



Notice

16 March 2021

Shire of Gnowangerup

2020 operational audit and asset management system review

The Economic Regulation Authority has published the 2020 [operational audit and asset management system review report](#) and the [post-audit and post-review implementation plan](#) for the Shire of Gnowangerup's water services licence WL11.

The Shire supplies sewerage services and non-potable water supply services to the township of Ongerup, approximately 400 kilometres southeast of Perth.

The ERA's decision

The ERA considers that the Shire has achieved an adequate level of compliance with its licence and has decided to maintain the audit period at 36 months. The next audit will cover the period 1 December 2020 to 30 November 2023, with the report due by 29 February 2024.

The review found the Shire's asset management system had material deficiencies. The ERA has decided to reduce the review period from 36 months to 24 months. The next review will cover the period 1 December 2020 to 30 November 2022, with the report due by 28 February 2023.

Background to the ERA's decision

Audit ratings

The auditor assessed 164 licence obligations applicable to the Shire's licence and found:¹

- Sixty-five were rated A1 (adequate controls, compliant).
- Two were rated A2 (adequate controls, non-complaint – minor effect on customers or third parties).
- Five were rated B2 (generally adequate controls – improvement needed, non-compliant – minor effect on customers or third parties).
- Two were rated B3 (generally adequate controls – improvement needed, non-compliant – moderate effect on customers or third parties).

¹ Twenty-four obligations were determined as not applicable during the audit period and therefore not assessed for compliance. These obligations were determined as not applicable because of the type of services provided by the Shire. For example, the Shire supplies sewerage services and non-potable water, therefore obligations relating to bills for usage do not apply to the Shire.

- Two were rated C2 (inadequate controls – significant improvement needed, non-compliant – moderate effect on customers or third parties).
- Eighty-eight were rated A/NR (adequate controls, not rated for compliance due to lack of relevant activity).

The audit identified 11 non-compliances. The non-compliances covered minor administrative matters, including:

- Rates notices did not include a statement that they can be reviewed in accordance with the Shire’s review procedure.²
- The Shire did not have policies and procedures for dealing with bursts, leaks and blockages on its sewerage system.
- The Shire’s website did not contain a link to the *Water Services Code of Conduct (Customer Services Standards) 2018*.
- The Shire provided annual performance reports and data to the ERA after the due date.

Audit recommendations

The auditor made four recommendations to address seven non-compliances.³

The post-audit implementation plan states that the Shire will address the audit recommendations between now and July 2021.

Review ratings

The assessment of the 12 asset management components prescribed in the ERA’s *2019 Audit and Review Guidelines: Water Licences* found:⁴

- One component was rated A1 (documentation adequately defined, performing effectively).
- Two components were rated B2 (documentation requires some improvement, performance requires some improvement).
- Six components were rated C2 (documentation requires significant improvement, performance requires some improvement).
- Three were rated C3 (documentation and performance requires significant improvement).

In October 2019, the Shire provided an updated 2017 post-review implementation plan to the ERA detailing the progress it had made towards implementing the actions in the plan. The plan showed that all the recommendations from the 2017 review had been addressed, including confirmation that the Shire had finalised its 2019 asset management plan.

In the 2020 review the auditor reported that the Shire has addressed only one of the 12 recommendations made in the 2017 review. The remaining 11 recommendations are still unresolved or partly resolved and have been carried forward and incorporated into the 2020 recommendations.

² The Shire charges customers for sewerage services through its Rates Notice.

³ The auditor did not make a recommendation for four non-compliances. One non-compliance was resolved during the audit period and three non-compliances will be resolved by addressing the other non-compliances found in the audit.

⁴ A copy of the guidelines is available on the ERA [website](#).

The Shire was not able to locate the 2019 asset management plan when requested by the auditor, so the 2020 review was conducted based on the 2013 plan.

The auditor rated nine asset management components as deficient. The main findings were:

- The 2013 asset management plan was out of date and too complicated for the simple sewerage system operated by the Shire.
- The 2013 asset management plan incorrectly stated that the current licence was issued under the provisions of the *Water Services Licencing Act 1995*, rather than the *Water Services Act 2012*.
- The discharge from the wastewater ponds had the potential for health and safety risks if public access to this area occurred. It was also a possible mosquito breeding area.
- The customer service levels for the sewerage assets needed to be clearly documented.
- The Shire should improve its record-keeping for the sewerage scheme.

Review recommendations

The auditor made nine recommendations to improve documentation and/or performance for the nine asset management components rated deficient.

The post-review implementation plan states that the Shire will address the review recommendations between now and December 2021.

The ERA's assessment of the audit and review findings

Audit

The ERA considers that the Shire has demonstrated an adequate level of compliance with its licence. Most of the non-compliances identified by the auditor were minor administrative matters.

Review

The 2020 review rated six of the 12 asset management components deficient for process and three components deficient for both process and performance.

The ERA is concerned that, in late-2019, the Shire reported that it had addressed all 12 recommendations from the 2017 review. However, the 2020 review found the Shire had not addressed 11 of the 12 recommendations, because it was unable to provide the 2019 version of the asset management plan to the auditor. This could mean that the Shire had not updated the asset management as reported, or that it had updated the plan but had not been using it to manage the day-to-day running of the sewerage scheme.

Taking the above into consideration the ERA has reduced the period covered by the next review from 36 months to 24 months.

Further information

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