



**Gas Distribution Regulatory
Accounting Statements - Principles for
Auditing, Director Cooperation and
Reporting of New Facilities Investment**

June 2003

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1. INTRODUCTION

In May 2003, the Authority issued *General Accounting Guidelines for Gas Distribution Network Service Providers* (the Guidelines) under section 4.2 of the *National Third Party Access Code for Natural Gas Pipeline Systems* (the Code) and also released its accompanying *Decision*.

As acknowledged in the *Decision*, there was some dispute as to whether the Authority had the capacity to place certain obligations on the service providers regarding the presentation of regulatory accounts. To avoid any confusion on these matters, the Authority opted to remove these items from the Guidelines and instead seek that additional material from service providers on a cooperative basis.

Independent verification of the Regulatory Accounts will provide a degree of comfort that the accounts fairly reflect the performance of the regulated business. The Authority is prepared to have accounts audited once they have been provided to the Authority but is also prepared to allow service providers to organise an audit of the accounts prior to submitting them, so long as that audit is conducted in an acceptable manner.

The Authority is also seeking the cooperation of the Directors of the service provider in ensuring that records relied on in preparing the accounts are retained for a suitable period and in providing a Director's Responsibility Statement in relation to the Regulatory Accounts.

Finally, the Authority is requesting that service providers include a disaggregated report of new facilities investment. This information will be used in assessing whether new investment meets the requirements of section 8.16 of the Code at the time of the next review of the access arrangements. While this disaggregated information could unequivocally be required at that time, receiving it on an annual basis will allow the Authority to gain a greater understanding of the purpose of capital investment as the access arrangement period proceeds rather than waiting until the end of the period to obtain this information.

2. PROCUREMENT OF AN AUDIT OPINION

The Authority will require Regulatory Accounting Statements to be adequately and independently audited, whether arranged for by the Service Provider or the Authority.

For audits arranged by the Service Provider to be considered satisfactory by the Authority, they must be conducted in line with the principles contained in this document.

2.1 Auditing

The Authority will require Regulatory Accounting Statements to be adequately and independently audited.

The Service Provider may arrange for their Regulatory Accounting Statements to be audited in a manner considered satisfactory by the Authority, prior to providing them to the Authority.

If the Service Provider does not arrange for their Regulatory Accounting Statements to be audited in a manner considered satisfactory by the Authority, the Authority will arrange for the Regulatory Accounting Statements to be audited once they have been received.

For audits of Regulatory Accounting Statements arranged by the Service Provider to be considered satisfactory by the Authority, they must be conducted in line with the principles outlined below.

2.2 Primary Duty of Care to the Authority

The Authority requires that the primary duty of care of the Auditor of Regulatory Accounting Statements be to the Authority.

An engagement letter, issued to the Service Provider, must detail the scope of the audit and establish the auditor's responsibilities in relation to the Authority, as well as the relationship between the Auditor, the Authority and the Service Provider.

2.3 Appointing the Auditor

The audit firm selected by the Service Provider to audit the regulatory accounts will require formal approval from the Authority.

To obtain approval, the Service Provider will need to submit an annual request for approval. Satisfactory execution of previous audits will be an important consideration in the Authority's decisions on the approval of auditors.

The audit team must be led by a senior member of the audit firm. The team leader must sign and take responsibility for the Audit Report.

The audit team must comprise qualified, experienced personnel possessing no less a standard of expertise than would be required to conduct Statutory Account audits acceptable to the Australian Securities and Investments Commission.

The requirements, including those for independence, extend to any sub-contractors engaged by the audit firm.

2.4 Audit Objectives

The Auditor's primary objective will be to ensure that Regulatory Accounting Statements fairly present the financial performance and results of the entire business of the Service Provider and the Covered Pipeline in accordance with the Service Provider's Regulatory Accounting Principles and Policies.

The Auditor's secondary objective will be to assure compliance with the General Accounting Guidelines in detail in so far as that does not conflict with the primary objective detailed above.

Regulatory Accounting Statements for Regulatory Accounting Periods from 1 July 2002 will be subject to an Auditor's opinion in accordance with the requirements of the General Accounting Guidelines. The following items will be required to be provided by the Service Provider but are not subject to audit opinion:

- estimates used by the Service Provider in the preparation of the Regulatory Accounting Statements; and
- work papers and notes (including explanations of any estimates used).

2.5 Regulatory Audit Reports

A signed Regulatory Audit Report and a Report to the Authority and the Service Provider (where appropriate) is to be delivered to the Authority by the end of the fourth calendar month following the end of the Regulatory Accounting Period.

Attachment 1 shows the form of the Regulatory Audit Report.

