

Operating Licence and Asset Management Review

Performance Audit Report

Bunbury Water Board

*Performance Audit
Report*

December 2013

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1 Executive Summary

1.1 Introduction

Bunbury Water Board (trading name is Aqwest) was a statutory corporation operating under the Water Corporations Act 1995. Aqwest holds a Water Services Operating Licence issued under the Water Services Licensing Act 1995 (WA) by the Economic Regulation Authority. Under this licence Aqwest is eligible to provide a potable water supply service to the Greater Bunbury Region. The licence is valid for the period 17 January 1997 to 17 January 2022. For the period under review, 1 October 2010 to 30 September 2013, there have been no major changes to the organisation or Operating Licence since the previous review undertaken in 2010.

In mid-November, subsequent to review, the Board was corporatised however retained the Aqwest trading name.

Section 37 of the Water Services Licensing Act 1995 requires Aqwest Bunbury Water Board (Aqwest) to provide the Economic Regulation Authority (the Authority) with an operational audit (audit) of its licence and an asset management review (review) which is conducted by an independent expert acceptable to the Authority.

The Authority approved PricewaterhouseCoopers to undertake the audit and review in September 2013.

We have conducted the performance audit in accordance with the Standard on Assurance Engagements (ASAE) 3100 “Compliance Engagements”. This is an audit of the effectiveness of the measures taken by Aqwest to meet the obligations of the performance and quality standards referred to in the Water Services Licence. The asset management review was performed in accordance with the Authority’s Audit Guidelines: Electricity, Gas and Water, August 2010. This audit and review covered the period 1 October 2010 to 30 September 2013.

An audit plan was developed and approved by the Authority using a risk based approach to focus on key risk areas in accordance with Aqwest’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, July 2012 for the water trading licence to ascertain the performance and compliance audit requirements of Aqwest 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 Aqwest 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 and asset management review.

1.2 Audit Objectives, Scope and Approach

Objectives

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

The objective of the Asset Management Review was to assess the measures taken by Aqwest for the proper management of assets used in the provision and operation of services and, where appropriate, the construction or alteration of relevant assets. The review focused on the asset management system and asset management plans that measure the proper operation and maintenance of assets within Aqwest.

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 Aqwest or specific issues to follow up that are advised by the Authority.

The scope of the asset management review included an assessment of the following:

- Asset planning.
- Asset creation/acquisition.
- Asset disposal.
- Environmental analysis.
- Asset operations.
- Asset maintenance.
- Asset management information system.
- Risk management.
- Contingency planning.
- Financial planning.
- Capital expenditure planning.
- Review of the asset management system.

The assets included in the scope of the review are all assets deemed to be operational assets such as reservoirs, treatment plants, bores, pumps and mains. Our work performed over the above areas of the asset processes identified that while there have been updates to asset strategy and governance as a result of the Bunbury Water Board Asset Management Review Report 2010, there have been no major changes to the key operations or functionality surrounding assets since the aforementioned review.

The period covered by the audit was 1 October 2010 to 30 September 2013. We performed our audit during the period October and November 2013.

Audit Approach

Our audit has been conducted in accordance with the Standard on Assurance Engagements (ASAE) 3100 “Compliance 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 Aqwest’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 Aqwest and to determine the nature and extent of audit activity. The Authority’s Water Compliance Reporting Manual, July 2012 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 and asset management review.

In accordance with the Operating Licence Audit Plan approved by the Authority in October 2013, the audit adopted a risk based approach to validate compliance with the licence conditions and perform the asset management review. Under this approach, we have used the audit priority assessment and the alignment of the Water Service Licence requirements to Aqwest’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.

1.3 Assessment of the control environment

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

- A well defined organisational structure with assigned responsibilities for compliance.
- The cumulative experience and knowledge of key staff within the business facilitates a culture of continuous improvement and training. The assistance provided by employees through the duration of our audit has also demonstrated the organisation’s commitment to and focus on meeting their obligations under the Operating Licence and Asset Management Review.
- Proactive reviews conducted to improve the asset maintenance processes through the implementation of a Revised Asset Management Strategy and Plan in 2013.

1.4 Operating Licence

1.4.1 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

Compliance Status	Rating	Description of Compliance
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	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							
1	The licensee must provide the water service.	Major	Probable	High	Strong							✓
2	The Licensee must achieve prescribed standards as defined in the regulations.	Major	Probable	High	Moderate							✓
3	The Licensee must have an Asset Management System in respect to the licensed activity.	Major	Unlikely	High	Strong							✓
4	The Licensee must notify the Authority of any changes to the Asset Management System.	Major	Unlikely	High	Strong							✓
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.	Major	Unlikely	High	Strong							✓

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							
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.	Major	Probable	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.	Moderate	Likely	High	Moderate							✓
10	The licensee must resolve customer complaints within 15 business days of the receipt of complaint.	Moderate	Likely	High	Strong							✓
12	The licensee must provide appropriately trained staff to respond to complaints.	Moderate	Likely	High	Moderate							✓

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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							
14	The licensee must provide an appropriate system to monitor and record the number, nature of and outcomes to complaints.	Moderate	Likely	High	Strong							✓
15	The licensee must inform the customer of the option to refer a disputed complaint to the Department of Water.	Moderate	Likely	High	Moderate							✓
17	The licensee must co-operate with the Department of Water's request for information concerning a disputed complaint.	Moderate	Likely	High	Strong							✓
18	The licensee must, on request, provide complaints details to the Department of Water.	Moderate	Likely	High	Strong							✓
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							✓

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		Major Moderate Minor	Likely Probable Unlikely	High Medium Low	Strong Moderate Weak							
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	Unlikely	Medium	Strong							✓
23	The licensee must establish customer consultation processes as set out in Schedule 3.	Moderate	Unlikely	Medium	Strong							✓
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.	Moderate	Unlikely	Medium	Strong							✓
25	The licence must consult the Authority on the type and extent of consultation to be adopted by the licensee.	Moderate	Unlikely	Medium	Strong							✓

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		Major Moderate Minor	Likely Probable Unlikely	High Medium Low	Strong Moderate Weak							
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.	Moderate	Unlikely	Medium	Strong							✓
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.	Moderate	Unlikely	Medium	Strong	✓						
31	The licensee must publish a report annually that includes the specified information	Moderate	Unlikely	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).	Major	Probable	High	Strong							✓
34	The licensee and DoH must review and renew the MoU every 3 years.	Major	Probable	High	Strong							✓

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							
35	The licensee must provide the Authority with a complete copy of the MoU within one month of entering into the MoU.	Major	Probable	High	Strong							✓
36	The licensee must provide the Authority with any amendments to the MoU within one month of entering into any amendments to the MoU.	Major	Probable	High	Strong	✓						
37	The licensee must comply with the terms of the MoU.	Major	Probable	High	Strong							✓
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).	Major	Probable	High	Strong							✓
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.	Major	Probable	High	Strong	✓						

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							
40	The licensee must publish its Potable Water Quality Reports quarterly or at a reporting frequency agreed with the Department of Health	Major	Probable	High	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.	Moderate	Unlikely	Medium	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.	Major	Unlikely	High	Strong							✓

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							
44	The licensee must notify the Authority of any changes to its asset management system within 10 business days from the date of change.	Major	Unlikely	High	Strong							✓
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.	Major	Unlikely	High	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	Strong							✓

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		Major Moderate Minor	Likely Probable Unlikely	High Medium Low	Strong Moderate Weak							
47	The licensee must provide any information the Authority may require in connection with its functions under the Act.	Moderate	Unlikely	Medium	Moderate							✓
48	The licensee must comply with the information reporting requirements as set out in Schedule 5.	Moderate	Unlikely	Medium	Moderate							✓
49	The licensee must publish relevant information directed to do so by the Authority within the specified timeframe.	Moderate	Unlikely	Medium	Strong							✓
LPW 3	Percentage of connected properties that did not experience an interruption to water supply exceeding 1 hour in duration (monthly data and 12 month data).	Major	Probable	High	Strong							✓
LPW 4	Percentage of customers in the Bunbury area that have been supplied at a pressure and flow that meets the standards set out in the licence (monthly data and 12 month data).	Major	Probable	High	Strong							✓

