

Water Corporation

Operational Audit of Compliance with the Water Corporation's Operating Licence

Report

August 2006

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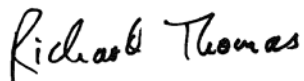
29 August 2006

Dear Mike

Operational Audit of Compliance with the Water Corporation's Operating Licence

We have completed our fieldwork on the Operational Audit of Compliance with the Water Corporation's Operating Licence for the period 1 July 2004 to 30 June 2006 and are pleased to submit our report to you.

Yours sincerely



Richard Thomas
Partner

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Executive Summary

Introduction

The Economic Regulation Authority (the Authority) has, under the provisions of the *Water Services Licensing Act 1995* (the Act), issued to the Water Corporation (the Corporation) an Operating Licence for the provision of water supply, sewerage, irrigation and drainage services.

The Corporation is required by the Authority to provide, not less than once every 24 months, an operational audit report under Section 37 of the Act. Following a tender¹ that closed on 27 April 2006, Deloitte was appointed to undertake the operational audit for the period 1 July 2004 to 30 June 2006.

Background

The Services required are for us to carry out the operational audit, consistent with Section 37 of the Act. We have a duty of care to conduct the audit independently and free from bias.

The operational audit is a non-financial compliance audit of the effectiveness of the Corporation's measures to maintain any quality and performance standards referred to in its Operating Licence. We conducted the operational audit in a manner consistent with Australian Auditing Standard (AUS) 806 "Performance Auditing" and AUS 808 "Planning Performance Audits". This report should be read in the context of our Statement of Responsibility outlined in Appendix C.

Overall conclusion

Through our examination of key documents, discussions with key stakeholders, examination of systems, observations of related processes, procedures and operations and sample testing, we have gained reasonable assurance that the Corporation has complied with its Operating Licence during the period 1 July 2004 to 30 June 2006.

No compliance element of the Operating Licence required a rating of "Non-Compliant" or "Significantly Non-Compliant".

A detailed description of the audit work conducted and the level of compliance for each element of the Operating Licence can be found in the section "Compliance Elements".

Findings

Our conclusions on each of the elements of the Operating Licence are summarised in the following table. For reference, we have also included our assessment of the audit risk² pertaining to each compliance element as identified in the Audit Plan prepared by us:

¹ Contract no. CN-06-12640

² Refer to report sections 2 "Approach & Methodology" and 3 "Risk Assessment" for the audit risk assessment applied to each compliance element at the audit planning phase

	Compliance Element	Audit Risk Assessment	Compliance Assessment
1	Operating Areas	4th level priority	Fully Compliant
2	Customer Complaints	2nd level priority	Fully Compliant
3	Customer Charter	4th level priority	Fully Compliant
4	Consumer Committees	5th level priority	Fully Compliant
5	Water Services Provision	4th level priority	Fully Compliant
6.1	Information - Customer Complaints 6 Monthly Reporting	4th level priority	Fully Compliant
6.2	Information - Incident Reports	4th level priority	Compliant
6.3	Information - Quarterly Reports	4th level priority	Fully Compliant
6.4	Information - Annual Benchmarking Report	4th level priority	Fully Compliant
7	Telephone Answering	4th level priority	Fully Compliant
8	Drinking Water Quality	2nd level priority	Fully Compliant
9	Pressure and Flow	2nd level priority	Fully Compliant
10	Continuity	2nd level priority	Fully Compliant
11	Water Supply – Leaks and Bursts	2nd level priority	Fully Compliant
12	Drinking Water Restrictions	4th level priority	Fully Compliant
13	Notification of Drinking Water (Farmlands)	4th level priority	Fully Compliant
14	Sewerage System – Overflows on Property	4th level priority	Fully Compliant
15	Sewerage System – Blockages	4th level priority	Fully Compliant
16	Urban Drainage	5th level priority	Fully Compliant
17	Other Drainage	5th level priority	Fully Compliant
18.1	Services Provided by Agreement – Documented Agreements, Change of Consumer & Annual Notification	4th level priority	Fully Compliant
18.2	Services Provided by Agreement – Major Consumers	4th level priority	Fully Compliant
19	Non Potable Services	4th level priority	Fully Compliant

Ratings

All elements of compliance with the Operating Licence were assessed according to the following rating scale adopted from the Authority's Draft Audit Guidelines: Electricity, Gas and Water Licences (version February 2006) and in accordance with Schedule 3, section 3.5(b) of the tender document.

Key to Material Compliance Assessment

Name	Rating	Description
Fully Compliant	5	Compliant - no further action required
Compliant	4	Compliant apart from minor issues and recommendations
Partially Compliant	3	Meets minimum requirements in most areas but improvements are required to maintain compliance
Non-Compliant	2	Does not meet minimum requirements
Significantly Non-Compliant	1	Significant weaknesses and/or serious action required

The ratings in the above table are different to those used in the 2004 operational audit, which were:

- Compliant
 - Exceeds requirements
 - Meets Requirements
 - Meets Requirements – improvement suggested
- Non-Compliant
 - Does not meet the requirements

The results of the 2006 operational audit (based on the ratings described above) are summarised as follows:

Key to Material Compliance Assessment	Elements	2nd level priority	4th level priority	5th level priority
Fully Compliant	22	5	14	3
Compliant	1	0	1	0
Partially Compliant	0	0	0	0
Non-Compliant	0	0	0	0
Significantly Non Compliant	0	0	0	0
Total Compliance Elements	23	5	15	3

Application of ratings

When making a determination on whether the Corporation has met the requirements of the Operating Licence, subjective judgement is exercised by the auditor. For this operational audit, in assigning compliance ratings to each element, we have taken care to avoid confusing compliance with performance. This approach necessitates an explanation of our practical interpretation of the rating scale adopted for this audit.