Where the audit process is critical of, or highlights deficiencies in, Regulatory Accounting Statements, the Authority, the Service Provider and the Auditor will meet to discuss those issues prior to the Audit Report being issued.

Specific note should be taken of the definition of the entire business of a Service Provider and a Covered Pipeline and the scope of the Regulatory Accounting Statements as defined in sections 2.2 and 3.4 of the General Accounting Guidelines.

3. DIRECTORS' COOPERATION

The Authority seeks the cooperation of the Service Provider in providing Directors' Responsibility Statements.

The Authority requests that the Service Provider's Directors ensure that accounting records are retained for a period of seven years.

3.1 Directors' Responsibility Statement

The Authority seeks the cooperation of the Service Provider in providing Directors' Responsibility Statements in conjunction with Regulatory Accounting Statements.

The Authority requests that Directors' Responsibility Statements be attached to each set of Regulatory Accounting Statements.

Directors' Responsibility Statements should be signed and dated by a Director of the Service Provider.

Attachment 2 sets out the format of a Directors' Responsibility Statement.

3.2 Retention of Accounting Records

The Authority requests that a Service Provider's Directors ensure that the Service Provider retains the accounting records, from which the General Regulatory Accounts and Regulatory Accounting Statements have been prepared, for a period of seven years after the completion of the transactions to which they relate.

4. NEW FACILITIES INVESTMENT

The Authority seeks the cooperation of the Service Provider in reporting actual New Facilities Investment on a disaggregated basis.

The Authority intends to use the disaggregated New Facilities Investment information provided as input in making decisions on the prudence and economic nature of new facilities investment.

4.1 Reporting of Disaggregated Information

Section 4.6 of the General Accounting Guidelines requires the Service Provider to report, as part of their Regulatory Accounting Statements, actual New Facilities Investment for their entire business and for the Covered Pipeline for which they are a Service Provider and the Authority is the relevant regulator under the Code.

For the Covered Pipeline, the Authority also seeks the cooperation of the Service Provider in reporting New Facilities Investment disaggregated on the basis of the following individual investment categories:

- network augmentation (new connections);
- network growth (mains);
- network replacement;
- meter replacement; and
- other.

4.2 Section 8.16 tests

The Authority intends to use the information reported on the disaggregated basis identified above, as input in making decisions during Access Arrangement reviews as to whether actual New Facilities Investment meets the prudence and economic tests contained in section 8.16 of the Code. While this disaggregated information could unequivocally be required at that time, receiving it on an annual basis will allow the Authority to gain a greater understanding of the purpose of capital investment as the access arrangement period proceeds rather than waiting until the end of the period to obtain this information.

The Authority will determine the exact method for applying the tests contained in section 8.16 of the Code at the time of the Access Arrangement reviews.

ATTACHMENT 1 – EXAMPLE REGULATORY AUDIT REPORT

(Date)

REGULATORY ACCOUNTING STATEMENTS**PERIOD ENDED [period end]**

Scope

I have audited the Regulatory Accounting Statements of [name of Service Provider] “the Service Provider” for the Regulatory Accounting Period ended [period end], comprising Regulatory Statement of Financial Returns, Regulatory Statement of Financial Position, Regulatory Cash Flow Statement and accompanying Schedules, set out on pages [] to []. As per the Queensland Competition Authority’s (the Authority) directive, estimates (summarised in Schedule V), work papers and notes (including explanations of any estimates used and explanations of variances between forecast and actual amounts in the Regulatory Accounting Statements) provided as part of the Regulatory Accounting Statements are not to be specifically reported upon.

The Service Provider’s Directors are responsible for the preparation and presentation of the Regulatory Accounting Statements and the information they contain. I have conducted an independent audit of the Regulatory Accounting Statements in order to express an opinion on them to the Authority and the Service Provider on their preparation and presentation.

The Regulatory Accounting Statements have been prepared to meet the needs of the Authority and the Service Provider as detailed in the General Accounting Guidelines issued by the Authority under section 4.2 of the *National Third Party Access Code for Natural Gas Pipeline Systems*. This report is prepared for the Authority and the Service Provider and is not to be used for any other purpose than those specified herein. I disclaim any assumption of responsibility for any reliance on this report, or on the Regulatory Accounting Statements to which it relates, to any person other than those for whom it was prepared.

The audit has been conducted in accordance with Australian Auditing Standards. The procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the Regulatory Accounting Statements, and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material aspects, the Regulatory Accounting Statements are presented fairly in accordance with the requirements of the General Accounting Guidelines.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the Regulatory Accounting Statements present fairly, in accordance with the requirements of the General Accounting Guidelines, the financial position of the entire business of the Service Provider and the business of [description of the Covered Pipeline] as at [period end], the results of operations and cash flows for the period then ended.

