

# ***Operating Licence***

## **Performance Audit Report**

*Water Corporation*

*Performance Audit  
Report*

*November 2012*



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# **1 Executive Summary**

## **1.1 Introduction**

Section 37 of the Water Services Licensing Act 1995 requires the Water Corporation (the Corporation) to provide the Economic Regulation Authority (the Authority) with an operational audit (audit) of its licence which is conducted by an independent expert acceptable to the Authority.

The Authority approved PricewaterhouseCoopers to undertake the audit in May 2012.

The Corporation is the principal supplier of water, wastewater and drainage services in Western Australia. The Corporation also provides bulk water to farms for irrigation. Its services, projects and activities span over 2.5 million square kilometres.

We have conducted the performance audit in accordance with the Standard on Assurance Engagements (ASAE) 3500 “Performance Engagements”. The performance audit is an audit of the effectiveness of the measures taken by the Corporation to meet the obligations of the performance and quality standards referred to in the Water Services Licence. This audit and review covered the period 1 July 2009 to 30 June 2012.

An audit plan was developed and approved by the Authority using a risk based approach to focus on key risk areas in accordance with the Corporation’s water services risk profile and the industry best practice standard AS/NZS 31000:2009.

A preliminary analysis was performed on the licensing framework and the Authority’s Water Compliance Reporting Manual, May 2011 for the water trading licence to ascertain the performance and compliance audit requirements of the Corporation and to determine the nature and extent of audit activity. We have prioritised the audit coverage based on the assigned risk profile with the emphasis on providing greater focus and depth of testing for higher risk areas.

We have assessed the controls and performance against those standards by the Corporation with the relevant licence obligations through a combination of interviews/enquiries, observation, examination of documents and detailed testing.

The report presents the findings from the performance audit.

## **1.2 Audit Objectives, Scope and Approach**

### **Objectives**

The objective of the Operating Licence audit is to evaluate the effectiveness of the measures taken by the Corporation to meet the obligations of the performance and quality standards referred to in the Water Services Licence. The audit focuses on the Corporation’s systems and effectiveness of processes used to ensure compliance with the obligations, standards, outputs and outcomes as required by the Licence.

### **Audit Scope**

For each applicable licensing requirement, the audit effort for the Operating Licence considered the following:

- *Process compliance* – the effectiveness of the systems and procedures in place including the adequacy of internal controls;
- *Outcome compliance* – the actual performance against standards prescribed in the licence;
- *Output compliance* – the existence of the output from systems prescribed in the licence;
- *Integrity of performance reporting* – the completeness and accuracy of the performance reporting to the Authority; and

- *Compliance with any individual licence conditions* – the requirements imposed on the Corporation or specific issues to follow up that are advised by the Authority.

The period covered by the audit was 1 July 2009 to 30 June 2012. We performed our audit during the period July and August 2012.

## ***Audit Approach***

Our audit has been conducted in accordance with the Standard on Assurance Engagements (ASAE) 3500 “Performance Engagements” and accordingly included such tests and procedures as we considered necessary in the circumstances. These procedures have been undertaken to form an opinion whether in all material respects, the control procedures in relation to the Corporation’s Water Service Licence operated effectively based on the relevant licensing requirements.

An audit plan was developed and approved by the Authority using a risk based approach to focus on key risk areas in accordance with AS/NZ 31000:2009. Preliminary analysis was performed on the licensing framework for the Water Services Licence to ascertain the performance and compliance audit requirements of the Corporation and to determine the nature and extent of audit activity. The Authority’s Water Compliance Reporting Manual, May 2011 and Audit Guidelines: Electricity, Gas and Water, August 2010 provided a consolidated list of the key obligations relating to water licences and was utilised as part of the risk assessment process to suitably tailor the audit approach for the operating licence audit.

In accordance with the Operating Licence Audit Plan approved by the Authority in July 2012, the audit adopted a risk based approach to validate compliance with the licence conditions. Under this approach, we have used the audit priority assessment and the alignment of the Water Service Licence requirements to the Corporation’s business processes to determine the nature and extent of testing within the audit. The nature and extent of testing varied so that as the audit priority of the licence obligations increased, the persuasiveness of the evidence that was obtained was also increased. Where the audit priority of similar requirements was different, the audit priority defaulted to the highest priority to ensure that any interdependencies were considered.

In addition, the audit plan also took into account the Authority’s views with respect to audit priority and testing following the Authority’s review and feedback of the draft audit plan. As part of our audit approach, we also utilised AECOM, one of the world’s largest engineering consultancy firm’s with specialist skills in water management and asset management systems.

## ***1.3 Assessment of the control environment***

Our review has noted that the Corporation has a satisfactory control environment. In particular we noted:

- A well defined organisational structure with assigned responsibilities for compliance. Additionally, the Corporation has mature and accessible policies and procedures governing working practices.
- The cumulative experience and knowledge of key staff within the business facilitates a culture of continuous improvement and training. The assistance provided by all Water Corporation employees through the duration of our audit has also demonstrated the organisation’s commitment and focus on meeting their obligations under the Operating Licence.
- The Water Corporations Asset Management System incorporates a number of key sub-systems which integrate into a whole-of-organisation approach to the management, monitoring and reporting of assets. The various asset management sub-systems interface in to the organisations financial and operations systems allowing real-time information to be provided throughout the organisation.

## 1.4 Performance Summary

The compliance ratings have been applied based on the definitions stipulated in Authority's Audit Guidelines: Electricity, Gas and Water, August 2010. Compliance ratings have been determined based on the following scale.

**Table 1 Operational / Performance Compliance Rating Scale**

Compliance Status	Rating	Description of Compliance
Compliant	5	Compliant with no further action required to maintain compliance
Compliant	4	Compliant apart from minor or immaterial recommendations to improve the strength of internal controls to maintain compliance
Compliant	3	Compliant with major or material recommendations to improve the strength of internal controls to maintain compliance
Non-Compliant	2	Does not meet minimum requirements
Significantly Non-Compliant	1	Significant weaknesses and / or serious action required
Not Applicable	N/A	Determined that the compliance obligation does not apply to the licensee's business operations
Not Rated	N/R	No relevant activity took place during the audit period, therefore it is not possible to assess compliance

### Operational / Performance Audit Compliance Summary

Compliance Manual Reference	Licence Condition	Consequence Major Moderate Minor	Likelihood Likely Probable Unlikely	Inherent Risk High Medium Low	Control Rating Strong Moderate Weak	Compliance Rating N/R	Compliance Rating N/A	Compliance Rating 1	Compliance Rating 2	Compliance Rating 3	Compliance Rating 4	Compliance Rating 5
1	The licensee must provide the water service.	Major	Probable	High	Moderate					✓		
2	The Licensee must achieve prescribed standards as defined in the regulations.	Moderate	Likely	High	Moderate					✓		
3	The Licensee must have an Asset Management System in respect to the licensed activity.	Moderate	Unlikely	Medium	Moderate							✓
4	The Licensee must notify the Authority of any changes to the Asset Management System.	Moderate	Unlikely	Medium	Moderate	✓						

## Executive Summary

Compliance Manual Reference	Licence Condition	Consequence Major Moderate Minor	Likelihood Likely Probable Unlikely	Inherent Risk High Medium Low	Control Rating Strong Moderate Weak	Compliance Rating N/R	Compliance Rating N/A	Compliance Rating 1	Compliance Rating 2	Compliance Rating 3	Compliance Rating 4	Compliance Rating 5
5	The Licensee must not less than once in every period of 24 months (or such other period determined by the Authority) provide the Authority with an independent expert report, acceptable to the Authority, on the effectiveness of the Asset Management System.	Moderate	Unlikely	Medium	Strong							✓
6	The Licensee must not less than once in every period of 24 months (or such other period determined by the Authority) provide the Authority with an operational audit conducted by an independent expert, acceptable to the Authority.	Moderate	Unlikely	Medium	Strong							✓
7	The Licensee must comply with the service and performance standards as set out in Schedule 4.	Moderate	Likely	High	Moderate					✓		
8	The licensee must pay the applicable fees in accordance with the regulations.	Minor	Unlikely	Low	Strong							✓
9	The licensee must establish a customer complaints process as set out in Schedule 3.	Minor	Likely	Medium	Moderate							✓
10	The licensee must resolve customer complaints within 15 business days of the receipt of complaint.	Moderate	Likely	High	Moderate							✓
12	The licensee must provide appropriately trained staff to respond to complaints.	Minor	Likely	Medium	Moderate							✓
14	The licensee must provide an appropriate system to monitor and record the number, nature of and outcomes to complaints.	Minor	Likely	Medium	Moderate							✓



## Executive Summary

Compliance Manual Reference	Licence Condition	Consequence	Likelihood	Inherent Risk	Control Rating	Compliance Rating N/R	Compliance Rating N/A	Compliance Rating 1	Compliance Rating 2	Compliance Rating 3	Compliance Rating 4	Compliance Rating 5
		Major Moderate Minor	Likely Probable Unlikely	High Medium Low	Strong Moderate Weak							
15	The licensee must inform the customer of the option to refer a disputed complaint to the Department of Water.	Minor	Likely	Medium	Moderate							✓
17	The licensee must co-operate with the Department of Water's request for information concerning a disputed complaint.	Minor	Likely	Medium	Moderate							✓
18	The licensee must, on request, provide complaints details to the Department of Water.	Minor	Likely	Medium	Moderate							✓
19	The licensee must establish a Customer Service Charter as set out in Schedule 3.	Moderate	Unlikely	Medium	Strong							✓
20	The licensee must make the Customer Service Charter available to its customers in the three ways detailed in the licence.	Moderate	Unlikely	Medium	Strong							✓
21	The licensee must review its Customer Service Charter at least once in every three year period.	Moderate	Unlikely	Medium	Strong							✓
22	The licensee must provide its services consistent with its Customer Service Charter.	Moderate	Likely	High	Moderate							✓
23	The licensee must establish customer consultation processes as set out in Schedule 3.	Minor	Unlikely	Low	Moderate							✓
24	The licensee may either establish a Customer Council or institute at least 2 of the following: establish a regular meeting; publish a newsletter or run other public forums, concerning the licensed activities.	Minor	Unlikely	Low	Moderate							✓
25	The licence must consult the Authority on the type and extent of consultation to be adopted by the licensee.	Minor	Unlikely	Low	Moderate							✓

Compliance Manual Reference	Licence Condition	Consequence Major Moderate Minor	Likelihood Likely Probable Unlikely	Inherent Risk High Medium Low	Control Rating Strong Moderate Weak	Compliance Rating N/R	Compliance Rating N/A	Compliance Rating 1	Compliance Rating 2	Compliance Rating 3	Compliance Rating 4	Compliance Rating 5
26	The licensee must, if at the request of the Authority, establish other forums for consultations, to enable community involvement in issues relevant to licence obligations.	Minor	Unlikely	Low	Moderate	✓						
28	The licensee must prior to making a major change to the operation of a water service hold a public meeting and seek written submissions.	Minor	Unlikely	Low	Moderate		✓					
30	The licensee may enter into an agreement with a customer to provide water services that may exclude, modify or restrict the terms of the licence.	Minor	Likely	Medium	Strong							✓
31	The licensee must publish a report annually that includes the specified information	Moderate	Probable	Medium	Strong							✓
32	The licensee must conduct a customer survey if directed to by the Authority.	Minor	Unlikely	Low	Strong	✓						
33	The licensee must enter into a MoU with the Department of Health (DoH).	Moderate	Unlikely	Medium	Strong							✓
34	The licensee and DoH must review and renew the MoU every 3 years.	Moderate	Probable	Medium	Moderate	✓						
35	The licensee must provide the Authority with a complete copy of the MoU within one month of entering into the MoU.	Moderate	Unlikely	Medium	Moderate	✓						
36	The licensee must provide the Authority with any amendments to the MoU within one month of entering into any amendments to the MoU.	Moderate	Unlikely	Medium	Moderate	✓						
37	The licensee must comply with the terms of the MoU.	Moderate	Probable	Medium	Strong							✓

Compliance Manual Reference	Licence Condition	Consequence Major Moderate Minor	Likelihood Likely Probable Unlikely	Inherent Risk High Medium Low	Control Rating Strong Moderate Weak	Compliance Rating N/R	Compliance Rating N/A	Compliance Rating 1	Compliance Rating 2	Compliance Rating 3	Compliance Rating 4	Compliance Rating 5
38	The licensee must publish the MoU and any amendments to the MoU within one month of signing (subject to the confidentiality clause 22.3 in the licence).	Moderate	Probable	Medium	Moderate	✓						
39	The licensee must publish the audit report on compliance with its obligations under the MoU on the licensee's web site within one month of the completion of the audit.	Moderate	Probable	Medium	Moderate							✓
40	The licensee must publish its Potable Water Quality Reports quarterly or at a reporting frequency agreed with the Department of Health	Moderate	Probable	Medium	Strong							✓
41	The licensee must maintain accounting records.	Minor	Unlikely	Low	Strong							✓
42	The licensee must comply and require the licensee's auditor to comply with the Authority's Standard Audit Guidelines, minimum requirements regarding appointment of the auditor, scope of audit, conduct of the audit and reporting of the audit.	Minor	Unlikely	Low	Strong							✓
43	The licensee must provide for and notify the Authority of its asset management system within 2 business days from the licence commencement date unless notified in writing by the Authority.	Moderate	Unlikely	Medium	Moderate	✓						
44	The licensee must notify the Authority of any changes to its asset management system within 10 business days from the date of change.	Moderate	Unlikely	Medium	Moderate	✓						

Compliance Manual Reference	Licence Condition	Consequence	Likelihood	Inherent Risk	Control Rating	Compliance Rating N/R	Compliance Rating N/A	Compliance Rating 1	Compliance Rating 2	Compliance Rating 3	Compliance Rating 4	Compliance Rating 5
		Major Moderate Minor	Likely Probable Unlikely	High Medium Low	Strong Moderate Weak							
45	The licensee must comply and require the licensee's expert to comply with the Authority's Standard Guidelines dealing with the asset management system review including, minimum requirements, regarding appointment of the expert reviewer, scope of review conduct of the review and reporting of the outcomes of the review.	Minor	Probable	Low	Strong							✓
46	The licensee must report to the Authority if it is under external administration within 2 business days or significant change in its financial or technical circumstances within 10 business days.	Moderate	Unlikely	Medium	Moderate	✓						
47	The licensee must provide any information the Authority may require in connection with its functions under the Act.	Moderate	Unlikely	Medium	Strong							✓
48	The licensee must comply with the information reporting requirements as set out in Schedule 5.	Moderate	Unlikely	Medium	Strong							✓
49	The licensee must publish relevant information directed to do so by the Authority within the specified timeframe.	Minor	Probable	Low	Strong	✓						
Extra 1	The Licensee must set out in writing its conditions for connection and make that information available to all applicants for connection and to people inquiring about connection.	Minor	Unlikely	Low	Strong							✓

Compliance Manual Reference	Licence Condition	Consequence Major Moderate Minor	Likelihood Likely Probable Unlikely	Inherent Risk High Medium Low	Control Rating Strong Moderate Weak	Compliance Rating N/R	Compliance Rating N/A	Compliance Rating 1	Compliance Rating 2	Compliance Rating 3	Compliance Rating 4	Compliance Rating 5
Extra 2	The licensee must ensure that its services are available for connection on request to any land situated in the Operating Areas, subject to the applicant meeting any conditions the licensee may determine to ensure safe, reliable and financially viable supply of services to land in the Operating Areas in accordance with this licence and any Water Acts. Satisfactory compliance with the conditions of connection is to be taken as forming an essential requirement of gaining approval for connection to the licensee's schemes.	Minor	Unlikely	Low	Strong							✓
Extra 3	The licensee may, with the written agreement of the property owner, discontinue a service to a property where the servicing of the property is not commercially viable.	Minor	Unlikely	Low	Moderate							✓

## 1.5 Key Findings

We are pleased to note that there were no areas of non compliance noted from our review.

