



Busselton Water Operational Audit and Asset Management Review

For: Busselton Water

8 July, 2009

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0 EXECUTIVE SUMMARY

0.1 Introduction

Busselton Water (BW) supply potable water to the township of Busselton, under an Operating Licence granted under Section 3 of the *Water Services Licensing Act 1995* (the Act). The operational audit and asset management review has been conducted in order to assess BW's level of compliance with the conditions of its licence.

BW with the approval of the Economic Regulation Authority (ERA) has commissioned SMEC Australia to undertake an operational audit and review of their asset management system to assess BW's level of compliance with the conditions of its licence. This report documents the findings of the operational audit and asset management review.

SMEC wishes to acknowledge and thank the CEO and staff for their input and support for the operational audit and asset management review process.

0.2 Objectives and Scope of Audit and Review

The operational audit and asset management review was conducted on the licence dated 6th August 2008.

The operational audit assessed BW's systems and effectiveness of the processes used to ensure compliance with the standards, outputs and outcomes which are referred to in BW's Operating Licence and applied to BW's Operating Licence (including those standards prescribed under Section 33 of the Act).

The asset management review assessed whether BW has the appropriate systems in place for the planning, construction, operation and maintenance of its assets. The review focused on identifying those aspects of the asset management system that could be further strengthened, with the view to providing feedback to BW on the adequacy and effectiveness of the system.

0.3 Timeframe of Audit and Review

This operational audit and asset management review covered the period from 1st April 2007 to 31st March 2009. The previous audit/review covered the period from the 1st August 2004 to the 31st March 2007.

0.4 Summary Opinion on BW's Control Environment

It is the auditor's opinion that the control environment provided by BW is of an extremely high standard. BW have:

- a clearly defined organisation structure;
- clearly assigned responsibilities;
- documented policies and procedures which are regularly reviewed and updated; and
- documented records management.

0.5 Overall assessment of licence compliance

BW is compliance with all licence conditions, except for the creation of a MoU between BW and the DoH. At present the draft MoU is with the DoH and approval is expected in June 2009.

0.6 Overview of Operational Compliance Performance

The operational audit has determined that BW's assets are operated in compliance with the licence requirements (Table 1).

Table 1: Summary of Operational Audit findings

| Operating Licence Compliance Element | Operating Licence Condition | Compliance Scale |
|--------------------------------------|--|------------------|
| Operating Areas | Schedule 2 | 5 |
| Customer Complaints | Clause 3.2; Schedule 3 | 4 |
| Customers | Clause 2.2; Clause 4.1; Schedule 3 | 5 |
| Water Services Provision | Clause 2.1; Clause 2.2; Schedule 5; Schedule 6 | 4 |
| Information provided to the ERA | Clause 2; Clause 9.7; Schedule 5 | 4 |
| Standards | Clause 5; Clause 9; Schedule 4; Charter | 4 |
| Standards Specific to Drinking Water | Clause 9; Schedule 4 | 5 |

0.7 Overview of Asset Management Effectiveness

The Asset Management System for the Busselton Water Supply system is deemed to be adequate for the extent and complexity of the scheme. A number of recommendations have been made to improve the system, but overall it was considered that BW has made significant progress since the last review.

The review indicated that BW's systems provide both the consumer and government with a good level of surety (Table 2).

Table 2: Summary of Asset Management Review

| Activity ¹ | Description ¹ | Effectiveness Scale ² |
|---|---|----------------------------------|
| Asset Planning | Asset planning strategies are focused on meeting customer needs in the most effective and efficient manner (delivering the right service at the right price). | 3 |
| Asset Creation and Acquisition | Asset creation/acquisition means the provision or improvement of an asset where the outlay can be expected to provide benefits beyond the year of outlay. | 3 |
| Asset Disposal | 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 | 2 |
| Environmental Analysis | Environmental analysis examines the asset system environment and assesses all external factors affecting the asset system. | 3 |
| Asset operations | Operations functions relate to the day-to-day running of assets and directly affect service levels and costs. | 3 to 4 |
| Asset maintenance | Maintenance functions relate to the upkeep of assets and directly affect service levels and costs. | 4 |
| Asset Management Information System (MIS) | An asset management information system is a combination of processes, data and software that support the asset management functions. | 3 |
| Risk Management | Risk management involves the identification of risks and their management within an acceptable level of risk. | 4 |
| Contingency Planning | Contingency plans document the steps to deal with the unexpected failure of an asset | 3 |
| Financial Planning | The financial planning component of the asset management plan brings together the financial elements of the scheme to ensure its financial viability over the long term. | 4 |

| Activity ¹ | Description ¹ | Effectiveness Scale 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. 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. | 4 |
| Review of Asset Management Plan | Review of the asset management plan assists to ensure the effective development and operation of asset management plans. | 3 |

¹ Source: Table 12, Appendix 3, Audit Guidelines, Electricity, Gas and Water Licences

² Source: Section 6 of this report

0.8 Post Audit/Review Actions

This audit identified one non-compliance in respect to the operational aspects audited. This related to the creation of a MoU between BW and the DoH. At present the draft MoU is with the DoH and approval is expected in June 2009.

The audit also identified two other areas that would benefit from further improvement. These are detailed in the following post-audit implementation plans.

The review did not identify any non-compliances in respect to the asset management system. However the review has identified a number of areas that would benefit from further improvement. These are detailed in the post-review implementation plan.

Table 3: Plan to address outstanding action from previous audit/review

| Item from Previous Audit | Previous Audit Recommendation | Issue | Recommendations | Responsible Officer | Proposed End Date |
|----------------------------------|--|--|---|---------------------|-------------------|
| Asset Management Review Item 2.4 | Update risk register to include opportunities. | The risk register does not identify any environmental opportunities. | It is recommended that BW review of the risk register to identify any environmental opportunities | SM | October 2009 |

Table 4: Post Operational Audit Implementation Plan

| Operating Licence Clause / Schedule | Current Rating | Issue | Recommendations | Responsible Officer | Proposed End Date |
|---|----------------|---|---|---------------------|-------------------|
| Operating Licence Condition 9 – Memorandum of Understanding | 2 | A draft MoU is currently with DoH waiting on approval. BW has repeatedly contacted the DoH to resolve the outstanding issues and is waiting on legal advice. BW expects completion of the MoU by June 2009. | Continue to liaise with DoH to reach approval of the MoU. | SM | June 2009 |
| | | | Continue to advise ERA of the current status of the MoU following discussions with the DoH | SM | June 2009 |
| | | | It is recommended that a sentence is added to Section 17 that identifies a review period of 3 years. | SM | June 2009 |
| | | | It is recommended that the MoU is uploaded to the BW website following approval from the DoH | JR | July 2009 |
| | | | It is recommended that this audit report is uploaded to the BW website within 1 month of completion of the audit. | JR | July 2009 |
| Operating Licence Condition 17.2 – Asset Management System | 3 | Original AMP provided to ERA. All documents have been updated to reflect rebranding changes to BW 30/01/2009. | Provide ERA with a copy of the revised AMP. | SM | June 2009 |
| Schedule 5 – Information requirements (Reporting) | 4 | 2.1 Water compliance manual condition a recent license amendment. First annual report required by 31/10/2009. | Submit an annual report to the ERA by 31/10/2009. | SM | October 2009 |
| | | | Update ERA Reporting Procedure (Procedure Manual Vol 2) to reflect the change in ERA reporting requirements | SM | October 2009 |

