



# Independent Reasonable Assurance Report

To the Directors of Jemena Electricity Networks (Vic) Ltd

## Conclusion

In our opinion, Jemena Electricity Networks (Vic) Ltd's (JEN) Statement of Compliance that the entity has, with the exception of the breach identified and reported to the Australian Energy Regulator ("AER"), complied with the Ring-fencing Guidelines published by the AER on 17 October 2017 ("Ring-fencing Guidelines") is, in all material respects, fairly presented for the period 1 January 2021 to 2 February 2022 ("regulatory period").

### Emphasis of Matter – Breach of Ring-fencing Guidelines

Without qualifying our conclusion, we draw attention to section 2.4 of JEN's Electricity Ring-fencing Annual Compliance Report ("Annual Compliance Report"), which describes the breach identified in the regulatory period ended 2 February 2022.

#### *Breach of Clause 4.3.2 of the Ring-fencing Guidelines – Protection of Confidential Information*

The Ring-fencing Guidelines require that JEN keep confidential information confidential. JEN identified and notified the AER that confidential electricity information was shared via email from a JEN employee to a Related Electricity Service Provider (RESP) employee as part of an employment role handover. Access logs indicated that the RESP employee had not accessed the attachment containing confidential electricity information shared via email.

## Information subject to Assurance

The information subject to assurance is JEN's Statement of Compliance for the regulatory period 1 January 2021 to 2 February 2022, as set out in section 1 of JEN's Annual Compliance Report prepared in accordance with the Ring-fencing Guidelines published by the 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 the breach identified and reported to the AER, complied with the Ring-fencing Guidelines published by the AER on 17 October 2017 is, in all material respects, fairly presented for the regulatory period 1 January 2021 to 2 February 2022. 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 that the entity has, with the exception of the breach identified and reported to the AER, complied with the Ring-fencing Guidelines;



- 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's 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 period 1 January 2021 to 2 February 2022 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 JEN's 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 regulatory period 1 January 2021 to 2 February 2022 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 (including Independence Standards)* 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

Gordon Sangster  
*Partner*  
Melbourne  
27 April 2022



## 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 of JEN’s compliance activities with the relevant requirements of the Ring-fencing Guideline (version 2) for the period 1 January 2021 to 2 February 2022 (regulatory period).

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:
  - Reviewed changes to the Compliance Manual made by management during the period 1 January 2021 to 2 February 2022 (regulatory period); 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, and where relevant, improvement actions implemented by management during the current regulatory period. 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
  - Asset Management Strategy
  - Contractor Management Procedure
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’s (“RESP”) related transactions and risks of non-compliance with the Ring-fencing guidelines.



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   |
|--|--|---|---|
| <b>3 Prevention of cross subsidies</b>   |  |   |   |
| <b>3.1<br/>Legal<br/>Separation</b>  | <ul style="list-style-type: none"> <li>Electricity Ring Fencing Compliance Manual</li> <li>Jemena Code of Conduct</li> <li>Organisation Framework Design and associated assessment templates</li> <li>Contracting and Procurement Entity Procedure</li> <li>JEN is established as a separate registered Australian Business with a distinct ABN</li> </ul> | <ul style="list-style-type: none"> <li>We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements. We assessed the design and implementation of processes and controls in place to facilitate compliance.</li> <li>We assessed the legal entity status of JEN and RESP affiliate (Ovida).</li> <li>During our independent audit in connection with the regulatory information templates of JEN prepared under the AER's Regulatory Information Notices (RINs) for the 12-month period ended 30 June 2021, we tested a sample of Opex and Capex projects undertaken by JEN and assessed the nature of services provided.</li> </ul>   | <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> |
| <b>3 Prevention of cross subsidies</b>   |  |   |   |
| <b>3.2.1<br/>Separate<br/>Accounts</b><br><br><b>3.2.2<br/>Cost<br/>Allocation</b> | <ul style="list-style-type: none"> <li>Electricity Ring Fencing Compliance Manual</li> <li>Jemena Code of Conduct</li> <li>Contracting and Procurement Entity Procedure</li> <li>Time writing business rules and activity list codes</li> <li>Transaction Report</li> <li>Financial statement preparation and audit</li> <li>Asset Management</li> </ul>   | <ul style="list-style-type: none"> <li>We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements. We assessed the design and implementation of processes and controls in place to facilitate compliance.</li> <li>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 period 1 January 2021 to 31 January 2022 and performed the following: <ul style="list-style-type: none"> <li>agreed total transaction values and outstanding balances per entity to JEN's trial balance as at and for the period 1 January 2021 to 31 January 2022; and</li> <li>compared the description of the transactions against the</li> </ul> </li> </ul> | <p>On 24 March 2022, we issued an unqualified audit report (reasonable assurance) for the 12-month period ended 31 December 2021 in connection with the financial statement audit of the SGSPAA Group.</p> <p>On 27 October 2021, we issued unqualified audit reports (reasonable and limited assurance scopes) for the 12-month period ended 30 June 2021, in connection with our audits of the JEN Electricity Distribution RINs.</p>   |



