AUSTRALIAN ENERGY REGULATOR

MEETING RECORD (formally Note for File)

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| DISCUSSION WITH: | ENA |
| TRACKIT: | 50557 |
| DATE: | 23/10/2013 |
| OFFICER: |  |
| VENUE: | ACCC Melbourne office |

PURPOSE: Meeting to discuss draft economic benchmarking data template

ATTENDEES: AER – Mark McLeish, Andrew Ley, Sam Sutton

ENA – Jim Bain, Robert McMillan, Nicola Roscoe, Keith Lockey (KPMG)

RSM Bird Cameron – Jason Croall, Jane Meade (via telephone), Craig Hanks

## *SUMMARY OF DISCUSSION:*

### Data requirements

ENA staff queried whether the AER might ask for less than ten years of data.

AER staff answered that it was likely that the AER would require less years of audited data but not back cast data.

ENA staff queried the value of getting the additional years where that data may be inaccurate.

AER staff responded that for economic analysis a longer data series is better. Further, where data is available it is worthwhile collecting it. However, AER staff noted that this was a matter of active consideration.

ENA staff asked why it was necessary to backcast information for sensitivity analysis. AER staff responded that at this stage the final model specification for the economic benchmarking model is unknown. Hence, almost all data could potentially be of value and should be backcast. AER staff noted that some data on environmental factors may not require backcasting.

AER staff noted that Cost Allocation Method (CAM) variations might influence the results of economic benchmarking analysis and were surprised that the ENA did not consider that it was worthwhile backcasting data in accordance with the current CAM.

The ENA noted that the CAM methods reflect the business’ circumstances in the given year. Further, CAM changes might come about due to the development of better allocation approaches or new data becoming available (for instance EFT vs workforce time). Hence it is appropriate to use the CAM as it was at the time.

AER staff asked whether there may another way that we could ask for the change in the CAM to get an idea of the materiality of the change. ENA representatives indicated that they could possibly provide an indication of the cost shifts.

### Reporting framework

ENA staff recommended that detail on the accounting framework be added to the RIN. This could include requiring financial data to be prepared in accordance accounting standards and auditing standards.

AER staff queried the possibility of doing this where accounting standards may have changed over time. Further, AER staff queried the potential to prescribe accounting standards were data is to reconcile to regulatory accounts prepared in accordance with historical standards. ENA staff indicated that the AER would need to consider this in specifying the accounting standards.

ENA staff also recommended the reporting framework require costs be prepared in accordance with cost allocation methods (CAMs).

#### Basis of preparation

ENA staff recommended that the RIN request the basis of preparation for the RIN templates. The basis of preparation would outline how NSPs adhered to the reporting framework in completing the AER’s RIN drawing on data from their systems.

AER staff noted that the templates contain a spreadsheet requesting information on assumptions applied. ENA staff noted that this information was requested on a line-by-line basis. They noted that the basis of preparation might better be structured in a different format.

#### Estimated data

ENA staff requested a definition of ‘estimated data’ be provided.

It was forwarded that estimated data:

* cannot be extracted from the information systems of the NSPs
* requires retrospective forecasts
* is based upon assumptions rather than accounting records
* requires management estimates

It was considered that the same definition of estimated data would apply to both financial and non-financial data.

#### Public RIN ‘open register’

ENA staff recommended that the AER develop a public register of advice on how to complete the RIN templates. AER staff stated that this would unlikely be developed given the legal nature of the RIN.

ENA staff noted this and suggested that it would still be worthwhile maintaining a register of issues to be resolved in the development of the RIO.

#### Audit framework

ENA staff recommended that the AER develop an audit framework providing a suite of audit assurance tools. More generally the AER might want to think about what the appropriate tool is that should be provided on historic information. This could be a risk based framework? Low risk = negative assurance. High risk = positive assurance. ENA staff recommended the AER provide guidance or principles as to the type of assurance that we will require.

