



Harvey Water

Asset Management & Operational Audit

March 2008



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Executive summary

Background

The regulation of the water service industry in Western Australia is governed by the Water Services Licensing Act 1995 (Act). The Act has established a regulatory framework that is administered by the Economic Regulation Authority ("ERA") through a licensing scheme.

Under the Act, providers of water supply, sewerage, irrigation and drainage services within controlled areas must be licensed. The ERA has issued an Operating License to Harvey Water for the provision of irrigation and non potable water services.

Not less than every 36 months, Harvey Water is required to provide the ERA with an operational audit and a report on the effectiveness of its asset management system under Section 6 and 7 respectively of the Harvey Water Operating Licence.

Scope

The South West Irrigation Management Cooperative (SWIMCO) trading as Harvey Water, with the approval of the ERA, commissioned KPMG to conduct an Agreed Upon Procedures engagement with reference to the ERA's guidelines regarding operational compliance and asset management systems.

We have performed the procedures agreed in our engagement letter dated 9 January 2008 and described in Appendix 1 with respect to the Harvey Water ERA Licence. Our engagement was undertaken in accordance with Australian Auditing Standards applicable to agreed-upon procedures engagements. The responsibility for determining the adequacy or otherwise of the procedures agreed

to be performed is that of Harvey Water. The procedures were performed so that the independent report on the operational audit and the effectiveness of the asset management system can be collated.

Because the procedures do not constitute either an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Audit Standards applicable to review engagements, we do not express any assurance. Had we performed additional procedures or had we performed an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, other matters might have come to our attention that would have been reported to you.

This report relates only to the items specified above and does not extend to any financial report of Harvey Water, taken as a whole.

The engagement covered the period 1 October 2004 to 30 September 2007 and was conducted between January and March 2008.

Executive summary (cont)

Summary of Results

Operational Audit

Overall, the Operational Audit identified an acceptable level of compliance with Operating License requirements as set out below.

The following table summaries the results of the assessment of the relevant standards, outputs and outcomes. Further details are included in the body of the report.

Operating License Clause/Schedule	Operation Area	Consequence	Likelihood	Inherent Risk	Adequacy of existing controls	Compliance Rating	Page
Clause 2, Schedule 1	Operating Areas	1	C	Low	Strong	5	20
Clause 6	Asset Management System	3	B	High	Strong	1	21
Clause 7	Operational Audit	1	C	Low	Strong	4	24
Clause 8	Technical Standards	2	C	Low	Strong	5	25
Clause 10	Accounting Records	2	B	Medium	Medium	5	26
Clause 12	Water Services Provisions	3	B	High	Strong	3	27
Clause 14, Schedule 3	Information Provided to the Authority	1	C	Low	Weak	3	30
Clause 15	Performance of functions by the Licensee	3	B	High	Strong	5	31
Clause 17	Consumer Consultation	2	C	Medium	Strong	5	32
Clause 18	Customer Service Charter	2	C	Medium	Strong	5	33
Clause 19	Dispute Resolution	1	B	Low	Strong	3	35

Executive summary (cont)

For the Operational Audit, the Licensee was assessed for compliance with the licence requirements using the following scale:

Compliance Status	Rating	Description of Compliance
Compliant	5	Compliant with no further action required to maintain compliance
Compliant	4	Compliant apart from minor or immaterial recommendations to improve the strength of internal controls to maintain compliance
Compliant	3	Compliant with major or material recommendations to improve the strength of internal controls to maintain compliance
Non-Compliant	2	Meets minimum requirement – improvement needed
Significantly Non-Compliant	1	Significant weaknesses and/or serious action required
Not Applicable	N/A	Not Applicable to the organisation

Executive summary (cont)

Asset Management Audit

Overall the asset management audit indicated that the process in place in relation to the planning, construction, operation and maintenance of Harvey Water's existing open channel assets are either performed informally or not performed at all. The review findings indicated an inadequate level of process effectiveness surrounding Harvey Water's existing asset management system. We recommend that Harvey Water reviews the existing Asset Management system and ensure that the recent changes such as the implementation of the underground piping is incorporated into the asset management system.

Since 2001, and particularly since late 2005, Harvey Water has been replacing its channels with close to 300 km of buried pipe system which delivers water under gravity pressure. This \$74.5 m project is anticipated to be completed in mid 2008. As a small company the focus of Harvey Water's efforts since the 2004 audit has been on the construction of the underground pipe system. With the conversion of approximately two thirds of the water distribution system into pipes there is a reduced dependence and relevance of the existing Asset Management system.

It is anticipated that the Collie River Irrigation District (CRID) project will be completed about the middle of 2009. Until such time Harvey Water will not know what the future of the open channel system will be or the timetable which will apply to it. As a result it will be more rational to develop the open channel AMS at that time when the CRID is completed.

Harvey Water has carried out a Likelihood and Consequences surveys in the past to assess its Risk Management practices and will be doing this again when the piping projects are complete. As water can be delivered to almost all parts of the system from any of the dams, there are valves which can be used to isolate sections, the repair of the high density polyethylene (HDPE) pipe in most normal circumstances would only take a day or so, and water supply is rarely critical over this time period, the odds of a major disruption are limited.

Harvey Water management acknowledges that emphasis on the piping project has resulted in a lack of dedicated resources towards the maintenance and enhancement of the asset management system. With the anticipated successful completion of the main piping project in mid 2008, management has expressed strong desire to return focus and commitment of resources towards improving the asset management system. Management has expressed a strong view and desire to ensure that the asset management system issues raised in this report will be resolved by the time next audit takes place.

The results of the assessment of the relevant standards, outputs and outcomes are summarised in the following table with further information included in the body of the report:

Activity	Description	Effectiveness Scale
Asset Planning	Asset planning examines and documents the future demands or opportunities that will change the system and its operation.	0
Asset Creation / Acquisition	Assessment of the policies and procedures around the creation and acquisition of assets	1
Asset Disposal	Assessment of the policies and procedures around the disposal of assets. Is the usefulness of the assets reviewed on regular basis?	0

Executive summary (cont)

Activity	Description	Effectiveness Scale
Environmental Analysis	Environmental analysis examines the asset system environment and assesses all external factors affecting the asset system including compliance with service standards, investigation of breaches and corrective actions taken. Examination of the reporting and monitoring tools.	0
Asset Operations	Asset operations examine the policies and procedures covering the operation functions of the Board's assets. Issues to be examined include adequate resourcing, documentation of maintenance and testing procedures, recording and analysis of costs and the applications of corrective actions.	0
Asset Maintenance	Assessment of the policies and procedures covering maintenance functions. Confirm that the policies are being followed, including maintenance schedules and analysis of costs.	0
Asset Management Information System	Assess the adequacy of policies and controls covering the computer systems. Confirm that the reports on standards / Licence obligations are being reviewed and acted on.	0
Risk Management	Risk Analysis involves the identification of risk and management within an acceptable level of risk. Contingency plans document the steps to deal with the unexpected failure and procedures, application of risk management and understanding of the staff.	0
Contingency Planning	Contingency Plans provide an indication of how well prepared the organisation is in respect to unplanned emergencies. Contingency plans document how the organisation responds, levels of responsibility and communication within the organisation and externally.	0
Financial Planning	The financial planning component of the AMP brings together the financial elements of the scheme to ensure its financial viability over the long term. Since capital investments tend to be large and lumpy, projections would normally be expected to cover at least 10 years, preferably longer. Projections over the next five years would be based on firm estimates.	2
Capital Expenditure Planning	The capital expenditure plan provides a schedule of new works, rehabilitation and replacement works, together with estimated annual expenditure on each, over the next five or more years. This can be expressed as a schedule of projected annual expenditure offset by possible income from asset disposal, supported by documentation of the reasons for the decisions and evaluations and evaluation of alternatives and options.	0
Review of AMS	Review of the Asset Management System assists to ensure the effective development and operation of Asset Management Plans. Determine when the plan was last updated and reviewed.	0

Executive summary (cont)

For the Asset Management Audit, the Licensee was assessed for compliance with the licence requirements using the following scale:

Effectiveness	Rating	Description
Continuously Improving	5	Continuously improving organisational capability and process effectiveness
Quantitatively Controlled	4	Measurable performance goals established and monitored
Well Defined	3	Standard processes documented, performed and coordinated
Planned and Tracked	2	Performance is planned, supervised, verified and tracked
Performed Informally	1	Base Practices are performed
Not Performed	0	Not performed (indicate if not applicable)

Timeliness of completion of Asset Management System Recommendations

This report includes recommendations relating to the Asset Management System with completion dates of December 2009. Harvey Water has had dialogue with the Economic Regulation Authority which was concerned about timeliness of the completion. Harvey Water has commented that it has only one Asset Management staff member who is capable of updating the AMS. Harvey Water has a 17 km pipe project which will be constructed over the summer months of 2008/9. The project limits the time that can be devoted to the AMS tasks as the Asset Management staff member will be responsible for the piping project. Taking into account such circumstances Harvey Water has allowed a longer period (December 2009) in order to ensure that the task is complete properly.

