



## **Independent review report to the Board of Directors of the Australian Energy Market Operator Limited (AEMO) for the New South Wales (NSW) and Australian Capital Territory (ACT) Retail Gas Market**

### **Scope**

In accordance with our contract dated 3 May 2010, we have reviewed the Australian Energy Market Operator Limited (AEMO) internal control procedures in relation to compliance with the 'Retail Market Procedures (NSW & ACT)' for the NSW / ACT Retail Gas Market for the year ended 30 June 2014.

### **AEMO Management's Responsibilities**

AEMO Management is responsible for maintaining an effective internal control structure, including control procedures in relation to the Retail Market Procedures (NSW & ACT). This responsibility includes establishing and maintaining internal controls relevant to compliance with the Retail Market Procedures (NSW & ACT) and the preparation and fair presentation of information that is free from material misstatement.

### **PwC's Responsibilities**

Our responsibility is to express a conclusion based on our limited assurance procedures, on whether anything has come to our attention to indicate that the AEMO internal control procedures in relation to the areas listed in the Scope section above, have not been, in all material respects, effectively designed and operated, in order to comply with the relevant criteria outlined in:

- Retail Market Procedures (NSW & ACT) Version 11.1 (1 July, 2013) to Version 12 (1 January, 2014).

In determining compliance with the criteria above, we have also referenced the following AEMO documents as compliance criteria:

- IT Change Management Procedures Manual Version 6.6 (June 2009)
- IT Change Management Policy (May 2014)
- IT Change Management Process and Procedure (May 2014)
- Access Control and Authentication Standard Version 1.1 (October 2011)
- Backup Standard Version 1.1 (October 2011)
- AEMO Incident Management Process and Procedure Version 0.9 (April 2014)
- IT Security Incident Response Procedure Version 1.1 (October 2011)
- Encryption Standard Version 1.1 (October 2011)
- Malware Protection Standard Version 1.1 (October 2011)
- Patch Management Standard Version 1.1 (October 2011)
- Network Security Standard Version 1.1 (October 2011)
- Logging and Log Management Standard Version 1.1 (October 2011)
- Application Security Standard Version 1.1 (October 2011)
- AEMO Active Directory Domain Administrator Access Procedure Version 1.3 (October 2011).

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Our limited assurance engagement has been conducted in accordance with the Australian Standard on Assurance Engagements (ASAE) 3100 *Compliance Engagements* to provide limited assurance that AEMO has complied with the specific assurance criteria for each gas market. The work performed was designed to enable us to express the conclusion below. Accordingly, we have conducted such tests and procedures as we considered appropriate, including:

- inquiry and observation of staff and management to understand the operation of controls
- review of relevant AEMO policies, procedures and user manuals
- undertaking procedures to evaluate the design effectiveness of key controls
- performing limited sample testing to validate the operating effectiveness of key controls.

### **Scope exclusions**

Our review did not include application and IT controls over systems that are operated by external organisations (except for CGI), the compliance with Service Level Requirements, or the control procedures in place at those agencies not controlled by AEMO, specifically:

- Retailers
- Shippers
- Network Operators
- Meter Data Agents
- Other Market Participants.

It is assumed that the data received by AEMO from Distributors in relation to metering data is complete, accurate and valid. Our scope was limited to the procedures AEMO perform over validating the reasonableness of this data.

### **Use of Report**

This report has been prepared for distribution to the Board of Directors of AEMO. We disclaim any assumption of responsibility for any reliance on this report to any other person other than the Board of Directors, or for any purpose other than that for which it was prepared.

### **Inherent limitations**

Because of the inherent limitations of any internal control system, there is the possibility of management override of controls, non-compliance, misstatements due to error or fraud may occur and not be detected. Further, the internal compliance and control culture has not been reviewed and no view is expressed as to its effectiveness.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement. A limited assurance engagement is not designed to detect all weaknesses in the internal compliance and control system as it is not performed continuously throughout the reporting period and any testing is performed on a sample basis. Also a limited assurance engagement does not provide all the evidence that would be required in a reasonable assurance engagement (an audit), thus the level of assurance is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Any projections of any evaluation of the internal compliance and control system to future periods is subject to the risk that the internal compliance and control system may become inadequate because of



changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Materiality**

We have considered materiality when evaluating the effect of identified control weaknesses on our conclusion. Materiality is considered in the context of AEMO's objectives relevant to the area of activity being examined. When assessing materiality, we considered qualitative factors as well as quantitative factors, including:

- the purpose of the engagement and specific requirements of the engagement
- the economic, social, political and environmental impact of control weaknesses
- the importance of an identified control weakness in relation to the area of activities and the entities overall objectives
- the impact of a centralised function on other parts of the entity
- public perception and/or interest in the area of activity
- the cost of alternative controls relative to their likely benefit
- the length of time an identified control weakness was in existence.



