

GGAS

AUDIT GUIDELINE

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Part 1 – Introduction

1.1 Purpose of the audit guideline

The Independent Pricing and Regulatory Tribunal of NSW (IPART) has been appointed to implement and administer the NSW Greenhouse Gas Reduction Scheme (the Scheme), and has two roles in the Scheme: Scheme Administrator and Compliance Regulator. Administrative processes have been established to:

- accredit persons as eligible to create abatement certificates under the Scheme Rules
- allow accredited persons to register the certificates they create, and
- allow NSW electricity retailers and certain other parties to report on their compliance with their emission reduction targets.

An Audit and Technical Services Panel (the panel) has been established to provide independent assurance to the Scheme Administrator and Compliance Regulator during each of these three key processes. This audit guideline sets out how audits are to be conducted. It should be read along with the Audit and Technical Services Panel Agreement, which governs panel members' legal obligations. Additional reference materials are also provided in the audit manual provided to all panel members as part of the mandatory training. In addition, auditors should refer to the Scheme website (www.greenhousegas.nsw.gov.au) which has the most recent versions of all key documents referred to in this guideline.

The Scheme Administrator will update and reissue this audit guideline as it gains further experience in managing audits under the Scheme.

1.1.1 Objectives of the audit guideline

This audit guideline aims to:

1. Summarise the audit framework that has been established for:
 - implementing a risk based approach to the timing and frequency of audits
 - ensuring audits are conducted in a systematic and comparable way, and
 - ensuring audit opinions are independent and robust
2. Explain how:
 - auditors are engaged
 - the scope of audits are set, and
 - the quality of the audit process is monitored
3. Promote a culture of ongoing improvement in the quality and efficiency of audits and provide for feedback to the Scheme Administrator, the Compliance Regulator and panel members.

1.1.2 Using the audit guideline

The audit guideline provides overall guidance to auditors on the role of audits, the conduct of audits and the requirements for audits under the Scheme for the various service categories. There are a number of sections in the audit guideline which outline mandatory requirements for audits and a number of sections which provide voluntary guidance. Auditors should take note of this.

The mandatory requirements are based on the Audit and Technical Services Panel Agreement. The voluntary guidance is intended to assist auditors to comply with the Scheme's requirements and will assist auditors to effectively plan, win, execute and report on audit services. However, this audit guideline is not to be used in place of an auditing standard acceptable to the Scheme Administrator (see section 6.2.2).

1.1.3 Disclaimer

This audit guideline has been prepared for information purposes only. Its contents are not intended to constitute legal advice and any person who requires legal advice should obtain it themselves. IPART reserves the right to amend or depart from any procedure, practice or guideline referred to in this audit guideline.

Nothing in this audit guideline should be taken as amending or replacing any provision of the Audit and Technical Services Panel Agreement. If there is any inconsistency between this audit guideline and the Audit and Technical Services Panel Agreement, the latter shall prevail to the extent of the inconsistency.

Part 2 – Audit framework

2.1 Overview of the audit framework

The Scheme gives the Compliance Regulator auditing and enforcement powers to ensure that Benchmark Participants meet their emission-reduction targets. The Scheme Administrator has auditing and enforcement powers to ensure that abatement certificate providers are accredited and create abatement certificates in accordance with the Act, Regulation and relevant Scheme Rule.

The legislation supporting the Scheme does not prescribe a particular auditing approach, therefore a risk-based approach has been established to determine when audits are required. The Audit and Technical Services Panel is relied upon to carry out all audit activity and the quality and independence of audits is monitored closely to ensure the Scheme's objectives are met.

In some cases, the Scheme Administrator selects and appoints panel members to conduct audits, while in other situations the Scheme participants are permitted to select and appoint a panel member (subject to approval). In all cases, IPART will rely on the audit report and the auditor remains accountable to IPART for the quality and independence of the audit opinion.

2.1.1 Objectives of the audit framework

Key objectives of the audit framework are to:

1. Minimise the risk of:
 - inappropriate accreditation of abatement certificate providers
 - invalid creation of abatement certificates
 - incorrect calculation of liabilities by Benchmark Participants
2. Assist the Scheme Administrator and the Compliance Regulator to monitor abatement certificate providers' and Benchmark Participants' compliance
3. Support the transparency and integrity of the Scheme.

2.1.2 Areas subject to audit

The Scheme Administrator and the Compliance Regulator will audit:

- eligibility for accreditation as abatement certificate providers
- accredited abatement certificate providers' creation of abatement certificates
- Benchmark Participants' compliance reports (Greenhouse Gas Benchmark Statements).

2.1.3 Risk based audit framework

Audits of abatement certificate providers

When applicants seek accreditation as abatement certificate providers the Scheme Administrator considers the information provided by the applicant, and the complexity and the scale of the abatement project in deciding whether to audit the project's eligibility under the relevant Scheme Rule. In some instances where the Scheme Administrator considers the risk to be very low, the Scheme Administrator may determine that an audit is not required prior to accreditation. However, in the majority of applications received since the start of the scheme, applicants were required to be audited as part of the accreditation process.

The risk profile is assessed using the following criteria:

- The extent of information provided in response to the question in the application form
- The participant's compliance history
- The complexity of the abatement project
- The number of projects that share a common process, and
- Any other factors that the Scheme Administrator considers relevant.

Similarly, when the Scheme Administrator accredits abatement certificate providers it considers the potential risks to the Scheme in deciding on the ongoing audit requirements. The frequency of audits required is defined in the abatement certificate provider's conditions of accreditation. Complex abatement projects creating large volumes of certificates are typically being audited prior to certificates first being registered. Less complex projects creating fewer certificates are audited less frequently and after the certificates have been registered, e.g., annually or on a spot basis. The quality and nature of the information submitted in the application form will mitigate the need for an accreditation audit.

The Scheme Administrator may change the audit requirements for an abatement certificate provider to reflect its performance in previous audits. Where an abatement certificate provider has had successful audits, the Scheme Administrator has sometimes been willing to adjust its conditions of accreditation to require fewer audits.

The Scheme Administrator also has auditing and enforcement powers to ensure that abatement certificate providers are accredited and create abatement certificates in accordance with the Act, Regulation and relevant Scheme Rule.

Audits of Benchmark Participants

It is critical to the success of the Scheme that Benchmark Participants meet their emission-reduction targets. As such, the Compliance Regulator has determined that, in general, all Greenhouse Gas Benchmark Statements shall be subject to audit. In some circumstances an audit is not required:

- Benchmark Participants that have zero electricity purchases (i.e. have a nil return) will not be audited., and

- In exceptional circumstances where the Benchmark Participant has a very small number of customers and load, the Compliance Regulator may grant an exemption from the requirement to have the Benchmark Statement audited. For example, IPART previously granted an audit exemption where a Class 1 Benchmark Participant had less than four small customers and a total load less than 250MWh.

2.1.4 Appointment to perform audits

Table 1 summarises how auditors are selected and appointed, how the scope of audits is set, and the contractual terms applying to each engagement. These aspects of the audit framework are explained in more detail in subsequent chapters.

Table 1: Selection, engagement and payment of auditors

Audit Category	Selection and engagement	Contract and Payment	Audit Scope
Applicants seeking accreditation as abatement certificate providers	Selected in consultation with applicant and engaged by Scheme Administrator	Schedule 3 of Audit and Technical Services Panel Agreement Applicant lodges fee with the Scheme Administrator prior to commencement and the Scheme Administrator pays auditor on completion	Generic audit scopes, tailored and finalised by the Scheme Administrator
Abatement activity and creation of abatement certificates	As per the abatement certificate provider's conditions of accreditation. Generally, auditor selected and engaged by abatement certificate provider, and approved by the Scheme Administrator	Schedule 2 of Panel Agreement and contract between auditor and abatement certificate provider that is consistent with the Panel Agreement Paid directly by Abatement Certificate Provider	Generic audit scopes, tailored and finalised by the Scheme Administrator
Annual Greenhouse Gas Benchmark Statements	Auditor selected and engaged by Benchmark Participant, and approved by the Compliance Regulator	Schedule 2 of Panel Agreement and contract between Auditor and Benchmark Participant that is consistent with the Panel Agreement Paid directly by Benchmark Participant	Generic audit scope

Part 3 – Appointment of firms to the panel

The audit panel has been established to provide services to the Scheme Administrator, the Compliance Regulator and other Scheme participants. Given the breadth of technical knowledge required across the Scheme, the panel is divided into separate categories representing the three types of audit activities required by the Scheme.

Upon appointment to the Audit and Technical Services Panel, all firms are required to sign the Audit and Technical Services Panel Agreement (the Panel Agreement). The following section provides information for current and new panel members as well as an overview of the Panel Agreement.