The following issues were identified that relate to recommendations for improvements to processes and/or controls relating to compliance requirements.

Report Reference	Compliance Manual Reference / Licence Condition	Finding	Recommendation for Improvement	Post Audit Action Plan
1	1 - The licensee must provide the water service.	During the period July 2009 - March 2012, there were no procedures undertaken by the Corporation to determine the existence of assets and / or services outside of the operating licence area.  In May 2010, the Corporation applied to the Authority to align the operating licence area with the control area. In part, this request	We recommend that management continue to perform the review of assets and services outside the operating licence / control area on a periodic basis and following significant changes to the operating licence / control area.	We agree with of the recommendation that requires the Corporation to continue to perform the review of assets and services outside the operating areas on a periodic basis.

Report Reference	Compliance Manual Reference / Licence Condition	Finding	Recommendation for Improvement	Post Audit Action Plan
		<p>was to reduce the risk of services being provided outside of the operating licence area. The Corporation communicated to the Authority that, whilst the application was being considered, the Corporation would not be performing monitoring procedures to identify assets and / or services outside of the operating licence area. This decision was acknowledged in an email from the Authority on 18 June 2011.</p> <p>In March 2012, management re-established the monitoring procedures and performed a review of assets and services outside of the operating licence area. This review identified 11 assets outside of the operating licence area which were investigated for the location of the service point. Management concluded that, with the exception of sewer outfalls to the ocean, no services were being provided outside the operating licence area. These exceptions were a result of changes made to match the operating licence area with the control area.</p> <p>A bi-annual process to identify assets and services outside the operating licence / control area has now been formally implemented and commenced in July 2012.</p> <p>In summary, an Operating Area Exception Report is run by Spatial Information Management and forwarded to the Business Improvement and Compliance Analyst in Development Services. This report identifies assets outside the Operating Area, which are investigated to check if services could or are provided off them. The results of monitoring and investigation are communicated to Regulation and Compliance who will liaise with the Authority to extend the Operating Licence Area. If the operating area is extended, the new operating area is provided to Spatial Information Management who updates their mapping systems.</p>		
2	<p>2 - The Licensee must achieve prescribed standards as defined in the regulations.</p> <p>7 - The Licensee must comply with the service and</p>	<p><b>Pressure, Flow and Continuity performance standards</b></p> <p>Testing of 25 work orders relating to pressure and flow noted four instances of incorrect conclusions which were made on the achievement of the performance target. The root cause of these errors appears to be an incorrect application of the measurements by the field crews. Specifically we</p>	<p><b>Pressure, Flow and Continuity performance standards</b></p> <p>We recommend that management provide update training to field crews on the interpretation of measurements and conclusions made around pressure, flow, and</p>	<p>Enhancements will be made to the mobile computing platform. These enhancements will make the process more robust and have inbuilt calculations to more accurately</p>

Report Reference	Compliance Manual Reference / Licence Condition	Finding	Recommendation for Improvement	Post Audit Action Plan
	performance standards as set out in Schedule 4.	<p>noted:</p> <ul style="list-style-type: none"> <li>A sample which was compliant but incorrectly reported as non compliant due to the tap reading being taken as the measuring point rather than the metre reading which was compliant.</li> <li>A sample which was compliant at the time of measurement was incorrectly reported as non compliant because at the field crew estimated the impact of local road works, which were not impacting the pressure or flow at the time of measurement, but were thought to be the source of the complaint.</li> <li>A sample which was reported as compliant but was non compliant as the property was a farmland which can have Services provided by Agreement and therefore different service standards. This property did not have a Service by Agreement and therefore did not meet the performance standard.</li> <li>A sample which was compliant at the tap but due to the absence of a reading at the meter, the system has defaulted the meter reading to zero. The sample was concluded as non-compliant. SAP puts a default zero reading where no data has been entered. Therefore the root cause of this appears to be an error in conclusion by the field crew staff.</li> </ul> <p>Whilst the above exceptions have been noted, the overall performance standard has not been materially impacted and the Corporation is compliant with performance standards in these licence areas.</p> <p>We noted that there are mitigating controls which have been implemented by management to monitor trends at a corporate and regional level. In addition, field crews are provided a detailed guide on how to use and record information through the PDAs.</p> <p><b>Sewerage Systems performance standards</b></p> <p>Testing of 25 work orders relating to overflows noted one exception. Review of the work order noted that whilst an internal overflow was confirmed by the field crew, the flag used to identify internal overflows</p>	<p>interruption work orders.</p> <p>In addition, management should enhance its data analytic capability to better identify reported conclusions that are not congruent with supporting data readings for investigation.</p> <p><b>Sewerage Systems performance standards</b></p> <p>We recommend that management run exception reports to identify changes to reported field crew conclusions to monitor and investigate the underlying reasons for amendments,</p>	<p>record pressure and flow.</p> <p>Training for staff measuring pressure and flow performance will be updated and communicated to field staff as part of the rollout of the mobile computing update.</p> <p>The SAP field identified in the audit is a calculated field. Existing monthly overflow reports will be enhanced to</p>

Report Reference	Compliance Manual Reference / Licence Condition	Finding	Recommendation for Improvement	Post Audit Action Plan
		for reporting purposes was manually deleted post submission of the field crew data. Consequently this instance was under reported.	and address any training needs that are highlighted through this process.	<p>identify where this calculated field has been manually changed and will then be investigated with the regions Information Systems Coordinators.</p> <p>The requirement will also be included in the scope for the development of a new management system.</p>
3	<p>2 - The Licensee must achieve prescribed standards as defined in the regulations.</p> <p>7 - The Licensee must comply with the service and performance standards as set out in Schedule 4.</p>	<p>During the audit period, the Corporation has not measured the performance standard for farmland pressure and flow. The Corporation and Authority are yet to agree a practical approach to measuring pressure and flow in Farmland Areas.</p> <p>The approach outlined in the operating licence to measure pressure and flow in Farmland areas requires the Corporation to measure pressure and flow over a 24 hour period. Following the previous operational audit, the Corporation challenged this approach on the basis that this was not an efficient use of water or resources. This position was identified in the Operating Licence Audit of 2009 and since that time a suitable measurement practice has not been agreed. In the interim poor supply faults within the Farmlands area have been attended along the same lines as with urban pressure and flow faults.</p> <p>The Corporation applied for a licence amendment to the measurement of pressure and flow standards in Farmlands on 14 June 2011 and revised the application on 20 June 2011. The Authority sought public comment on the matter and received 60 submissions. According to the Water Services Act 1995 Section 31(1a), the Authority cannot determine a licence to be amended unless it is satisfied that it is not contrary to public interest to do so. Following the public consultation the Authority recommended the Corporation to engage an external consultant to undertake an independent assessment on alternative methodology for measuring pressure and flow; the Corporation advised the Authority about contracting Deloitte on 6 December 2012. The final report from Deloitte is still pending and therefore the processing of the</p>	<p>Management should continue to work with the Authority to find a workable solution to measuring farmland pressure and flow.</p>	<p>Management will continue to work with the Authority to find a workable solution to measuring farmland pressure and flow.</p>



Report Reference	Compliance Manual Reference / Licence Condition	Finding	Recommendation for Improvement	Post Audit Action Plan
		<p>licence amendment application has not been completed.</p> <p>The Corporation currently measures pressure and flow at a service before any repair or alteration is undertaken. Once remediation activities are complete, the field crew re-measure both parameters. Whilst the minimum flow and pressure requirements for farmlands are quite distinct from urban levels of service, taking an instantaneous measurement does give an indication of whether there is a problem with service/meter as well identifying those instances where the reduction in flow is due to issues under the responsibility of the customer such as an internal pipe blockage. The field operatives are unable to ascertain whether the farmland service meets the associated levels of service outlined in Schedule 4 of the Operating Licence as these are associated with a 24hour supply and not instantaneous measures. The field personnel do however, for reporting sake identify when there is reduction in flow/pressure such as to be below expected.</p>		

## 1.6 Previous Audit Findings

Ref	Licence Condition	Issue	Recommendation	Action Taken	Status
Prior Audit Finding 1	Licence (OL6)	Our examination and testing noted the following issues:			
	Clause 2.2, 2.4 and 2.7 Schedule 1.  Licence (OL9) Clause 2.1, Schedule 2.	<p>1. Our review of the policies and procedures noted that the policy, "Provision of Services Outside of Operating Area # 395964" focused on assets instead of services. Moreover, the FMS exception report identified assets instead of the services outside the operating area. Therefore, during the audit period, the Corporation did not have a suitable detection mechanism for monitoring and identification of potable/non potable water services outside the operating areas.</p> <p>2. Provision of seven services outside of the operating areas, which had been reported to the Authority.</p>	<p>1. The Corporation should update the policy, "Identifying Services Outside the Operating Licence Area" and its processes, to reflect services and not assets. Equally, if feasible, develop a system solution (system generated exception report) that enables the identification of water services outside operating areas.</p> <p>2. The Corporation should report the additional service identified outside the</p>	<p>1. The Corporation updated the policy, "Identifying Services Outside the Operating Licence Area" in June 2012 to comply with Operating License Version OL9 and to reflect the identification of services as opposed to assets.</p> <p>2. As noted in section 1.5, Finding 1, the implementation of this recommendation was</p>	<p><b>1. Closed</b></p> <p><b>2. Closed</b></p>

Ref	Licence Condition	Issue	Recommendation	Action Taken	Status
		Additionally, our audit detected an instance of a wastewater service outside the operating areas, which had not been previously identified and reported to the Authority.	<p>operating area to the Authority.</p> <p>To strengthen the controls and mitigate the instances of providing services outside the operating areas, the Corporation should:</p> <p>(i) Consider changing the exception report process to shift the responsibility for the exception report to Information Services, to enable the use of SIMS for the identification and notification of those services outside operating areas;</p> <p>(ii) Conduct a regular cycle of internal review in relation to services outside operating areas; and</p> <p>(iii) Promulgate the policies and procedures for assessing service applications and instruct staff to comply with the requirements.</p>	<p>suspended, pending a decision on the alignment of the licence and control area.</p> <p>The Corporation has subsequently reported to the Authority the details of those services identified outside of the licence area as at July 2012.</p> <p>(i) We confirmed that SIMS has, and continues to be, the management information tool used to run exception reports for the purpose of identifying assets and services outside of the operating licence and control area.</p> <p>(ii) As noted above, we noted a temporary absence of the monitoring processes to identify assets and services outside of the operating licence area (see section 1.5).</p> <p>A formal and regular process is now established. An ad-hoc review was completed in March 2012 with formal operation of the control and reporting to the Authority in July 2012</p> <p>(iii) As noted above, we noted a temporary absence of the monitoring processes to identify assets and services outside of the operating licence area (see section 1.5).</p> <p>Following the establishment of the control in July 2012, the Manager Regulation &amp; Compliance and the General Manager Planning &amp; Capability Group review the outcome of the regular review of assets and services outside the operating licence / control area is a report that is reviewed by</p> <p>Any instances of non-compliance are investigated to understand the root cause of the exception and where appropriate, address non-compliance with policies and procedures with staff.</p>	

Ref	Licence Condition	Issue	Recommendation	Action Taken	Status
		<p>3. A number of service points may not be correctly recorded within Spatial Information Management System (SIMS) for example, water services (especially farmlands) provided by the Corporation prior to the existence of the Corporation (in its current entity form).</p> <p>Development in technology has enabled the Corporation to accurately record the geographical position of a water service. For those instances of water services having been provided prior to the use of geographical positioning technology, the original service point may not have been recorded. In instances where the Corporation had not accurately recorded a service point, an anomaly will exist such that, FMS may inaccurately identify the service as being outside of operating areas, when the service may actually be within an operating area. The Corporation has yet to accurately identify the geographical positions of those services recorded in FMS or Grange as a result of legacy.</p>	<p>3. Where practicable and feasible, field crew performing meter reading should load and clearly identify service point locations into the GIS to enable Information Services to extract accurate data through SIMS.</p>	<p>3. The Corporation has determined that recording geo-coordinates within SIMS would not be practical as the organisation does not have the technological infrastructure or resources to implement this recommendation.</p> <p>The alignment of the operating licence and control area has reduced the likelihood of a service being provided outside of the licence conditions. Considering the implementation of controls over customer applications, management have decided not to implement recommendation 3.</p>	<p><b>3. Closed:</b> Management have concluded that the recommendation is not practical to implement. However, management will consider recording the location of legacy service points as other opportunities arise. For example, during maintenance or meter readings.</p>
Prior Audit Finding 2	<p>Licence (OL6)</p> <p>Clause 3.2, Schedule 2, Schedule 8.</p> <p>Licence (OL9)</p> <p>Clause 6.1, Schedule 3</p> <p>Clause 3.2 (d).</p>	<p>Our testing and examination of the Corporation's management of customer complaints indicated that there were insufficient notes and in some instances, an absence of notes in the primary customer information services system, Grange, to sufficiently explain the nature and outcome of complaints as required under Schedule 2, Section 1.2(d) of the Operating Licence.</p>	<p>Educate and encourage staff to capture detailed notes in Grange for customer contacts. Records of communications between customers should address relevant details such as dates, times, names and action taken towards resolving the customer's complaint. At the close out of a contact, the resolution should be clearly specified. It is important that time is allocated to staff responsible completing contact information to ensure notes are properly entered.</p>	<p>The Corporation has updated its induction training material to provide guidance on the detail required in Grange for customer contacts and records of communication with customers, and the resolution clearly specified.</p> <p>We noted a quality review process is in place to monitor compliance with documentation requirements.</p> <p>Through inspection of 25 customer complaints for Test 6 (Customer Complaints), we found no exceptions with regard to sufficient notes, information and resolution of customer complaints.</p>	<b>Closed</b>
Prior Audit Finding 3	<p>Licence (OL6)</p> <p>Clause 3.4,</p>	<p>We identified 3 versions of the Customer Advisory Council (CAC) Terms of Reference held in AquaDocs.</p>	<p>The CAC Terms of Reference should be updated with the commencement date</p>	<p>The previous versions of the Terms of Reference have now been consolidated into one</p>	<b>Closed</b>

