



# AUSTRALIAN RAIL TRACK CORPORATION LIMITED

Hunter Valley Access Undertaking – System Wide True Up Test Audit

Reasonable Assurance Engagement Report

April 2019

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## CONTENTS

|  |    |
|--|----|
| EXECUTIVE SUMMARY .....  | 1  |
| 1.1 Introduction .....   | 1  |
| 1.2 Scope and Objectives .....                                   | 1  |
| 1.3 Summary of Audit Findings .....                              | 3  |
| 1.4 Follow up of Prior Year Audit Findings .....                 | 3  |
| 1.5 Other matters .....  | 4  |
| 1.6 Conclusion .....   | 4  |
| 1.7 Acknowledgment.....  | 4  |
| INDEPENDENT REASONABLE ASSURANCE REPORT .....                    | 5  |
| APPENDIX A: DETAILED FINDINGS .....                              | 7  |
| APPENDIX B: FOLLOW UP ON PREVIOUS YEAR AUDIT FINDINGS .....      | 11 |
| APPENDIX C: REVIEW OF COMPLIANCE WITH SCHEDULE 2 OF THE AHA..... | 13 |
| APPENDIX D: COMPLIANCE AND RISK RATING.....                      | 18 |

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## EXECUTIVE SUMMARY

### 1.1 Introduction

#### Background

Australian Rail Track Corporation (“ARTC”) manages Australia’s largest rail freight network, this includes the Hunter Valley (“HV”) coal rail network. Within the HV network, ARTC manages the movement of trains between the Coal Producers’ Load Point and the Terminals. The Hunter Valley Access Undertaking (“HVAU”) is structured so that for each user, Access Holder, there is a standard Access Holder Agreement (“AHA”) in place. Within the HV network there are three different Pricing Zones (“PZ”), each Pricing Zone has differing Network configurations, cost profiles and volumes/traffic.

The AHAs include a requirement for ARTC to carry out:

- A system true-up test for each Pricing Zone at the end of each Month to determine the System Availability Shortfall in that Month for all access holders with an allocation period of a month; and
- A system true-up test for each Pricing Zone at the end of each Quarter to determine the System Availability Shortfall in that Quarter for all access holders with an allocation period of a Quarter.

Each year ARTC must submit a Compliance Assessment to the Australian Competition and Consumer Commission (“ACCC”) in relation to its obligations under the HVAU. A component of the Compliance Assessment relates to the audit of ARTC’s compliance with the True Up Test (“TUT”) as described above. The requirements for the audit are set out in Section 4.10(f) and Schedule G of the HVAU.

#### The Hunter Valley Access Undertaking (“HVAU”)

As part of the annual compliance assessment, under the HVAU, ARTC has engaged RSM as the independent external auditor to conduct an audit of ARTC’s compliance with Schedule 2 of the AHAs and provide to the ACCC the final written report of the TUT.

This includes ARTC’s compliance with the following obligations under Schedule 2 of the AHAs:

- Schedule 2, Clause 2.1(a) and 2.6(c) – ARTC will carry out a system-wide true up test monthly or quarterly (depending on the users’ allocation period) for each pricing zone;
- Schedule 2, Clause 2.1(b) and 2.2 – Determination of System Availability Shortfall;
- Schedule 2, Clause 2.3 – ARTC will determine NPC in accordance with the prescribed steps;
- Schedule 2, Clause 2.4 and 2.6(a) and (b) – Subject to certain exceptions and limitations, the user will accrue a rebate of the Train Path TOP Charge calculated in accordance with a prescribed methodology;
- Schedule 2, Clause 2.5 - ARTC will include Allowed Tolerance in the user’s individual shortfall for the purpose of determining the rebate accrued in a period;
- Schedule 2, Clause 1 and 2.7(a) - Within 3 weeks of the end of a period, ARTC will publish results of the TUT; and
- Schedule 2, Clause 2.7(b) – within 3 weeks of the end of a period, ARTC will notify each user.

ARTC has appointed RSM as Independent Auditor for the purposes of section 4.10(f) of the HVAU.

### 1.2 Scope and Objectives

RSM conducted a reasonable assurance engagement to assess whether ARTC has complied, in all material respects, with Schedule 2 of the AHAs. We performed our audit in accordance with the Australian Standard on Assurance Engagements ASAE 3100 *Compliance Engagements*, and our approach included assessing the requirements of the Undertaking, and obtaining an understanding of the systems, records and procedures implemented by ARTC to facilitate compliance with the obligations under Schedule 2 of the AHAs.

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## EXECUTIVE SUMMARY (CONT.)

### 1.2 Scope and Objectives (Cont.)

Our work performed is summarised as follows:

#### Planning and Commencement

- Conducted preliminary meetings with appropriate personnel of ARTC to be briefed on background information and develop an understanding of data collation and reporting processes and tools used;
- Determined and developed an information request list, which was provided to the ARTC, outlining the documents we required to inspect and review during fieldwork; and
- Developed a detailed audit plan and sample selection based on the specific testing requirements set out in Schedule B of ARTC's Consultancy Agreement.

#### Fieldwork and audit testing

RSM conducted audit procedures deemed necessary to form a reasonable assurance conclusion in accordance with ASAE 3100. The procedures included the following:

- Conducted interviews with key ARTC personnel to gather sufficient audit evidence in respect to ARTC's processes in place to ensure compliance with Schedule 2 of the AHAs;
- Reviewed the data gathering processes to calculate and report the TUT for each month and each quarter within the audit period (2018);
- Conducted a trend analysis comparing the 2018 monthly and quarterly TUT Reports to the 2018 monthly and quarterly TUT Reports;
- Performed detailed testing, which included:
  - Reviewing the completeness of the 2018 TUT conducted;
  - Reconciling each TUT report within the audit period (2018) for each Pricing Zone (PZ) against the True-Up Master Spreadsheet (used to calculate each component of the TUT) to ensure there were no errors in the transcription of data;
  - Assessing the completeness of the list of users included in the TUT with reference to the executed and operative AHAs and testing the allocation of users within each Pricing Zone;
  - Reviewing the clerical accuracy of sample of TUT reports within the audit period and tested compliance with Schedule 2 of the AHAs;
  - Reviewing all supporting documentation that allowed ARTC to calculate the TUT and agreed them to the True-Up Master Spreadsheet and the TUT reports;
  - Testing whether the TUT reports were published on the ARTC's website within three weeks of the end of the relevant period.