Table 5: Post Asset Management Review Implementation Plan

| Process | Current Rating | Issue | Recommendations | Responsible Officer | Proposed End Date |
|---|----------------|---|--|---------------------|-------------------|
| Asset Planning | 3 | N/A | An opening statement of the aims and objectives of AMP while not necessary would provide a useful context for users of the document. | SM | March 2010 |
| Asset Disposal | 2 | There is no formal asset disposal procedure. | It is recommended that BW formalise the asset disposal procedure/guide. This procedure should include the reasons for disposal, method of disposal (sale, scrap etc) and a record of disposal). | SM | October 2009 |
| Asset Operations | 3 to 4 | The aims and objectives of the AMP are not stated within the AMP. | An opening statement of the aims and objectives of AMP while not necessary would provide a useful context for users of the document. | SM | March 2010 |
| | | Prioritisation of operational tasks is not explained. | A reference to each operational task's risk and residual risk associated should be made to explain the prioritisation of operational tasks. | SM | March 2010 |
| Asset Management Information System (MIS) | 3 | N/A | An opportunity exists to tailor reporting outputs from MAINPAC to align with the performance stats required by the ERA license. | JR | June 2010 |
| Contingency Planning | 3 | Testing of Contingency Plans | It is recommended that a schedule for testing the contingency plans is prepared. The schedule should set out when and how the plan is to be tested, independent of any reactive incident management that may have taken place. | SM | December 2009 |

1 Introduction

In March 2009 SMEC Australia was awarded a consultancy by Busselton Water (BW), with the approval of the Economic Regulation Authority (the Authority), to undertake their fourth Operational Audit and Asset Management System Review.

This report summarises the findings of the Operational Audit and Asset Management Review and identifies areas of the asset management system that could be improved or enhanced.

2 Objectives and Scope

2.1 Operational Audit

In accordance with Section 37 (1) of the *Water Services Licensing Act 1995* (the Act) operational audits are required to be undertaken not less than once in every 24 month period, or such longer period as the Economic Regulation Authority allows.

The primary objective of this audit is to determine the effectiveness of measures taken by BW to maintain the quality and performance standards referred to in BW's Supply Services Operating Licence (Operating Licence).

Specifically, the audit considered the systems and effectiveness of processes used by BW to ensure compliance with the standards, outputs and outcomes required by the Licence.

This audit covered the period from 1st April 2007 to 31st March 2009 and was conducted on the licence dated 6th August 2008.

2.2 Asset Management System Review

The Act also requires that BW provide for and maintain an asset management system. The system must set out the measures to be taken by BW for the proper maintenance of its assets and for the undertaking, maintenance and monitoring of its water services works. The Act further requires BW to provide the Authority with a report by an independent expert on the effectiveness of the system.

The review will provide an opinion to the Authority on whether BW has in place the appropriate systems for the planning, construction, operation and maintenance of its water services works. In reaching this opinion, the reviewers examined:

- the adequacy of the existing asset management system by considering the outputs of the system, such as the operations and maintenance plans, asset registers and financial plans;
- the effectiveness of the existing asset management system by considering the systems established for the planning, construction, operation and maintenance of works;
- whether the system provides for the identification, development and implementation of strategic initiatives to improve the effectiveness of asset management; and
- BW's response to the recommendations made in previous reviews.

The review also focused on identifying those aspects of the asset management system which may be further strengthened, with the view to providing feedback to BW on the adequacy and effectiveness of the system.

2.3 Review of Previous Audit/Review Recommendations

The actions taken in response to the recommendations made during the previous audit/review will be examined to determine if these actions have been implemented.

2.4 Key Documents

The following documents and information were viewed during the audit/review:

- Busselton Water Strategic Development Plan (Ten Year Forward Financial Plan) 2008/09 to 2017/18;
- Busselton Water Town Water Supply 10 Year Development Plan Rev 0;
- Busselton Water Part A Notes to the Board Budget 2007/2008;
- Busselton Water Part A Notes to the Board Budget 2008/2009;
- Busselton Water Annual Report 2006/2007;

- Busselton Water Annual Report 2007/2008;
- Busselton Water Finance Operations Directives;
- Busselton Water Management Operations Directives;
- Busselton Water Policy Manual.
- Busselton Water Procedures Manual Volume 1: Technical;
- Busselton Water Procedures Manual Volume 2: Administration;
- Busselton Water Total Asset Management System Volume 1: Introduction and Generic Supporting Documentation;
- Busselton Water Total Asset Management System Volume 2: Assets on Private Properties;
- Busselton Water Total Asset Management System Volume 3: Pipeworks and Lines;
- Busselton Water Total Asset Management System Volume 4: Pump stations, Reservoirs and Treatment Plants;
- Busselton Water Total Asset Management System Volume 5: Maintenance Equipment & Miscellaneous;
- Busselton Water Asset Register 2009;
- Busselton Water Plant Structures Asset Hierarchy 2009;
- Busselton Water Whole System Hazard Assessment (Jan 2009);
- Schedule of Production Bores (June 2008);
- Busselton Water Customer Charter;
- Busselton Water Customer Charter Summary;
- Busselton Water Developer Guidelines;
- Busselton Water Pipeline Construction and Design Standard;
- Groundwater licence Report Busselton Water July 2006 to June 2007;
- Busselton Water Annual Aquifer Review July 2007 to June 2008;
- Busselton Water Quarterly Report Drinking Water Quality Quarter Ended 30th June 2007;
- Busselton Water Quarterly Report Drinking Water Quality Quarter Ended 30th September 2007;
- Busselton Water Quarterly Report Drinking Water Quality Quarter Ended 31st December 2007;
- Busselton Water Quarterly Report Drinking Water Quality Quarter Ended 31st March 2008;
- Busselton Water Quarterly Report Drinking Water Quality Quarter Ended 30th June 2008;
- Busselton Water Quarterly Report Drinking Water Quality Quarter Ended 30th September 2008; and
- Busselton Water ERA Quarterly Report Quarter Ending December 2008.

2.4.1 Timeframe

The audit/review was carried out on the 11th of May 2009 and covered the period from 1st April 2007 to 31st March 2009. The previous audit/review covered a period from the 1st August 2004 to 31st March 2007.

