IPART Energy Sustainability Schemes

Energy Savings Scheme and Peak Demand Reduction Scheme

ACP Audit Guide

September 2022

The Independent Pricing and Regulatory Tribunal

IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from IPART's website.

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Contents

1 About this document

1.1 Overview

This document provides general guidance about conducting reasonable assurance audits under the Energy Savings Scheme (**ESS**) and Peak Demand Reduction Scheme (**PDRS**) (collectively the **Energy Security Safeguard schemes**).

This document should be used by:

- Auditors so that they take a consistent approach to preparing, performing and reporting audit conclusions.
- Accredited Certificate Providers (**ACPs**) to understand and comply with the requirements for carrying out an audit in accordance with their conditions of accreditation.

1.2 Acronyms and key concepts

Appendix A sets out a list of the acronyms and key concepts referred to in this document.

1.3 Document control

Version number	Change description	Date published
v1.0	First published	December 2009
Interim	Updated Audit Guideline following publication of the Compliance and Performance Monitoring Strategy	April 2014
v2.0	Clarification of audit opinions and general amendments to improve readability	November 2015
v3.0	Amendments made to be consistent with ASAE 3000 and ASAE 3100, improve readability and reflect process changes made to prepare for the introduction of the Peak Demand Reduction Scheme.	September 2022

2 Introduction

2.1 Purpose of audits

The purpose of ACP audits is to provide an independent conclusion about whether an ACP has complied, in all material respects, with the requirements of the Energy Security Safeguard schemes. This includes whether each Energy Savings Certificate (**ESC**) or Peak Reduction Certificate (**PRC**) (together **"Certificates"**) has been properly calculated or created under the applicable legislation.

Audits are a key tool for monitoring an ACP's compliance with its legislative requirements and conditions of accreditation. More information is set out in our ACP Compliance Guide.

Audits should be used by ACPs to improve their future performance by identifying areas of concern and opportunities for continuous improvement.

2.2 Audit framework

2.2.1 Audit powers

The *Electricity Supply Act 1995* (**ES Act**) and *Electricity Supply (General) Regulation 2014* (**ES Regulation**) sets out our functions and responsibilities as Scheme Administrator of the Energy Security Safeguard schemes and gives us the power to conduct audits in relation to the following matters.

- The creation of certificates.
- An ACP's eligibility for accreditation.
- An ACP's compliance with its conditions of accreditation.

Audits can generally only be performed by auditors who are members of our Audit Services Panel.[1]

2.2.2 Audit requirements for ACPs

An ACP's audit requirements are set out in its accreditation notice for each Recognised Energy Savings Activity (**RESA**) /Recognised Peak Activity (**RPA**) (together **"Recognised Activity"**) and are also prescribed in the ES Regulation.

[1] See https://www.energysustainabilityschemes.nsw.gov.au/Auditors-and-MV-Professionals/Audit-Panel

Accreditation Notice

An ACP's accreditation notice states the audit regime for the Recognised Activity it's accredited for. The audit regime may be different for each Recognised Activity.

Where an ACP is accredited under the ESS and PDRS for the same activity, audit requirements may be different under each scheme.

In most cases, an ACP's accreditation notice will require a pre-registration or post registration audit regime (see Table 2.1). Under the ES Regulation, we also have the power to direct an ACP to conduct an audit.

Table 2.1 Characteristics of pre-registration and post registration audits

Characteristic	Pre-registration audit	Post registration audit
Timing of audit	Audits take place after the implementation has occurred but before the ACP applies to register Certificates	Audits take place after Certificates have been registered
Status of certificates	• Certificates are calculated by the ACP (but not yet registered) • Certificates cannot be withheld by us under the terms of the Undertaking	• Certificates have been calculated and created by the ACP • A percentage of Certificates can be withheld by us under the terms of the Undertaking
Treatment of errors	Errors identified will not result in Certificates being recognised as improperly created (as they are yet to be registered)	Errors may result in Certificates being recognised as improperly created and may need to be surrendered by the ACP

ES Regulation

Under the ES Regulation it's a prescribed condition of an ACP's accreditation that it co-operates with audits, including:

- providing any information and assistance that is necessary to comply with an audit, and
- providing any access to premises that is necessary to comply with an audit required by us.

2.2.3 Audit standards

Audits must be conducted in accordance with the following standards:

- *ASAE 3000 – Assurance Engagements Other than Audits or Reviews of Historical Financial Information* - applies to assurance engagements other than audits or reviews of historical financial information, to provide assurance about whether the subject matter information is free from material misstatement.
- *ASAE 3100 – Compliance Engagements* - applies to limited and reasonable assurance engagements to provide assurance about whether an entity has complied in all material respects with compliance requirements.

If an auditor prefers to use a different standard, they must contact us before starting the audit.

In the audit report, auditors must state which standards they used to conduct the audit and that the audit was conducted in accordance with the standards.

2.2.4 Level of assurance

ACP audits must include a reasonable assurance opinion. For a reasonable level of assurance, the auditor needs to conduct the audit and collect evidence in a way that reduces the assurance engagement risk to an acceptably low level to *positively* state its conclusion. That is, *"Based on the procedures performed, in our opinion, the number of ESCs calculated by ABC ACP is reasonably calculated".* More information about expressing reasonable assurance conclusions is contained in paragraph 5.4.5.