A summary of work performed to assess compliance against each clause of Schedule 2 of the AHAs and issues identified is provided in [Appendix C](#) of this report.

#### Reporting

The final stage of the audit involved:

- Discussing audit findings to ensure factual correctness;
- Obtaining written representations from ARTC Management regarding the completeness and accuracy of information provided to us;
- Conducting all engagement completion requirements (including considering subsequent events, assessing errors identified); and
- Preparing our assurance engagement report.

## EXECUTIVE SUMMARY (CONT.)

### 1.3 Summary of Audit Findings

We have summarised our findings in this section of our report. We identified two **low risk** compliance issues in regards to the timeframe for publishing TUT Reports and errors identified in the TUT report published. These are further detailed in **Appendix A** of this report.

Each compliance issue raised is assigned a risk rating and a compliance rating to indicate our assessment of the degree of exposure in respect of non-compliance with Schedule 2 of the AHAs. The compliance and risk rating definitions are described in **Appendix D** of this report.



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#### 1. Publication of TUT Reports within the prescribed timeframe

We noted that the monthly TUT reports for January, July and August 2018 were not published on ARTC's website within three weeks of the end of the TUT period, as required by Clause 2.7(a), Schedule 2 of the AHAs.



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#### 2. Errors in TUT report published and lack of quality assurance review over the TUT data received

We identified errors in the calculation of the total path usage in accordance with Clause 2.2. of Schedule 2 in relation to the actual maintenance requirement and path usage by non-coal trains.

##### Maintenance

Maintenance allocation was incorrectly reported for the March and November 2018 TUT reports. The March 2018 maintenance requirements were overstated by 28 for PZ3 and the monthly and quarterly TUT report for March has not been republished. The November 2018 maintenance requirements in PZ1 were understated by 69 and PZ2 were overstated 8. We note the monthly TUT report for November has been republished.

##### Non-coal trains

Non-coal trains were incorrectly reported for the November and December 2018 TUT reports due to an administrative error. The November 2018 non-coal trains were overstated by 91 for PZ1, by 10 for PZ2 and by 3 for PZ3. The December 2018 non-coal trains were overstated by 37 for PZ1 and by 6 for PZ2 and the quarterly December TUT report for PZ2 were overstated by 16. The monthly and quarterly December TUT reports were not republished.

We confirmed that these errors, in aggregate, did not result in a System Availability Shortfall in any of the TUT results published for each Pricing Zone in 2018.

In aggregate, the compliance matters noted above are not deemed to be material in amount (quantitatively) and nature (qualitatively), and therefore we have not modified our reasonable assurance conclusion.

### 1.4 Follow up of Prior Year Audit Findings

We have followed up on prior year audit findings and their status in the current year. These are further detailed in **Appendix B** of this report.

| Prior Year Audit Findings   | Risk | Compliance | Status   |
|---|------|------------|--|
| Publication of TUT Reports within the prescribed timeframe                                  |      |            | This issue remains outstanding - refer to <b>Issue 1</b> raised. |
| Discrepancy in percentage loss rate applied for the calculation of forecasted system losses |      |            | This issue is now resolved.                                      |

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## EXECUTIVE SUMMARY (CONT.)

### 1.5 Other matters

#### Network Path Capability Determination

When reviewing the methodology used to determine the Network Path Capacity (NPC) of each Pricing Zone, we noted that the ARTC measured the number of Functional Coal Paths available at numerous locations within each Pricing Zone, rather than just one point as required by Clause 2.3, Schedule 2 of the AHAs.

This observation is consistent with the other matter noted in the 2017 TUT audit report and prior year reports submitted to the ACCC, and did not result in a non-compliance to the Schedule 2 of the AHAs as it is our understanding that the ARTC's methodology results in a more accurate NPC.

### 1.6 Conclusion

Our Reasonable Assurance Report on pages 5 to 7, provides our conclusion. We identified **two low risk** compliance issues which are not deemed to be material.

These were summarised in **Section 1.3** and are further detailed in **Appendix A** of this report.

### 1.7 Acknowledgment

The matters raised in this report have been discussed with management and comments have been provided where appropriate. We would like to take this opportunity to thank ARTC management for their assistance and cooperation during this review. Should you have any queries, please feel free to contact me.

