

Rottnest Island Authority

**Operational Audit and
Asset Management System Review 2009
(Water Licence)**

**Final Report
September 2009**



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Executive Summary

INTRODUCTION

The Rottneest Island Authority (RIA) has a Water Services Licence issued by the Economic Regulation Authority (ERA) under the Water Services Licensing Act 1995 (WA).

In accordance with Sections 36(1) and 37(1) of the Water Services Licensing Act 1995 (WA), the RIA is required to provide to the ERA an Operational Audit and Asset Management System Review of the Rottneest Island Water Services Operating Licence to cover the period 1 July 2008 to 30 June 2009.

The existing water licences were replaced with new standard form licences in August 2008. The ERA also developed a Water Compliance Reporting Manual (Reporting Manual) to accompany the new licences. The Reporting Manual consolidates all of the compliance reporting and performance reporting obligations for water licences into a single document.

Water licences now include a schedule setting out the service and performance standards applicable to the licence and a clause requiring licensees to provide data in accordance with the performance reporting obligations set out in the Reporting Manual. The current version of the Water Compliance Reporting Manual was released in March 2009.

In March 2009, in accordance with Section 39 of the *Water Services Licensing Act 1995 (WA)*, the ERA served notice to the RIA requiring the RIA to rectify its contravention of its Water Services Operating Licence. Specifically, the ERA requires the RIA to rectify the non-compliance with the clauses identified in the report titled Rottneest Island Authority, Audit Report, Operational Audit and Asset Management Review - Water Supply, Sewerage and Drainage Services, September 2008 by Quantum Consulting. The ERA required the RIA to rectify these contraventions by no later than 30 June 2009.

This audit comprised an Operational Audit of the RIA's compliance with the licence conditions and a review of the Asset Management System (AMS).

The objective of audit was to provide an assessment of the effectiveness of measures taken by the licensee to maintain the performance and quality standards referred to in the licence.

The objective of the Asset Management Review was to assess the adequacy and effectiveness of the asset management system in place for the planning, construction, operation and maintenance of the licensee's assets.

Our audit approach was based on the compliance obligations set out in the new standard form licence (Licence No 10, Version O L3), Water Compliance Reporting Manual and the Audit Guidelines issued by the ERA in 2006.

The audit/review applied a risk-based audit approach to focus on the systems and effectiveness of processes used to ensure compliance with the standards, outputs and outcomes required by the licence.

The audit/review covered the period from 1 July 2008 to 30 June 2009 inclusive.

CONCLUSION

Operational Audit

The audit reviewed the action taken on previous operational audit recommendations and confirmed that all recommendations have been completed. This demonstrates that there has been a major improvement in compliance with the licence conditions.

Through the execution of the Audit Plan and assessment and testing of the control environment, the information system, control procedures and compliance attitude, the audit team members have gained reasonable assurance that the Rottneest Island Authority has complied with its Water Services Operating Licence performance and quality standards

during the audit period 1 July 2008 to 30 June 2009 apart from one exception as noted below:

- Non-compliance with the Schedule 4 - Service & Performance Standards regarding the number of sewer blockages. There were 11 actual sewer breaks/blockages reported for the period 1 July 2008 to 30 June 2009. Under its licence the RIA has a target of no more than 2.4 blockages for its 6km sewer system (this equates to 40 blockages per 100 km of sewer). This target appears to be unattainable. The audit therefore recommends that the RIA and the ERA engage in discussion whether the current performance standards are appropriate and if not, renegotiate the performance standards.

Other improvements identified concerned the following:

- Tungsten's '*Water Services Customer Complaints Reporting Register*' needs to be amended to provide for resolution of complaints within 15 business days of being received;
- Tungsten's '*License and Permit Register – Rottnest Island – Facilities Management Contract*' needs to be updated to include the reporting requirements under the Water Compliance Reporting Manual; and
- The RIA's '*Utilities Compliance Spreadsheet*' needs to be updated to include the following requirements:
 - notification within 10 business days of any substantial changes to the Asset Management System to the ERA; and
 - sending a copy of the Customer Charter to all customers at least once in every 3 year period.

The audit confirmed the RIA has complied with its performance reporting and incidents reporting obligations for the period 1 July 2008 to 30 June 2009. The first compliance report, covering the 12 months to 30 June 2009, is to be provided to the ERA by 31 August 2009. This is outside of the audit period and compliance with this reporting requirement should be considered in the next operational audit.

Two possible amendments to the licence that the ERA may like to consider are suggested in the report. These relate to:

- amending the performance reporting timeframe to 31 July as per the ERA's Water Compliance Reporting Manual (rather than 31 October); and
- including a requirement for the RIA to publicly consult all stakeholders on any major changes to the operation of its water service.

In view of the significant improvement in the level of compliance noted in this audit, the ERA may wish to consider increasing the frequency of the next audit (and asset management review) from 12 to 24 months.

Asset Management Review

The review of the asset management system shows that there has been a significant improvement in processes since the previous review with all except one recommendation being implemented. The exception is partially completed and relates to commissioning test requirements for new assets not being explicitly listed in the Asset Management Plan (AMP).

For the audit period of 1 July 2008 to 30 June 2009, the asset management review concluded that effective asset management processes are operating and are quantitatively controlled. There were no major exceptions.

Several opportunities for further improvements have been recommended in the Post Audit Implementation Plan being:

- Update the Asset Management Plan to include sections on asset acquisition / creation and disposal (as was included in the previous version);

- Update the Asset Management Plan to include the commissioning test requirements for new assets;
- Consider conducting a formal training needs analysis for all roles in the asset management system; and
- Add a separate column "Date Completed" to the Risk Management Treatment Plan to show if tasks are completed ahead, on or behind schedule (rather than whether completed or not).

POST AUDIT IMPLEMENTATION PLAN

The Post Audit Implementation Plan provides a summary of the issues and recommendations from the operational audit and asset management review with management responses from the RIA.

The Post Audit Implementation Plan has been developed by the audit team in consultation with the licensee and has been approved by the licensee.

SIGN-OFF

We confirm that the ERA's Audit Guidelines: Electricity, Gas and Water Licences have been complied with in the conduct of this audit and the preparation of the report, and that the audit findings reflect our professional opinion.



GEOFF WHITE
DIRECTOR

29 SEPTEMBER 2009



Rottnest Island Authority

**Operational Audit and
Asset Management System Review 2009
(Water Licence)**

**Post Audit Implementation Plan
September 2009**

Post Audit Implementation Plan

No.	Issue	Compliance /Effectiveness Rating	Recommendation	Management Response	Person Responsible & Completion Date
1	Operational Audit				
1.1	<p>Notification of Changes in AMS (Items 4 & 44 – Clause 17.2)</p> <p>In accordance with the RIA's working document '<i>Internal Review of Asset Management System</i>', the RIA and Tungsten are to review the Asset Management System (Water) each January. Review Dates are included on the Tungsten Licence and Permit Register which is reviewed fortnightly as part of the regular FOU meetings between RIA and Tungsten. The first review of the AMS will take place in January 2010.</p> <p>The requirement for annual Internal Review of the AMS as well as the requirement to notify the ERA of any changes to the AMS is included also in the RIA's '<i>Utilities Compliance Spreadsheet</i>'. However, Audit noted that the required timeframe under this clause for such notification is not specified in the spreadsheet.</p>	4	The RIA's ' <i>Utilities Compliance Spreadsheet</i> ' should be updated with the required timeframe of 10 business days for notification to the ERA of any substantial changes to generating works or distribution system.	The ' <i>Utilities Compliance Spreadsheet</i> ' will be amended as recommended.	<p>Rob Smithson</p> <p>31 December 2009</p>
1.2	<p>Performance Standard for Sewer Breaks/Blockages (Item 7 – Clause 20.1)</p> <p>There were 11 actual sewer breaks/blockages reported for the period 1 July 2008 to 30 June 2009. Of the 11 reported blockages, 3 were suspected sanitary or nappy obstructions, 2 were mechanical, and 6 related to tree root obstruction.</p>	2	The RIA and the ERA should review whether the current performance standard for the maximum number of sewer breaks/blockages is appropriate and if not, renegotiate the performance standard.	The RIA will liaise with the ERA to make amendments to the licence so as to have achievable performance standards.	<p>Steve Clarke</p> <p>Rob Smithson</p> <p>30 June 2010</p>

No.	Issue	Compliance /Effectiveness Rating	Recommendation	Management Response	Person Responsible & Completion Date
	Under its licence the RIA has a target of no more than 2.4 blockages for its 6km sewer system (this equates to 40 blockages per 100 km of sewer). The Tungsten Contract Manager advised this target appears to be unattainable.				
1.3	<p>Customer Complaints – Response Time (Item 10 – Schedule 3 Clause 3.1)</p> <p>The audit noted that the Tungsten's '<i>Water Service Customer Complaints Reporting Register</i>' provides for 20 days within which the complaint must be responded to.</p>	4	The Tungsten's ' <i>Water Services Customer Complaints Reporting Register</i> ' should be amended to provide for resolution of complaints within 15 business days of receipt of a complaint.	Recommendation has been implemented.	Completed
1.4	<p>Customer Complaints – Option to Refer to the Department of Water (Item 15 – Schedule 3 Clause 3.4)</p> <p>The audit noted that the Customer Service Charter includes the requirement to advise the customer of their option. However, this is not documented in the '<i>Water Services Complaints Procedure</i>'.</p>	4	The Tungsten's ' <i>Water Services Complaints Procedure</i> ' should be amended to include the provisions in the Customer Service Charter about advising the customer of the option to refer disputed complaints to the Department of Water.	The procedure will be amended.	Steve Clark 31 October 2009
1.5	<p>Customer Complaints – Requests for Information (Item 15 – Schedule 3 Clause 3.6 and 7)</p> <p>The licensee must co-operate with the Department of Water's request for information concerning a disputed complaint.</p> <p>Audit sighted a policy note on the Compliance Manual file stating that: "In the event of a complaint being provided by a Government body to Tungsten the complaint and appropriate details will be presented at the next FOU meeting for appropriate action by the</p>	4	The Tungsten's ' <i>Water Services Complaints Procedure</i> ' should be amended to include the provision that if a request for information about a complaint is received from a Government body, this request will be complied with.	The procedure will be amended.	Steve Clark 31 October 2009

No.	Issue	Compliance /Effectiveness Rating	Recommendation	Management Response	Person Responsible & Completion Date
	RIA. This will be noted in the meeting minutes". This is not specifically stated in the 'Water Services Complaints Procedure'.				
1.6	<p>Customer Charter (Item 20 – Schedule 3 Clause 2.5)</p> <p>The Tungsten's '<i>Licence and Permit Register – Rottneest Island – Facilities Management Contract</i>' includes a reminder to send a copy of the customer charter to all customers upon review every 3 years.</p> <p>However, audit noted that the RIA's '<i>Utilities Compliance Spreadsheet</i>' is silent on the requirement to send a copy of the customer charter to all customers at least once in every 3 year period.</p>	4	The RIA's ' <i>Utilities Compliance Spreadsheet</i> ' should be updated to provide for the licence requirement to send a current copy of the customer charter to all customers at least once in every 3 year period.	The ' <i>Utilities Compliance Spreadsheet</i> ' will be amended as recommended.	<p>Rob Smithson</p> <p>31 December 2009</p>
1.7	<p>Performance Reporting Timeframes (Item 48 – Clause 21.2)</p> <p>Audit noted the discrepancy in the required performance reporting timeframes between the '<i>Water Compliance Reporting Manual</i>' and the Schedule 5 of the licence. The '<i>Water Compliance Reporting Manual</i>' requires the RIA to provide their annual performance reports to the ERA no later than 31 July (licensees who are not subject to the Urban Framework or the Rural Framework). Schedule 5 of the licence requires performance data for previous financial year to be submitted to the Authority by 31 October each year.</p> <p>Tungsten have an '<i>Information Reporting Requirements</i>' procedure in place to adhere to the</p>	4	<p>The ERA should align the annual performance reporting timeframes as per the '<i>Water Compliance Reporting Manual</i>' with those in Schedule 5 of the RIA's Water Services Operating Licence.</p> <p>Tungsten should update the annual performance reporting timeframe in their '<i>Information Reporting Requirements</i>' procedure accordingly. This is currently in line with the Schedule 5 of the licence, but not in line with the '<i>Water Compliance Reporting Manual</i>'.</p>	<p>The '<i>Licence and Permit Register – Rottneest Island – Facilities Management Contract</i>' will be amended as recommended.</p> <p>The '<i>Information Reporting Requirements</i>' procedure will be updated to reflect the correct annual performance reporting timeframe.</p>	<p>Steve Clarke</p> <p>Rob Smithson</p> <p>31 December 2009</p>