Ref	Licence Condition	Issue	Recommendation	Action Taken	Status
	Schedule 4.  Licence (OL9)  Clause 8.1,  Schedule 3 Clause 4.1.	Each of the Terms of Reference had a different required number of members.	indicated.	document.	
Prior Audit Finding 4	Licence (OL6)  Clause 3.5, Schedule 5.  Licence (OL9)  Schedule 6, Clause 2.3.	<p>We conducted extensive enquiries with the Corporation's management in relation to a sub-requirement of the compliance element, which concerns <i>"the discontinue of service to a property where the servicing of the property is not commercially viable"</i>.</p> <p>Our enquiries indicated that the Corporation did not have a policy framework for discontinuing a service to a property on the grounds of commercial viability due to a number of factors:</p> <ol style="list-style-type: none"> <li>1. It is not always logistically practical to remove a service from a single property because this involves the removal of infrastructures which may affect other properties within the scheme. Whilst disconnection of service occurred from time to time due to site works on vacant land to prevent a burst for example, this did not involve the discontinuance of service. Discontinuance of service usually had a wider scheme implication;</li> <li>2. Unless acting on a Ministerial direction removing a service may cause a building to be condemned by the Health Department. It should be noted that the Health Department and the WAPC have guidelines on the minimum property lot size that need to have water and sewerage services; and</li> <li>3. The meaning of "non commercial viability" was not clear in the compliance element.</li> </ol> <p>There may be several interpretations of what might be considered "not commercially viable" depending on the predisposition of the business objectives and commercial goals. The Corporation does provide services, particularly to the</p>	That the Corporation establishes a process that identifies and addresses the commercial and regulatory framework for the management of the provision of water services.	<p>No action has been taken by the Corporation in response to this recommendation.</p> <p>Discussions with management noted that discontinuance of a service is specifically where the Corporation no longer provides the services to a property; i.e. the land holder is no longer obliged to pay for the option to have water, regardless of whether they are receiving water or not. Other than the conditions described in the Low Value Vacant Land - Doubtful Debt Policy, we confirmed that no other scenarios would initiate a proposal to discontinue a service, despite the Licence providing for this option be available to the Corporation.</p> <p>The development of a framework and policy to address a hypothetical scenario does not add value or mitigate a risk to the Corporation.</p>	<b>Closed:</b>  Management have concluded that the risk which the recommendation aims to mitigate is not significant enough to warrant the investment to develop the process or framework.

Ref	Licence Condition	Issue	Recommendation	Action Taken	Status
		remote communities, where the provision of such services clearly results in negative financial returns.  The broad scope inherent in the concept of commercial viability makes it difficult to understand, under what circumstances the Corporation can discontinue a service to a property.			
Prior Audit Finding 5	Licence (OL6)	1. The approach to collate the quarterly reports (containing monthly figures) had not been formalised. There were no detailed work procedures for the preparation of the performance report.	1. Establish detailed work procedures for the extraction, collation and preparation of reports to the Authority.	1. A detailed procedure and work instructions have been developed and implemented.	<b>1. Closed</b>
	Schedule 7; Section 1 Schedule 8.				
	Licence (OL9)	2. Our testing noted an (immaterial) arithmetic error in a monthly performance figure. Evidence of supervisory control was not present to demonstrate that a review of the reports was conducted prior to the publication to the Authority. The process of reviewing statistics for quarterly reporting to the Authority was not formally acknowledged ("signed off"/formal confirmation) by Process Manager.	2. Appropriate supervisory control points should be established for the preparation of quarterly reports to the Authority. The Process Manager should formally "sign off" or acknowledge to have reviewed the data for completeness and accuracy as part of the protocols for preparing reports to the Authority. A suitable strategy for reviewing data should be developed to support the process.	2. Supervisory controls points are now established whereby the information provided for reporting is now signed off by the Call Centre Manager.	<b>2. Closed.</b>
	Clause 19, Clause 20.1, Schedule 4 Clause 2.1.				
		3. The definition of "Queue Time" in the work instruction "PI 13 Telephone Calls" did not accurately capture the elements contained within "Queue Time".	3. Revise the definition of "Queue Time" in "Work Instruction PI 13 Telephone Calls", which is the sum of "Delay Time", "Ring Time" and "Queue Time".	3. Closed. The Work Instruction now provides an appropriate definition.	<b>3. Closed.</b>
		4. The last sentence on the first page of the "Work Instruction PI 13 Telephone Calls" was not clear in its intent.  The wording was "Calls that abandon after 5 seconds but have been queued to an agent were not included in the Service Level calculation". In this format, this appeared to be inaccurate because calls abandoned after 5 seconds were considered "abandon"	4. Revise the last sentence on the first page of Work Instruction "PI 13 Telephone Calls" to read "Calls that abandon after 5 seconds but have been queued to an agent are not included in the Service Level calculation <u>for the 70% of calls responded within 20 seconds performance indicator</u> ".	4. Closed. The Work Instruction continues to state that "Calls that abandon after 5 seconds and have been queued to an agent are included in the Service Level calculation." As this is a system limitation and the Water Corporation accepts that figures will be inflated, no further action is required.	<b>4. Closed.</b>

Ref	Licence Condition	Issue	Recommendation	Action Taken	Status
		and thus included in the service level calculation of calls abandoned.  Enquiries with the Call Centre Manager indicated that the intent of the statement was for calls abandoned after 5 seconds not to be included in the service level calculation for the "70% of calls responded within 20 second" performance indicator.	(It should be noted that under OL6, the performance standard for responsiveness changed to 30 seconds.)		
Prior Audit Finding 6	Licence (OL6)  Schedule 7;  Section 2.2, 2.5 and 4.2 Schedule 8.  Licence (OL9)  Clause 19, Clause 20.1, Schedule 4 Clause 3.1, 6.1 and 6.2.	1. Our initial analysis of the pressure and flow test results indicated that there was a Corporation wide average error rate of 27% of the field crew feedback on confirmed poor supply. The error related to the field crew assessing poor supply to the property but the data that they entered into the system suggested there were reasonable pressure and/or flow.  Further investigations revealed that for the measurement of pressure and flow, the Corporation had adopted the standards typical for the service configuration of the property, which exceeded the minimum requirements of the Operating Licence. For example, in the instance where a property that normally experiences flow rate of 60L/minute makes a complaint of poor supply when the flow rate drops to 40L/minute, the field crew would assess poor supply based on the pressure and flow rates typical for the service configuration of that property notwithstanding that the flow of 40L/minute is above the minimum flow rate of 20L/minute as required under the Operating Licence.  As a safe harbour, and to ensure compliance with the minimum standards under the Operating Licence, the Corporation's SAP PM Business Rule No. 6 also applied that "where an initial measurement of pressure or flow are found to be below the Operating Licence standards, the fault shall be recorded in the "Pressure Status Before" field as a confirmed poor supply complaint irrespective of the	1. Improve training for field personnel on the use of MCS for reporting pressure and flow data.  To enhance the data integrity of pressure and flow information, the Corporation should consider:  (i) Including data for pressure and flow in the "information cube" in SAP BW;  (ii) Developing an exception report in SAP BW; and  (iii) Developing a routine process for reviewing exception reports.	1. A new training manual for MCS outlining the recording of data used in the reporting of performance standards was developed and rolled out to staff between November 2009 and March 2010. Additionally, this training manual is part of the induction training materials for new staff.  Sample testing performed under Test 2 (Service and Performance Standards) noted that for 4 of our sample of 25, the conclusions by the field crew did not reconcile to the supporting data. The exceptions represent an error rate of 16% over the sample population, showing a slight improvement since the prior audit.  (i) Pressure and flow has not been included in the 'information cube' but rather within SAP BW. This is to be rolled out in time for the 2012 Authority compliance reporting.  (ii) The exception report is still in development.  (iii) A process to review the exception reports commenced in April 2010 and is being performed by the Senior Operations Analyst.	<b>1. Open: Current year finding noted</b>  The Authority's view of an acceptable margin of error to be within 5-10%. Management will continue to provide and rollout a training programme to field crews on the correct recording of data and conclusions against performance standard targets.  Additionally, management will consider the use of data analytics to identify and investigate incompatible conclusions and supporting data. For example, a compliant conclusion with supporting measurements below the performance standards.

Ref	Licence Condition	Issue	Recommendation	Action Taken	Status
		outcome of any repair works".  Personnel in the Mid West region did not have an awareness of the SAP PM Business Rule No. 6 and the minimum requirements under the Operating Licence. Our interviews and enquiries with the personnel indicated that the field crew's basis for assessing pressure and flow rates to the property was driven by customer complaints of poor supply.			
		2. Analysis of the partially executed orders and unassigned complaints indicated that field crew were not adhering to SAP business rules to properly close out work orders.	2. Introduce a process for reviewing work orders with PEXE status on a regular basis (semi-annually).	2. Inquiry and observation with management noted that a bi-annual review of PEXE work orders is completed at the Goldfields Region, whilst Perth Metro conducts a fortnightly review. We noted a significant reduction in the number and age of PEXE work orders. However the review is not formally evidenced to demonstrate its operation.	<b>2. Partially addressed:</b> Management should ensure that the review of PEXE work orders is documented to evidence the control in operation.
		3. We noted some practical difficulties for the Corporation to comply with the requirements in Schedule 7 – Section 4.2, Farmlands Area Water System – Farms – Pressure and Flow. The measurement unit in Section 4.2 refers to a cumulative of volume over a period of 24 hours. In this regard, the flow was difficult to measure because:  (i) It was dependent on the draw down of the property (over a period of 24 hours); and  (ii) Testing would involve free flowing of water, which apart from wasting resources, would cause a loss of flow to the farm.	3. Engage with the Authority to reach a more practical measurement for service performance on farmlands.  <i>Recommendation to the Authority</i> That consideration be given to an alternative measurement for pressure and flow standards on farmlands.	3. The Corporation applied for a licence amendment to the measurement of pressure and flow standards in Farmlands on 14 June 2011 and revised the application on 20 June 2011. The Authority sought public comment on the matter and received 60 submissions. According to the Water Services Act 1995 Section 31(1a), the Authority cannot determine a licence to be amended unless it is satisfied that it is not contrary to public interest to do so. Following the public consultation the Authority recommended the Corporation to engage an external consultant to undertake an independent assessment on alternative methodology for measuring pressure and flow; the Corporation advised the Authority about contracting Deloitte on 6 December 2012. The final report from Deloitte is still pending and therefore the processing of the licence amendment application has not been completed.	<b>3. Open: Current year finding noted</b> The Corporation and Authority are yet to agree a practical approach to measuring pressure and flow in Farmland Areas.



Ref	Licence Condition	Issue	Recommendation	Action Taken	Status
		4. The Corporation could not establish when it transitioned to provide 'live data' to the Authority during the audit period. We note that there was no formal confirmation from the Authority of its acceptance of the 'live data'. Additionally, there was no formal agreement on what constituted the materiality level that the Corporation was required to disclose to the Authority regarding the adjustment of the historical data. We observed an instance (June 2008) where a footnote had been provided in a report advising a change to the historical data, however, the materiality level that had driven the disclosure was unclear.	4. No further action required because the obligation has transitioned to an annual reporting basis.	4. N/A	<b>4. Closed</b>
Prior Audit Finding 7	Licence (OL6) Schedule 7; Section 2.3 Schedule 8.  Licence (OL9) Clause 19, Clause 20.1, Schedule 4 Clause 3.1.	1. We noted some logistic and practical issues in the compliance element with regard to the requirement for returning service standards to the level set out in the table in Section 2.2 of Schedule 7.  The issues are highlighted below:  (i) In terms of "time on" for the resumption of water service, the returning of pressure and flow to the scheme is a gradual process following a service interruption, whether it is planned or unplanned. Immediate pressurisation to the service standards outlined in Section 2.2 of Schedule 7 may result in damage to the Corporation's assets;  (ii) The requirement to return service to a particular level (such as in Section 2.2 of Schedule 7) implies that some activities associated with the measurement of the pressure and flow rates must take place following a service interruption to determine if the service has returned to a certain level to the connected properties. It may be impractical, for example, for the Corporation's staff to visit all the connected properties in a scheme during the night requesting a measure of the pressure and	1. No further action required because licence OL6 has removed the reference.  However, we note that the Corporation is required to restore levels to at least the minimum standard. This does not prevent the Corporation operationally providing a service between the minimum and maximum levels.	1. N/A	<b>1. Closed</b>