Post-Audit Implementation Plan

Operational Audit Recommendations

Clause Number	Report Reference (pg.)	Recommendation	Action	Action Owner	Anticipated Completion Date
C12(i)	28	Ensure that the notifications are sent to each customers advising them of the opening and closing of the irrigation seasons.	<ul style="list-style-type: none"> Send notices to customers advising them of the opening and closing of irrigation seasons. 	Water Services Coordinator & Administration Manager	May 2008
C12(k)	29	It is recommended that a more formalised process be developed by where a register is kept of all the emergency and planned shutdowns that have occurred. The register should contain information such as the type of shutdown, time, place, who reported it, what customers were affected (area), who notified the affected customers and the time taken to resolve the problem and resume normal services	<ul style="list-style-type: none"> Develop a register and record all the emergency and planned shutdown events that occur through out the year. 	Operations Manager & Administration Manager	June 2008

Post-Audit Implementation Plan (cont)

Item No.	Report Reference (pg.)	Recommendation	Action	Action Owner	Anticipated Completion Date
C14(a)	30	Ensure that future Schedule Three submissions to the ERA are completed and submitted in a timely manner.	<ul style="list-style-type: none"> Develop a reminder system to ensure that future submission is done on time 	Administration Manager	July 2008
C19(a)	35	<p>Ensure that the Customer Complaints Register is maintained up to date at all times.</p> <p>Ensure that the 2006/07 Customer Complaint Summary is prepared and submitted to the Board for review outlining the number of complaints, the number resolved within 21 day timeframe and the method of resolution.</p> <p>Ensure that future Annual Customer Complaint Summary is prepared in a timely manner and submitted to the Board for review.</p>	<ul style="list-style-type: none"> Ensure that all complaints are logged into the complaints register Prepare and submit the 2006.07 Customer Complaints Summary to the Board Develop a reminder system to ensure that future Annual Customer Complaint Summaries are prepared and submitted to the Board on time 	<p>Administration Manager & Customer Services Officer</p> <p>General Manager & Administration Manager</p> <p>Administration Manager</p>	<p>July 2008</p> <p>May 2008</p> <p>July 2008</p>

Post-Audit Implementation Plan (cont)

Item No.	Report Reference (pg.)	Recommendation	Action	Action Owner	Anticipated Completion Date
C19(b)(iii)	36	Management ensure that the Customer Complaint Handling Process is reviewed for currency and appropriateness.	<ul style="list-style-type: none"> • Review the documented Customer Complaint Handling Process • Develop a reminder system to ensure that the Customer Complaint Handling Process is reviewed for currency and appropriateness on regular basis 	Administration Manager & Customer Services Officer Administration Manager & Customer Services Officer	July 2008 July 2008

Post-Audit Implementation Plan (cont)

Item No.	Report Reference (pg.)	Recommendation	Action	Action Owner	Anticipated Completion Date
C19(d)	37	Ensure that customers are advised of their right to refer their complaints to the Office of Water Policy if they are not happy with the resolution process or outcome.	<ul style="list-style-type: none"> Update all future dispute resolution correspondence letters addressed to customers to include a notification to customers of their right to refer their complaints to the Office of Water Policy if they are not happy with the resolution process or the outcome 	Administration Manager & Customer Services Officer	July 2008

Post-Audit Implementation Plan (cont)

Item No.	Report Reference (pg.)	Recommendation	Action	Action Owner	Anticipated Completion Date
C6(a)(i)	21	Ensure that the Asset Management Plan is reviewed for appropriateness and the necessary updates are made	<ul style="list-style-type: none"> Review the current Asset Management Plan for currency and appropriateness 	Operations Manager / Board	July 2009
		Ensure that the Asset Management Section of the Procedural Manual is reviewed for appropriateness and the necessary updates are made	<ul style="list-style-type: none"> Review the Asset Management Section of the Procedural Manual for currency and appropriateness 	Operations Manager	July 2009
			<ul style="list-style-type: none"> Develop a reminder system to ensure that the Asset Management Plan and the Asset Management Section of the Procedural Manual is reviewed for currency and appropriateness on regular basis 	Operations Manager	July 2009
C6(b)	22	Ensure that the Asset Register is updated to accurately reflect the assets held by Harvey Water.	<ul style="list-style-type: none"> Review and update the Asset Register to ensure currency and accuracy 	Operations Manager & Finance Officer	July 2009
		Ensure that the Risk Register noted in the Asset Management Plan is updated to accurately capture the risks facing Harvey Water at present taking into account its new asset structure, processes, systems and operating environment.	<ul style="list-style-type: none"> Update the Risk Register noted in the Asset Management Plan 	Board & Senior staff	July 2009

Post-Audit Implementation Plan (cont)

Item No.	Report Reference (pg.)	Recommendation	Action	Action Owner	Anticipated Completion Date	
C6(c)	22	Ensure that a structured and planned approach is taken with respect to asset maintenance via the use of an asset maintenance plan that is captured within the organisational budget.	<ul style="list-style-type: none"> Develop an asset maintenance plan Incorporate the costs associated with the maintenance of assets into the organisational budget 	Operations Manager	July 2009	
		Ensure that performance is monitored and reported against the Key Performance Indicators established in the Asset Management Plan. It may also be necessary to review the defined KPIs as some are no longer relevant due to the changes in the business asset structure and activities.	<ul style="list-style-type: none"> Review the KPIs noted in the Asset Management Plan Regularly report on the KPIs noted in the Asset Management Plan 	Operations Manager & Board	July 2009	
		Ensure that the Asset Management System is updated to capture the effectiveness of the asset maintenance/repair works performed	<ul style="list-style-type: none"> Capture the data relating to asset maintenance/repair works in the Asset Management System 	Operations Manager	July 2009	
		Ensure that a current Bridge and Culvert inspection Program is developed.	<ul style="list-style-type: none"> Develop a current Bridge and Culvert inspection program 	Operations Manager	July 2009	
		Ensure that quarterly asset management meetings are held as prescribed in the Asset Division Procedural Manual. The meeting should be minuted for record purposes.	<ul style="list-style-type: none"> Hold monthly asset management meetings 	Operations Manager	July 2009	

Post-Audit Implementation Plan (cont)

Item No.	Report Reference (pg.)	Recommendation	Action	Action Owner	Anticipated Completion Date
C6(c)	22	<p>Ensure that monthly Board reports regarding the developments to Asset Management and Maintenance is provided to the Board. This report should include other asset developments and should be in addition to the 'Piping Project' report.</p> <p>Ensure that the Outstanding Maintenance Report is reviewed on regular basis and that outstanding items are actioned.</p>	<ul style="list-style-type: none"> • Prepare monthly Board reports highlighting any developments with respect to Asset Management and Maintenance • Review and action the Outstanding maintenance report 	<p>Operations Manager</p> <p>Operations Manager</p>	<p>July 2009</p> <p>July 2009</p>