3.1 Current panel members

The Scheme Administrator has approved a number of organisations to undertake audits and technical services. All panel members, and the aspects for which they are approved, are listed on the Scheme website at www.greenhousegas.nsw.gov.au.

Panel members may only undertake audits under the five Scheme Rules and/or technical services to the Scheme Administrator or Compliance Regulator for which they have been approved.

Panel members approved to undertake audit services may be engaged by the Scheme Administrator, Compliance Regulator or Scheme participants. Panel members approved to perform technical services may be engaged by the Scheme Administrator or Compliance Regulator to undertake reviews of specific technical matters.

3.1.1 Amendment to Panel Agreements

Panel members may seek to expand the scope of their approved activities at any time. Conversely, panel members can reduce the scope of their approved audit services if they no longer wish to provide those services or no longer have the relevant lead auditors or key personnel.

Each organisation's approval is on the basis of the nominated lead auditor(s) and key personnel, and an organisation's approval will be reviewed if it no longer retains those persons. Panel members are obliged to inform the Scheme Administrator of relevant personnel changes.

Panel members may update personnel and rates in the Panel Agreement by writing to the Scheme Administrator and requesting changes to Schedule 1 and/or 4 of the Panel Agreement. This request should be a letter, which is signed in original by a lead auditor, outlining the new rates and attaching the CVs of any additional personnel.

All additional personnel will need to undertake training at the first available opportunity.

3.1.2 Auditor training

All lead auditors and key personnel must undertake the auditor training provided by the Scheme Administrator. This training is held periodically, based on demand. The auditor training is provided at no cost to the auditors and is held in the Sydney central business district. Auditors will be provided with an 'audit manual' which includes the essential Scheme documents.

The training is intended to assist auditors to comply with the Scheme's requirements and will assist auditors to effectively plan, win, execute and report on audit services. The training covers the materials set out in this audit guideline and other supplementary material available on the Scheme website.

3.2 New applications

Firms may apply for appointment to the panel at any time. The application form and guide to applying are available from the Scheme website.

3.3 Panel members' obligations to IPART and IPART's powers

The Panel Agreement describes a range of obligations that the panel member has to IPART (acting as either Compliance Regulator or Scheme Administrator) as well as a range of powers that IPART has the discretion to exercise. These powers and obligations apply no matter who selects or engages the panel member to undertake the audit services.

The obligations include (but are not limited to) that the panel member must:

- use suitably qualified personnel and devote sufficient resources to ensure that the services are completed as required
- comply with any guidelines or policies notified to the panel member by IPART
- ensure that all of its lead auditors and key personnel undertake any training reasonably required by IPART, and complete that training to IPART's satisfaction
- hold public liability insurance of \$5 million for any one or more claims arising out of the same set of circumstances and a policy of professional indemnity insurance with a reputable insurer that meets the Compliance Regulator or Scheme Administrator's requirements (which is currently \$1 million for technical services and \$5 million for audit services).
- ensure that a lead auditor directs, supervises and leads the undertaking of the audit services and signs all written reports or opinions provided by the panel member, and that the audit services are undertaken by the key personnel
- ensure that any other staff, employees or contractors are only used to assist the lead auditor and key personnel and that they work under the direct control, supervision and direction of the lead auditor and key personnel
- ensure that each lead auditor and each of the key personnel has agreed to be bound by the confidentiality obligations that are described in clause 12 of the Panel Agreement, including that the panel member accepts liability for any breach of confidentiality by its officers, employees or agents

- during a performance review provide full and free access during normal business hours to all of the records, documents, books of account and other information maintained by the panel member in connection with the undertaking of audit services under the Panel Agreement, and
- not enter into any agreement, arrangement or understanding or participate in any activity which amounts to a conflict of interest without IPART's prior written consent.

IPART also has certain powers under the Panel Agreement, including that:

- at any time and at its sole discretion IPART may determine that a person should be removed or included as a lead auditor or key personnel
- at any time IPART may conduct a performance review of the audit services undertaken by the panel member for IPART or for any Scheme participant, which may follow any process or format determined by IPART
- upon considering the nature of a potential conflict of interest, IPART may direct the panel member not to enter into any agreement, arrangement or understanding which may amount to a conflict of interest, and the panel member must comply with any such direction, and
- at any time during the term of the Panel Agreement IPART may amend the Panel Agreement as it sees fit, provided that it has given one month's prior written notice of the amendment to the panel member.

Part 4 – Audit Scopes

The Scheme Administrator has developed a series of generic audit scopes for different aspects of the Scheme, which can be downloaded from the Scheme website. Hard copies of each are provided in the audit manual.

These generic audit scopes are normally adapted by the Scheme Administrator to fit the circumstances of the applicant or abatement certificate provider.

4.1 Accreditation of Abatement Certificate Providers

Accreditation-related audits should provide assurance that the applicants and their abatement projects are eligible under the relevant Scheme Rule. Auditors are required to prepare a report detailing the audit opinion and related findings in relation to the matters detailed in the audit scope.

The generic audit scopes vary significantly across Scheme Rules to reflect issues specific to each. However, common issues covered include:

- the adequacy of record keeping and related processes
- the adequacy of metering arrangements (where relevant)
- whether baselines and other relevant values have been calculated in accordance with the relevant Scheme Rule
- whether the proposed number of certificates has been calculated using an allowable method under the relevant Scheme Rule, and
- if relevant, the Scheme Administrator requires the auditor to recommend to it any conditions of accreditation to which, in the auditor's opinion, the applicant should be subject.

These audits are undertaken after the Scheme Administrator has conducted a desktop review of the application and has satisfied itself that the project is eligible and that an audit is warranted.

Unless otherwise stated, auditors may assume matters not included in the audit scope have been reviewed by the Scheme Administrator and are satisfactory.

4.2 Abatement activity and creation of certificates

Abatement certificates can generally only be created after the abatement activity takes place and in accordance with the calculation methods and other requirements of the relevant Scheme Rule. Audits of abatement activity and the creation of abatement certificates should provide assurance that the abatement certificates:

- are derived from an accredited abatement activity or project
- are supported by sufficient record keeping and other documentary evidence, and
- have been created in accordance with the Scheme Rules and any Conditions of Accreditation.

Auditors are required to prepare a report detailing the audit opinion and related findings in relation to the matters detailed in the audit scope. The timing of these audits is prescribed in the abatement

certificate provider's Conditions of Accreditation. An audit may be required before certificates can be created, annually or on a spot audit basis.

4.3 Annual Greenhouse Gas Benchmark Statements

Benchmark Participants must lodge a Greenhouse Gas Benchmark Statement (Benchmark Statement) with the Compliance Regulator by 18 March each year (or a later date approved by the Compliance Regulator) reporting on their compliance during the previous calendar year. This compliance statement must report the Benchmark Participant's:

- calculation of their emission reduction benchmark
- performance against that benchmark and liability, if any, to pay a penalty for non-compliance (greenhouse shortfall), and
- liability, if any, to pay a greenhouse shortfall carried forward from a previous year.

Audits provide assurance that the Benchmark Statements are complete and accurate, based on valid information and free from material misstatement. Auditors are required to prepare a report detailing the audit opinion and related findings in relation to the matters detailed in the audit scope.

The Compliance Regulator has also developed a generic scope for these audits. Benchmark Participants may select and engage approved panel members to undertake these audits. Prior to the commencement of work, audit panel members must provide to the Compliance Regulator information set out in Schedule 2 of the Panel Agreement. Auditors are required to provide a detailed scope of work containing detailed information on the audit procedures to be carried out on the Benchmark Statement.

An audit checklist has been provided for auditors engaged to undertake audits of Benchmark Statements. The checklist provides guidance to assist auditors in carrying out the steps required to complete audits of Benchmark Statements. The use of the audit checklist is not mandatory, however, it is recommended that auditors develop a similar checklist or audit program for audits.

The Compliance Regulator may within 14 days of receipt of a scope of work (as required under Schedule 2 of the Panel Agreement) for these services request variations to the scope of work to be undertaken by the panel member.

These audits will be done in January and February each year prior to the Benchmark Statements being lodged with the Compliance Regulator on 18 March (or a later date approved by the Compliance Regulator).

4.3.1 ACT Annual Greenhouse Gas Benchmark Statements

The ACT Government has introduced a Greenhouse Gas Reduction Scheme. This Scheme commenced on 1 January 2005 and mirrors the NSW Greenhouse Gas Reduction Scheme (GGAS). Some Class 1 Benchmark Participants in NSW are also Benchmark Participants in the ACT.