Ref	Licence Condition	Issue	Recommendation	Action Taken	Status
		<p>flow rates on the property following an interruption (which the occupants may not be even aware of); and</p> <p>(iii) Customers who receive pressure and flow rates exceeding the standards in Section 2.2 of Schedule 7 (which are the majority of properties in the metropolitan area) would be negatively impacted on the resumption of their service to a level below what they were experiencing prior to the interruption, if on the assumption, the Corporation were to enforce the service standards in Section 2.2 of Schedule 7.</p>			
		<p>2. Analysis of the partially executed orders and unassigned complaints indicated that field crew were not properly closing out work orders in accordance to the SAP business rules.</p>	<p>2. Introduce a process for reviewing work orders with PEXE status on a regular basis (semi-annually).</p>	<p>2. Inquiry and observation with management noted that a bi-annual review of PEXE work orders is completed at the Goldfields Region, whilst Perth Metro conducts a fortnightly review. We noted a significant reduction in the number and age of PEXE work orders. However the review is not formally evidenced to demonstrate its operation.</p>	<p><b>2. Partially addressed:</b> Management should ensure that the review of PEXE work orders is documented to evidence the control in operation.</p>
		<p>3. The Corporation could not establish when it transitioned to provide 'live data' to the Authority during the audit period. We noted that there was no formal confirmation from the Authority of its acceptance of the 'live data'. Additionally, there was no formal agreement on what constituted the materiality level that the Corporation was required to disclose to the Authority regarding the adjustment of the historical data. We observed an instance (June 2008) where a footnote had been provided in a report advising a change to the historical data, however, the materiality level that had driven the disclosure was unclear.</p>	<p>3. No further action required because the obligation has transitioned to an annual reporting basis.</p>	<p>3. N/A</p>	<p><b>3. Closed</b></p>

Ref	Licence Condition	Issue	Recommendation	Action Taken	Status
Prior Audit Finding 8	Licence (OL6) Schedule 7; Section 6.1 Schedule 8.	1. Analysis of the partially executed orders and unassigned complaints indicated that field crew were not properly closing out work orders in accordance to the SAP business rules.	1. Introduce a process for reviewing work orders with PEXE status on a regular basis (semi-annually).	1. We noted that a bi-annual review of PEXE work orders is completed at the Goldfields Region, whilst Perth Metro conducts a fortnightly review. We noted a significant reduction in the number and age of PEXE work orders. However the review is not formally evidenced to demonstrate its operation.	<b>1. Partially addressed:</b> Management should ensure that the review of PEXE work orders is documented to evidence the control in operation.
	Licence (OL9) Clause 19, Clause 20.1, Schedule 4 Clause 3.1 and 7.1.	2. The Corporation could not establish when it transitioned to provide 'live data' to the Authority during the audit period. We noted that there is no formal confirmation from the Authority of its acceptance of the 'live data'. Additionally, there was no formal agreement on what constituted the materiality level which the Corporation was required to disclose to the Authority regarding the adjustment of the historical data. We observed an instance (June 2008) where a footnote had been provided in a report advising a change to the historical data, however, the materiality level that had driven the disclosure was unclear.	2. No further action required because the obligation has transitioned to an annual reporting basis.	2. N/A	<b>2. Closed</b>
Prior Audit Finding 9	Licence (OL6) Clause 4.1.  Licence (OL9) Clause 17.1	In our review of the procedure governing the definition of an asset, we noted that the last review date was 1998. Further, the document makes reference to the Financial Administration Act. This Act has been replaced with the Financial Management Act 2006 and supported by Treasurer's Instructions.	That management conducts a review of the "Asset - Identification – Asset" policy as soon as practicable. Thereafter, a review should be performed on an annual basis.	We noted that the reference to the Financial Administration Act has been replaced with an appropriate reference to the Financial Management Act 2006.  The Corporation's standard review period for policies is three years.  The Asset-Identification-Asset Policy was reviewed as per the prior audit recommendation and it was determined that the process is stable. Additionally, it is unlikely that the asset systems would be changed without a large formal project with full change management. As such it is not proposed to make an exception to the Corporation process of policy review for this specific policy. If changes were to occur within the three year period, the policy would be reviewed.	<b>Closed</b>

Ref	Licence Condition	Issue	Recommendation	Action Taken	Status
Prior Audit Finding 10	Licence (OL6) Clause 4.2.	1. The Corporation had not retained sufficient records to demonstrate the basis of their advice to the Authority in relation to the notification of significant changes to the asset management system.	1. That appropriate working papers pertaining to the notification of significant changes be retained.	1. A procedure entitled 'Notification to ERA of Changes to Asset Management System – Procedure' provides an overview of how material changes are communicated to the Authority and what constitutes a material change for the Corporation.	<b>1. Closed</b>
	Licence (OL9) Clause 17.2	2. Our review noted that the notices furnished to the Authority had been provided in accordance with the terms stated in the communication in October 2004, given the lack of framework that defines "significant changes", it is not certain that the information provided to the Authority satisfies the intention of the Operating Licence.	2. Inform the Authority of proposed change(s) to the Asset Management System and engage with the Authority to determine whether notification is required.  <i>Recommendation to the Authority</i>  Engage with the Corporation to determine whether a notification is required when the Authority has been provided with the details of the proposed changes.	2. The 'Notification to ERA of Changes to Asset Management System – Procedure' was issued in April 2012. Using the definitions for material change described in the procedure, we confirmed there have been no material changes in the Asset Management Systems in the audit period	<b>2. Closed</b>

## 1.7 Changes to the Licence

No changes to the Operating Licence are proposed at this time.

## 1.8 Conclusion

In summary, we noted that all of the obligations were deemed to be compliant and as such confirm the reporting performed by the Corporation to the Authority. We did however note that three of the licence obligations reviewed did have major recommendations for improvement to strengthen the internal controls to maintain compliance.

## 1.9 Representatives that were involved within this review

We would like to extend our thanks to the assistance and contributions made by the representatives involved during this operational audit. Specifically:

- Andrew Bath (Water Quality Operations Manager);
- Andrew Pascoe (Manager Regulation & Compliance);
- Bob Espie (Business Management Manager);
- Christine Stuart (Compliance Co-ordinator);
- Gary Innes (Senior Business Analyst);
- Gary Peach (Customer Relationship Manager);
- Gillian Booth (Business Analyst);
- Graham Hayward (Team Leader Network Expansion);
- Jenny Watts (Team Leader Rating Services);
- Karen Tilbury (Customer Information Manager);
- Kevin Trevor (Operating Licence Compliance Coordinator);

- Larry Mildern (Manager Operations Support);
- Mark Fitzhardinge (Senior Operations Analyst);
- Mike Giorgi (Manager Financial Management);
- Peter McGuire (Manager Business Support);
- Ray Willis (Business Improvement and Compliance Officer);
- Steve Hiller (Branch Manager Development Services Branch);
- Sugandree Muruvan (Asset Strategy & Integration Manager);
- Tino Galati (Manager, Asset Information Systems);
- Riley Nelson (Manager Customer Centre);
- Paul Noonan (Performance Manager);
- Liz Singleton (Team Leader Scheduling);
- Murray Johnsen (Manager Operational Asset Management);
- Marry Glass (Information Systems Coordinator);
- Rob Herser (Operations Support Manager);
- Mario Romeo (Customer and Business Services Manager); and
- Wayne Kearney (Manager Risk & Assurance).

## ***1.10 Audit Team***

- Cameron Jones, Partner
- Ryan Menezes, Director;
- David Tiernan, Manager;
- Mark Wilton, Principle Engineer (AECOM);
- Marshall Broadbent, Senior Consultant;
- Nyaree Carter, Consultant; and
- Todd Bendall, Consultant.

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## ***2 Audit Opinion***

### **Report on the Performance Audit of the Water Services Operating Licence**

We have audited the compliance of the Water Corporation with the procedures and controls over the performance and quality standards of Water Services Operating Licence as measured by the Authority's Water Compliance Reporting Manual, May 2011 for the period from 1 July 2009 to 30 June 2012.

#### **Respective Responsibilities**

The Water Corporation is responsible for compliance with the procedures and controls over the performance and quality standards of the indicators as defined in the Water Services Operating Licence as measured by the Water Services Operating Licence. Our responsibility is to provide limited assurance and express a conclusion on compliance with the procedures and controls of the Water Services Operating Licence as measured by the Authority's Water Compliance Reporting Manual, May 2011, in all material respects.

Our audit has been conducted in accordance with applicable Standards on Assurance Engagements (ASAE) 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and 3100 "Compliance Engagements". Our procedures have been included in Section 3 of this report and have been undertaken to form a conclusion as to whether the Water Corporation has complied in all material aspects, with the procedures and controls over the performance and quality standards of the Water Services Operating Licence as measured by the Authority's Water Compliance Reporting Manual, May 2011, for the period 1 July 2009 to 30 June 2012.

#### **Use of Report**

This compliance audit report was prepared for distribution to the directors of the Water Corporation for the purpose of fulfilling the directors' reporting obligations under the Water Services Operating Licence and considers only the circumstances of the Water Corporation. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the Water Corporation, or for any purpose other than that for which it was prepared.

#### **Inherent Limitations**

Because of the inherent limitations of any internal control structure, it is possible that fraud, error or non compliance may occur and not be detected. An audit is not designed to detect all instances of non compliance with the procedures and controls over the performance and quality standards of Water Services Operating Licence as measured by the Authority's Water Compliance Reporting Manual, May 2011, as an audit is not performed continuously throughout the period and the audit procedures are undertaken on a test basis. The audit conclusion expressed in this report has been formed on the above basis.

#### **Unqualified Auditor's Opinion**

In our opinion, the Water Corporation has complied, in all material respects, with the procedures and controls over the performance and quality standards of the Water Services Operating Licence as measured by the Authority's Water Compliance Reporting Manual, May 2011 for the period from 1 July 2009 to 30 June 2012.

PricewaterhouseCoopers

Cameron Jones  
Partner

Perth  
13 November 2012.

# 3 Observations

## 3.1 Operating Area

Audit Test Reference:	Audit Priority:
1	2

### 3.1.1: References

Reporting Manual Reference: 1

Operating Licence Clause: Schedule 2

- The licensee must provide the water service.

### 3.1.2: Observations

#### **Schedule 2**

Schedule 2 outlines the designated areas which the Corporation may provide a water service. In May 2010, the Corporation applied to the Authority to align the operating licence area to the control area. This request was to reduce the risk of services being provided outside of the operating licence area. Through inquiry and inspection, we noted that during the period 1 July 2009 – 13 March 2012, the Corporation's monitoring control to identify asset and/or services outside of the licence was not undertaken. Through inspection, we noted correspondence between the Corporation and the Authority on 18 June 2010 regarding an implementation of the previous operational audit recommendations and that the Corporation was suspending the regular cycle of internal review in relation to services outside of the operating area pending the outcome of the application lodged with the Authority in May 2010 (Operating Area to be the Controlled Area). The secretariat acknowledged that the Corporation had suspended any further action pending the outcome of the licence amendment lodged with the Authority. On 24 January 2012, the Authority approved the alignment of the licence area with the control area.

In March 2012, management re-established the monitoring procedures and performed a review of assets and services outside of the operating licence area. An Operating Area Exception Report is run by Spatial Information Management and forwarded to the Business Improvement and Compliance Analyst in Development Services. This report identifies assets outside the Operating Area, which are investigated to check if services could or are could be provided off them. The results of monitoring and investigation are communicated to Regulation and Compliance who would liaise with the Authority to extend the Operating Licence Area. Once extended, the new operating area is provided to Spatial Information Management who updates their mapping systems.

The review in March identified 11 assets outside of the operating licence area. Investigation of the assets revealed:

- Two services outside of the operating licence area for water supply that were a result of changing the licence area to match the operating area;
- One sewer main and service at the Harding Dam located within Water Corporation land and management are investigating if this requires a licence boundary change;
- A sewer outfall from an abattoir in North Coogee which had been sealed (this has been reflected within the Asset Management System and is no longer an exception);
- Six sewer outfall pipes which are outside of the licence area boundary but do not have any services outside of the licence area; and
- One saline pipe at the Burrup Peninsula Dampier desalination plant which is outside of the licence area boundary but does not have any services outside the licence area.

The root cause to these exceptions appears to be as a result of changes made to match the operating licence area with the control area. A bi-annual process to identify assets and services outside the operating licence / control area has now been re-established, commencing in July 2012.

In summary, an Operating Area Exception Report is run by Spatial Information Management and forwarded to the Business Improvement and Compliance Analyst in Development Services. This report identifies assets outside the Operating Area, which are investigated to check if services could or are provided off them. The results of monitoring and investigation are communicated to Regulation and Compliance who will liaise with the Authority to extend the Operating Licence Area. If the operating area is extended, the new operating area is provided to Spatial Information Management who updates their mapping systems.

Inquiry with the Corporation and observation of mitigating controls noted that the Builder Net System, used to lodge new applications for services runs a set of validation queries against the Spatial Information Management (SIM) system and flags whether the requested service is outside of the operating licence area. Additionally, as part of the procedures to determine whether a service can be provided for new or subdivision developments, a Land Planning Check List requires the Corporation to check whether the property is within the operating licence area.

Inspection of 25 new services to ensure validation procedures were applied and that the services were provided within the operating licence area by confirmation of the service location on the SIM system, found no exceptions.

### 3.1 Operating Area

#### Documents Reviewed:

- Water Services Licensing Act 1995. Operating Areas: Sewerage Services (Licensee: Water Corporation). Plan No. OWR-OA-302 – 16/09/2010
- Identifying Services Outside the Operating Licence Area Procedure v4. 388598. 26/09/2011 (Superseded)
- Identifying Services Outside the Operating Licence Area Work Instruction v3. 388699. 26/09/2011 (Superseded)
- Operating Licence Compliance – Services Outside Area Boundaries Work Program. 6999341. 01/06/2012
- Land Planning Action Sheet. PM# 3497874.v2.
- Amendment to the Water Corporation's Water Services Operating Licence 32 Notification Letter. WAWC Ref: 3389279. ERA Ref:D58400. Dated 25/01/2011.
- SIMS Exception Report. March 2012.
- Email from SIMS to Ray Willis – Business Improvement & Compliance Officer (w SIMS Exception Report. March 2012). Dated 13 March, 2012
- Email from Ray Willis – Business Improvement & Compliance Officer notifying Andrew Pascoe (TITLE) of assets outside of operating licence area (w asset details/maps). Dated 16 March, 2012
- Operating Licence Compliance – Services Outside Boundaries 6-Monthly Report as at July 2012 Memorandum. DMS #7265098.v1. Dated 16 July, 2012
- Email from Paul Reid – Assistant Director of Monitoring (w Post Audit implementation update plan). Dated 18 June 2010.

