



# Notice

30 April 2018

## Shire of Dumbleyung

### 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](#) for the Shire of Dumbleyung's (Shire) water services licence WL16, and the associated post-audit and post-review implementation [plan](#).

The Shire has an operating licence for the provision of sewerage services and non-potable water supply services for the town of Dumbleyung, 267 kilometres south-east of Perth. The sewerage scheme includes a gravity reticulation system, two pumping stations, and a wastewater treatment plant.<sup>1</sup>

#### Action by the ERA

The ERA has decided to leave the Shire's audit and review period at 36 months. The findings of the audit indicate the Shire has an adequate level of compliance with its licence. The review findings indicate the Shire's asset management system meets the minimum standard, but requires improvement. The next audit and review will cover 1 December 2017 to 30 November 2020, with the report due by 28 February 2021.

### BACKGROUND TO THE ERA'S DECISION

#### Audit ratings

The auditor determined there were 164 licence obligations applicable to the Shire's licence, with 24 of those obligations identified as not applicable during the audit period.

Of the remaining 140 obligations that were rated for compliance, the auditor found:

- One was rated D3 (no controls evident, non-compliant with moderate impact);
- Four were rated D2 (no controls evident, non-compliant with minor impact);
- Two were rated B2 (generally adequate controls, non-compliant with minor impact);
- 23 were rated D1 (no controls evident, compliant);
- Three were rated NP/1 (controls were not assessed, compliant);
- 82 were rated D/NR, A/NR or NP/NR (adequate, no controls evident or not assessed for controls, not rated for compliance<sup>2</sup>); and
- 25 were rated A1 (adequate controls, compliant).

<sup>1</sup> The treatment plant assets include an Imhoff tank and waste stabilization ponds.

<sup>2</sup> Because there was no relevant activity during the audit period.

Of the seven non-compliances, five were non-compliances with specific provisions of the *Water Services Code of Conduct (Customer Service Standards) 2013 (code of conduct)*. Because the Shire had five non-compliances with the code of conduct, it also failed to comply with two additional obligations requiring the Shire to comply with the code of conduct as a whole.<sup>3</sup>

### **Audit recommendations and post-audit implementation plan**

The auditor made eight recommendations to address the seven non-compliances<sup>4</sup> and sixty-three obligations requiring control improvements.<sup>5</sup>

Two recommendations addressing control deficiencies<sup>6</sup> had been completed by the time the post-audit implementation plan was received by the ERA.

The post-audit implementation plan states that the Shire will address the outstanding recommendations by August 2018.

### **Review ratings**

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

- One was rated A1 (documentation and performance effective);
- Eight were rated B2 (documentation and performance require some improvement);
- One was rated B3 (documentation requires improvement, performance requires significant improvement); and
- Two were rated C3 (documentation and performance require significant improvement).

The auditor rated the components of risk management, financial planning and review of the asset management system as deficient.

### **Review recommendations and post-review implementation plan**

The auditor made eight recommendations to improve documentation and/or performance for eight of the 12 asset system components.<sup>7</sup>

The Shire completed three recommendations<sup>8</sup> by the time the ERA received the post-review implementation plan. Two recommendations addressed asset management deficiencies while one recommendation addressed an asset management improvement.

The post-review implementation plan stated the Shire would complete the outstanding recommendations by 31 March 2018.<sup>9</sup> The ERA will assess the Shire's progress when it receives the updated post-review implementation plan in May 2018.

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<sup>3</sup> The two obligations were Section 27 of the *Water Services Act 2012* and Clause 3.1.1 of the licence.

<sup>4</sup> While there were five recommendations to specifically address the five non-compliances with provisions in the code of conduct, the remaining two general non-compliances with the code of conduct as a whole will be addressed by rectifying the five specific non-compliances with the code of conduct.

<sup>5</sup> Because some obligations were no longer applicable, the auditor's recommendations did not address all of the 77 obligations rated deficient for controls.

<sup>6</sup> Recommendations 2/2017 and 5/2017.

<sup>7</sup> Recommendations cover the asset management components: environmental analysis; asset operations; asset maintenance; risk management; contingency planning; financial planning; capital expenditure planning and review of the asset management system.

<sup>8</sup> Review recommendations 1/2017, 4/2017 and 8/2017.

<sup>9</sup> The Shire provided its post-review implementation plan to the ERA on 16 March 2018.

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

### **Audit**

The 2017 audit is the second time the Shire's compliance with the licence made under the *Water Services Act 2012 (Act)* has been assessed.

The ERA considers the Shire has demonstrated an adequate level of compliance with its licence.

The Shire failed to comply with the code of conduct because the information supplied on customers' bills did not include the nature and amount of any applicable concessions, discounts or rebates. The Shire stated in the post-audit implementation plan that it was not aware of any discounts under the Act or grant schemes, to which the customer may be entitled.

However, the Shire has since informed the ERA that it is currently investigating whether pensioner and senior concessions on sewerage charges are available to its customers. If the Shire concludes that these concessions do apply, the ERA has requested the Shire implement these concessions for customers by 30 June 2018.

The ERA considers the auditor has taken a conservative approach to the audit's controls ratings. Some of the obligations that were rated as having inadequate controls were because the auditor could not find specific reference in documentation to the relevant regulatory instrument or text that explicitly addressed the requirements of the obligation. In some cases, the ERA agrees the Shire should update its policies and procedures to identify where the prescribed information can be found.

### **Review**

The ERA considers the Shire is meeting the minimum standards in the planning, operation and maintenance of the sewerage scheme. However, the review identified some components of the asset management system require improvement.

The Shire's risk management needs to improve because 17 risks in the risk register did not include the nature of the risk. The Shire has also never reviewed its risk assessments ratings.

The Shire also needs to improve its contingency planning for pump failures and conduct desktop reviews of its contingency plans. One of the evaporation ponds at the Shire's wastewater treatment plant may overflow in winter.<sup>10</sup> The ERA has requested the Shire conduct a desktop review of its contingency planning for pond overflows within 12 months.

The Shire's financial planning needs improvement, as the financial section of the asset management plan is out-of-date, insufficiently detailed, and gives no indication of the Shire's likely future financial position for its sewerage assets.

Because the Shire updated its asset management plan during the period covered by the review, the ERA does not agree with the auditor's deficient rating for the review of the asset management system.

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<sup>10</sup> The auditor provided this information to the ERA. The post-review implementation plan states that the Shire will contact the Department of Health and the Department of Water and Environmental Regulation if an overflow is imminent.