Benchmark Participants licensed in both NSW and ACT must complete and have audited a separate Annual Greenhouse Gas Benchmark Statement for each jurisdiction. In 2005, if the same auditor is

auditing both Benchmark Statements, a single detailed scope of works covering both audits may be prepared and lodged with IPART (the NSW Compliance Regulator). At the same time a copy of the detailed scope of works must be sent to the ACT Compliance Regulator (the ACT Independent Competition and Regulatory Commission).

Part 5 – Selection and Engagement of panel members

Accreditation-related audits have, at times, proven to be complex and challenging. Some have required extensive legal interpretation of the Scheme Rule, and have raised questions as to the adequacy of applicants' record keeping, and the materiality of minor non-conformities with the Scheme Rules. For these reasons, the Scheme Administrator closely manages accreditation-related audits.

Once a party is accredited however, most regulatory issues have been determined and subsequent audits of abatement activity and certificate creation are likely to be less complex. The Scheme Administrator, in general, is willing to allow accredited parties to select and engage auditors from the panel for audits of abatement activity and certificate creation. The Conditions of Accreditation of the abatement certificate provider will specify who may appoint the auditor.

The Compliance Regulator allows Benchmark Participants to select and engage panel members to audit their Benchmark Statements. The Compliance Regulator has established a standard reporting template and believes that the auditing task, while necessary, is less complex.

In all cases, the Scheme Administrator or the Compliance Regulator relies on the audit report, and the auditor remains accountable to IPART for the quality and independence of the audit opinion.

5.1 Independence and conflict of interest

It is crucial that all audits are carried out with sufficient independence and without actual or potential conflicts of interest. Clause 1.1 of the Panel Agreement defines a conflict of interest as

"any agreement, arrangement or understanding or any activity which conflicts or is likely to conflict with or affects the panel member's ability to perform any services undertaken or being undertaken by the panel member under [this] Agreement."

IPART has the discretion to require the panel member not to enter into any agreement, arrangement or understanding, or participate in any activity which amounts to a conflict of interest. Alternatively, the panel member can withdraw from providing the audit services. Typically, IPART requires panel members not to enter into such arrangements during the period of the panel member's performance of the relevant audit services. However, it is conceivable that certain arrangements entered into at other times (that is when the panel member is not providing audit services) could constitute a conflict of interest which may preclude the panel member from providing any audit services or being on the panel.

Possible conflicts of interest may, for example, arise where:

- any member of the audit team is engaged in providing other fee-paying services to the auditee during the course of the audit services
- the panel member has previously advised the auditee in preparing its application for accreditation, or setting up any of the record-keeping or compliance management systems relevant to the Scheme

- a high proportion of the panel member's total annual revenue is derived from fee-paying services provided to the auditee, or the auditee is a major client of the panel member in terms of annual revenue, and/or
- the panel member is the incumbent internal auditor for the auditee.

Panel members must notify the Scheme Administrator or Compliance Regulator as soon as they become aware of a potential conflict. The panel member must provide any information to the Scheme Administrator or Compliance Regulator on request concerning any actual or potential conflict of interest. Where a potential conflict arises, the auditor's primary duty under the Panel Agreement is to IPART.

5.2 Selection and engagement by the Scheme Administrator

The Scheme Administrator directly appoints auditors to undertake accreditation audits. The Scheme Administrator may also directly appoint auditors for audits of certificate creation audits and compliance with an abatement certificate provider's conditions of accreditation.

5.2.1 Contract terms and conditions

Schedule 3 of the Panel Agreement sets out the terms and conditions of engagement when the Scheme Administrator engages a panel member to provide audit or technical services. These terms and conditions are described in the sections below.

Before commencing audit or technical services for the Scheme Administrator the panel member must provide to the Scheme Administrator:

1. Written confirmation that the panel member will undertake the requested services and is not affected by a conflict of interest (and is not likely to be affected by any such conflict for the duration of the services)
2. A detailed scope of work setting out a proposed work plan, particulars of the lead auditor and key personnel in the audit team, the anticipated date for completion of the services and any other information required by the Scheme Administrator
3. A written quote applying the rates in the Panel Agreement, itemising the total cost for the services as well as the costs for each stage of the work and the timing for payment, and
4. Confirmation that the panel member has in place the required level of professional indemnity insurance (which is currently \$1 million for technical services and \$5 million for audit services).

Further, the panel member must not commence any services until:

1. The panel member has made any amendments to the scope of work or the written quote that the Scheme Administrator requests, and
2. The Scheme Administrator has given written approval to the panel member to proceed with the services. Auditor selection and assessment of detailed scope of work

5.2.2 Auditor selection and assessment of detailed scope of work

The Scheme Administrator selects and engages auditors in consultation with applicants for accreditation. Auditors are engaged based on the Scheme Administrator's assessment of the auditor's qualification, independence and price competitiveness.

The extent to which multiple quotes for audit work are sought varies. If the applicant has a strong preference for a particular auditor and the Scheme Administrator is satisfied that the auditor is competent and sufficiently independent, the auditor could be appointed without seeking multiple quotes. If the applicant wishes, the Scheme Administrator will seek quotes from several members of the panel. Where multiple quotes have been requested, an auditor will be selected based on a comparative assessment of the detailed scope of work. The Scheme Administrator will not consider detailed scopes of work that do not include:

- All the items outlined in Part 5.3.1 (below)
- A firm quote for services and expenses which is GST inclusive
- An opening and closing meeting in which the Scheme Administrator is a participant
- A draft report to be provided to the Scheme Administrator for comment prior to circulation to the Scheme participant, and
- Any other factors that the Scheme Administrator considers relevant.

The Scheme Administrator notes that after the first year of operation of the panel, the audit firms have generally developed templates for detailed scopes of work which are satisfactory to meet the Scheme Administrator's requirements. Therefore, in comparing detailed scopes of work, the Scheme Administrator will select an auditor based on:

- The qualifications and experience of the audit team
- The work plan described, based on what the Scheme Administrator determines will best meet its needs
- Value for money, and
- The stated preference of the applicant.

There may be trade-offs between these criteria. However, the final decision on approving a detailed scope of work will be made by the Scheme Administrator.

5.2.3 Amendments to the Detailed Scope of Work, Audit Team and Quote

The Scheme Administrator can require amendments to the detailed scope of work, audit team or quote. While the Scheme Administrator has approved all lead auditors and key personnel, it will still need to satisfy itself that the proposed team has the appropriate skills and experience to carry out each engagement. A panel member may appoint a suitable sub-contractor where necessary. All sub-contractor appointments must be disclosed to, and approved by, the Scheme Administrator. In all cases where a sub-contractor is engaged, the panel member's nominated lead auditor will need to run the audit engagement.

A panel member is not obliged to provide the services if it is not prepared to accept the Scheme Administrator's requested amendments to the detailed scope of work, audit team or quote. However,

once the panel member has agreed to perform the services (by giving a notice to the Scheme Administrator under section 5.2 of the Panel Agreement), the panel member will be responsible for ensuring that the scope of work is fit for purpose.

5.2.4 Variations to the detailed scope of work

If the panel member agrees to provide the services requested by the Scheme Administrator (and issues a notice to that effect under section 5.2 of the Panel Agreement), it must provide those services in accordance with the detailed scope of work and the written quote, unless it obtains the Scheme Administrator's written approval to vary either of these.

If circumstances arise which are likely to increase the work required to complete the services, the panel member must notify the Scheme Administrator (as soon as practicable after it becomes aware of those circumstances) of the reasons for the increased work and the likely increase in costs required to complete the services. Panel members should also notify the applicant as the Scheme Administrator will consult with the applicant before agreeing to any variation in the scope or fee estimate. The applicant is entitled to withdraw its application for accreditation in the event of a significant fee variation.

The Scheme Administrator can also request changes to the scope of work during the conduct of the services, and the panel member would prepare a revised scope of work and fee estimate to reflect this.

5.2.5 Payment

The Scheme Administrator pays the panel member (up to the amount specified in the panel member's written quote) on satisfactory performance of the relevant services. Typically, before authorising the panel member to commence the work, the Scheme Administrator asks the applicant (auditee) to lodge an amount equal to the panel member's written quote with the Scheme Administrator.

If the actual cost of performing the services is ultimately cheaper than the panel member's written quote, any surplus funds will be refunded to the applicant.

If the Scheme Administrator agrees to vary the scope of work and the quote, it may require the applicant to lodge the increased fees at that time or it may seek reimbursement of the additional money after the event.

5.3 Selection and engagement by Participants

In most cases, abatement certificate providers may select auditors from the panel to audit their abatement activity and creation of abatement certificates. Depending on their conditions of accreditation, an audit may need to be done every time an abatement certificate provider registers certificates, or periodically after the relevant certificates have been registered.