#### 3.1.3: Findings (Refer to Executive Summary)

During the period July 2009 - March 2012, there were no procedures undertaken by the Corporation to determine the existence of assets and / or services outside of the operating licence area.

In May 2010, the Corporation applied to the Authority to align the operating license area with the control area. In part, this request was to reduce the risk of services being provided outside of the operating licence area. The Corporation communicated to the Authority that, whilst the application was being considered, the Corporation would not be performing monitoring procedures to identify assets and / or services outside of the operating licence area. This decision was acknowledged in an email from the Authority on 18 June 2011.

In March 2012, management re-established the monitoring procedures and performed a review of assets and services outside of the operating licence area. This review identified 11 assets outside of the operating license area which were investigated for the location of the service point. Management concluded that, with the exception of sewer outfalls to the ocean, no services were being provided outside the operating license area. These exceptions were a result of changes made to match the operating licence area with the control area.

A bi-annual process to identify assets and services outside the operating licence / control area has now been formally implemented and commenced in July 2012.

#### 3.1.4: Operational / Performance Audit Compliance Summary

Manual reporting reference	Compliance Rating
1	3

### 3.2 Service and Performance Standards

<b>Audit Test Reference:</b>	<b>Audit Priority:</b>
2	2

#### 3.2.1: References

Reporting Manual Reference: 2, 7

Operating Licence Clause: 19, 20.1

- The Licensee must achieve prescribed standards as defined in the regulations.
- The Licensee must comply with the service and performance standards as set out in Schedule 4.

#### 3.2.2: Observations

Through inquiry, observation and inspection, we confirmed that the Corporation has met the performance standards outlined in Schedule 4:

##### Customer Service Standards

Through inquiry with the Corporation and observation of Quarterly Service Standard Performance Reports for 2010, 2011 and 2012, we noted that with exception to the specific exemptions outlined in Schedule 4, the Corporation has achieved the required performance standards outlined under Customer Service Standards. The Corporation has reported the following outcomes:

**Table 1. Customer Service Standards performance standards**

Performance Standard	Performance indicator/target	2009/10	2010/11	2011/12
Answered within 30 seconds	70%	74.8%	73.7%	73.3%
Abandoned after 5 seconds	5%	3.0%	2.4%	2.6%
Complaints to be resolved within 15 business days	15 days	✓	✓	✓

Data for determining performance against the above standards is captured through the Corporation's telephony system (Aspect) which has system parameters defined. Pre-defined Crystal reports are produced by the Process & Compliance Coordinator to calculate achievement of the performance standard. Through inspection of the supporting data and Crystal reports and recalculation of the reported performance standards we noted no exceptions in the Customer Service Standards.

Through observation and inspection of the Customer Complaints Resolution Procedure we noted procedures have been implemented to ensure that complaints are resolved within 15 business days. Each week the Process & Compliance Coordinator uses Crystal reporting to run reports from Aspect detailing statistics on answered and abandoned calls, as well as the aging of unresolved complaints. Unresolved complaints over 10 days old are monitored by the Process & Compliance Coordinator and followed up by Customer Service Representatives as a priority to resolve.

##### Potable Water System – Pressure, Flow and Continuity

Through inquiry with the Corporation and observation of Quarterly Service Standard Performance Reports for 2010, 2011 and 2012, we noted that with exception to the specific exemptions outlined in Schedule 4, the Corporation has achieved the required performance standards outlined under Pressure, Flow and Continuity. The Corporation has reported the following outcomes:

**Table 2. Pressure, Flow and Continuity performance standards**

Performance Standard	Performance indicator/target	2009/10	2010/11	2011/12
Pressure and Flow	99.8%*	100%	100%	100%
Interruptions >1 hour	75%	87.4%	83.7%	81%
Leaks & Bursts	< 20 leaks or bursts/100km of main	17.9	17.9	16.6

\* Performance standard based on a minimum and maximum static pressure (metres of water) of 15/13 and 100/100 for Perth Metro and Country Urban Areas, respectively. The Minimum flow of 20L/Minute must be achieved.

We confirmed through inquiry, observation and inspection the supporting processes to measure, record, calculate and report against the performance standards. Water pressure/flow faults and interruptions are confirmed through investigation by field crews that respond to work orders that are raised when customers report poor pressure, flow or an interruption to support. The Corporation's Operational Health and Safety (OHS) procedures require field crews to measure pressure and flow at the front tap in the first instance, and if pressure and flow is below the performance standard, the crew will then measure the pressure and flow at the meter. The pressure and flow measurements



### 3.2 Service and Performance Standards

that are taken by the field crews are recorded within mobile PDA devices that replicate data to the Corporation's SAP system. In addition to the pressure and flow measurement, the field crew is also required to record a conclusion on compliance with the performance standard, or confirm that a leak/burst existed. This allows the field crews the flexibility to make an appropriate conclusion for pressure and flow readings that are under Service by Agreement or exempt from the performance standards under section 4 of Schedule 4.

Inspection of 25 work orders in relation to pressure and flow, and 25 work orders for interruptions (leaks and bursts) to confirm the accuracy of reporting and the conclusions drawn by the field crews found no exceptions for leaks and bursts. However, testing of pressure and flow noted 4 instances of incorrect conclusions. In 3 cases, a compliant reading was recorded as non compliant.

- A sample which was compliant but incorrectly reported as non compliant due to the tap reading being taken as the measuring point rather than the metre reading which was compliant.
- A sample which was compliant at the time of measurement was incorrectly reported as non compliant because at the field crew estimated the impact of local road works, which were not impacting the pressure or flow at the time of measurement, but were thought to be the source of the complaint.
- A sample which was reported as compliant but was non compliant as the property was a farmland which can have Services provided by Agreement and therefore different service standards. This property did not have a Service by Agreement and therefore did not meet the performance standard.
- A sample which was compliant at the tap but due to the absence of a reading at the meter, the system has defaulted the meter reading to zero. The sample was concluded as non-compliant. SAP puts a default zero reading where no data has been entered. Therefore the root cause of this appears to be an error in conclusion by the field crew staff.

Whilst the above exceptions have been noted, the overall performance standard has not been materially impacted. Inquiry with management noted trend analysis and data integrity controls are performed at both a corporate and regional level to monitor and remediate any adverse trends in the recording of data and to verify the accuracy of field crew reporting. In addition, field crews are provided a detailed guide on how to use and record information through the PDAs.

#### Drought Response

Through inquiry with management and observation and inspection of the Water Restrictions Register, we confirmed that the Corporation has not requested or initiated any restrictions under the Water Agencies (Water Restrictions) By-laws 1998 to a potable water supply.

Inspection of the Water Restrictions Register noted two restrictions were imposed during the audit period by the Department of Water. These restrictions were applied to limit the use of reticulation to one day per week in some locations within the operating licence area.

#### Farmland Areas Water Systems Standards -Agreement Conditions, Pressure and Flow

Through inquiry with the Corporation and observation of Quarterly Service Standard Performance Reports for 2010, 2011 and 2012, we noted that the Corporation has achieved the required performance standards over the annual notification of conditions of service. The Corporation has reported the following outcomes:

**Table 3. Farmlands Areas, Agreement Conditions, Pressure and Flow**

Performance Standard	Performance indicator/target	2009/10	2010/11	2011/12
Annual notification of conditions of service.	95%	95%	95%	3
Pressure and flow: Farmland Services	99.8% <sup>1</sup>		4	
Pressure and flow: Rural Water Supply Schemes	99.8% <sup>2</sup>			

#### **Notes**

1) Maximum static pressure (metres of water): 200. Minimum flow: Over a 24 hour period, 11.2L/Ha/day and 3kL/day per occupied house

2) Maximum static pressure (metres of water): 200. Minimum flow: Over a 24 hour period, 5.6L/Ha/day and 1.8kL/day per occupied house

3) The approach outlined in the operating licence to measure pressure and flow in Farmland areas requires the Corporation to measure pressure and flow over a 24 hour period. Following the previous operational audit, the Corporation challenged this approach on the basis that this was not an efficient use of water or resources. This position was identified in the Operating Licence Audit of 2009 and since that time a suitable measurement practice has not been agreed. In the interim poor supply faults within the Farmlands area have been attended along the same lines as with urban pressure and flow faults. The Corporation applied for a licence amendment to the measurement of pressure and flow standards in Farmlands on 14 June 2011 and revised the application on 20 June 2011. The Authority sought public comment on the matter and received 60 submissions. According to the Water Services Act 1995 Section 31(1a), the Authority cannot determine a licence to be amended unless it is satisfied that it is not contrary to public interest to do so. Following the public consultation the Authority recommended the Corporation to engage an external consultant to undertake an independent assessment on alternative methodology for measuring pressure and flow; the Corporation advised the Authority about contracting Deloitte on 6 December 2012. The final report from Deloitte is still pending and therefore the processing of the licence amendment application has not been completed.

The Corporation currently measures pressure and flow at a service before any repair or alteration is undertaken. Once remediation activities are complete, the field crew re-measure both parameters. Whilst the minimum flow and pressure requirements for farmlands are quite distinct from urban levels of service, taking an instantaneous measurement does give an indication of whether there is a problem with service/meter as well identifying those instances where the reduction in flow is due to issues under the responsibility of the customer such as an internal pipe blockage. The field operatives are unable to ascertain whether the farmland service meets the associated levels of service outlined in Schedule 4 of the Operating Licence as these are associated with a 24hour supply and not instantaneous measures. The field personnel do however, for reporting sake identify when there is reduction in flow/pressure such as to be below expected.

4) At the time of the audit, the annual notification of conditions of service had not been communicated to the Authority.

### 3.2 Service and Performance Standards

Through observation and inspection of the Grange system we noted that creation of a Service by Agreement for a customer automatically triggers the notification of the conditions of service by way of inclusion on the annual account summary and interim billing.

#### *Sewerage Systems Standards*

Through inquiry with the Corporation and observation and inspection of Quarterly Service Standard Performance Reports for 2010, 2011 and 2012, we noted that with the Corporation has achieved the required performance standards outlined over sewerage systems standards. The Corporation has reported the following outcomes:

**Table 4. Sewerage Systems performance standards**

Performance Standard	Performance indicator/target	2009/10	2010/11	2011/12
Overflows	99.8%	99.8%	99.8%	99.8%
Blockages	< 40 blockages per 100km of main	18.8	16.6	19.2

We confirmed through inquiry, observation and inspection the supporting processes utilised by the Corporation to measure, record, calculate and report against the performance standards. Overflows and blockages are confirmed through investigation by field crews that respond to work orders that are raised when customers report overflows and blockages.

Testing of 25 work orders relating to overflow and 25 work orders for blockages noted one exception relating to overflows. Review of the work order noted that whilst an internal overflow was confirmed by the field crew, the flag used to identify internal overflows for reporting purposes was manually deleted post submission of the field crew data. Consequently this instance was under reported

#### *Drains and Drainage Standards*

We confirmed through inquiry with management, that an annual Drainage and Drainage Standards audit was undertaken by an independent third party to ensure the Corporation is compliant with the requirements of Schedule 4 clause 8; Drains and Drainage Standards. Through observation and inspection of Drainage and Drainage Standards audit for 2009/10, 2010/11 and 2011/12, we noted an unqualified opinion was given for each year in the audit period.

#### *Services Provided by Agreement*

Through inquiry with the Corporation and observation and inspection a sample of 25 new Service by Agreement arrangements, we noted that the licence requirement to ensure 90% of services newly added to the scheme and provided by agreement in the sample areas audited had documented agreements, has been achieved.

#### **Documents Reviewed:**

- System Reporting Structures. n.d.
- Conceptual Overview of Primary Water Corporation Systems v4. 3 January 2008.
- Skymobile Training Manual. v1.1. January 2010.
- Summary of Requirements for Provision of Water and Associated Monitoring Processes. 14/06/2006.
- Summary of Requirements for Provision of Wastewater and Associated Monitoring Processes. 20/09/2006.
- Water Restrictions Register. n.d.
- Regional Temporary Water Restrictions Procedure. 2271676. 8 June 2012.
- 2010 Audit of Compliance with Schedule 4, Section 8 “Drainage Services” of the Water Corporation’s Operating Licence. PM#3651690.v1. 8 July 2010.
- Compliance with Schedule 4, Section 8 “Drainage Services” of the Water Corporation’s Operating Licence. 2011 Audit (Independent Assurance) Report. PM#5446874.v1. 8 July 2011.
- 2012 Audit of Compliance with Schedule 4, Section 8 “Drainage Services” of the Water Corporation’s Operating Licence. PM# 7253198.v1. 9 July 2012.
- Quarterly Service Standard Performance Report. September, 2010.
- Quarterly Service Standard Performance Report. June, 2011.
- Quarterly Service Standard Performance Report. March, 2012.
- Procedure to clear PEEX & REPO Orders. n.d.
- Correspondence from Wayne Kearney (Manager, Risk and Assurance) to ERA re update of the Post-Audit Implementation Plan. WC Ref: 5314581 & 3522544. 17 June 2011, 18 June 2010.
- Correspondence from ERA to WC re Operating Licence – Farmlands Scheme Performance Measure and Terms of Reference – Independent assessment of the Water Corporation’s amendment proposal to Rural and Farmlands Scheme measures in the licence. 24

### 3.2 Service and Performance Standards

October 2011.

- Signed scope statement dated 2 February 2012 between the Corporation and Deloitte to review the proposed changes to the measurement of water flow.

#### 3.2.3: Findings (Refer to Executive Summary)

##### Pressure, Flow and Continuity performance standards

Testing of 25 work orders relating to pressure and flow noted four instances of incorrect conclusions which were made on the achievement of the performance target. The root cause of these errors appears to be an incorrect application of the measurements by the field crews. Specifically we noted:

- A sample which was compliant but incorrectly reported as non compliant due to the tap reading being taken as the measuring point rather than the metre reading which was compliant.
- A sample which was compliant at the time of measurement was incorrectly reported as non compliant because at the field crew estimated the impact of local road works, which were not impacting the pressure or flow at the time of measurement, but were thought to be the source of the complaint.
- A sample which was reported as compliant but was non compliant as the property was a farmland which can have Services provided by Agreement and therefore different service standards. This property did not have a Service by Agreement and therefore did not meet the performance standard.
- A sample which was compliant at the tap but due to the absence of a reading at the meter, the system has defaulted the meter reading to zero. The sample was concluded as non-compliant. SAP puts a default zero reading where no data has been entered. Therefore the root cause of this appears to be an error in conclusion by the field crew staff.

