise or inaccurate.

These statements included:

- unclear sample ranges
- incorrect or unclear sample sizes
- unclear references to sampling
- incorrect identification of the population to be sampled.

Examples of imprecise or inaccurate statements:

- "Compliance was assessed by reviewing the PR-010 from the registry" – this statement fails to refer to the date range or parameters used to create the PR-010 report
- "100 ICPs were sampled" – this statement is imprecise as only 97 ICPs were sampled
- "there are no ICPs currently new or ready for more than 24 months" – this statement fails to explain whether it applies across the entire population or only a sample

Example of incorrect identification of population

- “the sample did not contain any UML ICPs, therefore compliance cannot be assessed” – the auditor has not identified the population of UML ICPs to sample from. Auditors should be identifying the population for testing and sampling from within that population.

Examples of a precise and statement **Clause 15(2) of Schedule 11.1**

The PR-010 report was run for 27 June 2016. The auditor identified that there were 20 ICPs that had a status of “new” or “ready” for more than 24 months. The auditor randomly selected five of these ICPs to confirm whether the distributor:

- asked the trader whether the ICP should continue to have this status; and
- decommissioned the ICP if the trader advises the ICP should not continue to have this status.

The distributor had contacted the trader of all five ICPs, and the trader had confirmed that the ICP should continue to have this status.

Based on the sample of five ICPs, compliance is confirmed.

Each auditable obligation should have a conclusion

In some cases auditors are not providing a conclusion against the obligation being audited.

Commonly the auditor will describe the process or issues that the participant is facing without forming a clear conclusion.

Example of missing conclusion

Clause being audited

Clause 48(4) and (5) of Schedule 10.7

If an MEP is advised of a broken or removed seal it must use reasonable endeavours to determine:

- who removed the seal; and
- the reason for the removal or breakage.

The MEP must also arrange for an ATH to carry out an inspection of the removal or breakage and determine whether any work is required to remedy the removal or breakage.

The MEP must make these arrangements within:

- three business days if the metering installation is category 3 or higher
- ten business days if the metering installation is category 2
- twenty business days if the metering installation is category 1.

Example of auditors comment with missing conclusion

If the MEP is advised that a seal is broken or removed, a job is issued to assess the situation.

Example of auditors comment with conclusion

The auditor reviewed the process for managing broken or removed seals. If a seal is broken or removed, a job is issued to assess the situation. The auditor reviewed jobs issued for removed or broken seals between 1 January 2016 and 31 December 2016.

Based on a review of the process, compliance is confirmed.

Assessment of compliance with clauses 10.6, 11.2, and 15.2

Clauses 10.6(1), 11.2(1), and 15.2(1) place obligations on participants to take all practicable steps to ensure that information provided is:

- complete and accurate:
- not misleading or deceptive:
- not likely to mislead or deceive.

Clauses 10.6(2), 11.2(2), and 15.2(2) provide that if a participant becomes aware that they have provided information that does not comply with clause 10.6(1), 11.2(1), or 15.2(1), they must, as soon as practicable, provide further information to address the breach.

In many cases auditors are describing how the participant has processes in place to correct information. However, the auditors have not been looking at specific examples of where the participant has corrected information, and determining if those corrections are made as soon as practicable.

A participant's compliance with this clause can commonly be assessed by looking at examples of corrections that have occurred as a result of the previous audit, as part of standard business process over the audit period, or as a result of issues identified in the current audit.

Auditors should be looking at corrections that have been made by the participant, and sampling a selection of those corrections to determine if corrections are being made as soon as practicable.

A handwritten signature in blue ink that reads "Jonathon Staite". The signature is written in a cursive, flowing style.

Jonathon Staite
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