| Compliance requirement | Management Controls and information provided  | Procedures performed  | Observations / findings  |
|------------------------|---|---|--|
|                        | <p>Strategy</p> <ul style="list-style-type: none"> <li>Financial statement preparation and audit</li> </ul> | <p>respective trial balance accounts for accuracy and based on our knowledge of the entities and the nature of the services they provide.</p> <ul style="list-style-type: none"> <li>We inquired of management and obtained an understanding of the improvement activities implemented in relation to Zinfra’s affiliate status, including bi-annual reviews of Zinfra proposals for the provision of contestable electricity services.</li> <li>KPMG are the independent auditors in connection with the: <ul style="list-style-type: none"> <li>financial statement audit of the SGSPAA Group for the 12-month period ended 31 December 2021; and</li> <li>Regulatory information templates of JEN prepared under the AER’s Regulatory Information Notices (RINs) for the 12-month period ended 30 June 2021.</li> </ul> </li> <li>We considered the appropriateness of the SGSPAA Cost Allocation Methodology (CAM) and JEN AER Approved CAM as part of these audit engagements. Our procedures included: <ul style="list-style-type: none"> <li>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;</li> <li>comparing cost and project allocation mapping used by JEN for cost allocation to AER definitions provided in the RIN;</li> <li>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</li> <li>For a sample of costs incurred, agreeing to supporting documentation and invoices.</li> </ul> </li> </ul> | <p><b>Zinfra affiliate RESP status</b></p> <p>We observed that management’s review of Zinfra proposals did not identify any instances of Zinfra providing contestable electricity services. We noted from inquiries that management were in the process of developing a guideline for ring-fencing compliance for Zinfra. Refer to Appendix B-2 for a recommendation raised.</p> |

| Compliance requirement                        | Management Controls and information provided   | Procedures performed  | Observations / findings  |
|---|--|---|--|
| <b>4 Functional Separation</b>                |  |   |  |
| <b>4.1<br/>Obligation to not discriminate</b> | <ul style="list-style-type: none"> <li>Electricity Ring Fencing Compliance Manual</li> <li>Jemena Code of Conduct</li> <li>Asset Management Strategy</li> <li>Non-discrimination Principles</li> <li>Procurement Policy</li> <li>Annual Compliance Training</li> </ul> | <ul style="list-style-type: none"> <li>We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements. We assessed the design and implementation of processes and controls in place to facilitate compliance.</li> <li>We obtained an understanding of the improvement activities implemented by management during the current regulatory period related to Annual Compliance training as stated within table B1-1 of the Compliance Report. <ul style="list-style-type: none"> <li>We viewed the three online training modules/videos for all staff, RESP staff and JEN-designated staff, respectively, to ascertain whether it accurately described JEN's Ring-fencing obligations with respect to non-discrimination.</li> <li>We inspected training refresher packs tailored for specific teams including Corporate Affairs, Reception/Facilities, Electricity Markets and Asset Management to ascertain whether ring fencing obligations were clearly articulated and understandable.</li> <li>We assessed management's assessment of SGSPAA teams that were identified as not requiring ring-fencing training.</li> </ul> </li> <li>We inspected training completion records for the period from 1 January 2021 to 2 February 2022 to ascertain the completion rate of ring-fencing training in the regulatory period.</li> <li>We sighted evidence of interactions between the Regulatory Compliance team and various departments within Jemena regarding ring-fencing compliance matters.</li> </ul> | <p>We sighted the Non-discrimination principles implemented by management between Jemena and Zinfra. This was formally accepted by Zinfra in January 2020.</p> <p><b>Annual Compliance Training</b></p> <p>We noted that management identified teams and staff positions involved in work on the Jemena electricity network as requiring the online ring-fencing training.</p> <p>Our inspection and testing of training completion records showed that:</p> <ul style="list-style-type: none"> <li>69% of SGSPAA employees (Jemena and Zinfra employees) assessed by management as requiring ring-fencing training completed online training during the regulatory period;</li> <li>17% of Zinfra employees assessed by management as requiring ring-fencing training completed online training; and</li> <li>Field staff within Zinfra, whilst being identified as requiring training, had not received this training during the regulatory period due to social distancing restrictions preventing in-person training and these employees not having access to a work laptop to undertake the online training.</li> </ul> <p>We have made recommendations to management regarding the training program. Refer to Appendix B-5 and B-10.</p> |