No.	Issue	Compliance /Effectiveness Rating	Recommendation	Management Response	Person Responsible & Completion Date
	<p>information reporting requirements. However, audit noted that the procedure requires performance data for previous financial year to be submitted to the Authority by 31 October each year. This is in line with the Schedule 5 of the licence, but not in line with the 'Water Compliance Reporting Manual'.</p> <p>Furthermore, audit also noted that Tungsten's 'License and Permit Register – Rottnest Island – Facilities Management Contract' does not include the annual performance and compliance reporting requirements to the ERA.</p>		<p>Tungsten's 'License and Permit Register – Rottnest Island – Facilities Management Contract' should be updated to provide for the annual performance and compliance reporting requirements to the ERA, including the required reporting timeframes.</p>		
2	Asset Management System Review				
2.1	<p>Asset Creation / Acquisition</p> <p>The current Government Procurement guidelines are used as the main guide for asset creation and acquisition.</p> <p>However, audit noted that the 'Creation / Acquisition / Augmentation Plan' section that was previously included in the draft 'Asset Management Plan – May 2008' was excluded from the current version of the AMP.</p> <p>Tungsten has developed a 'Commission Testing Procedure' procedure / guidelines which also includes a Content Checklist to be completed by the Project Manager.</p> <p>However, audit noted that reference to the 'Commission Testing Procedure' and commissioning</p>	2	<p>The Asset Management Plan should be updated to include a section on asset acquisition / creation outlining the asset acquisition policy that is followed.</p> <p>The Asset Management Plan should be updated to explicitly list commissioning test requirements for new assets and to provide a reference to the Tungsten 'Commission Testing Procedure' procedure / guidelines.</p>	<p>The Asset Management Plan is currently being reviewed and will be amended as recommended.</p>	<p>Steve Clarke Rob Smithson</p> <p>31 December 2009</p>

No.	Issue	Compliance /Effectiveness Rating	Recommendation	Management Response	Person Responsible & Completion Date
	test requirements for new assets have not been included in the AMP.				
2.2	<p>Asset Disposal</p> <p>The RIA and Tungsten follow the Department of Treasury & Finance ‘<i>Asset Disposal Policy – August 2005</i>’ policy that provides guidance to them to undertake the tasks necessary to identify and dispose of surplus assets.</p> <p>However, audit noted that the ‘<i>Disposal Plan</i>’ section that was previously included in the draft ‘<i>Asset Management Plan – May 2008</i>’ was excluded from the current version of the AMP.</p>	2	The Asset Management Plan should be updated to include a section on asset disposal outlining the disposal policy that is followed.	The Asset Management Plan is currently being reviewed and will be amended as recommended.	<p>Steve Clarke Rob Smithson</p> <p>31 December 2009</p>
2.3	<p>Asset Operations</p> <p>At present there is no specific training needs analysis undertaken for individual roles.</p>	2	The RIA should consider conducting a formal training needs analysis for all roles. At present a record of the training undertaken by each staff member is recorded in a training register along with the need for any refresher training. However this document does not specifically assess any additional training that may be required for each staff member during the upcoming year.	Further development is required by Programmed.	<p>Steve Clarke Rob Smithson</p> <p>30 June 2010</p>
2.4	<p>Asset Maintenance</p> <p>Preventative measures are detailed in the <i>Risk Management Treatment Plan</i>. Completion dates are removed and replaced with “completed” when done, so it is not possible to determine if they are completed on schedule or not.</p>	3	At present when a task is completed the “Due By” date is deleted and replaced with the text “Complete”. This makes it impossible to determine if the task was completed on schedule or not. It is	The Risk Management Treatment Plan will be amended during the next review.	<p>Steve Clarke Rob Smithson</p>

No.	Issue	Compliance /Effectiveness Rating	Recommendation	Management Response	Person Responsible & Completion Date
			recommended that a separate column "Date Completed" be added to the <i>Risk Management Treatment Plan</i> . This will clearly show if tasks are completed ahead, on or behind schedule.		31 January 2010

Rottnest Island Authority

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**Detailed Report
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1. Background

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In accordance with Sections 36(1) and 37(1) of the Water Services Licensing Act 1995 (WA), the RIA is required to provide to the ERA an Operational Audit and Asset Management System Review of the Rottneest Island Water Services Operating Licence to cover the period 1 July 2008 to 31 June 2009.

The existing water licences were replaced with new standard form licences in August 2008. The ERA also developed a Water Compliance Reporting Manual (Reporting Manual) to accompany the new licences. The Reporting Manual consolidates all of the compliance reporting and performance reporting obligations for water licences into a single document.

Water licences now include a schedule setting out the service and performance standards applicable to the licence and a clause requiring licensees to provide data in accordance with the performance reporting obligations set out in the Reporting Manual. The current version of the Water Compliance Reporting Manual was released in March 2009.

In March 2009, in accordance with Section 39 of the *Water Services Licensing Act 1995 (WA)*, the ERA served notice to the RIA requiring the RIA to rectify its contravention of its Water Services Operating Licence. Specifically, the ERA requires the RIA to rectify the non-compliance with the clauses identified in the report titled Rottneest Island Authority, Audit Report, Operational Audit and Asset Management Review - Water Supply, Sewerage and Drainage Services, September 2008 by Quantum Consulting. The ERA required the RIA to rectify these contraventions by no later than 30 June 2009.

This audit comprised an Operational Audit of the RIA's compliance with the licence conditions and a review of the Asset Management System.

Our audit approach was based on the compliance obligations set out in the new standard form licence (Licence No 10, Version OL3), Water Compliance Reporting Manual and the Audit Guidelines issued by the ERA in 2006 and is outlined below.

2. Audit/Review Approach

2.1 Objectives and Scope

2.1.1 Operational Audit

The objective of the Operational Audit was to provide an assessment of the effectiveness of measures taken by the licensee to maintain the performance and quality standards referred to in the licence.

The audit applied a risk-based audit approach to focus on the systems and effectiveness of processes used to ensure compliance with the standards, outputs and outcomes required by the licence.

The scope of the audit covered the period 1 July 2008 to 30 June 2009 in respect of the following:

- Risk assessment – the risks posed by non-compliance with the licence standards and development of a risk-based audit plan to focus on the higher risk areas, with less intensive coverage of medium and low risk areas;
- Process compliance - the effectiveness of systems and procedures in place throughout the audit period, including the adequacy of internal controls;
- Outcome compliance – the actual performance against standards prescribed in the licence throughout the audit period;
- Output compliance – the existence of the output from systems and procedures throughout the audit period (that is, proper records exist to provide assurance that procedures are being consistently followed and controls are being maintained);
- Integrity of performance reporting – the completeness and accuracy of the performance reporting to the ERA; and
- Compliance with any individual licence conditions – any specific requirements imposed by the ERA or specific issues for follow-up that are advised by the ERA.

The audit reviewed the status of the previous audit recommendations from the previous audit and also identified areas where improvement is required based on the current audit period.

2.1.2 Asset Management Review

The Water services License requires the RIA to provide for and maintain an asset management system. The objective of the Asset Management Review was to assess the adequacy and effectiveness of the asset management system in place for the planning, construction, operation and maintenance of the licensee's assets.

The scope of the review is to include an assessment of the adequacy and effectiveness of the asset management system for the period 1 July 2008 to 30 June 2009 by evaluating the key processes of:

- Asset planning
- Asset creation/acquisition
- Asset disposal
- Environmental analysis
- Asset operations
- Asset maintenance
- Asset management information system
- Risk management
- Contingency planning
- Financial planning
- Capital expenditure planning
- Review of the asset management system.

The audit reviewed the status of the previous audit recommendations from the previous audit and also identified areas where improvement is required based on the current audit period.

2.2 Audit Period and Timing

The audit covered the period 1 July 2008 to 30 June 2009 inclusive. The audit was conducted from 10th August 2009 to 28th August 2009.

2.3 Licensee's Representatives participating in the Audit

Rob Smithson	A/Contract Manager - FOU
Steve Clark	Senior Contract Manager (Tungsten Group (TG))

2.4 Key Documents Examined

- Rottnest Island Authority Water Services Operating Licence (10, version OL3), dated 15 May 2009;
- Rottnest Island Authority Operational Audit and Asset Management Review – Water Supply, Sewerage and Drainage Services, dated 30 January 2009;
- 'Section 39 – Water Services Licensing Act 1995 Notice of failure to comply with licence' issued to Rottnest Island by the Authority on 31 March 2009;
- Water Compliance Reporting Manual March 2009;
- RIA 2009 Water Compliance Manual;
- Rottnest Island Authority Operation of Water Services Customer Charter 2009;
- Facilities, Operations and Utilities Management Agreement between Rottnest Island Authority and Tungsten Group Pty Limited, dated September 2007;
- Rottnest Island Authority 'Utilities Compliance Spreadsheet';
- Rottnest Island Authority Asset Management Plan – Hydraulics, dated October 2008;
- Tungsten 'Notification of Asset Management System Changes' review procedure;
- Tungsten 'License and Permit Register – Rottnest Island- Facilities Management Contract';
- Tungsten 'Water Services Customer Complaints' procedure;
- Tungsten 'Flow Chart for Customer Complaints';
- Solitaire Trigwell's 'Certificate III in Customer Contact';
- Tungsten 'Water Services Customer Complaints Reporting Register';
- Tungsten 'Alternative Agreements to Provision of Water Services' work method statement;
- Draft Memorandum of Understanding between the Department of Health and Rottnest Island Authority for Drinking Water;
- Rottnest Island Authority 'Drinking Water Quality Plan', dated 18 November 2008;
- Rottnest Island Authority Annual Report 2007/2008;
- 'Internal Review of Asset Management System';
- Tungsten 'Information Reporting Requirements' work method statement;
- Annual Performance Data Sheets for the period 1 July 2008 to 30 June 2009;
- 5 Year Restoration and Replacement Plan;
- Annual Capital Expenditure Budget;
- Asset Register;
- Capital Works Program;
- Chlorine Cylinder Replacement;
- Hydraulics Asset Valuation 2008;

- Hydraulics Maintenance Plan Review Action Plan January to March 2009;
- Hydraulics Operations Budget Jul 08 – Jun 09;
- Monthly Budget Report July 2009;
- Program Planned Maintenance Schedule;
- Risk Management Procedure;
- Risk Management Treatment Plan;
- Rottnest Island Authority Water Quarterly Report July to September 2008;
- Rottnest Island Authority Water Quarterly Report October to December 2008;
- Rottnest Island Authority Water Quarterly Report January to March 2009;
- Rottnest Island Authority Water Quarterly Report April to June 2009;
- Rottnest Island Management Plan 2009 – 2014;
- Standard Water Sampling Instruction (Chemical); and
- Training Register.

2.5 Compliance Ratings

The RIA's compliance with the licence obligations was assessed using the following compliance ratings.

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	Does not meet minimum requirements
SIGNIFICANTLY NON-COMPLIANT	1	Significant weaknesses and/or serious action required

2.6 Effectiveness Ratings

The effectiveness of key processes in the asset management system was assessed using the following effectiveness ratings.

EFFECTIVENESS	RATING	DESCRIPTION
Continuously improving	5	Continuously improving organisation 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	No process in place

2.7 Audit Team and Hours

CONSULTANT	POSITION	HOURS
Geoff White	Director	10
Shane Gallagher	Manager	20
Andrea Stefkova	Senior Consultant	30
Chris Hopkins (SMEC)	Team Leader	30
	Total	90

We included in our team, SMEC, to perform a technical review of the following Sections as related to the RIA's asset management system and the overall Asset Management Plan:

- environmental analysis;
- asset maintenance;
- asset operations; and
- capital planning requirements.

Rottnest Island Authority

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**Detailed Report
- Operational Audit
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3. Operational Audit

The preliminary risk assessment included in the Audit Plan was reviewed and updated in the course of the audit and a compliance rating using the scale in Section 2.5 was assigned to each obligation under the licence, as shown in Section 3.1. Section 3.2 provides details of the current status of key recommendations from the previous audit. Section 3.3 provides further details of the systems and the compliance assessment for each obligation.

3.1 Summary of Compliance Ratings

The audit assessment of the compliance ratings for each licence condition is shown below.

