

Ord Irrigation Cooperative Ltd

Asset Management Review

18 November 2009

PAXON | GROUP

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Executive Summary

Background

Regulation of the water services industry in Western Australia is governed by the Water Services Licensing Act 1995 (the "Act"). The Act establishes a regulatory framework surrounding the provision of water services primarily by way of a licensing scheme administered by the Economic Regulation Authority (the "Authority").

Under the Act, providers of water supply, sewerage, irrigation and drainage services within controlled areas must be licensed. The licence set a range of conditions, including minimum service standards and regular reporting.

The Authority has issued Ord Irrigation Cooperative Ltd (the "Licensee") in 29th November 2002, with a Water Services Operating Licence. The Licensee is required to provide the Authority, not less than every 24 months (or such longer period as the Authority permits): a report on the effectiveness of its asset management system under Section 36 of the Act. The combined delivery system of Ord Irrigation Cooperative Ltd consists of 129 connections, approximately 159 kilometres of earth lined channels and is controlled by approximately 120 flow regulators.

The audit has been conducted in order to assess the Ord Irrigation Cooperative Ltd (OIC) effectiveness of the asset management system in place.

Summary Opinion on the Control Environment

The control environment operated by the Licensee is assessed to be satisfactory. Ord Irrigation Cooperative Ltd has in place the necessary measures to ensure assets are managed effectively.

However, there are business improvement opportunities raised to improve the current business process. Refer to the 'Summary of Issues and Recommendations' table below for further details.

Overall Assessment

Asset management system "the Greenbase" and procedures are currently in place and appropriate to the scale and value of assets under management. All aspects of the effectiveness criteria of asset management showed the dedication and competence of Ord Irrigation Cooperative Ltd, office and field staff in achieving the effectiveness of the Asset Management System.

Summary of Issues and Recommendations

Asset Management System	Issue	Recommendation	Post Audit Action Plan	Person Responsible / Date of Implementation
Asset Creation / Acquisition	Policies and procedures covering the creation and acquisition of assets are not documented.	<ul style="list-style-type: none"> ▪ A policy must be formulated, documented and approved for asset creation/acquisition. ▪ Procedures for the asset creation/acquisition must be documented. 	Develop an Asset Creation policy and procedures document for Board approval.	CEO, 30 March 2010
Asset Disposals	Procedures to identify under-performing assets, disposal of assets and replacement strategy procedures are not documented.	<ul style="list-style-type: none"> ▪ A policy must be formulated, documented and approved for asset disposal. ▪ Procedures for the asset disposal must be documented. 	Develop an Asset Disposals policy and procedures document for Board approval.	CEO, 30 March 2010
Environmental Analysis	OIC do not have any customer service levels targets to help monitor OIC's performance.	<ul style="list-style-type: none"> ▪ Customer service level targets should be developed, measured and monitored. 	Develop customer service benchmarks and test them annually through a customer survey.	CEO, 31 October 2010
Financial Planning	Financial plan not comprehensive and do not have clear financial objectives and strategies.	<ul style="list-style-type: none"> ▪ Finance plan should include clear financial objectives and strategies and the action plan to achieve objectives. 	Develop a 5-year financial plan to be updated annually for Board approval.	CEO, 30 June 2010
Capital Expenditure Planning	Capital expenditure plan not prepared for the audit period.	<ul style="list-style-type: none"> ▪ Capital expenditure plan be prepared and this plan should be approved by the Board. 	Develop a 5-year capital expenditure plan, to be updated annually for Board approval.	CEO, 30 June 2010



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Audit Objective and Methodology

1.1 Audit Objective

The objective of Asset Management System (AMS) review is to assess the adequacy and effectiveness of the asset management system in place for the planning, constructions, operation and maintenance of the licensee's assets.

The review will identify any areas where improvements are required and recommend corrective action as necessary.

The scope of the audit will cover the following areas:

- Asset Planning;
- Asset Creation/Acquisition;
- Asset Disposals;
- Environmental Analysis;
- Asset Operations;
- Asset Maintenance;
- Asset Management Information System;
- Risk Management;
- Contingency Planning;
- Financial Planning;
- Capital Expenditure Planning; and
- Review of AMS

1.2 Audit Approach

Methodology

The consultants:

- Carried out a preliminary risk assessment to determine the amount of audit examination and testing that is to applied to each asset management component;
- Met with the Licensee's representative to agree on the methodology for the asset management system review;
- Discussed the review plan with the Licensee's representative.
- Amended the review plan as appropriate;
- Obtained review plan approval from the Authority.