Post-Audit Implementation Plan (cont)

Asset Management Audit Recommendations

Item No.	Report Reference (pg.)	Recommendation	Action	Action Owner	Anticipated Completion Date
Asset Planning	38	<p>Management ensure that the asset plans and strategies relating to the Open Channel Assets are reviewed for appropriateness and updated accordingly.</p> <p>Management ensure that the operations and maintenance manuals relating to Open Channel Assets are reviewed for appropriateness and updated accordingly.</p>	<ul style="list-style-type: none"> The asset management plan for the next 5 years will form part of the 2008/09 budget and forward estimates. 	Operations Manager	December 2009
			<ul style="list-style-type: none"> Harvey Water has received federal funding to plan for the future of the Collie River Irrigation District (CRID). This project will take place over the next 12 months and will set the strategy for the open channel assets in the CRID. 	Operations Manager	December 2009
			<ul style="list-style-type: none"> The manuals will be reviewed as part of the overall review of the Asset Management process due to be commenced when the Harvey Pipe Project is completed (2008) 	Operations Manager	December 2009
Asset Creation and Acquisition	39	<p>Management ensure that the formal asset acquisition processes outlined in the Asset Management Manual are adhered to and documented.</p> <p>Management ensure that all asset acquisitions and creations are reflected in the Asset Register</p>	<ul style="list-style-type: none"> The completion of the high intensity Harvey Pipe Project will provide the opportunity to review the Asset Management processes. 	Operations Manager	December 2009
			<ul style="list-style-type: none"> This standard process will be reviewed and adhered to in future. 	Operations Manager	December 2009

Post-Audit Implementation Plan (cont)

Item No.	Report Reference (pg.)	Recommendation	Action	Action Owner	Anticipated Completion Date
Asset Disposal	39	<p>Management ensure that asset disposal processes are adhered to and documented.</p> <p>Management ensure that evaluation of alternative assets is documented.</p> <p>Management ensure that all asset disposal are reflected in the Asset Register</p>	<ul style="list-style-type: none"> These standard processes will be reviewed and adhered to in future. 	Operations Manager	December 2009
Environmental Analysis	40	<p>Management ensure that the Asset Management Plan is reviewed for appropriateness and updated accordingly.</p>	<ul style="list-style-type: none"> The completion of the HPP will provide the necessity to review the Asset Management Plan and update accordingly. 	Operations Manager	December 2009
Asset Operations	40	<p>Management ensure that the Operational Plans, Polices and Procedures are reviewed and updated for appropriateness.</p> <p>Management ensure that a schedule maintenance plan is developed and implemented.</p> <p>Management ensure that a current risk register is developed and subsequently reviewed on regular basis.</p>	<ul style="list-style-type: none"> The completion of the HPP will provide the necessity to review the Operational Plans, Policies and Procedures and update accordingly. A schedule maintenance plan, largely for CRID, will be developed for the 2008/9 budget and forward works program. The current risk register will be developed and reviewed as part of the overall review of the Asset Management Plan. 	<p>Operations Manager</p> <p>Operations Manager</p> <p>Operations Manager</p>	<p>December 2009</p> <p>December 2009</p> <p>December 2009</p>

Post-Audit Implementation Plan (cont)

Item No.	Report Reference (pg.)	Recommendation	Action	Action Owner	Anticipated Completion Date
Asset Maintenance	41	<p>Management ensure that formalised maintenance plans are developed that cover both preventative and corrective maintenance.</p> <p>Management ensure that assessment and comparison of maintenance and replacement costs in conducted and documented.</p> <p>Management ensure that regular asset inspections are conducted and amendments are made to the asset register where applicable.</p>	<ul style="list-style-type: none"> Formalised preventative and corrective maintenance plans, largely for CRID, will be developed for the 2008/9 budget and forward works program. Comparison of these costs, largely for CRID, will be conducted and implemented as part of the budgeted and forward works programs. Asset inspections will continue and amendments made to the asset register where applicable as part of the overall review of the Asset Management Plan. 	<p>Operations Manager</p> <p>Operations Manager</p> <p>Operations Manager</p>	<p>December 2009</p> <p>December 2009</p> <p>December 2009</p>

Post-Audit Implementation Plan (cont)

Item No.	Report Reference (pg.)	Recommendation	Action	Action Owner	Anticipated Completion Date
Asset Management Information System (MIS)	41	Management ensure that the asset management information system is updated to accurately reflect the status and types of assets held by the organisation.	<ul style="list-style-type: none"> There have been significant changes in the types and status of assets and this is the driving force for the revamp of the Asset Management Plan. 	Operations Manager	December 2009
		Management ensure that the key data in the system is validated / verified for accuracy to enable accurate asset management reports.	<ul style="list-style-type: none"> Harvey Water uses a GIS system to support the Asset Management Plan and the full benefits of this in validating and verifying the key data will come through in the revamped Asset Management Plan. 	Operations Manager	December 2009
Risk Management	42	Management ensure that that the risk management framework outlined in the Asset Management Plan is review for appropriateness and updated accordingly.	<ul style="list-style-type: none"> The completion of HPP will provide the stimulus to revise the risk management program. 	Operations Manager	December 2009
Contingency Planning	42	Management develop current contingency plans and ensure that testing is carried out to determine the operability and effectiveness of assets.	<ul style="list-style-type: none"> Assets are assessed for operability and effectiveness on a daily basis in delivering services and this will continue. 	Operations Manager	December 2009
Financial Planning	43	Management ensure that detailed financial plans and capital expenditure plans are documented for the Open Channel Assets.	<ul style="list-style-type: none"> Financial plans and Capex will form part of the 2008/9 budget and forward works plans 	Operations Manager	December 2009
		Management ensure that detailed financial plans are developed In relation to the care and maintenance of assets.	<ul style="list-style-type: none"> Financial plans will form part of the 2008/9 budget and forward works plans 	Operations Manager	December 2009

Post-Audit Implementation Plan (cont)

Item No.	Report Reference (pg.)	Recommendation	Action	Action Owner	Anticipated Completion Date
Capital Expenditure Planning	44	Management ensure that a capital expenditure plan is updated to reflect all capital expenditure relating to open channel assets.	<ul style="list-style-type: none"> The completion of the HPP provides the stimulus to revamp the Asset Management Plan which necessarily includes the changed asset structure. 	Operations Manager	December 2009
Review if Asset Management System (AMS)	44	Management ensure that the asset management system is updated to reflect the changes in the asset structure.	<ul style="list-style-type: none"> The completion of the HPP provides the stimulus to revamp the Asset Management Plan which necessarily includes the changed asset structure. 	Operations Manager	December 2009

Follow up of Previous Audit Recommendations

The 2004 Operational Audit and Asset Management Review conducted by STAMFORDS made two recommendations in the report. Harvey Water has completed both of the recommendations to a standard considered to be satisfactory to resolve the issues raised.