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							
TS 3	Percentage of customers who, within one hour of reporting an emergency, were advised of the nature and timing of the action to be undertaken by the licensee.	Major	Probable	High	Moderate							✓
CH 5	Percentage of customer complaints resolved within 15 business days	Major	Probable	High	Moderate							✓
Additional 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.	Moderate	Unlikely	Medium	Strong							✓

1.4.2 Key Recommendations

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

Ref	Licence Condition	Issue	Recommendation	Action Taken	Status
		The complaints manual was updated in 2009 but we noted that it is missing some policy information required by the Operational License. Schedule 3, Clause 3.4 states that if a complaint has not been resolved within 15 working days, the Licensee must inform the customer of their right to engage the Department of Water. Although this is outlined in the Customer Services Charter, there is no process requirement within the manual to inform the customer of this. Our testing noted that in the sample of 5 there was one instance where the Department of Water was not offered as a resource to the customer.	complaints to the Department of Water if they are not resolved within 15 days. Additionally, the processes for AQWEST to deal with the Department of Water should also be documented as part of this manual.		
Operating Licence Prior Finding 4	Ref. 47, 48 Clause 21.1 Clause 21.2	<p>We were not able to obtain evidence that the reportable information required for 2007/08 and 2008/09) was submitted to the Authority in a timely manner. There is no formal logging process for assigning and ensuring that the requests are completed in a timely manner.</p> <p>We did obtain confirmation from the Authority that AQWEST has provided all required information.</p> <p>Without a formal logging process there is a risk that reporting information could be submitted to the Authority past the deadline or completely overlooked.</p>	AQWEST should maintain a compliance log which records, assigns and maintains a record of requests that have been provided to the Authority.	In August 2012, TRIM was fitted with functionality to track actions against documents. All official correspondence received by Aqwest goes through the 'Yellows Process' whereby it is logged in TRIM as it is received. A yellow workflow coversheet is generated showing the due date and who has been assigned to complete the action. If the action is not completed by the due date a reminder email will automatically be generated by TRIM.	Closed

1.4.4 Changes to the Licence

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

1.4.5 Conclusion

In summary, we noted that all of the obligations were deemed to be compliant and as such confirm the reporting performed by Aqwest to the Authority. We were also pleased to note that all of the prior audits findings have been resolved by management.

1.5 Asset Management Review

1.5.1 Performance Summary

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

Asset management process and policy definition adequacy ratings

Rating	Description	Criteria
A	Adequately defined	Processes and policies are documented. Processes and policies adequately document the required performance of the assets. Processes and policies are subject to regular reviews, and updated where necessary. The asset management information system(s) are adequate in relation to the assets that are being managed.
B	Requires some improvement	Process and policy documentation requires improvement. Processes and policies do not adequately document the required performance of the assets. Reviews of processes and policies are not conducted regularly enough. The asset management information system(s) require minor improvements (taking into consideration the assets that are being managed).
C	Requires significant improvement	Process and policy documentation is incomplete or requires significant improvement. Processes and policies do not document the required performance of the assets. Processes and policies are significantly out of date. The asset management information system(s) require significant improvements (taking into consideration the assets that are being managed).
D	Inadequate	Processes and policies are not documented. The asset management information system(s) is not fit for purpose (taking into consideration the assets that are being managed).

Asset management performance ratings

Rating	Description	Criteria
1	Performing effectively	The performance of the process meets or exceeds the required levels of performance. Process effectiveness is regularly assessed, and corrective action taken where necessary.
2	Opportunity for improvement	The performance of the process requires some improvement to meet the required level. Process effectiveness reviews are not performed regularly enough. Process improvement opportunities are not actioned.
3	Corrective action required	The performance of the process requires significant improvement to meet the required level. Process effectiveness reviews are performed irregularly, or not at all. Process improvement opportunities are not actioned.
4	Serious action required	Process is not performed, or the performance is so poor that the process is considered to be ineffective.

Asset Management Effectiveness Summary

Asset Management System	Asset management process and policy definition adequacy rating	Asset management performance rating
Asset planning	A	1
Asset creation and acquisition	A	1
Asset disposal	A	1
Environmental analysis	A	1
Asset operations	A	1
Asset maintenance	A	1
Asset Management Information System	A	1
Risk management	A	1
Contingency planning	A	1
Financial planning	A	1
Capital expenditure planning	A	1
Review of AMS	A	1

1.5.2 Key Recommendations

We are pleased to note that there were no new findings noted from our review.

1.5.3 Previous Audit Recommendations

Ref	Process	Finding	Recommendation	Action Taken	Status
Asset Management Review Prior Finding 1	Asset Planning	<p>There does not currently appear to be a clearly defined link between the corporate wide risk management process and the asset management framework. There is currently no document in place which links the two.</p> <p>Ideally, there should be a direct link between the corporate wide risk management process and the asset management framework.</p> <p>Asset strategies should be driven by risk assessments with links to the corporate risk framework.</p>	<p>Aqwest should seek to integrate its asset management framework with its corporate risk framework. This would include development of asset maintenance strategies covering the full portfolio of assets, based on risk assessment and informed by up to date criticality and condition assessments.</p>	<p>We noted that Aqwest has developed an Asset Risk and Criticality Framework that provides a framework for asset risk assessments based on the Corporate Risk Management Manual.</p>	Closed

Ref	Process	Finding	Recommendation	Action Taken	Status
Asset Management Review Prior Finding 2	Asset Creation	<p>A best practice asset management framework would include a staged release of funds, and documentation to evidence the approval process at each stage of the project lifecycle. This would typically involve:</p> <ul style="list-style-type: none"> The need for investment is identified, and an outline of the project is developed. Drivers are identified, including strategic fit of the project. Options are identified (including non capital options), a preliminary assessment of options (including a risk assessment, cost-benefit analysis, financial analysis etc) is undertaken and documented, and authorisation to release funds for more detailed planning and development of a business case is secured. Authorised to proceed with the project is obtained, and documented. A business case is prepared with a more detailed assessment of costs and benefits, and a preferred option selected. Authorisation to proceed with the project is obtained, and documented within the Capital Project Form Detailed planning. Authorisation to proceed to construction. Construction. <p>It is noted that AQWEST may well undertake these steps already. However, there appears to be an absence of documentation surrounding the authorisation and release of funds.</p>	<p>The capital project approval process should be modified to include the staged release of funds, and the Capital Project Form be split in accordance with these stages. In addition, the form should be updated to include the requirement to obtain authorisation to proceed to the next phase.</p> <p>This may be applicable for projects which may be above the \$500k threshold as well as projects deemed as "high risk".</p>	<p>We noted that Aqwest has implemented a Contract Management Manual which included:</p> <ul style="list-style-type: none"> Templates for formal agreements. Approvals for any scope or pricing variation. Contract insurance. Contract monitoring. Contract payments. Certificate of completion records. 	Closed

Ref	Process	Finding	Recommendation	Action Taken	Status
Asset Management Review Prior Finding 3	Asset Maintenance 1	<p>AQWEST currently has in place asset strategies for its reticulation assets (water mains and valves). However, it does not appear that any documented strategies currently in place for treatment assets, or booster pumps. As a consequence, it is not possible to easily determine what is driving the maintenance activities for these assets, or how the maintenance strategies have been determined / assessed.</p> <p>Additionally in a sample of 25 assets tested, the following was noted:</p> <ul style="list-style-type: none"> • 15 of the assets had a maintenance strategy such as run to fail in place, however there is no supporting documentation which outlines this approach. • 2 of the assets did not appear to have any maintenance strategy in place. • 1 of the assets had maintenance based on the manufacturing service documents however these could not be located. <p>The 2009-10 Asset Management Plan states that AQWEST “continually reviews and optimises specific maintenance practices” and “Identifies the true cost of maintenance and evaluates preventative maintenance versus corrective maintenance”. Based on discussions with the Manager Water Services, there is currently no structured process in place whereby AQWEST seeks to optimise the split of preventative and corrective maintenance.</p> <p>We also noted that the AQWEST preventative valve maintenance program has fallen behind schedule, and is currently on hold. There is a risk that delays in delivering the preventative maintenance program for valves will result in a greater number of unplanned outages.</p>	<p>AQWEST should seek to develop and document asset strategies to cover the full portfolio of its assets.</p> <p>The asset strategy should seek to identify the optimal maintenance regime, taking into the age and condition of the assets.</p> <p>The strategies should be risk based and consistent with AQWEST’s risk management framework.</p> <p>An assessment should be undertaken for key assets, and it should be reviewed at regular intervals (every two to three years).</p> <p>Asset strategies should be formalised and recommendations from the GHD Asset Maintenance Review implemented.</p>	<p>Our sample testing noted that assets had a maintenance strategy in place. This was through specific strategies that have been developed or through the GHD Asset Management Strategy review which stated the “run to fail” asset. A process is also in place through the Asset Management manual to review the strategies to ensure they remain appropriate.</p>	Closed

