

Guideline for Distributor Audits V1.5

This guideline has been produced to promote understanding and encourage consistency in the methodology and processes surrounding distributor audits.

The general approach set out in this information guide in no way reduces the requirement upon participants to know and comply with their obligations under the Electricity Governance Rules 2003. Neither should it be interpreted as reflecting the Electricity Commission's view on the Electricity Governance Rules 2003.

ABBREVIATIONS USED IN THIS GUIDELINE

Board	Electricity Commission Board
Commission	Electricity Commission
GXP	Grid exit point
HHR	Half hour
ICP	Installation control point
MA	Market Administrator
NHH	Non half hour
NSP	Network Supply Point
Regulations	Electricity Governance Regulations 2003
Rules	Electricity Governance Rules 2003

Version	Date issued	Comments/amendments made
1.0	4 September 2007	Draft for comment
1.1	27 May 2008	Draft for Board approval
1.2	29 May 2008	Ron's Comments
1.3	30 May 2008	With MERW comments
1.4	8 June 2008	Ron's Comments
1.5	19 June 2008	Inclusion of missing rules

INTRODUCTION

1. The purpose of this Guideline is to assist approved auditors when reviewing the compliance of distributors with the obligations established in Part E of the Electricity Governance Rules 2003 (**Rules**). The distributors' processes link directly into the reconciliation process through the registry and reconciliation participants' systems. The Rules require distributors to undergo audits to ensure that the processes and procedures they use to contribute information for reconciliation conform with the Rules. The reconciliation process allocates physical volumes of electricity, and hence financial outcomes, directly to participants. and the registry must contain the definitive records in respect of reconciliation and switching. Distributor audits are required to ensure that accuracy of these outcomes is maintained.
2. This Guideline will provide an approach for audits, which will be fair and consistent across all auditors and distributors.
3. This Guideline gives guidance only and does not relieve auditors from their obligation to comply with the Rules. Auditors are expected to exercise judgement in the actual application of review techniques to specific clients/participants. While the Electricity Commission (**Commission**) expects auditors to conduct audits in accordance with this Guideline, in the event of any inconsistency between the Rules and this Guideline or any other material, the Rules will prevail.

DISTRIBUTOR AUDITS

4. "Distributor" is defined in part A of the Rules as any participant who owns or operates a local network, including, for the purposes of parts D, E G and J of the Rules, embedded network owners.
5. In accordance with rule 10 of part E of the Rules, each distributor, using a Board approved auditor must conduct :
 - a. an audit within six calendar months of the date part J of the Rules became effective (the Initial Audit);
 - b. one further audit within twelve months from the date of the initial audit;
 - c. at least one audit every twelve months thereafter.

AUDITS OF DISTRIBUTORS IN OTHER CAPACITIES

6. Where a distributor has an obligation under part J of the Rules to deliver submission information to the reconciliation manager, the distributor is a reconciliation participant and is required under rule 19 of part J of the Rules to be a certified reconciliation participant. The Guideline for Reconciliation Participant Audits V1.1 exists for auditors and is designed to assist auditors in auditing reconciliation participants for certification.
7. In addition, distributors may be audited:
 - a. when an auditor is appointed by an investigator carrying out an investigation under regulation 71 investigating an alleged Rule breach; and

- b. in accordance with rule 8 of schedule J1 of part J of the Rules if another reconciliation participant at anytime reasonable considers that the participant may no longer comply with all the relevant rules for gathering, processing or management of information;

however, these audits are outside the scope of the audits covered by these specific distributor audit guidelines.

FUNCTIONS/PROCESSES

- 8. Under the Rules, distributors' processes and procedures that must be audited include:
 - a. the creation of ICPs;
 - b. the maintenance of ICP information provided to the registry by a distributor; and
 - c. the creation and maintenance of loss factors.
- 9. This Guideline has been organised into core business functions that distributors follow to undertake the activities and obligations established in the Rules that are part of the reconciliation process. For each function, the relevant Rules have been identified and indicative review procedures described.
- 10. The distinct functions to be included in an audit are as follows. These are scheduled in detail in Appendix 1: Functions and Processes:
 - a. Administrative tasks
 - b. Creation of ICPs;
 - c. Maintenance of registry information;
 - d. Creation and maintenance of loss factors;
 - e. Creation and maintenance of NSPs;
 - f. Maintenance of unmetered load; and
 - g. Creation of loss factors
- 11. Each function has been allocated a Regulation Priority depending on the potential market impact of non-compliance with the underlying Rules. Table 1 sets out the Commission's expectation of the auditing method for each level of priority, and the indicative review procedures reflect the relevant priority level. Each assessment has been mapped to indicative review procedures to provide guidance on the Commission's expectation of audit coverage.