2.4.2 Key Personnel

The key representatives participating in the audit/review were:

- Keith White, Chief Executive Officer;
- Shaun Millen, Manager Production and Supply ; and
- Julie Rawlings, Manager Customer Services

The members of the audit/review team were;

- Chris Hopkins, Chief Auditor 5.5 working days.
- Josh Levett, Auditor 4.5 working days.

3 Risk Assessment

An operational risk assessment has been carried out prior to the audit, to assess the risk posed by non-compliance with licence standards and the adequacy of internal controls having regard to the findings of previous audits and reviews. Priorities have then been rated on a scale of 1 to 5 (1 being the highest priority and the lowest being 5).

Table 6: Consequence ratings

| | Rating | Examples of Non-Compliance | | | |
|---|-----------------|---|--|--|--|
| | | Supply Quality | Supply Reliability | Consumer Protection | Breaches of legislation or other licence condition |
| 1 | Minor | Minor Public Health or safety issues. Breach of standards minor – minimal impact on customers | System failure or connection delays affecting only a few customers. Some inconvenience to customers. | Customer complaints procedures not followed in a few instances. Nil or minor costs incurred by customers. | Licence conditions not fully complied with but issues have been promptly resolved. |
| 2 | Moderate | Event is restricted in both area and time e.g., supply of service to one street is affected for up to one day. Some remedial action is required. | Event is restricted in both and time e.g., supply of service to one street is affected for up to one day. Some remedial action is required. | Lapse in customer service standards is clearly noticeable but manageable. Some additional cost may be incurred by some customers. | Clear evidence of one or more breaches of legislation or other licence conditions and/or sustained period of breaches. |
| 3 | Major | Significant system failure. Life threatening injuries or widespread health risks. Extensive remedial action required. | Significant system failure. Extensive remedial action required. | | |

(Table 6, Appendix 1, Audit Guidelines, Electricity, Gas and Water Licences)

Table 7: Likelihood ratings

| | Level | Criteria |
|----------|-----------------|---|
| A | Likely | Non-compliance is expected to occur at least once or twice a year |
| B | Probable | Non-compliance is expected to occur once every three years |
| C | Unlikely | Non-compliance is expected to occur once every 10 years or longer |

(Table 7, Appendix 1, Audit Guidelines, Electricity, Gas and Water Licences)

Table 8: Inherent risk rating

| Likelihood | Consequence | | |
|--------------------|---------------|---------------|-------------|
| | 1. Minor | 2. Moderate | 3. Major |
| A. Likely | Medium | High | High |
| B. Probable | Low | Medium | High |
| C. Unlikely | Low | Medium | High |

(Table 8, Appendix 1, Audit Guidelines, Electricity, Gas and Water Licences)

Table 9: Adequacy ratings for existing controls

| | Level | Description |
|---|-----------------|--|
| 3 | Strong | Strong controls that are sufficient for the identified risks |
| 2 | Moderate | Moderate controls that cover significant risks; improvement possible |
| 1 | Weak | Controls are weak or non-existent and have minimal impact on the risks |

(Table 10, Appendix 1, Audit Guidelines, Electricity, Gas and Water Licences)

Table 10: Assessment of audit priority

| Inherent Risk | | Consequence | | |
|---------------|---------------|------------------|------------------|---------------|
| | | Weak | Moderate | Strong |
| | High | Audit priority 1 | Audit priority 2 | |
| | Medium | Audit priority 3 | Audit priority 4 | |
| | Low | Audit priority 5 | | |

(Table 11, Appendix 1, Audit Guidelines, Electricity, Gas and Water Licences)

4 Review of Previous Audit/Review Recommendations

A review of the findings of the previous audit/review, undertaken in May 2007 by SMEC, was carried as part of the audit/review. Of the 11 recommendations made by SMEC all have been closed out or significant progress made. There is still room for improvement in a number of areas. Further detail of this can be found in the output tables from the audit/review (Sections 5 and 6).

Table 11: Recommendations from Previous Audit/Review

| Item | Recommendation | Action |
|--------------------------------|---|--|
| Operational Audit | | |
| 1.1 | Develop a set of standards for work that is likely to be contracted out in the future. | Detailed standards (e.g. Busselton Water Pipeline Construction and Design Standard) have been prepared for work that is likely to be contracted out in the future. <i>Closeout Recommended</i> |
| 1.2 | Establish system for monitoring response time for emergency telephone service or seek an exemption from the Authority. | Yes, Customers simply call the BW contact number, staff briefed to take emergency calls and notify relevant internal people. Caller's details captured and resolution provided immediately or after initial investigation. After hours phone diverts to on call staff. <i>Closeout Recommended</i> |
| 1.3 | Undertake further work, to improve the documentation of Operations and Maintenance procedures including listing of operating limits, maintenance schedules, risks etc. Refer also to recommendations in the Asset Management Plan section. | Operations and Maintenance procedures are well documented with operating limits, maintenance schedules and risk assessments. <i>Closeout Recommended</i> |
| Asset Management Review | | |
| 2.1 | Provide further justification for capital projects including discussion on economic, social and environmental impacts (positive and negative) of the project as well as examining possible non-asset options. | Justification for capital projects is summarised in 10 Year Financial Plan. This includes a life cycle analysis and a risk assessment which identifies any negative environmental impacts. No positive environmental impacts have been identified. Capital expenditure items (new plant and equipment) are recommended by independent hydraulic engineering consultant. There are no competing forces for funding so highly detailed evaluations and justification not required by BW. <i>Closeout Recommended</i> |
| 2.2 | Provide a more detailed guideline and process around the creation or acquisition of assets. | Assets are purchased and maintained in conjunction with the Busselton Water's financial objectives, the License Agreement, area growth needs, a regular maintenance system and the need to provide an efficient service to its customers (AMP Vol 2). <i>Closeout Recommended</i> |

| Item | Recommendation | Action |
|--|---|--|
| Asset Management Review (continued) | | |
| 2.3 | Provide a more detailed guideline and process around the disposal of assets. | Asset disposal is detailed in the 10 Year Financial Plan. Procedures have been developed for the disposal of construction and earthmoving equipment and light motor vehicles; IT equipment, asbestos containing material. <i>Closeout Recommended</i> |
| 2.4 | Update risk register to include opportunities. | The risk register does not identify any environmental opportunities <i>Recommend the review of the register to identify any environmental opportunities</i> |
| 2.5 | Detail operating rules, limits, licence limits and guidelines in the relevant sections of the asset management plan. Include an indicative safety analysis. | Operating rules, limits, licence limits and guidelines are detailed in the in the relevant sections of the asset management plan. AMP Vol 1 Appendix A contains a detailed Safety Manual. <i>Closeout Recommended</i> |
| 2.6 | Standardise the format of the risk register across all documents. Include an analysis of the residual risk (risk remaining after treatment) in the register. | Risk register consistent across all documents Residual risk is evaluated and included in the register. <i>Closeout Recommended</i> |
| 2.7 | Provide more detail for the contingency plans including roles, responsibilities, specific tasks, how the plans are implemented, relation to emergency response organizations and contact lists. | Asset management plan contains contingency plans which detail tasks, responsibilities, timeframes, emergency response organisations and contact lists. <i>Closeout Recommended</i> |
| 2.8 | See above comments in respect to Asset Planning. Expand plans to include sections on delivery timeline, responsibility for delivery, proposed delivery method (consultant, contractor, in-house) and economic analysis to compare options (if applicable). | 10 Year Financial Plan details the delivery timeline, responsibility for delivery (BW), proposed delivery method (consultant, contractor, in-house) and an economic analysis to compare options (where applicable). <i>Closeout Recommended</i> |