Executive Summary

Ref	Process	Finding	Recommendation	Action Taken	Status
Asset Management Review Prior Finding 4	Asset Maintenance 2	<p>An asset audit is undertaken every 5 years, which involves condition based assessments of all assets. The audit involves inspection of the assets and comparing this against the data in the asset register. It allows for the removal of retired assets and the amendment of inaccurate information. An asset audit is currently underway and a copy of the Capital Project Form for the 'Asset Data Audit – All Sites' was provided (dated 12/4/10).</p> <p>It provides limited information on the validation checks to be undertaken, the type of information to be gathered, and how this is used / update back into Mainpac.</p>	<p>The Asset Audit should have a formalised procedure in place documenting the audit approach. This will assist in addressing the GHD Asset Maintenance Review finding in relation to the missing data within Mainpac for AQWEST assets.</p>	<p>A full audit has been undertaken for assets which documents the Asset Name, Status, Description, Condition and Assessment date. The Asset Management Manual documents the process for capturing and storing asset information.</p>	Closed
Asset Management Review Prior Finding 5	Asset Management Information System 1	<p>Periodic access reviews for Mainpac are performed on an ad hoc basis and currently not formalised. During our review we noted that two staff which had access to Mainpac were not appropriate and subsequently removed. AQWEST is currently in the process of formalising this process. One of these was a GHD Consultant and one was an AQWEST employee with 2 user IDs.</p>	<p>Periodic access reviews should be performed on a six monthly basis. Evidence of the periodic access review should be maintained for a period of three years for audit purposes and any follow-up actions should be documented.</p> <p>The reviews of access to the network / applications should include a review of:</p> <ul style="list-style-type: none"> • Access remains commensurate with staff's position requirements • Only valid staff are active 	<p>A review of access was performed November 2010 for Mainpac and another performed prior to the implementation of Authority in June 2013.</p>	Closed
Asset Management Review Prior Finding 6	Asset Management Information System 2	<p>Daily and weekly back-up tapes are currently stored at a member of the Finance Team's private house. There is a risk that a week's worth of key financial data and asset management data may be lost in the event of disaster resulting in costs inherent in the re-creation of this data.</p>	<p>Back-up tapes should be stored in a secure, fire-proof off-site storage facility in the immediate future.</p>	<p>We noted that backup tapes are stored securely offsite by Alphawest.</p>	Closed

Ref	Process	Finding	Recommendation	Action Taken	Status
Asset Management Review Prior Finding 7	Review of AMS	A GHD Asset Maintenance Review was conducted in July 2010. The outcome included specific recommendations. Since July 2010 an action plan has not been formulated to address these recommendations.	An action plan to address the GHD Asset Maintenance Review recommendations should be formulated with quarterly review of the status of the action plan.	We noted that the recommendations raised in the GHD Asset Maintenance Review were considered as part of the whole-of-system review performed by Cardno in 2012 which has resulted in a revised Asset Management Plan.	Closed.

1.5.4 Conclusion

The Asset Management System for Aqwest is deemed to be adequate for the extent and complexity of the scheme under which it is operating and this review did not identify any non-conformances in respect to the asset management aspects that were reviewed.

1.6 Representatives that were involved within this review

Operating Licence

- Gary Hallsworth (Manager, Water Services).
- Amanda Caunt (Project Management Officer).
- Lisa Brockman (Management Accountant).
- Karl Woods (Water Quality Officer).
- Julie-Anne Richards (Customer Service Representative).
- Karen O’Conner (Customer Service Representative).
- Tim Williams (Water Distribution Coordinator).
- Debbie Owens (Accounts Supervisor).

Asset Management Review

- Gary Hallsworth (Manager, Water Services).
- Tim Williams (Water Distribution Coordinator).
- Caleb Maguire (Coordinator Water Treatment)
- Amanda Caunt (Project Management Officer).
- Joe Smith (Project Accountant).
- Kris Laskowski (Asset Management Coordinator).
- Lisa Brockman (Management Accountant).



2 *Audit Opinion*

To: Directors of Bunbury Water Board and the Economic Regulation Authority

Independent assurance report on Bunbury Water Board's Operating Licence.

Scope

In accordance with the terms of engagement letter dated 2 October 2013, we were engaged by Bunbury Water Board to perform an independent reasonable assurance engagement in respect of the procedures and controls over the performance standards of the Water Services Operating Licence as measured by the Economic Regulation Authority's ("the Authority") Water Compliance Reporting Manual, July 2012 for Bunbury Water Board (the "Company") for the period 1 October 2010 to 30 September 2013 (the "Period"). The criteria (the "Criteria") against which we assessed the compliance was in accordance with the Authority's Water Compliance Reporting Manual, July 2012.

Respective responsibilities

Bunbury Water Board is responsible for the compliance with the procedures and controls over the performance standards of the Water Services Operating Licence in accordance with the Criteria.

Our responsibility is to express a conclusion based on our reasonable assurance procedures, on compliance with the procedures and controls over the performance standards of the Water Services Operating Licence as measured by the Authority's Water Compliance Reporting Manual, July 2012, in all material respects, in accordance with the Criteria, for the Period.

Our audit has been conducted in accordance with the Australian Standard on Assurance Engagements (ASAE 3100) "*Compliance Engagements*". The work performed was designed to enable us to express the conclusion below. Accordingly, we have conducted such tests and procedures as we considered appropriate to determine compliance with the procedures and controls over the performance standards of the Water Services Operating Licence, in all material respects, in accordance with the Criteria, for the Period.

Use of report

This report was prepared for Directors of Bunbury Water Board and the Economic Regulation Authority. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than Bunbury Water Board and the Economic Regulation Authority, 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 of the procedures and controls over the performance standards of the Water Services Operating Licence with the Criteria, as it is limited primarily to making enquiries, primarily of the Bunbury Water Board, and applying analytical and other review procedures. The reasonable assurance conclusion expressed in this report has been formed on the above basis.

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Conclusion

In our opinion, in all material respects, Bunbury Water Board has complied, in all material aspects with the Water Services Operating Licence as measured by the licence conditions within the Authority's Water Compliance Reporting Manual, July 2012 for the period 1 October 2010 to 30 September 2013.

PricewaterhouseCoopers

Cameron Jones, Partner
11 December 2013

3 Observations – Operating Licence

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 Aqwest may provide a water service. Confirmed via inspection and inquiry that for the period 1 October 2010 – 27 August 2013 the operating licence area for licence number OWR-OA-084 covered only the Bunbury metropolitan area. With the issue of the newest version of the Operating License on 28 August 2013 the Operating Area was greatly expanded. The water licence area map is published on both the ERA and Aqwest websites. This verifies the licence zone that Aqwest utilises for its planning and services is consistent with the ERA's records.

The water licence area and all connections are contained within Aqwest's GIS system. During the set up of a new connection, a customer submits a 'Water Service Application' form containing the property and connection details along with a map of the property. A work order is then raised in the system with blueprints attached which shows the customers street and Aqwest's assets in the area. If the property was outside of the Operating Licence area it would be flagged at this stage. While the process does rely on the experience of the Aqwest staff this is no longer a risk as the Operating Licence area as of August 2013 has been expanded to such a degree that Aqwest would not be able to provide water outside this 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, found no exceptions.

