



# Notice

17 October 2017

## Preston Valley Irrigation Co-operative Ltd

### 2017 OPERATIONAL AUDIT AND ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority (**ERA**) has published the 2017 operational audit and asset management system review [report](#) and the post-audit and post-review implementation [plan](#) for Preston Valley Irrigation Co-operative Ltd's (**PVIC**) water services licence WL9.

PVIC has a water services licence to provide irrigation and non-potable water services to properties situated on the Preston River, near Donnybrook, about 200 km south of Perth. PVIC supplies irrigation and non-potable water to 87 members and other customers.

#### Action by the ERA

The ERA considers that PVIC has demonstrated an adequate level of compliance with its licence and has an effective asset management system.

The ERA has decided to reduce the period until the next audit and review from 61 to 60 months.<sup>1</sup> The next audit and review will cover the period 1 March 2017 to 28 February 2022, with the report due to the ERA by 31 May 2022.

The ERA will monitor PVIC's progress with its post-audit and post-review implementation plan, by receiving regular updates from PVIC.

#### BACKGROUND

##### Operational Audit

Over the audit period, two licensing Acts were in force, the *Water Services Licensing Act 1995* and the *Water Services Act 2012*. The ERA amended PVIC's licence on four occasions during the audit period.

The audit assessed 113 licence obligations.<sup>2</sup> The auditor did not provide a compliance rating for 70 of the obligations, because there was no relevant activity during the audit period.

The auditor identified 17 non-compliances in the remaining 43 obligations, one of which the ERA does not consider to be a non-compliance.<sup>3</sup> Ten of the remaining 16 non-compliances cover obligations in the licence, four are obligations in the *Water Services Regulations 2013*, and two are obligations in the *Water Services Act 2012*.

PVIC's four outstanding non-compliances were for not:

- preparing annual financial statements using Australian Accounting Standards Board (**AASB**) standards;

<sup>1</sup> An administrative error led to the current audit covering a period of 61 months, instead of the intended 60 months.

<sup>2</sup> The auditor assessed 95 obligations in versions 5 and 6 of PVIC's licence and 18 discontinued obligations in versions 2 and 3 of the licence.

<sup>3</sup> Obligation 2 in versions 2 and 3 of PVIC's licence.

- providing a certificate of authority to its designated inspector;
- giving written notice to the occupier or owner of proposed entry by PVIC to a place receiving a water supply; and
- complying with applicable legislation.<sup>4</sup>

The auditor made four recommendations<sup>5</sup> to address eight non-compliances<sup>6</sup>, and 78 controls improvements covering 78 obligations.<sup>7</sup> Four of the eight non-compliances that the auditor has provided a recommendation for cover obligations that no longer apply to PVIC.<sup>8</sup>

The post-audit implementation plan states PVIC is due to address the remaining recommendations by January 2018.

### **Asset Management System Review**

The auditor assessed 12 asset management components, rating one as requiring policy improvements, rating two as having policy deficiencies and rating nine as having process and policy deficiencies.<sup>9</sup>

Most of the issues identified in the 2017 review concern the documentation of policies and procedures, improving asset data and improving financial planning processes.

### **ERA's response to the audit and review**

#### **Audit**

PVIC's failure to prepare its annual financial statements in accordance with AASB standards increases the risk of misreporting. The ERA has advised PVIC that it must maintain its accounting records to AASB standards.

#### **Review**

The ratings for the 12 asset management components in the 2017 review were poorer than the 2012 review. The auditor stated this was because PVIC had not addressed the 2012 review recommendations. However, the ERA believes that the auditor has applied a stricter approach to rating the components in the 2017 review than were applied in the 2012 review.

The review found that PVIC did not document some operational practices, including the reading of meters, but despite this, PVIC was performing these practices effectively.

The ERA considers the auditor's ratings are harsh, because the review did not identify any outstanding issues that have materially affected customers or the delivery of services. The auditor also stated that the asset management system is operating satisfactorily.

The ERA has advised PVIC to improve its documentation for the key processes covering the delivery of services to customers, and its financial management processes, particularly budgeting.

<sup>4</sup> This non-compliance automatically occurs whenever the licensee contravenes any applicable legislation.

<sup>5</sup> The audit recommendations on pages 107 to 110 of the report contains errors, recommendation 01/2017 should include obligation 155 but not obligations 11 and 183, and recommendation 02/2017 should include obligation 6.

<sup>6</sup> Obligations 50, 62, 76, 77, 78, 79, 156 and 160.

<sup>7</sup> The recommendations did not cover eight non-compliances and 12 controls improvements, because PVIC addressed them during the audit period or the ERA removed the obligations from the licence during the audit period.

<sup>8</sup> Obligations 76, 77, 78 and 79 no longer apply to PVIC after the *Water Services Regulations 2013* were amended in 2016.

<sup>9</sup> Refer to table 2 in the report.

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