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 (Low, Medium, High)	Adequacy of existing controls (S=strong, M=moderate, W=weak)	Compliance Rating (1=significantly non-compliant, 2=non-compliant, 3=compliant, 4=compliant, 5=compliant)				
						1	2	3	4	5
LICENCE COMPLIANCE REQUIREMENTS – WATER SERVICES LICENSING ACT 1995										
Water Services Licensing Act Section 32 (1) (a)		2	C	Medium	Strong					✓
Water Services Licensing Act Section 33	Cl.19	N/A	N/A	N/A	N/A					
Water Services Licensing Act Section 36 (1) (a)	Cl.17.1	2	B	Medium	Strong					✓
Water Services Licensing Act Section 36 (1) (b)	Cl.17.2	2	B	Medium	Moderate				✓	
Water Services Licensing Act Section 36 (1) (c)	Cl.17.3	2	B	Medium	Strong					✓
Water Services Licensing Act Section 37 (1)	Cl.16.1	2	B	Medium	Strong					✓
Water Services Licensing Act Section 38 (2)	Cl.20.1	2	B	Medium	Weak	✓				
LICENCE COMPLIANCE REQUIREMENTS – WATER COORDINATION REGULATIONS 1996										
Water Services Coordination Regulations Section 2	Cl.4.1	2	C	Medium	Strong					✓
LICENCE COMPLIANCE REQUIREMENTS – LICENCE CONDITIONS										
Customer Complaints	Cl.6.1	2	B	Medium	Strong					✓
	Sch.3(3.1)	2	B	Medium	Moderate				✓	
	Sch.3(3.8)	N/A	N/A	N/A	N/A					
	Sch.3(3.2 (b))	2	B	Medium	Strong					✓
	Sch.3(3.9 (b))	N/A	N/A	N/A	N/A					
	Sch.3(3.2 (d))	2	B	Medium	Strong					✓
	Sch.3(3.4)	2	B	Medium	Moderate				✓	
	Sch.3 (3.10)	N/A	N/A	N/A	N/A					
	Sch.3(3.6)	2	B	Medium	Moderate				✓	
Sch.3(3.7)	2	B	Medium	Moderate				✓		
Customer Service Charter	Cl.7.1	2	C	Medium	Strong					✓
	Sch.3(2.5)	2	C	Medium	Moderate				✓	
	Sch.3(2.6)	2	C	Medium	Strong					✓
	Sch.3(2.7)	2	C	Medium	Strong					✓
Customer Consultation	Cl.8	2	C	Medium	Strong					✓
	Sch.3(4.1)	2	C	Medium	Strong					✓

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 (Low, Medium, High)	Adequacy of existing controls (S=strong, M=moderate, W=weak)	Compliance Rating (1=significantly non-compliant, 2=non-compliant, 3=compliant, 4=compliant, 5=compliant)				
						1	2	3	4	5
	Sch.3(4.2)	2	C	Medium	Strong					✓
	Sch.3(4.3)	2	C	Medium	Strong					✓
	Sch.3(4.4)	N/A	N/A	N/A	N/A					
	Sch.3(4.5)	N/A	N/A	N/A	N/A					
	Sch.3(4.6)	N/A	N/A	N/A	N/A					
Customer Contracts	Sch.3(5.1)	2	C	Medium	Strong					✓
	Sch.3(5.4)	N/A	N/A	N/A	N/A					
Customer Survey	Sch.3(6.1)	2	C	Medium	Strong					✓
Memorandum of Understanding	Cl.9.1	3	B	High	Strong					✓
	Cl.9.2(c)	3	B	High	Moderate				✓	
	Cl.9.2(d)	3	B	High	Moderate				✓	
	Cl.9.2(e)	3	B	High	Moderate				✓	
	Cl.9.4	3	B	High	Moderate				✓	
	Cl.9.5	3	B	High	Moderate				✓	
	Cl.9.6	3	B	High	Moderate				✓	
	Cl.9.7	3	B	High	Strong					✓
Accounting Records	Cl.15.1	2	C	Medium	Strong					✓
Operational Audit	Cl.16.2	2	B	Medium	Strong					✓
Asset Management System Review	Cl.17.4	2	B	Medium	Strong					✓
	Cl.18.1	2	C	Medium	Moderate				✓	
	Cl.21.1	2	C	Medium	Strong					✓
Reporting	Cl.21.2	2	C	Medium	Moderate				✓	
Provision of Information	Cl.22.2 & 22.4	2	B	Medium	Strong					✓
	Sch.6(2.1)	2	C	Medium	Strong					✓
Publishing Information	Sch.6(2.2)	2	C	Medium	Strong					✓
Other Provisions	Sch.6(2.3)	2	C	Medium	Moderate				✓	
	Sch.6(2.3)	2	C	Medium	Moderate				✓	

3.2 Previous Audit Recommendations

The status of the key recommendations in the previous audit report issued on 30 January 2009 is summarised below.

Item no.	Licence Condition	Previous Audit Findings	Prev. Comp. Rating	Recommended Corrective Actions	Post Audit Action Plan	Action Taken	Status
1.1	Preparation of an Annual Drinking Water Plan Clause 16(c)(f)	The RIA is required to submit an annual drinking water plan to the ERA; this has not been done since 2006.	2	RIA to update and submit the Annual Drinking Water Plan annually to the ERA.	<i>In June 2008 the RIA engaged Aquaterra to review the existing drinking water quality plan. Aquaterra provided that plan on 3 December 2008.</i> <i>FOU Manager (RIA)</i> <i>Completed</i>	Audit confirmed that the RIA submitted a copy of its Drinking Water Quality Plan (DWQP) to the ERA on 8 December 2008. The licence no longer requires the RIA to provide a copy of the DWQP to the ERA. Rather the requirement is that the MOU and the associated documents are to be agreed with the Department of Health.	Completed
1.2	Compliance with Reporting Standards 15(a), Sch 2	The RIA has not complied with all the performance standards. For the year, the number of sewerage blockages was in excess of the standard of 40 blockages per 100 km of sewer main.	2	RIA to investigate reason for large increase in blockages and develop an action plan to address issue and provide a report to the Authority on the outcome of this investigation.	<i>Tungsten and the RIA have investigated the cause of the blockages; which relate to sand build-up and root intrusion. The RIA and Tungsten have purchased a portable pump and implemented a program of drain and sewer maintenance initially concentrating on known problem areas.</i> <i>FOU Manager (Tungsten)</i>	In April 2009, Perth Pressure Jet Services were engaged to undertake a CCTV inspection of all main sewer lines using the Wincan reporting program. The inspection confirmed that the primary cause of blockages were a result of root penetration and also build up of sand in the system. In conjunction with the CCTV inspection, PPJS also performed high pressure treatment of all identified locations to remove sand and	Completed

Item no.	Licence Condition	Previous Audit Findings	Prev. Comp. Rating	Recommended Corrective Actions	Post Audit Action Plan	Action Taken	Status
					<i>RIA/Contract Manager Completed</i>	<p>root intrusion. PPJS has developed a sewer fault spreadsheet and maintenance program to address blockages based on priority on an ongoing basis to minimise possibility of future blockages.</p> <p>The RIA reported on the outcome of this investigation on 9 July 2009.</p>	
1.3	Compliance Manual N/A	While the audit concluded that most of the licence obligations are being complied with, the audit evidence presented suggests the RIA lack an overarching framework required to ensure compliance.	N/A	Not able to be verified as no Compliance Manual for the organisation has been developed and implement a in order to manage critical compliance functions and assign responsibilities. The Compliance Manual should identify the licensee compliance requirements and briefly describe how each licence condition is being complied with, referencing documents, processes, etc. and linking to the relevant parts of the procedural manual.	<p><i>Tungsten has developed an electronic compliance manual. This has been approved by the RIA. Compliance is a standing item on the weekly contract management agenda.</i></p> <p><i>FOU Manager (RIA/Contract Manager (Tungsten)</i> Completed</p>	<p>A hardcopy file was also set up as the RIA 2009 Water Compliance Manual.</p> <p>Audit sighted the Compliance Manual.</p>	Completed

3.3 Audit Results and Recommendations

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
LICENCE COMPLIANCE REQUIREMENTS – WATER SERVICES LICENSING ACT 1995						
1	Water Services Licensing Act Section 32 (1) (a)		The licensee must provide the water service.		Tungsten are contracted by the Rottnest Island Authority to manage water services for the RIA. Audit sighted the <i>'Rottnest Island Facilities, Operations and Utilities Management Agreement'</i> between the RIA and Tungsten Group Pty Ltd, dated September 2007.	5
2	Water Services Licensing Act Section 33	Clause 19	The Licensee must achieve prescribed standards as defined in the regulations.	3	No individual performance standards were prescribed in relation to the licensee by the ERA.	N/A
3	Water Services Licensing Act Section 36 (1) (a)	Clause 17.1	The Licensee must have an Asset Management System in respect to the licensed activity.	3	The RIA has a comprehensive AMS, which is run under contract by the Tungsten Group. Tungsten's strategic plan to manage the life cycle of the assets within their control and responsibility at Rottnest Island is documented in the RIA Asset Management Plan – Hydraulics (May 2009). Tungsten accounts for all assets with Navision (Asset management system software).	5
4	Water	Clause 17.2	The Licensee must notify the	3	Tungsten has established a procedure <i>'Notification of Asset</i>	4

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
	Services Licensing Act Section 36 (1) (b)		Authority of any changes to the Asset Management System.		<p><i>Management System Changes</i> that requires the hydraulics coordinator (Tungsten) to notify the RIA of any changes to the Asset Management System. The RIA is to pass this information on to the ERA. There were no changes to the AMS in the audit period. The next internal review is due in January 2010</p> <p>The requirement to notify the ERA of any material changes to the Asset Management System within 10 business days is also included in Tungsten's <i>'Licence and Permit Register – Rottnest Island – Facilities Management Contract'</i>.</p> <p>In accordance with the RIA's working document <i>'Internal Review of Asset Management System'</i>, the RIA and Tungsten are to review the Asset Management System (Water) each January. Review Dates are included on the Tungsten Licence and Permit Register which is reviewed fortnightly as part of the regular FOU meetings between RIA and Tungsten. The first review of the AMS is due to occur in January 2010.</p> <p>The requirement for annual Internal Review of the AMS as well as the requirement to notify the ERA of any changes to the AMS is included in the RIA's <i>'Utilities Compliance Spreadsheet'</i>. However, Audit noted that the required timeframe under this clause for such notification is not specified in the spreadsheet.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> The RIA's <i>'Utilities Compliance Spreadsheet'</i> should be updated with the required timeframe of 10 business days for notification to the ERA of any substantial changes to generating works or distribution system. (Post Audit Implementation Plan item 1.1) 	

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
5	Water Services Licensing Act Section 36 (1) (c)	Clause 17.3	The Licensee must not less than once in every period of 24 months (or such other period determined by the Authority) provide the Authority with an independent expert report, acceptable to the Authority, on the effectiveness of the Asset Management System.	3	The Asset Management System Review is now being undertaken and will be completed within the prescribed time. Audit sighted letter (D10632) 'Asset Management System Review – Approval of Auditor' from ERA to RIA, dated 27 July 2009. Audit sighted the RIA's 'Utilities Compliance Spreadsheet' with audit dates included as part of the schedule of events to ensure regulatory timeframes are met.	5
6	Water Services Licensing Act Section 37 (1)	Clause 16.1	The Licensee must not less than once in every period of 24 months (or such other period determined by the Authority) provide the Authority with an operational audit conducted by an independent expert, acceptable to the Authority.	3	The Operational audit is now being undertaken and will be completed within the prescribed time. Audit sighted letter (D10632) 'Asset Management System Review – Approval of Auditor' from ERA to RIA, dated 27 July 2009. Audit sighted the RIA's 'Utilities Compliance Spreadsheet' with audit dates included as part of the schedule of events to ensure regulatory timeframes are met.	5
7	Water Services Licensing Act Section 38 (2)	Clause 20.1	The Licensee must comply with the service and performance standards as set out in Schedule 4.	3	Tungsten use Navision (a software system) to log and record all of the information as set out in Schedule 4 of the Water Operating Licence. This information can be taken from Navision and entered into a spreadsheet to present necessary findings as required by the Service and Performance Standards. There were 11 actual sewer breaks/blockages reported for the period 1 July 2008 to 30 June 2009. Of the 11 reported blockages, 3 were suspected sanitary or nappy obstructions, 2 were mechanical, and 6 related to tree root obstruction. Under its licence the RIA has a target of no more than 2.4 blockages for	2

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
					<p>its 6km sewer system (this equates to 40 blockages per 100 km of sewer). As advised by Tungsten's Senior Contract Manager, this target is unattainable.</p> <p>In April 2009, Perth Pressure Jet Services were engaged to undertake a CCTV inspection of all main sewer lines using the Wincan reporting program. In conjunction with the CCTV inspection, PPJS also performed high pressure treatment of all identified locations to remove sand and root intrusion. PPJS has developed a sewer fault spreadsheet and maintenance program to address blockages based on priority on an ongoing basis to minimise possibility of future blockages.</p> <p>The RIA also advised that blockages within the sewer system are on occasion caused by objects such as disposable nappies disposed of by visitors to the Island. The RIA is currently considering a number of options to address this issue, including the provision of designated bins and a collection services.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> The RIA and the ERA should review whether the current performance standard for maximum sewer breaks/blockages is appropriate and if not, renegotiate the standard. (<i>Post Audit Implementation Plan item 1.2</i>). 	