Yours faithfully

(name of Auditor)

Chartered Accountants

(Name of signatory)

(Position of signatory)

ATTACHMENT 2 – EXAMPLE DIRECTORS' RESPONSIBILITY STATEMENT

In the opinion of the Director/s of [name of Service Provider]:

- the Regulatory Accounting Statements set out on pages [] to [], are drawn up so as to present fairly in accordance with the requirements of the “General Accounting Guidelines” (“the Guidelines”) issued by the Queensland Competition Authority under section 4.2 of the *National Third Party Access Code for Natural Gas Pipeline Systems*, dated [version date]:
 - the results of the entire business of the Service Provider for the Regulatory Accounting Period ended [period end];
 - the results of the business of the Covered Pipeline for the Regulatory Accounting Period ended [period end];
 - the results in relation to each Reference Service for the Regulatory Accounting Period ended [period end];
 - information concerning the state of affairs at [period end] in relation to each Reference Service;
 - information required by section 4.15 of the Guidelines; and
- the terms and definitions used in this statement accord with the definitions set out in the Guidelines referred to above.

Signed in accordance with a resolution of Directors

(name of director)
Director

Dated

ATTACHMENT 3 – GLOSSARY

Audit Report	means a Regulatory Audit Report or a Report to the Authority and the Service Provider
Auditor	an independent registered company Auditor
Authority	the Queensland Competition Authority
Code	means the <i>National Third Party Access Code for Natural Gas Pipeline Systems</i>
Coverage/ Covered	in relation to a Pipeline or part of a Pipeline, that that Pipeline or part of a Pipeline is subject to the provisions of the Code pursuant to sections 1.1, 1.13, 1.20 or 1.21 of the Code
Covered Pipeline	subject to sections 2.3 and 2.4 of the Code, the whole or a particular part of a Pipeline which is Covered and any extension to, or expansion of the Capacity of, that Covered Pipeline which is to be treated as part of the Covered Pipeline in accordance with the Extensions/Expansions Policy contained in the Access Arrangement for that Covered Pipeline and any expansion of that Covered Pipeline required to be installed under section 6.22 of the Code
Director	Director of a Service Provider. Where a Service Provider is not a corporation that appoints Directors, Director shall refer to senior managers of the Service Provider, whose identities shall be confirmed by the Service Provider with the Authority prior to the delivery of information required by these Guidelines
Directors' Responsibility Statement	<p>a statement signed and dated by a Director of a Service Provider which states whether, in the Director's opinion, the Regulatory Accounting Statements:</p> <ul style="list-style-type: none"> • Present fairly the profit and loss account information required by these Guidelines; • present fairly the balance sheet information required by these Guidelines; and • have been made out in accordance with applicable and appropriate accounting principles and policies as specified in these Guidelines.
General Accounting Guidelines	means the General Accounting Guidelines published under section 4.2 of the Code
General Regulatory Accounts	financial records derived from the Statutory Accounts of the Service Provider and the Statutory Accounts of Associates of the Service Provider that are involved in the activities of a Covered Pipeline
Regulatory Accounting Period	a period spanned by Regulatory Accounting Statements
Regulatory Accounting Principles and Policies	accounting principles and policies that have been used to prepare Regulatory Accounting Statements, that may be additional to, or in place of, the accounting principles and policies used to prepare Statutory Accounts

Regulatory Accounting Statements	financial reports revealing the performance and financial situation of the business of the Covered Pipeline. They show the originating Statutory Account amount, its translation into a General Regulatory Account amount, and its disaggregation according to Reference Services. A schedule of Regulatory Accounting Statement information can be found in section 4 of the General Accounting Guidelines
Regulatory Audit Report	an Auditor's report on Regulatory Accounting Statements prepared in accordance with Australian Auditing Standard AUS 802 (as shown in Attachment 1)
Report to the Authority and the Service Provider	<p>a detailed report on the conduct of the audit prepared in accordance with Australian Auditing Standard AUS 710 and shall include:</p> <ul style="list-style-type: none">• discussion of any areas of concern;• discussion on areas of disagreement with the Service Provider;• assessment of the clarity and accuracy of the Regulatory Accounting Statements;• assurance that the stated objectives of these Guidelines have been met; and• commentary on compliance with these Guidelines
Service Provider	has the meaning given in the <i>Gas Pipelines Access Law</i> (that is, the person who is, or is to be, the owner or operator of the whole or any part of the pipeline or proposed pipeline)
Statutory Accounts	the audited set of accounts, prepared in accordance with the Australian Securities and Investments Commission (ASIC) requirements, submitted to ASIC by statutory entities