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Regulation Branch  
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Our ref Vector IP ComCom submission on  
Notice.docx

28 February 2011

Dear Matthew

**Submission on the Consultation Paper on Draft Information Request and Process Update (Starting Price Adjustments for Default Price-Quality Path for Non-Exempt Electricity Distribution Businesses)**

Thank you for the opportunity to comment on the draft of the Section 53ZD Information Request Notice ('the Notice') attached to the Consultation Paper on Draft Information Request and Process Update.

**Scope**

KPMG are the auditors of Vector Limited, the largest Electricity Distribution Business ('EDB') in New Zealand, accounting for 27% of total EDB gross line charge income and 26% of total customer connection points (based on the 2010 Electricity (Information Disclosure) Schedules). For this reason, we are an interested party in the proposed assurance reports that have been requested as part of the starting price adjustment process.

Our submission only relates to Schedule E of the Notice, which is the proposed wording of the independent assurance report. We have not commented on Schedules A to D.

**Background**

Our responsibility as the appointed auditor of the information contained in Schedules A and B of the Notice is to provide reasonable assurance as defined by the International Standard on Assurance Engagements (New Zealand) 3000 ('ISAE (NZ) 3000'). Due to the regulatory compliance nature of the supplied information, the assurance report also falls under the scope of the Standard for Assurance Engagements 3100: *Compliance Engagements* ('SAE 3100'). SAE 3100 establishes mandatory requirements for members undertaking assurance engagements in order to report on an entity's compliance with requirements established in legislation or regulations.

While the proposed assurance report template is close to what we believe is appropriate, we set out below several points for consideration.

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### **Proposed points for consideration**

- The assurance report is currently only addressed to the Commissioners of the Commerce Commission. We suggest that, given the auditors are directly appointed by the relevant EDB, this report should also be addressed to the Directors of the Company. The EDB Directors, in addition to the Commissioners, are considered stakeholders in the information presented as they have defined responsibilities in the report over the information presented.
- We recommend that the following amended wording for the first paragraph of the Basis of Opinion is considered by the Commission:

‘We conducted an assurance engagement in accordance with the Framework for Assurance Engagements, SAE 3100: *Compliance Engagements* and the International Standard on Assurance Engagements (New Zealand) 3000 (ISAE (NZ) 3000) issued by the New Zealand Institute of Chartered Accountants.’

As noted in the background information section, we consider that the scope of the assurance engagement is defined by SAE 3100 in addition to ISAE (NZ) 3000. We note that the objectives that are quoted in Schedule E are the SAE 3100 objectives, not those of ISAE (NZ) 3000. We concur with the objectives noted, but suggest the Basis of Opinion phrasing is changed for the avoidance of doubt. We consider the listing of the objectives of SAE 3100 in the assurance report is superfluous and could potentially be removed from the template.

- ISAE (NZ) 3000 paragraph 49(c) and SAE 3100 paragraph 58(e) require the assurance report to ‘refer to the point in time or period of time to which the evaluation or measurement of the subject matter relates’, which the current proposed draft does not explicitly state. The period covered by the Notice should be specified as the regulatory year ended 31 March 2010.
- We recommend that the independence section be moved to the main body of the report. Given that the auditor’s responsibility is to express an independent opinion on the information prepared, it is logical to explain how the auditor is independent after that assertion. In addition this meets the requirements of SAE 3100 paragraph 58 (ka) which requires ‘a statement as to the existence of any relationship (other than assurance practitioner) which the member has with, or any interests which the member has in, the entity.’
- Paragraph 58(h) in SAE 3100 states that ‘when the report is intended for use by specified users only for the specified purpose of the compliance engagement, the member shall restrict use of the assurance report to the specified intended users for the purpose stated in the report’. There is currently no limitation on the use of the Schedule E Independent Assurance report. We would suggest adding the following paragraph in order to comply with SAE 3100:

### **Use of this Independent Assurance Report**

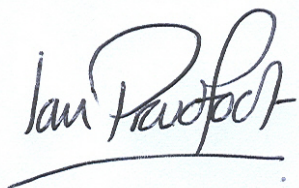
This independent assurance report has been prepared solely for the Directors of Zz Limited and the Commissioners in accordance with the Notice. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the Directors of Zz Limited and the Commissioners, or for any other purpose than that for which it was prepared.

The information contained in Schedules A and B is specific to the purpose of setting the starting price adjustments under the 2010-2015 Default Price Path for EDBs. The current proposed Schedule A and B formats are not directly comparable to the original data presented in the 2010 Electricity (Information Disclosure) Schedules. The data due to be supplied per the Notice will be publically available on the Commerce Commission website and it is possible that additional users could seek to rely on the information presented for an alternative use. This could result in inaccurate analysis and inappropriate use of the information. For the avoidance of doubt, we consider it is necessary to clarify that the related assurance report is solely for the use of the Commerce Commission and the relevant directors of the EDB.