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
LICENCE COMPLIANCE REQUIREMENTS – WATER COORDINATION REGULATIONS 1996						
8	Water Services Coordination Regulations Section 2	Clause 4.1	The licensee must pay the applicable fees in accordance with the regulations.	5	<p>In accordance with the FOU Agreement, it is the Facilities Manager's responsibility to provide to the RIA a comprehensive report on the status of all the Licences applicable to the RIA and the Facilities Manager e.g. expiry, renewal requirements, etc.</p> <p>The RIA is responsible for paying the licence fee to the Authority. Current licence is valid until 2023.</p> <p>Tungsten maintains a '<i>License and Permit Register – Rottnest Island – Facilities Management Contract</i>' which includes fee payment dates. This register is reviewed fortnightly at the regular FOU meeting, and upcoming payments are captured here. In addition the ERA send out an invoice. As licence fees are only applicable for the application or renewal of a licence, no fees were due during this audit period.</p>	N/A
LICENCE COMPLIANCE REQUIREMENTS – LICENCE CONDITIONS						
9	Licence	Clause 6.1	The licensee must establish a customer complaints process as set out in Schedule 3.	3	<p>Tungsten has established an emergency telephone line and designed and distributed a fridge magnet with mobile telephone emergency number for faults/complaints to its customers. Tungsten also established a '<i>Water Services Customer Complaints</i>' procedure and a '<i>Water Services Customer Complaints Reporting Register</i>'.</p> <p>Also, the RIA's '<i>Operation of Water Services Customer Charter</i>' outlines the Emergency Assistance (section 1.8) and the Complaint Procedure</p>	5

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
					(section 3.4.2). As confirmed by the RIA's FOU Contract Manager and review of the Complaints Register, there were no complaints received during the reporting period. However, adequate processes are in place to record and action complaints (as noted above).	
10	Licence	Schedule 3 Clause 3.1	The licensee must resolve customer complaints within 15 business days of the receipt of complaint.	3	<p>The Tungsten's <i>'Water Service Customer Complaints'</i> procedure provides for all formal complaints to be acknowledged in writing within 10 working days and responded to in writing within 15 days by the Utilities and Operations Manager.</p> <p>Also, section 3.4.2 of the RIA's <i>'Operation of Water Services Customer Charter'</i> requires a representative of the RIA to acknowledge the complaint within 10 business days and to resolve the complaint within 15 business days.</p> <p>However, the audit noted that the Tungsten's <i>'Water Service Customer Complaints Reporting Register'</i> provides for 20 days within which the complaint must be responded to.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> ▪ The Tungsten's <i>'Water Services Customer Complaints Reporting Register'</i> should be amended to provide for resolution within 15 business days of receipt of a complaint. (Post Audit Implementation Plan item 1.3) 	4
12	Licence	Schedule 3 Clause 3.2 (b)	The licensee must provide appropriately trained staff to respond to complaints.	3	The first customer contact when a customer calls Tungsten is Solitaire Trigwell. Solitaire is trained to deal with customer complaints and holds a Certificate 3 in Customer Contact. A copy of the Certificate was sighted by the audit.	5

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
					Once registered, complaints are sent to RIA/Tungsten Contracts Manager for discussion and action through FOU meetings. If it is necessary to settle customer complaints/disputes by monetary compensation the matter will be referred to the FOU manager of Tungsten and dealt with by the FOU manager of Tungsten and RIA.	
14	Licence	Schedule 3 Clause 3.2 (d)	The licensee must provide an appropriate system to monitor and record the number, nature of and outcomes to complaints.	3	Tungsten has established the ' <i>Water Services Customer Complaints Reporting Register</i> ' for recording the number, nature and outcome of complaints. As confirmed by the RIA's FOU Contract Manager and review of the Complaints Register, there were no complaints received during the reporting period.	5
15	Licence	Schedule 3 Clause 3.4	Where a dispute has not been resolved within 15 business days, the licensee must inform the customer of the option of referring their complaint to the Department of Water.	3	Section 3.4.2 of the RIA's ' <i>Operation of Water Services Customer Charter</i> ' informs the customers of the option to refer a disputed complaint to the Department of Water. There is a documented " <i>Water Services Complaints Procedure</i> " but it does not specifically refer to the requirement to advise the customer of the above option if a complaint is not resolved. Recommendation: <i>The Tungsten's 'Water Services Complaints Procedure' should be amended to include the provisions in the Customer Service Charter about advising the customer of the option to refer disputed complaints to the Department of Water. (Post Audit Implementation Plan item 1.4)</i>	4
17	Licence	Schedule 3 Clause 3.6	The licensee must co-operate with the Department of Water's	3	Audit sighted a policy note on the Compliance Manual file stating that: "In the event of a complaint being provided by a Government body to	4

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
			request for information concerning a disputed complaint.		<p>Tungsten the complaint and appropriate details will be presented at the next FOU meeting for appropriate action by the RIA. This will be noted in the meeting minutes". This is not specifically stated in the 'Water Services Complaints Procedure'.</p> <p>Recommendation:</p> <p><i>The Tungsten's 'Water Services Complaints Procedure' should be amended to include the provision that if a request for information about a complaint is received from a Government body, this request will be complied with. (Post Audit Implementation Plan item 1.5)</i></p>	
18	Licence	Schedule 3 Clause 3.7	The licensee must, on request, provide complaints details to the Department of Water.	3	<p>Audit sighted a policy note on the Compliance Manual file stating that: "The RIA will make any relevant information available to the Department of Water upon request".</p> <p>This is not specifically stated in the 'Water Services Complaints Procedure'.</p> <p>Recommendation:</p> <p><i>The Tungsten's 'Water Services Complaints Procedure' should be amended to include the provision that if a request for information about a complaint is received from a Government body, this request will be complied with. (Post Audit Implementation Plan item 1.5)</i></p>	4
19	Licence	Clause 7.1	The licensee must establish a Customer Service Charter as set out in Schedule 3.	3	<p>Audit sighted the RIA's 'Operation of Water Services Customer Charter 2009' and an 'Approval of Rottneest Island Authority Customer Service Charter' by the ERA, dated 13 July 2009.</p>	5
20	Licence	Schedule 3 Clause 2.5	The licensee must make the Customer Service Charter	3	<p>RIA Water Service Customer Charter is available on the RIA website or by contacting the RIA on a telephone number as printed in the Customer</p>	4

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
			available to its customers.		<p>Charter.</p> <p>The Customer Charter is also displayed at the entrance to the RIA offices on Rottnest Island.</p> <p>Reference to the Customer Charter is also made in the Rottnest Island Chat magazine.</p> <p>Tungsten's '<i>Licence and Permit Register – Rottnest Island – Facilities Management Contract</i>' includes a reminder to send a copy of the Customer Charter to all customers upon review every 3 years. However, audit noted that the RIA's '<i>Utilities Compliance Spreadsheet</i>' is silent on the requirement to send a copy of the Customer Charter to all customers upon review every 3 years.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> The RIA's '<i>Utilities Compliance Spreadsheet</i>' should be updated to provide for the licence requirement to send a copy of the Customer Charter to all customers at least once in every 3 year period. (Post Audit Implementation Plan item 1.6) 	
21	Licence	Schedule 3 Clause 2.6	The licensee must review its Customer Service Charter at least once in every three year period.	3	<p>The revised RIA's '<i>Operation of Water Services Customer Charter 2009</i>' was approved by the Authority on 13 July 2009. Audit noted that the review has been undertaken within the required timeframe.</p> <p>Audit sighted the RIA's '<i>Utilities Compliance Spreadsheet</i>' with the due dates for review of the Customer Service Charter included as part of the schedule of events to ensure regulatory timeframes are met.</p>	5
22	Licence	Schedule 3 Clause 2.7	The licensee must provide its services consistent with its	3	The audit concluded that the RIA is providing its services consistent with the Customer Service Charter.	5

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
			Customer Service Charter.			
23	Licence	Clause 8	The licensee must establish customer consultation processes as set out in Schedule 3.	3	<p>The RIA consults with its customers via the Rottnest Island Business Community (RIBC) at its monthly meetings on matters relating to the licensee's levels of service under the Water Licence.</p> <p>The RIA publishes two regular newsletters (Island Chat and Rottnest News) which, when necessary, provide basic information about the licensee's water operations.</p>	5
24	Licence	Schedule 3 Clause 4.1	The licensee may either establish a Customer Council or institute at least 2 of the following: establish a regular meeting; publish a newsletter or run other public forums, concerning the licensed activities.	3	<p>The RIA consults with its customers, the Rottnest Island Business Community (RIBC), at its monthly meetings on matters relating to the licensee's levels of service under the Water Licence.</p> <p>The RIA publishes two regular newsletters (Island Chat and Rottnest News) which, when necessary, provide basic information about the licensee's water operations.</p> <p>Rottnest Island presents a unique situation in terms of a Water Services Operating Licence. The island is managed under the Rottnest Island Act and has a minimal number of customers directly engaged by the RIA to provide water services to them. As such the RIA has provided consultation forums in relation to the delivery of the water service through the Rottnest Island Business Community which meets on a regular basis.</p>	5
25	Licence	Schedule 3 Clause 4.2	The licence must consult the Authority on the type and extent of consultation to be adopted by the licensee.	3	Audit sighted the ERA's <i>'Approval of Rottnest Island Authority Customer Service Charter'</i> , dated 13 July 2009. From this document, the ERA confirmed, on the basis of information provided, that RIA undertook a sound level of public consultation with regard to the Customer Service Charter review.	5
26	Licence	Schedule 3	The licensee must, if at the	3	Audit sighted a policy note on the Compliance Manual file stating that:	5

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
		Clause 4.3	request of the Authority, establish other forums for consultations, to enable community involvement in issues relevant to licence obligations.		<p>"Upon request from the ERA the RIA will establish other forums for consultation, to enable community involvement in issues relevant to water obligations".</p> <p>No request has been made over the last reporting period. Therefore deemed compliant.</p>	
30	Licence	Schedule 3 Clause 5.1	The licensee may enter into an agreement with a customer to provide water services that may exclude, modify or restrict the terms of the licence.	3	Tungsten's 'Alternate agreements to provision of water services' procedure is in place to provide direction in the exceptional case of RIA entering into any agreement that is different to their normal operation of water services.	5
31	Licence	Schedule 3, Clause 5.4	The licensee must publish a report annually that includes the specified information	3	<p>Tungsten's 'Alternate agreements to provision of water services' procedure includes the annual reporting requirements.</p> <p>As confirmed by the FOU Contract Manager, no agreements were entered into with a customer to provide water services that exclude, modify or restrict the terms of the licence.</p>	N/A
32	Licence	Schedule 3 Clause 6	The licensee must conduct a customer survey if directed to by the Authority.	3	<p>No request has been made in this reporting period. Therefore deemed compliant.</p> <p>Audit sighted a policy note on the Compliance Manual file stating that: "If directed to do so by the ERA, the RIA would develop and conduct a customer survey".</p>	5
33	Licence	Clause 9.1	The licensee must enter into a MoU with the Department of Health (DoH).	1	In January 2009 Tungsten met with a representative from the Department of Health (DoH) seeking advice on what was required to put in place an appropriate Memorandum of Understanding (MOU) for drinking water. Subsequently, a draft MOU was provided to the DoH for comment/approval. Tungsten was advised by the DoH that due to the	5

