



Notice

7 January 2016

Rottnest Island Authority

2015 OPERATIONAL AUDIT AND ASSET MANAGEMENT SYSTEM REVIEW

The 2015 operational audit (**audit**) and asset management system review (**review**) report, and the post-audit and post-review implementation plan, for the Rottnest Island Authority's (**RIA**) water services licence WL10 has been published by the Economic Regulation Authority (**ERA**).

- [2015 Audit and Review report](#)
- [2015 Post-Audit and Post-Review Implementation Plan](#)

Action by the ERA

The ERA is satisfied that the RIA 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 24 months. The next Audit will cover the period from 1 July 2015 to 30 June 2017, with the report to be provided to the ERA by 30 September 2017.

The ERA is of the view that the asset management system has some critical issues that need to be addressed in order to meet the requirements of the licence, which are discussed later in this notice. The ERA has decided to retain the period of time until the next Review at 24 months. The next Review will cover the period from 1 July 2015 to 30 June 2017, with the report to be provided to the ERA by 30 September 2017.

The RIA has committed to rectifying the critical asset management system problems by 30 June 2016, so the ERA has decided to wait until it receives an updated post-review implementation plan in July 2016 before reaching a decision on whether further action is required.

The ERA has informed the RIA that, if the updated post-review implementation plan is unsatisfactory, it will appoint an inspector, under section 210 of the *Water Services Act 2012* (**2012 Act**) to conduct an assessment of the effectiveness of the RIA's asset management system, and the condition of the water services assets. The findings of an inspection would be used to inform the ERA as to whether a notice of non-compliance under section 31 of the 2012 Act (**section 31 notice**) may be necessary.



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BACKGROUND

Audit

The auditor assessed a total of 159 licence obligations in the audit:¹ two obligations under the previous licence and 157 obligations that are relevant to the current licence.

Of the 157 obligations that were assessed by the auditor: 48 obligations were deemed to be not applicable to RIA's operations, and a further six obligations were not rated because no relevant activity had taken place during the audit period.

Of the 46 obligations that were rated for compliance, 28 obligations were rated 1 (compliant); 13 obligations were rated as 2 (non-compliant with minor impact); and five obligations were rated as 3 (non-compliant with moderate impact); giving a total of 18 non-compliances. Two of the obligations that were rated 2 were rectified by the time the audit was conducted.

The auditor assessed controls for nine of the 63 obligations that were not rated for compliance; two of these obligations were rated D (no controls evident).

Identified non-compliances in the audit

The ERA is particularly concerned by the following findings in the audit:

- The RIA's fire hydrants do not meet the Department of Fire and Emergency Services' standards.
- The relatively high number of unplanned water supply interruptions caused by mains failures during the audit period.
- The RIA did not have an adequate asset management plan (**AMP**) for the potable water, non-potable water, sewerage and drainage assets covered by the licence.

The auditor also identified that the RIA's documentation does not fully address the legislative and regulatory requirements for providing information to customers about the water service and complaints.

With regard to the fire hydrant issues, the RIA has commenced a plan to install a new fire main and hydrants that will use non-potable water. The first stage of the plan is due to be completed by 30 June 2016.

¹ The Audit covers three licences: one licence made under the *Water Services Licensing Act 1995 (1995 Act)* and two licences made under the 2012 Act. The licence made under the 1995 Act was in force until 17 November 2013, when it was replaced by the licence made under the 2012 Act. The two licence obligations that were unique to the 1995 Act were not carried forward into the licence made under the 2012 Act: the auditor rated both obligations under the 1995 Act as compliant.



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The RIA has secured funding to implement improvements to the potable water supply system, and to investigate the condition of the buried water supply infrastructure across the island. The 2015/16 financial year will be the first of a multi-year programme of capital works for the water supply system.

Work is already underway to develop a new over-arching AMP for the water, sewerage and drainage assets covered by the licence by the end of the current financial year. This work is part of a larger program to implement a new asset management system (**AMS**) for all of the RIA electricity and sewerage assets.

The post-audit implementation plan prepared by the RIA states that the actions to address the auditor's recommendations are scheduled to be completed by 30 June 2016.

Review

The auditor rated five out of 12 AMS components as A1 (highest rating). Of the seven remaining components, two achieved an overall rating of A2 (opportunity for process improvement) and one was rated B2 (opportunity for process and documentation improvement).

The review also identified four process deficiencies: Asset Planning and Review of the Asset Management System were rated B3 (documentation improvement, process corrective action required); Capital Expenditure Planning was rated D3 (processes and policies not documented, process corrective action required); and Financial Planning was rated C4 (processes and policies require significant improvement, process performance is ineffective).

The ERA is concerned by the following findings in the review:

- The RIA's AMS does not include the fire hydrant assets.
- The pressure in the potable water distribution system is not sufficient for the fire hydrants to function properly.
- There is no viable long-term funding plan for water services assets covered by the licence.

The ERA is concerned that the RIA currently does not have a compliant fire response system on the island, a major tourist destination.² Also, the lack of a long term funding plan increases the risk that the integrity of the infrastructure needed to deliver a safe and reliable service may be compromised. The ERA notes that the RIA has commenced action to rectify the key issues identified in the review by including the fire hydrant upgrade into its budget for 2015/16, and undertaking priority works to improve the potable water supply systems within the 2015/16 financial year. Also, the finalisation of a new AMS covering the water assets is scheduled to be completed by 30 June 2016.

² However, the ERA notes that the RIA maintains bulk water tanks as a source of water to deal with fires on the island. The auditor did not inspect this alternative response, because it is outside the scope of the Audit.



Economic Regulation Authority

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