



# Information Guide for Potential VEU Audit Panel Members

10 December 2018



**An appropriate citation for this paper is:**

Essential Services Commission 2018, *Information Guide for Potential VEU Audit Panel Members*, 10 December

**Copyright notice**

© Essential Services Commission 2018



This work, *Information Guide for Potential VEU Audit Panel Members*, is licensed under a Creative Commons Attribution 4.0 licence [[creativecommons.org/licenses/by/4.0](https://creativecommons.org/licenses/by/4.0)]. You are free to re-use the work under that licence, on the condition that you credit the Essential Services Commission as author, indicate if changes were made and comply with the other licence terms.

The licence does not apply to any brand logo, images or photographs within the publication.

# Contents

Introduction	1
About this guide	1
Who should use this guide	1
About the VEU audit panel	1
1. VEU audit panel	2
1.1. Aims of the audit panel	2
1.2. Benefits of the audit panel	3
1.3. Appointment to the audit panel	3
1.4. Failure to nominate an auditor	3
1.5. Term of appointment	3
2. VEU audit framework	4
2.1. Legislation	4
2.2. Audit purpose	4
2.3. Relevant entity responsibilities	4
3. VEU audit process and timelines	5
4. Conducting the VEU audit	6
5. Audit deed	7
6. Auditor independence	8
7. Addition to or removal from the audit panel	9
7.1. Addition to the audit panel	9
7.2. Removal from the audit panel	9
8. Submissions	10
8.1. Expression of interest requirements	10
8.2. Expression of interest timing	10
8.3. Selection criteria	10
8.4. VEU audit panel list	11
8.5. Where to get help	11
Glossary	12
Appendix A	13

# Introduction

## About this guide

This guide provides information for potential members of the Victorian Energy Upgrades (VEU) program audit panel (the audit panel) and information about the audit panel.

Members of the audit panel undertake independent audits of VEU program annual energy acquisition statements from program participants.

We are seeking expressions of interest from suitably qualified firms to form part of the audit panel.

## Who should use this guide

You should use this guide if you are:

- considering, or wanting to apply, to become a member of the audit panel
- seeking information about the audit panel.

## About the VEU audit panel

Victorian energy retailers that have a liability under the VEET Act are known as relevant entities. Under the VEET Act, relevant entities are required to provide the commission with an independently audited annual energy acquisition statement.

The purpose of the independent audit is to verify the reliability and accuracy of the relevant entity's annual energy acquisition statement and their compliance with the VEET Act and the Victorian Energy Efficiency Target guidelines (the VEET guidelines).

The VEET guidelines establishes a framework for nominating, approving and appointing an auditor that may be nominated by program participants to undertake reasonable assurance audits specified by the commission.

# 1. VEU audit panel

## 1.1. Aims of the audit panel

We ensure the quality and integrity of the VEU program audit process by requiring that independent auditors be appointed to conduct the specified audits. The auditor and audit team must be independent of the business being audited and have the necessary skill, experience and expertise to conduct the audit.

The 'VEU audit panel list' provides relevant entities with a list of firms that form the audit panel and the contact details of the nominated lead auditor(s) from those firms.

View the VEU audit panel at [www.esc.vic.gov.au/veu-audit-panel](http://www.esc.vic.gov.au/veu-audit-panel).

We have established the audit panel to:

- reduce the costs of identifying and nominating auditors that meet our selection criteria
- improve the timeliness and efficiency of the auditing process.

The audit panel arrangements will be non-exclusive, i.e. a relevant entity may either nominate auditors from the audit panel or they may nominate an auditor not on the panel. It will still be necessary for relevant entities to formally nominate the auditor and audit team members and to confirm that there are no conflicts of interest, and for us to approve the auditor. The relevant entity is responsible for negotiating and paying the cost associated with undertaking the audit.

## **1.2. Benefits of the audit panel**

In addition to being a legislated requirement, VEU program audits are expected to benefit:

- **stakeholders**, by giving assurance that VEU program objectives and obligations are being met and that information published about the VEU program is accurate and reliable
- **relevant entities**, by providing a clear and consistent basis for measuring performance and for comparing performance of various relevant entities. The audits also allow relevant entities to demonstrate to their customers and other stakeholders that they are meeting statutory obligations under the VEET Act
- **the commission**, by providing assurance that businesses are complying with program legislation.

