

## Compliance Audit Framework for the Electricity Sector

In response to the Discussion Paper released by the Essential Services Commission of South Australia (April 2004), Qwin have prepared the following based upon our experience and the lessons learnt in conducting similar compliance audits. Qwin are a National Compliance, Product and Process Auditing company based in Adelaide, South Australia. Qwin are currently the only independent providers of audits to Telstra's Networks nationally.

The proposed methodology, whilst having been conducted periodically in the past by the Commission, appears to place an appropriate emphasis on the need for a more rigorous approach to these compliance audits, the audit scope and the careful selection of an experienced, independent audit firm.

It is the intention of this response to demonstrate alternate options for the conduct of such Compliance Audits, to increase cost effectiveness for all stakeholders concerned, and to establish a framework that will add value to the provision of compliance reporting.

- The function of Compliance Auditing within the electricity sector has proven to be costly and resource intensive, although highly necessary, creating the need for a revised, restructured approach to ensuring licensee compliance with all regulatory obligations;
- In relation to the execution of the audit, it would be recommended that the precise scope of the audit be defined to ensure the level of compliance required is relative to what licensees are able to effectively demonstrate. To determine issues of regulatory concern, a risk based approach should be followed; this will ensure that compliance levels will be measured in accordance with their overall impact and the likelihoods and consequences of issues can be determined;
- Appropriate planning and research on behalf of the audit provider should ensure that all the required planning activities take place and are conducted on a risk based approach as required; this should include the preparation of a rolling audit plan that will encompass:
  - Identification of all key activities in the organisation and how they relate to the legislation being audited;
  - An objective evaluation of the auditable tasks;
  - A determination of the priority ranking; and
  - A decision as to the frequencies and type of audit approach that is the most appropriate.
- Consideration must be given to the adequacy and effectiveness of internal controls. The primary objectives of internal control are to ensure:
  - The reliability and integrity of information;
  - Compliance with policies, plans' procedures, laws and regulations;
  - The safeguarding of assets;
  - The economical and efficient use of resources; and
  - The accomplishment of established objectives and goals for operations or programs.

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- It is appropriate therefore that the planning of the audit allow for the review, research, evaluation, and testing of internal controls. The planning should also:
  - Capitalise on the abilities and ideas of individuals who will carry them out;
  - Allow for initiative;
  - Provide for progressive feedback on performance;
  - Have objectives that are measurable, and relevant to the audit assignment;
  - Allow for contingencies; and
  - Clearly define and delegate responsibility for tasks.
- Independence and integrity of the audit framework is essential and will assist in achieving the appropriate balance between operational effectiveness and community expectations. Where compliance can be measured by an entirely independent, external party, the ability for that auditor to be able to apply benchmarking capabilities will be possible, allowing a much more accurate level of compliance or non-compliance to be measured. Providing this independence will also reflect international best practice for auditing standards.
- This in turn will ensure that all results to be reported to the Commission can be appropriately measured against other entities audited and an adequate scoring system can be developed.
- Another essential aspect of the compliance audit function is ensuring the process is conducted with impartiality and objectivity across the range of licensees. This neutrality will ensure the process is repeatable and does not vary in consistency.
- The frequency of the audits should be determined based upon a risk assessment. This will assist with allocating appropriate audit resources in the most efficient and effective manner possible.
- To add value to the processes within the Electrical Sector in South Australia, it could be considered that the audit reporting capabilities focus equally on qualitative data together with the quantitative data as is required.
- Qwin view the reporting process as a chance to determine opportunities for improvement within certain areas or aspects of the functions being audited. This can be reflected as recommendations or suggestions throughout the audit process and also an opportunity to highlight those areas identified as requiring attention within an organization.

As mentioned, the issues highlighted in this paper are what Qwin has learnt in conducting Compliance Audits of a similar nature on Telstra's Access Network in all states of Australia.

If you have any questions on this paper, or wish to discuss further points of interest that may relate to the execution of such Compliance Audits, please don't hesitate to contact me.

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