Documents Reviewed:

- Aqwest Water Service Application
- Licence Area Map (licence number OWR-OA-084/4)

3.1.3: Findings (Refer to Executive Summary)

None

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3.2 Service and Performance Standards

Audit Test Reference:	Audit Priority:
2	2

3.2.1: References

Reporting Manual Reference: 2, 7, LPW3, LPW 4, TS3

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 Aqwest has met the performance standards outlined in Schedule 4:

Customer Service Standards

Emergency Response

Through inquiry and observation, we noted that Aqwest has an emergency telephone advice system that allows customers to make a call to report an emergency. This is a 24 hour emergency line and an “on-call” roster is in place to ensure that response is received within 1 hour. During normal business hours emergencies come through the regular channels and are directed to the customer service representatives who process work orders. For after hours call outs, the “on call” superintendent will take the call and retrospectively complete a work order into Authority with a priority of “Within 1 hour”. All emergency calls received are maintained in a register that records the initial time the customer called and details of the emergency. Customer service representatives monitor this register to ensure that the emergency statistics are properly tracked and actioned. We performed testing of a sample of supporting work orders to confirm that the customer was informed within 1 hour and noted no exceptions. We also noted that there has been an improvement to the emergency response process since the last audit. There is now a consistent process for completing work orders and a register for “normal business hour emergencies” and “after-hour emergencies” has been introduced to ensure that all calls are properly tracked.

Complaints

A complaints procedure documents the process to be followed by Aqwest. Complaints are logged in TRIM by a Customer Service Representative and are allocated to a responsible person to attend to the complaint. An automated email is generated from Authority to the assigned officer who is either a manager or from the executive. At the end of every month, a Corporate Reporting System (CRS) report is generated to identify outstanding complaints that have not been closed off and is discussed in a CRS meeting to ensure that complaints are resolved in a timely manner. We performed sample testing of all written/mailed complaints and tested to ensure they were resolved within the timeframe stated.

Table 1. Customer Service Standards performance standards

Performance Standard	Performance indicator/target	2010/11	2011/12	2012/13
Customers within one hour of reporting an emergency shall be advised of the nature and timing of the action to be undertaken by the licensee.	90%	93%	97%	100%
Written complaints to be resolved within 15 business days	90%	100%	100%	100%

Potable Water System – Pressure and Flow and Continuity

Pressure and Flow

Through inquiry and inspection we noted that every 3 years Aqwest commissions an independent Audit by a Network Analysis Consultant who provides an update of network hydraulics. The analyst will take SCADA readings from the meters which log the flow and pressure and provides a report on the performance of the existing network. We performed sample testing on the proven poor pressure complaints over the audit period from Authority and confirmed whether Aqwest was meeting the performance standard.

Continuity

Prior to July 2012, the OPI (Operating Performance Indicators) spreadsheet was used to report all indicators. As of July 2012, reported indicators are captured in the Corporate Reporting System (CRS) which is able to report annualised monthly figures. All data was migrated from the OPI system to the CRS system. Authority interfaces with CRS to produce these performance indicators and therefore we

3.2 Service and Performance Standards

performed sample testing to validate the integrity of the inputted data. We noted no exceptions from our testing.

Table 2. Pressure, Flow and Continuity performance standards

Performance Standard	Performance indicator/target	2010/11	2011/12	2012/13
Over each 12 month period at least 99.8% of connected customers have, at the outlet of the water meter to their property, water pressure and flow as stated.	99.8%	99.96%	99.99%	99.91%
Over each 12 month period at least 75% of connected properties shall not experience a complete interruption of supply (no flow), exceeding 1 hour, to the supply standard set out.	75%	89.13%	82.54%	84.37%

Drought Response

Through inquiry and observation, we confirmed that there have been no drought response declarations made by the Minister during the audit period. We noted however, Aqwest has full page advertisements in the local paper to inform customers of the watering days and tips to conserving water. The Business Continuity Plan (BCP) has a specific section regarding media release statements for scenarios where Aqwest needs to impose restrictions.

Documents Reviewed:

- Monthly water services staff roster
- Emergency Response Log (1 October 2010 to 30 September 2013)
- Corporate Manual – Complaints Handling Manual
- Complaints Register (2010-2013)
- Network Hydraulic Model Report January 2013
- CRS Report (FY 10/11, FY11/12, FY12/13)

3.2.3: Findings (Refer to Executive Summary)

None

3.3 Asset Management System

Audit Test Reference:	Audit Priority:
3	2

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 Aqwest has an Asset Management Strategy, Plan and Supporting Systems in place for its licensed activity. 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 with the Authority that a material change was defined as a replacement or substantial update to the platform, used to manage assets or a material revision of the asset management plan and associated documents. During the audit period, the Mainpac asset management software was replaced by the Authority asset management software, effective from 1 July 2013. Additionally Aqwest has also developed a new asset management strategy and plan. We observed the notification to the Authority and acknowledgement received confirming that Aqwest has complied with the notification of the change.

Clause 17.3 and Clause 17.4

We confirmed that the Authority provided notification to Aqwest for the period of review has been extended to 36 months. PricewaterhouseCoopers has been engaged by AQWEST to perform the asset management review. This has been approved by the Authority. The scope of the asset management review was approved by the Authority and is in accordance with the Authority's Audit Guidelines: Electricity, Gas and Water, August 2010.

Documents Reviewed:

- Correspondence from the ERA confirming the audit plan for the Asset Management review.
- Correspondence from the ERA for the approval of PwC as the auditors.
- Correspondence with the ERA notifying of changes to the Asset Management system.
- Asset Management Plan.
- Asset Management Strategy.
- Asset Management Review Audit Plan.

3.3.3: Findings (Refer to Executive Summary)

None.

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 Aqwest, we confirmed that the previous operational audit was completed in October 2010 and covered the period 22 September 2007 to 30 September 2010. Additionally, the Authority and Aqwest agreed an audit plan for the subsequent operational audit, covering 1 October 2010 to 30 September 2013. PricewaterhouseCoopers has been engaged by Aqwest to perform the operating licence audit for this period.

Clause 16.2

Inquiry and observation of correspondence from the Authority to Aqwest noted the requirements of the Auditor have been communicated to Aqwest 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 November 2013.

Documents Reviewed:

- Operating Licence and Asset Management Review Report 2010.
- Correspondence from the ERA confirming the audit plan for the Operating Licence and Asset Management review.
- Correspondence from the ERA for the approval of PwC as the auditors.
- Operating Licence Review Audit Plan.

3.4.3: Findings (Refer to Executive Summary)

None.

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 that for the audit period Aqwest was not required to pay fees per section 4.1 of the Operating Licence. This was independently verified through inquiry with the Authority.

Documents Reviewed:

- Email correspondence with the Authority.

3.5.3: Findings (Refer to Executive Summary)

None.

3.6 Customer Complaints Process

Audit Test Reference:	Audit Priority:
6	2

3.6.1: References

Reporting Manual Reference: 9, 10, 12, 14, 15, 17, 18, CH5

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 that Aqwest has established a customer complaints process. In December 2010, the procedures were updated into a Corporate Complaints Handling Manual.

Schedule 3 Clause 3.1 and 3.4

Aqwest utilities two separate systems to log customer complaints, TRIM for administrative complaints (including all written complaints and personal complaints) and Mainpac for operational complaints when work orders are generated. Processes are in place to notify designated handlers via automated Email after 9 days if there has been no resolution on the complaint with escalation to their supervisor. This ensures that complaints are dealt with before the 15 working days. We performed sample testing to validate whether complaints were being resolved within 15 days and noted no exceptions.

Schedule 3 Clause 3.2 (b)

We confirmed through inquiry and inspection that Aqwest Customer Service Operators receive training to deal with customer complaints. Our review of the training register noted that key staff that deal with customer complaints have received training.

Schedule 3 Clause 3.2 (d)

Through inquiry and observation of the TRIM and Mainpac system as well as the registers of complaints that Aqwest had processes to record and monitor the number, nature of and outcomes of complaints. At the end of every month, a Corporate Reporting System (CSR) report is generated to identify outstanding complaints that have not been closed off and is discussed in a CRS meeting to ensure that complaints are resolved in a timely manner.