## **1.3. Appointment to the audit panel**

In order to be appointed to the audit panel, firms will need to:

- demonstrate that they are able to satisfy the selection criteria requirements, including experience, expertise and independence
- identify staff they propose to make available to lead the audits (and thereby take responsibility for audit findings) and act as audit team members
- agree in principle to the terms of the audit deed
- disclose the firm's professional indemnity insurance coverage
- agree to take actions to ensure that staff maintain the necessary skill level and familiarity with our audit requirements
- demonstrate the resource capacity to undertake more than one audit during an audit cycle
- ensure that lead auditors be available to attend an annual audit workshop.

## **1.4. Failure to nominate an auditor**

Where a relevant entity fails to nominate an auditor or we decide not to approve the auditor, we may (but are not obliged to) appoint an auditor from the audit panel in respect of a return or statement provided by that relevant entity. The relevant entity will be responsible for the costs associated with the auditor appointed by us.

## **1.5. Term of appointment**

We propose that the initial term of appointment to the audit panel will be for a period of greater than one year but no more than five years. At the expiry of this term the audit firm may be reappointed to the audit panel.

## 2. VEU audit framework

### 2.1. Legislation

A relevant entity must provide an audited annual energy acquisition statement to us (as specified in section 33(6) of the VEET Act). Statements must be audited in accordance with the VEET guidelines.

### 2.2. Audit purpose

The purpose of the audit is to confirm the amount of electricity and/or gas acquired as 'scheme acquisitions' by relevant entities during a calendar year by auditing:

- the compliance of the relevant entity with the VEET Act and the VEET guidelines
- the integrity of the information reported to the commission in the statement.

### 2.3. Relevant entity responsibilities

Pursuant to section 12 of the VEET guidelines, each relevant entity must undertake audits in a manner consistent with section 14 of the VEET guidelines.

A relevant entity must:

- arrange for an audit to be undertaken
- ensure that the audit is conducted by an independent auditor nominated by the business and approved by us
- ensure that the final audit report is surrendered to the commission with the applicable statement or return by 30 April, or any other date allowed by us.

### 3. VEU audit process and timelines

Figure 1 in Appendix A sets out the key steps for relevant entities in the approach to undertaking annual energy acquisition statement audits and the indicative timelines of the process. These timings may alter given specific circumstances specified by us

The timeline associated with relevant entity and auditor obligations for a compliance year is likely to be as follows:

By 1 October	We may issue a specific audit scope to relevant entities. The audit scope will determine the level of detail and matters to be audited for that specific program participant. An individual audit scope will be issued only after an internal risk assessment has been conducted by us.
November	Relevant entities nominate auditors.
January	Our approval of auditors. In the event a relevant entity fails to nominate an auditor, or the nominated auditor is not approved, we may appoint an auditor.  Audit deed signed.
February	Audits commence.
30 April	Deadline for audited annual energy acquisition statement to be surrendered to us.
July	We evaluate the audit reports in conjunction with the annual energy acquisition statement.



## 4. Conducting the VEU audit

To ensure the consistency and comparability of audit results, the audit methodology employed by the auditors must comply with minimum requirements set out in section 14 of the VEET guidelines. Unless stated in a separate audit scope document issued by us (under clause 14.5 of the VEET guidelines) the auditor is required to:

- investigate compliance with sections 29, 31 and 33 of the VEET Act to confirm the amount of electricity and gas acquired under scheme acquisitions by the relevant entity and the calculation of any VEEC shortfall set out in the statement
- analyse relevant data
- analyse documented procedures
- interview responsible staff
- analyse information systems
- analyse quality controls
- identify changes in systems and documented procedures
- test a sample of cases or data.

In performing the audit, the auditor should have a general understanding of:

- what the VEU program is
- how the VEU program operates
- relevant Australian Standards for Assurance Sampling, Compliance and/or Risk Management.

Prior to undertaking each audit, and after the auditors have been appointed, we will brief the auditors (either individually or jointly) to ensure that our requirements are clearly understood.

## 5. Audit deed

The auditor is primarily responsible to us and is required to sign a tripartite audit deed, which:

- sets out the terms of engagement and governs the relationships between us (the commission), the relevant entity and the auditor
- specifies the conduct of the audit and the obligations of us (the commission), the relevant entity and the auditor
- is signed by each party.

Among other things, the audit deed covers issues relating to:

- auditor approval and duty of care
- conflicts of interest
- compliance with the audit guidelines
- indemnity and limitation of liability
- termination.

A copy of the audit deed is available at [www.esc.vic.gov.au/veu-energy-retailers](http://www.esc.vic.gov.au/veu-energy-retailers).

Audit firms will need to provide in principle agreement to the terms and conditions of the deed before being appointed to the audit panel.

