



Notice

23 July 2020

Harvey Water

2019 operational audit and asset management system review

The Economic Regulation Authority has published the 2019 [operational audit and asset management system review report](#) and the [post-audit](#) and [post-review](#) implementation plans for South West Irrigation Management Co-operative Limited's (trading as Harvey Water) water services licence WL31.

Harvey Water is a co-operative; it provides irrigation services to its members in the Collie, Harvey and Waroona irrigation areas. It also provides non-potable water services to customers of its subsidiary, Rural Water Services Pty Ltd, and "by-law customers". By-law customers have a right to access water from Harvey Water's delivery system using their own infrastructure, under the *Waroona, Harvey and Collie River Irrigation District By-Laws 1975*.

The ERA's decision

The ERA considers that Harvey Water has achieved an adequate level of compliance with its licence and, overall, is managing its water service assets effectively.

Although Harvey Water achieved an adequate level of compliance, the audit found Harvey Water's control environment and control procedures to be weak.

The ERA has decided to maintain the audit and review period at 36 months. The next audit and review will cover the period 1 December 2019 to 30 November 2022, with the report due by 28 February 2023.

Background to the ERA's decision

Audit ratings

The auditor assessed 92 licence obligations applicable to Harvey Water's licence and found:

- 10 were rated A1 (adequate controls, compliant).
- Three were rated A/NR (adequate controls, not rated for compliance due to lack of relevant activity).
- Two were rated B1 (generally adequate controls, compliant).
- Four were rated C1 (inadequate controls, compliant).
- Two were rated C2 (inadequate controls, non-compliant – minor effect on customers).

- Three were rated C/NR (inadequate controls, not rated for compliance due to lack of relevant activity).
- Nine were rated D1 (no controls evident, compliant).
- Four were rated D2 (no controls evident, non-compliant – minor effect on customers).
- One was rated D3 (no controls evident, non-compliant – moderate effect on customers).
- 54 were rated D/NR (no controls evident, not rated for compliance due to lack of relevant activity).

The audit found seven non-compliances; five of which were substantive.¹ Three of the non-compliances concerned the provision of information to customers: the notice of general works did not contain all required information and entry notices were not always issued in writing.

The audit also found 78 control deficiencies. The deficiencies result from Harvey Water not having processes or procedures in place to manage many of its compliance obligations.

Audit recommendations

The auditor made 10 recommendations to address the non-compliances and controls deficiencies.

Two of the recommendations address Harvey Water's weak controls. The auditor has recommended that Harvey Water consider implementing a compliance register which records all its obligations under the water legislation, and for that register to identify, for each compliance obligation, appropriate policy and procedure documents and responsible employees.

The post-audit implementation plan states that Harvey Water will address the audit recommendations between now and 30 August 2020.

Review ratings

The assessment of the 12 asset management components prescribed in the ERA's *2019 Audit and Review Guidelines: Water Licences* found:^{2, 3}

- Five components were rated A1 (documentation adequately defined, performing effectively).
- One component was rated A2 (documentation adequately defined, performance requires improvement).
- Four components were rated B1 (documentation requires some improvement, performing effectively).
- One component was rated C1 (documentation requires significant improvement, performing effectively).
- One component was rated C2 (documentation requires significant improvement, performance requires some improvement).

¹ Two of the non-compliances (obligations 12 and 156) were for "overarching obligations" that require a licensee to comply with the Act or licence. If the licensee fails to comply with any obligation under the Act or licence, this will also result in a non-compliance with the "overarching obligation".

² A copy of the guidelines is available on the ERA [website](#).

³ As required by the 2019 guidelines, the auditor also provided a rating for each of the 56 asset management effectiveness criteria.

The main area of concern identified by the auditor involved Harvey Water's contingency plan. The 2016 review raised the same matter.

Review recommendations

The auditor made two recommendations: one for asset planning and one for contingency planning.⁴ The recommendation for contingency planning replaces the recommendation in the previous report which the current auditor considered not practical for Harvey Water to implement.

The post-review implementation plan states that Harvey Water will address the review recommendations between now and 30 August 2020.

The ERA's assessment of the audit and review findings

Audit

The most material finding from the 2019 audit is Harvey Water's lack of controls for maintaining compliance with its licence obligations.

The previous audit did not find any controls deficiencies. The difference between that audit and the 2019 audit is likely due to the previous auditor choosing not to perform a controls assessment for most of the compliance obligations.⁵

Harvey Water has agreed to implement a compliance register and identify, and develop, for each relevant compliance area appropriate policy and procedures. Harvey Water's proposed actions are consistent with the auditor's recommendations and should resolve the controls deficiencies identified by the auditor.

Review

The review found that, overall, Harvey Water is managing its water service assets effectively.

One of the two areas of concern raised by the auditor, contingency planning, was also raised during the previous review. Harvey Water's lack of action could be due partly to the breadth of the previous recommendation. The current auditor considered that recommendation not practical for Harvey Water to implement and has replaced it with a new recommendation.

Harvey Water has agreed to the new recommendation and has already partly implemented it.

Further information

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⁴ The auditor rated one of the asset planning effectiveness criteria deficient.

⁵ The ERA's 2019 *Audit and Review Guidelines: Water Licences* only require an auditor to perform a controls rating for obligations to which the auditor has assigned an audit priority of 1, 2 or 3, or which were rated non-compliant.