Yours sincerely,



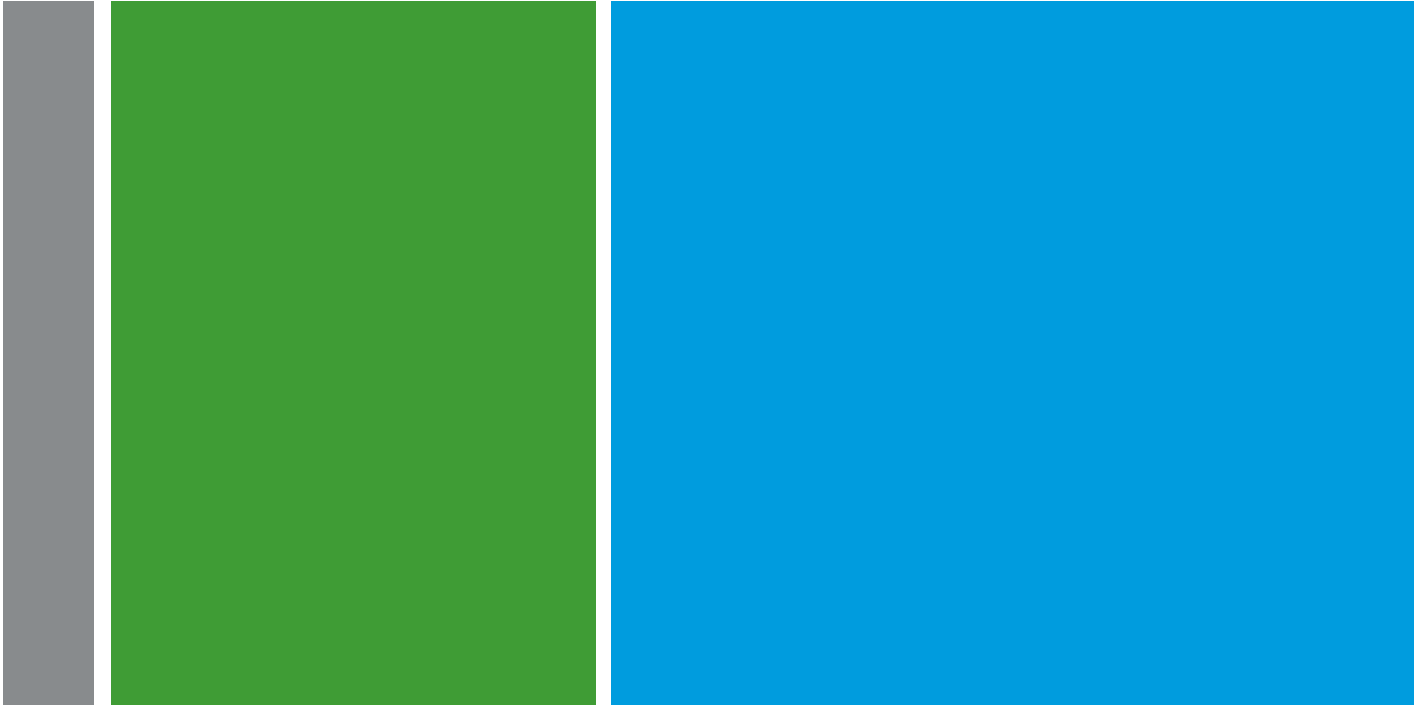
**Tim Pittaway**

Director

RSM Australia Pty Ltd

Sydney

9 April 2019



# AUTRALIAN RAIL TRACK CORPORATION LIMITED

Independent Reasonable Assurance Report

Hunter Valley Access Undertaking – System Wide True Up Test Audit

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## INDEPENDENT REASONABLE ASSURANCE REPORT

### To: The Management of the Australian Rail Track Corporation Ltd (ARTC)

We have conducted an independent reasonable assurance engagement to assess whether the Australian Rail Track Corporation Limited (“ARTC”) has complied, in all material respects, to the Hunter Valley Access Undertaking (“HVAU”) in relation to its obligations under Schedule 2 of the Access Holder Agreements (“AHAs”) for the 2018 True Up Tests (“TUT”).

#### ARTC’s Responsibility

The Management of ARTC are responsible for ensuring compliance with the HVAU. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of the TUT results that are free from material misstatement, whether due to fraud or error, and monitoring compliance with the HVAU.

#### Our independence and quality control

We have complied with the relevant ethical requirements for assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence, due care, confidentiality and professional behaviour.

In accordance with Australian Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*, RSM maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### Our Responsibility

Our reasonable assurance engagement has been conducted in accordance with the applicable Standards on Assurance Engagements ASAE 3100 *Compliance Engagements* to provide reasonable assurance that ARTC has complied with the relevant sections of the HVAU in relation to the conduct of the TUT.

A reasonable assurance engagement involves performing procedures to obtain evidence of compliance with the HVAU in relation to the conduct of the TUT. These procedures selected depend on our judgment, including the assessment of the risks of material non-compliance with the HVAU, whether due to fraud or error. In making these risk assessments, we considered internal controls relevant to compliance with the HVAU, to design procedures that are appropriate in the circumstances. The engagement also included evaluating the appropriateness of any significant interpretations used.

We believe that the evidence we have obtained is sufficient and appropriate to provide and form a reasonable assurance conclusion.

#### Inherent Limitations

Due to the inherent limitation of any internal control structure, it is possible that fraud, error or non-compliance with the HVAU may occur and not be detected. Further, the internal control structure, within which the control procedures regarding the HVAU that we have reviewed operate, has not been reviewed and no view is expressed as to its effectiveness.

An audit is not designed to detect all weaknesses in control procedures as it is not performed continuously through the period, and the tests performed on the control procedures are on a sample basis. Any projections of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or the degree of compliance with them may deteriorate. The review conclusion expressed in this report has been formed on the above basis.



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## INDEPENDENT REASONABLE ASSURANCE REPORT (CONT.)

### Use of this report

This report has been prepared at the request of ARTC to report to the ACCC in accordance with Section 4.10(f) of the HVAU. We disclaim any assumption of responsibility for any reliance on this report to any other person other than the ARTC or the ACCC, or for any purpose other than which it was prepared.

### Summary of procedures undertaken

The procedures conducted in performing our reasonable assurance engagement included:

- Conducted interviews with key ARTC personnel to gather sufficient audit evidence in respect to ARTC's processes in place to ensure compliance with Schedule 2 of the AHAs;
- Reviewed the data gathering processes to calculate and report the TUT for each month and each quarter within the audit period (2018);
- Conducted a trend analysis comparing the 2018 monthly and quarterly TUT Reports to the 2017 monthly and quarterly TUT Reports;
- Performed detailed testing, which included:
  - Reviewing the completeness of the 2018 TUT conducted;
  - Reconciling each TUT report within the audit period (2018) for each Pricing Zone against the True-Up Master Spreadsheet (used to calculate each component of the TUT) to ensure there were no errors in the transcription of data;
  - Assessing the completeness of the list of users included in the TUT with reference to the executed and operative AHA and testing the allocation of users within each Pricing Zone;
  - Reviewing the clerical accuracy of sample of TUT reports within the audit period and tested compliance with Schedule 2 of the AHAs;
  - Reviewing all supporting documentation that allowed ARTC to calculate the TUT and agreed them to the True-Up Master Spreadsheet and the TUT reports;
  - Testing whether the TUT reports were published on the ARTC's website within three weeks of the end of the relevant period.