Benchmark Participants may, in all cases, select auditors from the panel to audit their annual Benchmark Statement. This will be done annually, prior to submission of the Benchmark Statement on 18 March (or a later date approved by the Compliance Regulator).

In both cases, the panel members must, well before commencing the audit, satisfy the Scheme Administrator or Compliance Regulator that no conflict of interest exists, and give the Scheme Administrator or the Compliance Regulator an opportunity to review the detailed scope of work and audit team. Auditors must:

- allow 14 days for the review of the detailed scope of work, and
- ensure that a Deed Poll, signed by the auditee is provided to IPART (refer section 5.4.1 below).

5.3.1 Contract terms and conditions

Where Scheme participants (i.e. abatement certificate providers and Benchmark Participants) engage panel members to provide audit services, they must enter into a separate contract with the panel member which sets out the terms on which the panel member will perform the services for the Scheme participant. The contract between the Scheme participant and the panel member must be consistent with the terms and conditions set out in Schedule 2 of the Panel Agreement. The Scheme Administrator or Compliance Regulator can require the panel member to provide a copy of its contract with the Scheme participant to verify this.

Before commencing the audit services for the Scheme participant the panel member must provide the Scheme Administrator or Compliance Regulator (i.e. IPART) with:

1. Written confirmation that the panel member is willing to undertake the audit services and is not affected by a conflict of interest (and is not likely to be affected by a conflict for the duration of the services)
2. A Deed Poll, signed by the Scheme participant, acknowledging (among other things) that while IPART will rely on the audit opinion, the Scheme participant will pay the costs of the audit, indemnify IPART against any claims by the panel member for costs, and indemnify IPART against any claims by the Scheme participant for any losses resulting from the work done by the panel member
3. A detailed scope of work setting out a proposed work plan, particulars of the lead auditor and key personnel in the audit team, the anticipated date for completion of the services and any other information required by IPART, and
4. Confirmation that the panel member has in place the level of professional indemnity insurance nominated by IPART (or if IPART has not nominated an amount, then for the amount agreed between the panel member and the Scheme participant).

The detailed scope of work must provide a detailed work plan for the engagement including specific tasks to be performed. Audit procedures should be tailored to the particular Benchmark Participant, taking into account its size, class of participant, operating activities and any other factors specific to the Participant.

Most members of the panel have developed a 'template' for detailed scopes of work. Panel members should ensure they provide all detailed scopes of work in this format.

Further, the panel member must not commence any audit services until:

1. the panel member has made any amendments to the scope of work that may have been requested by the IPART, and
2. the panel member has entered into a separate contract with the Scheme participant for the provision of the services (as discussed above).

IPART will closely monitor potential conflicts of interest, and may take a different view to participants and panel members on whether the particular circumstances may pose a conflict or not. IPART can seek further information from the panel member to satisfy itself that no conflict exists or will arise.

5.3.2 Audit Arrangements for Benchmark Participants in both ACT and NSW

The audit arrangements are basically the same as those outlined in the section above. However, the following additional points apply where the same auditor is auditing the NSW and ACT Benchmark Statements:

- The auditor should provide IPART with a single Detailed Scope of Works clearly indicating that it is for both the NSW and ACT Statements. At the same time a copy should also be provided to the ACT Independent Competition and Regulatory Commission (ICRC). The Detailed Scope of Works must include the same information described in Section 1.2 above and the documents referred to in that section.
- IPART, in consultation with the ICRC will review the audit proposal and will advise the auditor of requests for changes.
- Two Deed Polls will be required from the Benchmark Participant – one for the ACT and one for NSW. The NSW Deed Poll is accessible on the scheme website (www.greenhousegas.nsw.gov.au) and the ACT Deed Poll is accessible on the scheme website (www.icrc.act.gov.au/actgreenhousegasabatementscheme). Before the audit commences the NSW Deed Poll must be lodged with IPART and the ACT Deed Poll lodged with the ICRC.
- Separate audit reports will be required for NSW and ACT. The audit report for the NSW Statement must be addressed to the Chairman of IPART. (The audit report for the ACT Statement must be addressed to the Senior Commissioner, Independent Competition and Regulatory Commission.)

5.3.3 Amendments to the proposed detailed scope of work and audit team

Within 14 days of receiving the proposed detailed scope of work the Scheme Administrator or Compliance Regulator can direct the panel member to amend the detailed scope of work or audit team.

The Scheme Administrator or Compliance Regulator will seek to confirm that the nominated audit team has the relevant skills to perform the audit and has described an appropriate work plan for the audit.

Panel members are not obliged to provide the services if they are not satisfied with the requested amendments to the detailed scope of work or audit team. However, once the panel member has agreed to perform the services (and has given IPART and the Scheme participant a notice to that effect under section 4.1(b) of the Panel Agreement), the panel member will be responsible for ensuring that the scope of work is fit for purpose.

5.3.4 Variations to detailed scope of work

The panel member must provide the audit services in accordance with the detailed scope of work unless it obtains prior written approval from the Scheme Administrator or Compliance Regulator to vary the scope of work. Requests to vary the scope should be raised as soon as they arise.

5.3.5 Payment

Participants and panel members will make their own commercial arrangements on the timing and amount of fees payable for the services. The Scheme participant alone remains responsible for payment of the auditor's or technical service provider's professional fees and expenses.

Part 6 –Conduct of audits

This chapter provides some guidance on what the Scheme Administrator regards as a suitable approach to conducting audits under the Scheme. However, panel members should satisfy themselves that their approach is sufficiently rigorous and conducted in accordance with an auditing standard acceptable to the Scheme Administrator (see section 6.2.2 for more on auditing standards).

6.1 Audit principles

Lead auditors should conduct sufficient audit procedures to enable them to form a view that information subject to audit meets the principles outlined in Table 2.

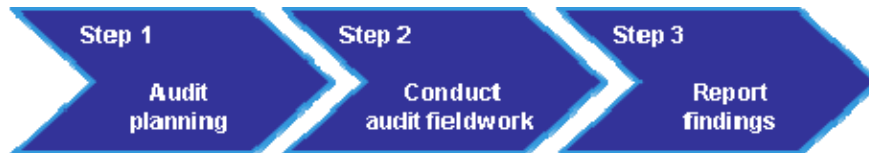
Table 2: Principles for auditing information relevant to the Scheme

Principle	Definition
Faithful representation	<ul style="list-style-type: none"> Information should faithfully represent the events and transactions that it purports to represent or could reasonably be expected to represent. Uncertainties should be identified and quantified where possible. Uncertainties should be reduced to an immaterial level.
Completeness	<ul style="list-style-type: none"> Information should be complete within the boundaries of materiality and the Scheme Rules, such that information is not misleading or unreliable in terms of relevance to the processes of accrediting abatement certificate providers, certificate creation or submission of Benchmark Statements as appropriate. All relevant transactions or events shall be included within the calculation or estimation of data.
Consistency	<ul style="list-style-type: none"> Consistent methodologies, measurements and source data should be used such that comparative assessments can be made from year to year and over time. Estimates should be consistent with Australian and state government estimates and with international guidelines including IPCC guidance.
Reliability	<ul style="list-style-type: none"> Information and source data should be free of material misstatement and able to be relied upon by users of the information to faithfully represent that which it either purports to represent or could reasonably be expected to represent.
Transparency	<ul style="list-style-type: none"> Data shall be replicable by a third party through adequate record keeping. Data will have a clearly defined audit trail. Reference sources, methodologies and approaches to data generation shall be clearly documented. Changes to data and methodologies over time shall be clearly documented.

6.2 Audit methodology

To promote consistency across panel members, the Scheme Administrator encourages lead auditors to apply the steps in Figure 1 when planning and conducting audits.

Figure 1: Illustrative audit approach



6.2.1 Step 1 - Audit planning

Once the audit scope has been approved, auditors should review the audit scope to ensure a thorough understanding of what is required during the audit. Prior to commencing the audit, auditors should plan the audit work to ensure that the audit is performed in an effective manner. The extent of planning will vary according to the size and complexity of the participant, the project and the audit scope. This should occur, at a high level, when preparing the detailed scope of work and further refined once approval to commence work is granted. Auditors are encouraged to discuss any element of the audit plan and certain audit procedures with the Scheme Administrator prior to and during the audit.

In developing an audit plan, the following matters should be considered:

- Knowledge and understanding of the participant and/or project
- Understanding of the general control structure of the participant
- Risk and materiality, and
- Nature, timing and extent of procedures.

The auditor should develop and document an audit program setting out the nature, timing and extent of planned audit procedures required to implement the audit plan for each item in the scope. The audit program should be consistent with the approach described in the detailed scope of work.

The audit plan and program should be revised as necessary during the course of the audit. Planning is continuous due to changes in conditions or unexpected results of audit procedures. Lead auditors are encouraged to review the auditing standard AUS 302 – Planning for further guidance on audit planning.