5 Operational Audit

5.1 Operational Audit Summary

For the operational audit BW was assessed for compliance with the licence requirements against the following scale:

Table 12: Operational Compliance Rating 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 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 | Does not meet minimum requirements |
| Significantly Non-Compliant | 1 | Significant weaknesses and/or serious action required |

(Table 1, ERA Audit Guidelines, Electricity, Gas and Water Licences)

Table 13: Operational Audit Compliance Summary

| Operating Licence Compliance Element | Operating Licence Reference C=Clause; S=Schedule | Consequence 1=Minor; 2=Moderate; 3=Major | Likelihood A=Likely; B=Probable; C=Unlikely | Inherent Risk L=Low; M=Medium; H=High | Adequacy of Existing Controls W=Weak; M=Moderate; S=Strong | Compliance Rating | | | | |
|---|---|--|---|---|--|-------------------|---|---|---|---|
| | | | | | | 1 | 2 | 3 | 4 | 5 |
| OPERATING AREAS | | | | | | | | | | |
| Water Services in designated operating area | S2 | 1 | C | L | S | | | | | |
| CUSTOMER COMPLAINTS | | | | | | | | | | |
| Recorded | C3.2, S3 | 1 | B | L | S | | | | | |
| Investigation, conciliation & arbitration | C3.2, S3 | 1 | C | L | M | | | | | |
| Responsiveness (eg solution within 15days) | C3.2, S3 | 2 | B | M | M | | | | | |
| CUSTOMERS | | | | | | | | | | |
| Charter in place, reviewed and followed | C2.2, S3 | 1 | B | L | M | | | | | |
| Ongoing consultation and feedback established | C4.1, S3 | 2 | B | M | M | | | | | |
| WATER SERVICES PROVISION | | | | | | | | | | |
| Conditions for connection followed | C2.1, S6 | 2 | B | M | M | | | | | |
| Availability | C2.2, S5 | 2 | B | M | M | | | | | |
| INFO PROVIDED TO AUTHORITY | | | | | | | | | | |
| Customer complaints (12 monthly) | S5 | 1 | B | L | S | | | | | |
| Quarterly reports | C9.7 | 2 | B | M | S | | | | | |
| Annual Benchmarking report | C2, S5 | 1 | B | L | S | | | | | |
| Incidents (reported within 3 days) | C3, S5 | 2 | B | L | S | | | | | |

| Operating Licence Compliance Element | Operating Licence Reference C=Clause; S=Schedule | Consequence 1=Minor; 2=Moderate; 3=Major | Likelihood A=Likely; B=Probable; C=Unlikely | Inherent Risk L=Low; M=Medium; H=High | Adequacy of Existing Controls W=Weak; M=Moderate; S=Strong | Compliance Rating | | | | |
|---|---|--|---|---|--|-------------------|---|---|---|---|
| | | | | | | 1 | 2 | 3 | 4 | 5 |
| STANDARDS | | | | | | | | | | |
| Adherence to Regulation | Clause 5 | 3 | C | H | S | | | | | |
| Adherence to technical standards | Clause 9 | 3 | E | H | S | | | | | |
| Adherence to industry codes | | N/A | | | | | | | | |
| Accounting records – prepared to standard | | 2 | B | M | S | | | | | |
| Pricing and charges – approval of ERA | | 2 | C | M | S | | | | | |
| Services provided by agreement documented | S4 | N/A | | | | | | | | |
| Obligations to other licensees adhered to | | N/A | | | | | | | | |
| Customers advised re planned disruptions | Charter | 3 | C | H | S | | | | | |
| Customers contacted re emergency shutdowns | Charter | 3 | C | H | S | | | | | |
| Emergency telephone service operational | S4 | 2 | C | M | M | | | | | |
| STANDARDS SPECIFIC TO DRINKING WATER | | | | | | | | | | |
| Quality | Clause 9 | 3 | C | H | M | | | | | |
| Pressure and flow | S4 | 3 | C | H | M | | | | | |
| Interruptions | S4 | 2 | B | M | M | | | | | |
| Drought response | S4 | 2 | B | M | M | | | | | |
| Leaks and bursts | S4 | 3 | B | H | M | | | | | |

5.2 Operational Audit Observations

Table 14: Operational Audit Compliance Assessment

| Operating Licence Clause / Schedule | Specific Compliance Issues/Requirements | Auditor | Activity Compliance | Comments/Remarks | Actions |
|---|--|---------|---------------------|---|--|
| Clause 4 – Fees | 4.1 Has BW paid the applicable fees? | SM | 5 | Currently there is no fee for the operating licence. | |
| Clause 5 – Compliance | 5.1 Has BW complied with any applicable legislation? | SM | 4 | Operational Manual and Asset Management Plan documents identify relevant legislation. No instances of non-compliance with relevant legislation were identified | |
| Clause 9 – Memorandum of Understanding | 9.1 Has BW entered into a MoU with the Department of Health? | SM | 2 | In Progress. Draft MOU with DoH for approval. DoH has advised they are waiting on legal advice regarding clause 19 of the MoU. BW repeatedly contacts DoH to resolve issues. Expecting completion by June 2009. | Continue to liaise with DoH to reach approval of the MoU. Continue to advise ERA of the current status of the MoU following discussions with the DoH |
| | 9.2a Does the MoU specify that it is a legally binding document between the licensee and Department of Health? | | | Section 18 of the Draft MoU specifies that it is to be a legally binding document | As above |
| | 9.2b Does the MoU have the following sections in the MoU: (i) Text; (ii) Schedules; (iii) Binding Protocols; (iv) Water Quality Management Processes and Procedures? | | | The draft MoU contains all sections as required by clause 9.2b. | As above |
| | 9.2c Has the MoU been reviewed every 3 years? | SM | N/A | Section 17 states the term of the MoU is 5 years. There is no review period nominated | It is recommended that a sentence is added to Section 17 that identifies a review period of 3 years. |