Schedule 3 Clause 3.6 and 3.7

Through inquiry and observation, we noted that that when a complaint is resolved at the conclusion of an investigation, a letter is sent to the customer advising the outcomes of the investigation. All resolution letters details the process the customer may follow if they are dissatisfied and includes the customer’s option to refer their complaint to the Department of Water.

Through inquiry and observation, we noted that Aqwest had three complaints forwarded to the Department of Water during the audit period. Our testing of the complaints noted that Aqwest provided details of information relating to these claims to the Department of Water.

Documents Reviewed:

- Customer Complaint Procedure (Policy no. 4.22)
- Complaints Register (2010/11, 2011/12, 2012/13)
- Complaints Handling Manual (2010-2013)
- Powerpoint Presentation on Customer Complaints.

3.6.3: Findings (Refer to Executive Summary)

None

3.7 Customer Service Charter

Audit Test Reference:	Audit Priority:
7	4

3.7.1: References

Reporting Manual Reference: 19, 20, 21, 22

Operating Licence Clause: Clause 7.1, Schedule 3 Clause 2.5, 2.6 and 2.7

- 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 Aqwest has a Customer Service Charter in place that set out the terms, principles and conditions upon which Aqwest 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.

Schedule 3 Clause 2.5

The Customer Service Charter has been made available to customers in the three ways described by the licence. Observation at Aqwest's Head Office noted that the Charter is made available in the public reception area and the Charter is made available on request of customers at no charge. The Charter is also available through Aqwest's website. We also confirmed in October 2010 that Aqwest engaged Australia Post to deliver a copy to every customer who had a current account with Aqwest.

Schedule 3 Clause 2.6

We noted through inquiry and observation that the Customer Service Charter has not been updated during the audit period. Aqwest had obtained an extension from the Authority for 12 months from the 30th September 2013 due to the introduction of the revised Water Services Act.

Schedule 3 Clause 2.7

The licence requires Aqwest to provide services consistent with the Charter. Aqwest 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 Aqwest has complied with performance standards in the Charter that are required under the licence.

Documents Reviewed:

- Customer Services Charter.
- Board Resolution of Content of Customer Charter.
- Approval from the ERA on Customer Services Charter.

3.7.3: Findings (Refer to Executive Summary)

None

3.8 Customer Consultation Process

Audit Test Reference: 8	Audit Priority: 4	
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3.8.1: References

Reporting Manual Reference: 23, 24, 25, 26

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

- 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:
 - establish a regular meeting;
 - publish a newsletter; or
 - 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.

3.8.2: Observations

Clause 8 and Schedule 3 Clause 4.1

Through inquiry with Aqwest we noted that a Customer Council is established through the annual public meeting held in December each year. Aqwest also publishes a newspaper advertisement fortnightly in the local paper informing customers of upcoming events, publications and water wise initiatives.

Schedule 3 Clause 4.2

Aqwest consulted the Authority in October 2010 on the type and extent of consultation including changes of the format and frequency for the Newspaper spread. There have been no other changes since.

Schedule 3 Clause 4.4

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 to Aqwest 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.

Documents Reviewed:

- Minutes of Public Meetings.
- Newspaper articles from the Local paper.
- Letter to the ERA informing them of a change of timing for with regards to the customer consultation.

3.8.3: Findings (Refer to Executive Summary)

None

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 and 5.4

We confirmed through inquiry and observation that Aqwest does not have any contracts with customers. All customers are supplied water on a per usage basis as set out in the operational license and are charged at the same rate per consumption. We reviewed the customer invoices to validate that the right tariff was charged by the Strategic Development Plan.

Documents Reviewed:

- 2012/13 Strategic Development Plan.

3.9.3: Findings (Refer to Executive Summary)

None.

3.10 Customer Survey

Audit Test Reference: 10	Audit Priority: 5
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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.

3.10.2: Observations

Schedule 3 Clause 6

The Authority has not explicitly requested that Aqwest commission an independent customer survey during the audit period. However, Aqwest commissioned an independent provider to undertake an annual Customer survey to coincide with performance measures in their Annual Report. We confirmed that the surveys addressed the areas of the licence which are subject to this review, with particular emphasis on customer perception and attitudes of Aqwest as a water provider, the quality of drinking water and performance levels and standards.

Documents Reviewed:

- Annual Customer Service Surveys 2010/11, 2011/12 & 2012/13
- Annual Reports 2010/11, 2011/12 & 2012/13
- Board minutes

3.10.3: Findings (Refer to Executive Summary)

None.

3.11 Water Quality

Audit Test Reference:	Audit Priority:
11	2

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 that Aqwest has a current Memorandum of Understanding (MoU) with the Department of Health (DoH). The MoU was signed by Aqwest and DoH in August 2011 for a period of 3 years ending July 2014. We confirmed that the MoU is available on Aqwest’s public website.

For the period October 2010 – August 2011 the previous MoU in place was approved in 2004. That MoU had expired, however as raised in the prior audit there was a draft MoU that had been with the DoH awaiting approval. We confirmed that the extended length of time for approval was due to the change in regulation which meant that every water licence required a MoU with the health Department. Due to the constrained resources at the Health Department, this resulted in an extended delay in processing the MoU. We confirmed the Authority was aware of this.

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

We confirmed through inquiry and observation with the Manager Water Services that the current MoU entered into in August 2011 was formally provided to the ERA on 25th of August 2011 meeting the reporting deadline of one month. Additionally we confirmed that there have been no other amendments made in within the audit period. Via inspection of the Aqwest website we confirmed that the MoU text, schedules and amendments were published on 5th September 2011 meeting the deadline of publishing less than a month after signing.

Clause: 9.4 and 9.6

We reviewed the samples of microbiological and chemical readings to verify that Aqwest was correctly recording the samples and compliant with the levels stated by the Department of Health Department in the MoU. There were no exceptions noted in the sample testing of microbiological and chemical compliance that we performed. We also noted there have been no Department of Health audits undertaken within the audit period.

Clause: 9.7

Drinking water quality reports are issued every quarter and displayed on the Aqwest website for a period of 12 months. After the 12 month period, the water quality reports are taken off the website, but are still available by request from Aqwest. We verified through inspection of the Aqwest website that there were the last 4 quarters of water quality reports available for download.

Documents Reviewed:

- Memorandum of Understanding repository on the Aqwest website:
<http://www.aqwest.wa.gov.au/Portals/0/Doc/Dept%20Health%20-%20Memorandum%20of%20Understanding.pdf>
- Evidence of submission of Aqwest Operating Licence 32 OL1, Memorandum of Understanding. 25/08/2011.

3.11 Water Quality

- Water Quality publications web archive repository on the Aqwest website.
<http://www.aqwest.wa.gov.au/Customers/WaterQuality.aspx>
 - Drinking Water Quality Annual Report 2011/12
 - Archive of Prior annual water quality reports on the Aqwest website.
<http://www.aqwest.wa.gov.au/Portals/o/Doc/water%20quality%20report%202012%20WEB.pdf>
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3.11.3: Findings (Refer to Executive Summary)

None

3.12 Accounting Records

Audit Test Reference: 12	Audit Priority: 5	
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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 Aqwest’s annual reports for 2010/11, 2011/12 and 2012/13, we noted that the audit opinion from the Auditor General confirms that Aqwest’s accounting records comply with Australian Accounting Standards Board Standards.

Documents Reviewed:

- Aqwest Annual Reports for the years 2011, 2012 and 2013

3.12.3: Findings (Refer to Executive Summary)

None.

3.13 Reporting to the Authority

Audit Test Reference:	Audit Priority:
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 management that at no time during the period 1 October 2010 – 30 September 2013 that Aqwest was under external administration. Additionally, through observation of the audit opinion from the Auditor General, for the year to 30 June 2011, and 2012, and 2013 we confirmed that no going concern issues were raised.

Through inquiry we also noted that Aqwest frequently communicates with multiple divisions of the Authority across multiple roles. Inquiries noted that a “significant change” is defined as a change to financial or technical circumstances that may affect Aqwest’s ability to meet its obligations under this licence.