6.2.2 Step 2 - Conduct audit fieldwork

Audits should be conducted in a manner which supports the overall objectives of the audit. In carrying out fieldwork, auditors should endeavour to follow the audit program, developed in step 1, and revise it as necessary in the course of the audit. Fieldwork is to be conducted to obtain sufficient appropriate evidence on which to base audit conclusions. The Scheme Administrator requires that auditors adhere to the following items:

a) Audit standards

All audits undertaken for the Scheme must be conducted in accordance with an auditing standard acceptable to the Scheme Administrator. Auditing standards contain the basic principles and essential procedures, together with related guidance for conducting audits. As no specific Auditing standard exists for the audits undertaken as part of the Scheme, acceptable Auditing standards are to be applied, and adapted as necessary, to all audits. Appendix A sets out the various auditing standards acceptable to the Scheme Administrator and Compliance Regulator. Auditors seeking to use other auditing standards should contact the Scheme Administrator or Compliance Regulator.

Auditors are required to disclose in their final report the standard used to conduct the audit and state that the audit was conducted in accordance with this standard.

b) Audit procedures

In the planning phase auditors should determine the audit procedures necessary to be carried out in order to form an opinion on the matters included in the scope. Audit procedures should be designed to obtain appropriate and adequate audit evidence as the basis to form and report an audit opinion. Audit evidence will comprise source documents and records underlying the calculation of abatement certificates and corroborating information from other sources. The audit procedures outlined in the audit program should be followed and revised as necessary during the course of the audit. If a significant departure from the audit program is required, auditors should communicate this to the Scheme Administrator or Compliance Regulator. It is recommended that auditors sign off the audit program on their files once each procedure has been completed.

Section 6.3 provides a list of audit procedures and examples of audit procedures that may be undertaken in audits under the Scheme.

c) Lead auditor's responsibilities

Lead auditors are responsible for the technical quality of the audit and for supervising the work of key personnel and assistants. They are responsible for ensuring that work papers prepared by key personnel during the audit are in a manner that supports the conclusion as reported in the audit report. In addition, if auditors engage subcontractors or experts to assist with an audit, the lead auditor is responsible for ensuring the quality and integrity of the work conducted to provide reasonable assurance on which to basis their conclusions. It is recommended that lead auditors sign off audit work papers on the file as evidence that they have been reviewed.

Lead auditors should be present at the final issues meeting for audits commissioned by the Scheme Administrator.

d) Communicating issues

During the course of an audit auditors may identify areas where a project or participant does not meet the requirements as set out in the scope or areas which require corrective action.

For audits commissioned by the Scheme Administrator auditors should not seek to rectify these issues with the applicant, but suggest recommended changes to the Scheme Administrator. The Scheme Administrator will determine if the recommended changes should be made by the applicant, the timing of such changes and advise the auditor on how to proceed in ensuring requested changes are implemented.

For audits of Benchmark Statements auditors should request that amendments be made by the participant to the statement prior to its submission to the Compliance Regulator. If significant

deficiencies in the Benchmark Statement still remain at the time of submission, auditors must bring these issues to the attention of the Compliance Regulator.

6.2.3 Step 3 – Report findings

Lead auditors are required to submit to the Scheme Administrator or Compliance Regulator a report that provides positive assurance over each item outlined in the scope. Reporting requirements vary depending on the audit service category. Refer to Part 7 of this guideline for more detailed information on reporting audit findings.

6.3 Audit evidence

Lead auditors should obtain appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion. Audit evidence is obtained during all phases of the audit process and should include an appropriate mix of audit procedures outlined in Table 3 (over page). Lead auditors must use their professional judgement to determine the specific mix of audit procedures to provide sufficient and appropriate evidence to support an opinion on each item within the scope.

Table 3: Procedures from obtaining audit evidence

Principle	Definition	Example of procedure
Inspection	Examining records, documents or physical assets. The auditor must consider the source of the documentation for differing degrees of reliability.	<ul style="list-style-type: none"> Obtain a summary schedule of electricity consumption by a participant and trace figures back to source documentation, and reconcile to the participants' internal record keeping system. Inspect the project to ensure appropriate metering facilities exist.
Observation	Looking at a process or procedure being performed by the participant. Generally, this audit procedure is conducted when the particular process ordinarily leaves no audit trail.	<ul style="list-style-type: none"> Observe the record keeping process and documented procedures in operation. Observe meter reading process.
Inquiry and confirmation	Seeking appropriate information of knowledgeable persons inside or outside the organisation. The response to an inquiry to corroborate information contained in the records.	<ul style="list-style-type: none"> Inquiry into a Benchmark Participant's exempt sales data and how the figures were derived. Confirmation by the relevant party. Confirmation of the Generating System's connection arrangements with the owner of the distribution system.
Computation	Checking the arithmetical accuracy of source documents and accounting records, or of performing independent calculations.	<ul style="list-style-type: none"> Checking the appropriateness of formulae within NGAC calculation spreadsheets.
Analytical procedures	Investigation and analysis of fluctuations and relationships to determine whether there are inconsistencies with other relevant information, or deviations from predicated amounts.	<ul style="list-style-type: none"> Analyse the variability of data inputs to the calculation of the NSW baseline. Analyse fluctuations in monthly electricity per units of production to determine reasonableness and identify any anomalous occurrences.

A variety of factors will affect the reliability of audit evidence. These include:

- Its independence. Evidence generated outside the organisation is generally considered to be more reliable than evidence generated internally
- The knowledge and lack of bias of the person providing the evidence to the auditor, and the attention paid to the auditor's request for evidence.
- The directness in which it is obtained. Evidence received directly by the auditor is generally considered, all other things being equal, to be more reliable than evidence received indirectly, and

- Control systems. Internal client-generated evidence prepared under systems of strong internal control is considered more reliable than client-generated evidence under systems of weak internal controls.

Auditors should adopt an attitude of professional scepticism throughout the audit and obtain the level of audit evidence necessary to enable them to identify areas likely to cause material misstatement.

6.4 Documentation

The Scheme Administrator requires that auditors collect and retain documents:

- which are important in providing evidence to support the audit opinion, and
- to demonstrate that the audit was carried out in accordance with an auditing standard acceptable to the Scheme Administrator.

Auditors should not submit such documentation with the final audit report, however, records of audits must be maintained. Clause 8 of the Panel Agreement requires that during the course of any performance review, the panel member must provide reports, documents or information in connection with services undertaken by the auditor.

Documentation may include (but is not limited to):

- Background information concerning the participant and/or projects
- Extracts or copies of important legal documents, agreements and minutes
- Evidence of the planning process, including audit programs and any subsequent changes
- A record of how materiality has been assessed and determined
- Analysis of figures, source documentation 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.

The Scheme Administrator has prepared a Guide to Record Keeping for Scheme participants and auditors, which outlines good record keeping practices. Auditors should consult the guide and ensure that their own record keeping arrangements are in compliance.

Part 7 – Assessing Risk and Materiality

Information is considered to be material to the Scheme if its omission or misstatement could adversely influence decisions in accrediting applicants, accepting Benchmark Statements or in the number of NGACs to be registered by a participant. Materiality can be both quantitative and qualitative and can depend on the size of the item or error omitted or misstated. The auditors must assess the level of risk and materiality continually during the audit.

In making materiality judgements, auditors should consider both quantitative and qualitative factors as well as results of any assessment of the following factors:

- the significance of an individual item to the Benchmark Statement, application or creation of NGACs
- whether the misstatement is one-off or symptomatic of a control or system weakness, which would have routine effects on figures being reported to the Scheme Administrator or the Compliance Regulator, and
- the effect of the potential misstatement that would result from an unrecorded audit difference on the number of NGACs created or surrendered (taken as a whole).

There is not a numerical formula for calculating the quantitative aspect of materiality. The nature of the misstatement and the surrounding circumstances needs to be taken into account when forming a judgement of materiality.

7.1 Reporting risk and materiality

Lead auditors will need to assess materiality with reference to qualitative and quantitative measures for the final report. In determining materiality, auditors should be mindful of issues such as the frequency and nature of misstatements. For example, a small omission repeated frequently could have a significant cumulative impact on (for example) the total number of certificates that may be created or the calculation of any annual greenhouse shortfall.

Lead auditors seeking further guidance on materiality in greenhouse-related audits should consult:

- AUS 306 Materiality and Audit Adjustments
- the GHG Protocol (2004) produced by the World Business Council for Sustainable Development (excerpts from which are in the audit manual), and/or
- materiality guidance from the UK Emissions Trading Scheme, available from www.defra.gov.uk.

