

# Requirements and processes for audits: New Guidelines

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Final decision

2 May 2017



## Executive summary

In order to support the efficient operation of the electricity industry and the participant audit regime, the Electricity Authority (Authority) has decided to create the following guidelines and supporting information:

- (a) *Participant audit guideline*
- (b) *Risk and materiality guideline*
- (c) *Auditor protocol*
- (d) *Distributed unmetered load audit guideline*
- (e) *Distributed unmetered load standardised table of wattages*
- (f) *Distributed unmetered load statistical sampling guideline*
- (g) *Distributed unmetered load statistical sampling tool*
- (h) *ATH audit guideline.*

The Authority has also decided to amend the purpose of the audit regime to address a flaw identified following consultation in 2015.

The amended purpose of the audit regime is to:

- evaluate participants' compliance with the Code provisions that are audited under the regime
- enable the Authority to make informed decisions regarding the certification, approval, and audit frequency of participants
- support the efficient operation of the electricity industry.

In light of the purpose the Authority has decided to clarify the goals of the audit regime to be:

- the timely and accurate settlement of the wholesale electricity market
- timely and error-free ICP switching
- for participants to provide accurate and complete information to others in a timely manner.

These guidelines will be effective from 1 June 2017.

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## 2 Background

- 2.1 From 1 June 2017 a new audit regime, that incorporates the audit, certification, and approval processes that apply to auditors, participants, and the Authority will come into effect as a result of an amendment to Parts 10, 11, 15, and 16A of the Electricity Industry Participation Code 2010 (Code).
- 2.2 The amendment to the Code forms part of a suite of changes to the audit regime to:
- (a) clarify the purpose of the audit regime, and ensure it is well defined and aligned with the Authority's statutory objective
  - (b) improve the governance of the audit regime and better align it with international audit best practice
  - (c) improve the operational efficiency of the audit regime and support for the decisions being made as a result of audits.
- 2.3 As part of improving the governance and operational efficiency of the audit regime, as well as improving decisions made as a result of audits, the Authority intends to publish new guidelines and supporting information about the regime and its operation.
- 2.4 Between 25 October 2016 and 20 December 2016 the Authority consulted on the following new guidelines and supporting information that are intended to apply from 1 June 2017:
- (a) *Participant audit guideline*
  - (b) *Risk and materiality guideline*
  - (c) *Auditor protocol*
  - (d) *DUML audit guideline*
  - (e) *DUML standardised table of wattages*
  - (f) *DUML statistical sampling guideline*
  - (g) *DUML statistical sampling tool*
  - (h) *ATH audit guideline.*
- 2.5 In addition to the new guidelines, the Authority identified a flaw in the purpose of the audit regime. This flaw was that the purpose of the audit regime did not consider issues beyond the accurate settlement of the wholesale electricity market, such as timely customer switching and non-settlement records such as metering equipment providers' (MEP) metering certification records.
- 2.6 Submitters are listed in Table 1.
- 2.7 All submissions and summaries can be found on the Authority's website at <http://www.ea.govt.nz/development/work-programme/operational-efficiencies/review-of-participant-audit-regime/consultations/#c16220>

**Table 1: List of submitters**

Organisation	Role(s)
Contact Energy Limited	Reconciliation participant, metering

Organisation	Role(s)
	equipment provider
Genesis Energy Limited	Reconciliation participant
Independent Electricity Generators Association	Industry participant association
Mercury Energy Limited	Reconciliation participant
Meridian Energy Limited	Reconciliation participant, metering equipment provider
Nova Energy Limited	Reconciliation participant
Orion New Zealand Limited	Distributor
Transpower New Zealand Limited	Grid owner / system operator
Trustpower Limited	Reconciliation participant, metering equipment provider, approved test house
Vector Limited	Distributor
Veritek Limited	Approved auditor

### 3 The Authority has decided to amend the purpose of the audit regime

3.1 The Authority has decided to amend the purpose of the audit regime to be:

*The purpose of the audit regime is to:*

- *evaluate participants' compliance with the Code provisions that are audited under the regime*
- *enable the Authority to make informed decisions regarding the certification, approval, and audit frequency of participants*
- *support the efficient operation of the electricity industry.*

3.2 In light of the purpose, the Authority has decided to clarify the goals of the audit regime to be:

- *the timely and accurate settlement of the wholesale electricity market*
- *timely and error-free ICP switching*
- *for participants to provide accurate and complete information to others in a timely manner.*

