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Memo

To	Audited participants
Copies	Approved auditors
From	Jonathon Staite
Date	18 June 2019
Subject	Audit Update 2019

For your information

We have received feedback that there is some industry confusion regarding the Authority's expectations and Code requirements associated with the participant audit regime.[1]

The purpose of this memo is to clarify the areas that have caused confusion.

Switching: Average daily consumption in non-half hour (NHH) switch completion file

For each metering installation, the trader must provide the average daily consumption when completing an NHH switch.[2] The registry functional specification describes the average daily consumption as:

Average Daily Consumption	Numeric 6	M	Value indicates average kWh per day for last read period.

This means that the trader should use the two most recent validated meter reads to calculate the average daily consumption. .

For example: a meter is read on 25/01/2019 and 26/02/2019 and switches (on an estimate) on 01/03/2019. The average daily consumption will be the consumption between 25/01/2019 and 26/02/2019, divided by the number of days elapsed (32 days).

The average daily consumption calculation may change as part of the switch process review due in 2020 or 2021, however until it changes (if at all) the above interpretation applies. Clause 11.2 of the Code requires participants to take all practicable steps to ensure that information they provide is accurate, which includes the average daily consumption. Negative consumption shouldn't occur and traders should check very high or very low average daily consumption for accuracy.[3]

Distributed Unmetered Load (DUML): Tracking of load changes

On 20 September 2012, the Authority sent a memo to retailers and auditors advising that they are not required to track load changes at a daily level if the DUML database contains an audit trail. Some participants and auditors have interpreted the memo to mean that a 'snapshot' of the load at the end of the month is sufficient for calculating DUML load.

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[1] The participant audit regime is the audit of participants under parts 10, 11, 15 and 16A of the Code

[2] RS-050 in registry functional specification

[3] Negative consumption is normally generation. Generation is excluded from average daily consumption.

For clarity, that memo refers to how changes to the database can be entered into the database for compliance with clause 11(3) of Schedule 15.3 (tracking of load changes). If a DUML database contains a compliant audit trail, this will enable the load to be tracked and calculated for any given day.

The Code requires reconciliation participants to be calculating and submitting the DUML load correctly and accurately for every given month. This will include:

- calculating the correct monthly load, taking into consideration when each item of load was physically installed or removed

- calculating wash-up volumes, taking into account where historical corrections have been made to DUML load and DUML volumes.

Audit Regime: Treatment of third party agent audits

If a participant outsources the performance of its obligations to an agent, the participant remains responsible and liable under the Code for the agent's actions.

The participant is responsible for ensuring that its agents' actions are audited and included in the lead audit that the participant submits to the Authority. This can be done in two ways:

- **The agent is audited as part of the participant audit.**
  The agent is audited at the same time as the participant and the findings are entered directly into the participant's audit.

- **The agent is audited separately and provides this audit to the participant.**
  The agent arranges for its own audit and provides it to the participant(s) they provide services to.

  The participant's auditor uses this information to assess the participant's compliance. The participant's auditor also needs to perform some additional checks to ensure the agent's audit is relevant to the participant being audited.

  The participant's auditor must review the agent's audit report and be confident that this report is an accurate assessment of the audited participant's level of compliance with the Code for the tasks the agent performs.

Third party agent audits will no longer be accepted

Over the past 12 months we have trialled the use of a 'third party agent audit' on a case by case basis.

In this scenario the agent would be audited as part of the participant's audit. That participant's audit would be used as an 'agent audit' to assess the compliance of a second participant that the agent also works for.

Our trial has concluded that a third party agent audit report is not a suitable proxy for an agent audit. The third party agent audit focusses on how the agent ensures compliance for a specific participant. It is not directly applicable to other participants the agent works for. This impacts the Authority's level of confidence that the other participants' processes and compliance have been adequately audited.

We have decided that third party agent audits are not an appropriate mechanism for assessing compliance. From now on, if a participant uses an agent they must ensure that:

- the agent is audited as part of the participant's audit; or

- the agent is audited separately and this audit is provided to, reviewed, validated, and accepted by the participant's auditor

Audit Regime: Application of future risk rating to next audit date decision

We have received feedback that there is some industry confusion regarding the influence the future risk rating has on the next audit date decision.

For clarity, the future risk rating is the <u>starting point</u> for a next audit date recommendation and decision.[4] The Authority's next audit date decision is strongly influenced by factors including:

- the auditor's recommended next audit date

- the participant's understanding of any issues and the impact of those issues

- the participant's proposed resolution of any Code breaches including timeframes

- if any breaches are genuinely outside the participant's control

- the risk of future breaches

- the participant's historical performance in addressing audit issues

- the participant's ability to monitor and manage compliance outside of regular audits.

Audit Regime: Audit review timeframes

Audits are usually reviewed by an Authority employee (internal reviewer) and an external person (external reviewer). The target review timeframes (from the date the participant submits the audit report to the Authority) are:

Participant type	Timeframe
Reconciliation participant	1 month
Dispatchable load purchaser	1 month
Metering equipment provider	1 month – if the auditor has recommended a 3 month next audit period 2 months if the auditor has recommended a next audit period of more than 3 months
Distributed Unmetered Load	1 month – if the auditor has recommended a 3 month next audit period 2 months if the auditor has recommended a next audit period of more than 3 months
Distributor	3 months

Our internal reviewers use the findings from their own review and the external review when communicating to participants following audit reviews.

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[4] More information on the future risk rating can be found in the auditor protocol