Table 1 Guidance for Appropriate Audit Methodology

Regulation Priority	Auditing Method
Low	Process Walkthrough – Inquiry/Observation only.
Moderate	Process Walkthrough – Inquiry/Observation and Inspection of physical evidence.
High	Process Walkthrough – Inquiry/Observation and Inspection of physical evidence Detailed testing for compliance.
Extreme	Process Walkthrough – Inquiry/Observation and Inspection of physical evidence. Detailed testing for compliance. Agreement to Organisational Policy.

12. A comments field has been added to each process description setting out possible approaches to auditing the Distributor’s obligations using the methodologies suggested by the Regulation Priority. These are suggested approaches only and should be used at the auditor’s discretion.
13. The appendices to this document define the Regulation Priority’s review approaches:
 - a. Appendix 1: Functions and processes
 - b. Appendix 2: Detailed test of compliance definition
 - c. Appendix 3: Sample size selection guidance
 - d. Appendix 4: Walkthrough process definition
 - e. Appendix 5: Agreement to organisational policy definition
14. Auditors must ensure that they have sufficient resources to enable them to perform their auditing obligations as set out in the Rules in relation to any audits they agree to carry out.
15. Approved auditors may use suitably qualified employees or subcontractors to assist them in carrying out parts of the audit tasks. However, they will be responsible for the accuracy and quality of the final audit.
16. If they are relying on the work of an internal auditor of the participant being audited, they must comply with NZICA Auditing Standard AS-604, or the requirements of the relevant Institute of Internal Auditors Guidance (Practice Advisory 1210.A1).

AUDIT REPORTS

17. In most cases, a contract or the provision of audit services will be negotiated with the participant and not the Commission. Distributors will need to make audit reports and audit summaries available to the Commission as part of the ongoing process to determine that the procedures and processes they use to contribute information for reconciliation conform to the Rules.
18. The quality of the audit documents may be reviewed and the Commission may remove auditors from the list of approved auditors in accordance with its Retail workstream auditor approval policy RET01 as amended or replaced from time to time.
19. The Commission expects auditors to identify the following in the audit reports prepared:
 - a. the distributor being audited;
 - b. the auditor responsible for the audit;
 - c. all persons used to perform the audit; and
 - d. the tasks performed by the distributor.
20. The Commission expects the audit report to comment on all matters raised in this Guideline, including:
 - a. the extent to which information was made available to the auditor; and
 - b. the extent to which the distributor complies with the Regulations and Rules with clear identification of any rule breaches; and
 - c. any other matters the auditor considers relevant.
21. Auditors' comments should be arranged in the order presented in the tables below and under the appropriate headings.
22. The Rules require auditors to:
 - a. provide the distributor with a draft audit report detailing the provisional findings of the audit;
 - b. provide the distributor a reasonable opportunity to respond to the draft audit report;
 - c. produce and provide a final audit report to both the Commission and the distributor. The final audit report must include any conditions which the auditor has imposed on the distributor in order for them to comply with the Rules, and the responses or action that the distributor has taken in respect to those conditions;
 - d. ensure the final audit report includes a list of all persons or entities the distributor uses to perform its information gathering and processing tasks with respect to the reconciliation process;
 - e. ensure the final audit report includes:
 - i. reference to any matters which are relevant to the distribution process; and

- ii. a summary that describes the extent to which the facilities, processes and procedures of the distributor comply with the Regulations and the Rules.
- 23. The Board will publish the summary of each audit report on the Commission's website. This summary must contain the:
 - a. date of the audit;
 - b. identity of the audited party;
 - c. scope of the audit;
 - d. outcome of the audit (either compliant or non compliant); and
 - e. identity of the auditor.
- 24. Therefore, the Commission expects the summary referred to in paragraph 22.e.ii. ii above to include this information.
- 25. All details of an audit report that are not published by the Board will remain confidential between the participant and the Board unless otherwise agreed between the participant and the Board.
- 26. The auditor must keep all information relating to a participant obtained in the course of carrying out audits confidential unless;
 - a. the disclosure is required by law;
 - b. the information is or becomes publicly available; or
 - c. the auditor first consents to the disclosure.