## **Background**

- 3.3 While developing the guidelines and processes required to support the changes to the audit regime, Authority staff identified that the purpose consulted on in 2015 focused on the ongoing accurate and efficient operation of the wholesale electricity market settlement. This focus does not:
- align with the Authority's statutory objective; or
  - allow the Authority to make an informed decision regarding the certification, approval, and audit frequency of participants.
- 3.4 This is because the current purpose does not consider participant activities that are outside the wholesale electricity market settlement process, including the:
- timeliness of registry interactions, such as ICP switching
  - accuracy of registry information not used in the settlement process, such as distributed generation information or ANZSIC codes
  - internal record keeping requirements, such as the requirement for MEPs to keep certification records
  - accuracy of records not directly related to settlement, such as the accuracy of MEPs' certification records.
- 3.5 Excluding functions such as switching and record keeping from the purpose of the audit regime will not affect the settlement of the market, but will affect the efficient operation of the electricity industry.
- 3.6 As a result the Authority proposed an amended purpose that:
- (a) addresses the impact these obligations have on the efficient operation of the electricity industry
  - (b) supports the Authority making informed decisions regarding the certification, approval, and audit frequency of participants.

## **Why the Authority made its decision**

- 3.7 This purpose supports the Authority's statutory objective of promoting the efficient operation of the electricity industry for the long-term benefit of consumers by providing a standardised approach for audit stakeholders that addresses the flaw in the previous purpose.

## **Matters considered by the Authority in making its decision**

- 3.8 The Authority has considered the issues raised by submitters. Submissions varied in size and topic, with some proposing specific wording changes. These have been considered but are not discussed at length in this paper.
- 3.9 Submissions generally agreed that the updated purpose addresses the issues with the current scope.
- 3.10 The Authority considered the following key points when making its decision:

**Table 2: Key points considered for purpose of audit regime**

Submission	Authority response
The purpose statement is not binding on participants and participants are not obligated to provide information if it goes beyond confirming compliance with the Code.	We agree that the purpose is not binding on participants and is a guide to the audit regime. However the purpose will guide auditors and participants to the goals. As identified in the 2015 consultation checkbox assessment of compliance without context or controls will result in inefficient decisions and not be for the long-term benefit of consumers. <sup>1</sup>
The purpose statement in the guidelines is inconsistent with the purpose statement in the Code.	The purpose of the Code differs from the purpose of the framework required to support the Code. The purpose of Part 16A of the Code is to describe the Code obligations for participants in relation to audits. It does not describe intent, but rather outcomes. The purpose of the audit regime, including the guidelines and decisions made as a result of audits, focusses on the efficient operation of the electricity market.
The goals of the audit regime are too wide.	The Authority disagrees that the goals of the audit regime are too wide. Any reduction in the goals would reduce the effectiveness of the audit regime.
Problems identified are covered by existing audit regime.	The Authority disagrees that the problem is covered by the existing audit regime. This was identified in the 2015 consultation. <sup>2</sup>
Switching does not require further scrutiny and participants should not be striving for timely and error free switching.	The Authority disagrees. Switching is a fundamental process in a competitive electricity market and consumers and participants should reasonably expect switching to be timely and error free.
Business practices such as record keeping should not be within the scope of the audit regime.	The Authority believes business practices should be within the scope of the audit regime. Decisions should be made not solely on the assessment of compliance with the Code, but on the future risk the participant poses to the market.
The goals refer to consumer switching.	The Authority agrees the goal should

<sup>1</sup> <http://www.ea.govt.nz/development/work-programme/operational-efficiencies/review-of-participant-audit-regime/consultations/#c15626>

<sup>2</sup> <http://www.ea.govt.nz/development/work-programme/operational-efficiencies/review-of-participant-audit-regime/consultations/#c15626>



Submission	Authority response
Should refer to ICP switching.	refer to ICP, not consumer switching. This has been reflected in the decision on the purpose of the audit regime. <b>Action:</b> Amend goals to refer to ICP switching.
There is a lack of alignment between the purpose and goals. Each purpose should have at least one goal.	It is noted that the goals all relate to the efficient operation of the electricity market. The purpose of evaluation and decisions made as a result of audits do not have a direct link to the goals, but are directly impacted by the goals.

## 4 The Authority has decided to create a *Participant audit guideline*

4.1 The Authority has decided to create the *Participant audit guideline* to describe the audit and audit review processes.

4.2 The *Participant audit guideline* provides guidance on:

- the audit process
- material change audits
- distributed unmetered load (DUML) audits
- compliance plans
- initial audit requirements.

4.3 The *Participant audit guideline* supports participants efficiently engaging with auditors and allocating resource to deliver quality audit outcomes.

### Background

4.4 As a result of the participant audit review in 2015, the Authority found misunderstandings among audited participants about the audit and audit review processes. Such misunderstandings were particularly likely if a participant's relevant staff had changed between the participant's audits.

4.5 A misunderstanding about the audit or audit review process can result in:

- missing or insufficient comments from participants to inform decisions made by the Authority
- the late submission of final audit reports to the Authority.

