



INFORMATION

Shire of Denmark

2012 OPERATIONAL AUDIT AND ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority today published the 2012 operational audit (**Audit**) and asset management system review (**Review**) [report](#) for the Shire of Denmark (**Shire**).

Action by the Authority

The Authority is not satisfied with the Shire's compliance with its licence conditions, nor the effectiveness of their asset management system. Consequently, the Authority has decided to reduce the period of time until the next Audit and Review from 36 months to 18 months. The next Audit and Review will cover the period 1 June 2012 to 30 November 2013, with the report on the Audit and Review to be provided to the Authority by 28 February 2014.

After considering the Review report findings, the Authority is of the view that the Shire is contravening clause 17 of their licence (asset management system) because it does not have an effective asset management system in respect of the assets used to provide services covered by the licence. The Authority considers the contravention to be serious and has decided to serve a notice pursuant to section 39(1) (failure to comply with licence) of the *Water Services Licensing Act 1995* (**section 39 notice**). The section 39 notice requires the Shire to rectify all of the asset management deficiencies identified in the Review report by 30 November 2013.

The Authority will be closely monitoring the progress that the Shire makes towards addressing the licence contraventions and asset management deficiencies identified in the Audit and Review.

Operational Audit

The Authority is concerned with the Shire's level of compliance with the licence. The auditor identified two non-compliances in the Audit and the Authority is of the view that the Shire has not been fully compliant with a further four licence obligations, making six non-compliances in total.

The auditor has made 16 recommendations in relation to the Audit, eight of which the Authority considers address non-compliances with the licence. The Authority also notes that six of the 16 recommendations have been carried forward from the 2009 Audit. After considering the Audit report, the Authority is of the view that the Shire does not have an adequate control environment in place to ensure their compliance with the licence conditions.

Asset Management Review

The Authority is concerned by the number of process deficiencies disclosed in the Review. The main areas of concern with the Shire's asset management system are the outdated Asset Management Plan; the lack of monitoring of the condition of the assets; the lack of scheduling and documenting of maintenance work; the outdated risk management plan and

contingency plan; and the lack of capital expenditure planning and budgeting for asset replacements or refurbishments.

The auditor made 34 recommendations in the Review, 11 of which the Authority considers to address process deficiencies. The Authority is of the view that the overall asset management performance of the Shire needs to be improved as a matter of priority.

For further information contact:

Richard Taylor
Riley Mathewson Public Relations
Ph: 08 9381 2144
Fax: 08 9381 3877

LYNDON ROWE
CHAIRMAN

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