| Compliance requirement           | Management Controls and information provided  | Procedures performed   | Observations / findings  |
|----------------------------------|---|--|--|
| <b>4 Functional Separation</b>   |   |  |  |
| <b>4.2.1 Physical Separation</b> | <ul style="list-style-type: none"> <li>Electricity Ring Fencing Compliance Manual</li> <li>Jemena Code of Conduct</li> <li>Annual Compliance Training</li> <li>Physical separation</li> </ul> | <ul style="list-style-type: none"> <li>We obtained and inspected the information provided by management to ascertain whether it appropriately included ring-fencing requirements. We assessed the design and implementation of processes and controls in place to facilitate compliance.</li> <li>We obtained an understanding of the bi-annual physical access improvement activities implemented by management during the current regulatory period, as stated within table B1-1 of the Compliance Report.</li> <li>We tested a sample of Ovida (RESP) staff to sight whether their building pass denied them access to the JEN designated (secure) area of the Jemena office.</li> <li>We tested all new starters (including internal transfers) into Ovida to assess the date which RESP staff had their access restricted to the JEN designated (secure) area of the Jemena office.</li> <li>We tested a sample of service requests raised in relation to RESP staff throughout the regulatory period and assessed: <ul style="list-style-type: none"> <li>whether they were approved by appropriate personnel;</li> <li>that the nature of the service request was not contradictory to the guideline obligations; and</li> <li>the appropriateness of any change of access request</li> </ul> </li> <li>We inquired of management regarding the Identity Management Software implemented in February 2021, as stated within Table B1-1 of the Compliance report.</li> </ul> | <p><b>Physical separation</b></p> <p>No exceptions were identified based on our testing performed over:</p> <ul style="list-style-type: none"> <li>RESP new starters;</li> <li>physical access restrictions for a sample of RESP staff;</li> <li>IT requests raised to the facilities team; and</li> <li>approvals of internal transfers and IT requests raised in relation to RESP staff.</li> </ul> <p><b>Annual Compliance Training</b></p> <p>We noted that the online ring-fencing modules adequately explained Jemena’s obligations in ensuring physical separation between JEN-designated staff and RESP staff. Refer to section 4.1 above for procedures performed, observations and findings on the Annual Compliance training.</p> |





| Compliance requirement | Management Controls and information provided | Procedures performed   | Observations / findings |
|------------------------|--|--|-------------------------|
|                        |  | <ul style="list-style-type: none"><li>• We tested internal transfers pertaining to Ovida to assess whether the Identity Management Software appropriately generated IT tasks for physical access changes in line with the ring-fencing classification and whether the transfer was approved by the Regulatory Compliance team.</li><li>• We inspected a sample of daily ring-fencing exception reports generated by the Identity Management Software to assess whether monitoring controls were operating effectively.</li></ul> |                         |