Clause: 21.1 and 21.2

Through inquiry and observation, we confirmed that Aqwest has a structured program to provide timely and accurate submission of information to the Authority. Specifically, Aqwest 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). The prior audit issue of no process for logging key documents has been addressed in the current period. As of August 2012 TRIM was fitted with functionality to track actions against documents. All official correspondence received by Aqwest goes through the ‘Yellows Process’ whereby it is logged in TRIM as it is received. A yellow workflow coversheet is generated showing the due date and who has been assigned to complete the action. If the action is not completed by the due date a reminder email will automatically be generated by TRIM.

We confirmed via observation that the Annual Performance data, Annual Benchmarking data and compliance reporting submissions for 2013 were provided to the Authority in a timely manner and complied with the information reporting requirements as set out in Schedule 5.

Clause: 22.2 and 22.4

We confirmed through inquiry with management 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.

All KPI’s were made publically available and were submitted to the National Water Commission and the Water Services Association of Australia. The 2010/11 and 2011/12 Performance Reports can be found on the National Water Commission website at the following address: <http://www.nwc.gov.au/publications/topic/nprs>. The 2012/13 Performance Report will be available for download in 2014.

Documents Reviewed:

- 2010/11 and 2011/12 Performance Reports. Found on the National Water Commission website (<http://www.nwc.gov.au/publications/topic/nprs>)
- Confirmation of receipt of Annual Performance and Benchmarking Reporting Submission for 2011, 2012 and 2013.

3.13.3: Findings (Refer to Executive Summary)

None.

3.14 Customer Obligations

Audit Test Reference:	Audit Priority:
14	4

3.14.1: References

Reporting Manual Reference: Additional 1 (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

Through inquiry and observation we noted that the application for water services forms for (a) Residential, (b) Non-residential and (c) Fire Fighting are available on Aqwest’s website and confirmed that the conditions for connection have been clearly outlined on the reverse of the application forms. These forms are reviewed on an annual basis to reflect updates to the Service Fee charges. The conditions of connection also refer the customer to the relevant legislation. We also obtained copies of the Engineering Policy (Policies 3.3, 3.4 & 3.10) for water supply connections and noted that were aligned with Schedule 6.

Schedule 6, clause 2.2

We confirmed through inquiry that Aqwest generally accept all applications. The only applications that are rejected are applications for connections outside of Aqwest’s Operating Area. Applications from developers are generally approved after a period of negotiating conditions. Such infrastructure is at the cost of the owner/developer and is quoted as part of the application process. As most new major connections are for subdivisions, any rejections are approved by the Board prior to the rejection being noted per Policy 3.10. There have been no instances where this has been required during the audit period. We also confirmed through inspection of the Complaints Summary Reports that there have been no complaints recorded relating to Aqwest's refusal to connect services to a potential customer.

Schedule 6, clause 2.3

We confirmed through inquiry that there have been no customers who have had their services to their property discontinued during the audit period due to reason of the service not being commercially viable.

Documents Reviewed:

- Application for connection forms (current).
- Application for connection forms (superseded).
- Customer Service Charter.
- Exert of Aqwest's policies on new connections and subdivisions.
- Complaints logs for 2010/11, 2011/12 & 2012/13.

3.14.3: Findings (Refer to Executive Summary)

None.

4 Observations - Asset Management Review

4.1 Asset Planning

Audit Test Reference:	Audit Priority:
1	4

4.1.1: Description

Asset planning strategies are focused on meeting customer needs in the most effective and efficient manner (delivering the right service at the right place).

4.1.2: Observations

Through inquiry and observation, we noted that an asset planning process is in place which is detailed in the asset management plan and asset management strategy. The purpose of asset management strategy and plan is to document the current status of assets, including how they operate and what future activities are required to maintain continued operations.

The asset planning process is performed annually and involves a review of the Asset management plan, strategy and maintenance manual. From this review, a business plan is developed which contains a 10 year finance and capital works plan, budget and a statement of corporate intent which are all endorsed by the Board.

Review of the planning process noted the following:

- That it considers the needs of all stakeholders.
- That there are a range of service levels defined and incorporated into the strategic development plan through performance indicators and KPI targets.
- Service levels are also documented in the Asset management plan and reported through the annual financial report.
- Non-asset options are evaluated as part of developing the budget and 10 year finance and capital works plan.
- Life cycle costs are considered for assets within the asset management manual.
- Funding options are evaluated and documented in the asset management strategy. Current options include rates revenue or reserves.
- Assets costs are identified in the strategic development plan based on details from the Authority system. They are justified through reporting performed on against the performance indicators and KPIs.
- The likelihood and consequence of asset failure is based on the "Asset Risk and Criticality Framework" which is based on a 1 to 5 asset condition rating system. This provides a forecast for the likelihood of asset failures and applies qualitative consequence descriptors for rating consequences of asset failures. The risk rating allows Aqwest to prioritise asset renewals and maintenance activities.
- The asset management plan was updated annually after the budget workshop meeting and responsibilities were assigned through the Operations & Maintenance Manual.

Sample testing was performed for new projects over the period to determine whether the above planning process was followed. We noted no exceptions.

Documents Reviewed:

- Asset Management Plan.
- Asset Management Strategy.
- M7 Operation and Maintenance – Asset Management Manual.
- Strategic development plan (2010-11, 2011-12, 2012-13).
- Budget and 10 year Finance and Capital works plan (2010-11, 2011-12, 2012-13).
- Statement of Corporate Intent (2010-11, 2011-12, 2012-13).
- Aqwest Annual Report 2013.
- Asset Risk and Criticality Framework.

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4.1 Asset Planning

4.1.3: Findings (Refer to Executive Summary)

None.

4.2 Asset Creation and Acquisition

Audit Test Reference:	Audit Priority:
2	4

4.2.1: Description

Asset creation/acquisition means the provision or improvement of an asset where the outlay can be expected to provide benefits beyond the year of outlay.

4.2.2: Observations

Through inquiry and observation we noted that a project management process has been implemented for asset creation and refurbishment. The process has been documented within the “Operations & Maintenance Manual M38 for Asset Management”. The planning process commences with a forward planning workshop annually with Aqwest’s key asset management consultants to identify what assets need to be built and by when. This forms the basis of the 10 year Finance and Capital works plan which is endorsed by the Board. The 10 year Finance and Capital works plan details the individual projects required.

Aqwest has implemented a Contract and Project management framework which was independently reviewed by the Internal Auditors. The scope of the review assessed:

- The effectiveness with which contract management policies and procedures are complied with.
- The Contract Management Policies and procedures for robustness.
- The robustness of the documented project management framework and the effectiveness of project planning, monitoring, reporting, change management and finalisation of projects.

The audit noted that Aqwest has a comprehensive Contract Management Manual and the Project Management framework is based on the “Project Management Body of Knowledge” (PMBOK) framework and no findings were identified from the review.

Review of the asset creation and acquisition process noted the following:

- All acquired assets have to follow Aqwest’s tender policies which stipulate that they need to be designed in accordance with appropriate industry standards. For all major assets, all requested tenders must comply with the National Plumbing and Drainage Standard AS3500.2003 as well as the Occupational Health, Safety and Welfare Act.
- A Capital Project Form is used for each project which captures the environmental/sustainability considerations, the risk analysis and the implementation plan.
- Lifecycle costs are recorded in Authority (including the initial and maintenance costs) over the duration of the assets life.
- Progress payment certificates are in place and reviewed by management prior to payments for assets being made.
- Actual costs against budgeted costs for assets are reviewed quarterly by the Board.
- Commissioning of assets processes are documented in the Operations & Maintenance Manual.

Documents Reviewed:

- Tender Example: Installation of Water Main Parade Road.
- Operations & Maintenance Manual M38 for Asset Management.
- Asset Management Plan.
- Board Policy #4.2 - Tender Procedure.
- Capital Project Form - implement reticulation system augmentation project proposals.
- Board Meeting Minutes August 2010 Quarterly Review.
- Board Meeting Attachment June 2009 Quarterly Review.
- Water Distribution Jan-March Quarterly Budget Review.
- Parade Rd Variation Register.
- Parade Rd Commissioning tests documentation.
- Budget Amendment Policy.
- Internal Audit Report May 2013.

4.2 Asset Creation and Acquisition

4.2.3: Findings (Refer to Executive Summary)

None.