| Operating Licence Clause / Schedule | Specific Compliance Issues/Requirements | Auditor | Activity Compliance | Comments/Remarks | Actions |
|--|--|---------|---------------------|--|---|
| Clause 9 – Memorandum of Understanding (cont) | 9.2d & e Has a copy of the MoU been provided to the Authority within 1 month of entering the agreement and/or amendments? | SM | N/A | N/A as MoU is in draft format. BW has notified and continued to inform the Chairman of the ERA regarding the progress of the draft MoU. | As above |
| | 9.2f Does the MoU indicate specific quality requirements? | SM, JR | 3 | Schedule 1 of the Draft MoU details specific quality requirements – a note has been made that this schedule is to be redrafted. | As above |
| | 9.2h Does the MoU include provisions specifying a water quality monitoring plan to ensure drinking water quality requirements are met? | SM, JR | 3 | Section 6 of the draft MoU commits BW to developing, maintaining and implementing a drinking quality water monitoring program in consultation with the DoH. BW technical document outline the procedures for undertaking water quality sampling. | |
| | 9.5 The licensee must publish the Text and Schedules of the MoU and any amendments to the Text and Schedules of the MoU within one month of entering into the MoU or of making amendments to the Text or Schedules of the MoU. | | N/A | N/A until MoU is approved | It is recommended that the MoU is uploaded to BW website following approval from the DoH. |
| | 9.6 The licensee must publish the Audit Report on the licensee's web site within 1 month of the completion of the audit. | | N/A | N/A as it is a new licence condition – previous audit not available from BW. | It is recommended that this audit report is uploaded to the BW website within 1 month of completion of the audit. |
| | 9.7 The licensee must publish its Drinking Water Quality Reports quarterly or at a reporting frequency specified by the Department of Health. | | 5 | Quarterly water quality reports are available on the BW website | |

| Operating Licence Clause / Schedule | Specific Compliance Issues/Requirements | Auditor | Activity Compliance | Comments/Remarks | Actions |
|---|---|---------|---------------------|---|---------|
| Clause 15 Accounting Records | 15.1 Are accounting records maintained that comply with the Australian Accounting Standards Board Standards or equivalent International Accounting Standards. | | 5 | Accounts have been signed off and audited by an independent accounting firm | |
| Clause 16 – Operational Audit | 16.1 Has BW provided the ERA with an operational audit within 24 months after the commencement date, and every 24 months thereafter? | | 5 | Audits have been conducted every 24 months | |
| Schedule 2 – Operating Areas | Does the operating area identified in Schedule 2 correspond to the area in which BW provides its water services? | SM | 5 | Yes, map supplied by BW indicates services are provided within the ERA boundary. | |
| Schedule 3 – Customer Provisions | 2.1 Does BW have a customer service charter? | SM | 5 | Yes, copy received. | |
| | 2.2a Is the customer service charter drafted in “plain English”? | SM | 5 | Yes. | |
| | 2.2b Does the customer service charter address all of the service issues reasonably likely to be of concern to its Customers? | SM | 4 | To confirm against ERA guides for Customer Charter. | |
| | 2.4 Have any changes to the customer service charter been approved by the Authority? | SM | 5 | Yes. Letter confirming ERA's approval of the changes provided dated 10/09/08. | |
| | 2.5 How does BW make the customer service charter available to its Customers? | SM | 5 | Charter sent to customers once per year with account. Charter is available in hard copy at BW's office and electronic format at BW's website. | |
| | 2.6 Has the customer service charter been reviewed within the last three years? | SM | 5 | Yes, reviewed, updated and version 5 issued during 2008. | |

| Operating Licence Clause / Schedule | Specific Compliance Issues/Requirements | Auditor | Activity Compliance | Comments/Remarks | Actions |
|--|--|---------|---------------------|---|---------|
| Schedule 3 – Customer Provisions (cont) | 2.7 How does BW ensure it provides services that are consistent with the customer service charter? | SM | 4 | Customer satisfaction surveys, online feedback forms, regular newsletter, public information displays (refer to letter to ERA reference OL6). | |
| | 3.1 Does the Licensee have in place a process for effectively receiving, recording, and (where possible) resolving customer complaints within a timeframe of 15 business days? | SM | 4 | Process described in Section 2.8 of customer charter (pg 8). Also customer service procedure 03.01. Staff protocol for handling complaints. | |
| | 3.2a Is there a system to provide each aggrieved customer provided with a unique identifying number? | SM | 4 | Each complaint is given a complaint number on the complaint form. (moving to electronic system for recording complaints) | |
| | 3.2b Is there an appropriate number of staff trained to deal with complaints? | JR | 4 | All staff briefed on complaints handling. Front desk staff put through training developed in conjunction with WALGA. | |
| | 3.2c Is there a complaint resolution protocol designed to resolve complaints/ disputes within 15 days of being notified? | SM | 4 | BW aim for resolutions of all complaints within 10 days. | |
| | 3.2d Is there a system for accurately monitoring and recoding the number, nature and outcome of complaints. | SM | 4 | Currently using paper based record system. Forms held by Customer Service Manager. Moving to electronic process FY 2009/10. | |
| | 4.1 Have BW established an ongoing customer consultation process to inform and proactively solicit customer opinions? If yes how has this been undertaken? | SM | 5 | Customer satisfaction surveys, online feedback forms, regular newsletter, public information displays (refer to letter to ERA reference OL6). | |

| Operating Licence Clause / Schedule | Specific Compliance Issues/Requirements | Auditor | Activity Compliance | Comments/Remarks | Actions |
|---|--|---------|---------------------|--|---------|
| Schedule 4 – Service & Performance Standards | 1.1 Is there an emergency telephone advice system set up so customers make one phone call to report an emergency? If yes are 90% of customers advised of the nature and timing of the action within 1 hour of reporting the emergency? | SM | 5 | Yes, Customers simply call the BW contact number, staff briefed to take emergency calls and notify relevant internal people. Caller's details captured and resolution provided immediately or after initial investigation. After hours phone diverts to on call staff. | |
| | 1.2 Have 90% of customer complaints been resolved in 15 business days? | SM | 5 | Yes. | |
| | 2.1 For each 12 month period have 99.8% of customers had the following at the outlet of the water meter to the property: a. Minimum static pressure (meters of water) 15 b. Maximum static pressure (meters of water) 100 c. Minimum flow 20 litres per minute | SM | 5 | Yes. | |
| | 2.2 Have less than 25% of connected properties experienced a complete interruption of supply exceeding 1 hour? | SM | 5 | Yes. | |
| | 2.2 Have any properties experienced more than 3 interruptions exceeding 1 hour in a 12 month period | JR, SM | 5 | No properties have experienced more than 3 interruptions exceeding 1 hour in a 12 month period. | |

