

Our ref: 11841477

19 March 2014

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Dear Paul

### **Draft Audit and Review Guidelines: Electricity and Gas Licences**

Thank you for the opportunity to participate in the roundtable meetings held in December 2013 and January 2014 and to comment on the Draft Audit and Review Guidelines: Electricity and Gas Licences (**Draft Audit Guidelines**) dated February 2014.

With the exception of four items, Western Power supports the proposed changes as reflected in the Draft Audit Guidelines. The four items relate to the following:

- Frequency of Audits and Reviews (section 6.4)
- Threats to Independence (section 8.3.1)
- Consecutive Audits or Reviews Conducted by the Same Auditor (section 8.4.1)
- Performance Audit Compliance Summary (section 11.4.1)

#### **6.4 Frequency of Audits and Reviews**

Under this section, the Authority has the ability to extend or reduce the interval between audits and reviews from the standard 24 month period. In the situation where the Authority deems that the audit or review period for a licensee is to be reduced to fewer than 24 months, this will result in increased costs for the licensee. As the Authority's policy is to minimise the cost of regulation of licensees (subject to maintaining an appropriate level of oversight of the licensee's compliance with its regulatory obligations), Western Power is of a view that the subsequent audit or review should focus only on the audit/review findings which were the reason for the Authority shortening the next audit or review period. This approach will enable an appropriate level of regulatory oversight of the licensee by the Authority without exposing the licensee to unnecessary cost.

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### 8.3.1 Threats to Independence

The draft wording in section 8.3.1 is as follows:

*"Of particular interest are independence threats due to:*

- *self-interest – occurs when:*
  - *an auditor or a member of the audit team could benefit from a financial or non-financial interest in a licensee or a related entity; or*
  - *the total fees from the licensee represents a large proportion of the fees of the auditor expressing the audit opinion."*

**Issue:** The second sub-point requires additional explanation for the reader to understand the meaning of "a large proportion of the fees".

### 8.4.1 Consecutive Audits or Reviews Conducted by the Same Auditor

The draft wording in section 8.4.1 is as follows:

*"The Authority's policy with respect to auditor rotation is to limit the number of consecutive audits or reviews that can be conducted by the same auditor to two (2)."*

**Issue:**

The draft wording is a significant change from the wording within the current (August 2010) version of the Audit Guidelines: Electricity, Gas and Water Licences (**Audit Guidelines**), which states:

*"The Authority's policy with respect to auditor rotation is to limit the number of consecutive audits/reviews that can be conducted by the same auditor to a period of time not greater than 6 years in aggregate. This means that the same auditor can conduct either 2 (audit period is 3 years) or 3 (audit period is 2 years) consecutive audits/reviews."*

Reducing the number of consecutive audits or reviews which can be conducted by the same auditor to two from a possible three is a departure from the Authority's position at the roundtable meetings held in December 2013 and January 2014.

In Western Power's view, if the auditor is performing to the standards expected by the Authority and the licensee, then the ability to retain the same auditor for a six year period (up to three audits) significantly reduces the effort required to familiarise a new auditor with the licensee's operations and systems. Additionally, the number of firms capable (and willing) to undertake licence performance audits and asset management system reviews is currently quite limited therefore the proposed change from three to two consecutive audits will make it difficult for licensees to find a suitable auditor and may eventually result in increased audit fees.

#### **11.4.1 Performance Audit Compliance Summary**

Western Power notes that there is a significant difference between Table 3 'Operational/performance compliance rating scale' included in the Audit Guidelines and Table 6 'Audit compliance and controls rating scales' of the Draft Audit Guidelines. Specifically, Table 6 no longer includes the compliance ratings of 'Not applicable' and 'Not rated'.

Western Power's past performance audit reports included a number of obligations which were classified by auditors as 'Not applicable' or 'Not rated'. This was the case when, during the audit period, there was no activity relating to a particular obligation, or the obligation

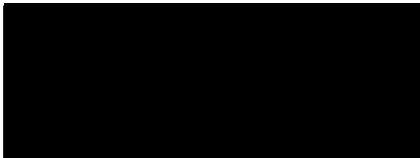
simply did not apply. Given the previous performance audit reporting, Western Power assumes that the updated Audit Guidelines will require the auditor to identify and disclose outside of the table format these obligations which are not applicable or not able to be rated.

Western Power also notes an inconsistency between tables 6 and 7 of the Draft Audit Guidelines. As mentioned above, Table 6 does not include the 'Not applicable' rating, however Table 7 'Audit obligation ratings' makes reference to that rating.

I would like to thank the Authority for the opportunity to provide input into the review process. Should you require further information please do not hesitate to contact Margaret Pyrchla, Regulatory Compliance Manager on 9326 4535.

Yours sincerely

**Matthew Cronin**



**Head of Regulation & Investment Management**