Appendix 1: Functions and processes

Function 1 – Administrative tasks

(A) Pre-audit

Part of the Rules	Rule Ref	Description	Notes
J, Schedule J1	para 5.2.2	The auditor is appointed by the distributor that is required to be audited.	
		The auditor agrees the scope and reporting of the audit with the distributor, including; - business area to be audited. - rules to be audited. - reason for this audit.	
		The auditor and the distributor enter into a contract for the provision of auditing services.	
		The auditor requests a copy of the last two Rules audit reports, and any supporting correspondence.	

Part of the Rules	Rule Ref	Description	Notes
		<p>The auditor requests the following types of supporting information from the business :</p> <ul style="list-style-type: none"> - Copies of their Rules audit reports if other parties act for the distributor and the area of work is contained within this certification/audit. - Information regarding the company structure and names of contractors /service providers that assist with or are used in the process to be audited; and - a list of manufacturers of hardware and software that assist or are used in the process to be audited. 	
		<p>The auditor requests copies of any alleged, under investigation or closed Rule breaches that have occurred in the past twelve months and relate to the tasks set out in this audit.</p>	
		<p>The auditor will research the Commission web site for current reconciliation issues, submission documents, and Rule breach investigations.</p>	
		<p>The auditor will request a letter from the distributor authorising the collection of information from other parties agreed in the audit scope, and request the necessary information for the audit.</p>	

(B) Post audit

Part of the Rules	Rule Ref	Description	Notes
J, schedule J1	para 6.1	The auditor sends a draft audit report detailing the provisional findings of the audit to the applicant.	
J, schedule J1	para 6.2	The auditor provides the applicant a reasonable opportunity to respond to the draft audit report.	
J, schedule J1	para 6.3	The auditor produces a final audit report, which is provided to both the Board and the applicant who is subject to the audit. The final audit report includes any conditions that the auditor has imposed on the applicant for that applicant to satisfy in order to comply with the Rules, and the responses or action that the applicant has taken in respect to those conditions.	
J, schedule J1	para 6.4	The final audit report includes a list of all persons or entities the applicant uses to perform its information gathering and processing tasks with respect to the reconciliation process.	
J, schedule J1	para 6.5	The final audit report must also include references to any matters which are relevant to the reconciliation process, and a summary that describes the extent to which the facilities, processes and procedures of the applicant comply with the Regulations and the Rules.	
J, schedule J1	para 6.7	The Board must publish a summary of each audit report containing the:	
		6.7.1 date of the audit report;	
		6.7.2 identity of the audited party;	
		6.7.3 scope of the audit;	
		6.7.4 outcome of the audit (either compliant or non compliant); and	

Part of the Rules	Rule Ref	Description	Notes
		<p>6.7.5 identity of the auditor.</p> <p>All details of an audit report, which are not published by the Board, are to remain confidential between the applicant and the Board unless otherwise agreed between the applicant and the Board.</p>	

Function 2 - Creation of ICPs

The distributor is responsible for creating an Installation Control Point (“ICP”) for new points of supply on its network. The ICP must have a unique identifier determined in accordance with the Rules and must be created and recorded on the Registry in a timely manner. Requests for ICP Identifiers from retailers and customers must also be resolved in a timely manner.

Regulation Priority – High
<ol style="list-style-type: none"> 1. Process Walkthrough – Inquiry/Observation and Inspection of physical evidence. 2. Detailed testing for compliance.

Comments
<ol style="list-style-type: none"> 1. Perform a walkthrough confirming the process for creating a new ICP. Confirm there is a robust process for assigning the numerical distributor sequence, that the unique distributor code assigned by the Board is utilised and that the algorithm supplied by the market administrator is used to calculate the checksum. Obtain physical evidence of reports sent to the Registry regarding new ICPs. 2. Refer to the <i>Maintenance of ICP information provided to the Registry by a Distributor</i> process for further auditing guidelines (including detailed testing requirements) on maintaining distributor information on the Registry.

Part of the Rules	Rule Ref	Description	Notes
E	3	<p>When creating an ICP the distributor uses a creation date for the ICP that is on or before the date that the ICP is first livened.</p> <p>The distributor is responsible for creating the ICP for the point of connection for an embedded network to its parent network.</p>	
E	4	The distributor, within three business days of receiving a request for the creation of a new ICP, either creates a new ICP or advises the retailer of the reasons it is unable to comply with the request.	

