

Explanatory note – information for potential VEET audit panel members

8 December 2017



An appropriate citation for this paper is:

Essential Services Commission 2017, *Explanatory note – information for potential VEET audit panel members*, 8 December

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The Department of Environment, Land, Water and Planning develops policy for the [Victorian Energy Upgrades](#) program. The program provides incentives for Victorian households and organisations to make energy efficiency improvements that save money on their energy bills and reduce Victoria's greenhouse gas emissions

The Essential Services Commission administers the program as the 'Victorian Energy Efficiency Target scheme' under the *Victorian Energy Efficiency Target Act 2007*.

For more information, visit veet.vic.gov.au.

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Background

The Essential Services Commission (the commission) is seeking expressions of interest from suitably qualified firms to form part of a panel that can be used to undertake independent audits of annual Victorian Energy Efficiency Target (VEET) scheme annual energy acquisition statements (AEAS) from scheme participants.

The commission's responsibilities in respect of the VEET scheme include registering participants, accrediting persons to create Victorian energy efficiency certificates (VEECs), validating VEEC claims, and monitoring compliance with the *Victorian Energy Efficiency Target Act 2007* (the Act).

Under the Act, relevant entities are required to provide to the commission an audited AEAS. The purpose of the audits is to verify the reliability and accuracy of the relevant entity's applicable AEAS as well as their compliance with the *Victorian Energy Efficiency Target Guidelines* (the Guidelines) and the Act.

The commission has published the Guidelines to be followed in undertaking VEET audits. The Guidelines have been provided as part of this information pack along with a copy of the Act and the VEET tripartite audit deed (Audit Deed).

One of the key initiatives under the Guidelines is the establishment of a panel that may be nominated from by scheme participants to undertake reasonable assurance audits specified by the commission.

Benefit

In addition to being a legislated requirement for relevant entities, the VEET audits are expected to benefit the following groups by:

Stakeholders	giving assurance that scheme objectives and obligations are being met and that information published about the VEET scheme is accurate and reliable
Relevant entities	providing a clear and consistent basis for measuring performance and for comparing performance of various relevant entities. The audits also allow relevant entities to demonstrate to their customers and other stakeholders that they are meeting statutory obligations under the Act
The commission	providing assurance that businesses are complying with aspects of the Guidelines and the Act, providing information on which to base decisions and identifying whether there are aspects of the VEET scheme that can be clarified or refined in order to improve outcomes.

VEET audit panel

Aims

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

The commission will publish on the VEET website¹ and provide the relevant entities with a list of firms that form the audit panel and the contact details of the nominated lead auditor(s) from those firms.

Establishing the panel is aimed at:

- reducing the administration costs associated with identifying suitable auditors that are likely to meet the commission's selection criteria
- reducing the costs associated with nominating, assessing and approving businesses' nominated auditors
- improving the timeliness of the process of approving an auditor thus leading to more time being available to conduct the audit.

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

VEET website:¹ <https://www.veet.vic.gov.au>

Appointment to the VEET audit panel

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

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

Failure to nominate an auditor

Where a business fails to nominate an auditor or the commission decides not to approve the auditor, the commission may (but is not obliged to) appoint an auditor from its audit panel in respect of a return or statement provided by the scheme participant.

The scheme participant will be responsible for the costs associated with the auditor appointed by the commission.

Term of appointment

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

VEET audit framework

Legislation

Under section 33(6) of the Act, a relevant entity is to provide an audited AEAS to the commission. Statements must be audited in accordance with the Guidelines.

Audit purpose

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

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

Responsibilities of a relevant entity

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

Pursuant to the Guidelines, a relevant entity must:

- arrange for an audit to be undertaken
- ensure that the audit is conducted by an independent auditor nominated by the business and approved by the commission
- ensure that the final audit report is surrendered to the commission with the applicable statement or return by a date no later than 30 April, or any other date allowed by the commission.

VEET audit process and timelines

Figure 1 in Appendix A sets out the key steps for relevant entities in the commission's approach to undertaking VEET audits and the indicative timelines of the process. These timings may alter given specific circumstances and agreement by the commission.

The timelines associated with a typical year are likely to be as follows:

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

Conducting the VEET audit

To ensure the consistency and comparability of audit results, the methodology employed by the auditors must comply with certain minimum requirements set out in Section 14 of the Guidelines. In particular (unless stated in a separate Audit Scope document issued by the commission under clause 14.5 of the Guidelines) the auditor is required to:

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

In performing the audit, the auditor should have a general understanding of what the VEET scheme is and how it operates and to relevant Australian Standards for Assurance Sampling, Compliance and/or Risk Management.

Section 14 of the Guidelines provides greater detail on the conducts of audits.

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

Audit Deed

The auditor is primarily responsible to the commission and is required to sign an Audit Deed that sets out the terms of engagement and governs the relationships between the commission, the relevant entity and the auditor.

The Audit Deed specifies the conduct of the audit and governs the relationships between, and the obligations of, the commission, the relevant entity and the auditor and is signed by each party.

Among other things, the Audit Deed covers issues relating to:

- a) auditor approval and duty of care
- b) conflicts of interest
- c) compliance with the audit guideline
- d) indemnity and limitation of liability
- e) termination.

A copy of the Audit Deed is available on the VEET website. Audit firms will need to provide in principle, agreement, to the terms and conditions of the deed before being appointed to the audit panel.

Auditor independence

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

In assessing independence, the commission will:

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

Addition to or removal from the VEET audit panel

Addition to the audit panel

The audit panel may be added to from time to time where the commission is satisfied that a firm meets the specified criteria in terms of experience, expertise, independence and capability to perform the audits.