This is different from a "limited" level of assurance, where the auditor conducts fewer tests (for example, through using smaller sample sizes) and collects less evidence than for a reasonable assurance. This lower level of assurance is only sufficient for an auditor to *negatively* state its conclusion. That is, *"Based on the procedures performed, nothing came to our attention to indicate that the number of ESCs calculated by ABC ACP is materially misstated".*

3 Preparing

3.1 Engaging an auditor

An ACP must understand its audit regime for each of the Recognised Activities it's accredited for, including the date by which it must engage an auditor from our Audit Services Panel.

When engaging an auditor, ACPs and auditors should consider our "three audit rule" and whether there is any conflict of interest.

The commercial arrangements, including the costs and expenses associated with undertaking an audit is a matter for the ACP and the auditor to negotiate and agree prior to submitting the audit paperwork to us.

3.1.1 The "three audit rule"

The "three audit rule" means that after an auditor has performed three consecutive audits for an ACP, the ACP must engage a different auditor for the next audit.

The aim of the three audit rule is to encourage the rotation of auditors so that each ACP is audited by different Audit Services Panel members over time. This allows a new perspective and helps to reduce the potential for conflicts of interest by removing any long-term business commitments between ACPs and auditors.

Combined audits count as one audit under the three audit rule. Combined audits are audits that are conducted by the same auditor at the same time and include:

- a volumetric ESC creation audit and a pre-registration ESC audit for the same accreditation, or
- an ESC audit and a PRC audit.

3.1.2 Conflict of interest

Auditor independence is fundamental for objective and unbiased audits. For audits to be unbiased and objective, all members of the audit team need to be free of any conflict of interest situations and maintain independence from the ACP being audited.

A conflict of interest situation exists if at a particular time:

- the lead auditor or professional member of the audit team is not capable of exercising objective and impartial judgement in the conduct of the audit, or
- a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the lead auditor or professional member of the audit team is not capable of exercising objective and impartial judgement in the conduct of the audit.

An example of where a conflict of interest situation may exist is where an Auditor is engaged to audit an ACP's accreditation where it was also engaged by the same ACP, in a consultant's capacity, to assist with the preparation of the ACP's application for accreditation of the same accreditation.

Before accepting an audit engagement, the lead auditor must consider whether there is a conflict of interest situation and must not accept the engagement if one exists.

3.2 Selecting the audit team

Selecting audit team members is an important part of preparing for an audit. The team selected should have the required skills and expertise to satisfactorily carry out all aspects of the audit.

The overall responsibility for the selection of team members rests with the lead auditor. Lead auditors are experienced auditors who are named on our Audit Services Panel Agreement.[2]

Lead auditors are responsible for the quality of an audit and for signing off on all written reports submitted to us. Specifically, the lead auditor must:

- carry out and report an audit in compliance with the ACP Audit Guide and applicable audit standards
- consider materiality when planning and performing the audit and evaluating whether the subject matter information is free from material misstatement
- plan and perform the audit with professional scepticism, recognising that circumstances may exist that cause the subject matter information to be materially misstated
- exercise professional judgement in planning and performing the audit, including determining the nature, timing and extent of procedures
- review and check the audit report for accuracy and quality assurance purposes
- supervise and direct the work of the key personnel that make up the audit team, including responsibility for the work of any subcontractors or experts
- promptly tell us if significant issues arise
- be present at the audit opening, issues and closing meetings, and
- ensure that the audit documentation supports all conclusions, as reported in the audit report.

Other members of the audit team may conduct field work but ultimately, it's the responsibility of the lead auditor to control and lead the audit and have overall responsibility for the final output and quality of the work.

[2] See https://www.energysustainabilityschemes.nsw.gov.au/Auditors-and-MV-Professionals/Audit-Panel

3.3 Preparing the audit paperwork

3.3.1 Deed poll

We have prepared a template Deed Poll that clarifies our rights and responsibilities in relation to the audit, including that we are the client for the audit.[3]

The Deed Poll must:

- be signed by persons with proper signatory authority (typically an officer of the company)
- include the completed annexure (name, services, contract date), and
- detail the audit period and/or batch numbers of certificates to be audited (Item 1 "Services" of the Annexure of the Deed Poll).

The Deed Poll must be signed by an ACP and Auditor prior to commencement of the audit.

3.3.2 Detailed scope of works

We have prepared a template Detailed Scope of Works (**DSW**) that sets out the scope of work for an audit.[4] Where an ACP is undertaking a combined ESS/PDRS audit, one DSW should be completed for the audit and separately uploaded to The Energy Security Safeguard Application (**TESSA**) for each accreditation.

The DSW is divided into two parts:

- Part A contains:
  - The ACP name, accreditation number and accreditation notice reference.
  - The total number of certificates to be audited, by vintage year.
  - The implementation period and for post registration audits, the certificate registration period.
  - For pre-registration audits only, a separate List of Sites document[5] that contains the sites that are subject to audit.[6]

The ACP must complete and sign Part A and upload the DSW and the Deed Poll to TESSA. For pre-registration audits, the ACP must also upload the List of Sites.

- Part B contains:
  - Information about the audit team members, including the name of the lead auditor.
  - Standard scope items of the audit and associated audit procedures.

