

## Performance Assurance Workgroup

### A summary of one of the assurance activities undertaken against Xoserve process and control activities

#### 1. Introduction

At the industry Performance Assurance Workgroup there has been some discussion on assurance that Xoserve process and controls perform to the requirements set out in the UNC and elsewhere.

This report provides information on an existing external assurance activity (International Standard on Assurance Engagements (ISAE) No. 3402, Assurance Reports on Controls at a Service Organisation) undertaken against the process and controls for the performance of Xoserve services.

#### 2. ISAE 3402 Background

ISAE 3402, Assurance Reports on Controls at a Service Organisation, was issued in December 2009 by the International Auditing and Assurance Standards Board (IAASB), which is part of the International Federation of Accountants (IFAC). ISAE 3402 was developed to provide an international assurance standard for allowing public accountants to issue a report for use by user organisations and their auditors (user auditors) on the controls at a service organisation that are likely to impact or be a part of the user organisation's system of internal control over financial reporting.

There are many sources of information on the internet regarding the ISAE 3402, a straight forward guide can be found here:

[http://www.icaew.com/en/technical/audit-and-assurance/assurance/reassurance-sourcebook?utm\\_source=various&utm\\_medium=shortform&utm\\_campaign=assurancesourcebook](http://www.icaew.com/en/technical/audit-and-assurance/assurance/reassurance-sourcebook?utm_source=various&utm_medium=shortform&utm_campaign=assurancesourcebook)

#### 3. Application of ISAE 3402 to Transporter Agency model

Under the agency model, the Gas Transporters have outsourced their invoicing services to Xoserve. Under the Agency Services Agreement (the common contract between the Gas Transporters and Xoserve), the Gas Transporters have various rights of audit. These are provided for in order for each Gas Transporter's auditors to gain comfort over the services provided by Xoserve in respect of Gas Transporter invoicing, and other, services.

In 2005, under the remit of the Audit Committee (a committee comprising Xoserve Board members) it was agreed to provide assurances to the Gas Transporters through a single annual assurance report provided by an external audit firm. Assurance reporting has been undertaken annually through SAS 70, then AAF01/06 and from 2011 onwards ISAE3402. All formats have provided assurance to Gas Transporters on the design and operating

effectiveness of the controls around Xoserve processes. This assurance reporting has been conducted each year (by one of the major financial audit companies) and is provided to each of the Gas Transporters to support their own audit requirements. The ISAE 3402 assurance provides efficiency and saves each Gas Transporter from individually undertaking audits at Xoserve and provides a consistent level of assurance to each.

The current engagement with the external assurance provider under which the ISAE 3402 assurance is conducted prevents, at the instruction of the assurance provider, the wider publication of the assurance report than its current recipients.

Note: The ISAE 3402 assessment does not impact on the annual Statutory Audit. The ISAE 3402 reporting is undertaken to meet the requirements of the Gas Transporters.

#### **4. Scope of the ISAE 3402 Audit**

The scope of the ISAE 3402 audit is approved by the Audit Committee and is set to satisfy the Gas Transporter's requirements.

There are two types of Service Auditor's Reports: Type I and Type II.

A Type I report describes the service organisation's description of controls at a specific point in time (e.g. June 30, 2012). A Type II report not only includes the service organisation's description of controls, but also includes detailed testing of the service organisation's controls over a minimum six month period (e.g. January 1, 2012 to June 30, 2012).

In a Type II report, the service auditor will express an opinion on:

- whether the service organisation's description of its controls presents fairly, in all material respects, the relevant aspects of the service organisation's controls that had been placed in operation as of a specific date,
- whether the controls were suitably designed to achieve specified control objectives, and
- whether the controls that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives were achieved during the period specified.

The ISAE 3402 report for Xoserve is a Type II and covers the following main areas for the period 1 April to 31 March annually:

- Control framework of management controls which provide assurance over the general control environment;
- IT general controls over the significant systems that support the invoice types in scope; and
- Business process controls over the invoice types in scope

The report for 2014 ran to 155 pages. There are 28 individual control objectives under which are a total of 79 control activity that are subject to audit.

Control activity examples are provided in Appendix 1.

## 5. Results of the ISAE 3402 audits

Xoserve can report that none of the assurance reports have identified any material defects in controls associated with the provision of services and the auditor's opinion has been unqualified each year.

### Appendix 1 Control activity examples include (note: this is an exact extract from the 2014 report)

Ref	Control Activity	Assessor Tests
5.1	Local Work Instructions (LWI's) have been developed for each of the main billing processes and associated controls. The LWIs are maintained on an ongoing basis by the process owners.	Reviewed copies of the LWI's and confirmed that each of the main invoice types is included and that these have been maintained on an ongoing basis.
5.2	The company conducts audit and compliance activities which on a periodic basis will review billing process documentation	<p>(a) Confirmed the extent to which audit and compliance reviews had been conducted in respect of the billing process documentation during the period of review.</p> <p>(b) For a sample of relevant audit and compliance reviews, confirmed that any significant issues identified, which relate to billing process documentation, have been agreed and resolved.</p>
14.1	A report is run to obtain all UDQI data by shipper. Once complete the current NCE rate is applied to calculate the current billing month NCE charge. This calculated NCE charge is then used to compare with the NCE charge calculated by Gemini and therefore checks that Gemini has applied the correct rate and performed the calculation correctly.	For a sample of months, confirmed that the NCE charge had been re-calculated and the NCE charge is matched with the Gemini system, with evidence of review.
20.4	If a User exceeds their nominated SOQ an additional 'ratchet' charge is applied. To ensure that all ratchets have been invoiced a report (IP246) is generated from Invoicing 95 of all ratchets on the invoice. The overall ratchet charges are then validated and compared to the invoice value.	For a sample of months verified that the Ratchets had been validated and compared to the invoice value.