- Bullet point 3 of the opinion refers to Generally Accepted Accounting Practice (GAAP). We note that GAAP is not defined in the Notice and that the 'where relevant' statement is not clearly defined in terms of the information in the presented Schedules. There are several regulatory releases, including the Commerce Act (Electricity Distribution Services Input Methodologies) Determination 2010, the related Input Methodologies Reasons paper and the 2010-2015 Electricity Distribution Price-Quality Path Draft Decisions Paper that drive the request for information in the Notice. Given that bullet point 1 already provides an opinion on Zz's compliance with the Notice, bullet point 3 should be removed given GAAP is not mentioned or defined elsewhere in the report.

We include as Appendix 1 our proposed revised assurance report template incorporating the comments noted in this submission.

Yours faithfully



Ian Proudfoot  
Partner

**Appendix A: Proposed form of independent assurance report.**

**SCHEDULE E: FORM OF INDEPENDENT ASSURANCE REPORT**

To the Commissioners of the New Zealand Commerce Commission and the Directors of Zz Limited:

We have been engaged to provide an independent assurance report on the:

\*[Schedule of Required Information (Schedules A to A6); and

\*[Schedule of Required Information (Schedule B)]

prepared by qq Limited (Zz) in accordance with the Commerce Commission's requirements issued by notice in writing to Zz under section 53ZD of the Commerce Act 1986 on [insert date] (the Notice).

\*Delete if inapplicable.

**Directors' and Auditors' Responsibilities**

Zz's directors are responsible for ensuring that the information provided is prepared in accordance with the Notice and for such internal controls as the directors determine are necessary to ensure the information provided is free from material misstatement.

We are qualified as an auditor as defined in the Notice. Our responsibility is to express an independent opinion on whether the information prepared by Zz has been calculated in accordance with the Notice for the regulatory period ended 31 March 2010.

**Use of this Independent Assurance Report**

This independent assurance report has been prepared solely for the Directors of Zz Limited and the Commissioners in accordance with the Notice. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the Directors of Zz Limited and the Commissioners, or for any other purpose than that for which it was prepared.

**Independence**

We have no relationship with, or interests in Zz other than [insert relationship and/or interests including a statement verifying that no conflict of interest exists].

## **Basis of Opinion**

We conducted an assurance engagement in accordance with the Framework for Assurance Engagements, SAE 3100: *Compliance Engagements* and the International Standard on Assurance Engagements (New Zealand) 3000 (ISAE (NZ) 3000).

The professional standards require that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance about whether the information as provided is free from material misstatement.

Considering materiality requires that we understand the factors that might influence the decisions of the intended users of the information in Schedules A and B when determining the nature and extent of our evidence-gathering procedures.

Our assurance engagement involves performing procedures to obtain appropriate evidence in respect of the information in Schedules A and B and the overall compliance with the Notice. The procedures selected depend on judgement, including the assessment of the risks of material misstatement, whether due to fraud, error or other reasons. In evaluating those risks we consider the internal controls that are relevant to Zz's provision of the information in Schedules A and B in order to design assurance procedures that are appropriate in the circumstances. We do not express an opinion on the effectiveness of Zz's internal controls.

In relation to the Notice, our assurance procedures included examination, on a test basis, of evidence relevant to each item of information in Schedules A and B. Specifically, our assurance procedures included examining, on a test basis, evidence to support the information in Schedules A and B, examination of internally and externally generated documents and records relevant to the information, interviewing selected personnel, and such other procedures as we considered necessary.

These procedures included:

- a. reviewing the methodologies used in preparing the information in Schedules A and B and confirming that they are in accordance with the methodologies set out in the Commerce Act (Electricity Distribution Services Input Methodologies) Determination 2010 (IM determination) and the requirements set out in the Notice, and providing assurance that the underlying assumptions used are reasonable;
- b. testing whether the calculations are mathematically correct;
- c. identifying key inputs to the information in Schedules A and B and reconciling or agreeing them to source documents and systems.

In performing the procedures noted above, we have placed reliance on zz's underlying systems and business records from which inputs were sourced for the preparation of the information in Schedules A and B.

## **Opinion**



In our opinion:

1. the recorded evidence and explanations we have obtained are sufficient and appropriate to provide a basis for our independent opinion on zz's compliance with the Notice;
2. where relevant, the information used in the preparation of the information in Schedules A and B has been properly extracted from zz's accounting records, sourced from its financial systems; and
3. the information in Schedules A and B has been calculated by zz in all material respects, in accordance with the Notice.

**\*[Qualification on Opinion]**

\*[Our opinion is qualified as follows:]

\*[Insert the nature of and reason(s) for the qualification together with the estimated impact on the information provided in Schedules A and B.]

Our assurance engagement was completed on [insert date] and our opinion is expressed as at that date.

[Name of firm]

[Address of firm]

[Date]

\*Delete if inapplicable.