

# Attachment 10.3

## Audit of Efficiency and Innovation Benchmark scale escalation drivers for the period 2011/12 to 2016/17

Access Arrangement Information

2 October 2017



Access Arrangement Information (AAI) for the period  
1 July 2017 to 30 June 2022



Western Power  
Audit of Efficiency and  
Innovation Benchmark scale  
escalation drivers for the  
period 2011/12 to 2016/17  
Report

29 September 2017

Mr John Paolino  
Senior Compliance Specialist  
Western Power  
363 Wellington Street  
Perth WA 6000

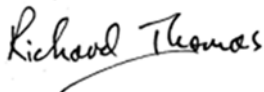
Dear John

**Re: Audit of Western Power's calculation of Efficiency and Innovation Benchmark scale escalation drivers for the period 2011/12 to 2016/17**

We have completed our audit of Western Power's calculation of the Efficiency and Innovation Benchmark scale escalation drivers for the period 1 July 2011 to 30 June 2017 and are pleased to submit our draft report to you.

If you have any questions or wish to discuss anything raised in the report, please contact Andrew Baldwin on 9365 7236 or me on 9365 7024.

Yours sincerely



**Richard Thomas**  
Partner  
Deloitte Risk Advisory Pty Ltd

# Independent Auditor's report

The Electricity Networks Corporation's (**Western Power**) Access Arrangement includes a gain sharing mechanism (**GSM**) to provide a financial incentive for Western Power to become more efficient in its operating expenditure. The GSM provides for a financial reward where Western Power's actual operating expenditure is less than the Efficiency and Innovation Benchmark (**EIB**), which is based on the *Access Arrangement for the Western Power Network (AA3)* forecast operating expenditure with adjustments.

In accordance with AA3 section 7.4.9, Western Power is required to arrange for an independent audit of the supporting data and calculations made to produce the EIB scale escalation drivers calculated for the purposes of AA3 section 7.4.8(b)(i). Western Power engaged Deloitte Risk Advisory Pty Ltd (**Deloitte**) to perform this audit.

The audit covered the EIB escalation drivers for the 2011/12 to 2016/17 financial years.

## Western Power's responsibility

Western Power is responsible for establishing and maintaining policies, procedures and controls designed to ensure the accuracy and validity of data and the correct application of the calculation methodology in accordance with AA3.

Western Power is also responsible for making all relevant information available to Deloitte for the purpose of this engagement.

## Deloitte's responsibility

Our responsibility is to express a conclusion on the validity and application of the data and assumptions used in the calculation of the scale escalation drivers for the 2011/12 to 2016/17 financial years, based on our procedures.

We conducted our engagement in accordance with the Australian Standard on Assurance Engagements (**ASAE**) 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* issued by the Australian Auditing and Assurance Standards Board, in order to state whether, in our opinion:

- The data used in the calculation of the scale escalation drivers for the purposes of AA3 section 7.4.8(b)(i) for the 2011/12 to 2016/17 financial years are valid and have been accurately and completely applied, in all material respects
- The scale escalation drivers are calculated in accordance with the methodology set out in Table 34 of AA3.

Our procedures consisted primarily of:

- Interviews with and representations from relevant Western Power staff to gain an understanding of processes and controls for the development and publication of the data used to calculate the scale escalation drivers for the 2011/12 to 2016/17 financial years
- Examination of Western Power's key documents and references used in the calculation of the scale escalation drivers
- Walkthrough and sample testing of relevant processes and controls
- Sample testing of inputs into the calculated scale escalation drivers
- Assessment of the calculated scale escalation drivers against the calculation methodology set out in Table 34 of AA3
- Reporting of findings to Western Power.

Our engagement provides reasonable assurance as defined in ASAE 3000.

## Limitations of use

This report is intended solely for the information and internal use of Western Power in accordance with our contract of 7 August 2017, and is not intended to be and should not be used by any other

person or entity. No other person or entity is entitled to rely, in any manner, or for any purpose, on this report.

We understand that a copy of this report will be provided to the ERA for the purpose of meeting Western Power's obligations in accordance with AA3 section 7.4.9. We agree that a copy of this report may be provided to the ERA in connection with this purpose, but only on the basis that we accept no duty, liability or responsibility to the ERA in relation to the report. We accept no duty, responsibility or liability to any party, other than Western Power, in connection with the report or this engagement.

### **Inherent limitations**

Reasonable assurance means a high but not absolute level of assurance. Absolute assurance is very rarely attainable as a result of factors such as the following; the use of selective testing, the inherent limitations of internal control, the fact that much of the evidence available to us is persuasive rather than conclusive and the use of judgement in gathering and evaluating evidence and forming conclusions based on that evidence.

We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, readers of our report should not rely on the report to identify all potential instances of non-compliance which may occur.

### **Independence**

We have complied with the independence and other relevant ethical requirements relating to assurance engagements, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

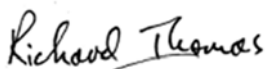
The firm applies Auditing Standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Conclusion**

In our opinion, based on the procedures performed, in all material respects:

- The data used in the calculation of the scale escalation drivers for the purposes of AA3 section 7.4.8(b)(i) for the 2011/12 to 2016/17 financial years is valid and has been accurately and completely applied
- The scale escalation drivers are calculated in accordance with the methodology set out in table 34 of AA3.

Deloitte Risk Advisory Pty Ltd



**Richard Thomas**  
Partner  
Perth, September 2017