



Independent Reasonable Assurance Report

To the Directors of Jemena Electricity Networks (Vic) Ltd

Conclusion

In our opinion, Jemena Electricity Networks (Vic) Ltd's Statement of Compliance that the entity has, with the exception of breaches identified and reported to the AER, complied with the Ring-fencing Guidelines published by the Australian Energy Regulator on 17 October 2017 is, in all material respects, fairly presented for the regulatory year ended 31 December 2019.

Emphasis of Matter – Breaches of Ring-fencing guideline

Without qualifying our conclusion, we draw attention to section 2.4 of JEN's Annual Compliance Report, which describes the breaches identified in the regulatory year ended 31 December 2019:

Breach of Clause 4.2.1 of the Ring-fencing Guideline – Physical Separation

The Ring-fencing Guideline requires certain staff providing direct control services to use offices that are separate to offices from which a related RESP provides contestable electricity services. To meet this obligation JEN has implemented physical separation controls including locations secured by access cards for these staff. JEN identified and notified the AER that certain staff classified in 'RESP roles' had access to JEN secure locations for varying periods of time.

Breach of Clause 4.3.3 of the Ring-fencing Guideline – Protection of Confidential Information

The Ring-fencing Guideline requires JEN to keep certain information confidential and only use confidential information for the purpose for which it was acquired or generated. JEN identified and notified the AER that an employee shared confidential information with a third party for a purpose unrelated to its initial acquisition.

Information subject to Assurance

The information subject to assurance is Jemena Electricity Networks (Vic) Ltd's ("JEN") Statement of Compliance for the regulatory year ended 31 December 2019, as set out in section 2.1 of JEN's Electricity Ring-fencing Guideline Annual Compliance Report ("Annual Compliance Report") prepared in accordance with the Ring-fencing Guidelines published by the Australian Energy Regulator ("AER") on 17 October 2017 (Statement of Compliance).

Scope

The subject of our reasonable assurance engagement is whether JEN's Statement of Compliance that the entity has, with the exception of breaches identified and reported to the AER, complied with the Ring-fencing Guidelines published by the Australian Energy Regulator on 17 October 2017 ("Ring-fencing Guidelines") is, in all material respects, fairly presented for the regulatory year ended 31 December 2019. This Statement of Compliance accompanies our report, for the purpose of reporting to the Directors of JEN and the AER.



Basis for conclusion

We conducted our engagement in accordance with Australian Standard on Assurance Engagements ASAE 3100 Compliance Engagements (ASAE 3100). We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In accordance with ASAE 3100 we have:

- used our professional judgement to plan our procedures and assess the risk of material misstatements in JEN's Statement of Compliance;
- considered internal controls implemented to meet the compliance requirements of the Ring-fencing Guidelines; however, we do not express a conclusion on their effectiveness; and
- ensured that the engagement team possesses the appropriate knowledge, skills and professional competencies.

Summary of procedures performed, findings and observations

In Appendix A, we provide an overview of the key procedures, observations and findings in relation to each of the Ring-fencing Guideline requirements. This overview is provided at the request of the AER to provide greater transparency over the work we performed. Our conclusion is not modified in this respect.

In Appendix B, we have summarised performance improvement observations. Our conclusion is not modified in respect of these observations.

How we define reasonable assurance and material misstatement

- Reasonable assurance is a high level of assurance, but is not a guarantee that it will always detect a material misstatement in JEN's Statement of Compliance when it exists.
- Instances of misstatement in JEN's Statement of Compliance are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the intended users taken on the basis of JEN's compliance with the requirements of the Ring-fencing Guidelines.

Inherent limitations

- Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error, or material misstatement in JEN's Statement of Compliance may occur and not be detected.
- A reasonable assurance engagement for the regulatory year ended 31 December 2019 does not provide assurance on whether compliance with the requirements of the Ring-fencing Guidelines will continue in the future.

Use of this assurance report and matters relating to electronic publication

This report has been prepared for the Directors of JEN and the AER for the purpose of compliance with the Ring-fencing Guidelines and may not be suitable for another purpose.



We understand that the AER intends to publicly release our assurance report via its website. The AER is responsible for the integrity of AER's website where our report is presented alongside the Annual Compliance Report. We have not been engaged to report on the integrity of the AER's website. This report refers only to the Statement of Compliance and does not provide an opinion on any other information which may have been hyperlinked to/ from the Annual Compliance Report. If users of the Annual Compliance Report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the Annual Compliance Report to confirm the information contained in this website version of the Annual Compliance Report.

We disclaim any assumption of responsibility for any reliance on this report, or the Annual Compliance Report to which it relates to any person other than the Directors' of JEN and the AER, or for any purpose other than for which it was prepared.

Management's responsibility

Management is responsible for:

- the compliance activities including identifying, designing and implementing controls to meet the requirements of the Ring-fencing Guidelines;
- identification of risks that threaten the compliance with the Ring-fencing Guidelines from being met;
- monitoring ongoing compliance; and
- preparing an Annual Compliance Report and providing a Statement of Compliance with respect to the outcome of the evaluation of the compliance activity against the Ring-fencing Guidelines, which accompanies this Independent Assurance Report.

