



Draft Audit Guidelines – Electricity and Gas Licences

Alinta Energy Submission

19 March 2014

1 Introduction

Alinta Sales Pty Ltd (**Alinta Energy**) is pleased to provide comment on the *Draft Audit and Review Guidelines – Electricity and Gas Licences (Audit Guidelines)* drafted by the Economic Regulation Authority (**Authority**).

Alinta Energy commends the Authority for hosting roundtable meetings to discuss the proposed audit framework. Alinta Energy found the discussions constructive and informative and encourages the Authority to utilise this form of stakeholder engagement in future guideline reviews.

Alinta Energy will restrict its comments to a few key areas below.

2 Auditor rotation policy

In its first submission in November 2013 concerning the proposed changes to the Audit Guidelines, Alinta Energy supported amendments that permitted a licensee to use the same auditor for a maximum of three consecutive audits.

As it can take time and considerable resources to explain a licensee's systems and processes to an auditor for the first time, enabling a licensee to use the same auditor for up to three audits makes for simpler and more streamlined consecutive audits as the auditor will already be familiar with the licensee's business operations.

Alinta Energy notes that a recent change to Section 8.4.1 of the Audit Guidelines reduces the number of consecutive audits by the same auditor from three to two. However, Alinta Energy will support this decrease provided that the auditor rotation policy applies to a person who plays a significant role in the audit as outlined in Section 8.4.2. That is, whilst different lead and review auditors must be nominated after two consecutive audits, the audit team conducting the large body of work could remain the same, hence ensuring the benefits that derive from the audit team's familiarity with the licensee's systems and processes.

3 Audit compliance and controls rating

A significant change to the current audit process is the requirement to rate the licensee's adequacy of controls for each licence obligation, in addition to rating a licensee's compliance with that obligation. The auditor is required to tabulate the ratings in a format consistent with Table 6.

Alinta Energy is concerned that the proposed rating of the adequacy of controls can have a real impact on the extent of audit effort required.

A detailed assessment of controls is supplementary to an assessment of compliance. The proposed approach requires sufficient work to be performed to assess the strength of controls for all obligations, not just those where an issue has been identified. The current risk-based approach to compliance enables the auditor to obtain less evidence for low risk items and non-rateable obligations may be excluded from assessment. To determine that a control is "strong" i.e. the proposed "A" rating, requires sufficient work.

Alinta Energy believes that the current process, whereby controls are assessed for high risk items where issues are identified, provides the Authority with a level of assurance that the licensee is complying with its obligations.

Audits and reviews impose significant costs on the licensee as well as on the Authority. Alinta Energy notes the Authority's policy of minimising the cost of regulation on licensees, subject to maintaining an appropriate level of oversight of the licensee's compliance with its

regulatory obligations. The proposed approach will warrant more extensive and costly audits for both the licensee and the Authority.

To this end, whilst Alinta Energy supports the simplified 1 to 4 compliance rating, it does not support the proposed assessment of each and every individual control. A good auditor will give regard to controls and consider their effectiveness where high risk items are identified.