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**From:** Roy Glass [mailto:Roy.Glass@oag.govt.nz]  
**Sent:** Monday, 28 February 2011 5:00 p.m.  
**To:** regulation.branch  
**Cc:** Tony Uttley; Andrea Neame; Bruce Robertson  
**Subject:** Submission - Consultation Paper on Starting Price Adjustments for Default Price-Quality Path for Non-Exempt Electricity Distribution Businesses

Dear Sir/Madam

As requested we provide a brief submission on the Commerce Commission Consultation Paper on Starting Price Adjustments for Default Price-Quality Path for Non-Exempt Electricity Distribution Businesses dated 14 February 2011 (the Consultation Paper).

The Auditor-General is the auditor of a significant number of the entities that will be subject to the requirements proposed in the Consultation Paper - hence our Office's strong interest in the proposals.

We are concerned with the limited period (one week) that has been provided for consultation. The matters on which the Commerce Commission is seeking assurance are complex, and the proposed reporting timetable is tight. We are concerned that the very short timeframe for receipt of submissions presents significant risks to the Commerce Commission in that interested parties will either not make submissions or that the submissions that are received will not reflect a full and proper consideration of the requirements proposed in the Consultation Paper. The consequence of inadequate consultation may lead to the requirements of the Discussion Paper not being properly understood, or ignored, with the consequence that the Commission's objectives may not be met.

Our specific comments on the Discussion Paper are as follows:

#### **Definition of Auditor**

The Discussion Paper has a definition of auditor that differs from the definition that applies to the audits of Information Disclosures or Distribution Thresholds. The difference in definition enables an entity to use an auditor other than the statutory auditor. We were interested to understand the reasoning behind the difference in the definition of auditor.

#### **The Assurance Report (Schedule E)**

We have had limited time to examine the proposed assurance report. Our initial view is that it suffers from a number of shortcomings that are of such significance that we may not be able to sign it off in its present form. Our comments, in no particular order of importance, are:

1. The appropriate standard for performing an engagement such as this is *Standard on Assurance Engagements 3100: Compliance Engagements (SAE 3100)*.
2. The content of the assurance report may not adequately reflect the requirements of paragraph 58 of SAE 3100 (particularly paragraphs 58(f), 58(g) and 58(h)).
3. The description of the auditors responsibilities (under the "Directors' and Auditors' Responsibilities" heading) does not equate with matters on which the auditor is being asked to form an opinion.
4. We make the following observations on the matters under the "Opinion" heading:

- (1) seems unnecessary.
  - (2) we don't know enough about the source of the information to know whether such an opinion is useful. For instance some of the information in Schedules A and B may have been created as a result of significant analysis and rework on the part of the entity. If this is the case, is it appropriate for the auditor to assert that the information has been properly extracted from the entity's accounting records? Does such an opinion have any relevance to users as long as the information has been calculated in accordance with the Notice?
  - (3) if there is a conflict between GAAP and the Notice (and we haven't performed an analysis to determine if such a conflict exists) what prevails? It would seem to us that the Commission's aim is for the information in Schedules A and B to have been calculated in accordance with the Notice. We therefore question the relevance of (3).
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If you have any questions about this submission please contact myself or Tony Uttley.

Yours faithfully

Roy Glass  
Director - Auditing Policy

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