



# Notice

7 September 2016

## Busselton Water Corporation

### 2016 OPERATIONAL AUDIT AND ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority (**ERA**) has published the 2016 operational audit (**audit**) and asset management system review (**review**) report, and the post-audit and post-review implementation plan, for Busselton Water Corporation's (**BWC**) water services licence WL3.

- [2016 Audit and Review report](#)
- [2016 Post-Audit and Post-Review Implementation Plan](#)

### Action by the ERA

The ERA is satisfied that BWC has achieved an adequate level of compliance with the licence, and has an effective asset management system. It decided that the period until the next audit and review will remain at 36 months. The next audit and review will cover the period 1 April 2016 to 31 March 2019.

### Background Information

#### Audit

The audit covered three licences.<sup>1</sup> The auditor assessed 205 obligations in total, comprising 16 licence conditions from the earlier licence, and 189 obligations from the two most recent licences.

#### *Audit of the earlier licence*

Five out of 16 obligations of the first licence were rated A1 (highest rating), seven obligations were rated B1 (process improvement opportunity), two obligations were rated B/NR (generally adequate controls, not rated for compliance), one obligation was rated NP/1 (control assessment not performed, compliant), and one obligation was not applicable.

The auditor did not make any recommendations.

#### *Audit of the two most recent licences*

The audit of the 189 obligations in the two most recent licences found 17 obligations were not applicable to BWC and 76 obligations were not rated because no relevant activity took place during the audit period. Of the remaining 96 obligations, 77 obligations were rated A1 (highest rating), nine obligations were rated A2 (adequate controls, minor non-compliance), seven obligations were rated B1 (process improvement opportunity) and three obligations were rated B2 (generally adequate controls, minor non-compliance).

The audit found 13 non-compliances, relating to 12 licence obligations.<sup>2</sup> The ERA does not agree with two of the non-compliances. The ERA's analysis of the auditor's observations for obligations 1 and 144 is that

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<sup>1</sup> One licence under the *Water Services Licensing Act 1995*, and two licences under the *Water Services Act 2012*, which commenced on 18 November 2013.

<sup>2</sup> There are 12 non-compliant obligations in tables 4.2 and 4.4 of the audit report, but the auditor reported two non-compliances of obligation 153 (which has multiple parts), making a total of 13 non-compliances.



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both obligations should have been rated compliant, but in need of further work to fully comply with the legislation (**improve controls**).<sup>3</sup>

Three of the remaining 11 non-compliances are the result of other non-compliances,<sup>4</sup> leaving eight non-compliances that need to be addressed by BWC. The eight non-compliances cover a range of administrative obligations in the *Water Services (Code of Conduct) (Customer Service Standards) 2013* and the licence. The audit did not find any evidence that these non-compliances have directly affected customers.

The audit also found 24 licence obligations that need further work to improve controls, by amending policies and procedures to fully align with the requirements of the relevant legislation.

## **Audit Recommendations and Post-Audit Implementation Plan**

The auditor made 19 recommendations to address the non-compliances and controls improvements from the audit of the two most recent licences. There is also a single recommendation to address a controls improvement that has been carried forward from the 2011 audit.

The post-audit implementation plan states all of the recommendations will be addressed by 31 December 2016.

## **Review**

### **Effectiveness Ratings**

The review rated the effectiveness of BWC's asset management system, using the 12 component model prescribed by the ERA's *Audit and Review Guidelines: Water Licences*. The ratings for the 12 asset management components are:

- seven were rated A1 (fully effective);
- one was rated A2 (opportunity for process improvement, performing effectively);
- two were rated B1 (policy requires improvement, performing effectively); and
- two were rated B2 (policy and process opportunity for improvement).

The ERA's analysis of the review observations for three components (Risk Management, Contingency Planning and Asset Management Information System) has identified process deficiencies that require corrective action:

- the risk of a major burst causing flooding and damage to property was not assessed (Risk Management);
- there is no documented emergency response plan for a major pipeline burst that causes flooding and damage to properties and roads (Contingency Planning); and
- three computer servers are located in the same building, which increases the risk that data could be lost in the event of a fire, flood or similar incident at the building (Asset Management Information System).

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<sup>3</sup> For obligation 1, BWC needs to improve controls by having a register to record licence breaches, and assigning responsibility for complying with each licence obligation to a named position in the organisation. For obligation 144, the auditor recommended BWC amend its procedures for the installation and removal of flow restriction devices to fully comply with clause 34 of the *Water Services (Code of Conduct) (Customer Service Standards) 2013*.

<sup>4</sup> Obligations 11 and 158 require full compliance with the *Water Services (Code of Conduct) (Customer Service Standards) 2013*, and obligation 156 requires full compliance with all legislation applicable to the licence, including the code of conduct. BWC did not fully comply with the code of conduct during the audit period.



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## ***Review Recommendations and Post-Review Implementation Plan***

The auditor made 11 recommendations in the review.<sup>5</sup> The ERA considers eight recommendations address process improvement opportunities, and three recommendations address the process deficiencies listed above. The ERA is satisfied that the recommendations, and the actions in the post-review implementation plan, adequately address the three process deficiencies.

The post-review implementation plan states all the recommendations will be addressed by 31 December 2016.

For further information contact:

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<sup>5</sup> There are five recommendations in the report, but four recommendations contain multiple sub-recommendations. The ERA has based its count on the total number of sub-recommendations, so that the sub-recommendations addressing the process deficiencies can be separately identified.