Part of the Rules	Rule Ref	Description	Notes
E	6	The distributor provides to the registry the information listed in rule 2 of schedule E1 as soon as practicable, but in any event, prior to the commencement of supply of electricity from that ICP.	
E	17	Installations associated with ICPs (including ICPs representing shared unmetered load) are only livened for the first time after a retailer has accepted responsibility for the ICP.	
E, schedule E1	1.1.1	<p>Each ICP created by the distributor in accordance with rule 3 of part E has a unique identifier, called the “ICP identifier”, determined in accordance with the following format:</p> <p>Yyyyyyyyyyxxccc where:</p> <p>yyyyyyyyyy is a numerical sequence provided by the distributor;</p> <p>xx is a code to ensure uniqueness of the ICP (assigned by the Board to the issuing distributor); and</p> <p>ccc is a checksum generated according to the algorithm provided by the market administrator.</p>	
E, schedule E1	1.6	Every ICP has a single loss category, referenced in such a way as to identify the associated loss factors or loss factors(s).	
E, schedule E1	4.1	The ICP status of “New” is managed by the distributor and only includes:	
		4.1.1 Installations in construction phase; and	
		4.1.2 Not ready for activation.	

Function 3 - Maintenance of registry information

The distributor is responsible for maintaining “distributor” ICP and Network Supply Point (“**NSP**”) information on the Registry in a timely manner. This includes updating additions and changes to ICP/NSP Identifiers, loss factors, pricing codes, installation and reconciliation codes, unmetered load, ICP status and the static data tables within the Registry.

Regulation Priority – High
<ol style="list-style-type: none">1. Process Walkthrough – Inquiry/Observation and Inspection of physical evidence.2. Detailed testing for compliance.

Comments
<ol style="list-style-type: none">1. Perform a walkthrough of the process to make alterations to ICPs/NSPs. Confirm appropriate key controls are in place to notify the relevant participants in a timely manner. Confirm also that appropriate key controls for maintaining the Status within the Registry are in place.2. Obtain evidence of a report sent to the Registry regarding a new ICP. Confirm all fields required in Rule 2 are present and have been completed accurately.3. Confirm whether the distributor has become a participant's agent within the last year or is using an agent to fulfil part or all of its obligations. Obtain the notification document to the market administrator and compare the date of this document to the contract date for compliance.4. Select a sample of customer ICP Identifier requests and their subsequent notifications. Confirm notification is within three business days of the request.5. Select a sample of notifications of changes, (including pricing changes) to the Registry. Compare the date of the notification to the Event Date within the Registry and confirm compliance to the Rules.

Part of the Rules	Rule Ref	Description	Notes
E	7	<p>When information (that is held by the registry) changes, the distributor responsible for that ICP provides notice to the registry of that change (giving all relevant details) within three business days of that change taking effect.</p> <p>In cases where the change refers to rule 2.3 of schedule E1, in which case (provided the change is not a result of the commissioning or decommissioning of an NSP), notification is made by the distributor within eight business days of the change taking effect.</p> <p>If the change in the NSP is equal to or greater than 14 days, the time within which notification must be effected in accordance with rule 7 begins on the fifteenth day after the change.</p>	
E	8.5	<p>The distributor notifies the registry of the NSP for each ICP supplied from that NSP in accordance with rule 2.3 of schedule E1.</p> <p>Where there is, or may be, uncertainty as to the actual NSP at which supply is made, the distributor nominates one NSP in accordance with its reasonable assessment of the likely flow of electricity within its network, and supply will be deemed to be made from that NSP.</p> <p>If an NSP from which an ICP is supplied changes for a period of less than 14 days and then reverts to the previous NSP, then the previous NSP remains the nominated NSP.</p>	
E	9.2	<p>Wherever the distributor makes an agreement with a participant to act as its agent in accordance with rule 9.3, the distributor advises the market administrator within one month of reaching that agreement.</p>	
E	28	<p>The distributor advises any customer (or any person authorised by the customer) of its ICP identifier within three business days of receiving a request for that information.</p>	