Whilst the above exceptions have been noted, the overall performance standard has not been materially impacted and the Corporation is compliant with performance standards in these licence areas.

We noted that there are mitigating controls which have been implemented by management to monitor trends at a corporate and regional level. In addition, field crews are provided a detailed guide on how to use and record information through the PDAs.

##### Sewerage Systems performance standards

Testing of 25 work orders relating to overflows noted one exception. Review of the work order noted that whilst an internal overflow was confirmed by the field crew, the flag used to identify internal overflows for reporting purposes was manually deleted post submission of the field crew data. Consequently this instance was under reported.

##### Farmland Pressure and Flow

During the audit period, the Corporation has not measured the performance standard for farmland pressure and flow. The Corporation and Authority are yet to agree a practical approach to measuring pressure and flow in Farmland Areas.

The Corporation applied for a licence amendment to the measurement of pressure and flow standards in Farmlands on 14 June 2011 and revised the application on 20 June 2011. The Authority sought public comment on the matter and received 60 submissions. According to the Water Services Act 1995 Section 31(1a), the Authority cannot determine a licence to be amended unless it is satisfied that it is not contrary to public interest to do so. Following the public consultation the Authority recommended the Corporation to engage an external consultant to undertake an independent assessment on alternative methodology for measuring pressure and flow; the Corporation advised the Authority about contracting Deloitte on 6 December 2012. The final report from Deloitte is still pending and therefore the processing of the licence amendment application has not been completed.

#### 3.2.4: Operational / Performance Audit Compliance Summary

Manual reporting reference	Compliance Rating
2	3
7	3

### 3.3 Asset Management System

<b>Audit Test Reference:</b>	<b>Audit Priority:</b>	
3	4	

#### 3.3.1: References

Reporting Manual Reference: 3, 4, 5, 43, 44, 45

Operating Licence Clause: 17.1, 17.2, 17.3, 17.4

- The Licensee must have an Asset Management System in respect to the licensed activity. The licensee must provide for and notify the Authority of its asset management system within 2 business days from the licence commencement date unless notified in writing by the Authority.
- The Licensee must notify the Authority of any changes to the Asset Management System. The licensee must notify the Authority of any changes to its asset management system within 10 business days from the date of change.
- The Licensee must not less than once in every period of 24 months (or such other period determined by the Authority) provide the Authority with an independent expert report, acceptable to the Authority, on the effectiveness of the Asset Management System.
- The licensee must comply and require the licensee's expert to comply with the Authority's Standard Guidelines dealing with the asset management system review including, minimum requirements, regarding appointment of the expert reviewer, scope of review conduct of the review and reporting of the outcomes of the review.

#### 3.3.2: Observations

##### Clause 17.1

We confirmed through inquiry and observation that the Corporation has an Asset Management System in place for its licensed activity. The asset management system consists of a number of systems. All assets are registered in SAP where appropriate financial considerations are made such as the value, useful life and depreciation of the asset. Linked to SAP, are three sub-systems which SAP uses to pull data from; AMOSS, ODSS, AMPS and GIS.

AMOS and ODSS capture information from the assets themselves, or where engineers input information as a result of manual inspections. This information is used to monitor the performance of assets and develop planned maintenance programmes.

AMPS is a reporting tool that draws data from AMOSS and ODSS and allows the asset management group to extract a range of reports for mandatory reporting and collating results in to the Business Performance Report (BPR).

GIS (Geographic Information System) completes the overall suit of asset management systems. GIS is used to plots assets on maps and enables engineers and project managers retrieve drawings and identify properties, for example, where valves are to be shut off, affected properties can be identified.

The requirement to notify the Authority of the Corporation's asset management system within two days from the licence commencement date is outside of the audit period under review.

##### Clause 17.2

We confirmed through inquiry and observation that there have been no material changes to the asset management system during the audit period. We noted through observation that the Corporation has a procedure (Notification to ERA of Changes to Asset Management System – Procedure) in place for notifying the Authority of changes to the asset management system within 10 days. The procedure defines which systems are relevant and what changes are considered material for each of the systems.

##### Clause 17.3 and Clause 17.4

At the time of our audit, the report from the Asset Management System Effectiveness Review (AMSER), covering the period 1 July 2009 to 30 June 2012 had not been published. We confirmed that the audit is in progress through observation of the 2012 ASMER Audit Plan and that the audit guidelines were being followed through approval of the Plan by the Authority. The report is due 31 December 2012.

Whilst the review period is in excess of 24 months as prescribed in the licence, the Authority had agreed the 36 month period with the Corporation.

#### Documents Reviewed:

- Conceptual Overview of Primary Water Corporation Asset Management Systems. n.d.
- Notification to ERA of Changes to Asset Management System – Procedure. 6484981. 3 April 2012.
- 2009 Asset Management System Effectiveness Review Report. December 2009.
- Cover Letter from WC to ERA re Update of Post-Review Implementation Plan. 19 January 2012.
- AMSER 2009 – Actions Not Yet Complete (Extract from Post-Review Implementation Plan – January 2012 Status Report). January 2012.
- Correspondence from ERA confirming a 36 month period between reviews. D23405. 22 January 2010.

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### 3.3 Asset Management System

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- Correspondence from the ERA confirming the audit plan for the 2012 Asset Management System Effectiveness review.
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#### 3.3.3: Findings (Refer to Executive Summary)

None.

#### 3.3.4: Operational / Performance Audit Compliance Summary

Manual reporting reference	Compliance Rating
3	5
4	N/R
5	5
43	N/R
44	N/R
45	5

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### 3.4 Licence Requirements

Audit Test Reference:	Audit Priority:
4	4

#### 3.4.1: References

Reporting Manual Reference: 6, 42

Operating Licence Clause: 16.1, 16.2

- The Licensee must not less than once in every period of 24 months (or such other period determined by the Authority) provide the Authority with an operational audit conducted by an independent expert, acceptable to the Authority.
- The licensee must comply and require the licensee's auditor to comply with the Authority's Standard Audit Guidelines, minimum requirements regarding appointment of the auditor, scope of audit, conduct of the audit and reporting of the audit.

#### 3.4.2: Observations

##### Clause 16.1

Through inspection of correspondence between the Authority and the Corporation, we confirmed that the previous operational audit was completed in September 2009 and covered the period 1 July 2006 to 30 June 2009. Additionally, the Authority and Corporation agreed an audit plan for the subsequent operational audit, covering 1 July 2009 to 30 June 2012. PricewaterhouseCoopers has been engaged by the Corporation to perform the operating licence audit for the period 1 July 2009 to 30 June 2012.

##### Clause 16.2

Inquiry and observation of correspondence from the Authority to the Corporation noted the requirements of the Auditor have been communicated to the Corporation and auditor through the development and approval of the operational audit plan. The audit plan has been developed in accordance with the Authority's Audit Guidelines: Electricity, Gas and Water, August 2010 and was approved by the Authority in July 2012.

#### Documents Reviewed:

- Letter from ERA confirming audit timing and timely submission of operational audit report. 4 November 2009.
- Letter from Minister for Water in regards to successful completion of the operational audit. Ref 37-05517. 21 December 2009.
- Letter from the ERA giving approval for PwC to perform the 2012 operational audit. ERA Ref D88419. 17 May 2012.
- Approval letter from ERA for PwC's 2012 Operational Audit Plan. ERA Ref D92466. 26 July 2012.
- ERA Audit Guidelines: Electricity, Gas and Water Services. August 2010.

#### 3.4.3: Findings (Refer to Executive Summary)

None.

#### 3.4.4: Operational / Performance Audit Compliance Summary

Manual reporting reference	Compliance Rating
6	5
42	5

### 3.5 Fees Payable

Audit Test Reference:	Audit Priority:
5	5

#### 3.5.1: References

Reporting Manual Reference: 8

Operating Licence Clause: 4.1

- The licensee must pay the applicable fees in accordance with the regulations.

#### 3.5.2: Observations

##### Clause 4.1

We confirmed through inquiry and observation of a remittance confirmation and official receipt from the Office of Water Regulation, that the Corporation has paid their application fees on the 18/4/1996.

Additionally, we confirmed through inspection of the Operating License (OL6, Schedule 1) that the application fees (for Sewerage, Irrigation, Drainage and Potable & Non-Potable water supply).are not due for renewal until 28th June 2021.

#### Documents Reviewed:

- Government of Western Australia Official Receipt (#374601) from the Office of Water Regulation. 18/04/1996.

#### 3.5.3: Findings (Refer to Executive Summary)

None.

#### 3.5.4: Operational / Performance Audit Compliance Summary

Manual reporting reference	Compliance Rating
8	5

### 3.6 Customer Complaints Process

<b>Audit Test Reference:</b>	<b>Audit Priority:</b>	
6	2	

#### 3.6.1: References

Reporting Manual Reference: 9, 10, 12, 14, 15, 17, 18

Operating Licence Clause: 6.1, Schedule 3 Clause 3.1, 3.2 (b), 3.2 (d), 3.4, 3.6 and 3.7

- The licensee must establish a customer complaints process as set out in Schedule 3.
- The licensee must resolve customer complaints within 15 business days of the receipt of complaint.
- The licensee must provide appropriately trained staff to respond to complaints.
- The licensee must provide an appropriate system to monitor and record the number, nature of and outcomes to complaints.
- The licensee must inform the customer of the option to refer a disputed complaint to the Department of Water.
- The licensee must co-operate with the Department of Water's request for information concerning a disputed complaint.
- The licensee must, on request, provide complaints details to the Department of Water.

#### 3.6.2: Observations

##### Clause 6.1

Through inquiry, observation and inspection of the Customer Complaints Resolution Procedure, we noted that the Corporation has established a customer complaints process utilising the Customer Relationship Management system, Grange. This process enforces the recording of complaint details and automatically assigns the complaint a unique identification number for tracking. A Customer Complaints Resolution Procedure has been established which outlines the protocols which are followed by the Corporation to ensure all complaints are resolved within 15 days of being notified of the complaint. Additionally, where a complaint is not expected to be dealt with within the 15 day period, protocols are in place such that a Right of Referral is issued to the customer to notify them of their option to refer the dispute to the Department of Water.

In 2009 a finding was raised around the adequacy of complaint details recorded in Grange. The root cause was the adherence to procedures by staff. Testing of customer complaints during this audit noted no exceptions relating to complaint details in Grange.

There have been no instances during the audit period whereby an appeal has been made to the Supreme Court regarding a decision made by the Arbitrator.

##### Schedule 3 Clause 3.1 and 3.4

Observation and inspection of the Customer Complaints Resolution Procedure noted the requirement that complaints must be resolved within 15 business days and recorded at the time of receipt. Multiple times per week (approx 2-3 times), the Process & Compliance Coordinator extracts a report from Grange which provides statistics on response times and the age of unresolved complaints. For complaints that are aged 10 business days, the Process & Compliance Coordinator will Email to the Pending Work Queue (PWQ) to prompt them to follow-up and resolve the aged complaint. Sometimes this requires the creation of a work order. Where a complaint has exceeded 10 business days, a Customer Service Representative will mail the complainant a Right of Referral advising them of their option to refer their complaint to the Department of Water should they choose to do so. Inspection of 25 customer complaints found all complaints were responded to within the 15 day time frame and no exceptions where the Right of Referral was required to be sent out to the customer.

The Process & Compliance Coordinator monitors the overall process and it is the responsibility of the Customer Service Team Leaders to ensure that complaints are dealt with as per the Corporation's procedures. It has been accepted by the Authority that once a work order is created, the complaint is resolved.

Once a Right of Referral has been communicated, it is at the customer's discretion as to whether they wish to contact the Department of Water for further resolution. If a query is of an informal nature, the DoW may contact a Water Corporation Technical Specialist or the Customer Centre Priority 1 Coordinator by phone or email. However, if it is formal the DoW will send a written letter to the Operating Licence Compliance Coordinator, Regulation and Compliance Branch as part of the DoW's Water Industries Services Branch 'WISB Customer Complaints Procedure' (WISB). All written complaints from the DoW, regarding customers, are recorded as new customer complaints in Grange and assigned to the Pending Work Queue of the responsible Branch.

##### Schedule 3 Clause 3.2 (b),

Through inquiry and observation, we noted that all Customer Service Representatives (CSRs) undergo formal training as part of their induction in the handling of complaints. In addition to this there is also an annual refresher delivered to all CSRs.

Training forms part of core competencies for all CSRs enabling them to be assessed on a monthly basis through the Call Quality Development (CQD) practice whereby Team Leaders 'listen-in' on at least 10 recorded contacts per CSR to ensure that they are following the Customer Complaints Resolution Procedure.

Additionally, a Financial Authorisations Standard and Delegated Financial & Legal Authorisation procedure is in place to provide designated offices with the authority to make necessary decisions to settle customer complaints and disputes including the payment of monetary compensation. Where a CSR is not authorised to make a decision, the contact is escalated to the Team Leader or Technical



### 3.6 Customer Complaints Process

Specialists for resolution.

#### **Schedule 3 Clause 3.2 (d),**

Through inquiry and observation of the Grange system, we noted that Grange requires a minimum level of information around the nature of a complaint before it can be saved. Drop down menus are also used to categorise the nature and outcome of a complaint so that reporting from Grange allows the Corporation to record and monitor the number, nature of and outcomes. Additionally, random Quality Assurance checks are performed on all complaints on an ongoing ad-hoc basis. This control monitors the number, nature and outcome of complaints and is summarised in Business Performance Reports.

Observation and inspection of Business Performance Reports, found on the Corporation intranet, noted that the number, nature and outcome of complaints is reported and reviewed by the Board once finalised (by the 5th business day of the month).

#### **Schedule 3 Clause 3.6 and 3.7**

When a complaint is referred to the Department of Water (DoW) they may have informal direct liaisons with a known Technical Specialist within the Corporation via e-mail or phone for minor queries/discussions. However, if it is a formal complaint it must be in the form of a letter from the DoW, and be coursed through the Operating Licence Compliance Coordinator, Regulation and Compliance Branch as part of the DoW's Water Industries Services Branch 'WISB Customer Complaints Procedure' (WISB). All written complaints from the DoW, regarding customers, are recorded as new customer complaints in Grange and assigned to the Pending Work Queue of the responsible Branch. The sample Branch for the audit was the Corporation's Customer Centre.