Item No.	Recommendation	Action Taken
1	Continue negotiations with the Minister regarding the funding for the Salinity Program.	<p>The Salinity Program has been rolled out as part of a \$30 million National Water Initiative. Harvey Water has contributed \$500,000 to date and as a result a pipeline was built to divert Collie River water which provides 10% of the Dam water supply and is responsible for 40% of the salinity in the Harvey Dam.</p> <p>Assessment: Recommendation implemented.</p>
2	Receipt of water up to 2 days before and 3 days after date requested. Monitoring of KPI and reporting non-compliance to the Harvey Board.	<p>The KPI is monitored and reported to the Board on Annual Basis.</p> <p>Assessment: Recommendation implemented.</p>

Operational Audit -Observations, Findings and Recommendations

Clause 2 / Licence

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Compliance Scale
Cl.2(b)/S1	Determine whether the Harvey Water provides water services only to that area designated by reference to Plan Number OWR-OA-178/3 (C) (which refers to the plan of the operating area).	<p>The Board utilises the Plan Number OWR-OA-178/3 (C) as the primary reference to the Operating Area in which it provides water services.</p> <p>Further the General Manager advised us that the irrigation lines not close to the boundary lines further reducing the likelihood that services would be offered beyond the defined boundaries.</p>	5

Operational Audit -Observations, Findings and Recommendations (cont)

Clause 6 / Asset Management System

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Effectiveness Rating
C6 (a) (i)	The Licensee is to provide for an Asset Management System in respect of the Licensee's Water Services Assets.	<p>Harvey Water has a detailed asset management system as outlined in the Asset Management Plan. It was noted that the Asset Management Plan was last updated in March 2004.</p> <p>Further it was noted that the Asset Management Section Procedural Manual was last updated in March 1998.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Ensure that the Asset Management Plan is reviewed for appropriateness and the necessary updates are made. • Ensure that the Asset Management Section Procedural Manual is reviewed for appropriateness and the necessary updates are made. 	1
C6 (a) (ii)	The Licensee is to notify details of the system and any changes to it to the Authority.	There have been no written changes to the Asset Management Systems described in the Asset Management Plan developed in March 2004.	N/A
C6 (a) (iii)	The Licensee is to not less than once in every 36 months, provide the Authority with a report by an independent auditor acceptable to the Authority as to the effectiveness of the system. The first report shall be provided by 9 October 1997.	It was noted that Independent Audit reports have been provided to the Authority (ERA) in 2001 as well as 2004. There appear to be no issues noted with respect to reporting to the Authority (ERA).	5

Operational Audit -Observations, Findings and Recommendations (cont)

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Effectiveness Rating
C6 (b)	<p>The Asset Management System is to set out the measures to be taken by the Licensee for the proper maintenance of Assets used in the provision of Water Services and for the undertaking, maintenance and operation of Water Services Works.</p>	<p>We were advised by the Project Manager that the existing Harvey Water Asset Register was last updated in 2004. In addition we were advised that it requires substantial update as half of the assets on the asset register are no longer considered core to the business due to the underground piping capital works program rolled out since 2005. In addition the assets that have been created as a result of the capital works program are not listed on the asset register.</p> <p>The risk register within the Asset Management Plan also requires review and updating as it was last updated when it was compiled in March 2004. It is likely that the Risk Register would have significantly changed as a result of the piping capital works program.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Ensure that the Asset Register is updated to accurately reflect the assets held by Harvey Water. • Ensure that the Risk Register noted in the Asset Management Plan is updated to accurately capture the risks facing Harvey Water at present taking into account its new asset structure, processes, systems and operating environment. 	1
C6 (c)	<p>The Licensee is to undertake, maintain and operate its Water Services Works in accordance with the processes set out in the Asset Management System.</p>	<p>At present Harvey Water maintains its assets on 'care and maintenance basis', meaning that lack of forward planning is evident. A reactive rather than a proactive approach is evident.</p> <p>There is no formal monitoring of actual performance against Performance Indicators established in the Asset Management Plan.</p> <p>The current Asset Management System does not keep record of the effectiveness of the asset maintenance/repair works performed.</p> <p>At present there is no current Bridge and Culvert inspection program in place as described in the Asset Management Plan.</p> <p>Then monthly Asset Management meetings are not held as prescribed in the Asset Division Procedural Manual.</p>	1

Operational Audit -Observations, Findings and Recommendations (cont)

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Effectiveness Rating
		<p>Monthly Board Reports regarding the developments relating to Asset Management are not prepared and submitted as outlined in the Asset Division Procedural Manual. At present only a 'Piping Project' specific report is provided to the Board.</p> <p>Further it was noted that the 'Outstanding Maintenance Report' has items that have been outstanding since July 2006.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Ensure that a structured and planned approach is taken with respect to asset maintenance via the use of a asset maintenance plan that is captured within the organisational budget. • Ensure that performance is monitored and reported against the Key Performance Indicators established in the Asset Management Plan. It may also be necessary to review the defined KPIs as some are no longer relevant due to the changes in the business asset structure and activities. • Ensure that the Asset Management System is updated to capture the effectiveness of the asset maintenance/repair works performed. • Ensure that a current Bridge and Culvert inspection Program is developed. • Ensure that monthly asset management meetings are held as prescribed in the Asset Division Procedural Manual. The meeting should be minuted for record purposes. • Ensure that monthly Board reports regarding the developments to Asset Management and Maintenance is provided to the Board. This report should include other asset developments and should be in addition to the 'Piping Project' report. • Ensure that the Outstanding Maintenance Report is reviewed on regular basis and that outstanding items are actioned. 	1

Operational Audit -Observations, Findings and Recommendations (cont)

Clause 7 / Operational Audit

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Compliance Scale
C7 (a)	The Licensee is to, not less than once in every period of 36 months (or such longer period as the Authority allows), provide the Authority with an Operational Audit conducted by an independent auditor acceptable to the Authority. The first report shall be provided by 9 October 1997.	It was noted that Independent auditor reports have been provided to the Authority (ERA) in 2001 as well as December 2004. There appears to be no issues noted with respect to submitting reports to the Authority (ERA).	5
C7 (c)	The scope of the Operational Audit will be set by the Authority.	It was noted that Independent auditor reports have been provided to the Authority (ERA) in 2001 as well as December 2004. The reports followed the ERA Audit Guidelines for Small Organisations.	5
C7 (d)	In providing an Operational Audit the licensee shall provide the Authority and independent auditor with data, information on customer complaints, performance reports and other information to assist in the conduct and accuracy of the Operational Audit.	All necessary data, annual performance reports and information necessary was provided to auditors during the time of fieldwork. Further the Annual performance reports were submitted to the Authority (ERA) for both 2004/05 and 2005/06 years.	5

Operational Audit -Observations, Findings and Recommendations (cont)

Clause 8 / Technical Standards

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Compliance Scale
C8	The Licensee is to comply with the technical standards for the provision of Water Services; and the undertaking, maintenance and operation of Water Services works; published by the Authority in the Government Gazette	Any updates to Australian Standards is received via CCI (Chamber Commerce and Industry) notifications. It was noted that an audit of the Harvey Pipe Project Stage 3 was conducted by Evans & Peck and results published in December 2007. The audit was carried out to determine the status of compliance with GHD Technical Specification, related ISO AS/NZS Standards, the Harvey Pipe Project Execution Plan and related Quality, Risk and Safety management plans. The audit results were very positive with only minor observations made.	5

Operational Audit -Observations, Findings and Recommendations (cont)

Clause 10 / Accounting Records

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Compliance Scale
C10 (a)	<p>The Licensee shall keep such accounting records as to correctly record and explain its transactions and financial position and so keep its accounting records to ensure that:</p> <p>i) true and fair accounts of the Licensee can be prepared from time to time; and</p> <p>ii) its accounts can be conveniently and properly audited or reviewed.</p>	Harvey Water has their accounts audited on annual basis by AMD Chartered Accountants who are an independent Auditor.	5
C10 (b)	<p>The Directors shall, within four months of the end of the financial year:</p> <p>i) cause to be produced a profit and loss account that gives a true and fair view of the Licensee's profit or loss for that financial year: and</p> <p>ii) cause to be produced a balance sheet that gives a true and fair view of the Licensee's state of affairs as at the end of the financial year.</p>	Harvey Water produces an annual report that meets the licensing requirements on annual basis. AMD Chartered Accountants who are an independent Auditor audit the accounts on annual basis.	5
C10 (c)	The Licensee's financial statements are to be in the form of a general purpose financial report as defined in Statement of Accounting Concept 1.	Harvey Water financial statements are in the form of general purpose financial reports and are audited on annual basis by AMD Chartered Accountants who are independent Auditor.	5
C10 (d)	The Directors shall take reasonable steps to ensure that the Licensee's financial statements are audited by a Registered Cooperative Auditor and submitted to the Authority within four months of the end of the financial year.	<p>Harvey Water has their accounts audited on annual basis by AMD Chartered Accountants who are independent Auditor and they have been submitted to the Authority (ERA).</p> <p>ERA is on the distribution list for the Annual Report.</p>	5