| Compliance requirement         | Management Controls and information provided   | Procedures performed   | Observations / findings   |
|--------------------------------|--|--|---|
| <b>4 Functional Separation</b> |  |  |   |
| <b>4.2.2 Staff sharing</b>     | <ul style="list-style-type: none"> <li>Electricity Ring Fencing Compliance Manual</li> <li>Jemena Code of Conduct</li> <li>Annual Compliance Training</li> <li>Organisation Framework Design and associated assessment templates</li> <li>Secondment Guideline</li> <li>Non-discrimination Principles</li> <li>Corporate Incentive plans</li> <li>Asset Management Framework for External Engagement</li> <li>Electricity Markets Guideline</li> </ul> | <ul style="list-style-type: none"> <li>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 also considered the appropriateness of staff roles and responsibilities that ensure compliance with staff sharing restrictions as per the Ring-fencing guidelines.</li> <li>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"> <li>reading the terms of incentive plans;</li> <li>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</li> <li>understanding and assessing management's control activities to review the incentive plan.</li> </ul> </li> <li>We inquired with management to obtain an understanding of the digital workflows control to facilitate intercompany staff transfers between Zinfra and Jemena, and tested a sample of transfers to check whether they were approved by the Regulatory Compliance team.</li> <li>We inquired of management and obtained an understanding of the Identity Management Software implemented in February 2021, as stated within Table B1-1 of the Compliance report.</li> </ul> | <p><b>Annual Compliance Training</b></p> <p>We noted that the online ring-fencing modules adequately explained Jemena's obligations regarding staff sharing between JEN and Ovida.</p> <p>Refer to section 4.1 above for procedures performed, observations and findings on the Annual Compliance training.</p> <p><b>Identity Management Software</b></p> <p>We noted that the identity management software is used to facilitate internal transfers via a workflow, and ring-fencing classifications within the software identifies staff roles that are shared. Refer to section 4.2.1 above for procedures performed.</p> |

| Compliance requirement                    | Management Controls and information provided  | Procedures performed   | Observations / findings  |
|---|---|--|--|
| <b>4 Functional Separation</b>            |   |  |  |
| <b>4.2.3 Branding and Cross Promotion</b> | <ul style="list-style-type: none"> <li>Electricity Ring Fencing Compliance Manual</li> <li>Jemena Code of Conduct</li> <li>Annual Compliance Training</li> <li>Fleet Asset Class Strategy</li> <li>Asset Management Strategy</li> <li>Checklist for publishing content on internet and intranet</li> <li>Asset Management Framework for External Engagement</li> <li>Electricity Markets Guideline</li> <li>Brand separation</li> </ul> | <ul style="list-style-type: none"> <li>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.</li> <li>We assessed JEN's branding and promotion protocols to determine whether they complied with the Ring-fencing Guideline including: <ul style="list-style-type: none"> <li>Accessing JEN's and Ovida's websites to identify any cross advertisement; and</li> <li>Considering whether during the course of our financial statement and regulatory audits of the SGSPAA group and JEN, whether we had identified any cross advertisement or promotion.</li> </ul> </li> </ul> | <p><b>Brand separation</b></p> <p>We did not identify any instances of cross branding or cross advertisement from our review of the websites of Jemena and Ovida. Management advised that there are no dual branded vehicles or offices and Ovida does not utilise 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> <p><b>Annual Compliance Training</b></p> <p>We have assessed annual compliance training and noted that the training adequately explained Jemena's obligations with regards to cross-branding and cross-promotion between Jemena and Ovida.</p> <p>Refer to section 4.1 above for procedures performed, observations and findings on the Annual Compliance training.</p> |



| Compliance requirement                  | Management Controls and information provided  | Procedures performed   | Observations / findings   |
|---|---|--|---|
| <b>4 Functional Separation</b>          |   |  |   |
| <b>4.2.4 Office and staff registers</b> | <ul style="list-style-type: none"> <li>Electricity Ring Fencing Compliance Manual</li> <li>Jemena Code of Conduct</li> <li>Staff register</li> <li>Office register</li> </ul> | <ul style="list-style-type: none"> <li>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.</li> <li>We obtained copies of the staff register that were effective during the regulatory period and inquired with management and assessed the changes made to the shared roles disclosed in the staff register during the regulatory period (as stated in Table B1–1 of JEN’s compliance report).</li> <li>We assessed JEN’s process for reviewing and updating the staff sharing register.</li> <li>We obtained a copy of the office register from Jemena’s website and checked that they were prepared accurately based on our knowledge of JEN.</li> <li>We assessed JEN’s process for reviewing and updating the office register.</li> </ul> | <b>Staff register</b> <ul style="list-style-type: none"> <li>We noted that Jemena’s Human Resources team performed an assessment thrice during the regulatory period, as to whether organisational restructures had taken place or were expected to take place, which could have implications on the staff sharing register.</li> <li>As a result of these reviews, the staff register was updated by the Regulatory Compliance Team in May and October 2021.</li> <li>We noted that the staff register updated in October 2021 had been published on Jemena’s external website.</li> <li>No issues were noted with respect to our sample testing of shared role descriptions in the published staff register.</li> </ul> |

