



# AUSTRALIAN RAIL TRACK CORPORATION LIMITED

Hunter Valley Access Undertaking – System Wide True Up Test Audit

Reasonable Assurance Engagement Report

April 2018

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# 1. 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, 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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# 1. 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 (2017);
- Conducted a trend analysis comparing the 2017 monthly and quarterly TUT Reports to the 2016 monthly and quarterly TUT Reports;
- Performed detailed testing, which included:
  - Reviewing the completeness of the 2017 TUT conducted;
  - Reconciling each TUT report within the audit period (2017) 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 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 B** 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.

## 1. 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 discrepancy noted in the calculation of system losses. 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 C** of this report.



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

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, as required by Clause 2.7(a), Schedule 2 of the AHAs.



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#### 2. Discrepancy in percentage loss rate applied for the calculation of forecasted system losses

We verified ARTC's calculation of "*Lesser of actual v forecast system losses – other parties*" and reconciled it to input data.

Forecast system losses are calculated using a percentage loss rate for other party losses multiplied by the NPC value. ARTC had utilised a percentage loss rate of 6.4%, however provided support to validate a rate of 6.2%.

We re-calculated the "*Lesser of actual v forecast system losses – other parties*" values for each TUT report in each Pricing Zone using a forecast loss rate of 6.2% and confirmed that the updated figures would not result in a System Availability Shortfall within the audit period.

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

### 1.4 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 an audit finding in the 2016 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.

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## 1. EXECUTIVE SUMMARY (CONT.)

