

Independent Assurance Report

**To the directors of Waipa Networks Limited and to the Commerce Commission
on the disclosure information for the disclosure year ended
31 March 2021 as required by the electricity distribution
information disclosure determination 2012**

Waipa Networks Limited (the Company) is required to disclose certain information under the Electricity Distribution Information Disclosure Determination 2012 (the Determination) and to procure an assurance report by an independent auditor in terms of section 2.8.1 of the Determination.

The Auditor-General is the auditor of the Company.

The Auditor-General has appointed me, Wikus Jansen van Rensburg, using the staff and resources of Audit New Zealand, to undertake a reasonable assurance engagement, on his behalf, on whether the information prepared by the Company for the disclosure year ended 31 March 2021 (the Disclosure Information) complies, in all material respects, with the Determination.

The Disclosure Information that falls within the scope of the assurance engagement are:

- Schedules 1 to 4, 5a to 5g, 6a and 6b, 7, 10 and 14 (limited to the explanatory notes inboxes 1 to 11) of the Determination.
- Clause 2.3.6 of the Determination and clauses 2.2.11(1)(g) and 2.2.11(5) of the Electricity Distribution Services Input Methodologies Determination 2012 (the IM Determination), in respect of the basis for valuation of related party transactions (the Related Party Transaction Information).

This assurance report should be read in conjunction with the Commerce Commission's Information Disclosure exemption, issued to all electricity distribution businesses on 17 May 2021 under clause 2.11 of the Determination. The Commerce Commission granted an exemption from the requirement that the assurance report, in respect of the information in Schedule 10 of the Determination, must take into account any issues arising out of the Company's recording of SAIDI, SAIFI, and number of interruptions due to successive interruptions.

Opinion

In our opinion, in all material respects:

- as far as appears from an examination, 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, sourced from the Company's financial and non-financial systems;

- the Disclosure Information complies, in all material respects, with the Determination; and
- the Related Party Transaction Information complies, in all material respects, with the Determination and the IM Determination.

Basis for opinion

We conducted our engagement in accordance with the Standard on Assurance Engagements (SAE) 3100 (Revised) Assurance Engagements on Compliance, issued by the New Zealand Auditing and Assurance Standards Board. An engagement conducted in accordance with SAE (NZ) 3100 (Revised) requires that we comply with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.

We have obtained sufficient recorded evidence and explanations that we required to provide a basis for our opinion.

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 compliance engagement, and in forming our opinion.

Key audit matter	How our procedures addressed the key audit matter
Cost and asset allocations	
<p>The Determination and the IM 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 Determination and the IM 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>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 Determination and the IM 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 2021; • review 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;

Key audit matter	How our procedures addressed the key audit matter
<p>The IM 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>	<ul style="list-style-type: none"> • 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 Determination and the IM 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 and asset allocation calculations.
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 the Company's performance is assessed.</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;

Key audit matter	How our procedures addressed the key audit matter
<p>The Commerce Commission has issued an Exemption notice which excludes the assurance report from coverage of the information, in Schedule 10 of the Determination, for any issues arising out of the Company'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>	<ul style="list-style-type: none"> • 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 Determination and the IM 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; • compared this to the documented process that the Company followed in the previous year; and • 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, were the same for both years. <p>Having carried out these procedures, and assessed the likelihood of reported electricity outages and their duration being materially misstated in the Disclosure Information, we have no matters to report.</p>

Key audit matter	How our procedures addressed the key audit matter
Valuation of related party transactions at arms-length	
<p>The Determination and the IM 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 requirement that involves considerable judgement by the Company personnel. In turn, verification of the appropriate assignment of an objective arms-length valuation to related party transactions require 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 arms-length in accordance with the Determination and the IM 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 arms-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 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; • 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 arms-length; and • confirming the material accuracy of related party values disclosed, and compliance of their calculation with the Determination, and the IM Determination.

We do not provide a separate opinion on these matters.

Directors' responsibilities

The directors of the Company are responsible in accordance with the Determination for:

- the preparation of the Disclosure Information; and
- the Related Party Transaction Information.

The directors of the Company are also responsible for the identification of risks that may threaten compliance with the schedules and clauses identified above and controls which will mitigate those risks and monitor ongoing compliance.

Auditor's responsibilities

Our responsibilities in terms of clauses 2.8.1(1)(b)(vi) and (vii), 2.8.1(1)(c) and 2.8.1(1)(d) are to express an opinion on whether:

- As far as appears from an examination, the information used in the preparation of the audited Disclosure Information has been properly extracted from the Company's accounting and other records, sourced from its financial and non-financial systems.
- As far as appears from an examination, proper records to enable the complete and accurate compilation of the audited Disclosure Information required by the Determination have been kept by the Company and, if not, the records not so kept.
- The Company complied, in all material respects, with the Determination in preparing the audited Disclosure Information.
- The Company's basis for valuation of related party transactions in the disclosure year has complied, in all material respects, with clause 2.3.6 of the Determination and clauses 2.2.11(1)(g) and 2.2.11(5) of the IM Determination.

To meet these responsibilities, we planned and performed procedures in accordance with SAE (NZ) 3100 (Revised), to obtain reasonable assurance about whether the Company has complied, in all material respects, with the Disclosure Information (which includes the Related Party Transaction Information) required to be audited by the Determination.

An assurance engagement to report on the Company's compliance with the Determination involves performing procedures to obtain evidence about the compliance activity and controls implemented to meet the requirements. The procedures selected depend on our judgement, including the identification and assessment of the risks of material non-compliance with the requirements.

Inherent limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error, or non-compliance with the Determination may occur and not be detected. A reasonable assurance engagement throughout the disclosure year does not provide assurance on whether compliance with the Determination will continue in the future.

Restricted use

This report has been prepared for use by the directors of the Company and the Commerce Commission in accordance with clause 2.8.1(1)(a) of the Determination and is provided solely for the purpose of establishing whether the compliance requirements have been met. We disclaim any assumption of responsibility for any reliance on this report to any person other than the directors of the Company and the Commerce Commission, or for any other purpose than that for which it was prepared.

Independence and quality control

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 issued by the New Zealand Auditing and Assurance Standards Board; and
- 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 trading activities of the Company, this engagement, and the annual audit of the Company's financial statements and performance information, we have no relationship with or interests in the Company.



Wikus Jansen van Rensburg
Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand
25 August 2021