4.3 Asset Disposal

Audit Test Reference:	Audit Priority:
3	5

4.3.1: Description

Effective asset disposal frameworks incorporate consideration of alternatives for the disposal of surplus, obsolete, under- performing or unserviceable assets. Alternatives are evaluated in cost-benefit terms

4.3.2: Observations

Through inquiry and observation we noted that the Operations & Maintenance Manual M7 (Asset Management) outlined the considerations and processes for asset disposal in relation to water assets. In 2013, a move towards a risk and criticality framework allowed a risk based approach to replacing assets which had a high risk in terms of likelihood and consequence.

A long term (20 year) replacement strategy has been developed with a shorter term renewal strategy created for a shorter-term focus. Progress against these strategies is reviewed annually and feed into the annual asset planning process.

Aqwest utilises a number of specialists to analyse the performance of critical assets. The results of these assessments form the basis for asset maintenance planning budgets and ultimately the 10-year finance and capital works plan. The decision to dispose, replace or repair underperforming or underutilised assets is governed by the Risk and Criticality Framework. Those assets that are not considered to be critical to the performance of the network are generally “run-to-fail”. Assets scheduled to be replaced but not replaced in the designated year are rolled to the following year if deemed to be of sufficient risk per the Risk and Criticality Framework.

Documents Reviewed:

- Operations & Maintenance Manual M7 (Asset Management).
- Parsons Brinkerhoff General model update and validation final report 2013.
- MWH General renewal strategy – 2008.
- MWH General manual for renewal planning – 2008.
- MWH update of network model report 2010 2011.
- 3-Year review of mains strategy 2011 (inc. Appendix 1).
- Mains replacement plan 2012 & 2013.
- Asset Management Plan.
- Asset Management Strategy.
- Risk and Criticality Framework.

4.3.3: Findings (Refer to Executive Summary)

None.

4.4 Environmental Analysis

Audit Test Reference:	Audit Priority:	
4	2	

4.4.1: Description

Environmental analysis examines the asset system environment and assesses all external factors affecting the asset system.

4.4.2: Observations

Through inquiry and observation we noted that:

- Performance requirements for assets are documented in the Strategic Development Plan 2012-2022 as well as the Customer Service Charter.
- Emergency response requirements are detailed under 'Interrupting Water Supply' within the Customer Service Charter.
- Regulatory obligations and statutory/regulatory requirements are documented as part of the Strategic Development Plan 2012 - 2022 under the 'Regulatory Performance' Key Result Area. This includes a commitment to comply with the Economic Regulation Authority Operational Licence requirements, compliance with all audits and the National Water Initiative (NWI).
- The achievement of performance and service standards are reported for the last four years within Aqwest's Annual Report's.

Results against performance standards are reported on a monthly basis to the Board. We performed sample testing over the Board reports to determine whether any breaches to performance standards had occurred and that corrective action was taken.

Documents Reviewed:

- Customer Service Charter.
- Strategic Development Plan 2012 – 2022.
- Aqwest Annual Report 2013.
- KPI Performance Indicator Example.
- Operational Performance Indicators 2010 -2011.
- Operational Performance Indicators 2011 -2012.
- Operational Performance Indicators 2012 -2013.

4.4.3: Findings (Refer to Executive Summary)

None.

4.5 Asset operations

Audit Test Reference:	Audit Priority:
5	4

4.5.1: Description

Operations functions relate to the day-to-day running of assets and directly affect service levels and costs.

4.5.2: Observations

Through inquiry and observation, we noted the following:

- Operational and maintenance policies and procedures are available on Aqwest's Intranet with specific links under each Water Treatment Plant.
- Asset system components are documented in the asset management system, Mainpac. The system captures details such as asset type, condition, location, installation date and replacement cost. There is also a unique identifier for each asset. This is a unique number based on the assets function, location and components. Mainpac also captures all costs to date for each individual asset.
- Mainpac was replaced by the Authority System on the 1st July 2013, where all data from Mainpac was transferred to Authority. We noted the asset descriptions within Authority and determined that the same characteristics previously recorded in Mainpac, are also recorded in Authority.
- Asset performance and condition is continually monitored through the "Asset Condition Monitoring Process".
- Staff capabilities are assessed through the Annual Performance Review process. Operations staff are required to complete Certificate II and III in Water Operations NPW20107 & NPW30107 from the Challenger Institute of Technology.

Documents Reviewed:

- Mainpac screenshots of the asset profile and condition details.
- Operations & Maintenance Manual M38 for Asset Management 2010.
- Financial Asset Register.
- Mainpac Asset Register.
- Aqwest Annual Report 2013.
- Aqwest Recruitment and Performance Evaluation process.
- Aqwest Workplace Attitudinal Survey.
- GIS Screenshots.
- Operations Manual Screenshots.
- Mainpac Asset Replacement Report.
- Training Schedule.

4.5.3: Findings (Refer to Executive Summary)

None.

4.6 Asset maintenance

Audit Test Reference: 6	Audit Priority: 2	
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4.6.1: Description

Maintenance functions relate to the upkeep of assets and directly affect service levels and costs.

4.6.2: Observations

Through inquiry and observation, we noted that within the Operations & Maintenance Manual M38, there is an Asset Maintenance Strategy which ensures an asset meets its performance criteria in terms of customer service, life, and cost. Asset conditions are monitored and documented on an annual basis. Additionally, specific strategies have been developed for different categories of assets. Our sample testing confirmed that maintenance strategies existed for assets.

Specific maintenance procedures have also been included for some assets on the Aqwest Intranet. Consultants have been engaged by Aqwest to ensure plans cover both preventative and corrective maintenance.

An asset audit is undertaken annual, which involves condition based assessments of all assets. The audit involves inspection of the assets and comparing this against the data in the asset register. It allows for the removal of retired assets and the amendment of inaccurate information.

Documents Reviewed:

- General Renewal Strategy for Water Pipe Network.
- General Valve Maintenance Strategy Report.
- Operations & Maintenance Manual M38 for Asset Management 2010.
- Mainpac Screenshots - Valve Maintenance.
- Valve Maintenance Report.
- Maintenance and Operations Procedures.
- GHD Asset Maintenance Review.
- Electrical Contract.
- GHD Contract.
- Capital Project Form - Asset Audit.
- Mainpac Asset Replacement Report.
- Asset Information Capture Form.
- Electrical Maintenance Check Screenshots and Checklist.

4.6.3: Findings (Refer to Executive Summary)

- None.
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4.7 Asset Management Information System (MIS)

Audit Test Reference:	Audit Priority:
7	4

4.7.1: Description

An asset management information system is a combination of processes, data and software that support the asset management functions.

4.7.2: Observations

Aqwest use the Mainpac maintenance management system. Mainpac has the functionality of a comprehensive register of the assets to component level, maintenance management and work order scheduling, maintenance histories, and reporting. Currently Mainpac Version 3.6.1 is being utilised. Mainpac does not interface with any other systems. Information from Mainpac is utilised in the GIS database. Alphawest provides support for the system.

Within the Operations & Maintenance Manual M38, there are operation manuals for Mainpac. All staff working on Mainpac must have received training. Additionally, manuals to perform individual tasks for Mainpac are located in the Finance and Administration Procedure Manual.

We noted through inquiry and observation the following controls in place:

- Users need to have a User ID and password to access Mainpac.
- Staff with the “MPadmin” profile have administrative access to the system.
- Mainpac servers are located in the Server Room within Aqwest’s premises. The servers are kept in a locked cabinet with limited staff access. Security passes are required to enter the Aqwest building and visitors must sign in and receive passes.
- Weekly backup tapes are taken home by one of the Finance personnel and monthly backups are performed by Alphawest which are stored in a secure offsite location. Email confirmations are received to confirm the backup was successful.
- Various standard and customised reports from Mainpac are utilised by Aqwest in the management of assets.

Documents Reviewed:

- Mainpac Screenshots.
- Mainpac Upgrade Test Plan, Deliverable Sign-off, Budget, Timeline.
- Finance and Administration Procedure Manual Screenshot.
- Mainpac User Listing.
- IT Room Access Listing.
- Backup Procedure.
- Mainpac Asset Replacement Report.
- Back up verification email.