### Summary of Findings

Our procedures identified a number of areas where internal controls could be strengthened. The table below summarises findings which remain open as at 30<sup>th</sup> June 2014.

	Critical	Significant	Medium	Low
Level 1	0	1	1	2
Level 2	0	0	0	0
Level 3	0	0	0	3

The table below summarises findings from prior periods or this period which have been closed during FY14.

	Critical	Significant	Medium	Low
Level 1	0	1	1	4
Level 2	0	0	0	1
Level 3	0	0	0	2

We have categorised control observations noted according to agreed risk and compliance ratings. The risk ratings applied for each finding are consistent with the likelihood and consequence matrix adopted by AEMO’s Risk and Audit Committee.

The ratings have been tailored to reflect the potential impact on the gas market as follows:

Risk Rating	Definition
Critical	Findings which may have a catastrophic impact on the gas market operations if they are not addressed immediately and require executive action with regular reporting at Board level.
Significant	Findings which may have a major impact on the gas market operations if they are not addressed as a matter of priority. These findings require senior management attention with regular monitoring and reporting at executive and Board meetings.
Medium	Findings which may have a moderate impact on the gas market operations if they are not addressed within a reasonable timeframe. These findings require management attention with regular ongoing monitoring.
Low	Findings which may have a minor impact on gas market operations if they are not addressed in the future. These findings are the responsibility of management with regular monitoring and reporting at staff meetings.

Compliance Rating	Definition
Level 1	Evidence of non-compliance with review criteria. These should be addressed as a matter of high priority. (Breach)
Level 2	Issues which could possibly result in non-compliance with review criteria but where no evidence of actual non-compliance was found. However, there is considered to be insufficient formal evidence of controls in place or being actioned in relation to these issues. These should generally be addressed within one to two months. (Improvements in AEMO’s controls to prevent a potential breach)
Level 3	Housekeeping matters and opportunities for improving internal controls and procedures relating to gas market operations. These should be addressed within three to six months. (Better controls but not critical to prevent a breach)



### Basis for Qualified Conclusion – Non-compliance with defined review criteria

This review statement includes as qualifications any issues which are considered to be material when evaluating the impact of identified control weaknesses on our conclusion. We draw your attention to the following findings which represent non-compliance with the review criteria referred to above, and are considered to be material in the context of the criteria outlined above.

Criteria	Finding Summary	Status as at 30 June 2014	Risk Rating	Compliance Rating
Retail Market Procedures (NSW and ACT) Section 16.2 NGR, Part 16	<p><b>Breach of confidentiality in NSW/ ACT Retail Gas Market</b></p> <p>Management identified one instance on 17 April 2014, where in response to an ad-hoc Delivery Point Information (DPI) request from a Market Participant, AEMO's third party service provider incorrectly provided the Market Participant with Delivery Point Registry data extracts for a Network Operator. This was primarily due to staff oversight.</p> <p>The data extracts provided to the Market Participant contained Delivery Point information where the Market Participant was not the current user of the delivery point.</p> <p>The confidentiality breach was reported to AEMO by the Network Operator following communication with the Market Participant that had received the data. This was reported to AEMO on the 22 April 2014.</p>	Open	Significant	Level 1
Retail Market Procedures (NSW and ACT) 16.3 NGR, Part 16 AEMO Confidential Information Policy	<p><b>Breach of confidentiality in NSW/ ACT Retail Gas Market</b></p> <p>As part of the monthly distribution of Delivery Point Information (DPI) to respective Market Participants and Network Operators, on 3 February 2014 AEMO's third party service provider incorrectly sent a CD to a Market Participant containing DPI of a Network Operator. The data included 1,259,492 DPIs (customer connection point records).</p> <p>Review noted that following the identification of the confidentiality breach, AEMO's third party service provider did not immediately inform AEMO or detail actions taken to address this issue. The incident was reported to AEMO on 24 February 2014.</p>	Closed	Significant	Level 1



### Conclusion

Based on our review, which is not an audit, nothing has come to our attention, except for the matters referred to in the qualification section above, that causes us to believe that the Australian Energy Market Operator did not maintain, in all material respects, effective control procedures in relation to the NSW & ACT Retail Gas Market, for the year ended 30 June 2014, based on the scope referred to above.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'PricewaterhouseCoopers.' The signature is written in a cursive, flowing style.

Partner

25 September 2014