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3 See https://www.energysustainabilityschemes.nsw.gov.au/Home/Document-Search/Templates/Template-Audit-Deed-Poll

4 See https://www.energysustainabilityschemes.nsw.gov.au/Home/Document-Search/Templates/Audit-Scope-ACPs-DSW-Submission-Form

5 See https://www.energysustainabilityschemes.nsw.gov.au/Home/Document-Search/Forms/Audit-Scope-List-of-Sites

6 For post registration audits, ACPs will select the implementations that are subject to audit from TESSA.

- Method specific scope items.
- The audit standard that will be followed.
- The audit plan, including the timetable.
- The audit fees.

After submission of Part A by an ACP, the DSW will be sent to the nominated auditor via TESSA. The Auditor must complete and sign Part B of the DSW and upload it to TESSA with the proposed Sampling Plan (see paragraph 3.3.3).

Audit scope and procedures

Guidance about the scope and procedures is provided in Part B of the DSW and in method specific audit scopes for both the ESS and PDRS. Method Guides will also assist auditors determine the type of audit procedures that may be necessary for a particular audit.

While we have provided these scope items and procedures, the auditor should consider what aspects of the audit are likely to involve higher levels of non-compliance or misstatement and design any additional audit procedures that reduce the risks to an acceptable level. Auditors should consider the previous compliance history of the ACP being audited and any issues that have resulted in recommendations in recent previous audits.

3.3.3 Sampling plan

To provide a reasonable assurance conclusion, auditors are not required to review every piece of evidence. Rather, they should take a risk-based approach to audits.

Audits of ACPs who have implemented activities across multiple sites (e.g., for commercial lighting) will likely involve sampling of a selection of the sites across the population. This helps to reduce the cost of audits while still allowing auditors to determine if reasonable assurance can be provided.

Auditors should complete a Sampling Plan for each audit and upload it with the DSW in TESSA. Where an Auditor is conducting a combined ESS/PDRS audit, one sampling plan should be completed for the audit and separately uploaded for each accreditation.

For pre-registration audits, the sampling plan is included in the List of Sites. For post registration audits, auditors should export the implementation data that is the subject of the audit into an excel file and nominate which sites are subject to each tier of sampling.

The sites to be sampled must not be shared with the ACP before we approve the plan.

Sample selection

Audit sampling is at the auditor's discretion. Auditors must sample enough supporting evidence to give the auditor confidence that no unidentified material misstatements exist, and that certificate creation meets all regulatory requirements (to the reasonable assurance standard).

To adequately assess the materiality of quantitative errors, a statistically significant (in the auditor's judgement) sample of certificate creation is required based on the number of sites, or discrete project locations, subject to the audit.

We require sampling in audits to satisfy an overall assurance with 95% confidence and a maximum confidence level ±5%. We consider this a reasonable level of accuracy to allow the extrapolation of the results of an audit sample to the entire population of certificates being audited.

Auditors should apply a risk-based approach when selecting samples. This may include random sampling, or in some instances stratifying the population based on:

- technology and calculation type (especially for lighting technologies)
- location (regional/metropolitan sites)
- size of sites (large/small sites), or
- differing installers or Recognised Activity delivery models (contractor/employees).

Auditors should also have regard to any specific advice we publish for audits in relation to different types of Recognised Activities.

Auditing tiers

To account for the large volume of information an auditor needs to consider, the overall sampling requirements for different audit activities should be split into three tiers.

Table 3.1 lists the level of auditing activity and sampling requirements. While this is our typical approach, we will consider the sampling requirements for each audit on a case by case basis.

The sample size is reduced from Tier 1 to Tier 3 (higher for desktop audits and lower for site visits) to allow for a staged approach to audits. Each smaller sample (in Tier 2 and Tier 3) is a subset of the larger sample. In this way the records for each site visit will have had both detailed and desktop reviews.

Larger sample sizes are required for the desktop component of audits (Tier 1), to allow for review of statistically significant samples. The detailed review of documentation allows for an in-depth analysis of all records supporting certificate creation at a site (Tier 2). A smaller sample is used to account for the increased information required for this level of review.

Site visits provide a higher level of assurance resulting from the physical inspection of energy savings or peak reduction activities shown in the detailed records (Tier 3). It's not practical to visit every site, so this component of the audit is used to undertake a detailed review of a small selection of sites.

Table 3.1 Tiers of auditing activity and sampling requirements

Tier	Audit activity	Confidence level[7] and margin of error[8]	Response distribution	Population	Number of sampled sites
1	Desktop review to ensure key documentation is available, complete, correct and consistent with the certificate claim	95% ± 5%	50%	Entire population (n)	Calculated result = final number
2	Detailed review to check that the documents support the calculation and eligibility of certificates	90% ± 10%	50%	Entire population (n)	Calculated result = final number
Subset of 2	Phone interviews/email contacts to validate the documented evidence and check compliance with requirements.	90% ± 10%	50%	Entire population (n)	30% of the calculated result rounded up to the nearest whole number
3	Site visits to test the evidence provided	$0.6\sqrt{n}$	na	na	Calculated result = final number

[7] The confidence level is the amount of uncertainty you can tolerate.

[8] The margin of error is the amount of error that you can tolerate.

4 Performing

4.1 Opening meeting

An opening meeting may be held with all parties involved in the audit, including the lead auditor, the ACP and an IPART staff member. It's the responsibility for the lead auditor to arrange and conduct this meeting.