4.6 Submissions on the 2015 consultation paper supported the creation of a participant audit guideline, and a draft version was consulted on in October 2016 as part of the requirements and processes for audits new guidelines consultation.

## Why the Authority made its decision

- 4.7 The Authority considers that the *Participant audit guideline* will support the efficient operation of the electricity industry by improving compliance through better understanding of the obligations, audit outcomes, and audit process.

## Matters considered by the Authority in making its decision

- 4.8 The Authority has considered the issues raised by submitters. Submissions varied in size and topic, with some proposing specific wording changes. These have been considered but are not discussed at length in this paper.
- 4.9 Submissions supported the *Participant audit guideline*.
- 4.10 The Authority considered the following key points when making its decision:

**Table 3: Key points considered when making decisions on *Participant audit guideline***

Submission	Authority response
It would be helpful if the auditor was required to provide participants with relevant working documents.	Noted. The <i>Participant audit guideline</i> places no new obligations on auditors or participants. If participants require specific outputs from the auditor, this should be covered in the contract with the auditor. <b>Action:</b> Amend the <i>Participant audit guideline</i> to cover contract requirements such as provision of working documents.
Paragraphs 2.33 and 2.34 appear to give the Authority discretion to publicise information despite being advised is commercially sensitive.	Paragraphs 2.33 and 2.34 are intended to clarify that the Authority must publish information unless there is sufficient evidence to support a decision to withhold information under the Code. <b>Action:</b> Clarify paragraphs 2.33 and 2.34 to describe how the Authority will publicise information unless sufficient information is given to support a decision to withhold in accordance with the Code.
Paragraph 2.37 suggests that the Authority will raise any alleged breaches. This conflicts with paragraph 2.9 which states the review should recommend any items to escalate to compliance.	Agree. <b>Action:</b> Amend wording of paragraphs 2.37 and 2.39 to clarify what information may be escalated to the compliance team.
Paragraphs 2.41 and 2.42 suggests that the Authority will decide the audited participants next audit date and then publicise this date. It would be courteous to inform the audited participant of its next audit date prior to publicising this information.	Agree. <b>Action:</b> Amend wording of the <i>Participant audit guideline</i> to make it clear the Authority will notify the participant of its next audit date.

Submission	Authority response
Paragraph 4.6 appears to instruct traders as to what matters they should consider when taking on new customers. This should be deleted.	Disagree. This statement reminds traders that they are taking on the liability and obligations of the DUMML database and recommends traders make an informed decision regarding DUMML.
Paragraphs 2.24 and 5.4(b) should reflect the fact it is not always appropriate or possible to take actions to correct previous breaches.	Disagree. Where a participant has breaches they should be taking action to address the impact of the breach and prevent future recurrence.

## 5 The Authority has decided to create an *Auditor protocol*

5.1 The Authority has decided to create an *Auditor protocol* in order to improve the governance of auditors by setting out formal assurance requirements for auditors and provide guidance around auditing practice, including:

- (a) setting:
  - (i) requirements for auditor conduct
  - (ii) professional and ethical requirements
- (b) providing guidance for:
  - (i) audit sampling
  - (ii) non-compliance reporting
  - (iii) audit frequency calculation.

### Background

5.2 As a result of the participant audit review in 2015, the Authority became concerned that it lacked governance over the audit regime because it:

- (a) has limited control over the scope, direction, and outputs of audits
- (b) did not have the ability to prescribe formal assurance requirements.

5.3 A lack of governance can compromise:

- (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, because once an auditor is approved there is little assurance about his or her ongoing professional competence, independence, and objectivity or robustness of the audit approach.

5.4 The Authority proposed to improve the governance of the audit regime by requiring auditors to comply with some of the formal assurance requirements in ISAE (NZ) 3000 and ISO 19011:2011.

## Why the Authority made its decision

- 5.5 The Authority considers that the *Auditor protocol* will support the efficient operation of the electricity industry by:
- (a) ensuring audits align with the audit regime's objectives
  - (b) providing greater assurance of the quality of audit outputs through increased oversight by the Authority
  - (c) providing 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.

## Matters considered by the Authority in making its decision

- 5.6 The Authority has considered the issues raised by submitters. Submissions varied in size and topic, with some proposing specific wording changes. These have been considered but are not discussed at length in this paper.
- 5.7 Submissions supported the introduction of the *Auditor protocol* to address the problem of governance of the audit regime.
- 5.8 Submissions supported the *Participant audit guideline*.
- 5.9 The Authority considered the following key points when making its decision:

**Table 4: Key points considered when making decisions on *Auditor protocol***

Submission	Authority response
The <i>Auditor protocol</i> should be amended to permit participants to be actively involved in DUML audits.	The <i>Auditor protocol</i> does not prohibit participants from being actively involved in DUML audits. However the lead auditor is responsible for the accuracy of the audits and must be confident in the competence and independence of the auditor and completeness and accuracy of the audit findings. This is covered by paragraphs 3.10–3.13 of the <i>Auditor protocol</i> .
It is unclear what scores will result in what certification period. Audit frequency calculation should be part of the <i>Auditor protocol</i> .	Details regarding proposed audit periods for specific audit types are covered in the consultation on inherent risk registers and updates to existing guidelines. <sup>3</sup>
The <i>Auditor protocol</i> would benefit from an overview flowchart	Noted. The auditor protocol document is a list of requirements and considerations. It is not necessarily linear and creating a flow-chart would create the perception the

<sup>3</sup> < <http://www.ea.govt.nz/development/work-programme/operational-efficiencies/review-of-participant-audit-regime/consultations/#c16358>

Submission	Authority response
	requirements are linear.

## 6 The Authority has decided to create *Risk and materiality guideline*

- 6.1 The Authority has decided to create a *Risk and materiality guideline* in order to assist auditors more consistently assess risk and materiality within the context of the audit regime.

### Background

- 6.2 As a result of the participant audit review in 2015, the Authority found that risk and materiality were not considered by the auditor setting the scope of an audit, the focus of audit activities, or when reporting audit findings.
- 6.3 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 could not be categorised by severity.
- 6.4 The Authority developed the *Risk and materiality guideline* to address these issues and incorporate risk and materiality into the audit regime.

### Why the Authority made its decision

- 6.5 The Authority considers that the *Risk and materiality guideline* will support the efficient operations of the electricity industry 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.

### Matters considered by the Authority in making its decision

- 6.6 The Authority has considered the issues raised by submitters. Submissions varied in size and topic, with some proposing specific wording changes. These have been considered but are not discussed at length in this paper.
- 6.7 Some submissions supported the introduction of the *Risk and materiality guideline* to address the problem of assessing risk and materiality within the audit regime.
- 6.8 Other submissions raised questions regarding the detail of the *Risk and materiality guideline*, but did not provide feedback on their level of support for the proposed *Risk and materiality guideline*.
- 6.9 The Authority considered the following key points when making its decision:

**Table 5: Key points considered when making decisions on *Risk and materiality guidelines***

Submission	Authority response
It is not appropriate to raise the level of risk rating due to the time it is taking to address the issue.	<p>Agreed. However the failure to remedy a known issue may change the dimensions of risk and effectiveness of controls. This may result in an increase risk rating over time.</p> <p><b>Action:</b> Remove the escalator statements in Table 10 of the <i>risk and materiality guideline</i></p> <p><b>Action:</b> Amend the <i>Auditor protocol</i> to make it clear that failure to address previous audit issues may change the dimensions of risk.</p>
There is no mention of consideration of cost of compliance and the balance of this against the rectification of a non-compliance.	<p>Noted. This will form part of the participant's remedial action. If it is too costly or inefficient for all participants to comply with the Code then remedial action may include amending the Code to improve the efficiency of the Electricity Industry.</p>
It is unclear why the inherent risk rating in section 3.12 table 4 has some areas identified as Medium, particularly where the likelihood of consequence is unlikely or highly unlikely.	<p>This rating is linked to the purpose of the audit regime which includes enabling the Authority to make informed decisions. Repeat instances of a risk with low consequence maybe indicative of a systemic issue within the audited entity's systems that may impact other risk areas. This may affect both the Authority's decisions around certification, approval and next audit timing, and the efficient operation of the market. Additionally, persistent non-compliance with a provision which has low consequences may also have adverse reputational impacts on the market. For the above reasons, the inherent risk rating will remain medium.</p> <p>Inherent risks are risks in the absence of any controls. The residual risk could be lower than 'medium' once participant controls are considered.</p>
It is not appropriate to specify in Table 10 which risk rating require which level of business attention.	<p>Agree. This was intended as guidance rather than specify what must be done.</p> <p><b>Action:</b> Revise the wording of Table 10.</p>

Submission	Authority response
The proposed guidelines could be considered overly complex.	Noted. A reduction in the complexity would impact the effectiveness of the application of risk and materiality.
It is unclear if the audit is to be risk or control based.	The intention is for the auditor to use risk to determine the level of effort required to audit each area. This will consider a predetermined set of 'inherent' risks and the controls used to manage each inherent risk.
The definitions in the guideline are inconsistent with the ISO 31000 risk management standard	Noted. <b>Action:</b> Review definitions and consistency in the <i>risk and materiality guideline</i> .
It would be useful to have a few specific DUML scenarios in this guideline.	Noted. <b>Action:</b> Add some DUML risk examples to the <i>risk and materiality guideline</i> .
There are incorrect statements in the rationale as well as confusion between probability of occurrence and the extent of errors within an occurrence.	Noted. It is unclear which statements are incorrect. <b>Action:</b> Review risk and materiality guideline guidance.
More guidance needs to be provided on what constitutes severe/major, moderate and low/negligible risks to the market.	Noted. <b>Action:</b> Review guidance on risks to the market.
Some participants have risks associated with having a small number of employees with considerable knowledge in specific areas. Guidance is required on how to identify and assess this risk.	Noted. <b>Action:</b> Review guideline to improve how to identify and assess 'key staff' risks.

