



# Independent Reasonable Assurance Report to the Directors of Jemena Electricity Networks (Vic) Ltd

To the Directors of Jemena Electricity Networks (Vic) Ltd

## Conclusion

In our opinion, Jemena Electricity Networks (Vic) Ltd's Statement of Compliance that the entity has complied with the Ring-fencing Guidelines published by the Australian Energy Regulator on 17 October 2017 is, in all material respects, fairly presented for the regulatory year ended 31 December 2018.

## Information subject to assurance

The information subject to assurance is Jemena Electricity Networks (Vic) Ltd's (Jemena's) Statement of Compliance for the regulatory year ended 31 December 2018, as set out in section 2.1 of Jemena's Electricity Ring-fencing Guideline Annual Compliance Report (Annual Compliance Report) prepared in accordance with the Ring-fencing Guidelines published by the Australian Energy Regulator (AER) on 17 October 2017 (Statement of Compliance).

## Emphasis of Matter – interpretation of physical separation requirements

Without qualifying our conclusion, we draw attention to section 2.3 of Jemena's Annual Compliance report, which describes judgements made by management in interpreting the physical separation requirements of the Guideline, in particular the use of shared spaces (e.g. kitchen amenities) within an office. This section discusses comments expressed after the end of the compliance period by AER staff in conversations with us and Jemena, and by the AER in its annual ring-fencing compliance report for the 2017-18 year issued on 21 March 2019.

## Scope

The subject of our reasonable assurance engagement is whether Jemena's Statement of Compliance that the entity has complied with the Ring-fencing Guidelines published by the Australian Energy Regulator on 17 October 2017 (Ring-fencing Guidelines) is, in all material respects, fairly presented for the regulatory year ended 31 December 2018. This Statement of Compliance that they have complied with Ring-fencing Guidelines accompanies our report, for the purpose of reporting to the Directors of Jemena and the AER.

## Basis for conclusion

We conducted our engagement in accordance with Australian Standard on Assurance Engagements ASAE 3100 Compliance Engagements (ASAE 3100). We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In accordance with ASAE 3100 we have:

- used our professional judgement to plan our procedures and assess the risk of material misstatements in Jemena's Statement of Compliance that they have complied with the Ring-fencing Guidelines issued by the AER;



- considered internal controls implemented to meet the compliance requirements of the Ring-fencing Guidelines; however, we do not express a conclusion on their effectiveness; and
- ensured that the engagement team possesses the appropriate knowledge, skills and professional competencies.

### Summary of procedures performed and other observations

In Appendix A, we provide an overview of the key procedures we have performed in relation to each of the Ring-fencing Guideline requirements. This overview is provided at the request of the AER to provide greater transparency over the procedures we performed. Our conclusion is not modified in this respect.

In Appendix B, we have summarised performance improvement observations. Our conclusion is not modified in respect of these observations.

### How we define reasonable assurance and material misstatement

- Reasonable assurance is a high level of assurance, but is not a guarantee that it will always detect a material misstatement in Jemena's Statement of Compliance when it exists.
- Instances of misstatement in Jemena's Statement of Compliance are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the intended users taken on the basis of Jemena's compliance with the requirements of the Ring-fencing Guidelines.

### Inherent limitations

- Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error, or material misstatement in Jemena's Statement of Compliance may occur and not be detected.
- A reasonable assurance engagement for the regulatory year ended 31 December 2018 does not provide assurance on whether compliance with the requirements of the Ring-fencing Guidelines will continue in the future.

### Use of this assurance report and matters relating to electronic publication

This report has been prepared for the Directors of Jemena and the AER for the purpose of compliance with the Ring-fencing Guidelines and may not be suitable for another purpose.

We understand that the AER intends to publicly release our assurance report via its website. The AER is responsible for the integrity of AER's website where our report is presented alongside the Annual Compliance Report. We have not been engaged to report on the integrity of the AER's website. This report refers only to the Statement of Compliance and does not provide an opinion on any other information which may have been hyperlinked to/ from the Annual Compliance Report. If users of the Annual Compliance Report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the Annual Compliance Report to confirm the information contained in this website version of the Annual Compliance Report.