Fully Compliant

In making our compliance assessments, we have adopted the position that, once all Operating Licence requirements have been met, the compliance element is rated “Fully Compliant”. Some elements may have housekeeping or opportunity for improvement recommendations and still be rated as Fully Compliant. Our application of this rating is that the Corporation is compliant with no further action required in order to maintain compliance, with the housekeeping matters or opportunities for improvement suggested to assist the Corporation in strengthening its internal control framework and improving its performance. If the Corporation were to take no action on the matters raised, there would be no negative impact on compliance with the Operating Licence.

Compliant

We interpret “Compliant” as achieving the standard prescribed in the Operating Licence, but having minor issues that could have had an impact on the Corporation’s ability to maintain compliance. From the audit work we conducted, the matters included as housekeeping or opportunities for improvement did not impact on the Corporation’s compliance during the audit period.

Partially Compliant

The rating of “Partially Compliant” is difficult to apply in practice. The definition is “meets minimum requirements in most areas but improvements are required to maintain compliance”. This definition implies that in a minority of areas of the compliance element, the Corporation has not met the minimum requirements and is not compliant. Further, in the future changes need to be made to achieve the same level of compliance. This introduction of a prediction of future compliance does not sit well with a performance audit of past compliance in a given audit period.

The best example of the judgement required in assigning a compliance rating is our conclusion for Compliance Element 6.2, Information - Incident Reports. For this element of the Operating Licence, based on the audit work undertaken we determined that the Corporation has met all minimum requirements and we cannot make a case for non compliance. Yet there are significant improvements, which we and the Corporation believe are appropriate, even though compliance was achieved during the audit period.

Ultimately, all auditors should make the judgement as to whether the licensee is compliant or not – partially compliant would seem to us to be a soft option. If the regulatory intent is to identify “technical breaches” or breaches that in the auditor’s judgement are unimportant, perhaps a better rating would be non compliant, but with a note that it is immaterial. Alternatively, if the intention is to identify a need to improve compliance culture over time, perhaps include a rating such as “Compliant with significant improvements required”. In any event, we suggest the removal of the rating “Partially Compliant”.

We make these comments on the ratings to assist the reader in understanding our judgements and to assist the Authority to further consider how it wishes auditors to conduct their work in relation to other licensees.

Recommendations

The following table summarises the opportunities for improvement that we have identified. While the opportunities for improvement did not cause non compliance with the Operating Licence during the audit period, we believe they are important to strengthen the control framework and improve performance.

Ref	Compliance Element	Opportunity for improvement
6.2	Information - Incident Reports to the Economic Regulation Authority	<p>For the purpose of assessing the Corporation's compliance with the Operating Licence, this audit distinguishes between the Corporation's Incident Management function and controls and procedures in place for reporting incidents to the Authority (the objective of the audit of this compliance element). Although this audit did not identify any specific occasion on which the Corporation had not complied with the requirements of the Operating Licence for reporting incidents to the Authority, we consider the following areas require strengthening:</p> <ul style="list-style-type: none"> ▪ specific reference to requirements of the Operating Licence in the Corporation's corporate procedures ▪ employees' understanding of and capability to apply the need to escalate incidents within the Corporation's internal reporting structure to ensure relevant incidents are reported to the Authority within the required timeframes ▪ acknowledgement and close out of instances where the Corporation has not complied with the requirement to report incidents to the Authority within 5 days, including occasions where the Corporation is not aware of the occurrence of the incident within 5 days of that occurrence ▪ acknowledgement and close out of occasions where the classification of an incident is subsequently downgraded to a Minor incident (and therefore need not have been reported) or, in theory, upgraded to a Major incident ▪ management of the reliance on the small number of individuals, primarily the Corporate Incident Management Coordinator (CIMC), for the conduct of this process. <p>We recommend that the Corporation consider and address the impact of each of these issues on the Corporation's compliance with the requirement to report incidents to the Authority. Where appropriate, the Authority should be consulted. Appropriate controls and procedures should then be implemented, including:</p> <ul style="list-style-type: none"> ▪ introduction of the electronic Incident Management System (IMS) ▪ sufficient administrative support for the CIMC ▪ continued review of the communication with and training for employees in the Regions to ensure that the requirements for complete, accurate and timely reporting are understood.

Ref	Compliance Element	Opportunity for improvement
7	Telephone Answering	For the quarterly audit, it is recommended that: <ul style="list-style-type: none"> the ASPECT system screen dump be observed by at least two independent staff members who then manually sign the printed document as true and correct these staff nominate a representative to verify parameters on their behalf, in the event that they are unable to do so.
9 10 11 14 & 15	Pressure and Flow, Continuity, Water Supply – Leaks and Bursts, Sewerage System – Overflows on Property & Sewerage System – Blockages	Consider the following actions to further strengthen the effectiveness of the current fault management and reporting system: <ul style="list-style-type: none"> improve the functionality of SAP PM to record the detail of changes made to work order records maximise the use of PDAs³ as the primary tool for capturing work order information in the field refine procedures and controls to ensure that all work orders are correctly closed and that no partially executed work orders remain outstanding and undetected. This matter should be monitored by region develop procedures to review items residing in the error pool to ensure that all work order updates which were incorrectly sent to SAP PM are appropriately corrected and updated.