Removal from the audit panel

The commission may remove a firm from the audit panel after:

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

The commission reserves the right not to form an audit panel or not make appointments to the panel. Additionally the commission reserves the right to disband the panel.

Submissions

Expression of interest response

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

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

Selection criteria

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

- a) demonstrated skill, experience in, and detailed knowledge of quality assurance, including operational or compliance auditing, energy auditing, or science or engineering (in terms of both the lead auditor and the identified personnel)
- b) familiarity of the lead auditor and identified personnel with the VEET scheme and how it applies to relevant entities
- c) readily available access to relevant experience and expertise and the resource capacity to undertake more than one audit during an audit cycle
- d) lack, or adequate management, of conflict of interest
- e) risk management and indemnity insurance coverage
- f) agreement to the terms and conditions of the Audit Deed.

Lodgement of expression of interest

An expression of interest for appointment to the audit panel can be sent by email to:

veet@esc.vic.gov.au

or by mail to:

Expressions of Interest, VEET audit panel
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

Expression of interest timing

Expressions of interest can be made at any time.

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

The commission will publish on the VEET website and provide the relevant entities with a list of firms that form the audit panel and the contact details of the nominated lead auditor(s) from those firms. If you have any difficulty with this disclosure, please indicate this in your submission and identify alternative methods for advising relevant entities of your details.

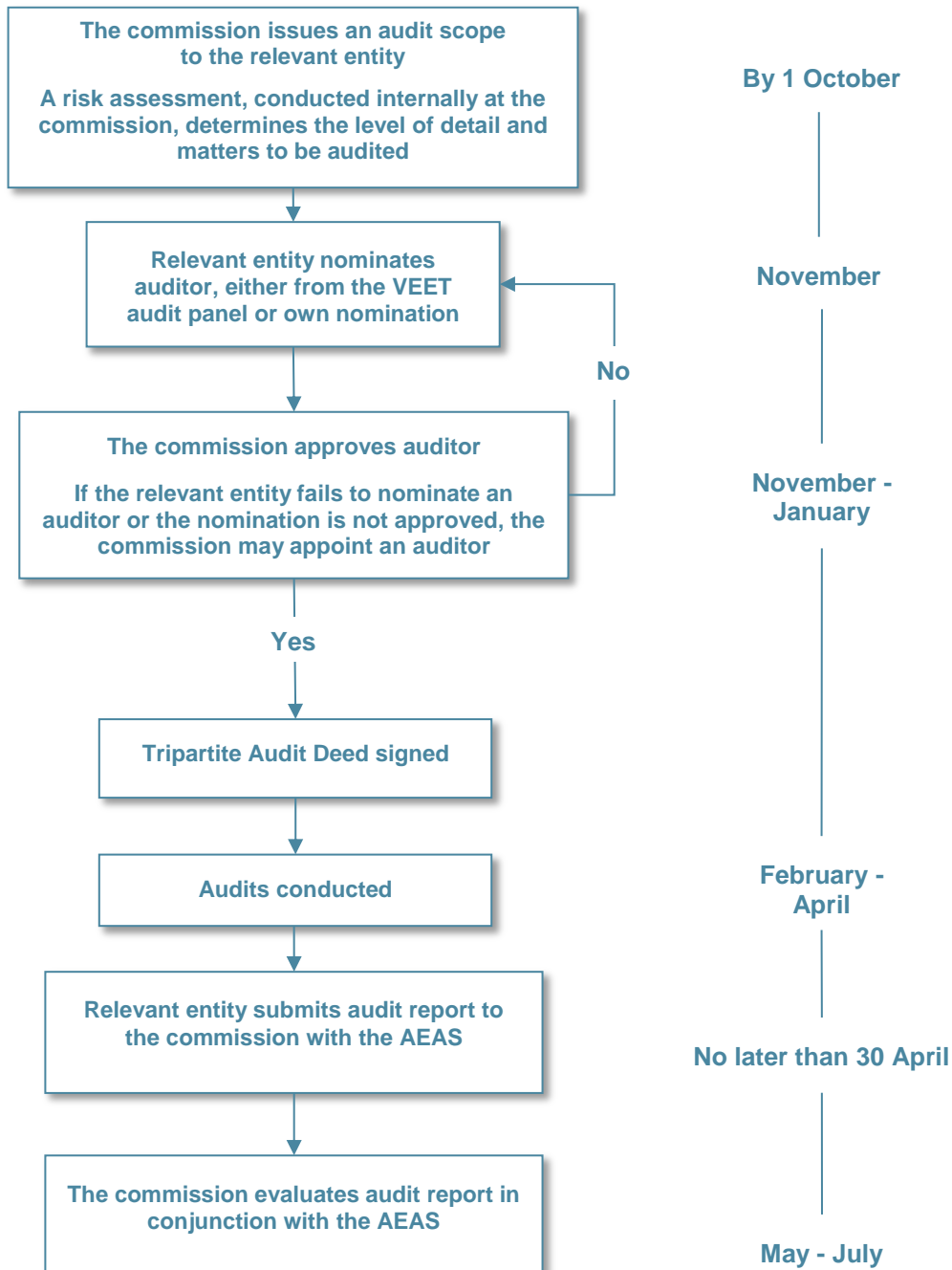
Any questions regarding the audit panel or audit process should be directed to Luli Zyka, VEET - Manager Audit & Compliance on (03) 9032 1391 or by email to luljeta.zyka@esc.vic.gov.au.

Definitions

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

Appendix A

Figure 1: Relevant entities - process for AEAS



Document version control

The RM reference for this document is: C/08/20691

Version	Amendments made	Date published
2.0	Updated to new Victorian Energy Upgrades template	8 December 2017