### Independence

In conducting our reasonable assurance engagement, we have complied with the independence requirements of the Australian professional accounting bodies.

### Reasonable Assurance Conclusion

In our opinion, the Australian Rail Track Corporation Limited has complied, in all material respects, with the Hunter Valley Access Undertaking in relation to its obligations under Schedule 2 of the Access Holder Agreements for the 2018 True Up Tests.



**Tim Pittaway**

Director

RSM Australia Pty Ltd

Sydney

9 April 2019

## APPENDIX A: DETAILED FINDINGS

We draw attention to the matters detailed below noted during our audit that indicated a non-compliance with the Hunter Valley Access Undertaking in relation to the obligations under Schedule 2 of the Access Holder Agreements for the 2018 True Up Tests. Management Responses were provided by ARTC for each of these findings. Our compliance and risk ratings have been defined in **Appendix D** of this report.

In aggregate, the compliance matters noted below are not deemed material in amount (quantitatively) and nature (qualitatively), and therefore we have not modified our reasonable assurance conclusion. The findings below are reported for completeness and recommended actions for continuous improvement in the ARTC reporting processes.

### 1. Publication of TUT Reports within the prescribed timeframe

|            |   |
|------------|---|
| Risk       |  |
| Compliance |  |

#### Observation

Clause 2.7(a), Schedule 2 of the AHAs states that:

*'Within three weeks of the end of each Period, ARTC will:*

- (a) *Publish on its website the system true-up test results for each Pricing Zone in respect of any System Availability Shortfall, except where ARTC reasonably considers such information would despite aggregation disclose confidential information about an individual access holder.'*

We noted monthly TUT reports for January, July and August 2018 were not published on ARTC's website within three weeks of the end of the TUT period.

#### Risk

This represents a non-compliance with Clause 2.7(a), Schedule 2 of the AHAs.

#### Recommendation

We recommend the ARTC ensure that all monthly TUT Reports for future periods are published within three weeks of the end of each TUT period.

| Management Comments |                            |           |            |
|---------------------|----------------------------|-----------|------------|
| Noted.              |                            |           |            |
| Responsibility      | Customer Contracts Manager | Timeframe | April 2019 |

## APPENDIX A: DETAILED FINDINGS (CONT.)

### 2. Errors in TUT report published and lack of quality assurance review over the TUT data received

|            |   |
|------------|---|
| Risk       |  |
| Compliance |  |

#### Observation

We identified errors in the calculation of the total path usage in accordance with Clause 2.2. of Schedule 2 in relation to the actual maintenance requirement and path usage by non-coal trains.

##### Actual Maintenance Requirement

We selected a sample of three months (March, June and November 2018) to test the calculation performed, and data used to report Actual Maintenance against the Monthly Performance Reports provided by the ARTC maintenance team.

We noted two instances, where the maintenance allocation had been incorrectly reported:

- March – maintenance requirements in PZ3 were overstated for PZ3 as planned maintenance was cancelled due to fire bans. The monthly and quarterly TUT report for March has not been republished.
- November – maintenance requirements in PZ1 were understated and PZ2 were overstated. Maintenance was incorrectly allocated in PZ2 and should have been allocated in PZ1. We note the monthly TUT report for November has been republished on 27 February 2019. The quarterly TUT report for November has not been republished.

The variances due to the overstatement/understatement of actual maintenance requirements for each pricing zone were:

| 2018 Monthly TUT | March | November |
|------------------|-------|----------|
| PZ1              | -     | 69       |
| PZ2              | -     | - 8      |
| PZ3              | - 28  | -        |

##### Non-Coal Trains

We selected a sample of four months (March, June, November and December 2018) to review the calculation performed and data used to determine the Non-Coal Trains figures against the NatRAM system (National Rail Access Management System) report.

We noted two instances, where the non-coal trains utilisation had been incorrectly reported:

- November - non-coal trains in PZ1, PZ2 and PZ3 were overstated as it included a portion of December Non-Coal trains within the calculation due to an administrative error. We note the monthly TUT report for November has been republished on 27 February 2019.
- December – non-coal trains in PZ1 and PZ2 were also overstated as it included a portion of November Non-Coal trains in its calculation due to an administrative error. The December quarterly report for PZ2 was overstated by 16. The monthly and quarterly TUT report for December has not been republished.

The variances due to the overstatement of non-coal for each pricing zone were:

| 2018 Monthly TUT | November | December |
|------------------|----------|----------|
| PZ1              | -91      | -37      |
| PZ2              | -10      | -6       |
| PZ3              | -3       | -        |

## APPENDIX A: DETAILED FINDINGS (CONT.)

### 2. Errors in TUT report published and lack of quality assurance review over the TUT data received (Cont.)

#### Observation (Cont.)

We have considered the total of all misstatements noted in our testing to assess the net aggregated impact on the System Availability Surplus and confirmed that these errors, in aggregate, did not result in a System Availability Shortfall and the errors are not material in any of the TUT results published for each Pricing Zone in 2018.

#### Risk

Without controls in place to validate the accuracy of inputs, there is a risk that the Total Path Usage Required has not been determined and calculated accurately, in accordance with Clause 2.2 of Schedule 2 of the AHA, and that the calculation performed include errors with source data.