The audit also identified the following housekeeping matter.

Ref	Compliance Element	Housekeeping
6.3 & 6.4	Information – Quarterly Reports & Annual Benchmarking Report	We noted that the Authority had not provided formal confirmation to the Corporation of its receipt of a number of reports prepared and submitted (via courier) during the period of this audit. To ensure that these submissions are received by the Authority within the required timeframes, the Corporation should strengthen its procedures for obtaining confirmation of receipt.

Objectives

In accordance with clause 4 of the Operating Licence, the primary objective of the operational audit is to audit the effectiveness of measures taken by the Corporation to maintain quality and performance standards:

- referred to in the Operating Licence, including those standards set out in Schedules 7 and 8⁴
- applied to the Operating Licence, including those standards prescribed under section 33 of the Act.

Clause 4.10 of the Operating Licence states: “*The audit shall focus on systems and effectiveness of processes used to ensure compliance with the standards, outputs and outcomes required by the Licence.*”

³ Personal Digital Assistant

⁴ Standards and Principles for the Provision of Water Services and Levels of Service Standards, Performance Indicators and Reporting Requirements, respectively

Scope

The operational audit covered the period from 1 July 2004 to 30 June 2006.

The compliance elements of the Operating Licence examined by this audit are as described in the 'Findings' section of this report (pages 4 and 5).

Limitation of scope

In accordance with Appendix A of the tender document and as described in Appendix A to this report, certain Operating Licence compliance elements were not included in the scope of this audit, either because they did not eventuate in this audit period or, in the case of Asset Management, because they are subject to separate review.

Approach & methodology

The audit was conducted in three distinct phases:

1. Risk and materiality assessment

With reference to AS/NZS4360 Risk Management and schedule 3, section 4 of the tender document, we conducted a preliminary assessment of the risk and materiality of non-compliance with the Operating Licence in order to focus our audit effort and identify areas for testing and analysis. This risk assessment was updated through the audit fieldwork and is disclosed in this report.⁵

2. System analysis, assertion setting and review

Through discussion, observation and review, we analysed a sample of cases or data relating to the Corporation's quality and performance systems and standards against requirements of Schedules 1 to 8 of the Operating Licence.

3. Fieldwork: testing and analysis

Using the results of the risk assessment and systems analysis, detailed testing and analysis was performed to compare those standards maintained by the Corporation with the relevant sections and schedules of the Operating Licence. During this audit we visited the Perth and North West Regions.

Nature of audit work conducted

As the audit approach is designed to provide reasonable assurance as to whether the information relating to performance is free from material misstatement, examination and testing of controls and activities in relation to the Operating Licence requirements were undertaken consistent with schedule 3, section 3a of the tender:

- *completeness* – whether all material events were recorded
- *accuracy* - whether all material events were recorded and calculated accurately
- *validity* - whether all material events recorded actually occurred
- *regulatory controls* - whether all material events recorded complied with Operating Licence conditions
- *internal controls* - whether all material events recorded complied with internal control procedures.

⁵ Refer to the Risk Assessment section of this report, from page 14

Approach & Methodology

Phased audit approach

The audit was conducted in three distinct phases:

1. Risk and materiality assessment

By first identifying material and/or high risk components of the Corporation’s relevant activities, the audit focused on identifying or assessing those activities and management control systems examined and the matters subject to audit. The extent of audit effort was proportional to the materiality and risks of the Operating Licence conditions – the greater the materiality and the higher the risk, the more effort was applied.

The following table represents the assessment of inherent and control risks for each Operating Licence element. The audit also considered detection risk, calculated the resulting audit risk and determined the priority to examining and testing the Operating Licence elements.

Note: There is an inverse relationship between detection risk and the combined level of inherent and control risks. For example, when inherent and control risks for an Operating Licence element are assessed as high, to reduce audit risk to an acceptably low level, acceptable detection risk needed to be low and therefore greater audit attention was applied.

Inherent Risk + Control Risk + Detection Risk = Audit Risk

		Our assessment of control risk:		
		High (Weak controls)	Medium	Low (Strong controls)
Our assessment of inherent risk:	High	1 st level priority	2 nd level priority	2 nd level priority
	Medium	3 rd level priority	4 th level priority	4 th level priority
	Low	5 th level priority	5 th level priority	5 th level priority

Priorities for examination and testing

Priority level	Risk Assessment	Audit procedures
1st	high inherent risk and high control risk (weak internal controls)	<ul style="list-style-type: none"> o Controls testing and extensive substantive testing of activities and/or transactions. o Follow-up and if necessary, re-test matters previously reported.
2nd	high inherent risk and medium or low control risk	<ul style="list-style-type: none"> o Controls testing and moderate substantive testing of activities and/or transactions. o Follow-up and if necessary, re-test matters previously reported.
3rd	medium inherent risk and high control risk (weak internal controls)	<ul style="list-style-type: none"> o Limited controls testing (moderate sample size). Only substantively test transactions if further control weakness found. o Follow-up of matters previously reported.
4th	medium inherent risk and medium or low control risk	<ul style="list-style-type: none"> o Confirmation of existing controls via observation and walk through testing. o Follow-up of matters previously reported.
5th	low inherent risk	<ul style="list-style-type: none"> o Confirmation of existing controls via observation, discussions with key staff and/or reliance on key references (“desktop review”).

