

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, as amended by the Information Disclosure exemption: Disclosure and auditing of reliability information within schedule 10, issued by the Commerce Commission on 9 April 2020 (“the Information Disclosure Determination, as amended”) for the disclosure year ended 31 March 2020, has been prepared, in all material respects, in accordance with the Information Disclosure Determination, as amended.

The Disclosure Information required to be reported by the Company, and audited by the Auditor-General, under the Information Disclosure Determination, as amended, 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, the system average interruption duration index (“SAIDI”) and system average interruption frequency index (“SAIFI”) information disclosed in Schedule 10 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 2020, has been prepared, in all material respects, in accordance with clause 2.3.6 of the Information Disclosure Determination, as amended, 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, as amended; and

- the Related Party Transaction Information complies, in all material respects, with the Information Disclosure Determination, as amended, 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 of 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): *Assurance Engagements on Compliance* 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, as amended, and about whether the Related Party Transaction Information has been prepared, in all material respects, with the Information Disclosure Determination, as amended, 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, as amended, 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 assurance matters

Key assurance 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
Cost and Asset Allocations	
<p>The Information Disclosure Determination, as amended 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 not 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 in determining and applying the method to allocate non-directly attributable costs and assets to the Company’s regulated services.</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, as amended and the Input Methodologies Determination</p> <p>The procedures we carried out, to satisfy ourselves that cost and assets were correctly allocated, included:</p> <ul style="list-style-type: none"> • reconciling the regulated and non-regulated financial information to the audited financial statements for the year ended 31 March 2020; • reviewing of 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, as amended and the Input Methodologies Determination; • reviewing 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; and • testing a sample of cost allocation calculations.

Key audit matter	How our procedures addressed the key audit matter
Accuracy of the number and duration of electricity outages	
<p>The Company has a combination of manual and automated systems to identify outages and to record the duration of outages. This outage information is used to report the Company's Report on Network Reliability in Schedule 10. If this information is inaccurate then the measures of the reliability of the network could be materially misstated.</p> <p>This is a key audit matter because information on the frequency and duration of outages is an important measure of the reliability of electricity supply. Relatively small inaccuracies can have a significant impact on the reliability thresholds against which Company performance is assessed.</p> <p>There can also be significant consequences if the Company breaches the reliability thresholds.</p> <p>The Commission has issued an Exemption notice which, if it applies excludes the assurance report from coverage of the information, in Schedule 10 of the ID determination, for any issues arising out of the EDB's recording of SAIDI, SAIFI and number of interruptions due to successive interruptions. We need to ensure that the Company meets the criteria for the Exemption to apply, including that it makes the necessary disclosures so the exclusion to the assurance opinion applies.</p>	<p>We have obtained an understanding of the Company's system to record electricity outages, and their duration. This included review of the Company's definition of interruptions, planned interruptions and major event days.</p> <p>Our procedures to assess the adequacy of the Company's methods to identify and record electricity outages and their duration included:</p> <ul style="list-style-type: none"> • performing an assessment of the reliability of the manual and automated processes to record the details of interruptions to supply; • obtaining internal and external information on interruptions to supply to gain assurance that interruptions to supply were recorded. Internal and external information sources included works orders for contractors, media reports, and Board minutes; • testing a sample of interruptions to supply to source records to conclude on their accuracy of calculation, and the appropriateness of the categorisation of the cause of the interruption and whether it was planned or unplanned, and that the cause of the interruptions is correctly categorised; • checked the SAIDI and SAIFI ratios were correctly calculated in accordance with the Information Disclosure Determination, as amended, and the Input Methodologies Determination; • obtained explanations for all significant variances to forecast; and • testing the accuracy of the number of connections to the Electricity Authority's register. <p>With respect to the Exemption, we:</p> <ul style="list-style-type: none"> • obtained and documented our understanding of the Company's methods by which electricity outages and their duration are recorded where an outage event results in successive interruptions of supply.

Key audit matter	How our procedures addressed the key audit matter
	<ul style="list-style-type: none"> • compared this to the documented process that the Company followed in the previous year. • identified potential incidences of successive interruptions of supply to ensure that the Company's methods, by which electricity outages and their duration are recorded where an outage event results in successive interruptions of supply, was the same for both years. <p>Having carried out these procedures, and in assessing the likelihood of reported electricity outages and their duration being materially misstated in the Disclosure Information, we have no matters to report.</p>
Valuation of related-party transactions at arms-length	
<p>The Information Disclosure Determination, as amended and the Input Methodologies Determination place a requirement on the Company to value related-party procurement transactions at a value not greater than arms-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 arms-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 arms-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, as amended and the Input Methodologies Determination.</p> <p>The procedures we undertook to satisfy ourselves that related-party transactions are appropriately identified and valued at a value not greater than arm's-length, included:</p> <ul style="list-style-type: none"> • testing the completeness of the 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 our audit of the annual financial statements audit; • comparing the prices charged to the Company by related parties with the unit prices charged to other electricity distribution companies; • comparing the prices charged to the Company by related parties to unit prices charged to the Company by other suppliers; • comparing the prices for the actual tenders, awarded to related parties, to normal unit prices charged on non-tendered contracts;

Key audit matter	How our procedures addressed the key audit matter
	<ul style="list-style-type: none"> • testing samples of transactions, with related parties for the different categories of procurement for compliance with policies. This included reviewing tender evaluations, and quotes obtained to ensure transactions are at arm's length; and • confirming the material accuracy of related party values disclosed, and compliance of their calculation with the Information Disclosure Determination, as amended 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, as amended; and
- the Related Party Transaction Information in accordance with the Information Disclosure Determination, as amended, 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 on whether:

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



Clarence Susan
Audit New Zealand
On behalf of the Auditor-General
Tauranga, New Zealand
28 October 2020