### 1.5 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.

### 1.6 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.

Signed

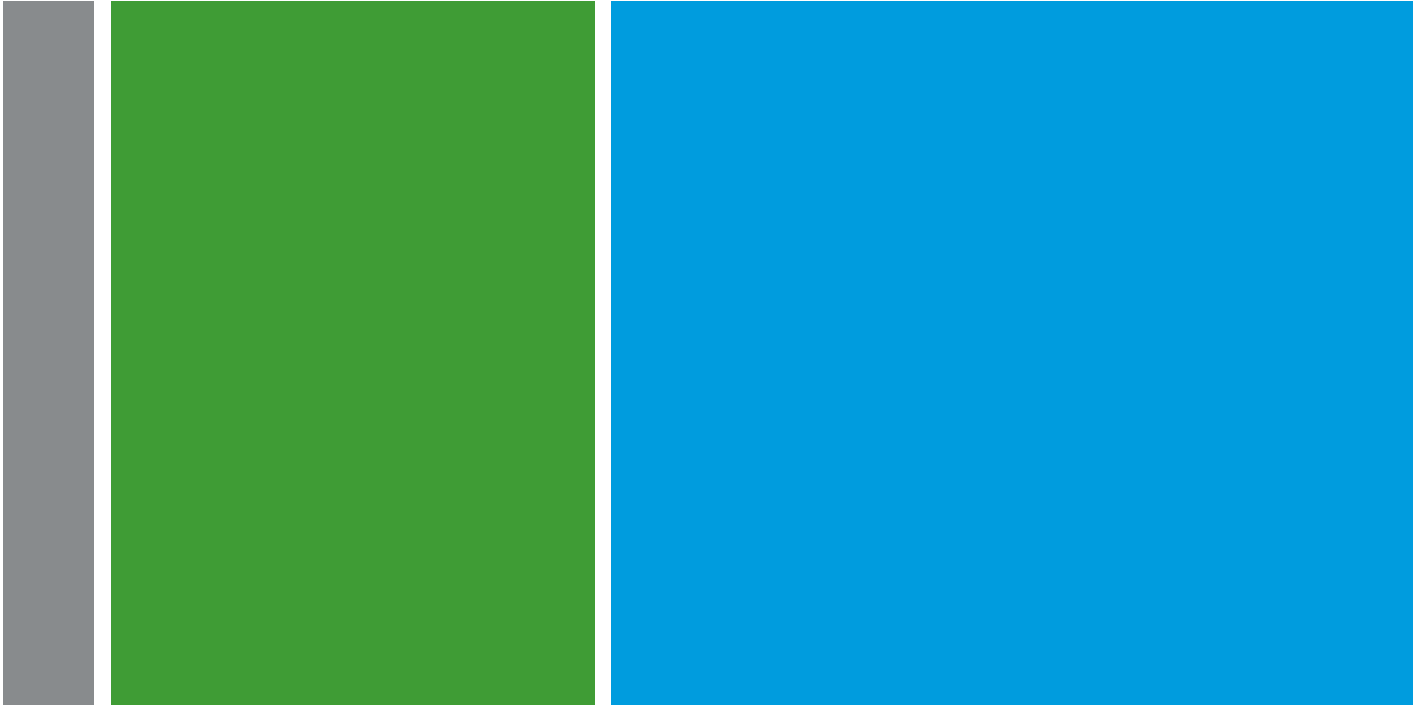


**Tim Pittaway**

Director

RSM Australia Pty Ltd

17 April 2018



# AUTRALIAN RAIL TRACK CORPORATION LIMITED

Independent Reasonable Assurance Report

Hunter Valley Access Undertaking – System Wide True Up Test Audit

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## 2. 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 2017 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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## 2. 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 (2017);
- Conducted a trend analysis comparing the 2017 monthly and quarterly TUT Reports to the 2016 monthly and quarterly TUT Reports;
- Performed detailed testing, which included:
  - Reviewing the completeness of the 2017 TUT conducted;
  - Reconciling each TUT report within the audit period (2017) 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, to the Hunter Valley Access Undertaking in relation to its obligations under Schedule 2 of the Access Holder Agreements for the 2017 True Up Tests.

### RSM AUSTRALIA PTY LTD

Signed



**Tim Pittaway**

Director

RSM Australia Pty Ltd

17 April 2018

## 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 2017 True Up Tests. Management Responses were provided by ARTC for each of these findings. Our compliance and risk ratings have been defined in **Appendix C** 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.

### 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 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.

#### 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 and quarterly TUT Reports for future periods are published within three weeks of the end of each TUT period.

Management Comments			
Noted			
Responsibility	Manager Customer Contracts	Timeframe	April 2018

## APPENDIX A: DETAILED FINDINGS (CONT.)

### Discrepancy in percentage loss rate applied for the calculation of forecasted system losses

Risk	
Compliance	

#### Observation

Clause 2.2(e), Schedule 2 of the AHAs states that the Total Path Usage Required must include:

*‘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”)*’

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%.

We re-calculated the “*Lesser of actual v forecast system losses – other parties*” values for each TUT report in each Pricing Zone applying a loss rate of 6.2%. In applying a 6.2% loss rate, we noted the following variances for Pricing Zones 2 and 3 compared to the 6.4% applied by the ARTC in the TUT report values:

Monthly TUT	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PZ2	-1	-1	-1	-1	-1	-	-1	-	-	-1	-1	-1
PZ3	-	-	-	-	-	-	-1	-	-	-1	-	-

\*Pricing Zones 1 was unaffected, nil variances

The variances for March and November of Pricing Zone 2 resulted in a lower forecast value than the actual, however it did not result in a System Availability Shortfall or a material error.

#### Risk

Without adequate supporting evidence retained for the determination of the system losses rate used to calculate the forecast rate compliance with Clause 2.2(e), Schedule 2 of the AHAs, the “*Lesser of actual v forecast system losses – other parties*” cannot be assessed.

## APPENDIX A: DETAILED FINDINGS (CONT.)

### Discrepancy in percentage loss rate applied for the calculation of forecasted system losses (Cont.)

#### Recommendation

We recommend the ARTC ensure that complete and adequate supporting evidence is retained and is accessible for the determination of the “Lesser of actual v forecast system losses – other parties” for future TUT reports prepared.

Management Comments			
Noted. The minor transposition error did not result in any system availability shortfall. ARTC will ensure complete and adequate supporting documentation is retained.			
Responsibility	Manager Customer Contracts	Timeframe	April 2018

#### 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 an audit finding in the 2016 TUT audit report published on the ARTC’s website, 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.

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

Clause	Risk	Testing Conducted	Results
Clause 2.1(a) & (b) and clause 2.6(c) of Schedule 2	<p><b>Completeness of the 2017 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>Verified that 48 separate TUT's (12 x 3 Pricing Zones for monthly Access Holders and 4 x 3 Pricing Zones for quarterly Access Holders) had been completed for the 2017 year.</li> <li>Verified that the TUT Reports were carried out using the diagram provided in Clause 2.1(b) of Schedule 2 of the AHA.</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>	We reconciled each TUT Report published for each Pricing Zone in 2017 against the True-Up Test Master Spreadsheet to ensure there were no errors in the transcription of data.	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 with the list of users and allocation to Pricing Zones in AHA's agreements the 2017 Train Path Schedule for each AH) and the Coal Train Path Usage System; and</li> <li>Tested the allocation of users between Pricing Zones.</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>	We verified the calculation performed to determine the System Availability Shortfall or Surplus in each TUT report to ensure consistent with Clause 2.2 of Schedule 2 of the AHA.	There were no exceptions noted in the procedures performed in all material respects.

