

01.02.18

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Dear Michelle

Subject – Audit Guideline for energy businesses (draft)

CitiPower, Powercor and United Energy appreciate the opportunity to provide feedback on the draft Audit Guideline for Energy Businesses (draft guideline), which once finalised will supersede Guideline 22: Regulatory Audits of Energy Businesses (the current guideline).

Our comments on the draft guideline are outlined below.

Appointment of an auditor, clause 4.3.2

The draft guideline states that the appointment of an Auditor is subject to a maximum of three consecutive audits. We have a number of concerns with this approach:

- The current Guideline provides no such maximum term for the appointment of an auditor which allows an audit firm to continue to be used for a number of regulatory audits and build up knowledge of a licensee's processes and systems.
- The level of independence which may be implied by this new ESC requirement does not take into account that the approved audit firms on the panel are large professional audit firms which meet all the ethics and independence requirements required by Australian Standards. To meet the level of independence, audit partners liaising with our businesses are regularly rotated by the audit firm (in accordance with professional guidelines) to other clients. In addition, while some members of an audit team remain, other members of an audit team are new to the licenced entity allowing fresh eyes and some continuity of knowledge.
- This limitation will lead to increased costs of auditing based on direct audit costs and also indirect costs of staff time to bring auditors up to speed on complex systems and processes within the business. The likely outcome will be to increase costs, slow the audit process down and make the outlined timeframes less achievable.

- The ESC limitation of three consecutive audits in clauses 4.3.2 and 9.1.2, is also not consistent with the stated requirement to avoid duplication of effort and repetition of audit work in clause 6.2.1.

We instead suggest that the guideline clause 4.3.2 be amended to a maximum term of three years as opposed to three consecutive audits. This would mean that if a licenced entity was subject to an additional audit that the same audit firm could be utilised within the 3 year term. As drafted, there could be multiple auditors required across our three businesses.

We also suggest that the drafting or final determination that accompanies the final guideline make it clear that the maximum three year term starts from the commencement of the new guideline. The ESC may also consider some flexibility with the appointment of the auditor, auditor term and any conflicts as there could be implications for auditor resourcing and also conflicts with other firms on the audit panel which may only come to light once the minimum scope is known.

Audit time frames, table following clause 8.1.5

We suggest that the audit timeframes outlined in the guideline instead be marked as *indicative* because the level of audit assurance and testing required, auditor availability etc. will impact on the timeframes.

Planning

The timeframes in the overall planning stage are in calendar days whereas the steps within this section are in business days. The scope preparation session must be held within 25 business days is outside of the overall planning timeframe of 30 days. The overall planning time frame should therefore reflect 30 business days and not 30 days.

We recommend that the indicative scope provided be a minimum scope which includes the type of audit and level of assurance as this will influence the audit timeframes, workload and engagement of an audit firm. Engagement of audit firms within 15 business days is difficult, particularly in light of the proposed requirement to change after three consecutive audits.

Fieldwork and reporting

Some of the audit timeframes in the table in section 8 are inconsistent with timeframes provided in other clauses throughout the guideline. We recommend that these inconsistencies be addressed in the final guideline. They include:

- The table states that management responses to the audit must occur within 30 business days of the final report or 25 business days after the closing meeting. Clause 7.14.1 requires written statements from management to be provided to ESC five business days before the close out meeting.
- The overall timeframe in the table suggests no more than 90 calendar days from start of audit work to issue of the Final Audit Report and yet the closing meeting is drafted to occur no more than 90 days from the start of the audit work. The closing meeting should occur on a date agreed with the ESC or amend the no more than 90 days from start of audit work to no more than 95 days from start of audit work to allow the 5 business days prior for the provision of the final audit report.

Other suggested amendments to the table include:

- *Response to audit* - remove this row.
- *Submission of draft deliverables* - revise the at least 15 business days to at least 30 business days before the closing meeting.
- *Submission of final deliverables* - amend to Submission of final deliverable, including management response. Whilst this does not provide the 30 business days afforded to the licensed entities in the draft guideline it does provide the licensed entity 25 business days and improves consistency with drafted clauses.

Approved audit panel, clause 4.2.1

We recommend that the guideline, section 4.2 include drafting to ensure that the ESC advise all licensed entities of any additional or removed audit firms from the Approved Audit Panel listing.

Compliance grading

Whilst we are supportive of simplified gradings, we query how appropriate they are for an agreed upon procedures audit.

Frequency and timing of audits, clause 3.2.4

The draft guideline states that the ESC has sole discretion on timing and frequency of audits and that an audit may be required at least once every three years. The proposed drafting provides no maximum level of audit frequency. The current guideline, clause 3.2.2, states that a high risk entity will be audited no more than once per year. We suggest that the drafting in clause 3.2.4 include words to the effect of “an Audit at least once every three years and no more than once a year”. We also ask that provisions be made to enable licensees to negotiate the timing of any audit to better manage conflicting regulatory priorities and allow adequate resource allocation. Some flexibility is likely to improve audit quality, compliance with deadlines, auditor selection processes etc.

Audit scope, clause 3.2.6 and clause 5.2.1

Minimum audit scope

The current guideline provides that ESC’s risk assessment will be used to establish the minimum audit scope in consultation with the licensee, clause 3.2.6. The draft guideline, clause 3.2.6, is limited to *further assessment* by the ESC, in consultation with the licensee to identify the minimum scope. We suggest that the ESC risk assessment which establishes the priority of obligations be included and the level of audit visible to and part of the discussions with the licensee. We suggest the lead in wording in clause 3.2.6 include the following, “The ESC’s risk assessment and any further assessment of a Licensee’s relevant”. This consultative approach allows a discussion with the ESC to clarify the issue for our business and to discuss why certain areas present less risk than the ESC believes.

We also recommend that the minimum audit scope includes the type of audit and the level of assurance required as this will impact the audit timeframe, level of testing and ultimately audit cost.

Timing for obligations in scope

The draft guideline, clause 5.2.1, states that before each audit the ESC will consult with the licensee and will review and nominate the obligations to be included in the audit. We recommend that this consultation take place at least three months prior to the commencement of the audit. This will allow a minimum audit scope to be known before the 30 day planning stage commences. Clause 5.2.1 could include drafting, "At least three months before each audit, the commission,...."

Audit documentation

The current guideline provides a timeline for draft and final audit reports and clarifies the content of an audit report which includes findings and in the case of the final audit report management response and details of compliance plans.

The draft guideline creates a new Findings Register which is in addition to the Audit Report and must be reported separately to the ESC. An Audit Report would usually contain the findings and recommendations, compliance plans, management comments etc. so this appears to be a double up of documentation which increases the risk of incorrect duplication and increases costs. We suggest that the ESC clarify the differences in the findings and compliance plans within the Audit Report and the Findings Register.

The Findings Register template and the Audit Report template should be included as Attachments to this revised Guideline.

Other

Sub clause numbering in section in 7.14.1 and 7.15 should be corrected.

If you have any questions please do not hesitate to contact Verity Watson

Yours sincerely

Brent Cleeve

Head of Regulation

CitiPower, Powercor and United Energy