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Jeremy Cain
Chorus Limited
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7 July 2021

Dear Jeremy,

You have requested that we provide our independent views of the current assurance requirements as proposed in the draft Information Disclosure (“ID”) Determination. While this has been prepared for your internal purposes, we consent to a copy of this letter being provided to the Commerce Commission. Our views have been informed from our knowledge in our role as Chorus’ external auditor and regulatory assurance provider, and from our participation in other assurance engagements on similarly regulated entities. From our review of the draft determination, we have identified two key elements on which we have shared further views:

Chorus system maturity and assurance requirements

We understand that your existing operational systems, while fit for their current operational purposes, have not been specifically designed to readily produce the information required to comply with the proposed ID requirements.

Therefore in the initial years of ID reporting you are planning to rely predominantly on existing manual spreadsheets developed as part of the Fibre Input Methodologies process to date, plus development of further manual processes and spreadsheets as necessary to comply with the proposed ID requirements – until such time as these reporting processes can be embedded in your operational systems.

In our experience, the greater the volume and complexity of manual compilation of information, the larger the risk of error which exists. This risk does not directly translate to a risk of material errors passing through the assurance process undetected. However, it does significantly increase the scale, complexity and timing of assurance procedures required to detect these errors, which also significantly increases the overall cost of providing assurance over information generated in this manner.

At this stage, we estimate that the likely costs to you under a significantly manual ID information collation, would see the assurance fees being greater than the fees of the current financial statement audit. This can be contrasted to Chorus’ current ID regime where assurance fees are less than half of the fee of the financial statement audit.

Our experience with other entities transitioning into similar regimes would indicate that, for an entity of Chorus’ relative size and maturity, the process of putting in place systemised solutions to assist in the provision of ID information is likely to occur over a period of years, and that achieving full maturity of regulatory systems can take a further number of years again.

A possible option to reduce the impact and cost of the assurance requirements associated with the ID as currently drafted is a phased increase in assurance requirements sitting alongside your

investment in systems to support the production of regulatory information. In our view, pragmatic levers which could be used to achieve this phased assurance requirement are:

1. Changes between reasonable assurance and limited assurance for different schedules. This could also include lesser forms of assurance, such as opining on whether information has been materially extracted correctly from operational systems without a specific requirement to conclude on whether appropriate records have kept for compliance with regulations;
2. Including individual schedules as in/out of scope of assurance procedures; and/or
3. Specific exemptions/clarifications to aspects of the ID requirements, such as what was provided for Chorus at the beginning of their current Information Disclosure reporting requirements.

We would be comfortable working collaboratively with yourselves and the Commerce Commission to determine what mix of the factors above could be used to result in a process that achieves the objectives of all involved parties.

Quality measures

Our experience across sectors with similar regulatory regimes highlights that quality measures can be particularly challenging to support from an assurance perspective.

We have observed that entities often face the challenge of extracting and collating information from existing operational systems which have not been previously subject to external audit scrutiny.

While management will typically have a view that the underlying information is reliable and fit for purpose for operating the network, auditing this information can be challenging and full audit trails may not exist until sufficient regulatory system maturity is developed (which as noted above may take a period of years to achieve), resulting in potential assurance report qualifications. We have observed examples of qualifications in the assurance reports being issued on quality measures within the electricity distribution businesses due to similar challenges.

We are aware of past exemptions in other regulatory regimes on quality measures as various issues have arisen within other regulated industries. Chorus could request a 1-2 year assurance exemption from the Commerce Commission in order to establish auditable processes before an assurance requirement is in place on such measures.

An alternative approach is to modify the assurance requirement in the initial years such that the opinion provides assurance that the 'information has been materially extracted correctly from system and operational data', but not opine on underlying systems data itself until Chorus has established auditable process and controls around the systems.

The benefit of this approach would be that it would provide Chorus with an initial timeframe to establish such processes and controls, it would limit the cost of the assurance engagement in the initial years and reduce the risk that a qualified assurance opinion is issued due to limitation in respect of the underlying systems.

We would be comfortable to meet with yourselves and the Commerce Commission to discuss the potential challenges in the initial years and what mix of the factors above could be used to result in a process that achieves the objectives of all involved parties.



Chorus Limited

7 July 2021

Yours sincerely

A handwritten signature in blue ink, appearing to be 'David Gates', with a stylized flourish extending to the right.

David Gates
Partner

cc:
Commerce Commission