An opening meeting includes a discussion about the audit procedures, sampling plan, site visits (if any) and expected audit timeline. All parties should have the opportunity to raise issues that may affect the implementation or timing of the audit.

If all parties agree, the opening meeting can be waived.

4.2 Conducting audit procedures

4.2.1 Gathering evidence

Responsibilities of ACPs

ACPs must keep records to prove they have met each requirement of implementing a Recognised Activity. The types of records that must be kept are contained in the Method Guides for each method. If the relevant Method Guide does not prescribe minimum records, the records that must be kept are those that the Scheme Administrator approved in the ACP's application when accrediting the ACP.

When creating ESCs, (or engaging an auditor for pre-registration audits), an ACP must:

- have implemented and completed all projects that are subject to audit, and
- hold all supporting records, performed all certificate calculations, and completed quality assurance checks and provided these records to the auditor.

Responsibilities of auditors

Auditors must use sufficient evidence gathering procedures to enable them to obtain a thorough understanding of the matters being audited.

When considering the evidence gathered, auditors must have regard to:

- Whether the ACP has collected the records.
- Whether the records were collected before certificate registration (for post registration audits).
- Whether the records are complete and correct and have undergone quality assurance checks before the audit commenced (i.e., the audit is not part of the ACP's quality assurance process).

- Whether the Evidence Pack[9] (if applicable) is complete and signed for every implementation.

Once an audit commences, records should only be added, replaced or removed by the ACP where an auditor is seeking further clarification about an issue of concern. The auditor should include in the audit report details of:

- what additional information was required
- the relevant implementation
- a description of the issue, and
- the outcome of the auditor's review.

Auditors should use their professional scepticism, recognising that circumstances may exist that have resulted in the documentation not being provided in the first place.

In situations where records are not provided, insufficient, incorrect or unreliable (and there are no new records made available by the ACP), this fact must be identified as an error for the purposes of audit reporting and may result in an issues meeting being called or a qualitative record keeping error being identified by the auditor (see paragraph 4.4).

4.3 Considering the materiality of misstatements or non-compliance

Materiality is a concept used by auditors to determine what auditing procedures are required. It helps auditors assess the relative significance of identified quantitative or qualitative misstatements or non-compliance in the context of the overall information being audited.

An example of a quantitative error may be a misstatement that leads to a calculation error resulting in an under or over calculation of certificates. We expect auditors to report all circumstances where there is an under or over calculation/creation of certificates.

An example of a qualitative error may be non-compliance with record keeping requirements that does not lead to an under or over calculation of certificates, or affect an auditor's ability to provide reasonable assurance, but is a breach of the ACP's conditions of accreditation.

Auditors should use professional scepticism to consider the materiality of identified misstatement or non-compliance individually and in aggregate with all other qualitative and quantitative errors.

An evaluation of whether a misstatement or non-compliance is material should be based on the lead auditor's assessment of the:

- size, significance and pervasiveness of the identified error
- the effect it has on the number of certificates calculated or created by the ACP
- the ACP's compliance as a whole
- whether the error significantly impacts the integrity of the Recognised Activity
- whether the error indicates a serious weakness in the ACP's systems, processes and controls, and

[9] An Evidence Pack is required for commercial lighting projects under the ESS.

- whether the error indicates fraudulent activities being undertaken by the ACP.

Lead auditors must use their professional judgement in setting the level of materiality for quantitative errors in each audit.

Materiality needs to be considered throughout the audit so that the extent and type of procedures conducted by the auditor are adequate.

4.4 Resolving audit issues

During the audit, issues may arise for a range of reasons, including where:

- the auditor identifies an actual or potential material error that may lead to a qualified or adverse conclusion
- the auditor identified they will not be able to complete the audit or form a conclusion (e.g., because records are insufficient or incomplete)
- the auditor identified a potential safety issue, or
- one of the parties to the audit disputes the audit findings or audit conclusion.

Where an auditor encounters issues that may materially affect the audit outcome, they should contact us immediately to discuss options for proceeding (and before preparation of the draft report). We may decide that additional process steps, including an issues meeting, are required.

If an issues meeting is held or other process steps are undertaken, we may either:

- instruct the auditor to continue with the audit with no variation, or
- approve a variation to the DSW (in consultation with the ACP) to allow the auditor to conduct additional procedures.

4.4.1 Audit variations

An audit variation is a separately quoted and approved parcel of work that extends the scope of the original audit. Variations may focus on additional audit sampling of records or sites, which will usually involve additional costs to the ACP.

Audit variations can't be used as a way for ACPs to correct missing, incomplete, or incorrect records.

Following an issues meeting, we may ask the auditor to submit a variation to the DSW in accordance with the TESSA procedure. Once the revised DSW is acceptable to us, and the ACP has agreed to pay the costs, we will approve commencement of the additional procedures.

Once the additional work is complete, the auditor will continue with the audit and prepare a draft report or revise the existing draft report. The draft report must:

- clearly identify the initial audit outcome
- clearly identify the additional audit procedures

- describe the new audit findings, including re-calculated error rates and revised number of certificates
- provide a reason for any changes to the audit findings or conclusion, and
- be identified as a new report version (in a document history table or similar) if a report has already been issued (e.g., version 1.1 that replaces version 1.0).

The usual audit process from submission of the revised draft report to us is then followed to completion of the audit.