The risk assessment was discussed with stakeholders to gain their input as to the appropriateness of the comments, such as any factual inaccuracies, and for comment on the ratings. At this stage, the risk assessment was a preliminary assessment based on a review of documentation and interviews by the operational auditors. The ratings and risk assessment comments were reappraised as work was conducted and new evidence came to light. The assessment is set out in the following section.

2. System analysis, assertion setting and review

Through discussions with key operational and administrative staff, observation of processes, procedures and operations and review of key documents, an analysis was performed on a sample of cases or data involving technical, operational and administrative aspects of those quality and performance standards maintained by the Corporation, enabling comparison with the requirements of Schedules 1 to 8 of the Operating Licence.

3. Fieldwork: testing and analysis

Using the results of the risk assessment and systems analysis, detailed testing and analysis was performed to compare those standards maintained by the Corporation with the relevant sections and schedules of the Operating Licence. In assessing the extent of compliance, we considered the following:

1. **Process compliance:** effectiveness of systems and procedures in place throughout the audit period
2. **Outcome compliance:** actual performance against standards prescribed in the Operating Licence.
3. **Output compliance:** existence of the output from systems and procedures in place throughout the audit period.

In circumstances where the volume of occasions of service or other relevant transactions being tested were large, sampling techniques were utilised to provide adequate assurance that test results are representative of the Corporation's operations. The sample sizes were calculated automatically after input of the relevant populations and risk factors using Deloitte's global AS/2 audit methodology, which is used, inter alia, by the Office of the Auditor General in Western Australia.

Risk Assessment

Phase 1 of the methodology involved a consideration of the risk of misstatement of performance, in line with the criteria established at the outset of the process and explained earlier in this report. The following table summarises our final position on the level of risk attaching to each compliance element.

It should be noted that no compliance element's risk rating was changed during the course of the audit fieldwork and after the preliminary risk assessment was discussed with representatives from the Corporation and the Authority.

Key to risk assessment ratings

The following table incorporates the assessment of the collective likelihood and impact of key risks relating to the Operating Licence compliance element. Reference is made to the Corporation's Corporate Risk Assessment Criteria and AS 4360 "Risk Management" in estimating these ratings of Likelihood and Impact.

Likelihood	Impact				
	Insignificant	Minor	Moderate	Major	Catastrophic
Almost certain	High	High	Extreme	Extreme	Extreme
Likely	Medium	High	High	Extreme	Extreme
Possible	Low	Medium	High	Extreme	Extreme
Unlikely	Low	Low	Medium	High	Extreme
Rare	Low	Low	Medium	High	High

Ratings of Extreme and High risks are combined into the single risk rating of "High" applied at the Assessment of Audit Risk detailed above.

Operating Licence element	Likelihood ⁶	Impact	Inherent Risk (assuming no related controls in place)	Control Risk (assessment of controls in place)	Audit Risk
Cl 2.2 & 2.7; Sch 1 Operating Areas <ul style="list-style-type: none"> Water Services in a designated operating area 	Possible	Minor	Medium	Low	4
			Primary risk of non-compliance relates to the Corporation's supply of water services to customers outside of designated Operating Areas, resulting from new services being provided without timely reference to operating areas or changes to operating areas not being adequately recognised.	The Corporation has the following in place to address these risks: <ul style="list-style-type: none"> maintains a GIS system which maps the locations of all operating areas the GIS system is updated whenever license amendments (for changes to boundaries of Operational Areas), are approved by the Authority GIS can be used to identify whether a proposed service will fall outside of an Operating Area. This process is triggered by a request / identification of a need to service a new customer/s. This can originate through the following channels: IPB, IDB, Project Management and LDB. The process involves the running of a program called "Pipes Outside of Operating Areas" which reconciles the location of existing infrastructure (mains) to Operating Areas. Infrastructure located outside of the Operating Areas is investigated and reported on a quarterly basis GIS also issues a warning if and when 'as constructed' information is entered that indicates services could be outside the Operating Area. 	
Cl 3.2; Sch 2; Sch 6, s 1.2; Sch 8 Customer Complaints <ul style="list-style-type: none"> Resolution Names & Addresses 	Likely	Moderate	High	Medium	2
			Risks include the Corporation's inability to comply due to the following: <ul style="list-style-type: none"> Process breakdown leading to response time being greater than 21 Days Officers not receiving the necessary training and/or support to deal with complaints Insufficient decision authority resulting in lengthy resolutions Monitoring system is not maintained accurately to reflect the number, nature and outcome of complaints Customers are not informed by the Corporation of their right of complaint to the Department of Water The Corporation does not advise the Department of Water of arbitration outcomes Information is not complete and reliable for the quarterly KPI calculations A complete list of complainant names and addresses is not maintained If and when requested by ERA, the list is not made available for ERA's use. 	The Corporation has the following in place to address these risks (reflected in Standard Guideline SG115): <ul style="list-style-type: none"> Grange system is set up to record and report on the number, nature and outcome of all complaints received (i.e. fax/e-mail/letter/in-person/telephone) training supplied to enhance the skills and abilities of operating personnel where the complaint relates to a fault that requires action by a work crew, a work order is raised within the SAP system. where the complaint relates to an account or technical contact that cannot be resolved immediately, the query is logged within Grange against a pending work queue. The division relevant to the task is then responsible for resolving the complaint weekly reports detailing all complaints are prepared and distributed to "Complaint Coordinators" within each of the regions and branches and progress is monitored centrally by designated staff within the Customer Services Division. The status of reported complaints are monitored and appropriate action taken a process in place to utilise the Grange system to effectively receive, record, manage and resolve complaints a process in place to advise complainants of their rights a unique identifying number is allocated to each complaint monetary compensation is governed by policy PCY112 details of complaints referred for investigation, conciliation and arbitration is maintained (Corporation maintains a list (through Grange) of all complainants' names and addresses which it reports to the ERA when requested (note: this list has not been requested in the past 6 years) Disaster Recovery and Contingency Plans are in place in case of system failures. 	