Part 8 – Audit Reporting

All audits under the Scheme must provide positive assurance on the matters within the audit scope. To encourage standardised reporting across the audit panel, the Scheme Administrator has:

- prepared templates for audit reports and for the schedule of audit procedures and findings (available on the Scheme website www.greenhousegas.nsw.gov.au)
- stated preferred auditing standards (refer to Appendix A), and
- developed detailed guidance (outlined in this section) on the various aspects of the audit reporting requirements.

8.1 Reporting requirements

Audit reporting requirements vary for each type of audit service category. These are summarised in Table 4.

Table 4: Audit report requirements

Audit service category	Audit report requirements
Audits of Benchmark Participants' Greenhouse Gas Benchmark Statements	<p>Audit report</p> <p>The auditor should review and assess the conclusions drawn from the audit evidence as the basis for expressing an opinion whether, in all material respects, the Greenhouse Shortfall, as detailed in the Annual Greenhouse Gas Benchmark Statement, is fairly presented and calculated in accordance with the Greenhouse Gas Benchmark Rule (Compliance) No.1 of 2003. The audit report is to include the elements of the audit report as indicated in section 8.3 below.</p> <p>Schedule of audit procedures and findings</p> <p>The auditor is required to provide a schedule of findings for each area outlined in the audit scope. The schedule of findings should be prepared in accordance with section 8.4 below.</p>
Audits of persons seeking accreditation as abatement certificate providers	<p>Audit report</p> <p>The auditor should review and assess the conclusions drawn from the audit evidence as the basis for expressing an opinion. The audit report is to include the elements of the audit report as indicated in section 8.3 below.</p> <p>Schedule of audit procedures and findings</p> <p>The auditor is required to provide a schedule of findings for each area outlined in the audit scope. The schedule of findings should be prepared in accordance with section 8.4 below.</p>

Audit service category	Audit report requirements
Audits of abatement activity and the creation of abatement certificates	<p>Audit report</p> <p>The auditor should review and assess the conclusions drawn from the audit evidence as the basis for expressing an opinion. The audit report is to include the elements of the audit report as indicated in section 8.3 below.</p> <p>The audit report must specify the number of abatement certificates to be registered by the applicant.</p> <p>Schedule of audit procedures and findings</p> <p>The auditor is required to provide a schedule of findings for each area outlined in the audit scope. The schedule of findings should be prepared in accordance with section 8.4 below.</p> <p>Audit number</p> <p>The auditor is required to assign a unique audit number to each audit report of abatement activity and the creation of abatement certificates. The audit number should be provided with the audit report to the Scheme Administrator and the abatement certificate provider.</p>

8.2 Level of assurance

Positive assurance, also termed in various auditing standards as ‘a high level of assurance’ and ‘reasonable assurance’, refers to assurance engagements that are intended to provide a high, but not absolute, level of assurance. The auditor must obtain sufficient appropriate audit evidence through the procedures described in section 6 ‘conduct of audits’ on which to base their conclusions.

8.3 Elements of the audit report

Audit report templates have been developed for each type of audit service category and these are available from the Scheme website. Audit reports should be consistent with the audit report templates. Auditors are directed to AUS 702 for further guidance on reporting.

The audit report for all types of audit service categories shall include the following basic elements:

- The title ‘Independent audit report’
- The audit report shall be addressed to the Chairman, IPART
- Where appropriate, a section describing the audit scope. For audits commissioned by the Scheme Administrator, the scope shall be consistent with the scope outlined in the detailed scope of work
- A section describing the inherent limitations associated with the audit
- Where the audit opinion is qualified, a section describing the qualification must be included
- A section expressing the auditor’s opinion, based on the conclusions of the audit

- Where appropriate, the auditor should specify conditions of accreditation recommended for the applicant
- The lead auditor's signature
- The audit firm's address, and
- The date of the audit report.

Some of these elements are described in detail below.

8.3.1 Scope

The audit scope described in this section of the audit report should be consistent with the audit scope in the detailed scope of work. This section should include the following information:

- The name of the party being audited. This will be either the Benchmark Participant, the accredited abatement certificate provider or the applicant as appropriate
- A description of the specific areas to be addressed in the audit as outlined in the detailed scope of work approved by IPART at the outset
- A description of the audit approach, including the procedures undertaken by the auditor
- A statement that the audit was performed in accordance with an auditing standard acceptable to the Scheme Administrator
- A statement that the audit opinion expressed has been formed on the above basis, and
- Where appropriate, the auditor should include a statement indicating the point in time, compliance period or time period to which the audit relates.

8.3.2 Inherent limitations

The audit report should include, where appropriate, a description of any significant, inherent limitations associated with the evaluation or measurement of those items outlined in the audit scope. Suggested wording for describing inherent limitations is provided in the generic reporting templates.

8.3.3 Qualifications

The auditor should express a qualified opinion when any of the following circumstances exist and, in the auditor's judgement, the effects are likely to be material:

- Information and/or documentation included within the application is materially different to underlying records
- A disagreement with the party being audited (Benchmark Participant, applicant or accredited abatement certificate provider) over whether an area in the scope meets the specified requirements
- A limitation in the scope of the audit, or

- A limitation in the Scheme Rule or regulatory framework.

If the auditor expresses a qualified audit opinion, the audit report should include a section describing the qualification(s). This section should include:

- A clear description of the substantive reasons for the qualification, and
- A quantification of the effects or possible effects on those areas being audited. If these cannot be measured reliably, a statement to that effect and the reasons.

Where a qualification is expected to be issued in the audit report it is recommended that auditors contact the Scheme Administrator or Compliance Regulator to discuss the matter prior to submitting the report.

Guidance Point 1: Qualifications for audits of Benchmark Participants' Greenhouse Gas Benchmark Statements

Before expressing a qualified opinion for the audit of a Benchmark Statement, the auditor should take all reasonable steps to be in a position to express an unqualified opinion. Where the Benchmark Participant has materially misstated figures, the auditor should request that amendments be made to the statement prior to submission to the Compliance Regulator. It is the duty of the auditor to exercise independent judgement and express an opinion. Auditors should also provide details in the schedule of audit procedures and findings of the corrections that were implemented.

When material misstatement has been identified the auditor should not unreasonably defer issuing an audit report in the hope of obtaining further audit evidence to resolve the situation. In such cases, auditors should bring these unresolved issues to the attention of the Compliance Regulator in the audit report.

Guidance Point 2: Qualifications for audits of persons seeking accreditation as abatement certificate providers and audits of abatement activity and the creation of abatement certificates

During the conduct of accreditation, abatement activity or certificate creation audits, the auditor should communicate issues to the Scheme Administrator. Issues that may have a material effect or may potentially result in a qualified audit opinion should be communicated as and when they arise. The auditor should avoid resolving such issues directly with the participant, and should inform the Scheme Administrator immediately.

The draft report should express the conclusions drawn from evidence obtained during the audit. During the close out/ issues meeting the auditor should raise both those material and non material issues identified during the audit for discussion with the participant and the Scheme Administrator. The final audit report, should be revised at the request of the Scheme Administrator based on the outcomes of the issues meeting.

8.3.4 Audit opinion

The audit report should include a section 'Audit Opinion' or 'Qualified Audit Opinion' as appropriate. This section should clearly express the auditor's opinion as to whether the participant has met the requirements in the scope.

The types of audit opinion acceptable to the Scheme Administrator include:

1. Unqualified opinion- expressed when there are no material departures from the requirements specified in the audit scope.

2. Qualified opinion – expressed when there is a material departure from the requirements specified in the audit scope, a significant scope limitation, or limited guidance in the Scheme Rule or the regulatory framework.
3. Inability to form an opinion - issued when a significant scope limitation has been imposed on the auditor or in circumstances that prohibit the auditor from forming an opinion.

8.3.5 Conditions of accreditation (accreditation audits only)

If relevant, the Scheme Administrator requires the auditor to recommend to it any conditions of accreditation to which, in the auditor's opinion, the applicant should be subject. Conditions of accreditation are those requirements placed on an applicant which allow the applicant to be accredited on the basis that they adhere to those conditions or provide evidence to the Scheme Administrator that at some specified point the requested changes have been implemented. Auditors are required to state the recommended conditions of accreditation in the audit report. While auditors may recommend conditions of accreditation, the Scheme Administrator will determine whether or not such conditions will be imposed upon the applicant.

8.3.6 Lead auditor's signature

The audit report must be signed in original by the lead auditor in the convention of their firm. The Scheme Administrator does accept scanned or electronic signatures on final audit reports. Occasionally, to expedite audit completion, auditors may be asked to submit a report which has been scanned into an electronic file and post the original.

8.4 Schedule of audit procedures and findings

The Scheme Administrator and Compliance Regulator require a schedule of audit procedures and findings be provided for all audits under the Scheme.