Fieldwork

- Confirmed action taken on any previous audit recommendations.
- Undertook the visit to the licensee to assess effectiveness of Licensee's asset management system with the following activities:
 - Assess the measures taken by the licensee for the proper management of assets used in the provision and operation of services;
 - Assessment of the adequacy and effectiveness of the asset management system by evaluating the 12 key processes of:
 - (i) Asset Planning
 - (ii) Asset Creation/Acquisition
 - (iii) Asset Disposal
 - (iv) Environmental Analysis
 - (v) Asset Operations
 - (vi) Asset Maintenance
 - (vii) Asset Management Information System
 - (viii) Risk Management
 - (ix) Contingency Planning
 - (x) Financial Planning
 - (xi) Capital Expenditure Planning
 - (xii) Review of the Asset Management System;

Audit Reporting

- Prior to the conclusion of the audit visit, discussed observation and recommendation with the representative of the licensee to confirm understanding of the issue and, if possible, to agree upon the action to be taken.

-
- Provided a draft report to the licensee for review and response to the recommendations in a 'post-audit implementation plan', including the proposed corrective action and timeframe.
 - Provided a final draft report, including the post-audit implementation plan, to the Authority for final review and acceptance of the report.

1.3 Period Covered for this Audit

The audit covered the period from 1 June 2007 to 31 May 2009.

1.4 Period Covered during the previous Audit

The period covered by the previous audit was from 1 June 2005 to 31 May 2007.

1.5 Period Audit Conducted

The audit was being undertaken from 31 August 2009 to 10 September 2009.

1.6 Ord Irrigation Representatives

The following representative of Ord Irrigation Cooperative Ltd participated in the audit:

Chief Executive Office	Geoff Strickland
Office Manager	Marie Clothier
Operations Manager	Bruce Carwardine

1.7 List of Source Documents

The following references were used during the preparation of this report:

1. Water Services Operating Licence for Ord Irrigation Cooperative Ltd – Version OL2 (15 May 2009)
2. Ord Irrigation Asset Management Plan
3. Ord Irrigation Statement of Balance Sheet at 30/06/2009
4. Ord Irrigation Statement of Income for the year ended 30/06/2009
5. Ord Irrigation Statement of Cash Flows for the year ended 30/06/2009
6. Economic Regulation Authority – Audit Guidelines: Electricity, Gas and Water Licence (July 2009)
7. Ord Irrigation Cooperative Asset Management and Maintenance System
8. Risk Management Policy
9. Disaster Management Policy
10. Ord Irrigation Cooperative Ltd Profit & Loss Budget Overview July 2009 to June 2010
11. OIC Budget Using Original Fixed and Volumetric Rates

12. 2008 Asset Management Plan review memorandum

1.8 Audit Team

The team comprised:

Position	Name	Hours
Director	Cameron Palassis	1
Senior Audit Manager	Suma George	14
Audit Consultant	Jeslyn Leong	54
TOTAL		69 *

* - Indicate the total hours used for both Operational Audit and Asset Management System Review.

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Previous Audit Recommendations

Item No.	Recommendation	Action Taken	Resolved / Unresolved
1.	Asset Management Plan is not updated to reflect its current assets conditions.	Asset Management Plan was reviewed and updated in August 2008.	Resolved.

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Performance Summary

3.1 Asset Management Process and Policy Definition Adequacy Ratings

Compliance Status	Rating	Description of Compliance
A	Adequately defined	<ul style="list-style-type: none"> Processes and policies are documented. Processes and policies adequately document the required performance of the assets. Processes and policies are subject to regular reviews, and updated where necessary. The asset management information system(s) are adequate in relation to the assets that are being managed.
B	Requires some improvement	<ul style="list-style-type: none"> Process and policy documentation requires improvements. Processes and policies do not adequately document the required performance of the assets. Reviews of processes and policies are not conducted regularly enough. The asset management information system(s) require minor improvements (taking into consideration the assets that are being managed).
C	Requires significant improvement	<ul style="list-style-type: none"> Process and policy documentation is incomplete or requires significant improvement. Processes and policies do not document the required performance of the assets. Processes and policies are significantly out of date. The asset management information system(s) require significant improvements (taking into consideration the assets that are being managed).
D	Inadequate	<ul style="list-style-type: none"> Processes and policies are not documented. The asset management information system(s) is not fit for purpose (taking into consideration the assets that are being managed).