## APPENDIX B: 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>Compared contract entitlements per users to executed agreements;</li> <li>Re-performed adds and calculations within the Network Path Capability spreadsheet and links between worksheets for accuracy;</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>	<p>Refer to the 'Other Matters' paragraph in <b>Appendix A</b> above.</p> <p>There were no exceptions noted in the procedures performed in all material respects.</p>
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 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 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 the appropriateness of rules and formulae for path usage categorisation and ensure they have been applied as intended.</li> </ul>	<p>There were no exceptions noted in the procedures performed in all material respects.</p>
		<p><u>Aggregated Base Path Usages</u></p> <p>We agreed the Monthly (for Monthly TUT reports) and Quarterly (for Quarterly TUT Reports) Aggregated Base Path Usages to the True-Up Inputs AHA Data spreadsheet and reconciled to 'Access Holder Agreement - Updated Advice to Customer - 2017 Monthly Tolerance Path Usages and Base Path Usages' Letter sent to each Access Holder and the Sculpting Model Spreadsheet.</p>	<p>There were no exceptions noted in the procedures performed in all material respects.</p>

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

Clause	Risk	Testing Conducted	Results
Clause 2.2 of Schedule 2	Calculation of the Total Path Usage Required (Cont.)	<p>Aggregated Ad Hoc Path Usage</p> <p>We agreed the Monthly (for Monthly TUT reports) and Quarterly (for Quarterly TUT Reports) Aggregated Ad Hoc Path Usage to the Monthly Categorisation Spreadsheet directly extracted from the Coal Train Path Usage system.</p>	There were no exceptions noted in the procedures performed in all material respects.
		<p><u>Tolerance Cap:</u></p> <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; and</li> <li>Reviewed the calculation performed to determine the Monthly Tolerance Cap to ensure consistent with the Determination of Tolerance given in the AHA.</li> </ul>	There were no exceptions noted in the procedures performed in all material respects.
		<p><u>Actual Maintenance Requirement</u></p> <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 2017 Masterfile spreadsheet;</li> <li>Reviewed the calculation performed and data used to determine the Actual Maintenance figures against the Monthly Performance Reports provided by the HVCCC and the NPC calculation; and</li> <li>Where the availability percentages of Train Paths were manually determined due to unavailability of the HVCCC's systems, we reviewed the methodology used to estimate the availability percentage used in the actual maintenance calculation.</li> </ul>	There were no exceptions noted in the procedures performed in all material respects.

## APPENDIX B: 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>	<p><u>System Losses ('Actual system losses - ARTC' and ' Lesser of actual vs. forecast system losses - other parties').</u></p> <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 the data 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>Reviewed the calculation of the lesser of actual vs. forecast system losses - other parties.</li> </ul>	Refer to Issue 2 raised in Appendix A above.
		<p><u>Path Usage consumption due to utilisation by non-Coal Trains</u></p> <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 2017 Masterfile spreadsheet; and</li> <li>Reviewed the calculation of the Non-coal paths figures performed in the NPC Model 2017 Masterfile spreadsheet using the monthly actual non-coal paths directly extracted from the WebRAM system (National Rail Access Management System).</li> </ul>	There were no exceptions noted in the procedures performed in all material respects.
		<p><u>Path usages not made available due to Availability Exceptions</u></p> <ul style="list-style-type: none"> <li>Agreed the Monthly (for Monthly TUT reports) and Quarterly (for Quarterly TUT Reports) Availability Exceptions figures to the True-Up Inputs AHA Data spreadsheet; and</li> <li>Reconciled the Availability Exceptions figures against the Cancellation files supplied by the HVCCC (for export cancellations).</li> </ul>	There were no exceptions noted in the procedures performed in all material respects.



## APPENDIX B: 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 rebate were not adequately and accurately calculated.</p>	We confirmed that no rebate accruals were required to be calculated as there were no System Availability Shortfall noted within the audit period (2017).	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>	We confirmed that there were no allowed tolerance required as there were no System Availability Shortfall noted within the audit period (2017).	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>Assumptions and estimates</p> <p><b>There</b> 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 had been used in the TUT calculations, we assessed their adequacy and reconciled them against source documentation used to make such assumptions and estimates.	Refer to Issue 2 raised in Appendix A above.
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) within the three weeks period;</li> <li>For TUT reports for Pricing Zones which had not been published, we verified the reason why.</li> </ul>	Refer to Issue 1 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>Inquired with management over the review process; and</li> <li>Confirmed that checks were performed over data inputs and calculations used for the monthly and quarterly TUT, however there were no formal evidence of sign-off retained.</li> </ul>	There were no exceptions noted in the procedures performed in all material respects.

## APPENDIX C: 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 C: 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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