#### Recommendation

We recommend ARTC implement a Quality Assurance process that includes second independent check performed over the source data and formula used to calculate each component of the TUT (NPC and Total Path Usage Required elements) to ensure the values published are accurate, complete and based on the most up-to-date information available.

#### Management Comments

March, November and December Monthly and Quarterly TUT reports have been republished. ARTC will establish a second check process for data that is aggregated into the True-Up Test (TUT). Furthermore, spreadsheets used to calculate inputs for the TUT will be upgraded, improved and controlled.

#### Responsibility



Long Term Planning &  
Reporting Manager

#### Timeframe


June 2019

## APPENDIX B: FOLLOW UP ON PREVIOUS YEAR AUDIT FINDINGS

Follow up on 2017 prior year audit findings and their status in the current year has been summarised in the table below:

| Previous Issue  | Agreed Action | Responsibility                   | Date Raised | Due Date   | Action Taken  |
|---|---------------|----------------------------------|-------------|------------|---|
| <p><b>1. Publication of TUT Reports within the prescribed timeframe (Compliance)</b></p> <div style="display: flex; align-items: center;"> <div style="background-color: #0070C0; color: white; padding: 5px; margin-right: 5px;">Risk</div>  </div> <div style="display: flex; align-items: center; margin-top: 5px;"> <div style="background-color: #0070C0; color: white; padding: 5px; margin-right: 5px;">Compliance</div>  </div> <p>Clause 2.7(a), Schedule 2 of the AHAs states that:<br/> <i>'Within three weeks of the end of each Period, ARTC will:</i><br/> <i>(a) Publish on its website the system true-up test results for each Pricing Zone in respect of any System Availability Shortfall, except where ARTC reasonably considers such information would despite aggregation disclose confidential information about an individual access holder'.</i></p> <p>We noted that the monthly TUT reports for February, March, April and July 2017 and the quarterly TUT report for March 2017 were not published on ARTC's website within three weeks of the end of the TUT period.</p> <p>We recommend the ARTC ensure that all monthly and quarterly TUT Reports for future periods are published within three weeks of the end of each TUT period.</p> | Noted.        | Manager<br>Customer<br>Contracts | April 2018  | April 2018 | <p>We noted that the monthly TUT reports for January, July, and August 2018 were not published on ARTC's website within three weeks of the end of the TUT period.</p> <p><b><i>This issue remains outstanding.</i></b></p> <p>Refer to <b>Issue 1</b> raised.</p> |

## APPENDIX B: FOLLOW UP ON PREVIOUS FINDINGS (CONT.)

| Previous Issue   | Agreed Action   | Responsibility                            | Date Raised       | Due Date         | Action Taken  |
|--|---|---|-------------------|------------------|---|
| <p><b>2. Discrepancy in percentage loss rate applied for the calculation of forecasted system losses (Compliance)</b></p> <div style="display: flex; align-items: center;"> <div style="background-color: #0070C0; color: white; padding: 5px; margin-right: 5px;">Risk</div>  </div> <div style="display: flex; align-items: center; margin-top: 5px;"> <div style="background-color: #0070C0; color: white; padding: 5px; margin-right: 5px;">Compliance</div> <div style="background-color: red; color: white; padding: 5px; margin-right: 5px;">1</div> </div> <p>Clause 2.2(e), Schedule 2 of the AHAs states that the Total Path Usage Required must include:</p> <p><i>'The aggregate path usages unavailable in the Period due to either actual system losses arising from parties other than ARTC, or the aggregate path usages forecast by ARTC to be unavailable in the Period due to system losses arising from parties other than ARTC, whichever is the lesser (in the diagram, "Lesser of actual v forecast system losses – other parties")'</i></p> <p>We verified ARTC's calculation of the actual and the forecast losses and reconciled them to input data. The forecast losses are calculated using a percentage loss rate for other party losses (which equals the percentage of total losses provided by HVCCC, less the predicted loss rate for losses arising from ARTC) multiplied by the NPC value. ARTC utilised a loss rate of 6.4% within the calculation for forecast system losses, however provided support to validate a rate of 6.2%.</p> | <p>Noted. The minor transposition error did not result in any system availability shortfall. ARTC will ensure complete and adequate supporting documentation is retained.</p> | <p>Manager<br/>Customer<br/>Contracts</p> | <p>April 2018</p> | <p>Completed</p> | <p>We noted that ARTC utilised a loss rate of 7.3% within the calculation for forecast system losses and provided support from HVCCC to validate a rate of 7.3%.</p> <p><b><i>This issue is now resolved.</i></b></p> |

## APPENDIX C: REVIEW OF COMPLIANCE WITH SCHEDULE 2 OF THE AHA

Work performed to assess compliance against each clause of Schedule 2 of the AHAs and issues identified have been summarised in the table below:

