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Economic Regulation Authority

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ACTION: **Adam Phillips**

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5 May 2006

Mr L Rowe
Chairman
Economic Regulation Authority
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Dear Lyndon

Thank you for the opportunity to comment on the draft Audit Guidelines for Electricity, Gas and Water Licensees. The Water Corporation supports the objectives of consistency of audit across different utility types and across different service providers.

However, the Corporation notes with some concern that the document indicates that the intention is to make compliance with the Guidelines a Licence requirement. This in effect changes the nature of the document from "guidance" to "regulation" which seems unnecessary in this instance. Further, the Guidelines are written in such a way that it would be difficult to demonstrate compliance with all its requirements.

In relation to format or document structure, the Corporation found it difficult to distinguish between general guidelines/explanatory comments and requirements that the ERA would expect to be in the audit scope. It would benefit licensees in separating the requirements expected of an Audit/Auditor from all other explanatory comments in the Guidelines.

More detailed comments are attached for your information.

Yours sincerely

J. I. Gill
CHIEF EXECUTIVE OFFICER
Att

Attachment
Water Corporation's Minor Comments on Draft Audit Guidelines

As at 1/5/06

Page #	Section	Comment
	General	Elements for Guidance vs Auditable Elements There are elements relating to audit and general elements that relate to information about guidance merged together. There should be a separation between those elements that are guidance and those that may be audited. There should also be specific direction as to which elements should be included in a tender/scope document to appoint an auditor.
5 of 37	Executive Summary	Objectives of the guidelines as stated are actually a definition of the objectives of the audit. The objectives of the guideline should be, for example, to enable consistency of approach to audit across licensees and/or to ensure audits are carried out in a manner acceptable to the ERA.
7 of 37	1.2.1 dot point 2	Duplication of Licence Clauses Once this is added to a licence as proposed the licensee may be double-audited on compliance with both the licence and this document. If there are clauses in this Draft Guideline that are duplicated in our licence as proposed, and one or the other is changed we will be audited on both parts although they may differ and we may be non-compliant to one of them. This practice should be avoided in the Guideline to eliminate confusion on which document takes precedence.
9, 14, 18 & 24 of 37	1.3 (box 4 of flow diagram), 3.4 (2 nd para), 3.5.1 (3 rd para) & 4.4.1 (para 2)	Approval or Discussion of Audit Plan Each of these points requires the ERA and Licensee to agree with or approve the audit or review plan. This may impinge on the independence/objectivity of the auditor. Suggest the auditor should "discuss" the audit/review plan with the licensee and the ERA rather than require ERA to "approve" the Plan.
10 of 37	2.1	Selection Criteria for AMR The Water Corporation conducts Operating Licence Audits and Asset Management Reviews (AMR) separately using auditors with different expertise. The 'engineering and technical expertise' relates to the AMR and not the compliance audit of the Licence. Suggest this is indicated either in the text or have this item as an addition for AMR whether undertaken as a combined audit or separately.
10 of 37	2.1	Selection Criteria The last 3 dot points in the Selection Criteria discuss how the work should be carried out, not how to select the auditor, i.e. they are not Selection Criteria and should be moved to a more suitable part of the Guidelines.
10 – 11 of 37	2.2	Conditions of engagement are stated to be conditions of engagement of the auditor – however there is a mixture of conditions for auditor, ERA (2.2.3) and the licensee (2.2.4) to comply with. Suggest moving these 2 sections elsewhere.
11 of 37	2.2.1 Dot point 4	Conflict of Interest Can some guiding principles be added on how to apply this clause, or some examples of types of conflicts that are not acceptable, as there are limited organisations capable of taking on this work?
11 of 37	2.2.2	Reporting of Findings This clause requires that the auditor reports the findings to the Authority. The Water Corporation's licence requires that the licensee report the findings of both the audit and the AMR to the ERA (clauses 4.5 and 4.7), therefore the draft guidelines would seem to conflict with the Water Corporation licence.

