

Independent Assurance Report

To the directors of Waipa Networks Limited and the Commerce Commission

The Auditor-General is the auditor of Waipa Networks Limited (the Company). The Auditor-General has appointed me, Clarence Susan, using the staff and resources of Audit New Zealand, to provide an opinion, on his behalf, on:

- whether the information (“the Disclosure Information”) required to be disclosed in accordance with the Electricity Distribution Information Disclosure Determination 2012 (“the Information Disclosure Determination”) for the disclosure year ended 31 March 2019, has been prepared, in all material respects, in accordance with the Information Disclosure Determination.

The Disclosure Information required to be reported by the Company, and audited by the Auditor-General, under the Information Disclosure Determination is in schedules 1 to 4, 5a to 5g, 6a and 6b, 7, the disclosure that shows the connection between the Electricity Distribution Business (EDB) and the related parties with which it has had related party transactions in the disclosure year and the explanatory notes in boxes 1 to 11 in Schedule 14.

- whether the Company’s basis for valuation of related party transactions (“the Related Party Transaction Information”) for the disclosure year ended 31 March 2019, has been prepared, in all material respects, in accordance with clause 2.3.6 of the Information Disclosure Determination, and clauses 2.2.11(1)(g) and 2.2.11(5) of the Electricity Distribution Services Input Methodologies Determination 2012 (“the Input Methodologies Determination”).

Opinion

In our opinion:

- as far as appears from an examination of them, proper records to enable the complete and accurate compilation of the Disclosure Information have been kept by the Company;
- as far as appears from an examination, the information used in the preparation of the Disclosure Information has been properly extracted from the Company’s accounting and other records and has been sourced, where appropriate, from the Company’s financial and non-financial systems;
- the Disclosure Information complies, in all material respects, with the Information Disclosure Determination; and
- the Related Party Transaction Information complies, in all material respects, with the Information Disclosure Determination and the Input Methodologies Determination.

In forming our opinion, we have obtained sufficient recorded evidence and all the information and explanations we have required.

Basis for opinion

We conducted our engagement in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and the Standard on Assurance Engagements 3100 (Revised): *Compliance Engagements* issued by the New Zealand Auditing and Assurance Standards Board. Copies of these standards are available on the External Reporting Board's website.

These standards require that we comply with ethical requirements and plan and perform our assurance engagement to provide reasonable assurance about whether the Disclosure Information has been prepared, in all material respects, with the Information Disclosure Determination, and about whether the Related Party Transaction Information has been prepared, in all material respects, with the Information Disclosure Determination and the Input Methodologies Determination. Reasonable assurance is a high level of assurance.

We have performed procedures to obtain evidence about the amounts and disclosures in the Disclosure Information, and the basis of valuation in the Related Party Transaction Information. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the Disclosure Information and the Related Party Transaction Information, whether due to fraud, error or non-compliance with the Information Disclosure Determination or the Input Methodologies Determination. In making those risk assessments, we considered internal control relevant to the Company's preparation of the Disclosure Information and the Related Party Transaction Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Scope and inherent limitations

Because of the inherent limitations of a reasonable assurance engagement, and the test basis of the procedures performed, it is possible that fraud, error or non-compliance may occur and not be detected.

We did not examine every transaction, adjustment or event underlying the Disclosure Information or the Related Party Transaction Information, nor do we guarantee complete accuracy of the Disclosure Information or the Related Party Transaction Information. Also we did not evaluate the security and controls over the electronic publication of the Disclosure Information or the Related Party Transaction Information.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, required significant attention when carrying out the assurance engagement during the current disclosure year. These matters were addressed in the context of our audit, and in forming our opinion. We do not provide a separate opinion on these matters.

Key audit matter	How our procedures addressed the key audit matter
<p>Cost and asset allocations</p> <p>The Information Disclosure Determination and the Input Methodologies Determination require the disclosure of information concerning the supply of electricity distribution services (regulated services). The Company also supplies customers with unregulated services such as contracting and metering services.</p> <p>Costs and asset values that relate to electricity distribution services, regulated under the Information Disclosure Determination and the Input Methodologies Determination, should comprise:</p> <ul style="list-style-type: none"> • all of the costs and assets directly attributable to the supply of electricity distribution services; and • an allocated portion of the costs and assets that are non-directly attributable. <p>The Input Methodologies Determination sets out the rules and processes for allocating non-directly attributable costs and assets.</p> <p>This is a key audit matter because of the professional judgement involved determining and applying the method to allocate non-directly attributable costs and assets to the Company's regulated services noting the allocation rules were modified this year.</p>	<p>We have obtained an understanding of the Company's approach to allocating costs and assets to the regulated and non-regulated business. We confirmed the approach used is in accordance with the Information Disclosure Determination and the Input Methodologies Determination.</p> <p>The procedures we carried out, to satisfy ourselves that costs and assets were correctly allocated, included:</p> <ul style="list-style-type: none"> • reconciling of the regulated and unregulated financial information to the audited financial statements for the year ended 31 March 2019; • reviewing the costs by business unit, based on their nature and on our understanding of the business, to determine the reasonableness of the directly attributable costs by business unit; • testing a sample of invoices to ensure their classification as either directly attributable or non-directly attributable costs are appropriate and in compliance with the Information Disclosure Determination and the Input Methodologies Determination; • reviewing of the fixed asset register to identify any asset classes which, based on their nature and our understanding of the business, could be considered assets directly attributable to the supply of electricity distribution services; • testing a sample of assets to ensure their classification as either directly attributable or non-directly attributable is appropriate and in compliance with the Information Disclosure Determination and the Input Methodologies Determination; • reviewing the Company's judgements in determining and applying appropriate methods to allocate non-directly attributable costs and assets and assessing if the methods complies with the Information Disclosure Determination and the Input Methodologies Determination; • testing a sample of cost allocation calculations.

