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Economic Regulation Authority

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CHAIRMAN
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10 May 2006

Mr Adam Phillips Economic Regulation Authority Assistant Director, Monitoring PO Box 8469 PERTH BC WA 6849

Dear Adam

## Proposed Audit Guidelines for Electricity, Gas and Water Licensees

Alinta welcomes the opportunity to make a submission on the proposed audit guidelines. This response is on behalf of the following companies:

- AlintaGas Networks Pty Ltd
- Alinta Sales Pty Ltd
- Alinta Cogeneration (Pinjarra) Pty Ltd
- Alinta Cogeneration (Wagerup) Pty Ltd

As a general comment, Alinta supports audit guidelines that are designed to promote a culture of continuous improvement and maximises the cost effectiveness of the audits. In this context, Alinta is generally supportive of the proposed guidelines as it clearly sets out the requirements on the selection of auditors, scoping, conducting and reporting of audits and the auditing standards in the guidelines are based on Australian Auditing Standards.

Furthermore, Alinta welcomes the risk based approach to developing audit scopes, where the risk assessment is based on the widely adopted risk management standard AS/NZS 4360:2004. The proposed guidelines are consistent with similar guidelines used in other State jurisdictions.

Alinta's specific comments on the guidelines are as follows:

1. Section 2.1 Selection criteria – Alinta agrees with all the selection criteria except for the criterion "the cost of providing the services". Alinta believes that the skill, experience, independence of the auditor and the compliance with guidelines (including the standards referred to in the guidelines) are the relevant matters for consideration in ensuring the Economic Regulation Authority (Authority) obtains independent assurance that a licensee is meeting its licence obligations and have 'best practice' asset management systems. Alinta contends that licensees are required to meet the cost of the audits and face sufficient incentives to be efficient. Therefore, the audit cost should be a matter for the licensee's consideration.

- 2. Section 2.2.1 Independence The term 'commercial interest' is not a defined term in the guidelines. Clarification of what is deemed to be a commercial interest would be useful. For example, the selection of an auditor may be difficult if a commercial interest is deemed to be an auditor who is a shareholder (without a percentage threshold specified) of the company being audited, as it would rule out the majority of potential candidates.
- 3. Sections 3.6.2 & 4.5.2 Reporting procedures Alinta supports the Authority's intention to audit less frequently those licensees who are able to demonstrate consistent and effective compliance through audit results. Alinta suggests the Authority also consider reducing the scope of the audit, such that the audit focuses on areas where the licensee has not been able to demonstrate to the Authority consistent and effective compliance.
  - Alinta supports the publication of a summary of the audit results in a comparative report or on the Authority's website. However, Alinta does not support the Authority's intention to publicly distributing copies of the final audit report or make the audit report publicly available on the Authority's website without the consent of the licensee as the report may contain commercially sensitive information. Alinta suggests that this section of the guidelines reflects a duty of care to the licensee by requiring the Authority to treat all information in the report as confidential information unless agreed otherwise by the licensee.
- 4. Section 3.5 Audit conduct Alinta believes that the auditor should be encouraged to make use of independent audits, such as the audits undertaken on behalf of Retail Energy Market Company Ltd on metering and billing systems, in arriving at a compliance assessment. The auditor is not to use the information gathered during the audit for any other purpose without the consent of the licensee. The terms of the engagement, including the scope, should be agreed by all parties prior to the commencement of the audit.

Alinta proposes the Authority revise the relevant sections of the guidelines to reflect Alinta's suggestions and concerns. Should you wish to discuss any of the above mentioned matters, please contact Siva Moorthy on (03) 8544 9442.

Yours sincerely

Julie Buckland General Manager Regulation