



Notice

22 July 2015

INFORMATION

Shire of Morawa

2014 OPERATIONAL AUDIT AND ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority (**ERA**) has published the 2014 performance audit (**Audit**) and asset management system review (**Review**) report, and the post-audit and post-review implementation plan, for the Shire of Morawa's (**Shire**) water services licence WL24.

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

Action by the ERA

The ERA is satisfied that the Shire has demonstrated an adequate level of compliance with its licence conditions, and has decided to retain 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 reports on the Audit to be provided to the ERA by 28 February 2018.

The ERA is satisfied that parts of the Shire's asset management system are effective, but further work is needed in relation to the issues identified in the review that are discussed later in this notice. 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 May 2016.

BACKGROUND

Audit

The Audit report disclosed a total of 18 non-compliances, of which 12 non-compliances relate to various obligations under the *Water Services Code of Conduct (Customer Service Standards) 2013 (Code of Conduct)*, one non-compliance relates to not notifying the ERA of general works undertaken, one non-compliance relates to not returning documents related to a planning application on time, and four non-compliances are consequential to the failure to comply with the applicable legislation.¹

The ERA considers the majority of non-compliances with the Code of Conduct relate to relatively minor administrative issues that require the Shire to amend its complaints handling processes to fully comply with

¹ Sections 27 and 29 of the *Water Services Act 2012* require the licensee to comply with applicable legislation. The Shire's non-compliance with the Code of Conduct has resulted in a contravention of sections 27 and 29. Similarly, clauses 5.1 and 5.3 of the licence require the Shire to comply with applicable legislation.



Notice

the Code of Conduct, develop processes to review bills at the request of its customers,² and make prescribed information available to customers. These administrative issues involve overlaps between other legislation applicable to local government water licensees and the Code of Conduct; that appear to impose an 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 that 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, they will be put forward for consideration when the Code is next reviewed.

The post-audit implementation plan provided by the Shire shows the actions to address the recommendations are due to be completed by October 2015.

Review

The auditor has rated six of the 12 asset management components as effective (rated B2 or better), four components were rated ineffective, and two components were rated Not Applicable.³

Three of the four asset management components that were rated ineffective in the 2014 Review were also rated as ineffective in the 2011 Review – Contingency Planning, Financial Planning and Capital Expenditure Planning. The fourth component, Risk Management, has been rated as a process deficiency, because the Shire's risk register does not include the recycled water assets, and there is a need to undertake a thorough risk assessment, complete with updated risk mitigation and risk management strategies.

While the Shire has addressed the 2011 Review recommendations in relation to financial planning and capital expenditure planning, the 2014 Review indicates more work is needed in these areas for the Shire to have an adequate set of financial plans for the sewerage and recycled water assets.

The ERA is more concerned that the Shire has not developed contingency plans for its water and sewerage assets. The 2014 Review is the second consecutive Review to identify problems with contingency planning. The auditor has recommended the Shire develop formal contingency plans that address the higher risks following the completion of a risk assessment of all the Shire's sewerage and recycled water assets.

The auditor has made 15 recommendations in relation to the Review; 12 recommendations address process deficiencies, and three recommendations address process improvement opportunities.

The post-review implementation plan prepared by the Shire shows that the actions to address the auditor's recommendations will be completed by April 2016. The ERA has decided to defer its decision on the period of time until the next Review until it has received an updated post-review implementation plan in May 2016.

² The Shire bills its customers for sewerage services through the rates; the *Local Government Act 1995* makes provision for customers to have their rates bill reviewed, and adjusted if required.

³ The auditor's decision to rate the Asset Creation/Acquisition and Asset Disposal as N/A is unusual, but the ERA understands the rationale behind the decision; because it is rare for Shire sewerage licensees to undertake works that involve new network assets, or dispose of redundant/failed assets. The decision not to provide a rating for these two components does not materially affect the ERA's ability to gain an overall understanding of the Shire's asset management performance.



Economic Regulation Authority

Notice

For further information contact:

General Enquiries

Paul Reid
Economic Regulation Authority
Phone: 08 6557 7900
Email: records@erawa.com.au

Media Enquiries

Tracy Wealleans
Economic Regulation Authority
Phone: 0428 859 826
Email: communications@erawa.com.au