3.2 Asset Management Performance Ratings

Rating	Description	Criteria
1	Performing effectively	<ul style="list-style-type: none"> The performance of the process meets or exceeds the required levels of performance. Process effectiveness is regularly assessed, and corrective action taken when necessary.
2	Opportunity for improvement	<ul style="list-style-type: none"> The performance of the process requires some improvements to meet the required level. Process effectiveness reviews are not performed regularly enough. Process improvement opportunities are not actioned.
3	Corrective action required	<ul style="list-style-type: none"> The performance of the process requires significant improvements to meet the required level. Process effectiveness reviews are performed irregularly, or not at all. Process improvement opportunities are not actioned.
4	Serious action required	<ul style="list-style-type: none"> Process is not performed, or the performance is so poor that the process is considered to be ineffective.

3.3 Asset Management Effectiveness Summary

Asset Management System	Asset management process and policy definition adequacy rating	Asset management performance rating
Asset Planning	A	2
Asset creation/acquisition	C	2
Asset disposal	C	2
Environmental analysis	A	3
Asset operations	A	1
Asset maintenance	A	1
Asset Management Information System	A	1
Risk management	A	1
Contingency planning	A	1
Financial planning	B	3
Capital expenditure planning	B	3
Review of AMS	A	1

4 Observations and Recommendations

Asset Management System	Findings	Recommendations	Asset Management Process and Policy Definition Adequacy Rating	Asset Management Performance Rating
Asset Planning	<ul style="list-style-type: none"> ▪ Adequate asset planning process in place. ▪ Asset Management Plan reviewed in August 2008. ▪ Clear definition of roles and responsibilities. 	<ul style="list-style-type: none"> ▪ None 	A	2
Asset creation/acquisition	<ul style="list-style-type: none"> ▪ Asset creation/acquisition request is presented to the Board for approval. ▪ There is no formally documented asset creation/acquisition policy or procedures. ▪ Sample testing was conducted to ensure asset creation/acquisition was approved by the Board. No exceptions were noted. 	<ul style="list-style-type: none"> ▪ A policy must be formulated, documented and approved for asset creation/acquisition. ▪ Procedures for the asset creation/acquisition must be documented. 	C	2

Asset Management System	Findings	Recommendations	Asset Management Process and Policy Definition Adequacy Rating	Asset Management Performance Rating
Asset disposal	<ul style="list-style-type: none"> ▪ There is no formally documented asset disposal policy or procedures. ▪ Usefulness of assets are evaluated on a regular basis by the Operations Manager. ▪ Assets are mostly restored to working condition rather than being disposed. ▪ There were no disposals of assets over the audit period. 	<ul style="list-style-type: none"> ▪ A policy must be formulated, documented and approved for asset disposal. ▪ Procedures for the asset disposal must be documented. 	C	2

Asset Management System	Findings	Recommendations	Asset Management Process and Policy Definition Adequacy Rating	Asset Management Performance Rating
Environmental analysis	<ul style="list-style-type: none"> ▪ Annual surveys are conducted to obtain feedback from customers. ▪ Performance targets are included in the License Conditions. These are monitored, measured and reported. ▪ Environmental Coordinator/Consultant is employed to manage the irrigation environment issues. ▪ No breaches were identified. ▪ OIC do not have any customer service targets set to measure their performance. ▪ Opportunities are being identified and assessed on an ongoing basis by the Board and OIC staff. A number of threats have been identified and documented in the risk register. 	<ul style="list-style-type: none"> ▪ Customer service level targets should be developed, measured and monitored. 	A	3