## 7 The Authority has decided to create *DUML audit guidelines*

7.1 The Authority has decided to create a the following guidelines and information in order to explain the DUML audit process and Code obligations and support more effective DUML audits:

- (a) *DUML audit guideline*
- (b) *Standardised table of wattages* for streetlights
- (c) *DUML statistical sampling guideline* and the *DUML database auditing tool*.

## Background

- 7.2 As a result of the participant audit review in 2015, the Authority decided to require separate audits of DUML. This was gazetted in June 2016 and the Code requirement for separate DUML audits comes into force on 1 June 2017.
- 7.3 The Authority considered that:
- (a) audit requirements for DUML are not clear
  - (b) streetlight data in some DUML databases is inaccurate
  - (c) guidance is required to help auditors assess the overall accuracy of the DUML database.
- 7.4 A proposal was made to develop a suite of DUML documents to address these issues.

## Why the Authority made its decision

- 7.5 The Authority considers that the *DUML audit guideline* and supporting information support the efficient operation of the electricity industry by providing:
- (a) clear audit requirements for DUML
  - (b) standardised values for assessing the accuracy of lamp wattages and ballast
  - (c) guidance is required to help auditors assess the overall accuracy of the DUML database.

## Matters considered in making its decision

- 7.6 The Authority has considered the issues raised by submitters. Submissions varied in size and topic, with some proposing specific wording changes. These have been considered but are not discussed at length in this paper.
- 7.7 Most submissions supported the introduction of the *DUML audit guideline*.
- 7.8 Submissions generally supported the use of a *DUML standardised table of wattages*.
- 7.9 Submissions generally supported the *DUML statistical sampling guideline* and tool.
- 7.10 The Authority considered the following key points when making its decisions:

**Table 6: Key points considered when making decisions on *DUML audit guideline***

Submission	Authority response
The <i>DUML audit guideline</i> should be amended to cater for static DUML configurations.	The DUML audit requirements addresses static DUML configurations by providing longer audit periods for databases that are accurate and comply with DUML requirements.
The <i>DUML audit guideline</i> should allow to tolerances in accuracy, similar to metering accuracy requirements.	Where statistical sampling is used, the <i>DUML audit guideline</i> allows for tolerable accuracy via the confidence that the database is accurate based on a sample of the population.  Additionally there are inherent inaccuracies in DUML fittings due to



Submission	Authority response
	manufacturing, age, and environmental factors. We are not requiring participants to quantify the inherent inaccuracies or hold DUMML databases to the uncertainty and accuracy requirements of metering installations.
When a non-compliance is identified, the <i>DUMML audit guideline</i> does not describe the corrective action that needs to be taken or who is responsible for ensuring the database is corrected and submissions are amended.	Noted. The trader is responsible for the DUMML database and under the Code is required to take corrective actions. The types of corrective actions required may be context dependent so are not prescribed. <b>Action:</b> Make it clear in the <i>DUMML audit guideline</i> that the trader is responsible for the DUMML database and corrections, regardless of who they use to manage the database.
Pole numbers are not accurate enough. GPS coordinates should be noted.	Disagree. GPS coordinates are not always available. Location can be determined by many mechanisms such as GPS, pole number, house address, or map reference. <b>Action:</b> Amend guideline to clarify that there are multiple ways of identifying lamp location.
The guideline should require the auditor to use one of the two sampling options described and that any other approaches should be approved by the Authority before being used.	Agree that an auditor's use of a sampling methodology not described in the <i>DUMML audit guideline</i> increases the risk of a shorter audit timeframe and possible re-work if the Authority is not confident of the outcome of the audit. <b>Action:</b> Amend the <i>DUMML audit guideline</i> to suggest that auditors discuss alternative techniques for quantifying the accuracy of the DUMML database with the Authority prior to applying them.