Our responsibility

Our responsibility is to perform a reasonable assurance engagement in relation to JEN's Statement of Compliance with the Ring-fencing Guidelines, for the year ended 31 December 2019 and to issue an assurance report that includes our conclusion.

Our independence and quality control

We have complied with our independence and other relevant ethical requirements of the Code of Ethics for Professional Accountants issued by the Australian Professional and Ethical Standards Board, and complied with the applicable requirements of Australian Standard on Quality Control 1 to maintain a comprehensive system of quality control.

KPMG

Vicky Carlson
Partner
Melbourne
29 April 2020



Appendix A – Summary of procedures performed, observations and findings

In this section, we present an overview of key procedures performed, observations and findings as part of our reasonable assurance engagement in respect JEN’s compliance activities with the relevant requirements of the Ring-fencing Guidelines for the regulatory year ended 31 December 2019.

This information should not be construed as providing an opinion or conclusion on the separate compliance activities noted, nor that the aggregation thereof modifies our conclusion reported in the Independent Reasonable Assurance Report.

We performed the following general procedures to assess JEN’s overall compliance with the Guideline:

1. We obtained JEN’s Electricity Ring-fencing Compliance Manual (Compliance Manual) and performed the following:
 - inquired with management if there were any changes to the Compliance Manual during the 2019 regulatory year; and
 - updated our initial assessment on whether the Compliance Manual adequately addressed the requirements of the Guideline.
2. We considered whether certain pre-existing systems, policies and procedures within the SGSPAA business had been appropriately updated to reflect obligations arising from the Ring-fencing Guideline. This included sighting the policies as well as considering information we had reviewed as part of our audit procedures in connection with the financial and regulatory audits of SGSPAA and JEN. The systems, policies and procedures considered included:
 - Jemena code of conduct
 - Contracting and Procurement Entity Procedure
 - Fleet Asset Class Strategy
 - Procurement Policy
 - JEN’s Compliance and Risk System (JCARs)
 - Organisation Framework Design document
 - Secondment Guideline
 - Contractor Management Procedure
 - Asset Management Strategy
 - Accountability model
3. We reviewed minutes of board meetings of SGSPAA and its committees and made inquiries of management to inform our understanding of management’s approach to Ring-fencing compliance and to identify Related Electricity Service Provider (“RESP”)’s, related transactions and risks of non-compliance with the Ring-fencing guideline.



The following table provides a summary of procedures, observations and findings for each Ring-fencing guideline requirement:

Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
3 Prevention of cross subsidies			
3.1a Legal Separation	<ul style="list-style-type: none"> Electricity Ring Fencing Compliance Manual Jemena Code of Conduct Organisation Framework Design and associated assessment templates Contracting and Procurement Entity Procedure JEN is established as a separate registered Australian Business with a distinct ABN 	<ul style="list-style-type: none"> We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements and to assess the design and implementation of processes and controls in place to facilitate compliance. We assessed the legal entity status of JEN and its RESP affiliate. During our independent audit in connection with the regulatory information templates of JEN prepared under the AERs Regulatory Information Notices (RIN's) for the regulatory year ended 31 December 2019, we tested a sample of Opex and Capex projects undertaken by JEN in 2019 and assessed the nature of services provided. 	<p>The Ovida brand has been established as the brand of JEN's RESP. Separate entities within the broader SGSPAA group structure are established for JEN to provide regulated electricity distribution services and Ovida Pty Ltd (Ovida) for contestable electricity services.</p> <p>We performed an ABN search noting that JEN is an Australian Company located in Victoria, Australia.</p> <p>We performed an ABN search noting that Ovida is an Australian Company located in Victoria, Australia.</p> <p>From our testing of the samples selected for Opex and Capex projects, we did not identify any evidence of JEN providing "other services" which are restricted in the guideline.</p>
3.2.1 Separate Accounts 3.2.2 Cost Allocation	<ul style="list-style-type: none"> Electricity Ring Fencing Compliance Manual Jemena Code of Conduct Contracting and Procurement Entity Procedure Time writing business rules and activity list codes Transaction Report 	<ul style="list-style-type: none"> We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements and to assess the design and implementation of processes and controls in place to facilitate compliance. We obtained a copy of the transaction reports (a listing of all transactions from the Enterprise Resource Planning (SAP) System) between JEN and affiliated entities for the regulatory year ended 31 December 2019 and performed the following: <ul style="list-style-type: none"> agreed total transaction values and outstanding balances at year end per entity to JEN's audited trial balance as at and for the 12 months ended 31 December 2019; and 	<p>In 2020 we issued unqualified audit reports (reasonable assurance) for the year ended 31 December 2019 in connection with financial statement audits of:</p> <ul style="list-style-type: none"> SGSPAA group – audit report issued on 26 March 2020 JEN – audit report issued on 27 April 2020 <p>On 27 April 2020 we issued unqualified audit reports (reasonable and limited assurance scopes) for the year ended 31 December 2019 in connection with the</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
3 Prevention of cross subsidies			
	<ul style="list-style-type: none"> Financial statement preparation and audit Asset Management Strategy Financial statement preparation and audit 	<ul style="list-style-type: none"> compared the description of the transactions against the respective trial balance accounts for accuracy and our knowledge of the entities and the nature of the services they provide. KPMG are the independent auditors in connection with the financial statement audits of both the SGSPAA Group and JEN as well as the regulatory information templates of JEN prepared under the AERs Regulatory Information Notices (RIN's) for the regulatory year ended 31 December 2019. <p>We considered the appropriateness of the SGSPAA Cost Allocation Methodology and JEN AER Approved CAM (CAMs) as part of these audit engagements. Our procedures included performing a number of control and substantive based procedures including:</p> <ul style="list-style-type: none"> Performing walkthroughs and testing key controls for processes and activities related to cost allocation in accordance with both the SGSPAA and JEN CAMs such as cost capture and allocation principles, time writing to projects and activities, creation of purchase orders, invoice processing and payments; comparing cost and project allocation mapping used by JEN for cost allocation to AER definitions provided in the RIN; Testing general IT controls over the SGSPAA SAP ERP system, as well as IT automated controls for processes related to access restrictions to create / edit project codes; and <ul style="list-style-type: none"> For a sample of costs incurred, agreeing to supporting documentation and invoices. 	<p>regulatory templates required under Regulatory Information Notices issued by the AER to JEN.</p> <p>In conducting our procedures above and specifically in relation to ring-fencing compliance we noted the following:</p> <p>JEN Services agreement with affiliated entities (Jemena Asset Management and Zinfra)</p> <p>The existence of formal contracts between JEN and its affiliates is a key control in facilitating legal and accounting separation. The Jemena Electricity Services Agreement ("JESA") was executed between two related affiliates of JEN being Jemena Asset Management Pty Ltd ("JAM") and Zinfra Pty Ltd ("Zinfra") in December 2018. Under this agreement Zinfra provides operating and maintenance services to JEN, which were previously performed by JAM.</p> <p>We understand management intended that the 12 months to 31 December 2019 be a transitional period which allowed for a 'true up' mechanism which gave effect to the continuation of the previous contract pricing terms agreed with JEN. Then from 1 January 2020, new pricing mechanisms set out in the contract were to be applied. Whilst a 'true up' was referred to in the JESA contract, the true up is not defined and there is no documented explanation of how any adjustment to contract pricing mechanisms should be applied. As the new pricing mechanism are now in effect, no action in relation to the contract terms is required by management and we understand no further contract variations are anticipated at this time. Management should ensure that it is reinforced with</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
3 Prevention of cross subsidies			
			<p>applicable teams that affiliate contracts contain appropriate documentation of such arrangements.</p> <p>Zinfra affiliate RESP status</p> <p>As stated in Table B1–1 of JEN’s compliance report, in the regulatory year ended 31 December 2019, management implemented preventive controls to review and monitor Zinfra’s status as an affiliate RESP, noting that Zinfra does not currently provide contestable electricity services.</p> <p>This includes JEN’s Regulatory Compliance Manager being invited to attend Zinfra’s fortnightly Commercial Review Committee meetings and receive related committee papers. The Regulatory Compliance Manager reviews these papers to assess whether any bid being considered might ultimately lead to Zinfra providing services that would make it become a RESP.</p> <p>We consider this to be an effective control in the short term, however it is time intensive and reliant on a single contact point in the regulatory team. We have made recommendations to management around developing policies/procedures which establish clear guidelines and accountabilities for assessing project being undertaken by Zinfra. Whilst some oversight from the regulatory team should continue, a checklist or other guideline could be implemented that would mean this process could be streamlined. Refer Appendix B for details of recommendations.</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
4 Functional Separation			
4.1b Obligation to not discriminate	<ul style="list-style-type: none"> • Electricity Ring Fencing Compliance Manual • Jemena Code of Conduct • Contractor Management Procedure • Asset Management Strategy • Scheduling Principles within Guidelines • Procurement Policy • Annual Compliance Training 	<ul style="list-style-type: none"> • We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements and to assess the design and implementation of processes and controls in place to facilitate compliance. • We obtained the online Ring-fencing training module prepared by JEN to ascertain whether it accurately described JEN's obligation to not discriminate. • We inspected training completion records for the period from 1 January to 31 December 2019. • To assess the new face to face training implemented by management: <ul style="list-style-type: none"> • We obtained the agenda and training slides of the face to face Ring-fencing training module prepared by JEN to ascertain whether it accurately described JEN's Ring-fencing obligations; • We assessed management's determination of high compliance risk teams which were provided the face-to-face training; and • For a sample of employees, we inspected attendance records to evidence training completion records. • We inspected a sample of contracts entered into by JEN to verify that appropriate clauses were set out to include clear obligations associated with non-discrimination obligations. 	<p>Annual Compliance Training</p> <p>In prior periods the Jemena Group policy required completion of an online training module by all employees.</p> <p>As stated in Table B1-1 of JEN's compliance report, in the regulatory year ended 31 December 2019, management implemented targeted face to face Ring-fencing training sessions aimed at teams with a higher risk of non-compliance with the ring-fencing obligations. In this respect we note from our procedures performed that:</p> <ul style="list-style-type: none"> • Our comparison of the online and face to face training materials showed the later incorporated practical examples to facilitate understanding, and we consider the face to face delivery a more effective means of facilitating learning. • The targeted teams identified by management to receive the face to face training are appropriate based on our understanding of the group structure and roles of those team members. This is extended to Zinfra personnel who are part of the JEN operations team within the Zinfra business. <p>Management have advised that in February 2020, the JEN designated staff at Zinfra were also trained on Ring-fencing requirements.</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
4 Functional Separation			
			<p>With the introduction of the targeted training to key individuals, completion of the online training was no longer enforced. Our audit procedures identified that:</p> <ul style="list-style-type: none"> • 97 out of 144 employees identified by management as staff requiring face to face training had completed the training as at 31 December 2019; • Management have advised that additional sessions have been run in January / February 2020 for those that had not yet attended. We note that 15 employees who had not completed the training as at 31 December 2019, attended these sessions; and • 525 out of a total of 1,149 employees had completed the online Ring-fencing training during the period. <p>Management have advised that they intend to revise the online training approach in 2020 by:</p> <ul style="list-style-type: none"> • Introducing interactive video based training methods; • Implementing training sessions for different employee groups as follows: <ul style="list-style-type: none"> • General Ring-fencing training for all SGSPAA employees • Specific training for JEN Designated employees



Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
4 Functional Separation			
			<ul style="list-style-type: none"> • Specific training for Ovida employees • Specific training for Zinfra employees <p>These trainings will be supplemented by the targeted face to face training sessions.</p> <p>We have made some recommendations for management to consider as they bed down this new training program. Refer Appendix B for recommendations.</p>
4.2.1a Physical separation / co-location	<ul style="list-style-type: none"> • Electricity Ring Fencing Compliance Manual • Jemena Code of Conduct • Annual Compliance Training • Physical separation 	<ul style="list-style-type: none"> • We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements and to assess the design and implementation of processes and controls in place to facilitate compliance. • As outlined in section 2.4 of JEN’s Annual Compliance Report management identified and reported a material breach with respect to Clause 4.2.1a to the AER on 21 November 2019. We understand from management that there have been 2 further non-material breaches of Physical separation requirements : <ul style="list-style-type: none"> • February 2020: one JEN designated employee was identified working from an unsecure location accessible to Ovida employees. This breach was identified by JEN and notified to the AER. • March 2020: an Ovida new starter had access to JEN designated areas. Management noted this breach was not material as the RESP staff member was in the office only to collect his pass and given social distancing restrictions 	<p>Physical separation</p> <p>During the year ended 31 December 2019 implementation of the group’s operational excellence program of work saw a heightened level of change in roles, responsibilities and physical location for employees. We consider that this was a contributor to the material breaches identified by JEN during the period. As set out in Table B1-1 of JEN’s compliance report, management undertook a review of space available in JEN designated areas as an additional activity in the regulatory year ended 31 December 2019.</p> <p>Based on our procedures performed we note the following:</p> <ul style="list-style-type: none"> • Under the current process, Ovida new starters are required to be manually tagged as ‘Ring-fenced’ by their line managers in a form which is then sent to IT and Facilities management to restrict their access to JEN designated areas and information systems. The manual nature of this control which is subject to human error was identified by



Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
4 Functional Separation			
		<p>due to COVID-19 was subsequently working from home. This breach was identified by JEN and notified to the AER.</p> <ul style="list-style-type: none"> • Given multiple breaches identified by JEN in 2019 and 2020, KPMG extended our testing in this area. This included: <ul style="list-style-type: none"> • observing physical separation arrangements of personnel involved in provision direct control services (including offices spaces and dedicated meeting rooms); • considering guidance issued by the AER and correspondence between the AER and JEN in relation to physical separation and particularly the use of shared facilities such as kitchen and common areas. We assessed whether this was consistent with our understanding of the protocols in place at JEN and our observations when on site at Jemena; • selecting a sample of Ovida employees and confirming they could not access the workspaces of JEN's dedicated staff; and • testing of all new starters in Ovida, to assess the date which they had their access restricted to JEN designated areas. 	<p>management as the root-cause of the breaches identified in the year.</p> <ul style="list-style-type: none"> • During our testing of Ovida's new starters we note that JEN could not provide any documentation or evidence to confirm when the physical access was restricted for 1 employee who commenced employment in the regulatory year ended 31 December 2019. We understand from management that this was due to system limitations. <p>As a further preventive control, the JEN Regulatory Compliance Manager is directly advised of any recruitment of roles or planned secondments / transfers impacting Ovida. He then follows up with relevant teams to ensure Physical separation and Information security guidelines are implemented. However as this process still relies heavily on manual intervention, it is prone to error particularly around communications when staff are on sick leave and/or working remotely.</p> <p>Given the number of breaches identified, we have made further recommendations to management to enhance physical separation controls. Refer Appendix B for recommendations.</p> <p>Annual Compliance Training</p> <p>Refer to section 4.1b above for procedures performed, observations and findings on the Annual Compliance training.</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
4 Functional Separation			
4.2.2a Staff sharing	<ul style="list-style-type: none"> • Electricity Ring Fencing Compliance Manual • Jemena Code of Conduct • Annual Compliance Training • Organisation Framework Design and associated assessment templates • Secondment Guideline • Scheduling Principles within Guidelines • Accountability Model and End to End Processes • Incentive plans 	<ul style="list-style-type: none"> • We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements and to assess the design and implementation of processes and controls in place to facilitate compliance. • We assessed whether incentive plans applicable to JEN staff created an incentive to contravene the obligations of the Guidelines by: <ul style="list-style-type: none"> • reading the terms of incentive plans; • analysing management’s interpretation of the guideline requirements and criteria used to assess whether the incentive plans would directly incentivise JEN staff to contravene the guidelines; and • Understanding and testing management’s control activities, including annual review of the incentive plans by internal Legal Counsel and the Regulatory Compliance Manager • We obtained a list of secondments from JEN to Ovida in order to obtain evidence to confirm whether staff sharing and information access and disclosure guidelines were followed. • We inspected <ul style="list-style-type: none"> • Accountability Model • Construction Process Handbook • Customer Metering Billing • Faults and Emergency Process 	<p>Annual Compliance Training</p> <p>Refer to section 4.1b above for procedures performed, observations and findings on the Annual Compliance training.</p> <p>Secondments</p> <p>We observed that there were no secondments in the year ended 31 December 2019 to Ovida.</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
4 Functional Separation			
		<ul style="list-style-type: none"> Maintenance Process <p>to review appropriateness of staff roles and responsibilities and ensure compliance with staff sharing restrictions as per the Ring-fencing guidelines.</p>	
4.2.2a Staff sharing	<ul style="list-style-type: none"> Electricity Ring Fencing Compliance Manual Jemena Code of Conduct Annual Compliance Training Organisation Framework Design and associated assessment templates Secondment Guideline Scheduling Principles within Guidelines Accountability Model and End to End Processes Incentive plans 	<ul style="list-style-type: none"> We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements and to assess the design and implementation of processes and controls in place to facilitate compliance. We assessed whether incentive plans applicable to JEN staff created an incentive to contravene the obligations of the Guidelines by: <ul style="list-style-type: none"> reading the terms of incentive plans; analysing management’s interpretation of the guideline requirements and criteria used to assess whether the incentive plans would directly incentivise JEN staff to contravene the guidelines; and Understanding and testing management’s control activities, including annual review of the incentive plans by internal Legal Counsel and the Regulatory Compliance Manager 	<p>Annual Compliance Training</p> <p>Refer to section 4.1b above for procedures performed, observations and findings on the Annual Compliance training.</p> <p>Secondments</p> <p>We observed that there were no secondments in the year ended 31 December 2019 to Ovida.</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
4 Functional Separation			
		<ul style="list-style-type: none"> • We obtained a list of secondments from JEN to Ovida in order to obtain evidence to confirm whether staff sharing and information access and disclosure guidelines were followed. • We inspected <ul style="list-style-type: none"> • Accountability Model • Construction Process Handbook • Customer Metering Billing • Faults and Emergency Process • Maintenance Process <p>to review appropriateness of staff roles and responsibilities and ensure compliance with staff sharing restrictions as per the Ring-fencing guidelines.</p>	
4.2.3 Branding and cross-promotion	<ul style="list-style-type: none"> • Electricity Ring Fencing Compliance Manual • Jemena Code of Conduct • Annual Compliance Training • Fleet Asset Class Strategy • Asset Management Strategy • Checklist for publishing content on internet and intranet 	<ul style="list-style-type: none"> • We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements and to assess the design and implementation of processes and controls in place to facilitate compliance. • We assessed JEN's branding and promotion protocols to determine whether they were in compliance with the Ring-fencing Guideline including: <ul style="list-style-type: none"> • Accessing JEN's and Ovida's websites to identify any cross advertisement; and • Considering whether during the course of our financial statement and regulatory audits of the SGSPAA group and 	<p>Brand separation</p> <p>As stated in Table B1-1 of JEN's compliance report, in the regulatory year ended 31 December 2019, management implemented a business card review process.</p> <p>We enquired with management to confirm that there are no dual branded vehicles and offices and Ovida does not utilize a fleet.</p> <p>Through the course of our financial statement and regulatory audits of the SGSPAA group and JEN we did not identify instances of cross-branding or promotion e.g. on invoices sampled as part of our testing, emails correspondence received, contracts inspected.</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
4 Functional Separation			
	<ul style="list-style-type: none"> Brand separation 	<p>JEN whether we had identified any cross advertisement or promotion.</p> <ul style="list-style-type: none"> To assess the Business card review process implemented by management as set out in Appendix B to JEN compliance report: <ul style="list-style-type: none"> We inspected the intranet portal used to order business cards to assess the appropriateness of the Ring-fencing warning; On a sample basis, inspected the review performed by management; For the sample selected, sighted evidence to confirm the review was implemented. We understand from management, that a non-material breach of co-branding requirements was noted in February 2020 when one employee emailed an Ovida promotion using their Jemena email account. This breach was identified by JEN and notified to the AER. The breach and the identified root cause have influenced our risk assessment of JEN's compliance activities and we have subsequently enhanced our testing for the Annual Compliance Training (refer section 4.1b). 	<p>Annual Compliance Training</p> <p>Refer to section 4.1b above for procedures performed, observations and findings on the Annual Compliance training.</p>
<p>4.2.4 Office and staff registers</p>	<ul style="list-style-type: none"> Electricity Ring Fencing Compliance Manual Jemena Code of Conduct Staff register Office register 	<ul style="list-style-type: none"> We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements and to assess the design and implementation of processes and controls in place to facilitate compliance. We obtained a copy of the staff sharing register from JEN's website and checked that they were prepared accurately based on our knowledge of Jemena and the nature of the roles. 	<p>Staff register</p> <p>As stated in Table B1-1 of JEN's compliance report, in the regulatory year ended 31 December 2019, management reviewed the staff sharing register in November 2019 after the implementation of the Group's operational excellence program of work (OEP) which resulted in a several staff and position changes and movements in 2019. While tranche 1 of the OEP</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
4 Functional Separation			
		<p>This included assessing the accuracy of descriptions as to the nature of the roles.</p> <ul style="list-style-type: none"> We assessed JEN's process for reviewing and updating the staff sharing register. We obtained a copy of the office register from JEN's website and checked that they were prepared accurately based on our knowledge of JEN. We assessed JEN's process for reviewing and updating the office register. 	<p>was implemented from January to June, resulted in no major changes to staff roles, the new operating structure was from implemented effective July 2019. Post this management reviewed the staff register in November 2019 to capture the changes from July 2019 through to October 2019. A further update to the staff register was then completed in February 2020.</p> <p>We understand based on discussion with management that the process to update the register spanned a number of months as the OEP was bedded down, roles were filled progressively, role descriptions better defined and interviews were undertaken with relevant staff to understand whether there was any impact on the staff register from a ring fencing perspective. We have made some recommendations to management to enhance this process going forward and improve visibility on the website as to when the staff register is reviewed and updated and ensure it occurs on a timely basis. Refer Appendix B for recommendations.</p>
4.3 Information access and disclosure	<ul style="list-style-type: none"> Electricity Ring Fencing Compliance Manual Jemena Code of Conduct Annual Compliance Training Secondment Guideline JEN Electricity Confidential Guideline 	<ul style="list-style-type: none"> We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements and to assess the design and implementation of processes and controls in place to facilitate compliance. We assessed JEN's overall approach to restricting access to confidential information through: <ul style="list-style-type: none"> making inquiries of management including the Regulatory Compliance Manager; and 	<p>JEN Information Sharing protocol</p> <p>We observed that there were no information sharing requests in the 2019 regulatory year.</p> <p>Compliance Manual</p> <p>We note that JEN's policy requires IT service request from the RESP staff to be approved by appropriately authorized individuals. From our testing we identified:</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
4 Functional Separation			
	<ul style="list-style-type: none"> • JEN Information Sharing protocol • Physical Separation • Checklist for publishing content on internet and intranet 	<ul style="list-style-type: none"> • Testing General IT Controls in place within the SAP system to prevent system access to JEN Confidential Information by RESP staff. • Given multiple breaches (in 2019 and 2020), including a material breach identified by JEN in the regulatory year ended 31 December 2019 in relation to Information Access (refer section 2.4 of JENs compliance report for further details), KPMG extended our testing in this area. This included: <ul style="list-style-type: none"> • Selecting a sample of Ovida staff and testing if they could access confidential information in SAP and shared directories. • Selecting a sample of new starters in Ovida and testing when their access was restricted in SAP and shared directories. • Assessing the improvement activities implemented by JEN in 2019, including: <ul style="list-style-type: none"> • ECMS Access review • Physical and IT access control framework • We checked that the information sharing register was accessible on JEN's website and that it was consistent with our observations and inquiries. • We tested a sample of IT service requests raised by the RESP staff throughout the year and assessed: <ul style="list-style-type: none"> • whether they were appropriately authorised personnel in accordance with the compliance manual 	<ul style="list-style-type: none"> • Two instances of requests raised by Ovida staff that were not approved by authorised individuals before processing; and • Two instances of IT service requests raised by staff being processed without approvals as they were not appropriately tagged as 'Ring-fenced' until after raising the service request due to the time lag in the employee joining and being tagged as 'Ring-fenced'. <p>We note that the above instances did not constitute a breach of the guidelines as the nature of the IT service requests was not in contradiction to the Ring-fencing guidelines. However it highlights gaps in existing controls.</p> <p>ECMS Access and IT access review</p> <p>As stated in Table B1-1 of JEN's compliance report, in the regulatory year ended 31 December 2019, JEN implemented the following new 'hypercare' controls, which will address the deficiencies identified above:</p> <ul style="list-style-type: none"> • review of Ovida representative access to a key repository of JEN customer and network information (Jemena's Enterprise Content Management System (ECMS) to confirm access restricted; • Regulatory Compliance Team review and approval of all IT system requests made by employees that are tagged by IT as holding Ovida roles; and



Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
4 Functional Separation			
		<ul style="list-style-type: none"> the nature of the service request was not contradictory to the guideline obligations Refer to section 4.2.3 above for procedures performed, on the Checklist for publishing content on the internet and intranet. Refer to section 4.2.2a above for procedures performed on Secondments. 	<ul style="list-style-type: none"> Regulatory Compliance Manager review and approval of all internal staff transfers between Jemena and Zinfra. <p>We saw evidence of this compliance monitoring activity. We have made some additional recommendations for management to consider as they bed down these new monitoring activities, refer Appendix B.</p> <p>Annual Compliance Training</p> <p>Refer to section 4.1b above for procedures performed, observations and findings on the Annual Compliance training.</p>
4.4.1 Service providers conduct	<ul style="list-style-type: none"> Electricity Ring Fencing Compliance Manual Jemena Code of Conduct Contractor Management Procedure 	<ul style="list-style-type: none"> We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements and to assess the design and implementation of processes and controls in place to facilitate compliance. We reviewed a sample of contracts entered into by JEN to assess their compliance with the Contractor Management Procedure. 	<p>Refer to section 4.1b above for procedures performed, observations and findings on the Compliance training for Zinfra.</p> <p>Refer Appendix B for recommendations on training for Service providers. No other findings noted.</p>

Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
5 Waivers			



Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
5.7 Waiver	<ul style="list-style-type: none"> • Electricity Ring Fencing Compliance Manual • Jemena Code of Conduct • Waiver register 	<ul style="list-style-type: none"> • We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements and to assess the design and implementation of processes and controls in place to facilitate compliance • We considered the completeness of JEN's unregulated activities for which waivers are required having regard to our knowledge obtained as part of our audit of JEN's financial statements and regulatory reporting templates. • We accessed JEN's external website and sighted that the waiver register was publically available. • We obtained and inspected copies of waivers applicable operation during the compliance period. The register was then considered as to whether all appropriate detail was included. 	No findings noted.

6 Compliance and enforcement



Compliance requirement	Management Controls and information provided	Procedures performed	Observations / findings
<p>6.Compliance</p>	<ul style="list-style-type: none"> Electricity Ring Fencing Compliance Manual Jemena Code of Conduct Compliance Reporting 	<ul style="list-style-type: none"> We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements and to assess the design and implementation of processes and controls in place to facilitate compliance We obtained and inspected the internal documents relating to JEN’s compliance with the Ring-fencing Guideline including JEN’s Annual Compliance Report and considered it as part of preparing this independent assurance report. We considered the adequacy of JEN’s breach management and reporting policies and procedures. We inspected correspondence with the AER to confirm that material breaches were notified to the AER within 5 business days of the breach being identified as required by section 6.3 of the ring-fencing guideline. During the course of our financial statement and regulatory audits of the SGSPAA group and JEN we attended all quarterly SGSPAA Audit and Compliance Committee meetings and verified that compliance matters were regularly raised to the attention of the committee and received due consideration including the specific breaches that were identified in relation to the Ring-fencing guidelines. 	<p>Breach reporting</p> <p>For the material breaches identified in the regulatory year 2019:</p> <ul style="list-style-type: none"> Clause 4.3.3 (Protection of Confidential Information) – reported on 5 November 2019 was reported to the AER in 5 business days after the breach was identified. Clause 4.2.1 (Physical Separation) – reported on 21 November 2019 was reported to the AER in 5 business days after the breach was identified. <p>We note that the non-material breaches identified by JEN in the regulatory year 2019 and in 2020 were reported to the AER.</p> <p>Refer Appendix B for recommendations.</p>



Appendix B - Summary of performance improvement observations

In this section, we present additional details on performance improvement observations in relation JEN’s compliance activities for the regulatory year ended 31 December 2019. This information has been provided at the request of the AER.

This information should not be construed as providing an opinion or conclusion on the separate compliance activities noted, nor that the aggregation thereof modifies our opinion or conclusion reported in the Independent Reasonable Assurance Report.