| Clause  | Risk  | Testing Conducted  | Results  |
|---|---|--|--|
| Clause 2.1(a) & (b) and clause 2.6(c) of Schedule 2 | <p><b>Completeness of the 2018 True Up Tests</b></p> <p>There is a risk that ARTC has not completed separate monthly and quarterly True Up tests for each Pricing Zone, in accordance with Clause 2.1 and Clause 2.6(c) of Schedule 2 of the AHA.</p> | <ul style="list-style-type: none"> <li>Tested whether 48 separate TUT's (12 x 3 Pricing Zones for monthly Access Holders and 4 x 3 Pricing Zones for quarterly Access Holders) have been completed for the 2018 year. If the number of separate TUT's appear incomplete, we will ascertain the reason why;</li> <li>Tested whether the TUT Reports are carried out using the diagram provided in Clause 2.1(b) of Schedule 2 of the AHA; and</li> <li>If a TUT was not prepared, we tested whether the criteria of clause 2.6(c) of Schedule 2 of the AHA were met.</li> </ul>                     | There were no exceptions noted in the procedures performed in all material respects. |
| Clause 2.1(a) & (b) and clause 2.2 of Schedule 2    | <p><b>Transcription of data into the TUT Reports</b></p> <p>There is a risk that the TUT calculations conducted are not accurately transcribed into the TUT Reports for each Period and each Pricing Zone published on the ARTC website.</p>          | <ul style="list-style-type: none"> <li>Reconciled each TUT Report published for each Pricing Zone in 2018 against the True-Up Test Master Spreadsheet to ensure there are no errors in the transcription of data.</li> <li>For December Monthly Base Path Usage (BPU) we reconciled the published results to the Re-Sculpt Spreadsheet results and reconciled total BPU to annual entitlement.</li> </ul>  | There were no exceptions noted in the procedures performed in all material respects. |
|   | <p><b>Completeness of users included into each Pricing Zone</b></p> <p>There is a risk that not all users have been included within each, or the correct, Pricing Zone.</p>   | <ul style="list-style-type: none"> <li>Assessed the completeness of the list of users included in the TUT with reference to executed and operative AHA by reconciling the list of users and their allocation to each Pricing Zone from the True-Up Test Master Spreadsheet (Input Sculpting tab) with the list of users and allocation to Pricing Zones to AHA ARTC Notification to Access Holder Letters; and</li> <li>Tested the allocation of users between Pricing Zones by comparing Load Points for each Access Holder to a Hunter Valley Network Diagram.</li> </ul>                        | There were no exceptions noted in the procedures performed in all material respects. |
| Clause 2.2 of Schedule 2                            | <p><b>Calculation of the System Availability Shortfall</b></p> <p>There is a risk that the System Availability Shortfall or Surplus was not calculated using the formula given in Clause 2.2 of Schedule 2 of the AHA.</p>                            | <ul style="list-style-type: none"> <li>Tested the calculation performed to determine the System Availability Shortfall or Surplus within the Master Spreadsheet to ensure it is consistent with Clause 2.2 of Schedule 2 of the AHA</li> <li>Verified the AHA references and calculation for 'Month true up' and "Quarter True-Up" for each pricing zone within the True-UP Test Master Spreadsheet to ensure in line with clause 2.2 of Schedule 2 of the AHA; and</li> <li>Verified the formula for each pricing zone to ensure in line with the clause 2.2 of Schedule 2 of the AHA.</li> </ul> | There were no exceptions noted in the procedures performed in all material respects. |

## APPENDIX C: REVIEW OF COMPLIANCE WITH SCHEDULE 2 OF THE AHA (CONT.)

| Clause                                  | Risk  | Testing Conducted  | Results  |
|---|---|--|--|
| Clause 2.2 and Clause 2.3 of Schedule 2 | <p><b>Determination of the Network Path Capability</b></p> <p>There is a risk that the Network Path Capability has not been determined and calculated accurately, in accordance with Clause 2.3 of Schedule 2 of the AHA, and that the calculation performed includes errors and/or inconsistencies with source data.</p> | <ul style="list-style-type: none"> <li>Reconciled the NPC figures reported in the True-Up Test Spreadsheet to the NPC Model 2018 Spreadsheet;</li> <li>Re-performed adds and calculations within the Network Path Capability spreadsheet and links between worksheets for accuracy;</li> <li>Reviewed calculation of the Daily NPC (Maximum trains per day multiplied by weighting of demand) and verify the inputs.</li> <li>Reviewed of the calculation and methodology applied for weighting of demand from "Input Path Demand" tab and reconcile to 'Hunter Valley Volume Model 2016' Spreadsheet;</li> <li>Reviewed of calculation of Maximum Trains per Day (using "Headway" tab and reconciling to source data).</li> <li>Considered completeness of non-coal, ad-hoc paths, path maintenance and lost paths into the NPC calculation; and</li> <li>Ensured the determination of the NPC was performed in accordance with Clause 2.3 of the Schedule 2 of the AHA.</li> </ul> | There were no exceptions noted in the procedures performed in all material respects. |
| Clause 2.2 of Schedule 2                | <p><b>Calculation of the Total Path Usage Required</b></p> <p>There is a risk that the Total Path Usage Require has not been determined and calculated accurately, in accordance with Clause 2.2 of Schedule 2 of the AHA, and that the calculation performed include errors and/or inconsistencies with source data.</p> | <ul style="list-style-type: none"> <li>Re-performed adds and calculations within the True-Up Test Master spreadsheet and links between worksheets for accuracy;</li> <li>Agreed data inputs to the True-Up Test Master spreadsheet to the True-Up Inputs AHA Data Spreadsheet, Monthly Categorisation Spreadsheets, Sculpting Model spreadsheet and other source data; and</li> <li>Considered appropriateness of rules and formulae for path usage categorisation and ensure they have been applied as intended.</li> </ul>   | There were no exceptions noted in the procedures performed in all material respects. |
|   |   | <p><u>Aggregated Base Path Usages</u></p> <ul style="list-style-type: none"> <li>Agreed the Monthly (for Monthly TUT reports) and Quarterly (for Quarterly TUT Reports) Aggregated Base Path Usages ("BPUs") to the True-Up Inputs AHA Data spreadsheet and reconcile it to the 'Access Holder Agreement - Updated Advice to Customer - 2018 Monthly Tolerance Path Usages and Base Path Usages' Letter sent to each Access Holder and the Sculpting Model Spreadsheet.</li> <li>For December BPUs that have been adjusted (Access Users who have used up their entitlement and tolerance) we reconciled the total BPU utilised (sum of BPU, Paths Used and Tolerance) to the annual contractual BPU per the Access Holder Letters.</li> </ul>   | There were no exceptions noted in the procedures performed in all material respects. |