4.7.3: Findings (Refer to Executive Summary)

None.

4.8 Risk Management

Audit Test Reference: 8	Audit Priority: 4	
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4.8.1: Description

Risk management involves the identification of risks and their management within an acceptable level of risk.

4.8.2: Observations

Through inquiry and observation we noted a Risk Management Policy, Risk Management Manual, Risk Matrix, Hazard and Incident Procedure are in place. A Risk Management Committee is also in place and meets on a quarterly basis. During this meeting the Risk Management Manual and any updates are discussed. RiskCover also performed an annual review of the Risk Management Manual in 2011 and a new Risk Management Manual and Risk Management Plan is currently with the Board for approval.

The risk register is maintained in the Riskbase software. All risks in this risk register use a consequence matrix which rates the risk and the existing controls to determine the overall risk assessment rating.

Staff receive training on risk through attendance at the Government Risk Management Conference Training (attended by the CEO, Manager Water Services, Project Management Officer and Board Chairman) and specific RiskCover Project/Contract Risk Training.

Documents Reviewed:

- Risk Management Committee Minutes September 2010.
- Risk Management Committee Agenda September 2010.
- Risk Management Manual 2007.
- Risk Management Manual 2008.
- Risk Management Manual 2010.
- Aqwest Risk Management Status Review 12 May 2010.
- RiskBase Risk Register Report.
- Senior Management Training Evidence.
- Screenshots of RiskBase.

4.8.3: Findings (Refer to Executive Summary)

None.

4.9 Contingency planning

Audit Test Reference:	Audit Priority:	
9	2	

4.9.1: Description

Contingency plans document the steps to deal with the unexpected failure of an asset.

4.9.2: Observations

Through inquiry, observation and inspection we noted that a Business Continuity Plan (BCP) is in place in Aqwest. The plan was developed based on the RiskCover Business Continuity Management Guidelines and AS/NZS 4360:2004 Risk Management Guidelines.

Through inquiry, we confirmed that testing of the BCP occurs every second year and up until 2011, RiskCover facilitated the process. Since then, the facilitation process has been contracted out which includes a walkthrough of the plan with the Crisis Management Team and Recovery Team Leaders. We reviewed the BCP reports to ensure that the BCP has been adequately tested.

Our testing noted that the BCP review has been submitted to the Risk Management committee annually. Inspection of various Emergency Contingency Plans confirmed that contingency plans have been developed various internal and external events including Water Quality Incident, Chlorine Incident, Water Services Centre Disaster, Information Systems Disaster, Pandemic Influenza and Records Management Disaster.

Documents Reviewed:

- Business Continuity Plan 2011.
- RiskCover Report BCP Scenario Exercise 2011.
- BCP Tabletop Exercise Report 2012.
- Cyclone Bianca Debrief Minutes 2011.
- Severe Winter Storm Debrief Minutes 2012.
- Risk Management Committee Minutes October 2010.
- Risk Management Committee Agenda October 2010.
- Risk Management Committee Agenda September 2013.
- Risk Management Committee Responsibilities Calendar.
- Water Quality Incident Response Plan.
- Chlorine Incident Response Plan.
- Water Services Centre Emergency Plan.
- Information Systems Disaster Recovery Plan.
- Pandemic Influenza Plan.
- Records Management Disaster Plan.

4.9.3: Findings (Refer to Executive Summary)

None.

4.10 Financial Planning

Audit Test Reference:	Audit Priority:	
10	4	

4.10.1: Description

The financial planning component of the asset management plan brings together the financial elements of the service delivery to ensure its financial viability over the long term.

4.10.2: Observations

Through inspection of the financial plans including the Ten Year Capital Works Plan, we noted that appropriate financial objectives, strategies and actions are in place to support the objectives outlined in the Boards Strategic Development Plan. This includes the design and construction of new water treatment plants and the mains replacement program .

Through inspection of the financial plans we noted that the sources of funds for operation, maintenance and administration are incorporated in the Projected Cash Flow Statement. The statement identifies funding from revenue, inclusive of Water Sales, Interest Received, Developers Contributions and all other receipts. The financial plans provide a breakdown of the capital projects funded from various funds including the Asset Replacement Reserve, Headworks Reserve, Revenue, Subdivision Reserve, Computer Upgrade Reserve and Business Development Reserve.

Through inquiry and observation and inspection of the 2010-11, 2011-12 and 2012-13 Budget and 10 Year Finance and Capital Works Plans, we noted that the projected financial statements including estimates of revenue, other income, cost of services, administration and other expenses as well as retained profits were documented. The financial plan also provided operating statements for the next ten years.

Through inspection of the Asset Management Plan (June 2013), operations and maintenance expenditure from 2013-14 through to 2022-23 has been forecasted.

Documents Reviewed:

- Budget and Ten Year Finance and Capital Works Plan 2010/2011.
- Budget and Ten Year Finance and Capital Works Plan 2011/2012.
- Budget and Ten Year Finance and Capital Works Plan 2012/2013.
- Strategic Development Plan 2010/11.
- Strategic Development Plan 2011/12.
- Strategic Development Plan 2012/13.
- Asset Management Plan June 2013.
- Board Minutes September 2013.

4.10.3: Findings (Refer to Executive Summary)

None.

4.11 Capital Expenditure Planning

Audit Test Reference:	Audit Priority:
11	4

4.11.1: Description

The capital expenditure plan provides a schedule of new works, rehabilitation and replacement works, together with estimated annual expenditure on each over the next five or more years. Since capital investments tend to be large and lumpy, projections would normally be expected to cover at least 10 years, preferably longer. Projections over the next five years would usually be based on firm estimates.

4.11.2: Observations

Through inquiry and observation we noted that the 10 year Finance and Capital Works Plan, the Asset Management Strategy and the Asset Management Plan all cover a period of 10 years and includes the Operations & Maintenance Plan and Capital Works Plan.

The 10 year Finance and Capital Works plan documents the planned projects from a budgetary perspective while governance for projects is documented in the Asset Management Plan. A Capital Projects Forms is utilised for all projects which documents the risks, benefits, project responsibility, and timing for major capital project expenditure. The budgeting process (inclusive of capital expenditure) is completed by the Management Accountant and the responsible Executives on an annual basis. The finalised draft budget is then distributed to the Board, who review and endorse the proposed budget at the Board Meeting. The finalised budget is then sent to the Minister for Water for final approval.

Oversight of projects is performed through quarterly audit committee meetings which discuss issues, progress and expenditure for projects as well as comparing expenditure to budget and forecast.

Documents Reviewed:

- Aqwest Capital Project Form.
- Budget and Ten Year Finance and Capital Works Plan 2010/2011.
- Budget and Ten Year Finance and Capital Works Plan 2011/2012.
- Budget and Ten Year Finance and Capital Works Plan 2012/2013.
- Asset Management Plan June 2013.
- Asset Management Strategy June 2013.
- Audit Committee Minutes September 2013.
- Board Meeting Minutes August 2013.

4.11.3: Findings (Refer to Executive Summary)

None.

4.12 Review of AMS

Audit Test Reference: 12	Audit Priority: 4
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4.12.1: Description

The asset management system is regularly reviewed and updated.

4.12.2: Observations

Through inquiry and observation, we noted that the Asset Management Plan was last updated in June 2013. A number of significant changes to the asset management plan were made to bring the processes in line with PAS55 and Australian Standards. This included the introduction of the Authority software which has replaced Mainpac as the work flow and asset management system. The key change to the processes is a move towards asset risk and criticality assessments rather than reliance on useful life determinations.

Asset planning within Aqwest occurs through a number of consultancy arrangements which seeks to inspect Aqwest assets and develop a suitable maintenance and capital works programme. Various reviews have been conducted by external consultants which have impacted on the Asset Management Plan. This included a review of the asset management system carried out by Cardno who was contracted in March 2012 to bring the system in line with relevant standards and industry best practice.

Documents Reviewed:

- Asset Management Plan 2013.
- Asset Management Strategy 2013.
- Request for Quotation – Asset Maintenance Strategy.
- Cardno Gap Analysis Report 2012.
- Risk and Criticality Framework 2013.

4.12.3: Findings (Refer to Executive Summary)

None.
