



Government of Western Australia
Department of Health

EHB-00139
Brian Labza 9388 4979

Attention:
Assistant Director, Monitoring
Economic Regulation Authority
PO Box 8469
Perth BC WA 6849

Dear Sir/Madam,

Draft Audit and Review Guidelines – Water Licences

Thank you for the opportunity to submit comments to the Economic Regulation Authority (the Authority) on the draft "*Audit and Review Guidelines: Water Licences*", as published in May 2014.

The Department of Health supports the overall thrust and intent of the Guidelines and commends the Authority on preparing such a comprehensive document.

Our comments, provided overleaf, relate to terms associated with specific aspects of audits of wastewater services and potable water services provided by licensees.

Should you need further information, please do not hesitate to contact Mr Richard Theobald on (08) 9388 4967.

Yours sincerely

Jim Dodds
DIRECTOR
ENVIRONMENTAL HEALTH DIRECTORATE

5 June 2014

Att.

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Audits of water services for potable (drinking) water

The operating licences for licensees that provide potable water (drinking water) services contemplate two kinds of audits:

- An “operational audit” pursuant to section 25 of the Act which is administered by the Authority; and
- An audit pursuant to the Memorandum of Understanding between the Department of Health and the licensee for Drinking Water required under clause 31 of a potable water licence. This audit is administered by the Department of Health in accordance with the terms of the Memorandum and generates an “audit report”.

The terms “operational audit” and “audit report” are defined terms listed in the operating licence and relate to quite specific, and separate, auditing activities and documents.

It is therefore essential that the Authority’s Guidelines maintain this clarity in terminology, and are written so as to assist licensees, auditors, regulators and other stakeholders in understanding the separate roles of the two audits and the separate procedures associated with each audit.

Accordingly, we recommend that the Guidelines:

- Are redrafted, where the context requires it, to specifically refer to “operational audits”, rather than just generically to “audits” or “licence audits” or “performance audits”.
- State explicitly that, for licensees who are required to have a Memorandum of Understanding between the Department of Health and the licensee for Drinking water pursuant to clause 31 of their Licence, that such MOU has its own audit requirements that are administered by the Department of Health.

This may be achieved by including sentences along the lines of:

“These Guidelines refer to the conduct of operational audits pursuant to section 25 (2) of the Act. For the avoidance of doubt, an audit under the Memorandum of Understanding between the Department of Health and the licensee for Drinking water is not the operational audit referred to in clause 14 of the Operating Licence”.

- Are redrafted so as to not refer to “audit reports”, which is a defined term relating only to the Department of Health audits.
- Ensure that references in the Guidelines to the scope of operational audits themselves do not cover or overlap with material more appropriately covered by the Department of Health audits.

In relation to the final dot point, please note the paragraph at the foot of page 41, viz:

“An “inherent risk” is the risk of an event assuming there are no effective controls. For example, the inherent risk of a drinking water service provider failing to take regular samples of water quality is higher than a water service provider that does not record its complaints correctly due to the potential direct impact on public health if contaminated water goes undetected.”

The example being used therein, as well as that at the top of Table 15 overleaf about water quality standards and risk to health, refers to matters which are covered under the Department of Health audits, not the operational audits. The proposed wording and examples are likely to give the impression that the operational audits cover these matters. Please redraft using examples that are clearly unrelated to the quality of drinking water or public health matters.

Audits of sewerage and non-potable water supply services - general

The Department of Health supports the adoption of a risk based approach (AS/NZS 31000) for the assessment, preparation and implementation of the Authority's Performance Audits and Asset Management System Reviews. Given the content requirements and clear structure of the Audit and Review Reports of the Guidelines it is recommended that the Authority provides a template to auditors to ensure consistency of reporting.

The use of common rating scales to measure compliance with licence conditions and effectiveness of asset management processes, in conjunction with the auditor's requirements to provide recommendations in a tabular form, will facilitate the follow-up of outstanding actions to address the identified issues.

It is recommended where possible that Asset Management System Reviews for sewerage and non-potable water supplies be grouped into three categories: collection, treatment and disposal / reuse. This will facilitate the assessment and review of the reports by other government agencies.

Audits of sewerage services – Appendix 2

Appendix 2 (page 40) establishes a context for audits which reflects "*the relevant legal and regulatory environment that applies to the particular industry*".

Table 14 refers to "breaches of industry Acts" but does not provide sufficient detail to clarify whether this refers to the wider context established on page 40. Please expand Table 14 to identify the legislation that is relevant to this context beyond the term "Industry Acts" e.g. Health Act, Environmental Protection Act, Local Government Act' as guidance.

This recommendation is based on at least one situation where a scheme expansion may not have complied with *Health Act* 1911 requirements but the need to do so was not recognized by the local government. If asset growth plans or acquisitions had been required to have been supported with reference to any other relevant legislation, for audit purposes, it may not have been overlooked.

Audits of sewerage services – Appendix 3

Appendix 3 considers, amongst other things, the Asset Life – Cycle.

Extensions to sewerage schemes may be carried out by third parties for the purpose of subdivisions, and assets may then be transferred to the licensee. There also appear to have been situations where whole schemes were developed by another body in the past (such as the then Public Works Department) but are now operated by a local government, without records of ownership transfers being available. Please add a second sentence to Table 21 Activity Acquisition supporting documentation section (page 46) – "*... this also applies to assets vested in or transferred to the licensee by a third party*".

11.1.2 Asset Management System Reviews

This section requires that the report includes a brief description of the assets that have been reviewed. Please redraft to ensure that the "brief description of the assets" is sufficiently detailed so as to identify whether the scheme in question is or is not a limited effluent/septic tank effluent disposal scheme, as this materially affects the level of risk involved.