



Notice

16 July 2015

Shire of Lake Grace

2014 OPERATIONAL AUDIT AND ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority (ERA) has published the 2014 operational audit (**audit**) and asset management system review (**review**) report, and the post-audit and post-review implementation plan, for the Shire of Lake Grace's (**Shire**) water services licence WL22.

- [2014 Audit and Review Report](#)
- [2014 Post-Audit and Post-Review Implementation Plan](#)

Action by the ERA

The ERA is satisfied the Shire has demonstrated an adequate level of compliance with its licence conditions, and has decided to maintain the period of time until the next audit at 36 months. The next audit will cover the period from 1 December 2014 to 30 November 2017, with the report on the audit to be provided to the ERA by 28 February 2018.

The ERA is very dissatisfied with the Shire's management of the sewerage and recycled water assets over the three years covered by the review. Urgent remedial work is required to address the problems disclosed in the review report, and raise the standard of the asset management system processes and documentation to an acceptable level.

The ERA has decided to defer its decision on the period of time until the next review until an updated post-review implementation plan has been provided in November 2015.

BACKGROUND

Audit

The audit report disclosed a total of 17 non-compliances.¹

The auditor made nine recommendations in respect of the Audit. Six recommendations address the non-compliances,² one recommendation addresses a process improvement, one recommendation addresses 43 of the 44 licence obligations that were rated NR/D by the auditor, and one recommendation does not need

¹ While the auditor has reported 17 non-compliant obligations, the ERA considers the obligation relating to clause 8 of the Code of Conduct should be rated 'not applicable' as it does not apply to sewerage connections. Also, the ERA considers that the Shire is not compliant with clause 21(1) of the Code of Conduct as it did not allow payment by 'direct debit' during the audit period. Together, this totals 17 non-compliances.

² Four non-compliances were consequential to other non-compliances and did not require a separate recommendation.



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to be addressed by the Shire.³

A significant number of the non-compliant obligations, or obligations with ineffective controls, in this audit involve overlaps between other legislation applicable to local government water licensees and the *Water Services Act 2012* (including its subsidiary legislation); that appear to impose unnecessary regulatory burden on the licensees.

The ERA notes the Department of Water is currently conducting a review of local government water service licensing, the purpose of which is to identify ways the regulation of small local government water licensees could be simplified. With regard to the *Water Services Code of Conduct (Customer Service Standards) 2013*; if the ERA identifies any remaining instances of regulatory duplication after the Department's review is concluded, they will be put forward for consideration when the Code is next reviewed.

The post-audit implementation plan provided by the Shire shows that the actions to address the recommendations are due for completion by 31 August 2015.

Review

Of the 12 asset management components assessed by the Review, two components were rated B2 (requires some improvement), five components were rated B3 (corrective action required), four components were rated C3 (requires significant improvement) and one component was rated D3 (inadequate). The ERA does not agree with the rating of B2 for the Environmental Analysis component: the Shire has had to discontinue its use of recycled water because the scheme does not comply with the Department of Health's (DoH) guidelines for the use of recycled water.

The auditor has made 11 recommendations in the review, with 10 recommendations addressing process deficiencies, while the remaining recommendation addresses a process improvement.

The review has disclosed a number of problems with the sewerage and recycled water systems that are of concern to the ERA, particularly: the recycled water system's non-compliance with the DoH guidelines, the failure to have up-to-date asset management system documentation, and the poor condition of some sewerage and recycled water assets. The auditor was unable to locate any records to indicate the Shire had performed asset condition assessments, or undertaken work to improve the condition of the assets since the previous review in 2011.

The ERA expects the Shire to address the issues identified in this review as a matter of priority. The underlying cause of the problems appears to be a lack of oversight of, and responsibility for, the asset management system within the Shire, which was exacerbated by the Shire not having an Environmental Health Officer (EHO) during the latter half of the review period.

The auditor has reported that the Shire appointed a new EHO in September 2014. There are signs that the appointment of the new EHO might provide the leadership and focus needed to address the problems identified in the review. It is encouraging to note that the post-review implementation plan prepared by the Shire indicates they are prepared to invest the financial and human resources needed to promptly address the problems: the process and documentation issues are scheduled to be completed by August 2015, while

³ The ERA considers the obligation relating to clause 8 of the Code of Conduct should have been rated 'not applicable' as the clause does not apply to sewerage connections.



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the capital works items have been included in the 2015/16 budget.

The ERA considers it appropriate that the Shire's management is provided with a reasonable period of time to implement the remedial actions in the post-review implementation plan. Accordingly, the ERA will defer its decision on the period of time until the next review until after it has received an updated post-review implementation plan from the Shire in November 2015.

The ERA has informed the Shire that it is prepared to take further compliance action, including serving a notice under section 31(1) of the 2012 Act (failure to comply with licence) if the Shire fails to take prompt action to return the poorly maintained assets identified by the Review to an acceptable condition.

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