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Page #	Section	Comment
11 of 37	2.2.3	Provision of Documents The guideline states that the ERA will provide the auditor with certain documents. The Water Corporation licence (cl 4.11) requires that the licensee provides these and other documents to the auditor and the ERA. Therefore, the draft guidelines would seem to conflict with the Water Corporation licence
12 of 37	2.3	Australian Auditing Standards Suggest add to the end of the paragraph '... in accordance with current Australian Auditing Standards – Aus 806 and Aus 808.' Then delete sections 2.3.1 and 2.3.2 which are extracted from these standards. There seems little value in quoting parts of the standards as all the standard should be adhered to. This also avoids difficulties as and when the Standards are amended.
13 of 37	3.2 1 st dot point	Risk Assessment This dot point should be moved into the Risk Assessment section.
13 – 14 of 37	3.2 4 th dot point	Output Compliance – should assess the existence of output. As defined here with the extra information it redefines process compliance
13 – 14 of 37	3.2 5 th dot point	Integrity of Performance Reporting – implicit in the audit. This is a licence element and therefore audited as part of licence compliance, i.e. it seems a duplication.
13 – 14 of 37	3.2 6 th dot point	Compliance with any Individual Licence Condition – this is superfluous as the audit already does this without it being duplicated.
14 of 37	3.3	Frequency of Operating Licence Audit Although the legislation allows the ERA to vary the period of the audit, the Water Corporation licence requires that audits are conducted biennially in even numbered years. As there is no allowance for frequency variation within the licence, it is assumed the Guideline is an indication that this may need to be altered in the Licence.
7 of 37	1.2.1 dot point 1	If this is an example of the clause regarding audit period that will remain in all licences, this determines an audit period of 24 months with no allowance for variation, and therefore conflicts with section 3.3.
16 of 37	Table 3.2	Further Development of Consequence Descriptions Given that the objective of section 3.4 is to deliver consistency across the industries & licensees, the process would benefit from increased clarity in the consequence ratings. More definition in the Consequence descriptions will bring improved rigour and consistency in the assessments. We suggest an across the board working group to discuss the consequence descriptions and apply them to some licensees to check consistency.
16 of 37	Table 3.3	Likelihood Table Timing Gaps The likelihood table should not have timing gaps, for example if a non-compliance may be expected to occur once in every 6 years, is that B probable or C unlikely? Suggest the same working group as above discuss the likelihood criteria.
19 & 25 of 37	3.6.1 dot point 5 & 4.5.1 dot point 3	Sign off by Lead Auditor Requires the lead auditor to sign a statement that the 'guidelines have been complied with ...' Some of the guidelines are requirements for the licensee and the ERA for which the auditor has no control. Suggest there is some way to distinguish which clauses the auditor must sign off on.

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Page #	Section	Comment
22 & 27 of 37	3.6.1 top paragraph & 4.5.1	<p>Post Audit/Review implementation Plan</p> <p>The post-audit/review implementation plan fails to distinguish between improvements for a non-compliance or housekeeping suggestions.</p> <ul style="list-style-type: none"> ▪ This plan should be limited to non-compliance issues only (ratings of 1 or 2 for licence audit and 0 or 1 for AMR). ▪ Licensees should not have to agree to the non-compliance actions proposed by the auditor as actions developed by an external body in a limited timeframe may not be the best solution for that business. Suggest that the licensee is given period of time (eg 1 month) in which to analyse the issue and determine a best solution and timeframe to implement. ▪ House keeping actions (how, when and if attended to) should be at the discretion of the licensee.
8 & 24 of 37	1.2.2 (dot point 1) & 4.3	<p>Frequency of AMR</p> <p>Repeats some of the same information re frequency of AMR. Water Corporation Licence requires that these reviews are conducted biennially in even numbered years. There is no scope for variation.</p>
11 & 30 of 37	2.2.3 & Second section 2	<p>Asset Management Plans</p> <p>The Guidelines refer to Asset Management Plans which suggest paper documents. The Water Corporation has moved away from having hard copy asset management plans for all its schemes to having a computer based system, an "Asset Management Planning System" (AMPS). The Corporation wrote to ERA on this matter on 24 April 2006.</p>