Operational Audit -Observations, Findings and Recommendations (cont)

Clause 12 / Water Services Provisions

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Compliance Scale
C12 (c)	The licensee shall ensure that its Water Services are available for Connection on request to any land situated in the Operating Area, subject to the applicant meeting any reasonable conditions set by the licensee may determine to ensure safe, reliable and financially viable supply of services to land in the operating area in accordance with the Licence and any relevant legislation. Satisfactory compliance with the conditions of Connection are an essential requirement of gaining approval to connect to the Licensee's schemes.	We were advised that there have been no noted problems in the past. Service requests are able to be catered for as long as the customer is prepared to pay the cost associated with piping or there are no obvious associated obstacles.	5
C12 (d)	This Licence shall ensure that its services are available between the specified hours to any customer meeting any conditions the Licensee may determine to ensure safe, reliable and financially viable supply of services.	The official water supply season spans from October to April each year. Harvey Water has been able to deliver water services beyond these periods in circumstances where there is insufficient rainfall. With the implementation of the piping system water is able to be delivered with increased flexibility.	5
C12 (e)	The Licensee shall make water available to customers at any time for non-potable purposes (subject to the terms of this Licence) on terms and conditions agreed between those customers and the Licensee, subject to the availability of supply.	The Customer Services Charter requires that 3 days notice is given prior to needing the water. In addition the services are required to be delivered within 3 days of the request. Harvey Water has not had any issues with delivering within these specified timeframes especially with the increased rollout of the piping system.	5
C12 (f)	The Licensee shall set out in writing its "conditions for connection" and make that information available to all applicants for connection and to people enquiring about connection.	The terms and conditions of connection are incorporated into the SWIMCO and SWAIC contracts.	5

Operational Audit -Observations, Findings and Recommendations (cont)

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Compliance Scale
C12 (g)	The Licensee shall ensure that unallocated water is made available to Land within its operating area under conditions and charges determined by the Licensee and approved by the Authority subject to the applicant complying with those conditions and charges. These conditions may include cessation of the service to a customer subject to terms and conditions governing non-payment of accounts.	<p>Unallocated water is made available to all customers under the agreement. Supply of services is subject to payment of the appropriate service fees and charges as outlined in the Annual Price and Charges statement.</p> <p>Failure to pay for the services can result in cessation of future water services. Customers are notified a number of times both verbally and by mail prior to the last reminder notice being sent out .</p>	5
C12 (h)	The Licensee may, with the written agreement of the property owner, discontinue a service to a property where the servicing of the property is not commercially viable.	The General Manager advised us that no such circumstances have occurred during the audit period.	N/A
C12 (i)	The Licensee shall give all customers within the Operating Area at least five days notice of the opening of each irrigation season. The decision on openings and closures shall be made by the Licensee, based on demand for water being at a level for efficient operation of the system and the availability of water for distribution.	<p>The General Manager advised us that the opening and closing of each irrigation season is advertised via local newspapers and radio advertisements. In addition upon customer requests Harvey Water has in past provided services outside the normal irrigation season in circumstances where there has been a lack of rainfall.</p> <p>As a result of the piping project increasing number of customers are supplied water via underground pipes. This in turn negates the need to have a formal opening and closing of the water season as customer requests are able to be processed throughout the year.</p>	5
C12 (j)	The Licensee shall provide all affected customers at least 14 days written notice of planned disruptions to supply, outlining the reason for disruption and the expected duration.	Usually scheduled maintenance is done throughout the winter period (non irrigation period) and notifications are sent out to any customers if they are affected.	5

Operational Audit -Observations, Findings and Recommendations (cont)

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Compliance Scale
C12 (k)	<p>In the event of an emergency shutdown of supply, the Licensee shall contact affected customers within 6 hours of the shutdown and advise them of the reason for the shutdown and its expected duration and report on compliance with this requirement in accordance with schedule 3.</p>	<p>In the event of an emergency shutdown the Customer Services Officer or the Water Coordinator takes action by notifying each customer via phone of the event.</p> <p>In circumstances where it is a planned/scheduled shutdown written notice is give to customers 14 days prior to the event. The Water Coordinator keeps record of the number of shutdowns that have occurred in his Daily Planner and subsequently reports on them in the Monthly Occupational Safety and Health Report.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> It is recommended that a more formalised process be developed by where a register is kept of all the emergency and planned shutdowns that have occurred. The register should contain information such as the type of shutdown, time, place, who reported it, what customers were affected (area), who notified the affected customers and the time taken to resolve the problem and resume normal services. 	2

Operational Audit -Observations, Findings and Recommendations (cont)

Clause 14 / Information Provided to the Authority

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Compliance Scale
C14 (a)	The Licensee shall report the information set out in Schedule 3. The reports are due within 30 days of the end of each financial year.	Harvey Water has reported on Schedule Three to the ERA for the year ending 2004/05 and 2005/06. We were also advised that the 2006/07 Schedule Three report was received by the ERA in August 2007.	5
C14 (b)	Incident reports – Licensee shall inform the Authority of the occurrence of the major incidents having a significant impact on the delivery of water services within 5 days. A major incident is any unplanned event which results in an interruption to services longer than 24 hours. The Authority may require a detailed report on these events to be provided within 14 days of the event.	The General Manager advised us that no such circumstances have occurred during the audit period.	N/A

Operational Audit -Observations, Findings and Recommendations (cont)

Clause 15 / Performance of functions by the Licensee

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Compliance Scale
C15 (b)	The Licensee shall provide annual notification to all Customers provided with Non-Potable Water that the water supplied is not suitable for drinking.	<p>The annual Statement sent to customers contains a message that advises customers that the water supplied is for irrigation purposes only and not for drinking.</p> <p>The contract clearly outlines that the water being supplied is not for drinking purposes. Further the General Manager advised us that stickers are also placed on each water supply point which states this fact.</p>	5
C15 (c)	The Licensee shall implement an emergency telephone system so a Customer can report an emergency and receive advice within two hours of the action to be taken by the Licensee. An emergency is an event which causes, or threatens to cause, harm to people, the environment or property.	<p>The current Customer Services Charter clearly outlines Emergency Contact Numbers (on page 5) for both during (and after) normal working hours.</p> <p>A register of all reports is kept that records key information such as type of emergency, who reported it, location and response / action taken and the response times.</p>	5

Operational Audit -Observations, Findings and Recommendations (cont)

Clause 17 / Consumer Consultation

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Compliance Scale
17 (b)	<p>On an annual basis (prior to the start of each irrigation season) and prior to making major changes to the operation of the Irrigation scheme the Licensee will hold a public meeting to obtain Customer views o the performance and operation of the scheme. The agenda for the annual meeting will include but not be limited to:</p> <ul style="list-style-type: none"> (i) season opening and closing conditions. (ii) Tariffs; and (iii) Scheme operation 	<p>Harvey Water holds an Annual General Meeting (AGM) with the Agenda and Minutes both obtained. Standing Agenda items include pricing, season opening and closing and scheme operation.</p> <p>In addition to the AGM each year we were advised by the General Manager that Harvey Water conducts customer consultation via following processes:</p> <ul style="list-style-type: none"> • Annual Irrigators Meeting & Workshop – usually June/July each year at a local school. • Adhoc meetings for various districts • Newspaper Publications – a column in the local paper called “Did you know” that runs approximately 6 times per year • Harvey Water Newsletter – “FURPHY” is circulated approximately 6 times per year • Harvey Water Information Bulletins – as required. 	5
C17 (c)	<p>The Authority shall be consulted with respect to the type and extent of customer consultation to be adopted by the Licensee.</p>	<p>There appears to be extensive customer consultation with no stated objections received from the ERA.</p>	5
C17 (d)	<p>In addition, the Licensee may, or at the request of the Authority, shall, establish other forums for consultation, to enable community involvement in issues relevant to the exercise if the Licensee’s obligations under this Licence.</p>	<p>There appears to be extensive customer consultation through various forums as noted in C17(b)</p>	5