We disclaim any assumption of responsibility for any reliance on this report, or the Annual Compliance Report to which it relates to any person other than the Directors' of Jemena and the AER, or for any purpose other than for which it was prepared.



## Management's responsibility

Management are responsible for:

- the compliance activities including identifying, designing and implementing controls to meet the requirements of the Ring-fencing Guidelines;
- identification of risks that threaten the compliance with the Ring-fencing Guidelines from being met
- monitoring ongoing compliance; and
- preparing an Annual Compliance Report and providing a Statement of Compliance with respect to the outcome of the evaluation of the compliance activity against the Ring-fencing Guidelines, which accompanies this Independent Assurance Report.

## Our responsibility

Our responsibility is to perform a reasonable assurance engagement in relation to Jemena's Statement of Compliance with the Ring-fencing Guidelines, for the year ended 31 December 2018 and to issue an assurance report that includes our conclusion.

## Our independence and quality control

We have complied with our independence and other relevant ethical requirements of the Code of Ethics for Professional Accountants issued by the Australian Professional and Ethical Standards Board, and complied with the applicable requirements of Australian Standard on Quality Control 1 to maintain a comprehensive system of quality control.

KPMG

Vicky Carlson  
*Partner*  
Melbourne  
29 April 2019



## Appendix A – Summary of procedures performed

In this section, we present an overview of key procedures performed as part of our reasonable assurance engagement in respect Jemena’s compliance activities with the relevant requirements of the Ring-fencing Guidelines for the regulatory year ended 31 December 2018. This information has been provided at the request of the AER.

This information should not be construed as providing an opinion or conclusion on the separate compliance activities noted, nor that the aggregation thereof modifies our conclusion reported in the Independent Reasonable Assurance Report.

We performed the following general procedures to assess Jemena’s overall compliance with the Guideline:

1. We obtained Jemena’s Electricity Ring-fencing Compliance Manual (Compliance Manual) and performed the following:
  - inquired with management if there were any changes to the Compliance Manual during the 2018 regulatory year; and
  - updated our initial assessment on whether the Compliance Manual adequately addressed the requirements of the Guideline.
2. We considered whether certain pre-existing systems, policies and procedures within the SGSPAA business had been appropriately updated to reflect obligations arising from the Ring-fencing Guideline. This included sighting the policies as well as considering information we had reviewed as part of our audit procedures in connection with the financial and regulatory audits of SGSPAA and Jemena. The systems, policies and procedures considered included:
  - Jemena code of conduct
  - Organisation Framework Design document
  - Contracting and Procurement Entity Procedure
  - Secondment Guideline
  - Fleet Asset Class Strategy
  - Contractor Management Procedure
  - Asset Management Strategy
  - Procurement Policy
  - Accountability model
  - Jemena’s Compliance and Risk System (JCARs)
3. We reviewed minutes of meetings of the board of SGSPAA and its committees and made inquiries of management to inform our understanding of management’s approach to Ring-fencing compliance and to identify RESP’s and related transactions and risks of non-compliance with the Guideline.



In addition to the above, we performed procedures which included the following:

Compliance requirement	Procedures performed	Exceptions
<b>3.1 Legal Separation</b>	1. We performed an ABN search noting that Jemena is an Australian Company located in Victoria, Australia.	Nil
<b>3.2 Establish and maintain accounts</b>	1. We assessed whether the online Ring-fencing training module prepared by Jemena accurately described Jemena's obligation to ensure appropriate cost allocation and attribution. 2. We inspected training completion records for the period from 1 January to 31 December 2018 and for a sample of training records, we obtained evidence of Jemena's follow up procedures in relation to training completion. 3. We obtained a copy of the transaction reports (a listing of all transactions from the Enterprise Resource Planning System (SAP) between Jemena and affiliated entities for the regulatory year ended 31 December 2018 and performed the following: a. agreed total transaction values and outstanding balances at year end per entity to Jemena's audited trial balance as at and for the 12 months ended 31 December 2018; and b. compared the description of the transactions against the respective trial balance accounts for accuracy and our knowledge of the entities and the nature of the services they provide. 4. We assessed the appropriateness of the Jemena Cost Allocation Method (CAM) through performing a number of control and substantive based procedures as part of our statutory financial statement audits of both Jemena and the SGSPAA Group, as well as our audit of Jemena's regulatory statements prepared under the AERs Regulatory Information Notices (RIN's) for the 2018 regulatory year.	Nil
<b>4.1 Obligation to not discriminate</b>	1. We assessed whether the online Ring-fencing training module prepared by Jemena accurately described Jemena's obligation not to discriminate. 2. We inspected training completion records for the period from 1 January to 31 December 2018 and for a sample of training records, we obtained evidence of Jemena's follow up procedures in relation to training completion.	Nil
<b>4.2 Office, staff, brand, promotions</b>	1. We assessed Jemena's overall approach to ensuring physical staff separation in compliance with the Ring-fencing Guidelines through a. understanding Jemena's physical separation protocols including their interpretation of the office sharing protocols; b. observing physical separation arrangements of personnel involved in provision direct control services (including offices spaces and dedicated meeting rooms); and c. selecting a sample of Ovida (Jemena's RESP) employees and	Refer Appendix B