Part of the Rules	Rule Ref	Description	Notes
E, schedule E1	para 1.3	Each new ICP created after 7 October 2002 must be able to be de-energised without de-energisation of any other ICP unless it is an ICP that represents the consumption calculated by difference between the total consumption for the embedded network and all other ICPs on that embedded network.	A change to this Rule is due to be consulted on, which, if implemented, would exclude an ICP with the reconciliation type of LE (representing the connection of an embedded network on the parent network) from the requirement to de-energise without de-energising any other ICP. You should ensure you are consistently up to date with the latest Rule changes.
E, schedule E1	para 2	For each ICP, the distributor provides and maintains accurately the following information in accordance with rules 6 and 7 of part E:	
		2.1 the ICP identifier as set out in rule 1.1;	
		2.2 the unique location address as required by rule 1.2;	
		2.3 the NSP identifier, as defined in rule 8 to which the ICP is usually connected in accordance with the requirements of rule 8.5 of part E;	
		2.4 the installation type code assigned to the ICP;	
		2.5 the reconciliation type code assigned to the ICP;	
		2.6 the loss category code assigned to the ICP;	
		2.7 where an ICP is associated with a balancing area with more than one NSP, an indication that the ICP can only be supplied from the NSP specified in accordance with rule 2.3;	
		2.8 the price category code assigned to the ICP;	
		2.9 if relevant according to the price category assigned to the ICP, the chargeable capacity for the ICP;	

Part of the Rules	Rule Ref	Description	Notes
		<p>2.10 if relevant according to the price category assigned to the ICP, the distributor installation details for the ICP;</p> <p>2.11 details of unmetered load of which the distributor becomes aware that describe the type of load and its capacity. For shared unmetered load the capacity in kW must be clearly indicated;</p> <p>2.12 where the ICP represents a shared unmetered load connection, a list of the ICP identifiers across which the load is shared;</p> <p>2.13 when the distributor has been advised of the first retailer to enter into an agreement for the supply of electricity at that ICP, the code of that retailer; and</p> <p>2.14 the status of the ICP prior to activation by a retailer, and the change of ICP status at any subsequent decommissioning, together with the reason for that decommissioning.</p>	
E, schedule E1	4.2	<p>The ICP status of "Ready" is managed by the distributor and only includes:</p> <p>4.2.1 where the associated electrical installations are ready for connecting to the electricity supply; and</p> <p>4.2.2 the ICP is ready for activation by a retailer.</p>	
E, schedule E1	4.3	<p>Before an ICP is given the "Ready" status in accordance with rule 4.2, the distributor:</p> <p>4.3.1 identifies the retailer that has taken responsibility for the ICP; and</p> <p>4.3.2 ensures the ICP has a single price category.</p>	

Part of the Rules	Rule Ref	Description	Notes
E, schedule E1	4.4	The ICP status of “distributor” is managed by the distributor and denotes that the ICP record represents a shared unmetered load installation or the point of connection between an embedded network and its parent network.	
E, schedule E1	4.8	The ICP status of “Decommissioned” is managed by the distributor and denotes that the ICP is permanently removed from future switching and reconciliation processes. Decommissioning only occurs when:	
		4.8.1 electrical installations associated with the ICP are physically removed; or	
		4.8.2 there is a change in the allocation of electrical loads between ICPs with the effect of making the ICP obsolete.	
E, schedule E1	6	The distributor notifies the registry of price category codes applicable to ICPs on their network at least two calendar months before assigning them to ICPs.	

Function 4 - Creation and Maintenance of loss factors

The distributor is responsible for creating and maintaining loss factors and loss category codes on its network determined in accordance with the Rules and must notify the Registry and market administrator of its intention to change its loss factors in a timely manner.

Regulation Priority – High	
1.	Process Walkthrough – Inquiry/Observation and Inspection of physical evidence.
2.	Detailed testing for compliance.

Comment	
1.	Perform a walkthrough of the process to alter/create a loss factor. Confirm that the process involves notifying the market administrator 3 months prior to publication and the Registry 2 months prior to publication. Identify any key controls limiting the loss category to a maximum of two loss factors per calendar month.
2.	Review the current published loss factors. Confirm that each loss category code has a maximum of two loss factors per calendar month.
3.	Confirm whether any loss factor changes have occurred in the last year. Obtain notifications to the Registry and market administrator regarding these changes and compare timeliness of them to the published loss factors.