⁶ Likelihood of compliance not being accurately recorded and reported, assuming no controls in place.

Operating Licence element	Likelihood	Impact	Inherent Risk (assuming no related controls in place)	Control Risk (assessment of controls in place)	Audit Risk
CI 3.3; Sch 3 Customer Charter • In place	Possible	Minor	Medium Risks include the Corporation's inability to comply due to the following: <ul style="list-style-type: none"> • Corporation does not maintain the charter for any changes in the provision of services to customers • Proposed amendments are not forwarded to the ERA • Charter not displayed in customer centres • Not providing a copy charter on request • Not sending a current copy of the charter to every customer at least once every two years (or as agreed with the ERA) • Charter is not reviewed at least every two years (or as agreed with the ERA). 	Low The Corporation has consistently demonstrated it has applied the following processes in the past to address these risks: <ul style="list-style-type: none"> • Charter is made available at public counters • A copy of the charter is sent to customers every 2 years • Charter is available on the Corporation's Website • Charter is also available in large print. 	4
CI 3.4; Sch 4 Customer Advisory Council • Established	Unlikely	Minor	Low Risks include the Corporation inability to comply due to the following: <ul style="list-style-type: none"> • not consulting with the Customer Council • not establishing additional forums where required • not consulting with the authority re the constitution and membership of the Customer Council. 	Low The Corporation has the following in place to address these risks, per its Work Instruction S010-WI-23: <ul style="list-style-type: none"> • Terms of reference • minutes of all meetings • details of all members • ensures that meetings are held frequently and address community issues and gauge community responses to a number of issues including levels of service, presentation of accounts, the Customer Charter and water restrictions • additional committee established and referred to as UDAC (Urban Development and Advisory Council). 	5
CI 3.5; Sch 5 Water Services Provision • Conditions for Connection • Availability • Discontinuance	Possible	Minor	Medium Risks include the Corporation's inability to comply due to the following: <ul style="list-style-type: none"> • not setting out in writing its 'conditions for connection' • not making the information available to relevant parties • not ensuring, subject to conditions, its services are available within Operating Areas on request • not ensuring a written agreement from the property owner is sought before discontinuing a non commercially viable service. 	Low The Corporation has the following in place to address these risks, in accordance with Policy Statement PCY222: <ul style="list-style-type: none"> • the Corporation has produced a pamphlet which advises potential customers of the conditions of connection. This is also available on the corporations Website • process in place to ensure applications for service are only approved when all conditions have been addressed • process in place to ensure discontinued services are supported by a signed customer consent. 	4