Within the Corporation's Customer Centre, WISB complaints are handled by their Priority 1 Coordinator and labelled as a Priority 1. As part of the Customer Centre's internal procedures and controls Priority 1 disputes and queries are to be answered and/or resolved within a week of receipt. The Priority 1 Coordinator will delegate to an appropriate CSR for action and will monitor the progress throughout.

Through inquiry and observation, we noted that the Corporation received 208 requests for information from the Department of Water, over the audit period. Inspection of correspondence with the DoW noted that the Corporation has co-operated with all requests for information concerning a disputed complaint.

Additionally, we noted that no requests for details of other customer complaints have been made by the DoW. We did note the Corporation has reporting capabilities to extract the detail of complaints made, names and addresses of customers who have made complaints and the manner in which the complaint was resolved.

#### **Documents Reviewed:**

- Customer Contact Recording: Complaints & Enquiries Training Presentation. PM#3156154.v3. 2012.
- WISB Customer Complaints Resolution Procedure. PM#392194. 3 March 2011.
- E-mail from the Authority confirming understanding of 'resolved'. 7 August 2012
- Call Quality Requirements Procedure. n.d.
- S072 Financial Authorisations Standard. PM#411000. 15 November 2011.
- PCY 112 Delegated Financial and Legal Authorisations Policy. PM#410999. 15 November 2011.
- Right of Referral - Automatic Notification at 15 Business Days Work Instruction. PM#353410. 13 February 2012.
- Correspondence from the Department of Water dated 6 September 2012, confirming Corporation cooperation with customer complaints

#### **3.6.3: Findings (Refer to Executive Summary)**

None

#### **3.6.4: Operational / Performance Audit Compliance Summary**

Manual reporting reference	Compliance Rating
9	5
10	5
12	5
14	5
15	5
18	5

### 3.7 Customer Service Charter

<b>Audit Test Reference:</b>	<b>Audit Priority:</b>	
7	2	

#### 3.7.1: References

Reporting Manual Reference: 19, 20, 21, 22

Operating Licence Clause: Clause 7.1, Schedule 3 Clause 2.6, 2.7 and 2.8

- The licensee must establish a Customer Service Charter as set out in Schedule 3.
- The licensee must make the Customer Service Charter available to its customers in the three ways detailed in the licence
- The licensee must review its Customer Service Charter at least once in every three year period
- The licensee must provide its services consistent with its Customer Service Charter

#### 3.7.2: Observations

##### Clause 7.1

Through inquiry with management, and observation and inspection of the Customer Service Charter, we noted the Corporation has a Customer Service Charter in place that set out the terms, principles and conditions upon which the Corporation intends to provide water services to its customers, e.g. water quality, complaints, billing and payments, etc. The Charter is written in 'plain English' addresses the service issues that are likely be of concern to customers. Elements of the Charter are varied for farmland customers, commercial customers and services provided by agreement in accordance with the Operating Licence.

##### Schedule 3 Clause 2.6

The Customer Service Charter has been made available to customers in the three ways described by the licence. Observation at the Corporation's Perth and regional sites noted that the Charter is made available in the public reception areas and the Charter is made available on request of customers at no charge. The Charter is available in a summary and full version and these are accessible through the Corporation's and Authority's websites. Inquiry with management and inspection of a tax invoice from the Corporation's Mail Service provider confirmed that the Corporation last communicated the Charter to customers with the communication of annual rates in July 2009.

##### Schedule 3 Clause 2.7

The Corporation has a defined procedure to review and make revisions for the Charter. Through observation and inspection of the review procedure, we noted that it outlines the roles and responsibilities for updating the Charter and the requirements over consultation, distribution and approval of any changes. A Project Management Plan provides evidence that the due process was followed and that the appropriate authorities have been involved in the revisions and approval of the Charter. Through inspection of the Project Management Plan, we noted that the Charter (applicable to the audit period) was reviewed in June 2009 and later updated in June 2012.

##### Schedule 3 Clause 2.8

The licence requires the Corporation to provide services consistent with the Charter. Through inquiry, observation and inspection of Business Performance Reports, the Corporation monitors its service levels and internal targets against service levels described in the Charter. Observation and inspection procedures carried out under Test 2 (above) found that the Corporation complied with performance standards in the Charter that are required under the licence.

#### Documents Reviewed:

- Customer Charter Summary. PM#445557.v2. ISBN 1 7404 3310. 6 June 2009
- Customer Charter Detailed. PM#368668.v4. ISBN 1 74043 314 9. 9 June 2009
- Review and Distribution of the Customer Charter Work Instructions. PM#392167. 23 June 2009
- Customer Charter Summary. PM#445557.v2. ISBN 1 7404 3310 6 April 2012
- Customer Charter Detailed. PM#368668.v4. ISBN 1 74043 314 9 June 2012.
- Business Improvement Project: Summary Project Management Plan for Customer Charter Review 2009. 01-0397/a.
- Customer Charter Approval Notice. 24 June 2009.
- Salmat Invoice #135054 for the processing, printing and preparation of Annual Billing. PO 42000050422. 31 July 2009.
- Performance Indicator Central Reports 2010, 2011 and 2012.
- Business Performance Reports 2010, 2011 and 2012.

#### 3.7.3: Findings (Refer to Executive Summary)

None

3.7 Customer Service Charter

3.7.4: Operational / Performance Audit Compliance Summary

Manual reporting reference	Compliance Rating
20	5
21	5
22	5

### 3.8 Customer Consultation Process

<b>Audit Test Reference:</b>	<b>Audit Priority:</b>	
8	5	

#### 3.8.1: References

Reporting Manual Reference: 23, 24, 25, 26, 28

Operating Licence Clause: 8, Schedule 3 Clause 4.1, 4.2, 4.3, 4.5

- The licensee must establish customer consultation processes as set out in Schedule 3.
- The licensee may either establish a Customer Council or institute at least two of the following:
  - o establish a regular meeting;
  - o publish a newsletter; or
  - o run other public forums, concerning the licensed activities.
- The licence must consult the Authority on the type and extent of consultation to be adopted by the licensee.
- The licensee must, if at the request of the Authority, establish other forums for consultations, to enable community involvement in issues relevant to licence obligations.
- The licensee must prior to making a major change to the operation of a water service hold a public meeting and seek written submissions.

#### 3.8.2: Observations

##### **Clause 8 and Schedule 3 Clause 4.1**

Through inquiry with the Corporation we noted that a customer consultation process has been developed. We confirmed through observation of the Customer Advisory Council Terms of Reference and meeting minutes that this Council is charged with maintaining a customer consultation process. The Customer Council is comprised of a minimum of 11 members who are selected by the General Managers of the regional customer services groups and the Metropolitan customer services groups. Meetings are held monthly and minuted. The membership body must be represented by a minimum composition of representatives from the Perth Region, Country regions and Consumers Association of WA.

##### **Schedule 3 Clause 4.2**

Inquiry and observation of correspondence from the Authority noted that the Authority acknowledges the Customer Advisory Council as meeting the requirements for Schedule 3, clause 4.

##### **Schedule 3 Clause 4.3**

Through inquiry and observation of correspondence from the Authority, we confirmed that the Authority has not, at any time, in the current audit period, made a request of the Corporation to establish additional forums for consultation (other than set out in Schedule 3, clause 4 of the licence) to enable community involvement in issues relevant to license obligations under Schedule 3, clause 4 of the Licence.

##### **Schedule 3 Clause 4.5**

Not applicable. The Water Corporation's Operating Licence finishes at Schedule 3, Clause 4.3.

#### **Documents Reviewed:**

- Management of the Customer Advisory Council Procedure. PM#2874390. 17 May 2011.
- Customer Advisory Council Terms of Reference. n.d.
- Customer Advisory Council Agenda for July 2012.
- Customer Advisory Council Minutes of Meeting. 20 June 2012.
- Letter from Paul Kelly (ERA) confirming the receipt and acknowledgement of the terms of reference for the advisory council. ERA-WD/32/R-01. 17 May 2004
- Email from Paul Reid (Assistant Director of Monitoring), ERA) 30 July 2012.

#### 3.8.3: Findings (Refer to Executive Summary)

None

3.8 Customer Consultation Process

3.8.4: Operational / Performance Audit Compliance Summary

Manual reporting reference	Compliance Rating
23	3
24	5
25	5
26	N/R
28	N/A

### 3.9 Customer Contracts

Audit Test Reference:	Audit Priority:
9	4

#### 3.9.1: References

Reporting Manual Reference: 30, 31

Operating Licence Clause: Schedule 3 Clause 5.1, 5.4

- The licensee may enter into an agreement with a customer to provide water services that may exclude, modify or restrict the terms of the licence.
- The licensee must publish a report annually that includes the specified information

#### 3.9.2: Observations

##### *Schedule 3 Clause 5.1*

We confirmed through inquiry with the Corporation, that there are circumstances where the customer and Corporation are able to enter into agreements which exclude, modify or restrict the terms and conditions set out in the operating licence. The most common examples are:

- Services off a distribution or trunk main;
- Restricted use services;
- Services where the meter is not on the property;
- Farmland Services;
- Private pressure sewer systems;
- Effluent only discharge schemes; and
- Emergency Services (such as public health and safety, or where there is a substantial disruption to a customer's business).

Arrangements that exclude, modify or restrict the terms and conditions set out in the operating licence are governed by Service by Agreement contracts between the customer and Corporation, which must be agreed prior to the supply of water. In accordance with Schedule 3, Clause 5.2, all variations from the standard conditions have been approved by the Authority prior to the supply of water. To facilitate the practicality of approving Service by Agreements individually, the Corporation and Authority have agreed a standardised Service by Agreement application form, outlining the condition areas of the licence that the Authority has approved the Corporation can exclude, modify and / or restrict. Through observation of correspondence between the Authority and Corporation, we confirmed the approval of the standard Service by Agreement application form. We performed sample testing of 25 Service by Agreement applications to ensure all arrangements were agreed prior to the supply of water and the modifications to the terms and condition were in line with the approved variations. No exceptions were noted.

##### *Schedule 3 Clause 5.4*

Through inquiry with the Corporation, we confirmed a report to publish the following information on Service by Agreement contracts is released on an annual basis on the Corporation's public website:

- The total number of agreements entered into by the licensee, categorised by location and the type of exclusion, modification or restriction;
- The number of agreements entered into by the licensee during the reporting period, categorised by location and the type of exclusion, modification or restriction;
- The total number of agreements entered into by the licensee, categorised by location and by land use; and
- The number of agreements entered into by the licensee during the reporting period, categorised by location and by land use in operation across all regions and variations of the license conditions.

Through observation of the Corporation's website and Services Provided by Agreement Annual Statistics Report (2010/11), we confirmed that the report is available for viewing and download, and it has been structured to address each of the 4 conditions of Schedule 3 Clause 5.4.

#### Documents Reviewed:

- Description of service by agreement acronyms. n.d.
- ERA Approval Letter re Amendment by Substitution of Operating Licence 32 with Operating Licence 32 Ver OL1 and Letter of Agreement. 10 November 2008. ERA Approval for Service by Agreement Form
- Service Applications and Investigations Procedure. PM#457628. 6 July 2012. Service and performance standards procedures
- Agreement for a Water Supply Service including Terms and Conditions. n.d.
- Service by Agreement Application Form. n.d.
- Service by agreement site details form. n.d.

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### 3.9 Customer Contracts

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- Service Provided by Agreement Work Instruction. WI027. PM#393265. 8 June 2012.
  - Services Provided by Agreement Annual Statistics Report (2010/11). 30 June 2011.
  - Repository of prior service by agreement reports on Water Corporation's web site.
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#### 3.9.3: Findings (Refer to Executive Summary)

None.

#### 3.9.4: Operational / Performance Audit Compliance Summary

Manual reporting reference	Compliance Rating
30	5
31	5

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### 3.10 Customer Survey

<b>Audit Test Reference:</b>	<b>Audit Priority:</b>	
10	5	

#### 3.10.1: References

Reporting Manual Reference: 32

Operating Licence Clause: Schedule 3 Clause 6

- The licensee must conduct a customer survey if directed to by the Authority.

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#### 3.10.2: Observations

##### ***Schedule 3 Clause 6***

We confirmed through inquiry and observation of correspondence from the Authority that no request of the Corporation to commission an independent customer survey has been made during the audit period.

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#### **Documents Reviewed:**

- Email from the Authority to PwC dated 30/7/12 from Paul Reid (Assistant Director of Monitoring), ERA 30 July 2012.

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#### 3.10.3: Findings (Refer to Executive Summary)

None.

#### 3.10.4: Operational / Performance Audit Compliance Summary

Manual reporting reference	Compliance Rating
32	N/R



### 3.11 Water Quality

Audit Test Reference:	Audit Priority:
11	4

#### 3.11.1: References

Reporting Manual Reference: 33, 34, 35, 36, 37, 38, 39, 40

Operating Licence Clause: 9.1, 9.2 (c), 9.2 (d), 9.2 (e), 9.4, 9.5, 9.6, 9.7

- The licensee must enter into a MoU with the Department of Health (DoH).
- The licensee and DoH must review and renew the MoU every 3 years.
- The licensee must provide the Authority with a complete copy of the MoU within one month of entering into the MoU.
- The licensee must provide the Authority with any amendments to the MoU within one month of entering into any amendments to the MoU.
- The licensee must comply with the terms of the MoU.
- The licensee must publish the MoU and any amendments to the MoU within one month of signing (subject to the confidentiality clause 22.3 in the licence).
- The licensee must publish the audit report on compliance with its obligations under the MoU on the licensee's web site within one month of the completion of the audit.
- The licensee must publish its Potable Water Quality Reports quarterly or at a reporting frequency agreed with the Department of Health

#### 3.11.2: Observations

##### **Clause: 9.1 and 9.2 (c)**

We confirmed through inquiry and observation with the Water Quality Operations Manager that the Corporation has a current Memorandum of Understanding (MoU) with the Department of Health (DoH). The MoU was signed by the Corporation and DoH on 5 November 2007 for a period of 5 years ending November 2012. We confirmed that the MoU is available on the Corporation's public website.

At the time that the licence was drafted, the standard period of currency for a MoU was three years. Through inquiry with Authority we confirmed that the secretariat acknowledged receipt of the Corporation's MoU on 28 December 2008 and interprets clause 9.2(c) of the licence as having a period of five years instead of three years.

