



Notice

12 June 2018

Shire of Lake Grace

2017 OPERATIONAL AUDIT AND ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority (ERA) has published the Shire of Lake Grace's (Shire) 2017 operational audit and asset management system review [report](#), and post-audit and post-review implementation [plan](#), for water services licence WL22.

ERA's response to the audit and review

The ERA considers the Shire has achieved an adequate level of compliance with the licence, and has decided to retain an audit period of 36 months. The next audit will cover the period 1 December 2017 to 30 November 2020 with the report due by 28 February 2021.

The ERA considers that the Shire's asset management system requires material improvements, and has reduced the review period from 36 months to 24 months. The next review will cover the period 1 December 2017 to 30 November 2019, with the report due by 29 February 2020.

BACKGROUND TO THE ERA'S DECISION

Audit ratings

The auditor determined that there were 164 licence obligations applicable to the Shire's licence.¹

- 23 were rated A1 (adequate controls, compliant);
- three were rated A2 (adequate controls, non-compliant with minor impact)
- two were rated B1 (generally adequate controls, compliant)
- two were rated B2 (generally adequate controls, non-compliant with minor impact);
- one was rated C2 (inadequate controls, non-compliant with minor impact);
- 16 were rated D1 (inadequate controls, compliant);
- three were rated D2 (inadequate controls, non-compliant with minor impact);
- 34 were rated A/NR (adequate controls, not rated for compliance);
- one was rated B/NR (generally adequate controls, not rated for compliance);
- nine were rated C/NR (inadequate controls, not rated for compliance);

¹ The auditor assessed 185 obligations, but 21 obligations were found to be not applicable to the Shire's operations.

- 39 were rated D/NR (inadequate controls, not rated for compliance);
- two were rated NP/1 (controls were not assessed, compliant);
- 7 were rated NP/NR (controls and compliance were not assessed); and
- 43 were rated NA/NA (not performed, not rated).

Six of the 10 non-compliances identified by the auditor were obligations under the *Water Services Code of Conduct (Customer Service Standards) 2013 (Code)* and three were non-compliances with the licence. The remaining non-compliance (obligation 156) was a consequence of non-compliance with the Code.

A summary of the non-compliant obligations shows:

- seven obligations covered relatively minor administrative issues that were unlikely to affect most customers;
- one obligation for the provision, operation and maintenance of water service works was the result of the review findings;
- one obligation required the Shire to make provision for customer bills to be paid using any of the prescribed payment methods (Centrepay or direct-debit payment facilities), which is not a requirement under the Local Government Act 1995 (LG Act)²; and
- one obligation was a consequence of non-compliance with obligations under the Code.

Audit recommendations and post-audit implementation plan

The auditor made 16 recommendations to address eight³ non-compliances and 64 obligations that require controls improvements.

The post-audit implementation plan states that the Shire will address the outstanding recommendations by February 2019, although two recommendations (15/2017 and 16/2017) for the annual provision of information to the ERA have no set completion date.

Review ratings

The assessment of the 12 asset management components prescribed in the ERA's *Audit and Review Guidelines: Water Licences*⁴ found:

- six components were rated B2 (documentation and performance require some improvement);
- one component was rated B3 (documentation requires improvement, performance requires significant improvement); and
- five components were rated C3 (documentation and performance require significant improvement).

² Recent amendments to the Code provide for the LG Act to prevail in the event of a conflict between the Code and the LG Act covering the same matter.

³ Obligation 3 for the provision, operation and maintenance of water service works is addressed in the Review findings. A separate recommendation has not been made for obligation 156, as it will be addressed by rectifying the non-compliances with the Code.

⁴ A copy of the Guidelines is available on the ERA's website <https://www.erawa.com.au/water1/water-licensing/regulatory-guidelines>

The auditor rated six components as deficient: asset planning; asset operations; contingency planning; financial planning; capital expenditure planning; and review of the asset management system.

Following the 2014 review, the ERA informed the Shire of its concerns about the management of the sewerage assets. The ERA also advised the Shire that urgent remedial work was required to raise the standard of the asset management system processes and documentation to an acceptable level. The Shire provided an updated post-review implementation plan on 31 March 2016, which showed that it had only addressed two of the 11 recommendations.

The ERA appointed an independent inspector in April 2016, as a direct consequence of the Shire's lack of progress in addressing the 2014 review recommendations. Following receipt of the inspection report, the ERA gave the Shire an extension of time to address the remaining issues with its asset management system.

The Shire provided an updated post-review implementation plan in September 2016 that showed there were still several unresolved recommendations covering the condition assessment of reticulation pipes, installation of erosion protection to the treatment pond banks, and other minor administrative issues.

The 2017 review found the following material issues:

- dedicated staff have not been appointed to undertake checking and maintenance activities on a regular basis at the wastewater treatment plant;
- there are no procedures in the asset management plan for the general operation and desludging of the Imhoff Tank (a critical component of the sewage treatment system);
- erosion of the banks in the treatment ponds (identified in both the 2014 review and the inspection report) has still not been addressed;
- the Shire does not have a formal agreement with the landholder onto whose land the overflow water from the treatment ponds is being discharged; and
- the Shire has not obtained the necessary approvals from the Department of Health and Department of Water and Environmental Regulation for the satisfactory disposal of effluent.

The ERA has advised the Shire to prioritise addressing the recommendations in the post-review implementation plan by the due dates.

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.⁵

The post-review implementation plan states the Shire is due to address the eight recommendations by April 2019.

⁵ Recommendations cover: asset planning; asset operations; asset maintenance; risk management; contingency planning; financial planning; capital expenditure planning; and review of the asset management system.

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