Operating Licence element	Likelihood	Impact	Inherent Risk (assuming no related controls in place)	Control Risk (assessment of controls in place)	Audit Risk
Cl 3.6; Sch 6, sch 8 Information <ul style="list-style-type: none"> Customer Complaints 6 Monthly Reporting Incident Reports Quarterly Reports Annual Benchmarking Report 	Unlikely	Moderate	<p>Medium</p> <p>Risks include the Corporation's inability to comply due to the following:</p> <ul style="list-style-type: none"> not providing a complete account of all customer complaints received in the preceding 6 months not appropriately categorising information supplied to the ERA. <p>The Corporation does not notify the Authority of the required details within 5 days of the following:</p> <ul style="list-style-type: none"> Water quality (health related) non-compliance issues Wastewater overflows Interruptions to services Data used to produce such reports is not reliable Loss of corporate knowledge <ul style="list-style-type: none"> The Corporation does not update information and prior quarterly data is carried forward The reports are not lodged within 30 days of the end of each quarter Some regions are omitted from the consolidated results The Corporation does not comply with all the standards as set out in the Schedule. <ul style="list-style-type: none"> The list of performance indicators is not completely addressed Not all schemes are included 	<p>Low</p> <p>The Corporation has the following in place to address these risks:</p> <ul style="list-style-type: none"> Utilises the Grange system to record and report on the number, nature and outcome of all complaints and procedures to manage the process are covered in Standard Guidelines SG115 and SG115A Required information is captured in Grange and reports are forwarded to the ERA as required by the Corporation's Standard CSD-S-015 Corporate data model and process mapping of standard systems. Employee training. Information is collected by the Customer Services Division (CSD) regions and collated then forward to Financial Management (FM). FM reviews the data for reasonableness against seasonal expectations and variances from prior quarters. This is then sent to Regulation and Compliance Branch (RCB) for review and comment. After this process, the report is signed off by the Manager RCB, the CFO and the CEO before being forwarded to the ERA. RCB ensures that the towns and KPI's are consistent with those listed on the Operating Licence. 	4
STANDARDS					
Schedule 7 – s1 Telephone Answering	Possible	Minor	<p>Medium</p> <p>Risks include the Corporation's inability to comply due to the following:</p> <ul style="list-style-type: none"> Telephones are not answered in the required time Abandoned calls are above the allowable limits. 	<p>Low</p> <p>The Corporation has the following in place to address these risks:</p> <ul style="list-style-type: none"> Procedures for compliance are covered under S010-WI-06 The ASPECT system is used to monitor and detail calls. ASPECT is maintained by an independent party and is stand alone. ASPECT displays the status of calls as well as documenting call details, thus allowing operators to ensure KPI's are met. If KPI's are in danger of not being met, other members of the team who are not allocated to handling queries, are allocated calls thus relieving the backlog. 	4
Schedule 7 – s2.1 & 3 Drinking Water Quality	Likely	Catastrophic	<p>High</p> <p>Risks include the Corporation's inability to comply due to the following:</p> <ul style="list-style-type: none"> The Corporation supplies water, designated as drinking water that is not safe for human consumption. 	<p>Low</p> <p>The Corporation has the following in place to address these risks:</p> <ul style="list-style-type: none"> an effective Water Quality Management System is in place SG010 and SG074 provide strong guidance for managing drinking water quality in accordance with Operating Licence requirements. compliance with this element was independently audited by Deloitte, with the audit concluding that nothing came to the auditor's attention to indicate that the Water Corporation had not complied with the relevant requirements of the Operating Licence. 	2

Operating Licence element	Likelihood	Impact	Inherent Risk (assuming no related controls in place)	Control Risk (assessment of controls in place)	Audit Risk
Sch 7 – s2.2, 2.5 & 4.2 Pressure & Flow	Likely	Moderate	High Risks include the Corporation's inability to comply due to the following: <ul style="list-style-type: none"> Less than 99.8% of all customers, subject to the exemptions listed, have the required water pressure and flow as listed in the tables. The 2004 Operational Audit report detailed an 'Opportunity for Improvement' regarding the accuracy of pressure and flow performance indicator data.	Medium The Corporation has the following in place to address these risks: <ul style="list-style-type: none"> The Corporation measures pressure and flow via customer complaints Faults are recorded in the Grange system and a work order is generated within the SAP system The work crew determines whether the fault was 'Confirmed, Marginal or Normal' and these details used as a pressure & flow performance measure. The Corporation has implemented action plans to address the related Opportunity for Improvement. This issue is to be tested by this audit.	2
Schedule 7 – s2.3 Continuity	Likely	Moderate	High Risks include the Corporation's inability to comply due to the following: <ul style="list-style-type: none"> Less than 75% of all properties shall not experience a complete interruption of supply exceeding 1 hour, wherever possible. 	Medium The Corporation has the following in place to address these risks: <ul style="list-style-type: none"> Interruptions are categorised as planned and unplanned and are covered under work instructions SO14-WI-04 & SO14-WI-18 Planned interruptions are tasked to ensure interruptions do not exceed 1 hour Unplanned interruptions can arise due to emergency maintenance requirements and unknown service faults alerted to the Corporation via customer complaints. There are procedures in place to respond to these in a manner as to reduce the interruption to the customer. 	2
Schedule 8 Water Supply - Leaks and Bursts	Likely	Moderate	High Risks include the Corporation's inability to comply due to the following: <ul style="list-style-type: none"> In the preceding 12 months there were more than 20 Leaks and Bursts per 100km of main Service interruption to customers (more than 100) due to need to shut down sections of reticulation to enable repair. 	Medium The Corporation has the following in place to address these risks: <ul style="list-style-type: none"> The Corporation measures Leaks and Bursts via customer complaints and Corporation observations. If via Customers, the faults are recorded in the Grange system and a work order is generated within the SAP system. The work crew attending to the order, determine whether the fault was confirmed or not and these details used to measure compliance. 	2
Schedule 7 – s2.4 Drinking Water Restrictions	Unlikely	Moderate	Medium Risks includes the Corporation's inability to comply due to the following: <ul style="list-style-type: none"> The details reported to the Authority are not complete as to operating area, duration, start date and the number of services affected. 	Low The Corporation has the following in place to address these risks: <ul style="list-style-type: none"> The Corporation can apply water restrictions in accordance with the Water Agencies (Water Restrictions) Act. Formal work instruction SO14-WI-08 details the processes to be followed for restrictions. A restrictions register is maintained detailing all the information required by the ERA. 	4
Schedule 7 - s4.1 Notification of Drinking Water (Farmlands)	Unlikely	Moderate	Medium Risks includes the Corporation's inability to comply due to the following: <ul style="list-style-type: none"> not notifying farmland customers annually, in writing, that it is their responsibility to treat water at the point of use not notifying new customers or buyers or their agents of the same. 	Low The Corporation has the following in place to address these risks: <ul style="list-style-type: none"> The Grange system maintains the details of farmlands customers who are covered by Agreements. Annual written notification is provided to all these customers automatically via customer accounts. In addition to the above, SO10-WI-17 sets out the Work Instructions in place to ensure all new owners are notified of their responsibilities. 	4