| Compliance requirement                       | Management Controls and information provided   | Procedures performed   | Observations / findings   |
|--|--|--|---|
| <b>4 Functional Separation</b>               |  |  |   |
| <b>4.3 Information access and disclosure</b> | <ul style="list-style-type: none"> <li>Electricity Ring Fencing Compliance Manual</li> <li>Jemena Code of Conduct</li> <li>Annual Compliance Training</li> <li>Secondment Guideline</li> <li>JEN Information Sharing protocol</li> <li>Physical Separation</li> <li>Checklist for publishing content on internet and intranet</li> </ul> | <ul style="list-style-type: none"> <li>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.</li> <li>We assessed JEN's overall approach to restricting access to confidential information through: <ul style="list-style-type: none"> <li>making inquiries of management including the Regulatory Compliance Manager; and</li> <li>testing General IT Controls in place within the SAP system to prevent system access to JEN Confidential Information by RESP staff.</li> </ul> </li> <li>We obtained an understanding of the bi-annual information access improvement activities implemented by management in the current regulatory period as stated within table B1-1 of the Compliance Report.</li> <li>We performed walkthroughs and tested a sample of Ovida (RESP) staff to sight whether they were able to access JEN confidential areas within the ECMS (shared directories) and SAP systems.</li> <li>We tested all new starters (including internal transfers) into Ovida to assess the date when RESP staff were granted restricted access to SAP and ECMS.</li> <li>We tested a sample of service requests raised in relation to RESP staff throughout the regulatory period and assessed: <ul style="list-style-type: none"> <li>whether they were approved by appropriate personnel;</li> <li>that the nature of the service request was not contradictory to the guideline obligations; and</li> <li>the appropriateness of any change of access requests.</li> </ul> </li> </ul> | <p>With respect to the information access breach reported by management in February 2021, we inspected system access logs which indicated that the Ovida (RESP) employee had not accessed an attachment containing JEN confidential information that was shared by a JEN employee via email. We have made a recommendation to management regarding this. Refer to Appendix B-7.</p> <p><b>SAP Access review</b></p> <p>We observed that management's review of RESP staff's SAP access permissions in November 2021 involved testing a sample of RESP employees' SAP access, as opposed to reviewing access requests raised for all RESP staff as stipulated in the compliance plan within JCARS. Per inquiries with management, a decision was made in November 2021 to rely on hypercare controls whereby all IT requests raised for RESP staff are reviewed and approved by the Regulatory Compliance team. We have made a recommendation to management regarding this. Refer to Appendix B-8.</p> <p><b>Transfers into Ovida</b></p> <p>We noted that management identified an instance where an Ovida (RESP) employee, who had transferred from JEN, retained access to three JEN purchasing groups (for the creation of JEN purchase orders) within SAP for a period of three weeks.</p> <p>In relation to this, we have:</p> <ul style="list-style-type: none"> <li>inspected a system log of purchase orders raised by the Ovida employee from 2019 up to the date the SAP access was removed; and</li> <li>performed a walkthrough with the SAP team to sight the nature of information contained within the three JEN purchasing groups.</li> </ul> |