Operational Audit -Observations, Findings and Recommendations (cont)

Clause 18 / Customer Service Charter

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Compliance Scale
C18 (a)	The Licensee must set out in writing the principals, terms and conditions upon which it intends to provide the Water Services to its Customers (' the Customer Service Charter').	A 2006 -2008 Customer Services Charter has been developed and is made available to all customers upon signing up.	5
C18 (c)	The Customer Service Charter: (i) should be drafted in "plain English" (ii) should address all of the service issues that are reasonably likely to be of concern to its customers.	The Customer Services Charter is written in plain English and appears to sufficiently addresses issues that are likely to be of concerns to its Customers.	5
C18 (d)	Different parts of the Customer Service Charter may be expresses to apply to different classes of Customers.	Harvey Water provides contact details for both normal business customers as well as Harvey Central Pipe Scheme queries.	5
C18 (e)	The Licensee shall review the Customer Service Charter not less than once every 36 months.	The current Customer Services Charter was last reviewed in November 2006 and is current until November 2008. The previous Customer Service Charter was written in August 2004 and was valid until November 2006. The Customer Service Charters are reviewed every two years.	5
C18 (f)	Any proposed amendment to the Customer Service Charter or replacement thereof must also be forwarded to the Authority for approval prior to implementation.	The 2006/08 Customer Services Charter was approved by the ERA on the 22 November 2006.	5

Operational Audit -Observations, Findings and Recommendations (cont)

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Compliance Scale
C18 (g)	<p>The Licensee must make the Customer Service Charter available to its customers in the following ways:</p> <ul style="list-style-type: none"> (i) by the prominently displaying it in those parts of the Licensee's offices to which Customers regularly have access; (ii) by providing a copy, upon request, and at no charge, to a customer; and (iii) by advising Customers of the availability of the Customer Service Charter on an annual basis. 	<p>Copies are displayed at the Harvey Water office and are provided to customers on annual basis along with the price and rates changes.</p>	5
C18 (h)	<p>It is a condition of the Licence that the Licensee provides services in a way that is materially consistent with its Customer Services Charter.</p>	<p>From the work performed and the results obtained nothing was found to indicate that this condition is not complied with.</p>	5

Operational Audit -Observations, Findings and Recommendations (cont)

Clause 19 / Dispute Resolution

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Compliance Scale
C19 (a)	The Licensee shall establish a system for recording, managing and resolving Complaints by Customers within 21 days regarding a provided or requested service.	<p>A Customer Complaints Register has been developed that records all customer complaints. Customers are required to complete a customer complaint form where complaints are made. Annual complaints summaries are prepared. All customer complaints are filed into customer files for record keeping purposes.</p> <p>It was noted that a 2006/07 Complaints Summary has not yet been prepared.</p> <p>It was noted in the Complaints Register that there were three instances where the complaints were resolved outside the prescribed 21 days timeframe. Further, one complaint was made in September 2007 and has not been updated as resolved on the Customer Complaints Register. We were advised by the General Manager that the matter has been resolved and that the register will be updated.</p> <p>It was also noted that during the audit period there was one complaint which has been taken to the disputed panel and is yet to be heard.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Ensure that the customer Complaints Register is maintained up to date at all times. • Ensure that the 2006/07 Customer Complaint Summary is prepared and submitted to the Board for review outlining the number of complaints, the number resolved within 21 day timeframe and the method of resolution. • Ensure that future Annual Customer Complaint Summary is prepared in a timely manner and submitted to the Board for review. 	2

Operational Audit -Observations, Findings and Recommendations (cont)

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Compliance Scale
C19 (b)(i)	To ensure the effectiveness of such a process the licensee shall, as a minimum: Establish a system for providing each aggrieved customer with a unique identifying complaint number;	Each Customer is provided with a unique complaint number as noted on the Customer Complaints Register.	5
C19 (b)(ii)	Provide an appropriate number of designated officers who are trained to deal with customer complaints and who are authorised to, or have ready access to officers who are authorised to make the necessary decisions to settle complaints or disputes, including where applicable, approving the payment of monetary compensation;	The complaints are taken very seriously and are addressed by the General Manager and Project Manager who are authorised to make decisions and settle complaints. In some instances the complaints were addressed by the Harvey Board prior to a response being issued to the customer.	5
C19 (b)(iii)	Establish a complaint resolution protocol which is designed to resolve the customer complaints or disputes within 21 days of being notified of its existence;	The customer services procedural manual clearly outlines in section 10 the procedure for handling customer complaints. It appears that the process is being followed by Harvey Water staff. It was noted that the Customer Complaint Handling Process was developed in May 2005 and is due for review. Recommendation: <ul style="list-style-type: none"> Management ensure that the Customer Complaint Handling Process is reviewed for currency and appropriateness. 	3
C19 (b)(iv)	Provide a system for accurately monitoring and recording the number, nature and outcome of complaints in order to fulfil the requirements to provide information set out in this Licence.	Such information is sufficiently captured in the Customer Complaints Register.	5
C19 (c)	Where a dispute arises between a Customer and this Licensee regarding a provided or requested Water Service, the customer may refer the dispute to the Office of Water Policy.	In the circumstances where the complaint is serious it is presented to the Harvey Board for consideration prior to a written feedback being give to the customer. In circumstances where the complaint is very serious in nature and can not be resolved through the primary protocols a dispute panel is put together to assess and mediate the dispute. We were advised that only two such instances have occurred since Harvey Water operations started over ten years ago.	5

Operational Audit -Observations, Findings and Recommendations (cont)

Item No.	Licence Obligation	System Established by Harvey Water to Comply with Licence Obligations	Compliance Scale
C19 (d)	Where a dispute has not been resolved within 21 days the Licensee shall inform the Customer of the option of referring their Complaint to the Office of Water Policy.	<p>The Customer Complaint Handling Process clearly outlines that if the customer is not satisfied with the Harvey Water's resolution, the customer is advised of their right to lodge a formal complaint with the Office of Water Policy.</p> <p>Upon speaking to the GM we were advised that such notifications to customers are not being made and will be incorporated into any future correspondences between Harvey Water and the customer making the complaint.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Ensure that customers are advised of their right to refer their complaints to the Office of Water Policy if they are not happy with the resolution process or outcome. 	1
C19 (e)(i)	The Office of Water Policy may: (i) mediate the dispute; or	We were advised by General Manager that no such instances have occurred in the audit period.	N/A
C19 (e)(ii)	The Office of Water Policy may: (ii) direct the Licensee and Customer to binding arbitration, using an arbitration process set down by the Office of Water Policy.	We were advised by General Manager that no such instances have occurred in the audit period.	N/A
C19 (e)	During the process of investigation and conciliation, the Licensee shall make every endeavour to promptly cooperate with the Office of Water Policy's (or his representative's) requests, which shall include the expeditious release of any information or documents requested by the Authority and the availability of the relevant staff of the Licensee.	We were advised by General Manager that no such instances have occurred in the audit period.	N/A
C19 (f)	The Licensee shall, on request, provide the Office of Water Policy with details of Complaints made, names and addresses of Customers who have made Complaints, and the manner in which the Complaint was managed and resolved.	We were advised by General Manager that no such instances have occurred in the audit period.	N/A

Asset Management System –Key processes and effectiveness rating

The table below summarises the effectiveness ratings of key asset management processes as outlined in table 12 of the ERA Audit Guides.

It is important to note that Harvey Water asset structure has recently changed as a result of the underground piping project and in turn can be segregated into two key categories:

- Open Channel Assets (existing)
- Underground Piping (new)

The effectiveness ratings provided below are relating to existing Open Channel Assets.