S. No	Recommendation	Management’s responses
1	<p>Overall monitoring of compliance</p> <p>We note that as set out in Appendix B of JEN’s compliance report, management have undertaken a number of compliance improvement activities during the year and we observed that ad-hoc compliance testing was performed by the Regulatory Compliance Manager. Management has not however as yet prepared an annual compliance testing plan for testing the operating effectiveness of the key controls throughout the year. Implementing such a process will assist management in ensuring that compliance is monitored on a timely basis, as well as providing evidence of compliance in future periods.</p> <p>Some examples of testing that management could perform include:</p> <ul style="list-style-type: none"> • Testing a sample of RESP staff’s access restrictions during the year; • Testing a sample of IT service requests raised throughout the year to ensure appropriate authorisation procedures were followed; and • Testing a sample of cost allocation amounts during the year, to ensure that the appropriate allocation policies are followed. <p>We recommend management prepare a formal compliance testing plan which will cover the key controls and ensure requirements of the compliance manual are being monitored on a timely basis.</p>	<p>By August 2020 Management will embed an annual compliance testing plan within its Jemena Compliance and Risk System to further support ongoing ring-fencing compliance.</p>



S. No	Recommendation	Management's responses
2	<p>Zinfra affiliate RESP status</p> <p>While management has implemented controls to monitor Zinfra's activities on an ongoing basis (see Appendix A section 3.2.1 above for details), we recommend management:</p> <ul style="list-style-type: none"> • Explore opportunities to implement an "Early warning control" by training key Zinfra personnel on Ring-fencing requirements in order to identify any potential activities that could impact Zinfra's status; and • Formalise a long-term sustainable policy that clearly articulates the accountabilities and responsibilities of Zinfra's and JEN's management to monitor compliance. 	<p>By July 2020 Management will review options to revise how it monitors Zinfra's status as an affiliate. This may involve establishing a "by exception" approach to testing Zinfra contracts.</p>
3	<p>Annual Compliance Training</p> <p>Management has advised of changes to the Annual Compliance training approach through introduction of more interactive video based content, supplemented by face to face training for high risk staff (see Appendix A section 4.1b above for details). As part of this program we recommend management:</p> <ul style="list-style-type: none"> • Ensure the compliance manual is updated to reflect the new suite of trainings and appropriately describe the type of training required of various employee groups; • Ensure that all SGSPAA staff undergo Ring-fencing training in some form to ensure widespread deployment; • Clearly articulate the accountabilities, responsibilities and monitoring activities to ensure compliance in future compliance periods; • Continue to re-assess high risk staff who need to complete the face to face training risk of breaches; and • Explore opportunities to provide remote training sessions given the social distancing restrictions due to COVID-19. 	<p>Management will implement all recommendations by September 2020.</p>



S. No	Recommendation	Management's responses
4	<p>Physical separation</p> <p>As set out in Appendix A section 4.2.1a, the current process followed by management to restrict access to JEN designated areas for Ovida employees is reliant on manual intervention by the relevant line manager, or detailed oversight by the Regulatory Compliance Manager. We understand that management is exploring opportunities to deploy identity management software to automate the process of physical access restriction rather than relying on manual tagging which will provide a strong control environment. We recommend management ensure that such a system covers new starters, transfers and secondees.</p> <p>While the above represents a long term solution, in the meantime we recommend management:</p> <ul style="list-style-type: none"> • reinforce the current process with key personnel in the process to ensure they are aware of their responsibilities; • document appropriate procedures which can be followed in the event that staff are on leave or absent; and • maintain evidence of reviews undertaken to facilitate monitoring of compliance. This could include evidence of regular review of access reports or evidence of Reconciling HR records to Physical access records on a regular basis. 	<p>Management will implement all recommendations by September 2020.</p>
5	<p>Staff register</p> <p>We acknowledge that management's process to update the staff register in 2019 spanned a number of months as the SGSPAA OEP was implemented (see Appendix A section 4.2.4 above for details), however we recommend management:</p> <ul style="list-style-type: none"> • Document a policy that clearly articulates the accountabilities and responsibilities of individuals responsible for updating the staff register supplemented by expected timeframes within which such updates should be made; and • Improve transparency by clearly showing on the website as to when the staff register is reviewed and updated. 	<p>Management will implement all recommendations by September 2020.</p>



S. No	Recommendation	Management's responses
6	<p>Information access and disclosure</p> <p>Similar to the current process for physical separation, information access for Ovida new starter's needs to be manually revoked which requires effective implementation by line managers, IT staff and other stakeholders (see Appendix A section 4.3 above for details). We understand that management is exploring opportunities to deploy identity management software to automate the process of information access restriction rather than relying on manual tagging which will provide a strong control environment. We support the implementation of an automated solution that removes risk of manual error and covers new starters, transfers and secondees.</p> <p>While the above represents a long term solution, in the meantime we recommend management increase the frequency of ECMS Access and information access review implemented as part of the short-term hypercare measures.</p>	<p>Management will review ECMS access for Ovida roles at least every 6 months. The ECMS access of any new starters into Ovida roles will be proactively managed via hypercare measures.</p>
7	<p>Service providers conduct</p> <p>As noted in Appendix A Section 4.4.1, management confirmed that compliance training is also provided to the leadership of the JEN Operations Team at Zinfra and the JEN designated staff at Zinfra. We recommend management formalise training plans for Zinfra employees as part of the compliance manual updates on Annual Compliance Training.</p>	<p>Management intends to implement specific annual training for JEN Designated staff (including Zinfra staff as relevant) by September 2020.</p>