**Table 7: Key points considered when making decisions on *DUMML standardised table of wattages***

Submission	Authority response
The current table does not recognise the difference between mechanical ballast and electronic ballast.	Disagree. Columns C and D of the <i>DUMML standardised table of wattages</i> describe electronic and inductive ballast. Where

Submission	Authority response
	the option exists both columns have been populated.
The table should also include hyperlinks to manufacturers' specifications.	Agree. At times these may not be publicly available. <b>Action:</b> Add links to relevant documentation and manufacturer's specifications where available.
It is not clear if ballast needs to be recorded in the customer's database as the Authority's database will predetermine the full capacity of each item.	Ballast needs to be populated in the traders DUMML database. The Authority does not have a DUMML database. The table of wattages is designed to allow traders to more consistently and accurately populate their DUMML databases.
It is not clear what is meant by 'accurate'. The wattage of lamps vary with age so any calculation will have inherent errors.	Noted. <b>Action:</b> Clarify use of the table of wattages in the <i>Participant audit guideline</i> and the <i>DUMML audit guideline</i> . The term 'accurate' refers to the alignment of the information in the database compared to what is in the field. We do not require traders to quantify the accuracy and uncertainty of each fixture.
There are additional lamps and ballast wattages not in the table, however it will take some time to identify them all.	Noted. The table of wattages can be updated as further information is available.

**Table 8: Key points considered when making decisions on *DUMML audit statistical sampling guideline* and tool**

Submission	Authority response
It is not clear how effective the sampling tool will be. There is concern the industry intends to increase audit costs where there is no evidence the process will be an effective tool.	The effectiveness of the tool was tested as part of development prior to consultation.
The statistical sampling guideline imposes further obligations on any trader who uses an alternative sampling method.	Statistical sampling is one option for assessing the quality of DUMML database. Audits can be conducted without statistical sampling, however an assessment of the accuracy of the database compared to the load installed in the field should be conducted.
If more sampling effort is put into areas	Disagree. Stratified sampling deals with

Submission	Authority response
where errors are suspected the final results will be skewed.	oversampling of some strata by downweighting these strata in the calculation of the estimate. Refer to paragraph A.5 of Appendix A. Oversampling the strata where errors are suspected does not skew the estimate and improves the precision of the estimate.
The sample selection process is complex and time consuming.	Disagree. The most time consuming task is physically travelling to and inspecting items of DUML. The next most time consuming task is area selection. The least time consuming task is selecting a stratified random sample. Using the proposed sampling methodology can reduce the number of items of DUML to be physically inspected. Less complex methods, such as sampling 100% of DUML, are options audits can use.
Is there any concern if the confidence in the accuracy of the database is 90% or 95%.	Given the need to demonstrate accuracy of DUML databases to stakeholders, the Authority prefers the auditors use a 95% interval, rather than a 90% interval which is twice as likely to be incorrect

## 8 The Authority has decided to create an *ATH audit guideline*

- 8.1 The Authority has decided to create the *ATH audit guideline* to provide specialised guidance to all auditors regarding the recommended scope for, and approach to, auditing approved test houses.

### Background

- 8.2 Unlike other participant audits, ATH audits have been conducted by auditors without any formal guidance from the Authority.
- 8.3 The Authority considers that a lack of such guidance could lead to an inconsistent approach and scope between approved test house auditors. This would ultimately impact auditors' decisions about the approval of test houses and their next audit date.
- 8.4 A proposal was made to provide an *ATH audit guideline* to address these issues.

### Why the Authority made its decision

- 8.5 The Authority considers that the *ATH audit guideline* will support the efficient operation of the electricity industry by providing guidance to consistently audit approved test houses.

### **Matters considered by the Authority in making its decision**

- 8.6 The Authority has considered the issues raised by submitters. Submissions varied in size and topic, with some proposing specific wording changes. These have been considered but are not discussed at length in this paper.
- 8.7 Submissions supported the creation of the *ATH audit guideline*.
- 8.8 The Authority considered the following key points when making its decision:

**Table 9: Key points considered when making decisions on *ATH audit guideline***

Submission	Authority response
ISO 9001 certification is 3 yearly and ATH application period is annual, however they can be out of synch which can leave an ATH exposed for a period at the end of the third year. Clause 4(1) of Schedule 10.3 is met providing ISO certification if held and complied with for the majority of the application period and the ATH confirms an intention to renew the ISO 9001 certification.	Noted. <b>Action:</b> Update the <i>ATH audit guideline</i> to reflect the wording of the Code.

## 9 Other issues raised in submissions

- 9.1 The following issues were raised by submitters as part of the consultation, but did not directly relate to any of the proposed guidelines. These issues have been considered by the Authority but do not affect the guidelines being consulted on because they are out of scope of the consultation.