Compliance requirement	Procedures performed	Exceptions
	<p>confirming they could not access the workspaces of Jemena’s dedicated staff.</p> <p>3. We assessed Jemena’s staff sharing protocols to determine whether they were in compliance with the Ring-fencing Guideline, including considering the process undertaken by Jemena in determining what staff can be shared and what are considered ‘JEN designated roles’.</p> <p>4. We assessed Jemena’s branding and promotion protocols to determine whether they were in compliance with the Ring-fencing Guideline including:</p> <ul style="list-style-type: none"> <li>a. Accessing Jemena’s and Ovida’s websites to identify any cross advertisement; and</li> <li>b. Considering whether during the course of our financial statement and regulatory audits of the SGSPAA group and Jemena whether we had identified any cross advertisement or promotion e.g. on invoices sampled as part of our testing, emails correspondence received, contracts inspected etc.</li> </ul> <p>5. We assessed whether the online Ring-fencing training module prepared by Jemena accurately described Jemena’s obligation to have physical separation, (including separate workspaces) and branding.</p> <p>6. We inspected training completion records for the period from 1 January to 31 December 2018 and for a sample of training records, we obtained evidence of Jemena’s follow up procedures in relation to training completion.</p> <p>7. We obtained a copy of the office and staff sharing registers from Jemena’s website and checked that they were prepared accurately based on our knowledge of Jemena and the nature of the roles. This included assessing the accuracy of descriptions as to the nature of the roles, as requested by the AER in their feedback to Jemena.</p> <p>8. We assessed Jemena’s process for reviewing and updating the office and staff sharing registers;</p> <p>9. We assessed whether incentive plans applicable to Jemena staff created an incentive to contravene the obligations of the Guidelines by:</p> <ul style="list-style-type: none"> <li>a. reading the terms of incentive plans;</li> <li>b. analysing management’s interpretation of the guideline requirements and criteria used to assess whether the incentive plans would directly incentivise Jemena staff to contravene the guidelines; and</li> <li>c. Understanding and testing management’s control activities, including annual review of the incentive plans by internal Legal Counsel and the Policy &amp; Compliance Manager.</li> </ul>	