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
					<p>DoH's current constraints they are unable to review this document within the reporting time period. Therefore, the RIA licence obligation could not be met through no fault of the RIA or the Tungsten Group.</p> <p>Subsequently, the ERA approved the RIA's request for an extension of time, until 31 July 2009, to submit its MOU to the ERA (ERA Ref.: LMCP/0627).</p> <p>Afterwards, the ERA proposed to amend the RIA's Operating Licence 10, Version OL3 by removing the requirement for RIA to seek the approval of the ERA for an extension of time, if it fails to put in place a MOU with the DoH within 3 months of the commencement date of the licence (ERA Ref.: LMCP/0349 & LMCP/0663).</p> <p>The ERA has revised sub-clause 9.1 as follows:</p> <p><i>"9.1 Where the licensee is, or intends to, provide potable water, the licensee must commence negotiations for a MOU with the Department of Health as soon as practicable after the commencement date".</i></p> <p>The DoH has indicated that further delays regarding their review and finalisation of these draft MoUs is anticipated.</p>	
34	Licence	Clause 9.2(c)	The licensee and DoH must review and renew the MoU every 3 years.	1	<p>A draft MOU was provided to the DoH for comment/approval.</p> <p>However, the requirement for a review and renewal of the MOU every 3 years has been already included in Tungsten's <i>'Licence and permit Register – Rottnest Island – Facilities Management Contract'</i>.</p>	4
35	Licence	Clause 9.2(d)	The licensee must provide the Authority with a complete copy of the MoU within one month of	1	<p>A draft MOU was provided to the DoH for comment/approval.</p> <p>However, the requirement to provide the ERA with a complete copy of the MOU within one month of entering into the MOU has been already</p>	4

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
			entering into the MoU.		included in Tungsten's ' <i>Licence and permit Register – Rottnest Island – Facilities Management Contract</i> '.	
36	Licence	Clause 9.2(e)	The licensee must provide the Authority with any amendments to the MoU within one month of entering into any amendments to the MoU.	1	A draft MOU was provided to the DoH for comment/approval. However, the requirement to provide the ERA with any amendments to the MOU within one month of entering into any amendments to the MOU has already been included in Tungsten's ' <i>Licence and permit Register – Rottnest Island – Facilities Management Contract</i> '.	4
37	Licence	Clause 9.4	The licensee must comply with the terms of the MoU.	1	A draft MOU was provided to the DoH for comment/approval. Audit sighted a policy statement on the Compliance Manual file stating that: " <i>The RIA will comply with the terms of the MOU by adhering to Tungsten's Hydraulic Operational Procedure Manual</i> ".	4
38	Licence	Clause 9.5	The licensee must publish the MoU and any amendments to the MoU within one month of signing (subject to the confidentiality clause 22.3 in the licence).	1	A draft MOU was provided to the DoH for comment/approval.	4
39	Licence	Clause 9.6	The licensee must publish the audit report on compliance with its obligations under the MoU on the licensee's web site within one month of the completion of the audit.	1	A draft MOU was provided to the DoH for comment/approval. Audit sighted a policy note on file stating that: " <i>The RIA is aware of this obligation and will publish the audit report on compliance on the RIA website within one month of the audit being completed</i> ".	4
40	Licence	Clause 9.7	The licensee must publish its Potable Water Quality Reports	1	Audit sighted copies of the RIA's <i>Water Quarterly Report July to September 2008; October to December 2008; January to March 2009</i>	5

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
			quarterly or at a reporting frequency agreed with the Department of Health		published on the RIA website. The requirement to publish the Quarterly Water Quality Reports is included in the RIA's ' <i>Utilities Compliance Spreadsheet</i> ' to ensure regulatory timeframes are met.	
41	Licence	Clause 15.1	The licensee must maintain accounting records.	5	The RIA is subject to the Financial Management Act 2006 and to the Auditor General Act 2006 [RIA Act 1987, sec. 40]. Certified Financial Statements were included in the ' <i>Annual Report 2007/08</i> ' and audited by the Auditor General.	5
42	Licence	Clause 16.2	The licensee must comply and require the licensee's auditor to comply with the Authority's Standard Audit Guidelines, minimum requirements regarding appointment of the auditor, scope of audit, conduct of the audit and reporting of the audit.	3	The RIA's ' <i>Audit Plan Water Services Operating Licence Operational Audit and Asset Management System Review</i> ', dated August 2009, stipulates compliance requirements on auditors.	5
45	Licence	Clause 17.4	The licensee must comply and require the licensee's expert to comply with the Authority's Standard Guidelines dealing with the asset management system review including, minimum requirements, regarding appointment of the expert reviewer, scope of review conduct of the review and	3	The RIA's ' <i>Audit Plan Water Services Operating Licence Operational Audit and Asset Management System Review</i> ', dated August 2009, stipulates compliance requirements on auditors.	5

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
			reporting of the outcomes of the review.			
46	Licence	Clause 18.1	The licensee must report to the Authority if it is under external administration within 2 business days or significant change in its financial or technical circumstances within 10 business days.	3	Confirmed with the RIA staff that there has been no significant change to the circumstances upon which the licence was granted which may affect the licensee's ability to meet its obligations under the licence during the audit period. Tungsten has developed an electronic Compliance Manual. This has been approved by the RIA. Compliance is a standing item on the fortnightly contract management agenda. A hardcopy file was also set up as the RIA 2009 Water Compliance Manual.	4
47	Licence	Clause 21.1	The licensee must provide any information the Authority may require in connection with its functions under the Act.	3	Under the FOU Agreement, Tungsten is responsible for ensuring the RIA is compliant in all its water licence and reporting requirements. Ultimately however any failure to comply is a failure of a licence holder regardless of contractual obligations with the facilities manager. Audit sighted the RIA's <i>'Utilities Compliance Spreadsheet'</i> with the due dates for the Annual Performance Report, the Annual Compliance Report and the Quarterly Water Quality Reports included as part of the schedule of events to ensure regulatory timeframes are met.	5
48	Licence	Clause 21.2	The licensee must comply with the information reporting requirements as set out in Schedule 5.	3	In accordance with the <i>'Water Compliance Reporting Manual'</i> , dated March 2009, the RIA is required to provide their annual performance reports to the ERA no later than 31 July (licensees who are not subject to the Urban Framework or the Rural Framework) for the reporting year ending 30 June, commencing from 31 July 2009. Annual report sighted for 2007/2008. It was due on 30 July 2008 and a letter kept on file by the RIA confirmed it was received on 25 July 2008	4

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
					<p>within the 30 day requirement.</p> <p>Audit noted the discrepancy in the required performance reporting timeframes between the <i>'Water Compliance Reporting Manual'</i> and the Schedule 5 of the licence which requires performance data for previous financial year to be submitted to the ERA by 31 October each year.</p> <p>The RIA was also required to provide to the ERA, incident reports relating to specified events within 5 business days of their occurrence during the licence period (although this is no longer required). Audit sighted copies of four Incident Reports for the period 1 July 2008 to 30 June 2009 submitted to the ERA and confirmed that there were submitted in a manner, time and format specified by the ERA. The Incident Reporting requirement was removed from the licence in July 2009.</p> <p>The RIA is also required to submit to the ERA a compliance report in respect of their Type 1 and Type 2 licence obligations. The first report, covering the 12 months to 30 June 2009, is to be provided to the ERA on or before 31 August 2009. This is outside of the audit period and compliance with this reporting requirement should be considered in the next operational audit.</p> <p>Tungsten has an <i>'Information Reporting Requirements'</i> procedure in place to adhere to the information reporting requirements. However, Audit noted that the procedure requires performance data for previous financial year to be submitted to the ERA by 31 October each year. This is in line with the Schedule 5 of the licence, but not in line with the <i>'Water Compliance Reporting Manual'</i>.</p> <p>Audit also noted that Tungsten's <i>'License and Permit Register – Rottnest Island – Facilities Management Contract'</i> does not include the annual performance and compliance reporting requirements to the ERA.</p>	

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
					Recommendations: <ul style="list-style-type: none"> ▪ The ERA should align the annual performance reporting timeframes as per the 'Water Compliance Reporting Manual' with those in Schedule 5 of the RIA's Water Services Operating Licence. ▪ Tungsten should update the annual performance reporting timeframe in their 'Information Reporting Requirements' procedure accordingly. This is currently in line with the Schedule 5 of the licence, but not in line with the 'Water Compliance Reporting Manual'. ▪ Tungsten's 'License and Permit Register – Rottnest Island – Facilities Management Contract' should be updated to provide for the annual performance and compliance reporting requirements to the ERA, including the required reporting timeframes. (Post Audit Implementation Plan item 1.7) 	
49	Licence	Clause 22.2 and 22.4	The licensee must publish relevant information directed to do so by the Authority within the specified timeframe.	3	<p>RIA and Tungsten have confirmed that no directions for publication have been received from the Authority. Therefore deemed compliant. If directed, any such information would be published on the RIA's website.</p> <p>Audit sighted a policy note on Compliance Manual file stating that: "If directed to do so by the ERA, the RIA will publish relevant information on its website within the specified timeframe".</p>	5
50	Licence	Sch.6(2.1)	The licensee must set out in writing its 'conditions of connection' and make that information available to all applicants for connection and to people inquiring about	3	Conditions of connections are outlined in the RIA's 'Operation of Water Services Customer Charter 2009'.	5

No	Obligation Under	Licence Condition	Description	Audit Priority (1=highest, 5=lowest)	System established to comply with licence obligation (including any potential improvements)	Compliance rating (1,2 = non-compliant 3,4,5 = compliant refer 2.5)
			connection.			
51	Licence	Sch.6(2.2)	The licensee must ensure that its services are available for connection on request to any land situated in the Operating Areas, subject to the applicant meeting any conditions the licensee may determine to ensure safe, reliable and financially viable supply of services to land in the Operating Areas in accordance with this licence and any Water Acts. Satisfactory compliance with the conditions of connection is to be taken as forming an essential requirement of gaining approval for connection to the licensee's schemes.	3	Conditions of connections are outlined in the RIA's ' <i>Operation of Water Services Customer Charter 2009</i> '. As confirmed by Tungsten's Senior Contract Manager, no requests for connection were refused during the audit period. Therefore deemed compliant.	4
52	Licence	Sch.6(2.3)	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.	3	As confirmed by Tungsten's Senior Contract Manager, no disconnection of a service has taken place during the audit period. Therefore deemed compliant.	4

3.4 Integrity of Performance Reporting

In accordance with the *'Water Compliance Reporting Manual'*, dated March 2009, the RIA is required to provide their annual performance reports to the ERA no later than 31 July (licensees who are not subject to the Urban Framework or the Rural Framework) for the reporting year ending 30 June, commencing from 31 July 2009.

The audit confirmed that the RIA has complied with its performance reporting obligation for the period of 1 July 2008 to 30 June 2009. The RIA's *'Utilities Compliance Spreadsheet'* is in place with the due dates for Annual Performance Report included as part of the schedule of events to ensure regulatory timeframes are met.

However, the audit noted a discrepancy in the required performance reporting timeframes between the *'Water Compliance Reporting Manual'* and the Schedule 5 of the licence. The *'Water Compliance Reporting Manual'* requires the RIA to provide their annual performance reports to the ERA no later than 31 July (licensees who are not subject to the Urban Framework or the Rural Framework). The Schedule 5 of the licence requires performance data for previous financial year to be submitted to the ERA by 31 October each year. Audit recommends that the ERA aligns the annual performance reporting timeframes between the two documents.

In accordance with the *'Water Compliance Reporting Manual'*, the RIA was also required to provide to the Authority incident reports relating to specified events within five business days of their occurrence. The audit confirmed that the RIA has complied with the incident reporting obligation for the period of 1 July 2008 to 30 June 2009. The Incident Reporting requirement was removed from the licence in July 2009.

RIA is also required to submit to the ERA a compliance report in respect of their Type 1 and Type 2 licence obligations. The first report, covering the 12 months to 30 June 2009, is to be provided to the ERA on or before 31 August 2009. This is outside of the audit period and compliance with this reporting requirement should be considered in the next operational audit.

All the RIA's reporting requirements are included in the RIA's *'Utilities Compliance Spreadsheet'* as part of the schedule of events to ensure regulatory timeframes are met. Under the FOU Agreement, Tungsten is responsible for ensuring the RIA is compliant with all its water licence and reporting requirements. The Tungsten's *'License and Permit Register – Rottnest Island – Facilities Management Contract'* should include all reporting requirements and is reviewed fortnightly at the FOU meeting. However, the audit noted that the register does not include the annual performance and compliance reporting requirements to the ERA, including the required reporting timeframes.