The schedule of audit procedures and findings is designed to provide the Scheme Administrator with the basis for the conclusions as stated in the audit report. In the schedule of audit procedures and findings, auditors are required to outline:

- the specific items in the scope,
- specific requirements for each item,
- audit procedures conducted on each item,
- the findings and the conclusion.

Refer to Appendix B for further guidance.

8.5 Audit numbers and the Scheme registry

Lead auditors are to assign a unique audit number to each audit of the creation of abatement certificates. The audit number should be provided with the audit report to the Scheme

Administrator. When the abatement certificate provider logs onto the registry to create certificates, he or she may need to provide the relevant audit number with the period of abatement and the audited certificates.

Auditors obtain audit numbers online from the Scheme registry (www.ggas-registry.nsw.gov.au). The Scheme Administrator provides all lead auditors with a login ID, user name and password. Currently there are 4 categories of audit numbers, relating to increasing volumes of abatement certificates. Auditors must ensure different audit numbers are allocated to certificates of different vintage. For example, if the certificates were for the 2003/04 financial year, two audit numbers are required. One audit number should be allocated to certificates of 2003 vintage and a second audit number for those of 2004 vintage.

8.6 Reporting process for accreditation audits

The following process should be followed in submitting the audit report for accreditation audits:

1. Draft report issued to the Scheme Administrator
2. Issues/ close out meeting held
3. Draft report revised based on agreements from the issues/ close out meeting, and
4. Final report issued to the Scheme Administrator and the participant.

Part 9 – Ongoing improvements

Over time, panel members are likely to continue identify opportunities for improving the Scheme Rules, the accreditation and audit processes, or other aspects of the Scheme. IPART hosts auditor feedback workshops to capture these insights.

To support the quality of audits, IPART also has the capacity to review a panel member's performance.

9.1 Auditor feedback

Auditors have an important function to perform in contributing to the ongoing success and integrity of the Scheme. IPART encourages panel members to provide feedback on any issues or recommendations to make the audit process more efficient and effective.

IPART hosts annual workshops with panel members to review the operation of the audit framework. Panel members are encouraged to attend these workshops to contribute to feedback, learn from the experiences of other panel members, and to promote consistency across the panel.

The first of these workshops was held in August 2004 and has contributed significantly to revisions to this audit guideline.

9.2 Performance reviews

Panel members may be subject to performance reviews as provided for under the Panel Agreement. A performance review would typically include reviewing audit reports, and perhaps some analysis of working papers. Feedback would be provided to the panel member on their performance and any recommendations for improvement.

In circumstances where IPART determines that an auditor has delivered an unsatisfactory audit, IPART may require:

- particular lead auditors or key personnel to undertake additional training
- the panel member to comply with certain conditions when carrying out audits
- the panel member to no longer be approved to perform particular nominated services, and/or
- the panel member to be removed from the panel and the Panel Agreement terminated.

Part 10 - Contact Details

Please direct any enquiries regarding the Audit Panel to:

NSW Greenhouse Gas Scheme Administrator

Phone Number:

02 9290 8452

Fax Number:

02 9290 2061

Street Address:

Level 8

1 Market Street

SYDNEY NSW 2000

Postal Address:

NSW Greenhouse Gas Scheme Administrator

PO Box Q290

QVB POST OFFICE NSW 1230

Email Address:

mail@greenhousegas.nsw.gov.au

Appendix A – Auditing standards

IPART requires that all audits under the Scheme be conducted in accordance with an acceptable auditing standard. This appendix sets out the auditing standards that are acceptable to the Scheme Administrator.

International Standard on Assurance Engagements (ISAE) 3000

The International Standard on Assurance Engagements (ISAE) 3000 is published by the International Auditing and Assurance Standards Board (IAASB), a standard-setting body designated by, and operating under the auspices of, the International Federation of Accountants (IFAC).

ISAE 3000 is an auditing standard for Assurance Engagements other than Audits or Reviews of Historical Financial Information. The Standard establishes basic principles and essential procedures for the performance of assurance engagements other than audits or reviews of historical financial information covered by International Standards on Auditing (ISAs) or International Standards on Review Engagements (ISREs).

The standard refers to 'reasonable assurance' which is equivalent to the positive assurance required by the Scheme Administrator. The standard covers the following areas for the conduct of audits: ethical requirements, quality control, engagement acceptance and continuance, agreeing on the terms of engagement, planning and performing the engagement, using the work of an expert, obtaining evidence, considering subsequent events, documentation, preparing the assurance report and other reporting responsibilities.

ISAE 3000 can be downloaded from the International Federation of Accountants website (www.ifac.org).

Australian Auditing Standards

The Australian Auditing Standards are published by the Auditing and Assurance Standards Board (AuASB) of the Australian Accounting Research Foundation. The auditing standards provide a comprehensive framework for the conduct of audits and are largely consistent with the international auditing and assurance standards published by the IFAC. While the auditing and assurance standards have been developed primarily in the context of financial report audit, they allow for adaptation, as necessary, to audits of non-financial information, other assurance engagements and to all audit related services. Australian Auditing Standards also refer to 'reasonable assurance' which is equivalent to the positive assurance required by the Scheme Administrator.

The Scheme Administrator requires that audits using the Australian Auditing Standards disclose in the audit report the specific standards. For example, 'the audit was conducted in accordance with Australian Auditing Standards (AUS 108, AUS 702)'.

Australian Auditing Standards can be obtained from the Australian Accounting Research Foundation website (www.aarf.asn.au).

Other auditing standards

The Scheme Administrator acknowledges that other auditing and assurance standards exist. Auditors wishing to perform audits in accordance with another standard not outlined in this audit guideline should seek approval from the Scheme Administrator prior to the commencement of the audit.

Appendix B – Schedule of audit procedures and findings

Section 8 of the audit guideline requires that a schedule of audit procedures and findings be submitted as an attachment to the audit report. The schedule of findings should include the following information:

- Specification of the items in the scope
- Description of the requirements to be met by the applicant
- Description of the audit procedures carried out on each item of the audit scope
- Description of findings related to each item of the audit scope, and
- The conclusion as reported in the final report.

Guidance is provided below on the presentation of information in the schedule of audit procedures and findings. Auditors are strongly advised to be guided by the degree of detail provided in the following examples. Additional detail and/ or working papers should not be provided. To assist auditors, a generic template for the schedule of audit procedures and findings is available on the Scheme website (www.greenhousegas.nsw.gov.au).

Note: the following examples act as a guide only. Auditors should use professional judgement to report the actual audit procedures carried out, findings and conclusions.

Generic schedule of audit procedures and findings

Scope item audited	[Insert the relevant item of the scope]
Description of requirement	[insert a brief description of the requirements that the participant must meet]
Audit procedures	[provide a <u>brief</u> description of the audit procedures carried out to audit this item of the scope]
Findings	[provide a brief description of the audit finding. Auditor may include a summary of the process/ figures audited and whether any material misstatement was identified]
Conclusion	[provide the conclusion as stated in the audit report]

Example 1 – Accreditation audit

Scope item audited	Metering arrangements
Description of requirement	That the classifications of the tariff and generator meters, current transformers and voltage transformers are of an accuracy level sufficient to support the creation of NGACs by reference to Schedule 7.2 of the National Electricity Code.
Audit procedures	<ul style="list-style-type: none"> ■ Inspected meter reading records from the meter provider indicating accuracy class of metering equipment ■ Inspected electrical line diagrams of the Generating System indicating the accuracy class of metering equipment, and ■ Observed the meters to ensure records correspond to those meters on site.
Findings	<p>Records obtained from the meter provider for the Generating System indicate that the metering for the Generating System has a VT with an accuracy class of 0.5M and the CT has an accuracy class of 0.5M. The meter provider is an accredited meter provider under the National Electricity Code.</p> <p>Line diagrams obtained indicate that the metering equipment has an accuracy class consistent with the meter provider's records.</p>
Conclusion	The Generating System is equipped with metering equipment of an accuracy level sufficient to support the creation of NGACs by reference to Schedule 7.2 of the National Electricity Code.

Example 2 – Benchmark Statement audit

Scope item audited	Distribution Loss Factor (DLF) used in Equation 6
Description of requirement	To ensure that the DLF used is in accordance with the Compliance Rule in that it is specific to each load being managed by a Benchmark Participant acting in a particular class capacity or the DLF in Table 7 of Schedule A of the Scheme Rule for the Benchmark Participant.
Audit procedures	<ul style="list-style-type: none"> ■ Determine if the DLF used is a default factor specified in Table 7 of Schedule A of the Rule or a non-default factor. ■ For default factors: compare the DLF used in the Benchmark Statement in calculating attributable emissions to those provided in Table 7 of Schedule A of the Rule.
Findings	The DLF used by the Benchmark Participant in calculating attributable emissions was a default factor from Table 7 of Schedule A of the Rule. The Benchmark Participant used the correct figure as stated in this table for the participant and the DLF was correctly stated in the Benchmark Statement.
Conclusion	The DLF used is in accordance with the Rule.