They noted that there were no audits of regulatory proposals yet audits for benchmarking information. AER staff noted that the audit requirement was being developed based upon requests from NSPs.

ENA staff noted that the AER didn’t need to reinvent the wheel in developing the auditing framework as the auditing standards provide this guidance.

#### Audit requirements

ENA staff suggested some of the direction for auditors should be incorporated into the RIN reporting framework. This included:

* The requirement that information only be estimated where base data isn’t available
* Reporting of information in accordance with a CAM
* the requirements that the data was completely captured, complete and accurate.
* Requests for the auditor to verify or assess aspects of a NSP’s RIN response.

The auditor will provide an opinion on the subject matter. The auditor will make up their mind as to the appropriate procedures to provide the view. However you cannot direct an auditor to undertake particular procedures.

It was noted that an auditor could be required to review procedures.

The ENA suggested that the AER needed to decide the assurance that it wanted. They noted that looking at the procedures does not specify if the information has been fairly presented. They also queried why the AER might want to review procedures or processes where an auditor has certified the data adheres to the requirements of a RIN.

It was noted that should directors be required to sign a statutory declaration then they would ensure that actual data was provided where this is a RIN requirement.

##### Publishing audit report

ENA staff forwarded that it would not be okay to publish audit reports for specialized financial statements. This was because the reports may be inappropriately relied and could result in litigious action against the auditors. ENA staff stated that it would be appropriate to state that the RIN responses had been audited (without specifying the auditor).

##### Estimated financial information

It was suggested that the audit standard ASRE 2405 would be more appropriate for the audit of estimated financial information.

RSM Bird Cameron staff stated that ASRE 2405 would be appropriate as both standards have the same objective and substance.

The ENA submitted that much of the detail of the audit requirements should be incorporated into the reporting framework of the RIN.

ENA representatives submitted that the systems audit is unnecessary. If an auditor has provided a view on the data there isn’t need for the auditor to review the system. Further, opinion on the data has primacy over the opinion on the system. Also, auditor would only be able to provide an opinion on a current system. Additionally, it is not possible to provide an opinion on previous systems where knowledge of those systems has been lost to the NSP.

AER staff asked whether the AER should set out qualifications as to who should be preparing the data. The ENA noted again that the opinion on the data, as opposed to who prepared the data, should have primacy.

It was noted that the AER could target individual firms for further audit review if considered necessary.

ENA staff requested that the AER allow firms other than audit firms to review non-financial data. The ENA noted that this would be consistent with other RINs that the AER has released. AER staff noted that this would depend on whether the firm had the required qualifications to sign off on an audit.

AER staff asked whether there was a need to distinguish between estimated and actual data. Color coding might be a practical way of presenting information that is estimated.

ENA representatives stated that there would be separate basis of preparation for estimated and actual data. This may necessitate two sets of RIN templates for the purpose of an audit.

##### Materiality

It was noted that the ENA provided a definition of materiality in its submission that had been adopted in Australian regulatory accounting guidelines in the past. This definition hinged on whether the omission or misstatement of information could influence the economic decisions of users. AER staff quieried whether this definition might be open to interpretation. It was clarified that in this instance the user would probably be the AER. Further, auditors should know the users and know the intended use of the templates.

### Process and timeframe issues

AER staff clarified that they would only publish data once it had been audited and would require audited data by April.

AER staff clarified that they would not require NSPs to amend audited data. However were the AER receives information is compliant but not what we wanted it may issue further information requests. If this is the case then we would ask for it again with certification appropriate to the request.

ENA representatives stated that they were uncomfortable with the requirement for cross submissions.

The ENA noted that there might be a temptation to reconcile unaudited data to audited data. They suggested that this would not be a worthwhile exercise.

The ENA noted that the timeframes for the audit of data is unknown. They may or may not be able to undertake the audit within the required time.

The ENA noted that the further you go back the harder it is to get it audited.