The audit made a recommendation to RIA to improve the strength of its internal controls to maintain compliance with its compliance reporting obligations (see Post Audit Implementation Plan item 1.5).

3.5 Recommended Changes to the Licence

The audit noted a discrepancy in the required performance reporting timeframes between the *'Water Compliance Reporting Manual'* and Schedule 5 of the licence. The *'Water Compliance Reporting Manual'* requires the RIA to provide their annual performance reports to the ERA no later than 31 July (licensees who are not subject to the Urban Framework or the Rural Framework). The Schedule 5 of the licence requires performance data for previous financial year to be submitted to the ERA by 31 October each year. Audit recommends that the ERA aligns the annual performance reporting timeframes between the two documents (*see item 1.5 of the Post Audit Implementation Plan*).

The audit also noted that item 28 (Schedule 3 Clause 4.5) of the 'Water Compliance Reporting Manual' stating: "*The licensee must prior to making a major change to the operation of a water service hold a public meeting and seek written submissions*" is not included in the current version of the Water Services Operating Licence (Operating Licence 10, version OL3). Audit considers that the requirement for the RIA to publicly consult stakeholders on all major changes to the operation of its water service is important and should be included in the licence.

3.6 Conclusion

The audit reviewed the action taken on previous operational audit recommendations and confirmed that all recommendations have been completed. This demonstrates that there has been a major improvement in compliance with the licence conditions.

Through the execution of the Audit Plan and assessment and testing of the control environment, the information system, control procedures and compliance attitude, the audit team members have gained reasonable assurance that the Rottneest Island Authority has complied with its Water Services Operating Licence performance and quality standards during the audit period 1 July 2008 to 30 June 2009 apart from one exception as noted below:

- Non-compliance with the Schedule 4 - Service & Performance Standards regarding the number of sewer blockages. There were 11 actual sewer breaks/blockages reported for the period 1 July 2008 to 30 June 2009. Under its licence the RIA has a target of no more than 2.4 blockages for its 6km sewer system (this equates to 40 blockages per 100 km of sewer). This target appears to be unattainable. The audit therefore recommends that the RIA and the ERA engage in discussion whether the current performance standards are appropriate and if not, renegotiate the performance standards.

Other improvements identified concerned the following:

- Tungsten's '*Water Services Customer Complaints Reporting Register*' needs to be amended to provide for resolution of complaints within 15 business days of being received;
- Tungsten's '*License and Permit Register – Rottneest Island – Facilities Management Contract*' needs to be updated to include the reporting requirements under the Water Compliance Reporting Manual; and
- The RIA's '*Utilities Compliance Spreadsheet*' needs to be updated to include the following requirements:
 - notification within 10 business days of any substantial changes to the Asset Management System to the ERA; and
 - sending a copy of the Customer Charter to all customers at least once in every 3 year period.

The audit confirmed the RIA has complied with its performance reporting and incidents reporting obligations for the period 1 July 2008 to 30 June 2009. The first compliance report, covering the 12 months to 30 June 2009, is to be provided to the ERA by 31 August 2009. This is outside of the audit period and compliance with this reporting requirement should be considered in the next operational audit.

Two possible amendments to the licence that the ERA may like to consider are suggested in the report. These relate to:

- amending the performance reporting timeframe to 31 July as per the ERA's Water Compliance Reporting Manual (rather than 31 October); and
- including a requirement for the RIA to publicly consult all stakeholders on any major changes to the operation of its water service.

In view of the significant improvement in the level of compliance noted in this audit, the ERA may wish to consider increasing the frequency of the next audit from 12 to 24 months.

Rottnest Island Authority

**Operational Audit and
Asset Management System Review 2009
(Water Licence)**

**Detailed Report
- Asset Management System Review**

September 2009

4. Asset Management Review

The effectiveness of the licensee's asset management system was assessed using the Asset Management System (AMS) Effectiveness Matrix provided by the ERA in the Audit Guidelines.

The matrix provides criteria to assess the effectiveness of the following key processes:

- Asset planning;
- Asset creation/acquisition;
- Asset disposal;
- Environmental analysis;
- Risk management;
- Contingency planning;
- Asset management information system;
- Asset operations;
- Asset maintenance;
- Financial planning;
- Capital expenditure planning; and
- Review of the asset management system.

The review has assessed the above key processes of the asset management system and a compliance rating using the scale in section 2.6 was assigned to each process, as shown in Section 4.1.

Section 4.2 provides details of the current status of key recommendations from the previous review.

Section 4.3 provides further details of the systems and the effectiveness rating for each key process in the asset management system.

4.1 Summary of Effectiveness Ratings

The audit assessment of the effectiveness ratings for each key process in the RIA's asset management system is shown in the table below.

ASSET MANAGEMENT SYSTEM		Not Performed	Performed Informally	Planned and tracked	Well defined	Quantitatively Controlled	Continuously Improving
Process	Effectiveness Rating	0	1	2	3	4	5
1. Asset planning							
2. Asset creation/ acquisition							
3. Asset disposal							
4. Environmental analysis							
5. Risk management							
6. Contingency planning							
7. Asset management information system							
8. Asset operations							
9. Asset maintenance							
10. Financial planning							
11. Capital expenditure planning							
12. Review of the asset management system							

Section 4.3 provides further details of the systems and the effectiveness rating for each key process in the asset management system.

4.2 Previous Review Recommendations

The status of the key recommendations in the previous audit report issued on 30 January 2009 is summarised below.

Item no.	Asset Management Element	Previous Review Findings	Prev. Effect. Rating	Recommended Corrective Actions	Post Audit Action Plan	Action Taken	Status
2.1	Asset Planning	Tungsten has developed an Asset Management Plan for RIA; it is currently in draft format.	2	<p>RIA and Tungsten to finalise the AMP and RIA to formally approve the AMP.</p> <p>The following additions need to be made to the AMP</p> <ul style="list-style-type: none"> • Non-asset options; • Lifecycle costs; • Commissioning test requirements; • Capital expenditure planning; • Two year rolling maintenance strategy and five year rolling asset management programme; • Asset performance, condition and effective life and GPS coordinates; and • Contingency plans and control measures in place to deal with identified risks. 	<p><i>Tungsten and RIA are meeting on 8 October 2008 to progress.</i></p> <p><i>FOU Manager (RIA)</i></p> <p><i>30 December 2008</i></p>	<p>Audit sighted the 'Asset Management Plan-Hydraulics', dated May 2009, and a letter from the RIA, dated 19 June 2009, approving the AMP. As advised by Tungsten, the ERA has been notified that the AMP was finalised, the ERA did not request a copy nor was one provided to them.</p> <p>Audit noted that all previously recommended additions were made to the AMP, with the exception of commissioning test requirements.</p> <p>Although Tungsten has developed a 'Commission Testing Procedure' procedure / guidelines, reference to the 'Commission Testing Procedure' and commissioning test requirements for new</p>	Partially Completed

Item no.	Asset Management Element	Previous Review Findings	Prev. Effect. Rating	Recommended Corrective Actions	Post Audit Action Plan	Action Taken	Status
						assets have not been included in the AMP. (<i>Post Audit Implementation Plan item 2.1</i>)	
2.2	Risk Management Plan	The Risk Management Plan that Tungsten has developed for RIA is still to be finalised.	2	RIA finalise the Risk Management Plan. Refer section 4.3 for issues that need to be addressed.	<i>Tungsten and RIA are meeting 8 October 2008 to progress.</i> <i>FOU Manager (RIA)</i> <i>30 December 2008</i>	Audit sighted Tungsten's 'Risk Management Plan', revised 1 March 2009, and a letter from the RIA, dated 8 July 2009, approving the plan.	Completed
2.3	Risk Management Treatment Plan	Risk areas have been assessed in accordance with the draft Risk Management Plan, but there is no Risk Treatment Plan or a formalised monitoring process as outlined in the plan.	2	RIA to develop a Risk Treatment Plan in consultation with Tungsten and a formalised risk monitoring process. The Risk Treatment Plan should include links to Asset Operations and Maintenance. The Risk Management Plan requires finalising and details of Risk Treatment and Monitoring are required.	<i>The RIA has requested Tungsten to provide a Risk Treatment Plan to supplement the Risk Management Plan.</i> <i>Contract Manager Tungsten</i> <i>The Risk Treatment Plan and monitoring in place by 28 February 2009.</i>	The risks associated with each asset have been documented and measures developed to manage these risks have been identified and the residual risk calculated in the 'Risk Management Treatment Plan'. The Plan has considered Asset Operations and Maintenance. For example, spare parts for critical items are now kept.	Completed
2.4	Asset Management System Reviews	There was no evidence of any reviews of the AMS undertaken during the audit period although this review can be considered an independent review. A minor issue is that no	4	RIA to develop and implement an Asset Management System review procedure/process RIA to maintain copies of all review reports and keep on file to show reviews occurred.	<i>The AMS is reviewed every year as required by the Facilities Management contract with Tungsten.</i> <i>The RIA keeps electronic copies of reviews and reports on its electronic record</i>	In accordance with the RIA's working document 'Internal Review of Asset Management System', the RIA and Tungsten are to review the Asset Management System (Water) each January. Review Dates are included	Completed

Item no.	Asset Management Element	Previous Review Findings	Prev. Effect. Rating	Recommended Corrective Actions	Post Audit Action Plan	Action Taken	Status
		hardcopy file is kept of reports and actions from external reviews of the Asset Management System whether by audit or other contractors.			<p><i>keeping system (TRIM). The RIA maintains separate files relating to utility licences including audits, reviews and general correspondence. (Note this is not an AMSR's requirement but an additional process)</i></p> <p><i>Tungsten Contract Manager/FOU Contract Manager RIA. June 2009</i></p>	<p>on the Tungsten Licence and Permit Register which is reviewed fortnightly as part of the regular FOU meetings between the RIA and Tungsten. The first review of the AMS is due to take place in January 2010.</p> <p>The audit confirmed that proper records are being kept by the RIA regarding the water licence audits, reviews and general correspondence.</p>	
2.5	Asset Register	An asset register has been developed, however this does not include asset condition, effective life and GPS coordinates.	2	RIA to ensure the asset register is updated to include asset condition, effective life and GPS coordinates.	<p><i>Tungsten to update the Asset Register to include the asset condition, effective life and GPS coordinates.</i></p> <p><i>Contract Manager Tungsten June 2009</i></p>	<p><i>The 'Asset register' (Feb 2009) details equipment, type, description, location (GPS coordinates), work request details, current life cycle and status of the assets lifecycle.</i></p>	Completed
2.6	Contingency Planning	Evacuation plan and 17 days water supply requirements in place, but no planning specific to water risks e.g., water contamination, pipeline failure, wastewater treatment	1	RIA to develop in conjunction with Transfield, a detailed contingency plan and to implement a testing regime to ensure the Plan's effectiveness and currency. This plan should assess all risks and put in place the appropriate contingency plans, i.e. water	<p><i>The RIA has requested Tungsten to provide a Risk Treatment Plan (including contingency plans and a testing regime).</i></p> <p><i>Contract Manager Tungsten</i></p>	<p>The Tungsten 'Rottnest Island Water Services Recovery/Contingency Plan' dated January 2009 is in place providing different scenarios and action plans. A schedule for Hydraulic Services Recovery Plan Drill is</p>	Completed

Item no.	Asset Management Element	Previous Review Findings	Prev. Effect. Rating	Recommended Corrective Actions	Post Audit Action Plan	Action Taken	Status
		plant failure.		contamination, major pipeline failure, wastewater treatment plant failure etc.	<i>June 2009</i>	included at the back of the plan. According to the schedule, each month a different scenario is to be tested, starting in July 2009.	
2.7	Maintenance Plans	The draft AMP says there is work being done in collating and analysing maintenance records to determine the number and type of failures. The draft AMP outlines the process to attain desired levels of service and part of that process is to revise maintenance schedules where necessary. This has not yet been implemented.	2	Tungsten to complete work on collating and analysing maintenance records to enable maintenance plans to be adjusted.	<i>Tungsten will complete. Contract Manager Tungsten June 2009</i>	All reactive works (e.g. sewer blockages) are recorded in the Navision computer system. This data is reviewed on a quarterly basis. The information on all reactive works is exported from Navision to Excel where it is sorted by asset type to identify any multiple failures or failure patterns. Where these occur, an action plan is developed and implemented to prevent further similar asset failures.	Completed