Operating Licence element	Likelihood	Impact	Inherent Risk (assuming no related controls in place)	Control Risk (assessment of controls in place)	Audit Risk
Schedule 7 – s6; Schedule 8 Sewerage System – overflows on property	Unlikely	Moderate	Medium Risks includes the Corporation's inability to comply due to the following: <ul style="list-style-type: none"> Less than 99.8% of customers, in the preceding 12 months, did not experience a wastewater overflow resulting from Corporation asset failure. 	Medium The Corporation has the following in place to address these risks: <ul style="list-style-type: none"> Procedures are governed by work Instructions SO14-WI-01 & 06. Wastewater overflows are measured by complaints received from customers as well as via internal monitoring of wastewater treatment plants. Faults are recorded in the Grange system and a work order generated in SAP. The work crew attending to the order, determine whether the overflow was confirmed or not and these details used to measure compliance. 	4
Schedule 8 Sewerage System – blockages	Possible	Minor	Medium Risks includes the Corporation's inability to comply due to the following: <ul style="list-style-type: none"> In the Preceding 12 months, there were more than 40 blockages per 100km of main. 	Medium The Corporation has the following in place to address these risks: <ul style="list-style-type: none"> Procedures are governed by work Instructions SO14-WI-01 & 06 Blockages are measured by complaints received from customers as well as via internal monitoring of wastewater treatment plants Faults are recorded in the Grange system and a work order generated in SAP The work crew attending to the order, determine whether the blockage was confirmed or not and these details used to measure compliance 	4
Schedule 7 – s7.1 - 7.7 Urban Drainage <ul style="list-style-type: none"> Design of new infrastructure Performance of infrastructure Liaison with local authorities 	Unlikely	Minor	Low Risks includes the Corporation's inability to comply due to the following: <ul style="list-style-type: none"> Urban drainage scheme infrastructure provided by the Corporation for the purpose of protection against flooding is not designed, constructed, operated and maintained such that specified peak flows of stormwater runoff from rainfall events can be accepted into and will not overflow from the system. 	Low The Corporation has the following in place to address these risks: <ul style="list-style-type: none"> well established work instructions are applied independent desk top audits of the Water Corporation's compliance with this element were performed by Deloitte for the periods 1 July 2004 to 30 June 2005 and 1 July 2005 to 30 June 2006 the audit concluded that the Water Corporation had complied with relevant Operating Licence requirements adequate insurance covers are in place in case of serious flooding standard operating procedures are in place such as incident responses monitoring and review of drainage system performance compared to plan/design. 	5 Intend to rely on the results of the independent audits.
Schedule 7 – s7.8-7.9 Other Drainage <ul style="list-style-type: none"> Rural 	Unlikely	Minor	Low Risks includes the Corporation's inability to comply due to the following: <ul style="list-style-type: none"> The Corporation does not review O&M procedures when the maximum period of inundation (72 hours) is exceeded. Failure of rural standard levies Existing systems inadequate for service requirements Corporate systems not adequately catering for rural drainage requirements. 	Low The Corporation has the following in place to address these risks, as covered by Work Instruction SO14-WI-17: <ul style="list-style-type: none"> Drains are regularly maintained to ensure they remain effective When the Corporation becomes aware of inundation, either via customer complaints or identification by field staff, the details are entered into Grange and a work order entered into SAP. Working with developers to ensure drainage is upgraded to urban standards Discharge of works to improve existing systems 	5
<ul style="list-style-type: none"> Flood Protection 			<ul style="list-style-type: none"> The Corporation operates Flood Protection Works at different levels of protection from the required 1:100 year event occurs resulting in considerable flooding across the state causing significant damage to property and potential loss of life Periodic floods in urban areas once every few years. 	<ul style="list-style-type: none"> Flood protection works are maintained to ensure hydraulic capacity is not diminished Works maintenance programs are developed for any required work The Corporation reviews appropriateness in accordance with a planning schedule based on an evaluation of the priorities of the drains and also in response to customer requests, including planned urban developments. 	