Part of the Rules	Rule Ref	Description	Notes
E, schedule E1	5.1	The distributor advises the registry of the loss factors for each loss category code on the registry.	
E, schedule E1	5.2	Each loss category code has a maximum of two loss factors per calendar month. The loss factor must cover a range of trading periods within that month such that all trading periods have a single applicable loss factor.	
E, schedule E1	5.3	The distributor advises the market administrator of its intention to add new loss category codes or to change the value or applicable time	

Part of the Rules	Rule Ref	Description	Notes
		period of any loss factor, at least three months before the change is to take effect, or new code being added.	
E, schedule E1	5.4	The distributor advises the registry of any change to any loss factor on the registry at least two calendar months before the change is to take effect.	

Function 5 - Creation and maintenance of NSPs

The Distributor is responsible for the creation of NSPs on its network and must maintain this information on the Registry in a timely manner. This also includes notifying the Reconciliation Manager (“RM”) and market administrator of NSP decommissions, communicating reassessed balancing and ICP mapping areas and alterations made to embedded networks.

Regulation Priority – Extreme	
1.	Process Walkthrough – Inquiry/Observation and Inspection of physical evidence.
2.	Detailed testing for compliance.
3.	Agreement to Organisational policy.

Comment	
1.	Confirm that the relevant internal policy is in place and has been appropriately approved. Confirm the policy stipulates the timely notification of appropriate NSP information to the RM, market administrator, relevant retailer and the Registry.
2.	Perform a walkthrough of the NSP creation/decommissioning process. Confirm that appropriate key controls are in place to notify the relevant parties of the change.
3.	Confirm whether there has been an NSP created/decommissioned within the last year. Obtain the notification documents sent to the relevant participants and confirm a) that the appropriate details have been provided and b) the date of the notification, consistent with the requirements of the Rules. Generate the appropriate Registry report and confirm Livening/Decommissioning Date of the NSP. Compare this date with the notification date and confirm compliance with the Rules.

Part of the Rules	Rule Ref	Description	Notes
E	8.1	The distributor notifies the RM and the market administrator within three business days of an NSP on its network being created or decommissioned.	

Part of the Rules	Rule Ref	Description	Notes
E	8.2	<p>The distributor, at the same time it creates an NSP, either:</p> <p>notifies the RM the balancing area to which it belongs; or</p> <p>provides all relevant details to the RM of the new balancing area that is to be created and the NSP assigned to it.</p>	
E	8.3	<p>Not less than ten business days before the change occurs, the distributor notifies any retailer supplying electricity at an ICP where an ICP changes to become an NSP between the local network and an embedded network (or another local network) of which it is the owner.</p>	
E	8.4	<p>The distributor notifies the RM of:</p> <p>the parent network NSP;</p> <p>the ICP identifier for the point of connection between the parent network and the embedded network; and</p> <p>the date of change for an embedded network NSP</p> <p>within three business days of this information changing or of its initial creation.</p>	
E, schedule E1	7.1	<p>The distributor notifies the RM of the establishment of, or any change to, the balancing area associated with an NSP supplying a network for which they are the owner or operator. The notification:</p>	
		<p>7.1.1 indicates the date and trading period from which the change took effect; and</p>	
		<p>7.1.2 occurs within three business days of the date on which the change took effect.</p>	

Function 6 - Maintenance of unmetered load

The distributor is responsible for maintaining unmetered load on the Registry in a timely manner. The distributor must record the type and capacity of each unmetered ICP on the Registry as well as updating any changes in capacity of shared unmetered load. If an unmetered ICP is to be added or removed, the distributor must provide an updated list of unmetered ICPs to the Registry and any affected retailers.

Regulation Priority – Extreme

1. Process Walkthrough – Inquiry/Observation and Inspection of physical evidence.
2. Detailed testing for compliance.
3. Agreement to Organisational policy.

Comments

1. Confirm that the relevant internal policy is in place and has been appropriately approved. Confirm the policy stipulates business rules regarding acceptance, maintenance and notification of unmetered load.
2. Perform a walkthrough of the process for the maintenance of unmetered load. Confirm there are appropriate key controls in place for accepting unmetered load from the retailer and timely notification to the Registry and retailers of any changes. Obtain evidence of key control documents.
3. Generate the appropriate Registry report and select a sample of changes to unmetered load, including shared unmetered load, and confirm that a retailer has provided written acceptance of responsibility for the ICPs.
4. Confirm the notification date from the retailer is acceptably close to the date of notification to the Registry. (Auditor's discretion is required as the Rules do not stipulate specific timelines).
5. Select a sample of decommissioned shared unmetered ICPs from the appropriate Registry report and confirm timeliness of the notification to the retailer. Ascertain compliance. (Auditor's discretion is required as the Rules do not stipulate specific timelines).