## 6. Auditor independence

Independence is a key aspect of ensuring the objectivity of the VEU program audits. Nominated auditors that are chosen by a relevant entity from the audit panel are required to outline any conflicts of interest or potential conflicts of interest and the manner in which the potential or perceived conflict of interest is proposed to be managed.

In assessing independence, we will:

- have regard to the amount of work that a firm has performed for a relevant entity in the previous two years and whether the firm is being considered for any current work
- monitor that an audit team member(s) has not recently been an employee of the relevant entity being audited
- evaluate that an auditor does not have any interest, obligation or duty (whether owed to the relevant entity or any other person) which will conflict with the auditor's duties to the commission.

## 7. Addition to or removal from the audit panel

### 7.1. Addition to the audit panel

We may add members to the audit panel (from time to time) where we are satisfied that a firm meets the specified criteria in terms of experience, expertise, independence and capability to perform audits under the program.

### 7.2. Removal from the audit panel

We may remove a firm from the audit panel after:

- the expiry of the appointment term
- failure by the auditor to comply with any obligation owed to us under an audit deed
- representation and warranty made by the auditor under an audit deed is, or proves to be, false
- change in the composition of the staff available to perform audits which, in our opinion arrived at in good faith, results in an unacceptable reduction in the level of competence of the audit firm
- failure by the audit firm to maintain the necessary level of experience, expertise or capability to perform the audits
- failure to follow the audit guideline or observe the necessary level of independence in performing an audit.

We reserve the right not to form an audit panel or not make appointments to the panel. Additionally we reserve the right to disband the panel.

## 8. Submissions

### 8.1. Expression of interest requirements

In expressing interest to be appointed to the VEU audit panel, a firm's submission will need to:

- identify the firm's field of work, core expertise, relevant work experience and corporate or business structure
- identify staff to be made available to lead the audits and act as audit team members, with brief resumes, and their hourly rates
- demonstrate that staff are able to satisfy the selection key criteria requirements in terms of experience and expertise
- outline any conflicts of interest or potential conflicts of interest and the manner in which the potential or perceived conflict of interest is proposed to be managed
- demonstrate the resource capacity to undertake more than one audit during an audit cycle, including the ability to maintain availability, continuity and skill level of key staff
- identify that the firm has the required level of insurance coverage
- indicate the firm's acceptance of the terms and conditions of the audit deed or identify any concerns with the audit deed
- provide referees and list examples of relevant audit work previously undertaken.

### 8.2. Expression of interest timing

Expressions of interest can be made at any time. An expression of interest for appointment to the audit panel can be sent by email to: [veu@esc.vic.gov.au](mailto:veu@esc.vic.gov.au)

or by mail to:

Expressions of Interest: VEU Audit Panel  
Essential Services Commission  
Level 37, 2 Lonsdale Street  
Melbourne VIC 3000

Written notification of appointment to the audit panel will be provided by us.

### 8.3. Selection criteria

In selecting successful audit panel members, we will consider the following criteria:

- demonstrated skill, experience in, and detailed knowledge of quality assurance, including operational or compliance auditing, energy auditing, or science or engineering (in terms of both the lead auditor and the identified personnel)

- familiarity of the lead auditor and identified personnel with the VEU program and how it applies to relevant entities
- readily available access to relevant experience and expertise and the resource capacity to undertake more than one audit during an audit cycle
- lack, or adequate management, of conflict of interest
- risk management and indemnity insurance coverage
- agreement to the terms and conditions of the audit deed.

#### **8.4. VEU audit panel list**

We publish the 'VEU Audit Panel List', which provides the relevant entities with a list of firms that form the audit panel and the contact details of the nominated lead auditor(s) from those firms.

View the VEU Audit Panel List at: [www.esc.vic.gov.au/veu-audit-panel](http://www.esc.vic.gov.au/veu-audit-panel).

If you have any difficulty with this public disclosure, please indicate this in your submission and identify alternative methods for advising relevant entities of your details.