## APPENDIX C: REVIEW OF COMPLIANCE WITH SCHEDULE 2 OF THE AHA (CONT.)

| Clause                   | Risk  | Testing Conducted  | Results  |
|--------------------------|---|--|--|
| Clause 2.2 of Schedule 2 | <b>Calculation of the Total Path Usage Required (Cont.)</b> | <u>Aggregated Ad Hoc Path Usage</u> <ul style="list-style-type: none"> <li>Obtained comfort over the Categorisation spreadsheet by reconciling the Monthly (for Monthly TUT reports) and Quarterly (for Quarterly TUT Reports) Aggregated Ad Hoc Path Usage for each pricing zone within the TUT Master Spreadsheet to the Categorisation spreadsheet extracted from the Coal Train Path Usage system; and</li> <li>Used the results from Allocation testing in Clause 2.1(a)&amp;(b) and clause 2.2 of Schedule 2 to recalculate ad hoc path usage for each pricing zone.</li> <li>For Deemed Ad Hoc (Quarterly Access Holders) we recalculated on a sample basis.</li> <li>For Actual Ad Hoc (Monthly Access Holders) we recalculated on a sample basis Access Holder's Actual Ad Hoc balance. We recalculated the Ad Hoc balance using Total Number of Trains from CTPU, Monthly Tolerance (from Access Holder Letters) and Paths Traded (agree to Track Transfer Forms).</li> </ul>        | There were no exceptions noted in the procedures performed in all material respects. |
|                          |   | <u>Tolerance Cap</u> <ul style="list-style-type: none"> <li>Agreed the Monthly (for Monthly TUT reports) and Quarterly (for Quarterly TUT Reports) Aggregated Tolerance to the True-Up Inputs AHA Data spreadsheet and reconciled it to the Sculpting Model spreadsheet;</li> <li>Reviewed the calculation performed to determine the Monthly Tolerance Cap to ensure it is consistent with the Determination of Tolerance given in Clause 3.3 of the AHA;</li> <li>Reviewed that the Target Monthly Tolerance Cap has been calculated in line with RCG % (10% if entitlement);</li> <li>Reviewed of the determination of individual allowance (10% of entitlement or 12 paths) to ensure it is in line with Clause 3.3(c) and (d) of the AHA; and</li> <li>Checked that the Monthly Tolerance used is the lesser amount between the Target Monthly Tolerance Cap (10% of entitlements) and the total individual tolerance of Access Holders (10% of each entitlement or 13 paths).</li> </ul> | There were no exceptions noted in the procedures performed in all material respects. |

## APPENDIX C: REVIEW OF COMPLIANCE WITH SCHEDULE 2 OF THE AHA (CONT.)

| Clause                   | Risk  | Testing Conducted   | Results  |
|--------------------------|---|---|--|
| Clause 2.2 of Schedule 2 | <b>Calculation of the Total Path Usage Required (Cont.)</b> | <u>Actual Maintenance Requirement</u> <ul style="list-style-type: none"> <li>Agreed the Monthly (for Monthly TUT reports) and Quarterly (for Quarterly TUT Reports) Actual Maintenance figures to the True-Up Inputs AHA Data spreadsheet and reconcile it to the NPC Model 2018 Masterfile spreadsheet; and</li> <li>Reviewed the calculation performed and data used to determine the Actual Maintenance figures against the Monthly Performance Reports provided by the ARTC Maintenance Team and the NPC calculation.</li> </ul>  | Refer to <b>Issue 2</b> raised in Appendix A above.                                  |
|                          |   | <u>System Losses ('Actual system losses - ARTC' and ' Lesser of actual vs. forecast system losses - other parties')</u> . <ul style="list-style-type: none"> <li>Agreed the Monthly (for Monthly TUT reports) and Quarterly (for Quarterly TUT Reports) Actual System Losses figures to the True-Up Inputs AHA Data spreadsheet;</li> <li>Reconciled the Actual System Losses figures against the Cancellation files supplied by the HVCCC (for export cancellation) and email support provided by the electricity generator (for domestic cancellations);</li> <li>Reviewed how the system losses were allocated to the ARTC (Actual System Losses - ARTC) and to Other Parties (included in the 'Lesser of actual vs. forecast system losses - other parties'); and</li> <li>Recalculated the lesser of actual vs. forecast system losses - other parties.</li> </ul> | There were no exceptions noted in the procedures performed in all material respects. |
|                          |   | <u>Path Usage consumption due to utilisation by non-Coal Trains</u> <ul style="list-style-type: none"> <li>Agreed the Monthly (for Monthly TUT reports) and Quarterly (for Quarterly TUT Reports) Non-coal paths figures to the True-Up Inputs AHA Data spreadsheet and to the NPC Model 2018 Masterfile spreadsheet; and</li> <li>On a sample basis, reviewed the calculation of the Non-coal paths figures performed in the NPC Model 2018 Masterfile spreadsheet using the monthly actual non-coal paths directly extracted from the WebRAM system (National Rail Access Management System).</li> </ul>  | Refer to <b>Issue 2</b> raised in Appendix A above.                                  |
|                          |   | <u>Path usages not made available due to Availability Exceptions</u> <ul style="list-style-type: none"> <li>Agreed the Monthly (for Monthly TUT reports) and Quarterly (for Quarterly TUT Reports) Availability Exceptions figures per the Master Spreadsheet to ARTC's System Losses Calculation; and</li> </ul> Reconciled the Availability Exceptions figures against the Cancellation files supplied by the HVCCC (for export cancellation).  | There were no exceptions noted in the procedures performed in all material respects. |