4.3 Review Results and Recommendations

Item no.	Criteria (refer AMS Effectiveness Matrix in Audit Guidelines)	Observations and results (including any potential improvements)	Effectiveness Rating (0=not performed, 1=performed informally, 2=planned & tracked, 3=well-defined, 4=quantitatively controlled, 5=continuously improving - refer 2.6)
1	ASSET PLANNING		4
1.1	Planning process and objectives reflect the needs of all stakeholders and is integrated with business planning.	<p>The <i>'Rottneest Island Management Plan 2009-2014'</i> (RIMP) identifies high level issues facing Rottneest Island development, including utilities.</p> <p><i>'Facility, Operation and Utility Management Agreement 2007'</i> (FOU Contract) establishes requirements for an Asset Management Plan.</p> <p>Asset strategies are evaluated in the <i>'Asset Management Plan'</i>, May 2009 (AMP), which includes maintenance, restoration and replacement strategies.</p> <p>The level of services is constructed from visitor feedback and strategic planning of the RIA. Needs of stakeholders are assessed from customer surveys. Objectives of the <i>'Strategic Development Plan 2007/08-2011/12'</i>, Sep. 2007 (SDP) included a KPI of 700 public submissions for 2007-08. A series of surveys were carried out during 2007/08 and results reported in the <i>'RI Visitor Research, Final Report 2007/2008 Results'</i> by Synovate in July 2008.</p>	4
1.2	Service levels are defined.	<p>Levels of Service are defined in the AMP including current and desired levels of service.</p> <p>Section 6 of the AMP also sets short term, medium term and long term asset specific targets to provide a focus and strategy for the management of assets.</p> <p>Also the <i>'Facility, Operation and Utility Management Agreement'</i> includes a schedule with the Service Level Agreement and Key Performance Indicators.</p>	4
1.3	Non-asset options (e.g. demand management) are considered.	Section 3 of the AMP considers future demand management issues. Section 4.7 of the AMP provides a policy statement on consideration of non-asset options.	3
1.4	Lifecycle costs of owning and operating assets are assessed.	FOU agreement sets responsibilities for costing. Details and service records for the water assets are held within the Tungsten Group asset management system (Navision)	4

Item no.	Criteria (refer AMS Effectiveness Matrix in Audit Guidelines)	Observations and results (including any potential improvements)	Effectiveness Rating (0=not performed, 1=performed informally, 2=planned & tracked, 3=well-defined, 4=quantitatively controlled, 5=continuously improving - refer 2.6)
		<p>and managed by the Tungsten Group. All service records and asset management plans prior to October 2007 were not completed by the Tungsten, although the records are kept on file for the development of the existing plans and historical analysis.</p> <p>Whole of life costing including '5 Year Forecast Expenditure Summary' up to 2012/13 is included in the AMP. The '5 Year Forecast Expenditure Summary' is supported by the '5 Year Operational Budget Forecast', '5 Year Restoration Maintenance Budget Forecast' and '5 Year Replacement Budget Forecast'.</p>	
1.5	Funding options are evaluated.	<p>The 'Rottneest Island Strategic Development Plan 2009-2014' sets up the high level sources of funding.</p> <p>Section 5 of the plan further states that an "investment in utilities infrastructure is required due its age and expected future demand. The RIA's responsibility for providing and maintaining its own utilities cannot be supported in the current funding framework. A review is underway to determine the most cost-effective solution including outsourcing or shifting the responsibility to relevant government agencies."</p>	3
1.6	Costs are justified and cost drivers identified.	<p>The FOU Agreement sets responsibilities for costing.</p> <p>Key Performance Indicators (KPIs) have been developed under the FOU Agreement, and are reviewed and agreed annually by the RIA and Tungsten to ensure they continue to provide meaningful and appropriate measure to monitor the performance of the service delivery. Budget to actual are provided by Tungsten to RIA on a monthly basis including KPIs.</p>	4
1.7	Likelihood and consequences of asset failure are predicted.	<p>The AMP identifies high level system risks and allocates a proportion of the available budget to address these risks.</p> <p>Specific budget allocations are then prepared based on the detailed risk assessment in the 'Risk Management Treatment Plan', with expenditure priorities and detailed in the '5 Year Restoration and Replacement Plan' and the 'Program Planned Maintenance Schedule'.</p>	4

Item no.	Criteria (refer AMS Effectiveness Matrix in Audit Guidelines)	Observations and results (including any potential improvements)	Effectiveness Rating (0=not performed, 1=performed informally, 2=planned & tracked, 3=well-defined, 4=quantitatively controlled, 5=continuously improving - refer 2.6)
1.8	Plans are regularly reviewed and updated.	Section 6 of the AMP provides for review of the AMP on an annual basis. The annual review shall analyse and identify areas for improvements. Short term, medium term and long term asset specific targets are reviewed as part of the annual review.	4
2	ASSET CREATION/ ACQUISITION		3
2.1	Full project evaluations are undertaken for new assets, including comparative assessment of non-asset solutions.	New projects are reviewed through the Business Case preparation. The current Government Procurement guidelines are used as the main guide for asset creation and acquisition. However, Audit noted that the ' <i>Creation / Acquisition / Augmentation Plan</i> ' section that was previously included in the draft ' <i>Asset Management Plan – May 2008</i> ' was excluded from the current version of the AMP. Recommendation: <ul style="list-style-type: none"> ▪ The Asset Management Plan should be updated to include a section on asset acquisition / creation outlining the asset acquisition policy that is followed. (<i>Post Audit Implementation Plan item 2.1</i>) 	2
2.2	Evaluations include all life-cycle costs.	Whole of life costing including ' <i>5 Year Forecast Expenditure Summary</i> ' up to 2012/13 is included in the AMP. The ' <i>5 Year Forecast Expenditure Summary</i> ' is supported by the ' <i>5 Year Operational Budget Forecast</i> ', ' <i>5 Year Restoration Maintenance Budget Forecast</i> ' and ' <i>5 Year Replacement Budget Forecast</i> '. As no business case evaluations were carried out during the review period, it was not possible to verify that life cycle costs are included in business case evaluations. Tungsten and the RIA follow the Department of Treasury and Finance (DTF) policy and procedures which include whole of life costing in business case evaluations.	3
2.3	Projects reflect sound engineering and	The RIA is reliant on outside expertise for engineering advice. Business decisions are	3

Item no.	Criteria (refer AMS Effectiveness Matrix in Audit Guidelines)	Observations and results (including any potential improvements)	Effectiveness Rating (0=not performed, 1=performed informally, 2=planned & tracked, 3=well-defined, 4=quantitatively controlled, 5=continuously improving - refer 2.6)
	business decisions.	made based on recommendations from the Rottneest Island Taskforce report.	
2.4	Commissioning tests are documented and completed.	<p>Tungsten has developed a '<i>Commission Testing Procedure</i>' procedure / guidelines which also includes a Content Checklist to be completed by the Project Manager.</p> <p>However, the audit noted that reference to the '<i>Commission Testing Procedure</i>' and commissioning test requirements for new assets have not been included in the AMP.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> ▪ The Asset Management Plan should be updated to explicitly list commissioning test requirements for new assets and to provide a reference to the Tungsten '<i>Commission Testing Procedure</i>' procedure / guidelines. (Post Audit Implementation Plan item 2.1) 	2
2.5	Ongoing legal/environmental/safety obligations of the asset owner are assigned and understood.	The FOU Agreement between RIA and Tungsten assigns responsibilities to the contractor for management of those obligations related to the water licence. Tungsten report regularly on any issues to the RIA, and maintain a ' <i>Licence and Permit Register – Rottneest Island – Facilities Management Contract</i> '.	4
3	ASSET DISPOSAL		4
3.1	Under-utilised and under-performing assets are identified as part of a regular systematic review process.	<p>Key Performance Indicators (KPIs) have been developed under the FOU Agreement, and are reviewed and agreed annually by the RIA and Tungsten to ensure they continue to provide meaningful and appropriate measure to monitor the performance of the service delivery.</p> <p>Tungsten's Team Leaders and department meetings (3 weekly, pre-planned every 6 months) address problems and highlight recurring issues. Records of reactive jobs provide further evidence of asset performance. Process of review is complemented by meetings between Tungsten and the RIA.</p>	4
3.2	The reasons for under-utilisation or poor performance are critically examined and	Routine reports (as per item 3.1 above) are produced to highlight performance and required asset management actions.	4

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	corrective action or disposal undertaken.	Asset performance is discussed at fortnightly FOU Contract meetings. Once problem areas are identified, investigations are carried out resulting in issue of "Action Plans". Corrective actions are summarised in AMP '5 Year Restoration and Replacement Plan'.	
3.3	Disposal alternatives are evaluated.	The RIA and Tungsten follow the Department of Treasury & Finance 'Asset Disposal Policy – August 2005' policy that provides guidance to them to undertake the tasks necessary to identify and dispose of surplus assets. There are no examples of asset disposal for the review period. A DTF officer is engaged by the RIA to handle DTF related procedures. However, audit noted that the 'Disposal Plan' section that was previously included in the draft 'Asset Management Plan – May 2008' was excluded from the current version of the AMP. Recommendation: ▪ The <i>Asset Management Plan</i> should be updated to include a section on asset disposal outlining the disposal policy that is followed. (<i>Post Audit Implementation Plan item 2.2</i>)	2
3.4	There is a replacement strategy for assets.	The FOU Contract sets up responsibilities for compliance with asset management requirements. Small items covered through ongoing maintenance budget. The Capital Works Budget looks at the period within the next 12 months and also medium range.	4
4	ENVIRONMENTAL ANALYSIS		4
4.1	Opportunities and threats in the system environment are assessed.	Environmental opportunities and threats are identified at three levels: 1. Island wide level – 'RIA Management Plan 2009 – 2014' identifies high level environmental risks to the island including those associated with water operations; 2. System level – Section 4.9.2 of the AMP identifies environmental risks associated	4

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		with water assets; and 3. Individual asset level – The ' <i>Risk Management Treatment Plan</i> ' identifies the opportunities and threats at an asset specific level.	
4.2	Performance standards (availability of service, capacity, continuity, emergency response, etc) are measured and achieved.	Key Performance Indicators (KPI's) are detailed on page 13 of the <i>AMP</i> . These identify the performance requirements of the system. The KPI's reviewed on the following basis: <ul style="list-style-type: none"> ▪ quarterly review of blockages and leaks; ▪ monthly water supply reports; and ▪ monthly budgeting reports. The information is then recorded and tracked using Navision software to determine if the performance requirements are being met.	4
4.3	Compliance with statutory and regulatory requirements.	Section 2.1 of the <i>AMP</i> documents regulatory obligations. Requirements are being met and reports to ERA have been completed as per schedule.	4
4.4	Achievement of customer service levels.	In the past year, there have been 3 variances to quality standards as a result of storm damage. These assets have been repaired. Customer feedback and service performance indicates that the assets are meeting the customer's required standards.	3
5	ASSET OPERATIONS		4
5.1	Operational policies and procedures are documented and linked to service levels required.	Operational procedures and policies have been documented. Each procedure references the relevant policies. Procedures are reviewed annually and signed off by managers and staff implementing the procedure.	4
5.2	Risk management is applied to prioritise operations tasks.	KPI's on page 13 of the <i>AMP</i> include a risk rating that is related back to the operational budget. The risks associated with each asset have been documented and measures developed to manage these risks have been identified and the residual risk calculated in the ' <i>Risk</i>	4

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		<p><i>Management Treatment Plan</i>'. This document is reviewed annually in February.</p> <p>Each asset is then addressed / prioritised in the rolling '<i>5 Year Restoration and Replacement Plan</i>' which details the cost and year of replacement for each asset.</p>	
5.3	Assets are documented in an Asset Register including asset type, location, material, plans of components, and an assessment of assets' physical/structural condition and accounting data.	<p><i>The Asset register</i> (Feb 2009) details equipment, type, description, location (GPS coordinates), work request details, current life cycle and status of the assets lifecycle.</p> <p>Asset lifestyle status is determined on age of asset and its estimated life span (e.g. 10yr life is 8yrs old, status is 80%).</p>	4
5.4	Operational costs are measured and monitored.	<p>Operational costs are measured and monitored on a monthly and annual basis.</p> <p>In accordance with the AMP KPI 5.1 (page 15), a comprehensive monthly budget report is prepared for the RIA detailing all operational costs. The document is reviewed for budget variations and the reasons for these variations.</p> <p>The budget is also reviewed in the fortnightly staff meetings.</p>	4
5.5	Staff receive training commensurate with their responsibilities.	<p>Training registers are maintained and are informally reviewed (every couple of months) to ensure staff competencies etc are kept up to date. Induction records are maintained</p> <p>Staff qualifications are checked prior to employment</p> <p>At present there is no specific training needs analysis undertaken for individual roles.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> ▪ RIA should consider conducting a formal training needs analysis for all roles. At present a record of the training undertaken by each staff member is recorded in a training register along with the need for any refresher training. However this document does not specifically assess any additional training that may be required for each staff member during the upcoming year. (<i>Post Audit Implementation Plan item 2.3</i>). 	2