| Compliance requirement                        | Management Controls and information provided  | Procedures performed  | Observations / findings  |
|---|---|---|--|
|   |   | <ul style="list-style-type: none"> <li>We inquired of management regarding the Identity Management Software implemented in February 2021 (as stated within Table B1-1 of the Compliance report).</li> <li>We tested internal transfers pertaining to Ovida to assess whether the Identity Management Software appropriately generated IT tasks for information access changes in line with the ring-fencing classification, and whether the transfer was approved by the Regulatory Compliance team.</li> <li>We checked that the information sharing protocol and information register was accessible on Jemena’s website and that it was consistent with our observations and inquiries.</li> </ul> | <p>We observed that the Ovida employee had not raised JEN purchase orders since their transfer into Ovida, and that the employee did not have access to JEN confidential information as per clauses 4.3.1 and 4.3.2.</p> <p>We have made a recommendation to management regarding this. Refer to Appendix B-9.</p> <p><b>JEN Information Sharing protocol</b></p> <p>We observed that there were no information sharing requests in the regulatory period.</p> <p><b>Annual Compliance Training</b></p> <p>We noted that the online ring-fencing modules adequately explained Jemena’s obligations in protecting confidential JEN information. Refer to section 4.1 above for procedures performed, observations and findings on the Annual Compliance training.</p> |
| <b>4 Functional Separation</b>                |   |   |  |
| <p><b>4.4.1 Service providers conduct</b></p> | <ul style="list-style-type: none"> <li>Electricity Ring Fencing Compliance Manual</li> <li>Jemena Code of Conduct</li> <li>Procurement policy</li> <li>Non-discrimination principles</li> <li>Annual Compliance Training</li> </ul> | <ul style="list-style-type: none"> <li>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.</li> </ul>  | <p>We sighted the Non-discrimination principles implemented by management between Jemena and Zinfra. This was formally accepted by Zinfra in January 2020.</p> <p><b>Annual Compliance Training</b></p> <p>Refer to section 4.1 above for procedures performed, observations and findings on the Compliance training.</p>  |



| Compliance requirement     | Management Controls and information provided  | Procedures performed  | Observations / findings   |
|----------------------------|---|---|---|
| <b>5 Waivers</b>           |   |   |   |
| <b>5.7 Waiver Register</b> | <ul style="list-style-type: none"> <li>Electricity Ring Fencing Compliance Manual</li> <li>Jemena Code of Conduct</li> <li>Waiver register</li> </ul> | <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>We accessed JEN’s external website and sighted that the waiver register was publicly available.</li> <li>We obtained and inspected copies of waivers applicable operation during the regulatory period. The register was then considered as to whether all appropriate detail was included.</li> <li>We made inquiries with management to understand whether a waiver was required for JGN’s (JEN affiliate) involvement in the Western Sydney Green Gas Trail (as stated within table B1-1 of the Compliance Report)</li> </ul> | <p><b>Waiver Register</b></p> <ul style="list-style-type: none"> <li>We accessed the Waivers Register on Jemena’s website and noted that the updated waiver had been published.</li> <li>We noted that the waiver extension granted by the AER in October 2020 expired on 30 June 2021.</li> <li>We noted that a waiver was not required for the remaining regulatory period due to the reclassification of previously ‘not classified’ services to direct control services per the Final Jemena Decision – Distribution Determination 2021-2026.</li> </ul> <p>Management’s annual review of scope changes to the JGN Green Gas Trial indicated that there were no changes which required notification to the AER.</p> |



| Compliance requirement              | Management Controls and information provided   | Procedures performed   | Observations / findings  |
|-------------------------------------|--|--|--|
| <b>6 Compliance and Enforcement</b> |  |  |  |
| <b>6 Compliance</b>                 | <ul style="list-style-type: none"> <li>Electricity Ring Fencing Compliance Manual</li> <li>Jemena Code of Conduct</li> <li>Compliance Reporting (Jemena’s Compliance and Risk System)</li> </ul> | <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>We considered the adequacy of JEN’s breach management and reporting policies and procedures.</li> <li>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</li> </ul> | <p><b>Breach reporting</b></p> <p>There were no material breaches identified and reported to the AER for the regulatory period 1 January 2021 to 2 February 2022.</p> <p>There was one non-material breach of the ring-fencing guidelines identified and reported to the AER in 2021. Refer to section 4.3 above.</p> <p>We inspected internal correspondence and noted that Jemena had addressed matters raised and information requested by the AER in a timely manner.</p> <p>We noted from review of Jemena’s Risk and Compliance System (JCARS), that additional obligations and controls were added to the compliance system as part of the compliance testing plan implemented by management in 2021.</p> <p>Refer to section 5.7 above for information on measures implemented by JEN to ensure compliance with the AER’s request pertaining to the JGN trial.</p> |