4.4.2 Dealing with fraud

Auditors should maintain professional scepticism that a material misstatement or non-compliance may be due to fraud or a reliance on false or misleading records. Fraud is a deliberate act or non-compliance involving the use of deception to obtain an unjust or illegal advantage. Fraud may be a result of the actions of the ACP itself or one of its representatives.

Where a fraud or suspected fraud is detected, the Auditor should notify us immediately and evaluate the implications of the misstatement or non-compliance for other aspects of the audit.

5 Reporting

5.1 Overview

Once sufficient audit procedures have been conducted to reach a conclusion the auditor should prepare and submit a draft report to us.

The draft report must be factually correct and reviewed by the peer reviewer as nominated in the approved DSW. The draft report should not be used to elicit advice from us about the findings an auditor should make.

We will provide the auditor with a response to the draft report. We may request that auditors clarify statements they have made, or correct errors. If interpretation of legislation is required, auditors should contact us for assistance.

Once satisfied, we will approve release of the draft report to the ACP.

Auditors should submit a draft audit report in accordance with the timeframe outlined in the DSW. Typically, draft reports are expected to be submitted approximately one month after an audit's opening meeting.

Auditors must tell us if they expect any significant delays in the provision of the draft report or deviations from the approved timeline in the DSW, in line with the requirements of the Audit Services Panel Agreement.

5.2 Addressing the report

As we are the client for audits under the Energy Security Safeguard schemes, they must be addressed to us as outlined in Table 5.1.

Each draft of the report provided to us should be clearly labelled with the date of issue of the report.

Table 5.1 Template for addressing the report

Element	Description
Title	"Independent Audit Report"
Address	Audit reports should be addressed to The Chairperson, IPART as the Scheme Administrator
Signature	The final audit report must be signed and dated by the lead auditor

5.3 Contents of the audit report

The audit report must include the information outlined in the following sections.

5.3.1 Audit data table

An audit data table must be included in all audit reports that contains an overview of the key aspects of the audit, including:

- Information about who the audit has been prepared for:
  - Name of ACP
  - Name of accreditation
  - Accreditation number(s)
  - Date(s) of accreditation notice(s) and version number(s)
  - Calculation method
- Information about the audit scope:
  - Number of certificates audited (by vintage and type of certificate)
  - Implementation period covered by the audit
  - The certificate calculation/creation period covered by the audit
  - Type of audit (eg. pre-registration or post registration)
  - Total number of implementations in the audit batch

The audit data table should be adapted depending on whether the audit is for an ESS or PDRS standalone audit or a combined ESS/PDRS audit.

5.3.2 Audit outcomes

This section should include:

- a statement that the audit has been undertaken based on an audit standard acceptable to us
- the final audit conclusion for each matter being audited (usually validity of certificates and record keeping requirements) (see paragraph 5.4.5)
- the basis for the audit conclusion (if a qualified or adverse conclusion is reached)
- a section on errors (if applicable, the absolute error rate and the net over/under creation rate should be included as well as any qualitative errors), and
- a summary of any recommendations made to address improper certificate creation or issues identified.

5.3.3 Audit overview

This section should include:

- a description of the specific matters that were audited (as outlined in the approved DSW)
- a description of the audit procedures conducted in relation to the above scope items including sampling undertaken and different tiers of reviews conducted
- any limitations encountered in conducting the audit in accordance with the relevant standard (the standard must be acceptable to us)
- a description of any significant, inherent limitations associated with the evaluation or measurement of items outlined in the audit scope, and
- the responsibilities of the audit staff in relation to the audit.

5.3.4 Schedule of findings

The schedule of findings should contain enough detail to enable us to understand the basis for the conclusions made in the audit report. For each matter in the audit scope, auditors should outline:

- a summary of the activities undertaken as part of the Recognised Activity
- specific requirements for that matter that resulted in the finding
- audit procedures conducted for that matter
- the findings for each matter (that led to the applicable conclusion)
- any recommendations that result from the finding(s) (see paragraph 0), and
- a schedule of sites (if applicable) that identifies any issues that are site specific.

5.4 Reporting of errors

5.4.1 Materiality

Auditors should identify all quantitative errors and describe and assess the materiality of all qualitative errors identified during the audit. Auditors should provide an opinion on whether the errors are systemic or "one-off" (see paragraph 4.3 for matters to consider when assessing materiality).

In determining materiality, auditors should be mindful of the frequency and nature of errors. For example, a small error repeated frequently could have a significant cumulative impact on the total number of certificates created.

For post registration audits, the auditor must report all improperly created certificates it identifies along with the reasons they are considered improperly created. Any under-creation[10] or over-creation[11] of certificates should be separately reported for each vintage of certificate audited.

For pre-registration audits, the auditor must report all under and over calculated certificates it identifies along with the reasons they are considered improperly calculated. Any under-calculation or over-calculation of certificates should be separately reported for each vintage of certificate audited.

It may be possible for ACPs to resolve issues following their identification during a pre-registration audit. While this may mean the ESCs are now eligible for creation, the Audit Report should report on whether the ESCs were eligible for creation at the time the audit commenced.

5.4.2 Quantitative errors

Quantitative errors are clearly identifiable errors such as factual or calculation errors. They can be quantified as a percentage error rate and their impact on the number of certificates created can be directly measured.