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6	ASSET MAINTENANCE		4
6.1	Maintenance policies and procedures are documented and linked to service levels required.	Operational procedures and policies have been well documented and linked to the relevant service levels. Each procedure references the relevant policies. Procedures are reviewed annually and signed off by managers and staff implementing the procedure.	4
6.2	Regular inspections are undertaken of asset performance and condition.	A ' <i>Program Planned Maintenance Schedule</i> ' has been prepared and inspections of asset performance and condition are undertaken in accordance with this schedule.	4
6.3	Maintenance plans (emergency, corrective and preventative) are documented and completed on schedule.	<p>Maintenance plans have been well documented and scheduled.</p> <p>Preventative measures are detailed in the '<i>Risk Management Treatment Plan</i>' (completion dates are removed and replaced with completed when done, so it is not possible to determine if they are completed on schedule).</p> <p>A number of actions are due to be signed off in August 2009. As the AMP is currently being reviewed these actions will be reviewed and the '<i>Risk Management Treatment Plan</i>' updated following the AMP review.</p> <p>It is recommended that a separate column "Date Completed" be added to the <i>Risk Management Treatment Plan</i> so the scheduled and actual completion dates are known.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> ▪ At present when a task is completed the "Due By" date is deleted and replaced with the text "Complete". This makes it impossible to determine if the task was completed on schedule or not. It is recommended that a separate column "Date Completed" be added to the '<i>Risk Management Treatment Plan</i>'. This will clearly show if tasks are completed ahead, on or behind schedule. (<i>Post Audit Implementation Plan item 2.4</i>). 	3
6.4	Failures are analysed and operational/maintenance plans adjusted	All reactive works (e.g. sewer blockages) are recorded in the Navision computer system.	4

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	where necessary.	This data is reviewed on a quarterly basis. The information on all reactive works exported from Navision to Excel where they are sorted by asset type to identify any multiple failures or failure patterns. Where these occur an action plan is developed and implemented to prevent further similar asset failures.	
6.5	Risk management is applied to prioritise maintenance tasks.	<p>Maintenance tasks are prioritised based on their associated risk as identified in the <i>AMP</i> and the '<i>Risk Management Treatment Plan</i>'.</p> <p>The <i>AMP</i> identifies high level system risks and allocates a proportion of the available budget to address these risks.</p> <p>Specific budget allocations are then prepared based on the detailed risk assessment in the '<i>Risk Management Treatment Plan</i>', with expenditure priorities and detailed in the '<i>5 Year Restoration and Replacement Plan</i>' and the '<i>Program Planned Maintenance Schedule</i>'.</p>	4
6.6	Maintenance costs are measured and monitored.	<p>The '<i>5 Year Restoration and Replacement Plan</i>' sets budgets / costs for asset management, with an annual capital expenditure budget developed based on this data.</p> <p>Where a one-off job is required (e.g. asset failure) these are tracked using a one off project number.</p> <p>A monthly budget report is prepared for the RIA detailing all operational costs. This is also reviewed in fortnightly staff meetings.</p>	4
7	ASSET MANAGEMENT INFORMATION SYSTEM		4
7.1	Adequate system documentation for users and IT operators.	<p>Tungsten uses a system called Navision to track and manage maintenance. It also provides reports to Tungsten management. There is an online help system for users.</p> <p>The asset register is a separate electronic document which lists the individual assets.</p>	4
7.2	Input controls include appropriate verification and validation of data entered	Only authorised users can make changes to schedules and maintenance, staff update work done and identify any amendments necessary.	4

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	into the system.	Controls are performed by management through review of output reports.	
7.3	Logical security access controls appear adequate, such as passwords.	There are individual user logons, and passwords to the Navision system. Only Tungsten staff have access to the system. Depending on their role, some users only have read access to this information.	4
7.4	Physical security access controls appear adequate.	Confirmed with the Facility Services Manager that Tungsten's offices and depot building on the island are kept locked and secure out of normal operating hours. A procedure is in place. Key lock entry to office and warehouse, padlocks at gates, keys are restricted to authorised personnel. No alarms are in place.	4
7.5	Data backup procedures appear adequate.	Confirmed with the Facility Services Manager that Tungsten have a local backup server in East Perth, and their network is also connected back into the organisation's main server in Melbourne.	4
7.6	Key computations related to licensee performance reporting are materially accurate.	Tungsten staff do a weekly reading; this is entered into a spreadsheet. Some of this comes from the monitoring system called Scitech; this monitors power and system operations. There are also some manual readings. Any unusual readings are followed up and investigated by Tungsten staff.	4
7.7	Management reports appear adequate for the licensee to monitor licence obligations.	There are manually prepared weekly FOU operational reports sent to the RIA. These include any operational issues and licence compliance matters. There are reports on ongoing and outstanding service orders reports used by Tungsten internally.	4
8	RISK MANAGEMENT		4
8.1	Risk management policies and procedures exist and are being applied to minimise internal and external risks associated with the asset management system.	Audit sighted Tungsten's ' <i>Risk Management Plan</i> ', revised 1 March 2009, and a letter from the RIA, dated 8 July 2009, approving the ' <i>Risk Management Plan</i> '. A high level risk workshop and assessment was undertaken by the Tungsten Group and the RIA in late April 2008. The workshop provided a high level risk profile of the assets and has been completed to identify and quantify the risks associated with each of the	4

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		asset groups. This was then developed into the ' <i>Risk Management Treatment Plan</i> '.	
8.2	Risks are documented in a risk register and treatment plans are actioned and monitored.	<p>The risks associated with each asset have been documented and measures developed to manage these risks have been identified and the residual risk calculated in the '<i>Risk Management Treatment Plan</i>'. The '<i>Risk Management Treatment Plan</i>' also outlines the further action required, allocated the responsibility for risk mitigation and states required completion date.</p> <p>However, the audit noted that completion dates are removed and replaced with completed when done, so it is not possible to determine if they are completed on schedule. It is recommended that a separate column "Date Completed" be added to the '<i>Risk Management Treatment Plan</i>' so the scheduled and actual completion dates are known <i>(as per the Post Audit Implementation Plan item 2.4)</i>.</p>	3
8.3	The probability and consequences of asset failure are regularly assessed.	The ' <i>Risk Management Treatment Plan</i> ' identifies potential risks, consequences if risk arises, severity, likelihood, inherent risk and residual risk/consequences with option in place. This document is reviewed annually in February.	4
9	CONTINGENCY PLANNING		4
9.1	Contingency plans are documented, understood and tested to confirm their operability and to cover higher risks.	<p>The Tungsten '<i>Rottnest Island Water Services Recovery/Contingency Plan</i>' dated January 2009 is in place providing different scenarios and action plans. A schedule for the Hydraulic Services Recovery Plan Drill is included at the back of the plan.</p> <p>According to the schedule, each month a different scenario is to be tested, starting in July 2009. This is outside of the audit period and compliance with testing the contingency planning scenarios as per the schedule should be considered in the next operational audit.</p>	3
10	FINANCIAL PLANNING		4
10.1	The financial plan states the financial objectives and strategies and actions to	The RIA have a ' <i>Statement of Corporate Intent</i> ' and a ' <i>Strategic Development Plan</i> '. These two documents include objectives, strategies, and actions to meet the objectives.	4

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	achieve the objectives.		
10.2	The financial plan identifies the source of funds for capital expenditure and recurrent costs.	The RIA ' <i>Strategic Development Plan</i> ' includes anticipated source of funds and also alternatives to meet anticipated operating and capital costs.	4
10.3	The financial plan provides projections of operating statements (profit and loss) and statement of financial position (balance sheets).	The RIA ' <i>Strategic Development Plan</i> ' includes projected yearly operating statements up to June 2012. Statements of financial position are included in the RIA's budget papers for the next 5 years.	4
10.4	The financial plan provides firm predictions on income for the next five years and reasonable indicative predictions beyond this period.	The RIA ' <i>Strategic Development Plan</i> ' includes projected yearly operating statements with income up to June 2012.	4
10.5	The financial plan provides for the operations and maintenance, administration and capital expenditure requirements of the services.	The RIA ' <i>Strategic Development Plan</i> ' includes projected yearly operating statements with income up to June 2012; this includes the Facilities Management Agreement costs, as well as projected capital works up to 2013.	4
10.6	Significant variances in actual/budget income and expenses are identified and corrective action taken where necessary.	A monthly budget report is prepared for the RIA detailing all operational costs. Variations are reviewed by RIA FOU Contract Manager. Queries are raised on Tungsten. Issues are discussed at FOU meetings. Separate review carried out by the Finance Committee and output documentation forms part of the Board Agenda.	4
11	CAPITAL EXPENDITURE PLANNING		4
11.1	There is a capital expenditure plan that covers issues to be addressed, actions proposed, responsibilities and dates.	The ' <i>5 Year Restoration and Replacement Plan</i> ' sets out the budgets / costs for undertaking all asset management on the island. An <i>annual capital expenditure budget</i> is developed based on the data in this plan.	4

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		From this budget a ' <i>Capital Works Program</i> ' is prepared that identifies the areas where money is to be spent, the tasks required, the person/position responsible and the required completion date.	
11.2	The plan provides reasons for capital expenditure and timing of expenditure.	Reasons for expenditure allocations in the ' <i>Capital Works Program</i> ' are based on the ' <i>5 Year Restoration and Replacement Plan</i> ' which details specific budgets and timings for asset management.	3
11.3	The capital expenditure plan is consistent with the asset life and condition identified in the asset management plan.	<i>The 'Capital Works Program'</i> is consistent and linked to the ' <i>5 Year Restoration and Replacement Plan</i> ' and the ' <i>Asset Register</i> '.	4
11.4	There is an adequate process to ensure that the capital expenditure plan is regularly updated and actioned.	<i>'Capital Works Program'</i> is reviewed annually. Where a major failure occurs these are addressed in the fortnightly meetings and detailed in the monthly reports and annual budget report.	4
12	REVIEW OF AMS		4
12.1	A review process is in place to ensure that the asset management plan and the asset management system described therein are kept current.	The AMP provides for review of the AMP on an annual basis. The annual review shall analyse and identify areas for improvements. Under the terms of the FOU Agreement (schedule 4 item 1.4), the AMP's including the AMS is to be reviewed annually. In accordance with the RIA's working document ' <i>Internal Review of Asset Management System</i> ', the RIA and Tungsten are to review the Asset Management System (Water) each January. Review Dates are included on the Tungsten Licence and Permit Register which is reviewed fortnightly as part of the regular FOU meetings between RIA and Tungsten. The first review of the AMS will take place in January 2010. The requirement for annual Internal Review of AMS as well as the requirement to notify the ERA of any changes to the AMS is included also in the RIA's ' <i>Utilities Compliance Spreadsheet</i> '.	4

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12.2	Independent reviews (e.g. internal audit) are performed of the asset management system.	<p>An independent review of the AMS is performed as part of the water licence audit for the ERA.</p> <p>The RIA keeps electronic copies of reviews and reports on its electronic record keeping system (TRIM). The RIA maintains separate files relating to utility licences including audits, reviews and general correspondence.</p>	4

4.4 Conclusion

The review of the asset management system shows that there has been a significant improvement in processes since the previous review with all except one recommendation being implemented. The exception is partially completed and relates to commissioning test requirements for new assets not being explicitly listed in the Asset Management Plan (AMP).

For the audit period of 1 July 2008 to 30 June 2009, the asset management review concluded that effective asset management processes are operating and are quantitatively controlled. There were no major exceptions.

Several opportunities for further improvements have been recommended in the Post Audit Implementation Plan being:

- Update the Asset Management Plan to include sections on asset acquisition / creation and disposal (as was included in the previous version);
- Update the Asset Management Plan to include the commissioning test requirements for new assets;
- Consider conducting a formal training needs analysis for all roles in the asset management system; and
- Add a separate column "Date Completed" to the Risk Management Treatment Plan to show if tasks are completed ahead, on or behind schedule (rather than whether completed or not).

END OF REPORT