## Appendix B – Summary of performance improvement observations

In this section, we present additional details on performance improvement observations in relation to JEN’s compliance activities for the regulatory period 1 January 2021 to 2 February 2022 (regulatory period). In addition, we present details on performance improvement observations implemented during the regulatory period which were raised to management in the 2019 and 2020 compliance years ending 31 December 2019 and 31 December 2020, respectively. 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.

| No. | RY2019 Recommendation  | Status as at 2 February 2022  | Management’s responses |
|-----|--|---|------------------------|
| B-1 | <p><b>Overall monitoring of compliance</b></p> <p>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"> <li>• Testing a sample of RESP staff’s access restrictions during the year;</li> <li>• Testing a sample of IT service requests raised throughout the year to ensure appropriate authorisation procedures were followed; and</li> <li>• Testing a sample of cost allocation amounts during the year, to ensure that the appropriate allocation policies are followed.</li> </ul> <p>We recommend management prepare a formal compliance testing plan which will cover the key</p> | <p><b>Complete</b></p> <p>KPMG sighted evidence of the operation of these controls during the period with no issues identified.</p> | <p>N/A</p>             |

| No. | RY2019 Recommendation   | Status as at 2 February 2022   | Management's responses   |
|-----|---|--|--|
|     | controls and ensure requirements of the compliance manual are being monitored on a timely basis.  |  |  |
| B-2 | <p><b>Zinfra affiliate RESP status</b></p> <p>While management has implemented controls to monitor Zinfra's activities on an ongoing basis, we recommend management:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• Formalise a long-term sustainable policy that clearly articulates the accountabilities and responsibilities of Zinfra's and JEN's management to monitor compliance.</li> </ul>  | <p><b>Partially Complete</b></p> <p>We acknowledge that management are in the process of creating a guideline pertaining to Zinfra's compliance with ring-fencing.</p> | <p>Management are currently working with Zinfra to update the framework that ensures ongoing compliance is maintained. Anticipated implementation Q2 2022.</p> |
| B-3 | <p><b>Annual Compliance Training</b></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. As part of this program we recommend management:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• Ensure that all SGSPAA staff undergo Ring-fencing training in some form to ensure widespread deployment;</li> <li>• Clearly articulate the accountabilities, responsibilities and monitoring activities to</li> </ul> | <p><b>Complete</b></p> <p>KPMG sighted evidence of the operation of these controls during the period with no issues identified.</p>                                    | N/A  |

| No.               | RY2019 Recommendation   | Status as at 2 February 2022  | Management's responses |
|-------------------|---|---|------------------------|
|                   | <p>ensure compliance in future compliance periods;</p> <ul style="list-style-type: none"> <li>Continue to re-assess high risk staff who need to complete the face to face training risk of breaches; and</li> <li>Explore opportunities to provide remote training sessions given the social distancing restrictions due to COVID-19.</li> </ul>  |   |                        |
| <p><b>B-4</b></p> | <p><b>Physical separation</b></p> <p>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"> <li>reinforce the current process with key personnel in the process to ensure they are aware of their responsibilities;</li> <li>document appropriate procedures which can be followed in the event that staff are on leave or absent; and</li> <li>maintain evidence of reviews undertaken to facilitate monitoring of compliance. This could include evidence of regular review of access</li> </ul> | <p><b>Complete</b></p> <p>KPMG sighted evidence of the operation of these controls during the period with no issues identified.</p> | <p>N/A</p>             |



| No.               | RY2019 Recommendation  | Status as at 2 February 2022  | Management's responses  |
|-------------------|--|---|---|
|                   | <p>reports or evidence of Reconciling HR records to Physical access records on a regular basis.</p>  |   |   |
| <p><b>B-5</b></p> | <p><b>Service providers conduct</b></p> <p>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><b>Partially Complete</b></p> <p>Management have performed an assessment of training needs against SGSPAA positions and have formally monitored training completion status on an annual basis.</p> <p>We recommend that management consider and reassess the most appropriate mode of training delivery for field staff.</p> | <p>Management will reconsider options to ensure training is delivered to all staff who require ring-fencing training in Q2 2022 with an anticipated implementation of recommendations by Q3 2022.</p> |