##### **Clause: 9.2 (d), 9.2 (e) and 9.5**

We confirmed through inquiry and observation with the Water Quality Operations Manager that the current MoU was entered into on 4th November, 2007. As such, there has been no requirement during the audit period to provide the Authority a complete copy of the MoU within one month of entering into the MoU. Notwithstanding this, the secretariat acknowledged receipt of the Corporation's MoU on 28 December 2008. We confirmed through inquiry with the Water Quality Operations Manager and inspection of the current MoU, that it has remained unchanged since commencement in November 2007. As such, there has been no requirement during the audit period to provide any amendments to the Authority.

##### **Clause: 9.4 and 9.6**

To ensure the Corporation complies with the terms of the MoU, we confirmed through inquiry and observation that a compliance audit is performed every 3 years. The last audit was performed by an independent third party and published on the Corporation's website in August 2009, reporting on compliance for the period 1 July 2006 to 30 June 2009.

We confirmed through inquiry with the Water Quality Operations Manager that the 2012 water quality management audit is currently being performed by an independent third party and the report is expected to be published in September 2012. This was confirmed through inspection of a signed scope and objective statement dated 13 July 2012. The report will be made publically available on the Corporations website one month after completion.

##### **Clause: 9.7**

We confirmed through inspection of correspondence between the DoH, the Authority and Corporation, that the Authority and DoH have approved annual reporting of Potable Water Quality reports for 2009/10, and 2010/11. We confirmed through observation and inspection that Potable Water Quality reports are published on the Corporation's website.

At the time of our audit, the 2011/12 Potable Water Quality report has not been finalised. We confirmed the signed scope and objective statement dated 13 July 2012. The report will be made publically available on the Corporations website one month after completion.

#### **Documents Reviewed:**

- Memorandum of Understanding repository on the Water Corporation's website.  
[http://www.watercorporation.com.au/P/publications\\_water\\_quality.cfm](http://www.watercorporation.com.au/P/publications_water_quality.cfm)

### 3.11 Water Quality

- Memorandum of Understanding between the Department of Health and Water Corporation for Drinking Water v4 2007
- Email evidence of Dialogue between DoW and the Water Corporation on renewal Memorandum of Understanding. 15/05/2012 – 23/07/2012.
- Confirmation email from DoH confirming term of 5 years for Memorandum of Understanding. 15/05/2012.
- Evidence of submission of Water Corporation Operating Licence 32 OL1, Memorandum of Understanding. 18/12/2008.
- Department of Health and Water Corporation Minutes of Audit Meeting – 17 September 2009.
- Department of Health and Water Corporation Minutes of Audit Meeting – 21 October 2010.
- Department of Health and Water Corporation Minutes of Audit Meeting – 21 April 2011.
- Water Corporation – 2009 Drinking Water Quality Management Performance Review. August 2009.
- Water Quality publications web archive repository on the Water Corporation website.  
[http://www.watercorporation.com.au/P/publications\\_water\\_quality.cfm](http://www.watercorporation.com.au/P/publications_water_quality.cfm)
- Water Corporation's website (Archive of documents) [http://www.watercorporation.com.au/P/publications\\_water\\_quality.cfm](http://www.watercorporation.com.au/P/publications_water_quality.cfm)
- Drinking Water Quality Annual Report 2010/11
- Archive of Prior annual water quality reports on the Water Corporation website.  
[http://www.watercorporation.com.au/W/waterquality\\_annualreport.cfm](http://www.watercorporation.com.au/W/waterquality_annualreport.cfm)
- Economic Regulation Authority – Changes to the reporting of drinking water quality.
- Water Corporation Audit 2012; Signed Objective and Scoped Statement dated 13 July 2012.

#### 3.11.3: Findings (Refer to Executive Summary)

None

#### 3.11.4: Operational / Performance Audit Compliance Summary

Manual reporting reference	Compliance Rating
33	5
34	N/R
35	N/R
36	N/R
37	5
38	N/R
39	5
40	5

### 3.12 Accounting Records

Audit Test Reference:	Audit Priority:
12	5

#### 3.12.1: References

Reporting Manual Reference: 41

Operating Licence Clause: 15.1

- The licensee must maintain accounting records.

#### 3.12.2: Observations

##### **Clause: 15.1**

Through inquiry and observation of the Corporation's annual reports for 2009/10 and 2010/11, we noted that the audit opinion from the Auditor General confirms that the Corporations accounting records comply with Australian Accounting Standards Board Standards.

At the time of this review, the accounts for 30 June 2012 were being reviewed by the Auditor General. Since completion of our audit, we have sighted a letter from the Auditor General to the Parliament of Western Australia dated 20 August 2012 which confirms the accounts have been audited for the year to 30 June 2012, that they give a true and fair view of the Corporation's financial position and performance, and that the accounts comply with the Australian Accounting Standards and the Corporations Regulations 2001.

#### **Documents Reviewed:**

- Water Corporation Annual Report 2011. ISSN 1447 4212.
- Water Corporation Website: Archive of previous annual reports.  
[http://www.watercorporation.com.au/P/publications\\_annual\\_reports.cfm](http://www.watercorporation.com.au/P/publications_annual_reports.cfm)
- Financial Management Framework. S026. 21 May 2012.
- Letter from the Auditor General to the Parliament of Western Australia dated 20 August 2012, confirming the accounts have been audited for the year to 30 June 2012.

#### 3.12.3: Findings (Refer to Executive Summary)

None.

#### 3.12.4: Operational / Performance Audit Compliance Summary

Manual reporting reference	Compliance Rating
41	5

### 3.13 Reporting to the Authority

<b>Audit Test Reference:</b>	<b>Audit Priority:</b>	
13	4	

#### 3.13.1: References

Reporting Manual Reference: 46, 47, 48, 49

Operating Licence Clause: 18.1, 21.1, 21.2, 22.2 and 22.4

- The licensee must report to the Authority if it is under external administration within 2 business days or significant change in its financial or technical circumstances within 10 business days.
- The licensee must provide any information the Authority may require in connection with its functions under the Act
- The licensee must comply with the information reporting requirements as set out in Schedule 5.
- The licensee must publish relevant information directed to do so by the Authority within the specified timeframe.

#### 3.13.2: Observations

##### Clause: 18.1

We confirmed through inquiry with the Manager Financial Management that at no time during the period 1 July 2009 – 30 June 2012, was the Corporation under external administration. Additionally, through observation of the audit opinion from the Auditor General, for the year to 30 June 2010, and 2011, and 2012 we confirmed that no going concern issues were raised.

Through inquiry with the Manager Financial Management, we noted that the Corporation frequently communicates with the Authority through the role of the Chief Finance Officer, who is responsible for notifying the Authority should the Corporation ever find itself in administration or where significant change in its financial or technical circumstances arise. Inquiry with the Manager of Compliance noted that a “significant change” is defined as a change to financial or technical circumstances that may affect the Corporation’s ability to meet its obligations under this licence.

##### Clause: 21.1 and 21.2

Through inquiry and observation, we confirmed that the Corporation has a structured program to provide timely and accurate submission of information to the Authority. Specifically, the Corporation has processes to provide Annual Performance data, Annual Benchmarking data and compliance reporting (for both annual report and timely submission of type 1 non compliance issues).

We confirmed via observation that the Annual Performance data, Annual Benchmarking data and compliance reporting submissions for 2011 were provided to the Authority in a timely manner and complied with the information reporting requirements as set out in Schedule 5.

Inquiry with management noted that performance reporting is independently audited and we confirmed through observation of correspondence from the Authority, confirming receipt of audited benchmarks for the year ending 30/6/2011 and that the Corporation had met its obligations under Schedule 5 of the license.

Additionally we confirmed through observation of correspondence from the Authority to the Corporation (dated 18 November 2010) that performance data required under the National Water Initiative Agreement (NWIA) and an Audit report in relation to the Corporation’s water services operating licence were received by the due date.

##### Clause: 22.2 and 22.4

We confirmed through inquiry with the Manager of Compliance & Business Analyst that there have been no requests from the Authority to publish any additional information. Additionally, we confirmed through inquiry and observation of correspondence from the Authority that no additional requests for information were made during the period. Furthermore, inquiry with the Manager of Compliance noted that the Corporation has not considered any requests made by the Authority during the audit period as confidential under clause 22.3.

#### Documents Reviewed:

- ERA Annual Performance Reporting Procedures. PM#268796. 1 July 2011.
- Annual Compliance Report 2009-10. n.d.
- Delivery docket serving as evidence of performance report hard copy submission. Job #112607. 31 August 2010.
- E-mail from Kevin Trevor (Operating Licence Compliance Coordinator) to Paul Reid re Water Corporation Annual Compliance Report 2009/10. 31 August 2010.
- Annual Compliance Report Cover Letter. 31 August 2010
- Water Corporation Performance Report (Water Services). June, 2011.
- Water Corporation Performance Report (Drainage Services). June, 2011.
- Water Compliance Manual Datasheet – Potable Water Providers subject to NWI Reporting 2010-11.
- E-Mail from Gillian Booth (Business Analyst) to ERA re Annual Performance and Benchmarking Reporting Submission 2010-11. 26

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### 3.13 Reporting to the Authority

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October 2011.

- E-Mail confirmation receipt from ERA to Gillian Booth (Business Analyst) re Annual Performance and Benchmarking Reporting Submission 2010-11. 2 November 2011.
  - Annual Benchmarking & Performance Reporting 2010-11 Cover Letter. JTI 2011 06432 V01. 27 October 2011.
  - Benchmarking data for all towns. n.d.
  - Type 1 Obligation Reporting to the ERA procedures. PM#6244047. 18 January 2012.
  - Water Licence Performance Reports 2010. 18 November 2010.
  - Email from Paul Reid (Assistant Director of Monitoring), ERA) 30 July 2012.
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#### 3.13.3: Findings (Refer to Executive Summary)

None.

#### 3.13.4: Operational / Performance Audit Compliance Summary

Manual reporting reference	Compliance Rating
46	N/R
47	5
48	5
49	N/R

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### 3.14 Customer Obligations

<b>Audit Test Reference:</b>	<b>Audit Priority:</b>	
14	4	

#### 3.14.1: References

Reporting Manual Reference: Extra 1, Extra 2, Extra 3 (Schedule 6 – 2.1, 2.2, 2.3.)

Operating Licence Clause:

- The Licensee must set out in writing its conditions for connection and make that information available to all applicants for connection and to people inquiring about connection
- The licensee must ensure that its services are available for connection on request to any land situated in the Operating Areas, subject to the applicant meeting any conditions the licensee may determine to ensure safe, reliable and financially viable supply of services to land in the Operating Areas in accordance with this licence and any Water Acts. Satisfactory compliance with the conditions of connection is to be taken as forming an essential requirement of gaining approval for connection to the licensee's schemes.
- The licensee may, with the written agreement of the property owner, discontinue a service to a property where the servicing of the property is not commercially viable.

#### 3.14.2: Observations

##### *Schedule 6, clause 2.1*

We confirmed through inquiry with the Customer Information Officer and observation of the Corporation's website that the conditions for connection are set out in writing and included within the standard application form for each type of service offered by the Corporation (e.g. Multiple Residence, Single Residence, Non-residential, etc). Both the conditions for connection and standard application forms are available online and by fax or post at the request of a customer.

If an application is received for a service where the Corporation is unable to provide the standards set in the operating licence, the Corporation may arrange a Service by Agreement with the customer. The conditions for connection in relation to Service by Agreement arrangements are communicated in writing to the customer and are approved by the Authority prior to the supply of water.

##### *Schedule 6, clause 2.2*

We confirmed through inquiry with the Development Services Branch Manager, Manager Business Support, and Process and Improvement Officer, that the Corporation will ensure that services are available for connection to any land situated in the operating area where the conditions for connection can be met, or an appropriate Service by Agreement arrangement that complies with the approved variations to standard conditions provided by the Authority, can be agreed with the customer.

Where additional infrastructure is needed to connect a property to the main (e.g. in rural and farmland areas), the customer is required cover the cost of the infrastructure to connect the service. In some instances this may result in the cost outweighing the benefit of the water service. However, in all cases, the Corporation will supply cost estimates and information on the available service levels to help the customer decide whether to invest in the infrastructure.

Through inquiry with management and observation of the customer complaints register, we noted that there have been no complaints relating to the refusal to connect a customer who is within the license area.

##### *Schedule 6, clause 2.3*

We confirmed through inquiry that the only circumstance that would result in the Corporation discontinuing a water services is outlined in the Low Value Vacant Land- Doubtful Debt policy. This policy provides for the rare circumstances where accumulated council and water rates are high in relation to the value of the serviced property and land, the property is vacant and that the Shire intends to revert the title back to the Crown. Only if these conditions are met, can the Corporation approach the owner to discuss discountenance of service.

Through observation of the policy we confirmed the process and prerequisites before considering and proceeding with discontinuation are clearly outlined and require the written agreement of the property owner. If the owner is unable to be contacted, the service may be discontinued without the consent of the owner, providing all reasonable attempts have been made to contact them during the debt recovery process and the State's reclamation of land.

There have been no instances that have given rise to this situation during the audit period.

#### **Documents Reviewed:**

- Conditions for Connection, June 2011 (Cited on the Corporation's website)
- Service Provided by Agreement Work Instruction. WI027. PM#393265. 8 June 2012. Service by agreement policy
- Service by Agreement Application Form. n.d. Service by Agreement Application form
- House Addition Application for Connection Form (inc. T and C's). n.d. House Addition Application for connection form (inc. T and C's)
- Non residential Mixed Use Application for Connection For (inc. T&C's). n.d. Non residential Mixed use connection (T&C's)

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### 3.14 Customer Obligations

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- Single Residence Application and Service Connection Form (inc. T&C's). n.d. Single residence connection form (inc. T&C's)
  - Multi Residential Application for Connection Form (inc. T&C's). n.d. Multi residential connection form (inc. T&C's)
  - S320 Doubtful Debt – Low Value Vacant Land Standard. PM#379669. 3 November 2011. Low Value Vacant Land- Doubtful Debt Policy
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#### 3.14.3: Findings (Refer to Executive Summary)

None.

#### 3.14.4: Operational / Performance Audit Compliance Summary

Manual reporting reference	Compliance Rating
Extra 1	5
Extra 2	5
Extra 3	5

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