## APPENDIX C: REVIEW OF COMPLIANCE WITH SCHEDULE 2 OF THE AHA (CONT.)

| Clause  | Risk   | Testing Conducted  | Results  |
|---|--|--|--|
| Clause 2.4 and 2.6(a) and (b) of Schedule 2                     | <p><b>Rebate Accruals</b></p> <p>There is a risk that accrual rebates were not adequately and accurately calculated.</p>   | <ul style="list-style-type: none"> <li>Checked whether the accrual was adequately carried forward to enable accurate recognition of potential future period recovery, when an accrual rebate is calculated for a particular period; and</li> <li>Considered calculation of rebate and ensure the calculation appear adequate (e.g. a system availability shortfall existed) and that the rebate has been assigned to the correct users the prescribed pro-rata method.</li> </ul>  | There were no exceptions noted in the procedures performed in all material respects. |
| Clause 2.5 of Schedule 2  | <p><b>Allowed Tolerance</b></p> <p>There is a risk that Access Holders do not receive one or more Tolerance path usages they were entitled to in situations where the SAS is greater than zero.</p>  | Where applicable, we reviewed the process for determining allowed tolerance levels and ensured levels are adequately encompassed into the TUT calculation. This included reviewing compliance with the requirements of clause 2.5 of the Schedule 2 of the AHA.  | There were no exceptions noted in the procedures performed in all material respects. |
| Clause 2.2, Clause 2.3, Clause 2.4 and Clause 2.5 of Schedule 2 | <p><b>Assumptions and estimates</b></p> <p>There is a risk that assumptions and estimates used in the TUT calculations are not reasonable or not adequately supported by supporting evidence and documentation</p>   | Where assumptions and estimated have been used in the TUT calculations, we assessed their adequacy and reconciled them against source documentation used to make such assumptions and estimates.   | There were no exceptions noted in the procedures performed in all material respects. |
| Clause 2.7 of Schedule 2  | <p><b>Publication of TUT Reports</b></p> <p>There is a risk that the monthly and quarterly TUT Reports for each Pricing Zone are not published on the ARTC's website within three weeks of the end of the relevant period, as required by Clause 2.2 of Schedule 2 of the AHA.</p> | <ul style="list-style-type: none"> <li>Checked whether the ARTC has published on its website the system TUT reports for each Pricing Zone in respect of any System Availability Shortfall (or surplus);</li> <li>Tested whether published TUT reports were published within the required 3 weeks from the end of the relevant period;</li> <li>If a TUT report for a Pricing Zone has not been published, we ascertained the reason why; and</li> <li>For any rebate accrued to the Access Holder in the period of each TUT, verified whether the ARTC appropriately notified the Access Holder of the accruing rebate.</li> </ul> | Refer to <b>Issue 1</b> raised in Appendix A above.                                  |
| Clause 2.2, Clause 2.3, Clause 2.4 and Clause 2.5 of Schedule 2 | <p><b>Review of the TUT calculations and reporting</b></p> <p>There is a risk of errors and inconsistencies into the TUT calculations and reports if no formal reviews are performed over the data inputs and calculation performed.</p>   | <ul style="list-style-type: none"> <li>We reviewed evidence of sign-off and checks performed over data inputs and calculations used for the monthly and quarterly TUT.</li> </ul>  | There were no exceptions noted in the procedures performed in all material respects. |

## APPENDIX D: COMPLIANCE AND RISK RATING

### Risk Assessment

#### Risk and Compliance Ratings

The risk and compliance ratings applied to assess the issues identified are as follows:

#### Compliance Ratings

| Compliance Ratings |          |  |
|--------------------|----------|--|
| Level 1            | <b>1</b> | Evidence of non-compliance with the Schedule 2 of the AHAs.  |
| Level 2            | <b>2</b> | Issues which could possibly result in non-compliance with the Schedule 2 of the AHAs, but where no evidence of actual non-compliance was found. However, it is considered to be insufficient formal evidence of controls in place, or being actioned in relation to these issues. Actions to address these matters should occur as soon as possible, and within a period of no more than 2 months. |
| Level 3            | <b>3</b> | Compliance policies and procedures have been implemented and are operating effectively. Future compliance requirements have yet to come into effect.   |






#### Risk Ratings

The ratings assigned to consequence and likelihood is used to determine level of risk using the following table:

|             |           | LIKELIHOOD |          |          |          |
|-------------|-----------|------------|----------|----------|----------|
|             |           | Rare       | Unlikely | Possible | Likely   |
| CONSEQUENCE | Very High | High       | High     | Critical | Critical |
|             | Major     | Moderate   | High     | High     | Critical |
|             | Medium    | Low        | Moderate | Moderate | High     |
|             | Minor     | Low        | Low      | Low      | Moderate |

## APPENDIX D: COMPLIANCE AND RISK RATING (CONT.)

The following framework for audit ratings has been developed for prioritising audit findings according to their relative significance depending on their impact to the process.

| Rating             |   | Action Required   |
|--------------------|---|---|
| <b>Critical</b>    |    | <ul style="list-style-type: none"> <li>Requires immediate notification to Board</li> <li>Requires CEO / executive management attention</li> <li>Requires immediate action within 7-10 days, followed by detailed plan of action to be put in place with an expected resolution date and substantial improvement within 30 days</li> </ul> |
| <b>High</b>        |    | <ul style="list-style-type: none"> <li>Requires prompt management action</li> <li>Requires executive management attention</li> <li>Requires a detailed plan of action to be put in place within 30 days, with an expected resolution date and a substantial improvement within 2 months</li> </ul>  |
| <b>Moderate</b>    |    | <ul style="list-style-type: none"> <li>Requires short-term management action</li> <li>Required general management attention</li> <li>Requires a detailed plan of action to be put in place within 60 days, with an expected resolution date and a substantial improvement within 3 months</li> </ul>                                      |
| <b>Low</b>         |    | <ul style="list-style-type: none"> <li>Requires little or no management action</li> <li>If action required, timeframe for action is subject to competing priorities and cost/benefit analysis, e.g. 3-6 months</li> </ul>   |
| <b>Implemented</b> |  | <ul style="list-style-type: none"> <li>Recommendation implemented</li> <li>No further actions considered necessary</li> </ul>   |

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