



# Notice

21 October 2019

## Ord Irrigation Cooperative Ltd

### 2019 Operational audit and asset management system review

The Economic Regulation Authority has published the [2019 operational audit and asset management system review report](#) and the [post-audit implementation plan](#) for Ord Irrigation Cooperative Ltd's (OICL) water services licence WL37.

OICL holds a water services licence to supply non-potable water and irrigation services to its members. OICL was formed in 1996, when the business was transferred from the State to the growers to provide water and drainage services to the farms within Stage 1 of the Ord River Irrigation Area.

#### *The ERA's decision*

The ERA considers that OICL has achieved an adequate level of compliance with its licence and has an effective asset management system.

The ERA has decided to maintain the audit and review period at 48 months. The next audit and review will cover the period 1 June 2019 to 31 May 2023, with the report due by 31 August 2023.

#### *Background to the ERA's decision*

##### **Audit ratings**

The auditor assessed 99 licence obligations applicable to OICL's licence and found:<sup>1</sup>

- 15 were rated A1 (adequate controls, compliant).
- One was rated A2 (adequate controls, non-compliant – minor effect on customers).
- Three were rated A3 (adequate controls, non-compliant – moderate effect on customers).
- Three were rated A4 (adequate controls, non-compliant – major effect on customers).

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<sup>1</sup> The auditor determined that there were 112 licence obligations applicable to OICL's licence, but thirteen of the 112 obligations were subsequently identified as not applicable during the audit period and not assessed for compliance.

- 57 were rated A/NR (adequate controls, not rated for compliance due to lack of relevant activity).
- One was rated B3 (generally adequate controls, non-compliant – moderate effect on customers).
- Three were rated B4 (generally adequate controls, non-compliant – major effect on customers).
- One was rated C1 (inadequate controls, compliant).
- Three were rated D1 (no controls evident, compliant).
- One was rated D4 (no controls evident, non-compliant – major effect on customers).
- Seven were rated D/NR (no controls evident, not rated for compliance due to lack of relevant activity).
- One was rated NP/1 (a controls rating was not performed, compliant).
- Three were rated NP/NR (controls rating not performed, not rated for compliance due to lack of relevant activity).

The audit identified 12 non-compliances. Six of the non-compliant obligations are no longer applicable to OICL, as they relate to compliance with the *Water Services Code of Conduct (Customer Service Standards) 2013*.<sup>2</sup> They are included in the audit, because OICL was required to comply with the Code during the first three years of the audit period.

Most of the non-compliances applicable to OICL are administrative issues, such as late submission of a compliance report and performance report in 2014/15. All subsequent reports were submitted on time. The ERA considered that two of the non-compliances were material:

- OICL did not meet the service standard in Schedule 2 of its licence to provide five business days' notice of a planned interruption to more than 90 per cent of its customers.
- Throughout the audit period, OICL did not provide data on the supply of non-potable water in its ERA performance reports.

### **Audit recommendations**

The auditor made four recommendations to address non-compliances and control deficiencies identified in the audit.<sup>3 4 5</sup>

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<sup>2</sup> The 2013 Code applied to all water supply (other than non-potable), sewerage, irrigation and drainage licensees. Following the 2016/17 review of the 2013 Code, it was replaced with the *Water Services Code of Conduct (Customer Service Standards) 2018*. The 2018 Code only applies to water supply (other than non-potable) and sewerage licensees. OICL supplies non-potable water and irrigation services, and therefore the 2018 Code is not applicable to OICL.

<sup>3</sup> The auditor did not make a recommendation for the six non-compliances that require the licensee to comply with the Code, as the Code no longer applies to OICL.

<sup>4</sup> A recommendation has not been made for two obligations that are generic obligations, which require the licensee to comply with the Act and other applicable legislation as a whole. These obligations will be resolved by the licensee addressing the specific non-compliances that breach the applicable legislation.

<sup>5</sup> The auditor did not make a recommendation for the non-compliance involving the late submission of compliance and performance reports, as the reports were submitted late in 2014/15, but all subsequent reports were submitted on time.

The post-audit implementation plan shows that OICL addressed one recommendation by the time the plan was submitted to the ERA. Of the remaining recommendations, the plan states the OICL will address one recommendation by January 2020 and two recommendations by July 2020. The ERA considers that the recommendations require mainly administrative action to address and has asked OICL to address all three remaining recommendations by 31 January 2020.

### **Review ratings**

The assessment of the 12 asset management components prescribed in the ERA's *Audit and Review Guidelines: Water Licences*<sup>6</sup> found that all components were performed effectively and rated A1 (adequately defined, performed effectively).

### **Review recommendations**

The auditor made no recommendations following the 2019 review.

As the auditor did not make any recommendations, OICL did not provide a post-review implementation plan.

### **The ERA's assessment of the audit and review findings**

#### **Audit**

The ERA considers that the failure to provide five business days' notice of a planned interruption to more than 90 per cent of customers could have had a material effect on those customers. The ERA is also concerned that, throughout the audit period, OICL did not provide data on the supply of non-potable water in its ERA performance reports. The ERA will raise this matter with OICL and make it clear that it must provide information on the non-potable water supply in its performance reports. The remaining non-compliances are administrative and unlikely to affect OICL's members.

#### **Review**

The ERA is satisfied that during the review period OICL maintained an effective asset management system.

### **Further information**

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<sup>6</sup> A copy of the guidelines is available on the ERA [website](#).