| Operating Licence Clause / Schedule | Specific Compliance Issues/Requirements | Auditor | Activity Compliance | Comments/Remarks | Actions |
|--|--|---------|---------------------|---|--|
| Schedule 4 – Service & Performance Standards (cont) | 2.3 How does BW ensure that during times of necessary restrictions on water use, sufficient water is available to meet essential in-house demand? | SM | 3 | Strategy to ensure treated water storage tanks are at full capacity prior to maintenance outage. Treatment plants interlinked to ensure redundancy. Affected customers notified in advance of outages and requested to restrict use during the period. Agreements exist with the water Corporation and Aqwest to cart water if required. | |
| Schedule 5 – Information requirements (Reporting) | 2.1 Has BW provided the Authority with data required for performance monitoring purposes, as required in the Water Compliance Reporting Manual? | JR | 4 | Water compliance manual condition a recent license amendment. First annual report required by 31/10/2009. During the audit period quarterly performance reports have been provided to the ERA as per the February 2007 licence. | Submit an annual report to the ERA by 31/10/2009. Update ERA Reporting Procedure (Procedure Manual Vol 2) to reflect the change in ERA reporting requirements |
| | 2.2 Has this information been provided to the Authority by 31 October each year for the previous financial year? | JR | N/A | Previously reported quarterly. The first annual reporting period under the new licence is yet to be reached. | |
| | 3.1a Has BW informed the Authority within three days of any interruptions greater than 1 hour affecting more than 300 connections? | SM | 4 | SM provided information that there no instances where 300 connections were affected during the audit period. | |
| | 3.1b Has BW informed the Authority within three days of any incident related to water services works or the operation of water services that has been reported to another regulatory or public authority (e.g. DoH)? | SM | 4 | No incidents occurred that required reporting to the ERA or other authorities. | |

| Operating Licence Clause / Schedule | Specific Compliance Issues/Requirements | Auditor | Activity Compliance | Comments/Remarks | Actions |
|---|---|---------|---------------------|--|----------------------------------|
| Schedule 5 – Information requirements (Reporting) (cont) | 3.2 In the event of an incident under Clause 3.1 has the incident report detailed the date, nature & extent of interruption, location and the number of services & customers affected; action taken and any other information requested by the Authority? | SM | N/A | No incidents have occurred that require reporting | |
| Schedule 6 Other Provisions | 2.1 Has the licensee set out in writing its 'conditions for connection' If Yes, is this information available to all people applying or inquiring about connection? | SM | 4 | Customer charter set out in writing its 'conditions for connection' which is publicly available. The information is also included in the "Developer Guidelines" (a document provided to land developers) and the conditions of water connection sheet. | |
| | 2.2 Are BW's services available for connection on request to any land situated in the Operating areas? | SM | 4 | Yes. The request process is set out in the Customer Service Charter and Developer guidelines. | |
| Operating Licence Condition 17 – Asset Management System | 17.1 Is there an Asset Management System in place for the water service assets of BW? | SM | 4 | Yes | |
| | 17.2 Have the details of the system, and any changes, been forwarded to the Authority? | SM | 3 | Original AMP provided to ERA. All documents updated to reflect rebranding changes to BW 30/01/2009. | Provide ERA with the revised AMP |
| | 17.3 Has a review been conducted every 24 months with a report provided to the Authority? | SM | 4 | Reviewed during previous audit completed in 2007. | |

6 Asset Management Review

6.1 Asset Management Summary

The following scale was used to assess each key area of the asset management system.

Table 15: Asset Management Effectiveness Summary

| Assets Management System | | Not Performed | Performed Informally | Planned and Tracked | Well Defined | Quantitatively Controlled | Continuously Improving |
|---|----------------------|---------------|----------------------|---------------------|--------------|---------------------------|------------------------|
| Process | Effectiveness Rating | 0 | 1 | 2 | 3 | 4 | 5 |
| Asset Planning | | | | | | | |
| Asset Creation and Acquisition | | | | | | | |
| Asset Disposal | | | | | | | |
| Environmental Analysis | | | | | | | |
| Asset operations | | | | | | | |
| Asset maintenance | | | | | | | |
| Asset Management Information System (MIS) | | | | | | | |
| Risk Management | | | | | | | |
| Contingency Planning | | | | | | | |
| Financial Planning | | | | | | | |
| Capital Expenditure Planning | | | | | | | |
| Review of Asset Management Plan | | | | | | | |

6.2 Asset Management Observations

6.2.1 Asset Planning

Asset planning strategies are focused on meeting customer needs in the most effective and efficient manner (delivering the right service at the right price).

| Item No. | Test | Comments | Effectiveness |
|----------|--|--|---------------|
| a | Does the planning process and objectives reflect the needs of all stakeholders and is integrated with business planning? | The 10 year forward financial plan incorporates needs of stakeholders (population growth, seasonal demand, land developments, etc). The Financial plan is reviewed annually. | 4 |
| b | Are service levels are defined? | ERA Operating License which defines the service levels is incorporated into AMP. | 3 |
| c | Have non-asset options (eg demand management) been considered? | The rate of growth of population and developments requires investment of new infrastructure. An annual capital program to replace aging infrastructure (water mains etc) is in place. Hire/Lease equipment and vehicles has been investigated and deemed uneconomical. Justification statements currently contain a brief description. Explanation of non asset options considered. Education programs around water conservation and water restrictions in place. | 2 |
| d | Have the lifecycle costs of owning and operating assets been assessed? | Detailed in the AMP Volumes 1 to 5. | 3 |
| e | Have funding options been evaluated? | The 10 year financial plan details revenue and funding options for capital and operating expenditure. | 3 |
| f | Have costs been justified and cost drivers identified? | Each capital project costs are forecast over the 10yr period. | 3 |
| g | Are the likelihood and consequences of asset failure been predicted? | The AMP contains a completed risk analysis for each asset which predicts the consequences of failure and identifies the contingency plans to be implemented should asset failure occur. | 3 |
| h | Are plans regularly reviewed and updated? | The 10 year plan reviewed annually and a detailed financial year plan developed for each year. | 4 |

Overall Assessment: 3

Overall Comments & Recommendations:

An opening statement of the aims and objectives of AMP while not necessary would provide a useful context for users of the document.