Key processes	Comments	Effectiveness Rating
<p>1. Asset Planning</p> <p>Asset Planning Strategies are focused on meeting customer needs in the most effective and efficient manner (delivering the right service at the right price).</p> <p>Integration of asset strategies into operational business plans will establish a framework for existing and new assets to be effectively utilised and their service potential optimised.</p>	<p>There is a lack of current asset plans and strategies relating to the Open Channel Assets. In addition the operations and maintenance manuals relating to those assets are outdated.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Management ensure that the asset plans and strategies relating to the Open Channel Assets are reviewed for appropriateness and updated accordingly. • Management ensure that the operations and maintenance manuals relating to Open Channel Assets are reviewed for appropriateness and updated accordingly. . 	<p>0</p>

Asset Management System –Key processes and effectiveness rating (cont)

Key processes	Comments	Effectiveness Rating
<p>2. Asset creation and acquisition</p> <p>Asset creation/acquisition means the provision or improvement of an asset where the outlay can be exceeded to provide benefits beyond the year of outlay.</p> <p>A more economic, efficient and cost-effective asset acquisition framework which will reduce demand for new assets, lower service costs and improve service delivery.</p>	<p>The implementation of the underground piping project is likely to result in lower service costs and improved service delivery to customers.</p> <p>The decreased dependence on the Open Channel Assets has resulted in a decreased number of such assets being acquired. Approval processes relating to asset acquisition are informally being adhered to.</p> <p>The Asset Management Manual outlining the processes for asset creation and maintenance is outdated. Asset acquisition processes such as commissioning tests being documented and completed for newly acquired assets are not formally being conducted and documented.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Management ensure that the Asset Management Procedural Manual is reviewed and updated for currency and appropriateness. (Noted in C6 (a) (i)) • Management ensure that the formal asset acquisition processes outlined in the Asset Management Manual are adhered to and documented. • Management ensure that all asset acquisitions and creations are reflected in the Asset Register 	<p>1</p>
<p>3. Asset disposal</p> <p>Effective asset disposal frameworks incorporate consideration of alternatives for the disposal of surplus, obsolete, under-performing or unserviceable assets. Alternatives are evaluated in cost-benefit terms.</p> <p>Effective management of the disposal process will minimise holdings of surplus and under-performing assets and will lower service costs.</p>	<p>At present there is a lack of adequate asset disposal processes being followed resulting in outdated asset register. There is also a lack of regular asset review to identify under-performing assets, condition and operation of assets.</p> <p>It was also noted that these is lack of formally documented evaluation of alternatives in cost-benefit terms.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Management ensure that asset disposal processes are adhered to and documented. • Management ensure that evaluation of alternatives is documented. • Management ensure that all asset disposal are reflected in the Asset Register 	<p>0</p>

Asset Management System –Key processes and effectiveness rating (cont)

Key processes	Comments	Effectiveness Rating
<p>4. Environmental analysis</p> <p>Environmental analysis examines the asset system environment and assesses all external factors affecting the asset system.</p> <p>The asset management system regularly assesses external opportunities and threats and takes corrective actions to maintain performance requirements.</p>	<p>The Asset Management Plan is outdated with lack of current assessment of external factors affecting the asset management system.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Management ensure that the Asset Management Plan is reviewed for appropriateness and updated accordingly. 	0
<p>5. Asset Operations</p> <p>Operations functions relate to the day-to-day running of assets and directly affect service levels and costs.</p> <p>Operations plans adequately document the process and knowledge of staff in the operation of assets so that service levels can be consistently achieved.</p>	<p>The operational plans, policies and procedures are outdated and required review. Asset performance and condition is not reviewed on scheduled basis. It is also noted that no current formalised risk register.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Management ensure that the Operational Plans, Policies and Procedures are reviewed and updated for appropriateness. • Management ensure that a schedule maintenance plan is developed and implemented. • Management ensure that a current risk register is developed and subsequently reviewed on regular basis. 	0

Asset Management System –Key processes and effectiveness rating (cont)

Key processes	Comments	Effectiveness Rating
<p>6. Asset Maintenance</p> <p>Maintenance functions relate to the upkeep of assets and directly affect service levels and costs.</p> <p>Maintenance plans cover the maintenance tasks so that work can be done on time and on cost.</p>	<p>Assets are not assessed for capability and deficiencies to meet performance requirements on regular basis.</p> <p>Lack of current maintenance plans that cover preventative and corrective maintenance.</p> <p>Lack of formalised assessment and comparison of maintenance and replacement costs. Similarly there is a lack of scheduled asset inspections.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Management ensure that formalised maintenance plans are developed that cover both preventative and corrective maintenance. • Management ensure that assessment and comparison of maintenance and replacement costs in conducted and documented. • Management ensure that regular asset inspections are conducted and amendments are made to the asset register where applicable. 	<p>0</p>
<p>7. Asset Management Information System (MIS)</p> <p>An asset management information system is a combination of processes, data and software that support the asset management functions.</p> <p>The asset management information system provides authorised, complete and accurate information for the day-to-date running of the asset management system.</p>	<p>Microsoft Access database is utilised as an asset management information system. The system has not been kept up to date and thus can not be relied on to produce accurate asset management reports.</p> <p>In addition the data, including key computation is not validated / verified for accuracy.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Management ensure that the asset management information system is updated to accurately reflect the status and types of assets held by the organisation. • Management ensure that the key data in the system is validated / verified for accuracy to enable accurate asset management reports. 	<p>0</p>

Asset Management System –Key processes and effectiveness rating (cont)

Key processes	Comments	Effectiveness Rating
<p>8. Risk Management</p> <p>Risk Management involves the identification of risks and their management within an acceptable level of risk.</p> <p>An effective risk management framework is applied to manage risks to the maintenance of service standards.</p>	<p>The risk management framework is outdated and is not reviewed for appropriateness on regular basis. Due to the changes in the asset structure and inadequate maintenance of asset register the relevance of the documented risk management framework is reduced significantly.</p> <p>The probability and consequences of asset failures have not been reviewed.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Management ensure that that the risk management framework outlined in the Asset Management Plan is review for appropriateness and updated accordingly. 	<p>0</p>
<p>9. Contingency planning</p> <p>Contingency plans document the steps to deal with the unexpected failure of an asset.</p> <p>Contingency plans have been developed and tested to minimise any significant disruptions to service standards.</p>	<p>There is a lack of current contingency plans in place and formalised testing to determine the operability of any contingency plans.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Management develop current contingency plans and ensure that testing is carried out to determine the operability and effectiveness. 	<p>0</p>

Asset Management System –Key processes and effectiveness rating (cont)

Key processes	Comments	Effectiveness Rating
<p>10. Financial Planning</p> <p>The financial planning component of the asset management plan brings together the financial elements of the service delivery to ensure its financial viability to ensure its financial viability over the long term.</p> <p>A financial plan that is reliable and provides the long-term financial viability of the services.</p>	<p>Board Reports contains forecast operating statements which includes estimates of revenue, other income, expenditure and forecasts profits. Plans and forecasts are based on a five year period.</p> <p>Board Reports identify sources of funding for major capital expenditure as well as detailed progress against the budget.</p> <p>There is a lack of financial planning and capital expenditure planning associated with the Open Channel Assets.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Management ensure that detailed financial plans and capital expenditure plans are documented for the Open Channel Assets. • Management ensure that detailed financial plans are developed In relation to the care and maintenance of assets. 	<p>2</p>

Asset Management System –Key processes and effectiveness rating (cont)

Key processes	Comments	Effectiveness Rating
<p>11. Capital Expenditure planning</p> <p>The capital expenditure plan provides a schedule of new works, rehabilitation and replacement works, together with estimated annual expenditure on each over the next five or more years.</p> <p>Since capital investments tend to be large and lumpy, projections would normally be expected to cover at least 10 years, preferably longer. Projections over the next five years would usually be based on firm estimates</p> <p>A capital expenditure plan that provides reliable forward estimates of capital expenditure and asset disposal income, supported by documentation of the reason for the decisions and evaluation of alternatives and options.</p>	<p>A detailed capital expenditure plan has been developed for the piping project, with actuals monitored and reported on monthly basis.</p> <p>Lack of current formalised capital expenditure plan for Open Channel Assets.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> Management ensure that a capital expenditure plan is updated to reflect all capital expenditure relating to open channel assets. 	<p>0</p>
<p>12. Review of AMS</p> <p>The asset management system is regularly reviewed and updated.</p> <p>Review of the Asset Management System to ensure the effectiveness of the integration of its components and their currency.</p>	<p>The asset management system is outdated and has not been reviewed on regular basis. The changing nature of assets structure has not been adequately captured in the asset management system.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> Management ensure that the asset management system is updated to reflect the changes in the asset structure. 	<p>0</p>

Appendix 1 – Procedures Conducted

Scope and reporting

We agreed to perform the following procedures and report in writing to you the factual findings resulting from our work. We have split out procedures into the four areas outlined below as required by the ERA.