Key audit matter	How our procedures addressed the key audit matter
<p>Valuation of related-party transactions at arm’s-length</p> <p>The Information Disclosure Determination and the Input Methodologies Determination place a requirement on the Company to value related-party procurement transactions at a value not greater than arm’s-length. In other words, the value at which a transaction, with the same terms and conditions, would be entered into between a willing seller and a willing buyer who are unrelated and who are acting independently of each other and pursuing their own best interests.</p> <p>In the absence of an active market for related-party transactions, assigning an objective arm’s-length value to a related-party transaction is difficult.</p> <p>This is a key audit matter because it is a new requirement that involves considerable judgement by Company personnel. In turn, verification of the appropriate assignment of an objective arm’s-length valuation, to related-party transactions, requires the exercise of significant professional judgement by the auditor.</p>	<p>We have obtained an understanding of the Company’s approach to identifying and valuing related-party transactions at arm’s-length in accordance with the Information Disclosure Determination and the Input Methodologies Determination.</p> <p>At times, the Company uses third parties to complete work on its behalf. The Company also obtains tenders from third parties for both capital and operational contracts. The Company uses the aforementioned processes to confirm unit rates, labour rates and other costs that its related parties charge is less than or equal to arm’s length.</p> <p>The procedures we carried out to satisfy ourselves that related-party transactions are appropriately valued at a value not greater than arm’s-length included:</p> <ul style="list-style-type: none"> • testing the completeness of related-parties identified through review of Board minutes, review of Companies Office records, and related-parties identified through detailed testing of transactions and balances in the annual financial statements audit; • testing samples of transactions, with related parties for the different categories of procurement, for compliance with the policies for approval and negotiation of related party transactions; • testing the prices charged to the Company by related parties by agreeing a sample of the unit prices or similar services charged to supporting documentation for prices from non-related parties (for example, invoice, contract or tender); and • confirming the material accuracy of related party values disclosed, and compliance of their calculation with the Information Disclosure Determination and the Input Methodologies Determination.

Directors' responsibility for the preparation of the Disclosure Information and Related Party Transaction Information

The directors of the Company are responsible for the preparation of:

- the Disclosure Information in accordance with the Information Disclosure Determination; and
- the Related Party Transaction Information in accordance with the Information Disclosure Determination and the Input Methodologies Determination.

The directors are responsible for such internal control as the directors determine is necessary to enable the preparation of the Disclosure Information and the Related Party Transaction Information that are free from material misstatement.

Our responsibility for the audit of the Disclosure Information and the Related Party Transaction Information

Our responsibility is to express an opinion that provides reasonable assurance on whether:

- the Disclosure Information has been prepared, in all material respects, in accordance with the Information Disclosure Determination; and
- the Related Party Transaction Information has been prepared, in all material respects, in accordance with the Information Disclosure Determination and the Input Methodologies Determination.

Independence and quality control

When carrying out the engagement, we complied with:

- the Auditor-General's independence and other ethical requirements, which incorporate the independence and ethical requirements of Professional and Ethical Standard 1 (Revised) issued by the New Zealand Auditing and Assurance Standards Board;
- the independence requirements specified in the Information Disclosure Determination; and
- the Auditor-General's quality control requirements, which incorporate the quality control requirements of Professional and Ethical Standard 3 (Amended) issued by the New Zealand Auditing and Assurance Standards Board.

The Auditor-General, and his employees, *and Audit New Zealand and its employees* may deal with the Company on normal terms within the ordinary course of trading activities of the Company. Other than any dealings on normal terms within the ordinary course of business, this engagement, and the annual audit of the Company's financial statements, we have no relationship with or interests in the Company.

Use of this report

This independent assurance report has been prepared solely for the directors of the Company and for the Commerce Commission for the purpose of providing those parties with reasonable assurance about whether the Disclosure Information has been prepared, in all material respects, in accordance with the Information Disclosure Determination and whether the Related Party Transaction Information has been prepared, in all material respects, in accordance with the Information Disclosure Determination and the Input Methodologies Determination. We disclaim any assumption of responsibility for any reliance on this report to any person other than the directors of the Company or the Commerce Commission, or for any other purpose than that for which it was prepared.

A handwritten signature in blue ink, appearing to read 'Susan', is enclosed in a thin black rectangular border.

Clarence Susan
Audit New Zealand
On behalf of the Auditor-General
Tauranga, New Zealand
28 August 2019