#### **8.5. Where to get help**

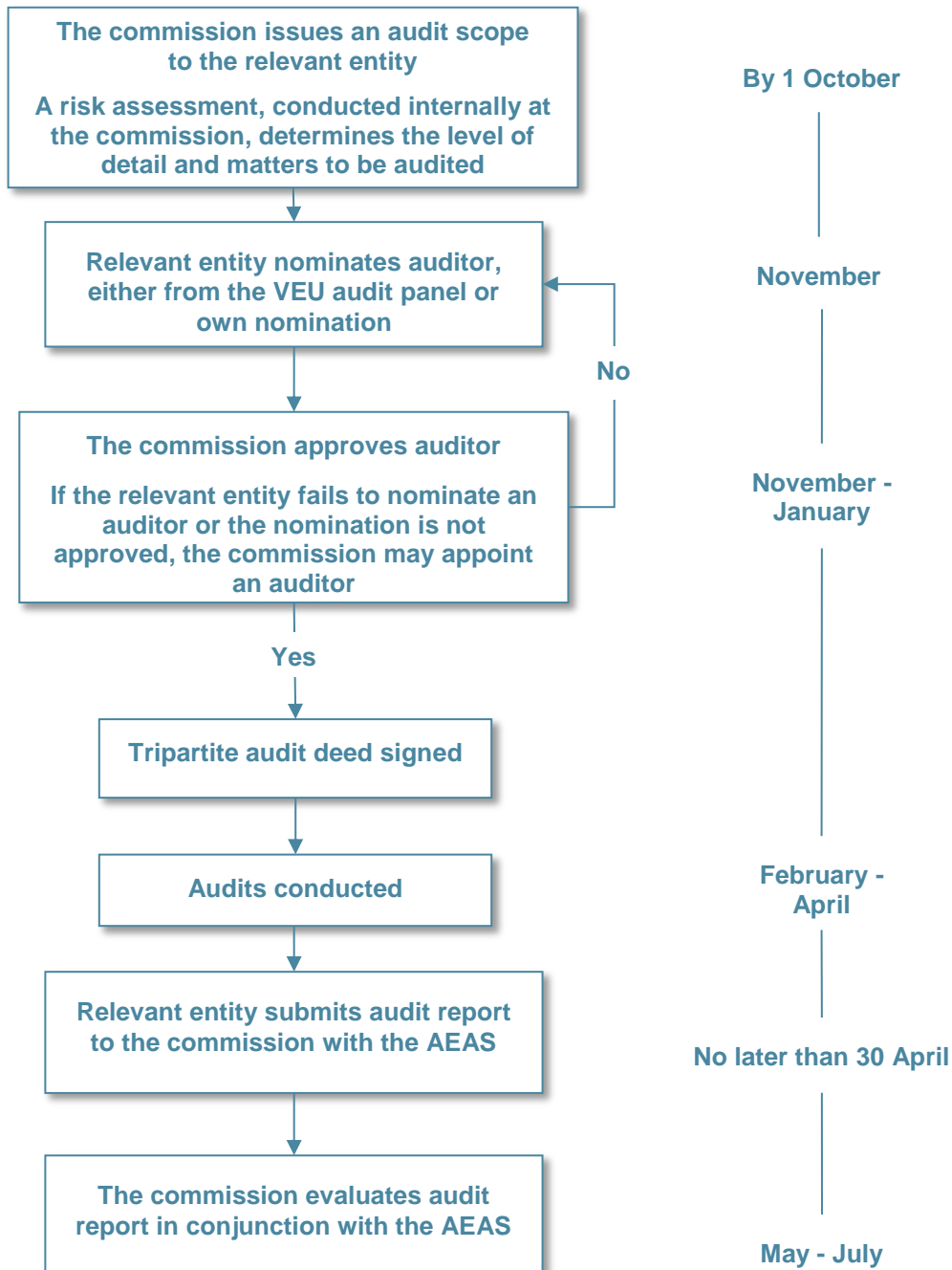
Questions regarding the audit panel or audit process should be directed to Luli Zyka, Manager, VEU Audit & Compliance on (03) 9032 1391 or by email to [luljeta.zyka@esc.vic.gov.au](mailto:luljeta.zyka@esc.vic.gov.au).

# Glossary

Term	Definition
The VEET Act	Victorian Energy Efficiency Target Act 2007
Audit deed	A tripartite audit deed between a relevant entity, its approved auditor and the commission, in the form of a standard audit deed published by the commission for the VEU program or otherwise in a form satisfactory to the commission.
Annual energy acquisition statement (AEAS)	As per section 33 of the VEET Act.
VEET guidelines	Victorian Energy Efficiency Target VEET guidelines as per section 74 of the Act.
Relevant entity	As per section 3 of the VEET Act.
Scheme acquisition	As per section 3 of the VEET Act.
VEEC	Victorian energy efficiency certificate, created under Division 3 of Part 3 of the VEET Act.
VEU program	Victorian Energy Upgrades program.

# Appendix A

Figure 1: Relevant entities - process for AEAS





## Document version control

The RM reference for this document is: C/18/29807

Version	Amendments made	Date published
1.0	First release under the Victorian Energy Efficiency Target Regulations 2018	10 December 2018