Example 3 – Benchmark Statement audit

Scope item audited	NGACs and RECs surrendered
Description of requirement	To ensure that the number of NGACs and RECs surrendered in the Benchmark Statement is not materially misstated
Audit procedures	<ul style="list-style-type: none"> ■ Enquiry into the information systems and controls used to determine the number of NGACs and RECs surrendered for inclusion in the statement. ■ Substantive procedures to check the accuracy of NGACs and RECs surrendered to records held by the Benchmark Participant, including observation of NGACs purchase contracts. Records include printouts from the ORER Registry showing the number of RECs surrendered by the Benchmark Participant and printouts from the NSW Greenhouse Gas Scheme Registry showing the number of NGACs surrendered by the Benchmark Participant. ■ Agree records of NGACs and RECs purchased and surrendered to the Greenhouse Gas Benchmark Statement
Findings	<p>RECs counted</p> <p>The Regulations require that the limit on the number of RECs that may be counted for retail suppliers is to be determined by multiplying the total amount in MWh of the participants relevant acquisitions of electricity purchased for use in NSW in the year concerned by the renewable power percentage for the year and by subtracting from that amount the number of any certificates that have been passed on to an elective Benchmark Participant.</p> <p>A printout from the ORER Registry was obtained to ensure that the Benchmark Participant had surrendered a sufficient number of RECs to the ORER Registry. Billing records identified the number of RECS where the costs of those RECS had been passed on to the Class 4 Benchmark Participants</p> <p>NGACS surrendered</p> <p>The number of NGACs surrendered in the Benchmark Statement was consistent with that amount per the NSW Greenhouse Gas Reduction Scheme Registry. A copy of the Registry printout was obtained and is kept on file.</p>
Conclusion	The number of RECs and NGACs stated in the Benchmark Statement appear reasonable and are supported by underlying records.

Appendix C – Specific guidance for auditing Benchmark Statements

Benchmark Statement audit checklist

The following audit checklist provides guidance to auditors engaged by Benchmark Participants to undertake audits of Benchmark Statements under the Compliance Rule. The checklist acts as a guide only and the use of the audit checklist is not mandatory. However, it is recommended that auditors develop a similar checklist or audit program for audits.

The Benchmark Statement Audit Checklist outlines the steps required to complete an audit of a Benchmark Statement and is a tool to assist auditors manage the audit engagement. It is not to be used in place of the audit scope. Audit scopes and work plans must be prepared in accordance with Schedule 2 of the Audit and Technical Services Panel Agreement and must be submitted to IPART prior to the commencement of the audit.

Table 5: Benchmark Statement Audit Checklist

No.	Procedures	Completed	Date	Personnel
1	Prepare detailed scope of work in accordance with the generic audit scope and Schedule 2 of the Panel Agreement	Y/N		
2	Send detailed scope of work to Compliance Regulator for approval (14 days) with signed deed poll from the benchmark participant and written confirmation the auditor: <ul style="list-style-type: none"> ■ is willing to undertake the audit services ■ is not affected by a conflict of interest ■ has in place the required level of professional indemnity insurance. 	Y/N		
3	Receive confirmation from IPART to proceed with audit	Y/N		
4	Commence audit	Y/N		
5	Opening meeting with Benchmark Participant	Y/N		
6	Check any short fall/ carry forward from the previous year	Y/N		

No.	Procedures	Completed	Date	Personnel
7	Conduct audit procedures (relevant to the class of Benchmark Participant,): <ul style="list-style-type: none"> ■ Greenhouse shortfall ■ NGACs surrendered ■ RECs counted ■ LUACs surrendered ■ Total electricity purchased (NEMMCO purchases, equation 7) ■ Total Deeded Generator Purchases (equation 5) ■ Total Deeded End-User Purchased (equation 6) ■ Total Electricity Sold (equation 8) 	Y/N		
8	Document audit findings and evidence obtained	Y/N		
9	Record misstatements identified during the audit	Y/N		
10	Communicate misstatements with the Benchmark Participant	Y/N		
11	Confirm appropriate adjustments have been made by the Benchmark Participant to the Benchmark Statement	Y/N		
12	Prepare draft report and communicate with Benchmark Participant	Y/N		
13	Finalise draft report	Y/N		
14	Ensure final Benchmark Statement has been signed by authorised personnel	Y/N		
15	Submit audit report to Benchmark Participant	Y/N		
16	Ensure all relevant documentation and audit evidence is contained on audit file	Y/N		
17	Complete audit file	Y/N		

Benchmark Statement common audit procedures

To increase the level of consistency between audits of Benchmark Statements the following table provides a list of common audit procedures for each item in the Benchmark Statement. The list is not exhaustive and audit procedures should be tailored to the particular Benchmark Participant, taking into account its size, class of participant, operating activities and any other factors specific to the Participant.

Table 6: Common audit procedures for audits of Benchmark Statements

Benchmark Statement Item	Common Audit Procedures
NGACs surrendered	<ul style="list-style-type: none"> Confirm the number of NGACs surrendered in the Benchmark Statement against the printout from the Scheme Registry.
LUACs surrendered	<ul style="list-style-type: none"> Confirm the number of LUACs surrendered in the Benchmark Statement against the printout from the Scheme Registry.
RECs counted	<ul style="list-style-type: none"> Cross-check actual number of RECs surrendered by the Benchmark Participant to the ORER registry. Confirm number of RECs for which the costs have been paid or reimbursed by an elective benchmark participant.
Total Electricity Purchased (NEMMCO purchases)	<ul style="list-style-type: none"> Confirm the amount of NEMMCO purchases in the Benchmark Statement to the advice provided by IPART regarding electricity purchased from NEMMCO Confirm advice to records of the Benchmark Participant electricity purchased from NEMMCO
Total Deemed Generator Purchases (equation 5)	<ul style="list-style-type: none"> Identify Deemed Generators for the retailer and a summary of total electricity purchased from each Deemed Generator Cross-check monthly invoices against total Deemed Generator purchased for all or a representative sample of sites. Confirm the appropriate emissions intensity adjustment factor has been used against Table 9 of the Rule. Review supporting information to determine connectivity (e.g. connection diagrams or project accreditation application forms).

Benchmark Statement Item	Common Audit Procedures
Total Deemed End-User Purchases (equation 6)	<ul style="list-style-type: none"> ■ Cross check the identity and NMIs of all deemed end users with information provided by the Compliance Regulator. In addition to letters notifying retailers when an election has been accepted, the Compliance Regulator will provide the auditor with details of the benchmark participant's deemed end users. This information will be provided after the Compliance Regulator has requested amendments to, or waived the right to amend, the auditor's detailed scope of work. ■ Confirm the accuracy and completeness of the list of deemed end users with the retailer and confirm that any changes during the compliance year have been taken into account ■ Ensure that the specific NMIs of each deemed end user are identified ■ Obtain a summary of electricity sold to the Deemed End-Users for all relevant NMIs ■ Develop an understanding of how these numbers have been obtained, the systems and controls used to record and aggregate data ■ Cross-check electricity sold to Deemed End-Users to invoices or billing system ■ To test the completeness of electricity sold to Deemed End-Users, it is recommended that the participants system is search using NMI numbers ■ Cross-check the distribution loss factor applied to the Deemed End-User to table 7 of the Rule or to documentation that supports the use of distribution loss factor specific to the load of the elective Benchmark Participant
Deemed End-User Purchases (equation 7)	<ul style="list-style-type: none"> ■ Identify the NMIs for all sites, confirm NMIs to be included in the Benchmark Statement ■ Obtain a summary of total electricity purchased for each NMI and cross-check to electricity invoices for all or a representative sample of sites ■ Obtain meter reading data and compare to invoiced purchases. Obtain any reconciliation performed by the Benchmark Participant between metered data and invoices. ■ Cross-check the DLF's used against Table 7 of the Rule or to documentation that supports the use of distribution loss factor specific to the load of the elective Benchmark Participant
Total Electricity Sold Calculation (equation 8)	<ul style="list-style-type: none"> ■ Confirm the number of NEMMCO purchases in the Benchmark Statement to the advice provided by IPART regarding electricity purchased from NEMMCO ■ Cross-check the DLF used to Table 6 of the Rule or to documentation that supports the use of a specific distribution loss factor ■ Confirm loss factor for generating system purchases.