6.2.2 Asset Creation And Acquisition

Asset creation/acquisition means the provision or improvement of an asset where the outlay can be expected to provide benefits beyond the year of outlay.

| Item No. | Test | Comments | Effectiveness |
|----------|--|---|---------------|
| a. | Are full project evaluations undertaken for new assets, including comparative assessment of non-asset solutions? | These are summarised in 10 year financial plan. Capital expenditure items (new plant and equipment) are recommended by independent hydraulic engineering consultant. There are no competing forces for funding so highly detailed evaluations and justification not required by BW. | 2 |
| b. | Do evaluations include all life-cycle costs? | Yes, life cycle analysis completed and asset costs forecast over a 10 year period. | 3 |
| c. | Do projects reflect sound engineering and business decisions? | Engineering design and recommendations are completed by independent consultant. All expenditure requires approval by BW's board of directors. | 3 |
| d. | Are commissioning tests documented and completed? | Tasks recorded in MAINPAC maintenance management system. | 3 |
| e. | Does the asset owner assign and understand the ongoing legal/environmental/safety obligations? | Legal, environmental and safety obligations are identified and detailed in AMP and responsibilities assigned where non compliance with these obligations is a potential risk. | 3 |

Overall Assessment: 3

Overall Comments & Recommendations:

Nil

6.2.3 Asset Disposal

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.

| Item No. | Test | Comments | Effectiveness |
|----------|---|---|---------------|
| a. | Does a regular systematic review process identify under-utilised and under-performing assets? | No formal process or specific procedure in AMP. Financial plans forecast revenue and costs associated with salvage and disposal of redundant infrastructure. | 1 to 2 |
| b. | Are the reasons for under-utilisation or poor performance critically examined and corrective action or disposal undertaken? | BW's equipment registration form is used to record information as to why assets have been disposed of rather than replaced. | 2 |
| c. | Are the disposal alternatives evaluated? | BW's equipment registration form is used to record all information associated with the disposal of the asset. This form also identifies the disposal method used. At present there is no written procedure for asset disposal. Assets are disposed of in accordance with methods identified in the equipment registration form. It is recommended that the current procedure be formalised by the development of detailed asset disposal procedure/guide. This procedure should include the reasons for disposal, method of disposal (sale, scrap etc) and a record of disposal. | 1 to 2 |
| d. | Is there a replacement strategy for assets? | Lifecycle analysis identifies life span of equipment. Maintenance and monitoring identifies pending failure or requirement for replacement. The 10 year financial plan forecasts purchasing of equipment. Some policies (i.e. 40,000km for vehicles) dictate replacement strategy. | 3 |

Overall Assessment: 2

Overall Comments & Recommendations:

It is recommended that BW formalise the asset disposal procedure/guide. This procedure should include the reasons for disposal, method of disposal (sale, scrap etc) and a record of disposal).

6.2.4 Environmental Analysis

Environmental analysis examines the asset system environment and assesses all external factors affecting the asset system.

| Item No. | Test | Comments | Effectiveness |
|----------|---|---|---------------|
| a. | Have the opportunities and threats in the system environment been assessed? | No opportunities have been identified. Threats have been identified in the risk assessment in Volume 1 of the AMP. | 2 |
| b. | Are the performance requirements (availability of service, capacity, continuity, emergency response) measured and achieved? | Performance standards are measured and achieved as per ERA license requirements. Data is reported quarterly to ERA. Rockwater Hydrogeology monitor and report on borefield performance. Under the current licence quarterly reporting to the ERA is no longer required. | 4 |
| c. | Are regulatory obligations and statutory/regulatory requirements documented? Do the assets meet regulatory requirements? | Legal requirements detailed in Volume 1 of the AMP. Requirements are being met and reports to ERA have been completed as per schedule. | 3 |
| d. | Is the asset meeting the level of service required by users of the service? | Customer feedback and service performance indicates that the assets are meeting the customer's required standards. | 4 |

Overall Assessment: 3

Overall Comments & Recommendations:

Nil

6.2.5 Asset Operations

Operations functions relate to the day-to-day running of assets and directly affect service levels and costs.

| Item No. | Test | Comments | Effectiveness |
|----------|---|--|---------------|
| a. | Operational policies and procedures are documented and linked to service levels required. | Individual policies document relevant roles and responsibilities. An opening statement with aims and objectives should be included at the start of the AMP. | 3 |
| b. | Risk management is applied to prioritise operations tasks. | BW has engaged Hunter Water Australia to prepare a water quality plan under the Australian drinking Water Guidelines 2004 | 2 |
| c. | Assets are documented in an Asset Register including asset type, location, material, plans of components, an assessment of assets' physical/structural condition and accounting data. | Asset register, type, description, are in Volume 1 of the AMP. | 4 |
| d. | Operational costs are measured and monitored. | Operational costs forecast in 10 year financial plan and detailed in annual financial year plan. | 4 |
| e. | Staff receives training commensurate with their responsibilities. | A training register has been developed and maintained that identifies the skills required and training undertaken by each employee and their proposed training for the current financial year. | 4 |

Overall Assessment: 3 to 4

Overall Comments & Recommendations:

An opening statement of the aims and objectives of AMP while not necessary would provide a useful context for users of the document.

A reference to each operational task's risk and residual risk associated should be made to explain the prioritisation of operational tasks.

6.2.6 Asset maintenance

Maintenance functions relate to the upkeep of assets and directly affect service levels and costs.

| Item No. | Test | Comments | Effectiveness |
|----------|--|--|---------------|
| a. | Are maintenance policies and procedures documented and linked to service levels required? | Yes, Technical Procedures Volume 1 details procedures and policies of BW. | 4 |
| b. | Are regular inspections undertaken of asset performance and condition? | Yes, tracked through MAINPAC. | 4 |
| c. | Are maintenance plans (emergency, corrective and preventative) documented and completed on schedule? | Yes, controlled and scheduled through MAINPAC. | 4 |
| d. | Are asset failures analysed and operational/maintenance plans adjusted where necessary? | MAINPAC is utilised to track failures and make necessary changes to maintenance schedules. | 4 |
| e. | Is risk management applied to prioritise maintenance tasks? | Maintenance tasks are prioritised based on criticality and risk to the delivery of services. | 4 |
| f. | Are maintenance costs measured and monitored? | Maintenance costs measured and tracked in MAINPAC. Planned costs forecast in annual financial plans. | 4 |

Overall Assessment: 4

Overall Comments & Recommendations:

Nil

6.2.7 Asset Management Information System (MIS)

An asset management information system is a combination of processes, data and software that support the asset management functions.

| Item No. | Test | Comments | Effectiveness |
|----------|--|---|---------------|
| a. | Is there adequate system documentation for users and IT operators? | MAINPAC software is used under license. Full product support is available and system documents are on hand. | 4 |
| b. | Do input controls include appropriate verification and validation of data entered into the system? | All assets are assigned a unique plant identifier in MAINPAC. The MAINPAC system is linked to invoices, equipment manuals; specifications etc. allowing any discrepancies are quickly identified by user. | 3 |
| c. | Do logical security access controls appear adequate, such as passwords? | MAINPAC users require passwords to access system and make changes. | 3 |
| d. | Do physical security access controls appear adequate? | MAINPAC terminals are located in administration office or plant rooms. These areas are secured by locks, gates etc and electronic alarm systems and CCTV. | 3 |
| e. | Do data backup procedures appear adequate? | Yes, data stored on a server which is backed up regularly. | 3 |
| f. | Are key computations related to licensee performance reporting are materially accurate? | Yes, performance stats retrieved from data recorded in maintenance/operations database. | 3 |
| g. | Do management reports appear adequate for the licensee to monitor licence obligations? | Yes, performance stats retrieved from data recorded in maintenance/operations database. | 3 |

Overall Assessment: 3

Overall Comments & Recommendations:

An opportunity exists to tailor reporting outputs from MAINPAC to align with the performance statistics/ performance criteria required by the ERA license.