Auditors should list the under-creation and over-creation of certificates and calculate the following error rates to identify the number of certificates that were improperly created:

- Absolute error rate – The gross number of all relevant errors (including under creation and over creation) divided by the number of certificates in the sample.
- Net error rate – the difference of all identified errors (over creation minus under creation) divided by the number of certificates in the sample.

Where quantitative errors are systemic, the error rate should be applied to the whole population of certificates being audited.

We note that in some cases, ACPs may create less certificates than may have been permissible, to be conservative. For example, where the ACP chose the more conservative, of two valid calculation parameters. This is not considered to be an error where the ACP can provide a reason why they have done this. If this type of under-creation is identified by the auditor, it can be listed in the audit report (along with the reasons for the deliberate under-creation) and not included in the absolute error rate.

[10] Under-creation occurs when a calculation of certificates is considered incorrect and calculates fewer certificates than allowed under an ACP's conditions of accreditation.

[11] Over-creation occurs when a calculation of certificates is considered incorrect and calculates more certificates than allowed under an ACP's conditions of accreditation.

Example 1

An auditor identifies 800 over-created ESCs and 1,000 under-created ESCs in an audit sample of 14,000 ESCs. In this case the absolute error rate of the audit sample is:

(800+1,000)/14,000 = 12.86%.

There is no net over-creation of ESCs, so no ESCs would be asked to be surrendered. The 200 ESCs identified as under-created could be registered by the ACP.

Example 2

An auditor identifies 2,000 over-created PRCs and 1,000 under-created PRCs in an audit sample of 14,000 PRCs (from a total of 50,000 PRCs being audited). In this case, for the audit sample:

- the absolute error rate = 3,000/14,000 = 21.43%, and
- the net over-creation error rate = (2,000-1,000)/14,000 = 7.14%.

The auditor finds (in their professional judgement) that the errors are systemic, and the audit sample is representative of the entire population of PRCs being audited. As a result, the 7.14% net error is applied to the 50,000 PRCs subject to audit, resulting in 3,570 PRCs being identified as improperly created.

Example 3

An auditor identifies 1,200 over-created ESCs and 1,000 under-created ESCs in an audit sample of 14,000 ESCs. In this case, for the audit sample, the absolute error rate is 15.71%, while the net over-creation error rate is 1.43%. This results in 200 ESCs (net) being identified as improperly created.

5.4.3 Qualitative errors

Qualitative errors are less clearly identifiable. Typically, they are issues identified by the auditor that reduce their confidence that the ACP has adequate systems in place to support certificate creation.

An example of qualitative error might be the failure of an ACP's quality assurance systems to ensure all information required to support certificate creation is adequate prior to creation. This might be identified during an audit if the ACP is not able to locate all required records on request.

Where qualitative errors are identified, ACPs will be asked to update procedures and respond to audit recommendations by a certain date. Where issues do not have the potential to impact certificate creation, the auditor may identify opportunities for improvement. These would not usually result in a qualitative error being identified.

5.4.4 Referencing of errors in report

When reporting errors, auditors must identify the requirement that has not been met, for example the prescribed condition of the ES Regulation, the condition of the ACP's Accreditation Notice or the recommendation made during a previous audit.

5.4.5 Expressing audit conclusions

Auditors should express one of the following four reasonable audit conclusions for each matter being audited:

- Reasonable assurance
- Qualified reasonable assurance
- Adverse conclusion
- Unable to form a conclusion

The auditor should positively state its conclusion. That is, *"Based on the procedures performed, in our opinion, the number of ESCs calculated by ABC ACP is reasonably calculated".*

Reasonable assurance

A reasonable assurance conclusion is a positive statement that in the opinion of the auditor there is no misstatement in the matter being audited that is material or pervasive enough to affect the matter being audited as a whole.

This means that the auditor must state that they are satisfied, in all material respects, that the subject matter is fairly presented and has been calculated / undertaken in accordance with the Act, Regulation, the applicable Rule and the ACP's Accreditation Conditions.

The audit conclusion must identify the following, split by vintage of certificate:

- the number of certificates registered, or proposed to be registered (the certificates subject to the audit)
- the final number of certificates (net) over which reasonable assurance is provided
- any absolute error rate (%) and any net-creation error (%), and
- any under-creation and over-creation of certificates listed separately, where these form part of the final assured number.

Aggregated numbers should be presented in the audit conclusion, with additional detail provided in the Schedule of Findings. All errors should be listed in the Schedule of Findings.

Example of a reasonable assurance conclusion

"In my opinion the 7,343 ESCs of 2013 vintage (7,345 plus 3 ESCs under created and less 5 ESCs over created) and the 5,000 ESCs of 2014 vintage created in respect of the project are fairly presented and free of material misstatement and were calculated in accordance with the ES Act, ES Regulation, Rule and Accreditation Conditions. This represents an absolute error rate and net-creation error rate of less than 1%.

In addition, it is my opinion that the ACP's record keeping arrangements are:

- adequate to meet the requirements of clause 46 of the ES Regulation
- consistent with the Record Keeping Guide published by IPART
- adequate to support the creation of ESCs using the approach approved by IPART, and
- adequate to demonstrate the ACP's ability to achieve on-going compliance with the ESS legislation and its Accreditation Conditions for the purpose of creating ESCs."