Preliminary Risk Assessment

- A preliminary risk assessment was prepared based on the ERA Audit Guidelines Template and making reference to the Harvey Water licence as well as making use of the risk assessment produced during the previous audit.
- The Risk Assessment was updated during the audit and a revised assessment produced where work performed reflected that an alteration to the original assessment was required.
- This updated Risk Assessment is to be included in the final report.

Follow-up Previous Recommendations

- Obtained the prior period audit report and, through discussion and testing (as appropriate), considered whether appropriate actions have been taken for recommendations made

Performance / Operational Audit

- Compared the documented procedures to regulatory requirements or arrangements under the licence to ascertain whether they are consistent.
- Walked through the procedures and controls for recording and assuring the quality of performance information provided to the Authority considering the use of IT in this process;

- Using the KPMG audit sample guidelines tested a sample of performance reports submitted to the ERA for completeness and accuracy;
- Compared processes followed to those required in the licence to determine compliance with the licence obligations over the audit period as well as at the time of audit; and
- Performed more extensive audit testing of higher risk areas identified in the risk assessment to provide sufficient assurance and confirm lower risk areas by discussion and observation.
- Where instances of significant non-compliance were identified, assessed the licensee's plan to ensure compliance and recommended any further improvements.

Asset Management System

- Considered the licensee's documented procedures and processes for the planning, construction, operation and maintenance of assets to assess whether they are consistent with regulatory requirements and arrangements under the licence;
- Interviewed key personnel to assess whether they understand and comply with the documented processes and procedures;
- Walked through the asset management system processes followed noting controls in place and opportunities for improvement so as to be able to comment on the effectiveness of the key processes of the asset management system;
- Where instances of significant deficiency were identified, assessed the licensee's plan for improvement and recommended any further improvements considered necessary.

Appendix 1 – Procedures Conducted (cont)

Note: The review utilised the Asset Management Review effectiveness rating scale detailed in the *Scope and Guidelines for the (2007) Audit of Harvey Water Operating Licence and Asset Management Review*.

Inherent limitations

Due to the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. The audit is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis. As such, except to the extent of sample testing performed, it is not possible to express an opinion on the effectiveness of the internal control structure.

Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

The findings expressed in this report have been formed on the above basis.

Appendix 2 – Operational Audit Risk Assessment

Preliminary Risk Assessment of Licence Compliance						
Operating Area	Operating Licence Reference (Cl.=clause, Sch.=schedule)	Consequence (1=minor, 2=moderate, 3=major)	Likelihood (A=likely, B=probable, C=unlikely)	Inherent Risk	Adequacy of existing controls (S= strong, M=moderate, W=weak)	Audit Priority (1=highest, 5=lowest)
Service Delivery						
Water Services in designated areas	Cl.2(b)	1	C	Low	S	5
Technical Standards	Cl. 8	2	C	Low	S	5
Price or Charges	Cl. 11	2	C	Medium	S	4
Water Services Provisions	Cl. 12	3	B	High	S	2
Performance of functions by the Licensee	Cl.15	3	B	High	S	2
Customer Service						
Consumer Consultation	Cl. 17	2	C	Medium	S	4
Customer Services Charter	Cl. 18	2	C	Medium	S	4
Dispute Resolution	Cl. 19	1	B	Low	S	5
Performance Monitoring						
Operational Audit	Cl. 7	1	C	Low	S	5
Accounting Records	Cl. 10	2	B	Medium	M	4
Information Provided to the Authority	Cl. 14	1	C	Low	W	5
Asset Management Systems		3	B	High	S	2
Asset Planning	Cl.6	3	B	High	W	1
Asset Creation / Acquisition	Cl.6	3	B	High	W	1
Asset Disposal	Cl.6	3	B	High	W	1
Environmental Analysis	Cl.6	3	B	High	W	1
Asset Operations	Cl.6	3	B	High	W	1
Asset Maintenance	Cl.6	3	B	High	W	1
Asset Management Information System	Cl.6	3	B	High	W	1
Risk Management	Cl.6	3	B	High	W	1
Contingency Planning	Cl.6	3	B	High	W	1
Financial Planning	Cl.6	3	B	High	W	1
Capital Expenditure Planning	Cl.6	3	B	High	W	1
Reviews of Asset Management System	Cl.6	3	B	High	W	1

Appendix 3 – Documentation Considered

SWIMCO Operating Licence Version Date: 28 October 2003	South West Irrigation Management Cooperative Limited, Annual Report to Office of Water Regulation (Level of service, standards, performance indicators & Reporting Requirements) 2005/06, 2004/05
2004 Operational Audit and Asset Management System Review Recommendations	Schedule 3: Information to be provided to the Economic Regulation Authority within 30 days of the end of each financial year 2004/05
South West Irrigation Operation Area defined boundaries	Schedule 3: Information to be provided to the Economic Regulation Authority within 30 days of the end of each financial year 2005/06
Asset Management Plan (March 2004)	Customer Services Procedural Manual
Asset Register	South West Irrigation Management Cooperative LTD, Notice of Annual General Meeting
Future Asset Maintenance Report	Annual General Meeting of South West Irrigation Management Cooperative Limited Minutes
Harvey Water Job Sheet	Advice of Planned Shutdown
Harvey Water Purchase Order	Harvey Rural Water Service Connection Agreement (Terms and conditions, Advising that the water is not for drinking) (SWIMCO Agreement)
Outstanding Maintenance Job Report	Water Service Connection Agreement Harvey Pipeline (Terms and Conditions, Advising that the water is not for drinking purposes) (SWIAC Agreement)
Independent Audit Report to the Members of South West Irrigation Management Co-Operative Limited	An Information Bulletin From Harvey Water & The Harvey Water “Furphy” Newsletter
Annual Reports to ERA (October 2005, January 2008)	SWIMCO Asset Management Budget for 2006/7 and the SWIAC Budget including asset expenditure for 2006/7
Annual Report for Collie River Irrigation District (DRAFT)	Distribution List of Annual Reports includes ERA
2007-2008 Charges (Charges Raised to Shareholders)	Final Reminder to Customer
Customer Service Charter 2006-2008	Occupational Safety and Health Report November 2007
Customer Service Charter 2004-2006	
Harvey Pipe Project Audit Report	
Customer Complaints Register	
Customer Compliant form Used	
South West Irrigation Management Cooperative Limited, Customer Complaints 1 July 2005 to 30 June 2006 Summary	

Appendix 4 – Staff Resources

Harvey Water Representatives

The following representatives of Harvey Water participated in the audit and review:

- General Manager Geoff Calder
- Corporate Services Manager Ian Evans
- Project Manager Steve Icceton
- Finance Officer Robyn Davis
- Water Services Co-ordinator Mick Ward
- Operations Support Officer Vickie Basire
- Customer Services Officer Emma Barrington
- Customer Services Officer Julie Harbour

Audit Team and Hours

The following table provides a break up of hours spent on the review:

Team Member	Hours
Travis McAuliffe - Partner	4.0
Caron Cobarg - Senior Manager	16.5
Damir Petrovic - Senior Advisor	92.0
Administrative Support	0.5
Total Hours	113