**Table 10: Submissions out of scope of the consultation**

Submission	Authority response
The use of certification as the key compliance mechanism under the audit regime conflicts with the efficient operation of the electricity industry as it imposes unnecessary pressure on the participant and encourages 'quick fixes' to maintain certification. Certification should be de-linked from the audit regime.	Noted. The role of certification is outside of the scope of this consultation and will be reviewed at a later date.
The guidelines use prescriptive language, where the Code does not prescribe the process only the outcome.	Noted: <b>Action:</b> Review guidelines for use of unnecessary prescriptive language.
Further discussion is required to better understand operational compliance problems the Authority is seeking to resolve, in particular DUML audits. The current proposal is likely to increase costs of compliance and reduce competition.	The changes to the audit regime were consulted on in 2015 and are estimated to deliver \$2.605 m of benefits over 10 years. <a href="http://www.ea.govt.nz/development/work-programme/operational-efficiencies/review-of-participant-audit-regime/consultations/#c15626">http://www.ea.govt.nz/development/work-programme/operational-efficiencies/review-of-participant-audit-regime/consultations/#c15626</a> The Code amendments were gazetted in June 2016 and come into force on 1 June 2017. <a href="http://www.ea.govt.nz/code-and-compliance/the-code/amendments/2016-code-amendments/#Jun30">http://www.ea.govt.nz/code-and-compliance/the-code/amendments/2016-code-amendments/#Jun30</a>

Submission	Authority response
	The purpose of this consultation was to consult on guidelines to support the implementation of the Code amendments.
Do not agree with the reasoning in the 2016 decision paper that the purpose of the audit regime be incorporated into the guideline but not the Code.	Noted. The decision regarding Code amendments is outside of the scope of this consultation.
It is not clear in the June 2016 decision paper that the Authority has responded to the point about payment for the audit if the Authority is the auditor. The Authority's functions are already paid for by the levy therefore there would not be any audit costs to be allocated to participants according to the levy regulations.	<p>We assume this relates to the statement, "The Authority is able to be an auditor but it is not clear how the costs of this function would be funded (ie, whether it can 'charge' for audit services)" in the covering letter of the submission on the changes to the audit regime.</p> <p>All of the Authority costs are levied in accordance with the Electricity Industry (Levy of Industry Participants) Regulations 2010. Where the Authority staff perform the audit, the costs will be recovered in accordance with the levy regulations.</p> <p>Where the Authority uses an auditor, the costs will be allocated in accordance with clause 16A.16 of the Code.</p>
The purpose of the audit regime will not deliver effective monitoring of the efficient operation of the market. Monitoring should be incorporated into the audit regime.	Noted. Reporting of participant performance is outside of the scope of this consultation and is being considered as part of the proposed changes to registry functionality.
It will be difficult for auditors to interpret this purpose and for participants to understand how they are meeting the 'efficiency' requirement.	During development we solicited feedback from auditors and there is general support for, and understanding of, the proposed purpose.
The Authority should not be involved in audits as this requires a specific set of skills and may crowd out the competitive market for auditors.	The Authority's involvement in audits is limited to clauses 10.17B, 11.11, and 15.37C. In these instances the Authority determines the auditors, and may choose to conduct the audit itself.
If the Code and Code breach provisions are not sufficient for participants to achieve the goals of the audit regime there this is a significant issue which is unlikely to be solved by amending the purpose statement in a guideline for the audit regime.	Concern regarding the Code breach process noted, however this is outside of the scope of the consultation.

Submission	Authority response
<p>It is not clear who the external reviewer is and what knowledge/experience they have to enable them to understand the underlying processes and procedures the audits cover.</p>	<p>The external reviewer is procured through a competitive tender process and regularly contracted out. The most recent procurement can be found <a href="#">here</a>.</p> <p>The non-financial criteria were: ability to meet our requirements, operational understanding, relevant experience, and capacity to deliver.</p> <p>The current external reviewer service is provided by Momentous Consulting.</p>
<p>The imposition of the next audit date for DUML ICPs if the DUML customer switches retailers is impractical and highlights disconnection with the operational realities of maintaining a business within the Code requirements. Enforcement of this requirement will lead to non-compliance, inefficient pricing, and reduction in competition in the DUML space.</p>	<p>DUML audit Code obligations are outside of the scope of this consultation and were covered in the 2015 consultation on the proposed changes to the audit regime. Disagree that requiring DUML databases to be audited is impractical. DUML audit information will be publicly available and allow traders to make informed decisions regarding the commercial and compliance risks they face by assuming responsibility for the DUML database.</p>
<p>There are instances of breach's recorded as non-compliance that add no value i.e. where there is no material impact to industry, participants or consumers. There could be a threshold of acceptance.</p>	<p>Proposal noted.</p> <p>The <i>Risk and materiality guideline</i> provides some context regarding timeframes for addressing breaches.</p> <p>Where there is a breach that does not align with the Authority's statutory objective, an amendment to the Code to permit the practice may be a more appropriate solution.</p>
<p>The <i>Auditor protocol</i> is concerned with the auditing of participants and not DUML customers and so does not envisage the relationship that participants must have with the DUML customers in order to ensure compliance with their DUML audit obligations.</p>	<p>The Authority only regulates parties that are industry participants. The DUML obligations, including DUML audit obligations are the responsibility of the trader.</p> <p>It is the traders' decision as to how they fulfil these obligations.</p>
<p>We understand that with a trader undertaking DUML audits, it creates a conflict of interest for the auditor in relation to this <i>Auditor protocol</i> in terms of clauses 3.2(g) and 3.10.</p> <p>The protocol should be amended to permit participants to become actively involved in the DUML audit by performing field work with its DUML customers.</p>	<p>In principle we believe that auditors should be able to choose to use participant generated information or audit reports of DUML, but only where the auditor is confident in the competence and independence of the auditor and the completeness and accuracy of the audit findings.</p> <p>The terms and conditions of auditor</p>