Compliance requirement	Procedures performed	Exceptions
<b>4.3 Information access and disclosure</b>	<ol style="list-style-type: none"> <li>1. We assessed the appropriateness of the policies, procedures and system controls in place to prevent information access and sharing as it relates to Confidential Jemena information, including:               <ol style="list-style-type: none"> <li>a. reading relevant internal policies and procedures;</li> <li>b. making inquiries of management including the Policy &amp; Compliance Manager. We observed that there were no information sharing requests in the 2018 regulatory year;</li> <li>c. Testing General IT Controls in place within the SAP system to prevent system access to Jemena Confidential Information by RESP staff; and</li> <li>d. selecting a sample of RESP staff and testing if they could access confidential information in SAP and shared directories.</li> </ol> </li> <li>2. We checked that the information sharing register was accessible on Jemena’s website and that it was consistent with our observations and inquiries (i.e. no information sharing requests during the compliance period).</li> <li>3. We tested a sample of service requests raised by the RESP staff throughout the year and assessed whether they were appropriately authorised in accordance with the compliance manual.</li> </ol>	Nil
<b>4.4 Service providers</b>	<ol style="list-style-type: none"> <li>1. We assessed the appropriateness of the contracting and procuring policies and procedures by reading the policies and procedures and considering whether they were consistent with our understanding of procurement processes within the SGSPAA group obtained through our role as Jemena’s financial statement and regulatory auditor.</li> <li>2. We assessed whether the online Ring-fencing training module prepared by Jemena accurately described Jemena’s obligations in relation to engaging with service providers.</li> <li>3. We inspected training completion records for the period from 1 January to 31 December 2018 and for a sample of training records, we obtained evidence of Jemena’s follow up procedures in relation to training completion.</li> </ol>	Nil
<b>5.7 Waiver</b>	<ol style="list-style-type: none"> <li>1. We considered the completeness of Jemena’s unregulated activities for which waivers are required, as part of our audit of Jemena’s regulatory accounting statements.</li> <li>2. We accessed Jemena’s external website and sighted that the waiver register was publically available.</li> <li>3. We obtained and inspected copies of waivers applicable operation during the compliance period. The register was then considered as to whether all appropriate detail was included.</li> </ol>	Nil
<b>6.Compliance</b>	<ol style="list-style-type: none"> <li>1. We obtained and inspected the internal documents relating to Jemena’s compliance with the Ring-fencing Guideline including</li> </ol>	Nil



Compliance requirement	Procedures performed	Exceptions
	<p>Jemena's Annual Compliance Report and considered it as part of preparing this independent assurance report.</p> <p>2. We considered the adequacy of Jemena's breach management and reporting policies and procedures and noted there were no breaches identified during the regulatory year 2018.</p> <p>3. During the course of our financial statement and regulatory audits of the SGSPAA group and Jemena we attended all quarterly SGSPAA Audit and Compliance Committee meetings and verified that compliance matters were regularly raised to the attention of the committee and received due consideration. No specific breaches or matters were identified at these meetings in relation to the Ring-fencing guidelines.</p>	



## Appendix B – Summary of performance improvement observations

In this section, we present additional details on performance improvement observations in relation to Jemena’s compliance activities for the regulatory year ended 31 December 2018. This information has been provided at the request of the AER.

This information should not be construed as providing an opinion or conclusion on the separate compliance activities noted, nor that the aggregation thereof modifies our opinion or conclusion reported in the Independent Reasonable Assurance Report.

	Observation	Recommendation	Management’s responses
1	<p>Management has not yet prepared an annual compliance testing plan for testing the operating effectiveness of the key controls throughout the year. Implementing such a process will assist management in ensuring that material breaches are identified on a timely basis, as well as provide evidence of monitoring and compliance in future periods.</p> <p>Some examples of testing that management could perform include:</p> <ul style="list-style-type: none"> <li>• Testing a sample of RESP staff’s access restrictions during the year;</li> <li>• Testing a sample of IT service requests raised throughout the year to ensure appropriate authorisation procedures were followed; and</li> <li>• Testing a sample of cost allocation amounts during the year, to ensure that the appropriate allocation policies are followed.</li> </ul>	<p>We recommend management prepare a formal compliance testing plan which will cover the key controls and ensure requirements of the compliance manual are being monitored on a timely basis.</p>	<p>Jemena will further develop the detective controls and perform appropriate testing annually from 2019.</p>
2	<p>As noted on page 1 of our independent assurance report and discussed in section 2.3 of Jemena’s Annual Compliance report, management has made judgements in interpreting the physical separation requirements of the Guidelines, in particular the use of shared spaces (e.g. kitchen amenities) within an office building. Comments expressed after the end of the compliance period by AER staff in conversations with us and Jemena, and by the AER in its annual ring-fencing compliance report for the 2017-18 year issued on 21 March 2019 have highlighted the inherent judgement required in interpreting this requirement.</p>	<p>We have recommended early engagement by management with the AER to obtain greater clarity on the AER’s intent in drafting the guideline, what flexibility exists in interpreting this aspect of the Guideline and whether any amendment to the Guidelines is anticipated.</p>	<p>Jemena will seek to discuss with the AER the outcomes of the 2018-2019 annual report and the Guideline requirements for the physical separation.</p>