6.2.8 Risk Management

Risk management involves the identification of risks and their management within an acceptable level of risk.

| Item No. | Test | Comments | Effectiveness |
|----------|--|---|---------------|
| a. | Do risk management policies and procedures exist and are they being applied to minimise internal and external risks associated with the asset management system? | Yes, detailed risk assessment completed for AMP. | 4 |
| b. | Are risks documented in a risk register and treatment plans are actioned and monitored? | Yes, risks are document in AMP Vol 1. | 4 |
| c. | Is the probability and consequences of asset failure regularly assessed? | Yes, Risk assessment document and AMP regularly reviewed. | 4 |

Overall Assessment: 4

Overall Comments & Recommendations:

Nil

6.2.9 Contingency Planning

Contingency plans document the steps to deal with the unexpected failure of an asset.

| Item No. | Test | Comments | Effectiveness |
|----------|---|--|---------------|
| a. | Are contingency plans documented, understood and tested to confirm their operability and to cover higher risks? | Plans exist. Testing has not occurred as plans have been implemented in real life scenarios. It is recommended that a schedule for testing the contingency plans is prepared. The schedule should set out when and how the plan is to be tested, independent of any reactive incident management that may have taken place. | 3 |
| b. | Review the contingency plan test results to determine if required actions have been actioned. | At present testing of the contingency plans has not occurred as there been five occasions where emergency plans have been implemented. These have related to both equipment failure and drinking water quality. Following the implementation of each contingency plan it has been reviewed and updated as necessary. | 3 |

Overall Assessment: 3

Overall Comments & Recommendations:

It is recommended that a schedule for testing the contingency plans is prepared. The schedule should set out when and how the plan is to be tested, independent of any reactive incident management that may have taken place.

6.2.10 Financial Planning

The financial planning component of the asset management plan brings together the financial elements of the scheme to ensure its financial viability over the long term.

| Item No. | Test | Comments | Effectiveness |
|----------|--|--|---------------|
| a. | Does the financial plan state the financial objectives and strategies and actions to achieve the objectives? | The 10 year financial plan states the aims, objectives and implementation strategy for the plan. | 4 |
| b. | Does the financial plan identify the source of funds for capital expenditure and recurrent costs? | Revenue breakdown is provided in the 10 year financial plan. | 4 |
| c. | Does the financial plan provide projections of operating statements (profit and loss) and statement of financial position (balance sheets)? | 10 year and Annual financial plans forecast profit and loss and financial position. | 4 |
| d. | Does the financial plan provide firm predictions on income for the next five years and reasonable indicative predictions beyond this period? | Yes. The 10 year and Annual financial plans forecast profit and loss and financial position. | 4 |
| e. | Does the financial plan provide for the operations and maintenance, administration and capital expenditure requirements of the services? | Annual financial plan details expenditure across BW business. | 4 |
| f. | Are significant variances in actual/budget income and expenses identified and corrective action taken where necessary? | No significant variances reported. | 3 |

Overall Assessment: 4

Overall Comments & Recommendations:

Nil

6.2.11 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. 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.

| Item No. | Test | Comments | Effectiveness |
|----------|---|---|---------------|
| a. | Is there a capital expenditure plan that covers issues to be addressed, actions proposed, responsibilities and dates? | The 10 year financial plan details capital expenditure. It includes a timeline for expenditure and identifies the responsible person. | 4 |
| b. | Does the plan provide reasons for capital expenditure and timing of expenditure? | Yes, an explanation and justification is provided for each capital item. | 4 |
| c. | Is the capital expenditure plan consistent with the asset life and condition identified in the asset management plan? | Yes. | 4 |
| d. | Is there an adequate process to ensure that the capital expenditure plan is regularly updated and actioned? | Annual review and update of capital plan. | 4 |

Overall Assessment: 4

Overall Comments & Recommendations:

Nil

6.2.12 Review of Asset Management Plan

Review of the asset management plan assists to ensure the effective development and operation of asset management plans.

| Item No. | Test | Comments | Effectiveness |
|----------|--|--|---------------|
| a. | Is a review process in place to ensure that asset management plans and the asset management system are kept current? | Yes, 24 month reviews, regular internal reviews. | 3 |
| b. | Are independent reviews (eg internal audit) performed of the asset management system? | Independent review every 24 months. | 3 |

Overall Assessment: 3

Overall Comments & Recommendations:

Nil

7 Recommendations

7.1 Non-compliances

The audit identified one non-compliance in respect to the operational aspects audited:

1. A MoU has not been entered into with the DoH.

While the absence of the MoU has been identified as a non-compliance it should be noted that BW has taken all steps possible to resolve this issue, including:

- Preparing a draft MoU that is awaiting DoH approval;
- Repeatedly contacting the DoH to resolve the outstanding issues associated with the approval of the MoU;
- Scheduling meetings with the DoH to discuss:
 - Clause 16.5 “As Auditor”; and
 - the redrafting Binding Protocol 3 ‘Emergency Co-ordination Plan’;
- waiting for the DoH to obtain legal advice on Clause 19.0 “Dispute Resolution” (DoH advice is this could take several months); and
- waiting on the DoH to redraft Schedule 1.

BW has advised the Chairman of the ERA of the above actions and provided the ERA with a copy of the draft MOU that has been negotiated to date showing the four sections which remain unresolved. Latest communications with the DoH indicated these issues should be resolved, and the MoU approved, by June 2009.

The review did not identify any non-compliances in respect to the asset management aspects audited.

7.2 Areas for Further Improvement

The audit/review has identified a number of areas that would benefit from further improvement. These are detailed in the following post-audit and review implementation plan (Tables 3, 4 and 5). The time frames proposed in the post-audit and review implementation plan reflects the fact that they relate to improvements rather than non-compliances. The time frames proposed take into account the need for the Board officers to maintain their current work practices and to undertake the recommended improvements over a period of time. They are intended to ensure that the product be a much more considered document rather than one that is rushed together.

8 Confirmation of the Audit/Review

I confirm that the audit/review carried out at Busselton Water in May and June 2009 and recorded in this report is an accurate presentation of our findings and opinions.



Chris Hopkins

SMEC Australia Pty Ltd

Level 6, 12 St George Terrace

Perth WA

8th July 2009

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