Asset Management System	Findings	Recommendations	Asset Management Process and Policy Definition Adequacy Rating	Asset Management Performance Rating
Asset operations	<ul style="list-style-type: none"> ▪ Operations Plan is in place. ▪ Staff resources are satisfactory. ▪ Staffs receive training commensurate with their responsibilities. ▪ Operational costs are measured and monitored. ▪ Assets are documented in an Asset Register. 	<ul style="list-style-type: none"> ▪ None 	A	1

Asset Management System	Findings	Recommendations	Asset Management Process and Policy Definition Adequacy Rating	Asset Management Performance Rating
Asset maintenance	<ul style="list-style-type: none"> ▪ Maintenance plan is in place. ▪ Comprehensive asset register maintained within Greenbase asset management system. ▪ Regular inspections are undertaken by the Operations Manager of asset performance and condition. ▪ Maintenance cost is monitored by Operations Manager and maintenance work budget is approved by the Board. ▪ Continuous maintenance work performed to ensure assets are in working condition. ▪ Sample testing was conducted to confirm that maintenance work is carried out in accordance with the policy. 	<ul style="list-style-type: none"> ▪ None 	A	1

Asset Management System	Findings	Recommendations	Asset Management Process and Policy Definition Adequacy Rating	Asset Management Performance Rating
Asset Management Information System	<ul style="list-style-type: none"> ▪ All computers at OIC are protected with passwords. ▪ Access to Greenbase, Asset Management System, is restricted to the Operations Manager. ▪ Back up of data is done on a daily basis. ▪ OIC office has security alarm installed. ▪ Back up tapes are stored off site. ▪ Recovery testing of data is performed at least once a year. 	<ul style="list-style-type: none"> ▪ None. 	A	1
Risk management	<ul style="list-style-type: none"> ▪ Risk Management policy in place. ▪ Risk Register developed. ▪ Interview with Operations Manager, to understand staffs' understanding and training on risk management. As per Operations Manager, risk assessment is carried out by Operations Manager or staff before the commencement of each task to identify and manage operational risk. 	<ul style="list-style-type: none"> ▪ None 	A	1

Asset Management System	Findings	Recommendations	Asset Management Process and Policy Definition Adequacy Rating	Asset Management Performance Rating
Contingency planning	<ul style="list-style-type: none"> ▪ Adequate Disaster Management Plan is in place. ▪ Disaster Management Plan was last reviewed in October 2008. ▪ Disaster Management Plan has not been tested and testing is deemed not required. As it was noted that: <ul style="list-style-type: none"> - the key officer in charge of executing the Disaster Management Plan is the Operations Manager. - All necessary information, regarding the contractor and actions to be taken is clearly stated in the Disaster Management Plan. - A soft and hard copy of the Disaster Management Plan is kept in the office. - CEO is aware and is well versed with regards to the Disaster Management Plan. - Disaster Management Plan is constantly being reviewed to ensure that all supplier details are updated and current. 	<ul style="list-style-type: none"> ▪ None 	A	1

Asset Management System	Findings	Recommendations	Asset Management Process and Policy Definition Adequacy Rating	Asset Management Performance Rating
Financial planning	<ul style="list-style-type: none"> ▪ 5 year financial forecast developed ▪ Annual budget and financial statements prepared. ▪ Monthly monitoring of financials against annual budget. 	<ul style="list-style-type: none"> ▪ Finance plan should include clear financial objectives and strategies and the action plan to achieve objectives. 	B	3
Capital expenditure planning	<ul style="list-style-type: none"> ▪ Capital expenditure planning is done annually. However, audit could not sight a documented plan for 2007/08 and 2008/09. ▪ A draft plan is in place for 2009/10 	<ul style="list-style-type: none"> ▪ Capital expenditure plan be prepared and this plan should be approved by the Board. 	B	3
Review of AMS	<ul style="list-style-type: none"> ▪ Asset Management Plan was reviewed in August 2008 to ensure that plan reflects currently procedures. ▪ Asset Management Plan reviews performed by CEO and reviewed by Board. ▪ Asset Management System review to be conducted every two years by OIC staff and CEO. Review will be presented to the Board for their independent review. 	<ul style="list-style-type: none"> ▪ None 	A	1

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Signature of Auditor

To the best of my knowledge, this report is based on true representation of the audit findings and opinions.



Cameron Palassis
Director – Audit & Risk Management

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Date: 18th November 2009