Qualified reasonable assurance

A qualified reasonable assurance conclusion is issued when the auditor, having obtained sufficient appropriate audit evidence, concludes that:

- misstatements, individually or in the aggregate, are material, but not pervasive, to the report, or
- the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the report of undetected misstatements, if any, could be material but not pervasive.

Auditors can express a qualified reasonable assurance conclusion when any of the following circumstances exist and where, in the auditor's judgement, the effects may result in a qualified conclusion:

- information or documentation included in the application, the required evidence, or their procedures are materially different to underlying records
- systems used to manage obligations and certificate creation are not adequate, or
- a limitation in the scope of the audit that prevents the auditor reviewing sufficient appropriate audit evidence.

If a qualified conclusion is reached, the audit report should include a section that describes the qualification(s) in the conclusion. This section should include:

- a clear description of the substantive reasons for the qualification and justify why the auditor can still express reasonable assurance, and
- a quantification of the effects or possible effects on the areas audited, including the number of properly or improperly created certificates. If these cannot be measured reliably, a statement to that effect and the reasons should be included.

Examples of a qualified reasonable assurance conclusion

Example 1

"It is my opinion that, except for the effect of the matter described in the basis for qualified conclusion section of this report, of the 10,500 ESCs that were proposed to be created in respect of the project, 10,200 are fairly presented and free of material misstatement and were calculated in accordance with the ES Act, ES Regulation, Rule and Accreditation Conditions. This represents an absolute error rate of 2.8% and a net creation error rate of 2.8%.

In addition, it is my opinion that, subject to Recommendations 1-4, the ACP's record keeping arrangements are:

- adequate to meet the requirements of clause 46 of the ES Regulation
- consistent with the Record Keeping Guide published by IPART
- adequate to support the creation of ESCs using the approach approved by IPART, and
- adequate to demonstrate the ACP's ability to achieve on-going compliance with the ESS legislation and its Accreditation Conditions for the purpose of creating ESCs.

Basis for qualified conclusion and recommendations addressing incorrectly created ESCs and to improve record keeping:..... (cont)"

Example 2

"It is my opinion that of the 9,000 ESCs that were created in respect of the project, 60 ESCs were improperly created (300 ESCs over-created and 240 ESCs under-created).

Further, it is my opinion that, except for the discrepancies identified in the registration of ESCs (that form the basis of a qualified conclusion), the remaining ESCs are fairly presented and free of material misstatement and were calculated in accordance with the ES Act, ES Regulation, Rule and Accreditation Conditions.

This represents an absolute error rate of 6% and a net creation error rate of less than 1%."

Adverse conclusion

An adverse conclusion should be issued when the effect of a misstatement is material and pervasive to the matter being audited that a qualification of the assurance conclusion is not sufficient to describe the misleading or incomplete nature of the information.

As soon as an auditor considers that they may be reaching an adverse conclusion they should contact us to discuss options for proceeding.

Example of adverse conclusion

"In my opinion, because of the effects of the matter discussed in the preceding paragraph, 5,260 of the 12,345 ESCs proposed to be created in respect of the project are not fairly presented and free of material misstatement and were not calculated in accordance with the ES Act, ES Regulation, Rule and Accreditation Conditions. This represents an absolute error rate of 42.6%."

Unable to form a conclusion

If an auditor believes they will be unable to form a conclusion, the audit should be halted, and they should contact us immediately. We will work with the auditor and the auditee to resolve any issues that are preventing the audit from proceeding. If this is not possible, we will consider what further compliance action is required in relation to the ACP being audited.

In some cases, the issues may not be resolved, and the auditor will still determine that they are unable to form a conclusion because they cannot obtain sufficient appropriate evidence, or because the possible effects of undetected misstatements, if any, are both material and pervasive, for example:

- there are insufficient records to support the data provided by the auditee
- there are major conflicts between the certificate claim and the underlying records, or
- there are significant uncertainties in the operation of the Recognised Activity or the systems and processes that support it.

The audit report should include the reasons for the finding, and a quantification of the effects or possible effects on the areas audited and the number of certificates.

Example of "unable to form a conclusion"

"Because of the significance of the circumstances described in the preceding paragraph, I am unable to obtain sufficient appropriate evidence to provide a basis for a reasonable assurance conclusion. Accordingly, I do not express a reasonable assurance conclusion as to whether the 12,345 ESCs proposed to be created in respect of the project are fairly presented and free of material misstatement and calculated in accordance with the ES Act, ES Regulation, Rule and Accreditation Conditions."

5.4.6 Recommendations

Audit Reports should include recommendations regarding actions that could be taken to:

- rectify any circumstances that have led to improper certificate creation
- mitigate the risk of future improper certificate registration, and
- correct systemic issues that directly impact on an ACP's compliance.

Audit recommendations must be:

- clearly articulated and succinct
- auditable themselves in future audits
- relate to failures in process, and
- identify risks that may result in future non-compliance.

Table 5.2 lists examples of recommendations for qualitative issues and how they impact on the audit conclusion.

Recommendations should be included in the audit conclusion and repeated in the Schedule of Findings in relation to any quantitative or qualitative issues noted.

Auditors should also identify 'Opportunities for Improvement' where a finding of poor performance, whilst not a systemic issue, has the potential to result in future invalid certificate registration

We may choose to impose additional recommendations on ACPs based on audit results. All recommendations the ACP is required to implement are contained in TESSA and checked during subsequent audits.