Part of the Rules	Rule Ref	Description	Notes
E	13.1	Distributor requires any person applying for connection to their network to supply details on the type and capacity of any proposed associated unmetered load.	
E	13.2	The distributor notifies the registry of any information it has concerning the type and capacity of unmetered load associated with an ICP in accordance with rule 2.11 of schedule E1.	
E	14.1	The distributor only permits shared unmetered load to be connected to its network after acceptance in writing by at least one retailer with responsibility for that shared unmetered load who must nominate the ICPs across which the load is to be shared.	
E	14.2	<p>The relevant retailer with responsibility for a particular ICP notifies the relevant distributor as soon as practicable before it wishes to add or remove an ICP from the ICPs across which the shared unmetered load is being shared.</p> <p>The distributor notifies the registry of the updated list of ICPs and notifies all other affected retailers of the change.</p>	
E	14.3	If the distributor becomes aware of any change to the capacity of a shared unmetered load ICP or if a shared unmetered load ICP is decommissioned, it notifies all retailers affected by that change as soon as practicable after that change occurring.	

Function 7 - Creation of loss factors

The distributor is responsible for calculating and reporting its loss factors in accordance with the Rules. This includes reviewing its technical and non-technical losses in a timely manner.

Regulation Priority – High	
1.	Process Walkthrough – Inquiry/Observation and Inspection of physical evidence.
2.	Detailed testing for compliance.

Comments	
1.	Perform a walkthrough of the process for reviewing, calculating, reporting and publishing technical and non-technical loss factors. Confirm there are appropriate key controls in place for publishing and reporting these loss factors. Obtain evidence of key control documents. Obtain evidence of the annual report sent to the Commission regarding its technical and non-technical loss factors.
2.	Select a sample of loss factors on the Registry; confirm the appropriate loss factors are present in the Commission report.

Part of the Rules	Rule Ref	Description	Notes
		The distributor calculates and publishes on its website both technical and non-technical losses and loss factors for each loss factor code that it has used in the registry each year.	
		The distributor reviews its technical loss factors at the time that there has been a significant change in network configuration and/or load and/or each 5 years.	
		The distributor reports its technical and non-technical loss factors to the Commission each year.	

Part of the Rules	Rule Ref	Description	Notes
		The distributor has reviewed its non-technical loss factors at least once in the past 12 months, and used a sliding window of two years' generation and consumption information.	
		The distributor has submitted to the Commission the technical and non-technical and reconciliation loss factors (in the prescribed format), and the loss factor methodology used to determine loss factors for the next financial year, prior to 1 March of each year.	
		The loss factor methodology used by the distributor meets the criteria outlined in the Guideline	

Appendix 2: Detailed Test of Compliance Definition

Detailed Test of Compliance

Sample testing is a method whereby key controls within a business process are selected and tested for effectiveness in ensuring compliance with the relevant Rules. The sample selection method is at the discretion of the auditor; although it is expected samples will generally be selected on a Statistical (random or systematic) or Non-statistical (haphazard or judgemental) basis. Only a portion of the entire population is required to be tested to provide assurance that the key control operates as intended. The sample size depends on how frequently the key control task is performed, (eg, daily, monthly) and needs to be sufficient to conclude that the key control is operating effectively and as intended. All key control testing exceptions are evaluated quantitatively and qualitatively to determine if the exception represents a control deficiency. If the conclusion is that a key control exception is not considered a deficiency, additional testing is performed to conclude that the control is operating effectively; (e.g. expand the initial sample size of 25 to 40).

Alternatively, it may be more efficient to test the process outputs for compliance with the relevant Rules. In such circumstances a sample of process outputs (such as notifications to the RM) should be selected and tested for compliance with the requirements of the Rules. It is expected that compliance testing of process outputs would be the preferred approach where a participant has less mature or established processes.

Suggested Steps

1. Within the documented process, identify the key controls.
2. Determine how frequently the key control is performed.
3. Identify the appropriate sample size (Using the table in Appendix 2 for guidance).
4. Obtain key control testing documents and complete testing.
5. Conclude to the effectiveness of the key control in terms of compliance with the Rules.

Evidence Required

The Commission reserves the right to review any evidence of a particular distributor audit. To confirm that the audit was appropriately conducted, the following evidence is required:

1. Process documentation, including identification of key controls.
2. Detail of sample selection (sufficient for re-performance if required).
3. A copy of each transaction identified as an exception.
4. The unique identifier of each transaction tested.
5. The date the testing commenced and was completed.