| No.        | RY2020 Recommendation   | Status as at 2 February 2022  | Management's responses  |
|------------|---|---|---|
| <b>B-6</b> | <p><b>Overall compliance measures</b></p> <p>Based on our inspection of compliance documents, we noted that the following policies and procedures were not subject to the standard periodic review either every one or every two years.</p> <ul style="list-style-type: none"> <li>• Procurement policy</li> <li>• Organisation framework</li> <li>• Contracting and Procuring Entity policy</li> <li>• Asset Class Strategy</li> <li>• Asset Management strategy</li> <li>• Secondment Guideline</li> </ul> <p>We understand from management that reviews of policies and procedures were undertaken where triggers for changes were identified, however we recommend that management:</p> <ul style="list-style-type: none"> <li>• Implement controls to ensure that ring-fencing policies and procedures are reviewed by the relevant personnel periodically; and</li> <li>• Ensure that the policy or procedure document includes the date of last review.</li> </ul> | <p><b>Incomplete</b></p> <p>We noted that management are yet to implement controls to ensure that ring fencing policies and procedures are reviewed and updated periodically.</p> <p>We acknowledge that management are in the process of updating the end-to-end business processes. We understand that management intends on undertaking a formal review of policies and procedures as part of the implementation of this new end-to-end process.</p> | <p>Management have updated the Ring-fencing Testing Plan and JCARS to include scheduled reviews of ring-fencing policies and procedures. Complete April 2022.</p> |



# Summary of performance improvement observations for the 2021 regulatory period

In this section, we present details on performance improvement observations in relation to JEN's compliance activities for the period 1 January 2021 to 2 February 2022 (current regulatory period).

| No.               | RY2021 Recommendation  | Management's responses   |
|-------------------|--|--|
| <p><b>B-7</b></p> | <p><b>Disclosure of confidential electricity information</b></p> <p>Training facilitated to JEN designated staff adequately addresses the obligation requirements in relation to protection and disclosure of confidential electricity information.</p> <p>We recommend that management explore opportunities to reinforce knowledge of information disclosure requirements with JEN staff. For example, management could undertake a phishing exercise whereby phishing emails are periodically issued to JEN staff, prompting the staff member to (inappropriately) share confidential electricity information.</p>  | <p>Management will consider options to test training effectiveness Q2 2022 with an anticipated implementation of recommendations by Q3 2022.</p>                                       |
| <p><b>B-8</b></p> | <p><b>Implementation of Access Review Controls</b></p> <p>Management have updated its compliance testing plan within JCARS to include periodic reviews of RESP staff access permissions to the Enterprise Resource Planning system, SAP. Management have also documented a formal Ring-fencing Controls Testing Plan.</p> <p>We recommend that management implement the review of SAP access checks in accordance with the design of the review as stipulated within JCARS and the approved Ring-fencing Controls Testing Plan. This will help ensure that access reviews performed are consistent with management's controls testing framework.</p>   | <p>Management have updated the Ring-fencing Testing Plan and JCARS to ensure appropriate quality assurance activities are undertaken and can be demonstrated. Complete April 2022.</p> |
| <p><b>B-9</b></p> | <p><b>Protection of Confidential Information</b></p> <p>Management have implemented an Identity Management Software which generates automatic IT tasks for access permissions based on a ring-fencing classification assigned to staff positions.</p> <p>In relation to transfers from JEN to Ovida, we recommend that management perform a review of all access permissions held by JEN employees prior to their transfer into Ovida. This will enable management to consider completeness of access permissions which require modification upon transfer into Ovida. For example, management could create an assessment checklist to manage and document its review of access changes.</p> | <p>Management have updated the Ring-fencing Compliance Manual to include an assessment checklist for access permissions. Complete April 2022.</p>                                      |

| No.         | RY2021 Recommendation  | Management's responses   |
|-------------|--|--|
| <b>B-10</b> | <p><b>Annual Compliance Training</b></p> <p>In relation to monitoring ring-fencing training completion, we recommend that management:</p> <ul style="list-style-type: none"> <li>• review the overall training completion rate at different points during the regulatory year (for example, bi-annually);</li> <li>• implement a process to investigate incomplete training records in order to ensure that training is completed by staff identified as requiring ring-fencing training within a certain timeframe; and</li> <li>• formalise the above monitoring activities within the compliance plan.</li> </ul> | <p>Management will reconsider options to ensure training is best delivered to all staff who require ring-fencing training in Q2 2022 with an anticipated implementation of recommendations by Q3 2022.</p> |