Table 5.2 Examples of recommendations

Issue	Example recommendation	Impact	Type of error
An ACP does not have a process in place to ensure that their subcontractors or installers are trained and know their obligations	ACP should train its subcontractors and document this in training records including the date of training and dates for refresher training	Does not impact the issuance of a reasonable assurance conclusion	Qualitative issue (non- material)
Numerous errors identified in the ACP's record keeping indicating a lack of quality assurance checks for inputs to calculation tool and calculations performed	ACP should implement a process for quality assurance that: • clearly assigns responsibilities • clearly records changes made • provides evidence on which version the projects relate to.	Cannot provide a reasonable assurance conclusion as the errors indicate a systemic problem that led to misstatements in certificate creation	Qualitative issue (material)
An ACP is required to maintain Public and Products Liability insurance and was unable to produce a certificate of currency	ACP should maintain adequate insurance and have evidence of this readily available and accessible	Does not impact the issuance of a reasonable assurance conclusion	Qualitative issue (non- material)

5.5 Closing meeting

Once the ACP has had the opportunity to review the draft audit report, the auditor must conduct a closing meeting. This meeting involves the auditor, auditee and us and is typically a telephone conference.

The purpose of the closing meeting is for the auditor to present their findings and for the ACP to clarify the content, as required. The ACP may also comment on issues found during the audit and possible resolutions. However, the closing meeting is not intended to be a forum for the auditor to advise on possible solutions to issues identified in the audit.

When we are satisfied that both parties have had an opportunity to consider the draft audit report, we will direct the auditor to issue the final audit report.

5.6 Audit documentation

The Audit Services Panel Agreement requires auditors to collect and retain documents that:

- support the audit conclusion, and
- demonstrate that the audit was carried out in accordance with this guide.

Auditors shouldn't submit audit documentation with the audit report but should retain these documents on file. Documentation may include:

- extracts or copies of important legal documents, agreements and minutes
- a record of how materiality has been assessed and determined
- a record of any surveys or sampling undertaken
- analysis of figures, source records and relevant processes
- analysis of significant ratios, variances and trends
- a record of the nature, timing and extent of audit procedures, and
- a record of conclusions reached by the lead auditor, including how exceptions and unusual matters, if any, were resolved or treated.

Appendices

Acronyms and key concepts

A.1 Acronyms

Acronym / Abbreviation	Full Name
ACP	Accredited Certificate Provider
DSW	Detailed Scope of Works
ES Act	*Electricity Supply Act 1995*
ES Regulation	*Electricity Supply (General) Regulation 2014*
ESC	Energy Savings Certificate
ESS	Energy Savings Scheme
IPART	Independent Pricing and Regulatory Tribunal
PDRS	Peak Demand Reduction Scheme
PRC	Peak Reduction Certificate
RESA	Recognised Energy Saving Activity
RPA	Recognised Peak Activity
TESSA	The Energy Security Safeguard Application

A.2 Key concepts

Term	Description
Accreditation conditions	Conditions imposed by the Scheme Administrator on the accreditation of an ACP under the ES Act and specified in their Accreditation Notice.
Accreditation Notice	A written notice issued by the Scheme Administrator under the ES Regulation specifying any accreditation conditions.
Accredited Certificate Provider (**ACP**)	Are voluntary participants in the Energy Savings Scheme (ESS) and/or Peak Demand Reduction Scheme (PDRS) that are accredited to create Energy Savings Certificates (ESCs) and/or Peak Reduction Certificates (PRCs).
Audit	An assessment of whether the ACP has complied, in all material respects, with the requirements of the ESS or PDRS legislation and conditions of their accreditation. Audits can occur either before certificate registration (pre-registration) or after certificate registration (post-registration).
Audit Services Panel	A panel managed by IPART, that includes qualified and experienced auditors that are allowed to undertake ESS and PDRS audits.
Audit Services Panel Agreement	An agreement between IPART and the Audit Services Panel member.
Deed Poll	An agreement that clarifies IPART's rights and responsibilities in relation to the audit. It is a tripartite agreement that sets IPART as the client for the audit no matter who is engaging the auditor.
Detailed Scope of Works (**DSW**)	A document setting out the scope of the audit.
Energy Savings Certificate (**ESC**)	One ESC represents one notional megawatt hour (MWh) of energy saved.
List of Sites	A description of the sites where the ACP has undertaken a RESA and/or RPA and has calculated ESCs and/or PRCs (applicable for pre-registration audits only)
Peak demand reduction capacity	Peak demand reduction capacity means the capacity to reduce demand for electricity during the period between 2.30pm to 8.30pm AEST[12] from 1 November to 31 March.
Peak Reduction Certificate (**PRC**)	One PRC represents 0.1 kilowatt of peak demand reduction capacity averaged over one hour on one day within the compliance period (1 November to 31 March))
Professional scepticism	An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence.
Recognised Peak Activity (**RPA**)	An activity in respect of which an PRC may be created.
Recognised Energy Saving Activity (**RESA**)	An activity in respect of which an ESC may be created.
Undertaking	An undertaking by an ACP to withhold a percentage of registered ESCs and/or PRCs from sale or trade pending the outcome of an audit.

[12] Australia Eastern Standard Time (AEST). This is equivalent to 3.30pm – 9.30pm Australian Eastern Daylight Time.

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