



# Notice

15 April 2020

## Rottnest Island Authority

### 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 and post-review implementation plan](#) for the Rottnest Island Authority's water services licence WL10.

The Rottnest Island Authority provides water supply (potable and non-potable), sewerage and drainage services to the residents and businesses on Rottnest Island. The potable water on Rottnest Island is sourced from a desalination plant based at Longreach Bay. All sewage is treated at the RIA's wastewater treatment plant and the recycled water is then used to maintain the golf course and other island landscapes.

#### *The ERA's decision*

The ERA considers that the RIA 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 period at 24 months and increase the review period from 24 months to 36 months. The next audit will cover the period 1 July 2019 to 30 June 2021, with the report due by 30 September 2021. The next review will cover the period 1 July 2019 to 30 June 2022, with the report due by 30 September 2022.

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

#### *Audit ratings*

The auditor's assessment of the 160 licence obligations applicable to the RIA's licence found:

- 30 were rated A1 (adequate controls, compliant).
- Two were rated A2 (adequate controls, non-compliant – minor effect on customers).
- Three were rated A3 (adequate controls, non-compliant – moderate effect on customers).
- 12 were rated A/NR (adequate controls, not rated for compliance due to lack of relevant activity).
- Two were rated B1 (generally adequate controls, compliant).
- One was rated B2 (generally adequate controls, non-compliant – minor effect on customers).

- One was rated B/NR (generally adequate controls, not rated for compliance due to lack of relevant activity).
- Three were rated C1 (inadequate controls, compliant).
- Two were rated C2 (inadequate controls, non-compliant – minor effect on customers).
- One was rated C3 (inadequate controls, non-compliant – moderate effect on customers).
- Two were rated C4 (inadequate controls, non-compliant – major effect on customers).
- 12 were rated D1 (no controls evident, compliant).
- 12 were rated D2 (no controls evident, non-compliant – minor effect on customers).
- 16 were rated D3 (no controls evident, non-compliant – moderate effect on customers).
- Two were rated D4 (no controls evident, non-compliant – major effect on customers).
- 59 were rated D/NR (no controls evident, not rated for compliance due to lack of relevant activity).

The auditor's assessment of the 160 licence obligations found 41 non-compliances and 109 control deficiencies. The ERA does not agree, however, with 19 of the non-compliant ratings. In most instances the incorrect rating was because the auditor did not follow the instruction in the ERA's *Audit and Review Guidelines: Water Licences* that an obligation should only be rated non-compliant if there is supporting evidence of non-compliance.

The 22 non-compliances with which the ERA agrees can be categorised as follows:

- Information missing from the RIA's website and/or bills.<sup>1</sup>
- Billing and complaints processes that do not comply with the Code.<sup>2</sup>
- Not complying with Department of Health Memorandum of Understanding requirements.<sup>3</sup>
- Not notifying the ERA about changes to the asset management system.<sup>4</sup>
- Consequential non-compliances (for example, being non-compliant with any code obligation automatically means the licensee is non-compliant with obligation 11, which requires a licensee to comply with the Code).<sup>5</sup>
- Miscellaneous non-compliances:
  - Not complying with requests from FESA to the extent practicable and within a reasonable period of time.<sup>6</sup>
  - Information about fees and charges not being included when bill payment method options are offered.
  - Policies, practices and procedures for bursts, leaks or blockages not including the required information.
  - The potable water distribution network was not designed to meet the performance standards under the licence.

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<sup>1</sup> Obligations 92, 101, 102A, 153, 154 and 154A

<sup>2</sup> Obligations 116, 146, 147, 148A and 149A.

<sup>3</sup> Obligation 186.

<sup>4</sup> Obligations 7 and 171.

<sup>5</sup> Obligations 11, 12, 156 and 190.

<sup>6</sup> The requests concern upgrading the fire hydrant system and installing additional fire hydrants on the island.

### **Audit recommendations**

The auditor made 32 recommendations to address the non-compliances.

The post-audit implementation plan states that the RIA will address the audit recommendations between now and September 2021.<sup>7</sup>

### **Review ratings**

The assessment of the 12 asset management components prescribed in the ERA's *2019 Audit and Review Guidelines: Water Licences* found:<sup>8</sup>

- Nine components were rated A1 (documentation adequately defined, performing effectively).<sup>9</sup>
- Two components were rated B1 (documentation requires some improvement, performing effectively).
- One component was rated B2 (documentation requires some improvement, performance requires some improvement).

The auditor's assessment of the 58 effectiveness criteria for the 12 asset management components found a single process deficiency under asset planning: lifecycle costs of owning and operating assets are assessed, which was rated A3.

### **Review recommendations**

The auditor made two recommendations: one for asset planning and one for the review of the asset management system (AMS). The recommendation for the review of the AMS is not required as the component and all its sub-components were rated B2.<sup>10</sup> The ERA has asked the RIA remove recommendation 34/2019 from the post-review implementation plan.

The post-review implementation plan states that the RIA will address the single review recommendation by 30 October 2020.

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

### **Audit**

The most material finding from the 2019 audit is the lack of controls that the RIA has for maintaining compliance with its licence obligations. Current RIA staff may be aware of the obligations, but the absence of a compliance register and the lack of identified policies and procedures means that the RIA is at risk of failing in its compliance obligations. Recommendation 1/2019, which is for the RIA to consider implementing a compliance register which records all its obligations in terms of the water legislation, and for that register to identify, per individual compliance obligation, appropriate policy and procedure documents and responsible employees, addresses this risk. The recommendation applies to 68 obligations.<sup>11</sup>

### **Review**

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<sup>7</sup> RIA has committed to addressing most of the recommendations in 2020, but actions to address some elements of the fire hydrant recommendation (recommendation 4/2019) have longer completion dates.

<sup>8</sup> A copy of the guidelines is available on the ERA [website](#).

<sup>9</sup> The rating for asset planning incorrectly appears as A3 instead of A1 in the table on page 7 of the final report. The wording in the executive summary makes it clear that the A3 rating is incorrect and in fact should be A1.

<sup>10</sup> The audit guidelines specify that a review report should only include recommendations for components that are rated C, D, 3 or 4.

<sup>11</sup> There are 64 obligations listed against recommendation 1/2019. The auditor omitted obligations 92, 101A, 155 and 161, which brings the total to 68.

The review found that, overall, the RIA is managing its water service assets effectively.

The ERA will seek regular updates from the RIA on completing the actions in its post-audit and post-review implementation plan.

***Further information***

General enquiries

Paul Reid

Ph: 08 6557 7976

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

Media enquiries

Natalie Warnock

Ph: 08 6557 7933 | Mob: 0428 859 826

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