Submission	Authority response
	approval will need to be amended to clarify this. This will be considered as a future piece of work.
Suggest the language is aligned with the Authority's recent Code Review Programme consultation with the use of 'publicise' changes to 'publish'.	<p>The words "publish" and "publicise" are both defined in the Code. We chose the term "publicise" because it provides a more flexible manner of providing information.</p> <p>The definition of "publicise" requires the Authority to make the information available on the website and in any other manner we may decide.</p> <p>We need to use the terms as they are currently defined. Once the Code Review Programme has been finalised then we will need to align with the appropriate term.</p>
The issue of "professional and ethical requirements" should be reviewed and clarified in relation to the "Independence and conflicts" part of the "Terms and conditions of appointment as an approved Retail auditor under Parts 10, 11, and 15 of the Code"	<p>Agree.</p> <p>This will be considered as a future piece of work.</p>
Clarity is needed on the correlation between the guidelines and certification timeframes.	<p>Noted.</p> <p>The timeframes for next audits are covered in the individual audit guidelines that were released for consultation on 28 February 2017.</p>
The additional costs that will be incurred as a result of the DUML changes should be balanced against the proposed benefits and set out clearly in the Consultation Paper.	<p>Please refer to the 2015 consultation paper that identified the issue and benefits of separation of DUML audits from reconciliation participant audits as well as longer audit frequency for audits.</p> <p>The guideline is designed to clarify and standardise expectations of DUML audits under Code effective from 1 June 2017.</p>
There are however smaller customers, such as retirement villages, business associations, etc. that cannot afford the additional expenses. There is concern that the Authority is proposing a blanket approach without considering the wider market or understanding what the impact to these smaller customers could be.	<p>Disagree. DUML size and accuracy is considered when determining the next audit date of the DUML database.</p> <p>DUML is not the only method of quantifying electricity permitted under the Code and other mechanisms such as individual UML ICPs, metering, or use of residual load in embedded networks may be more cost effective than maintaining</p>



Submission	Authority response
	and regularly auditing a DUML database.
<p>Our understanding is that should Retailer 1 commence a DUML audit, but not complete prior to Retailer 2 gaining an ICP recorded in the DUML database, that Retailer 2 will need to submit an audit to meet the audit timeframe for the database where the ICP resides.</p> <p>If the ICP switches retailer there should be an increased timeframe to complete a new audit.</p>	<p>Acquiring a DUML customer is a commercial decision made by the gaining retailer when choosing to switch the DUML ICP. Information regarding the due date of the DUML will be available when making this decision.</p> <p>Code amendments to extend the next audit date for DUML ICPs are outside of the scope of this consultation, and were considered in the 2015 consultation.<sup>4</sup></p>
<p>A threshold should be included within the <i>DUML statistical sampling guideline</i> where if a participant has less than 100 items of UML or annual load then the requirement should be a 100% field audit every 5 years.</p>	<p>The Code does not permit an audit period of 5 years.</p> <p>A good field audit and DUML audit of a database, regardless of size can support a decision to allow an audit period of up to 3 years.</p>
<p>In relation to DUML, corrections should be applied going forward, but it should not be compulsory to apply changes to historically submitted data following an audit.</p>	<p>Clause 15.2 requires traders to correct information, including DUML information. The DUML audit guideline will be updated to clarify this requirement.</p>
<p>Audit findings need to be individually investigated and considered with respect to the materiality and market impacts before amending data, otherwise data that has not been validated may end up being submitted</p>	<p>Where an issue is found, it needs to be investigated and data validated prior to correction.</p> <p>The Code does not place a materiality threshold on corrections, only that where an error is found it is corrected.</p>

<sup>4</sup> <http://www.ea.govt.nz/development/work-programme/operational-efficiencies/review-of-participant-audit-regime/consultations/#c15626>

## Glossary of abbreviations and terms

Code	<b>Electricity Industry Participation Code 2010</b>
DUML	<b>distributed unmetered load</b>
audit regime	<b>the audit, certification, and approval processes that apply to auditors, participants, and the Authority under Parts 10, 11, and 15 of the Code</b>