



# Notice

10 April 2018

## Rottnest Island Authority

### 2017 OPERATIONAL AUDIT AND ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority (**ERA**) has published the 2017 operational audit and asset management system review [report](#) and the post-audit and post-review implementation [plan](#) for Rottnest Island Authority's (**RIA**) water services licence WL10. The audit and review covered the period 1 July 2015 to 30 June 2017.

The RIA has a water services licence to provide water supply (potable and non-potable), sewerage and drainage services on Rottnest Island, located approximately 15 km west of Fremantle.

Rottnest Island is a Class A reserve administered by the RIA on behalf of the Government of Western Australia.

### BACKGROUND

#### Audit

The auditor assessed 137<sup>1</sup> licence obligations applicable to the RIA's water licence.

The auditor found nine non-compliances, none of which were resolved during the audit period.

In addition to the non-compliances identified by the auditor, the ERA is of the view that the RIA did not meet the obligation to comply with the *Water Services Code of Conduct (Customer Service Standards) 2013* (Code). Specifically, the RIA did not comply with clauses 12(1) and 12(3) of the Code, which require a customer's bill to contain prescribed information.<sup>2</sup>

The auditor found that the RIA did not meet obligations to comply with individual performance standards prescribed by the ERA relating to pressure and flow standards for potable water, and conducting an annual desktop audit of the drainage system.

The RIA was unable to confirm that the potable water pressure and flow levels meet the minimum standards in the licence, as there were no pressure and flow measuring facilities.<sup>3</sup>

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<sup>1</sup> The audit report erroneously refers to 134 applicable licence obligations, while it actually assessed 137 obligations.

<sup>2</sup> The RIA did not include the 24-hour telephone number for faults and emergencies on the invoices for water charges, and the invoices did not include the RIA website reference for the Customer Water Services Manual and a statement that the website contains information about estimates, meter reading and testing, complaints and review.

<sup>3</sup> The audit did not find any non-compliance with the desktop audit of the drainage standards.

As there was no definitive evidence to show that the RIA has failed to meet the standards, the ERA disagrees with the auditor's view that the RIA has breached these obligations. The inability to monitor the water pressure is a controls deficiency. The auditor has recommended that the RIA install metering equipment to enable it to record potable water flow and pressure.

The auditor made four recommendations to address the nine non-compliances, and identified one controls improvement opportunity.

The post-audit implementation plan states that the RIA will address all the recommendations by 30 September 2019.

### **Asset Management System Review**

The assessment of the 12 asset management components prescribed in the ERA's [2014 Audit and Review Guidelines: Water Licences](#) found:

- six components were rated A1 (highest rating); and
- six components were rated A2 (opportunity for process improvement).

The auditor made four recommendations to improve performance in the areas of asset planning, asset maintenance, and financial planning.

The post-review implementation plan states that the RIA will address the review recommendations by 30 June 2019.

### **ERA's response to the audit and review**

#### **Audit**

The ERA considers that the RIA has demonstrated an adequate level of compliance with its licence, except for an unresolved obligation regarding fire hydrants.

In April 2017, the RIA invited the Department of Fire and Emergency Services (DFES) to conduct an evaluation of the suitability of the island's reticulated water supply to meet minimum performance standards, and to provide a report of its findings, with any applicable recommendations.

The RIA has not followed DFES's recommendation to extend the new fire main and install eleven new fire hydrants. The RIA stated in its post-audit implementation plan that it is currently considering this upgrade as part of its capital investments in 2018-19, and the RIA intends to complete the post-audit implementation plan to address this issue by 30 June 2019.

Given the risk of a bush fire on the island, particularly during the peak tourist season, the ERA considers that upgrading the fire hydrant system in accordance with DFES's recommendation should be a high priority for the RIA. The ERA has requested the RIA bring forward the deadline to complete the recommendation to upgrade the fire hydrant system to the second half of 2018, in time for the summer peak-tourism season.

#### **Review**

There have been significant improvements in the RIA's asset management system, including in asset planning, asset operations, financial planning, capital expenditure planning, and review of asset management system. The ERA considers the RIA is now achieving an acceptable standard of asset management.

## **Action by the ERA**

The ERA has decided to leave the RIA's audit and review period at 24 months.

The next audit and review will cover the period 1 July 2017 to 30 June 2019, with the report due to the ERA by 30 September 2019.

The ERA will monitor the RIA's progress with the post-audit and post-review implementation plan, by receiving regular updates from the RIA.

For further information contact:

### **Media Enquiries**

Natalie Warnock

(08) 6557 7933

0428 859 826

[communications@erawa.com.au](mailto:communications@erawa.com.au)

### **Project Enquiries**

Alex Kroon

(08) 6557 7989

[records@erawa.com.au](mailto:records@erawa.com.au)