

ENERGYAUSTRALIA AUDIT REPORT SUMMARY AND COMMISSION RESPONSE

RETAIL AUDIT PROGRAM

The Essential Services Commission ("the Commission") commenced the retail audit program in late 2014. The purpose of the audit program is to provide the Commission and energy consumers with independent assurance that energy retail licensees have appropriate policies, systems and processes in place to comply with their regulatory obligations, that they are complying with their regulatory obligations and that when breaches occurs, the retailer is able to quickly identify and remedied that breach.




Under the conditions of their licence, retail businesses are required to appoint independent auditors to conduct compliance audits when the Commission requires them to do so.

The auditors assess the retailer's compliance with the regulatory obligations set out in the audit scope set by the Commission. In conducting the audit, the auditors are required to adhere to the requirements in the *Standard on Assurance Engagements ASAE 3100 Compliance Engagements*.

The role of the auditor is to test and assess processes and controls and to form an overall view of the retailer's level of compliance in each of the areas audited. In order to do this, auditors are required to obtain sufficient appropriate evidence on which to base their conclusions. Such evidence could be gathered through enquiry and observation, tests of controls and representations received from management. In conducting the audit, auditors may also identify specific instances of non-compliance.

BASIS FOR REPORTING

A traffic light system is used to report the auditor's assessment of overall compliance with obligation areas as follows:

Grade	Description	Definition
	Non-compliant	The requirements of the obligation have not been met, or adequate, relevant and suitable information to form an objective determination on compliance was not available to demonstrate compliance. Findings noted are considered material in nature and require urgent remedial action.
	Partially Compliant	Key requirements of the obligation have been met but only minor achievements in compliance have been demonstrated. Findings noted are considered significant and require substantial effort to correct.
	Generally Compliant	Most requirements of the obligation have been met with some minor failures or breaches. Findings noted are considered minor and require routine efforts to correct in the normal course of business.

ENERGYAUSTRALIA AUDIT

As part of the Commission's compliance audit program, Grant Thornton ("GT") was engaged to conduct a compliance audit of EnergyAustralia ("EA"). The audit consisted of 11 key areas.

The following area was graded Non-Compliant:

- Outsourcing.

The following four areas were graded Partially Compliant:

- Compliance Program;

- Marketing;
- Billing; and
- Advanced Metering Infrastructure.

The following six areas were graded Generally Compliant:

- Life Support and Sensitive Load;
- Financial Hardship Program;
- Complaints and Dispute Resolution;
- Disconnection and Reconnection;
- Retail Licence; and
- Energy Performance Indicators.

AUDIT FINDINGS

This section outlines the key findings of the audit and the actions taken by EA to address each issue.

(a) Management of Outsourcing Arrangements

The auditors reported concerns with EA's management and oversight of outsourced vendors, noting in particular the lack of quality assurance and monitoring in relation to manual processes performed by outsourced providers. The auditors concluded that these issues contributed to the occurrence of breaches and also the non-identification of those breaches.

The auditors recommended that the monitoring processes for all outsourced parties be reviewed to ensure a robust framework exists which enables the retailer to have sufficient and adequate oversight of its outsourced providers. EA agreed with the recommendations. EA has advised that it will update its processes and that it has

restructured the management of this area to enable improved senior leadership oversight.

(b) Advanced Metering Infrastructure (AMI)

The auditors reported issues with EA's compliance with AMI obligations, including records of consent from customers opting in to flexible pricing not being maintained and customer requests for meter data not being provided within the required 10 business days. Again, a lack of monitoring and oversight of outsourced providers contributed to these issues.

The auditors recommended that EA make further attempts to obtain records of consent from the vendor and if these records cannot be provided, EA should ensure that consent was given by contacting the relevant customers. To address this issue and the provision of meter data, the auditors recommended that EA establish appropriate quality assurance practices.

EA advised that it is exploring its options to obtain the information from the vendor in question. EA has also been working with its third party contact centre to ensure that it is using EA's quality assurance framework and that staff are being assessed to the same standard as existing internal call centre employees. EA noted that in August 2015, EA moved the process for addressing customer requests for meter data in-house and EA represented that since this transition such requests are actioned within required the timeframes.

(c) Billing

The auditors identified several issues with EA's compliance with its billing obligations. Examples included bills not being issued in accordance with timing requirements, changes to bill frequency without customers' consent and Guaranteed Service Levels (GSLs) not being applied in a timely manner.

The auditors recommended that EA further investigate the issues identified to determine if they are systemic and whether efficiencies in the process can be identified and implemented to improve billing practices.

(d) Marketing Conduct

The auditors identified a number of issues in relation to EA's marketing conduct. These included one sales representatives taking calls prior to completing their training, cases of consent not being obtained prior to the customer's transfer or records of consent not being maintained, and customer contracts not explicitly referencing the *Code of Conduct for Marketing Retail Energy in Victoria*.

Again, the auditors noted that a lack of robust quality assurance and monitoring processes resulted in the occurrence of these breaches. Therefore, it was again recommended that quality assurance and monitoring processes be improved and extended to include all external vendors.

(e) Compliance Program

The auditors observed that there were processes in place to promote a compliance culture and that responsibilities were clearly documented and articulated. However, despite this the auditors identified several breaches, including two relating to areas that were the subject of administrative undertakings and assurances in 2013 ("the Undertakings and assurances"), which had not been identified by EA. In addition, the Regulatory Compliance Policy outlining EA's commitment to regulatory compliance had not been updated in line with the documented review schedule in 2014.

The auditors recommended that where process improvements are put into place after an administrative undertaking, the compliance team should seek a reasonable level of assurance over a sustained period to evidence that processes are embedded and operating to promote and achieve compliance. They also recommended that the Regulatory Compliance Policy should be reviewed in accordance with the prescribed timeframes.

EA have advised that the compliance framework will be amended to ensure monitoring of actions is taken to address any undertakings. EA also advised that it has reviewed the Regulatory Compliance Policy.

COMMISSION RESPONSE

The Commission acknowledges that EA has accepted the audit recommendations and has commenced remediation.

We have sought assurances that EA will address each of the recommendations that were not specifically addressed by EA in its initial response to the audit report (for example, contacting customers if records of consent cannot be obtained from outsourced providers).

In addition, we have sought further details on the status of remediation plans to address each issue identified in the audit report and will continue to monitor those until completion. We have also asked EA to consider how it will address the root causes of the issues identified in the audit so that further issues do not arise in these areas in future.

This is particularly important in light of EA's compliance history, which led to the Undertakings and assurances given to the Commission in 2013. While we are satisfied that the specific issues in the Undertakings and assurances have been addressed, we are concerned that other issues have now been identified in similar areas and that EA may therefore not have adequately dealt with the underlying causes of these issues.

The Commission will continue to monitor the completion of all outstanding actions arising from the audit and looks forward to continuing to work collaboratively with EA as they implement a comprehensive remediation plan to address the root causes of the issues identified in the audit.