Sample

Part E, Rule 4

The distributor, within three business days of receiving a request for the creation of a new ICP, either: creates a new ICP or advises the retailer of the reasons it is unable to comply with the request.

Test Method

1. Identify the population of ICP creation requests.
2. Select a sample of ICP creation requests.
3. Run the appropriate Registry report.
4. Identify the sample ICPs from the creation requests.
5. Confirm that the creation date is within 3 business days of the request.

Appendix 3: Sample Size Selection Guidance

Nature of control and frequency of performance	Recommended minimum number of Items to test
Task performed many times per day	25
Task performed daily	25
Task performed weekly	5
Task performed monthly	2
Task performed quarterly or more	2

Note: These recommended sample sizes have been taken from industry standard auditing practices. The auditor should use these figures as guidelines only and should exercise discretion when determining the sample size for their testing plan.

Appendix 4: Walkthrough Process Definition

Walkthrough Definition

A walkthrough involves tracing a limited number (2 to 3) of representative transactions through a process from beginning to end. The walkthrough includes the examination of the documentation and information flows from a manual as well as an automated perspective. The objective is to confirm the auditor's understanding of the flow of transactions, the process documentation and the relevant controls in operation. Once completed, the walkthrough is documented and analysed for compliance.

Two types of process walkthrough exists:

Inquiry/Observation and Inspection of physical evidence.

Inquiry/Observation is used to identify how the key control is performed, who performs the key control, and what procedures are in place to determine that the key control operates effectively. The auditor then observes the end to end process in order to document the process.

Inspection of physical evidence is completed through verification of source documentation for evidence of control operation, e.g. verification of distributor contract documentation.

Suggested Steps

1. Ascertain the process and how compliance with the relevant Rules is managed.
2. Observe the process to gain an understanding of the key compliance controls.
3. Document the process.
4. Identify key compliance controls.
5. Follow a limited sample of transactions through the complete end to end process.
6. Evaluate effectiveness of process and controls in ensuring compliance with the relevant rules.

Evidence Examples

The Commission reserves the right to review any evidence of a particular distributor audit. To confirm that the audit was appropriately conducted, the following evidence is required:

Evidence can take the form of physical or hardcopy examples of key controls operating effectively. These may include screenshots, reports and appropriate examples of authorisations.

[Note: Should this be re-aligned with the rest of Appendix 4?]

Sample

Part E, Rule 8.1

The distributor notifies the RM and the market administrator within three business days of an NSP on its network being created or decommissioned.

Test Method

1. Identify the process of NSP's being created/decommissioned.
2. Observe the process for creating/decommissioning NSPs.
3. Document the process for notifying the RM and the market administrator.
4. Confirm there are key controls in place for notifying the RM and the market administrator of the relevant information regarding the NSP.
5. Follow an example of an NSP being created/decommissioned and the RM and market administrator being advised accordingly.
6. Confirm the existence and operation of key controls are compliant with the Commission's regulations.

Appendix 5: Agreement to Organisational Policy Definition

Agreement to Organisational Policy Definition

Agreement to Policy is a method of identifying internal policies that stipulate appropriate business rules in order to comply with relevant Rules. A policy is a plan or course of action intended to influence and determine decisions and actions. A policy records a series of actions (business rules) to be undertaken to produce a desired outcome. The approach involves analysing the business rules to confirm that they comply with external regulation. The policy is also investigated to ascertain the appropriateness of the roles and responsibilities identified, the delegations authority in place, whether it has been appropriately approved and is regularly reviewed and compliance monitored.

Suggested Steps

1. Identify the relevant policy.
2. Confirm the policy has been appropriately approved.
3. Identify relevant business rules within the policy and confirm compliance with the Rules.

Evidence Required

A current and appropriately approved internal policy.

Sample

Part E, Rule 4

The distributor, within three business days of receiving a request for the creation of a new ICP, either: creates a new ICP or advises the retailer of the reasons it is unable to comply with the request.

Test Method

1. Identify the relevant policy.
2. Confirm the policy has been appropriately approved.
3. Confirm a business rule exists that ICPs are to be created within 3 business days of receiving the request and if this is not possible that the retailer should be notified appropriately.
4. Confirm the appropriate resource has been identified to manage this process.