Operating Licence element	Likelihood	Impact	Inherent Risk (assuming no related controls in place)	Control Risk (assessment of controls in place)	Audit Risk	
Schedule 7 – s8.1 - 8.3 Services Provided by Agreement • Documented agreements	Unlikely	Moderate	Medium	Medium	4	
• Change of consumer			Risks includes the Corporation's inability to comply due to the following: • The Corporation does not have agreements in place with new customers in the current audit period who are receiving a service which does not meet sections 2 or 4 of schedule 7 of the Operating Licence. • Upon receiving advice of a change in the owner or consumer of a service under agreement, the Corporation does not notify them of the conditions of supply and enter into a new agreement with the new owner / consumer.	The Corporation has the following in place to address these risks: • Work Instruction SO10-WI-17 covers this area. • All information relating to services by agreement are documented within the Grange system • New agreements are negotiated on a regional level and checked and approved by the Special Agreements section • Proforma "agreement" in PCY 222.		
• Annual notification			• Where a service is supplied under written agreement and it does not meet the water quality standards, the Corporation does not include a written notification of the responsibilities of the consumer when accounts are issued.	• the Corporation is notified of the change of ownership of properties by settlement agents via Electronic Advice of Sale, or Manual form. • Any changes to agreement parties is input to the Grange system • the Grange system will automatically flag the user and instruct them to forward the Advice of Sale document to the Special agreements section • the Corporation sends out notification to the customer of the agreement, prior to settlement.	• The Corporation sends out notifications as per Work Instruction SO10-WI-17, with the annual accounts. This information is automatically flagged for inclusion by Grange.	
• Major consumers			• Where the Corporation wishes to enter into an agreement with a 'Major Consumer' (covered under its major consumer policy) which is inconsistent with the provisions of the license, the Corporation does not seek approval from the Authority for those provisions not to apply.	• Governed by Work Instruction SO10-WI-17, the Authority's approval is sought for the provision of services outside of the license provisions.		
Clause 2.3; Schedule 7 – s8.4 Non Potable Services	Unlikely	Moderate	Medium	Low	4	
			Risks includes the Corporation's inability to comply due to the following: • The Corporation does not have a written agreement in place with consumers for the supply of a non-potable service • The Corporation does not comply with the written agreement in place with the customer.	The Corporation has the following in place to address these risks: • All information relating to services by agreement are documented within the Grange system • New agreements are negotiated on a regional level and checked and approved by the Special Agreements section.		

Compliance Elements

For each of the compliance elements outlined in the Scope of this report, we have completed a detailed schedule, which summarises the:

- title of the compliance element
- schedules of the Operating Licence to which it relates
- performance targets specified in the relevant schedules
- audit risk assessment
- compliance assessment
- compliance objective
- audit tasks
- work performed
 - Note: the results of our assessment of MCS and SAP system is common across a number of elements below, including Pressure and Flow, Continuity, Leaks and Bursts and Sewerage relating to blockages and overflows on property
- results and commentary
- conclusion
- opportunities for improvement or housekeeping items (where appropriate).

1. Operating Areas

4th level priority

Fully Compliant

Operating Licence requirement

The Corporation may provide the water services respectively indicated in Schedule 1 to, and within, those areas designated by reference to a plan number, which number refers to the plan of the relevant operating area, or location described in Schedule 1, approved by the Authority for the purposes of the provision of the indicated water service.

Audit work performed and results

The Corporation's Facilities Management System (FMS) and Land Development Management System (LDMS) maintain cadastral details of each of the Operating Areas provided for in Schedule 1 of the Operating Licence.

Versions 25 to 34 of the Operating Licence, issued during the period 1 July 2004 to 30 June 2006, each reflected one or more changes to Operating Area details. A total of 58 changes were made during this period, comprising changes arising from the provision of additional water services, or corrections to related detail and/or amendments to provisions in the Operating Licence.

The Corporation's *Land Servicing Policy* PCY 222 requires all new water services to be provided only within a designated Operating Area. Our examination and testing indicated that PCY 222 is effectively supported by the following procedures which facilitate the Corporation's compliance with the Operating Licence:

- for each proposed new service, an assessment is made by a trained officer as to whether the service is within a designated Operating Area
- LDMS prompts a check of whether the proposed service is outside of a designated Operating Area
- FMS utilises a warning flag to alert users when a new asset created within the system lies outside of a designated Operating Area
- FMS exception reports "*Pipes outside of operating areas*" are generated to identify Corporation assets that lie outside of designated Operating Areas. We confirmed that these reports have been produced and investigated on a quarterly basis.

In addition to the PCY 222, on 27 April 2006 the Corporation implemented a formal procedure "*Identifying Services Outside the Operating Licence Area*", which describes the quarterly process for reviewing all services that are outside approved operating areas and to initiate the process for formally extending the relevant area. This procedure is supported by a work instruction, which provides detailed guidance on how to action the quarterly "*Pipes-outside-of-operating-areas*" report as well as the related documentary evidence to be retained. We note that, in future, this report is to be re-titled "*Assets outside of operating areas*". During the audit period, it was noted that 10 Operating Areas extensions were as a result of this quarterly process.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated compliance with the requirements of Schedule 1 of the Operating Licence, in relation to Operating Areas.

2. Customer Complaints (page 1 of 2)

2nd level priority

Fully Compliant

Operating Licence requirement

Schedule 2, section 1 - Customer Complaints: *The Corporation shall have in place, and properly resource, a process for effectively receiving, recording, managing and, (if possible), resolving customer complaints within a time frame of 21 days. To ensure the effectiveness of such a process, the Corporation shall, as a minimum:*

- (a) *establish a system for providing each aggrieved customer with a unique identifying complaint number;*
- (b) *provide an appropriate number of designated officers who are trained to deal with customer complaints and who are authorised to, or who have ready access to officers who are authorised to, make the necessary decisions to settle customer complaints or disputes, including, where applicable, approving the payment of monetary compensation;*
- (c) *establish a complaint resolution protocol which is designed to resolve the customers complaint or dispute within 21 days of being notified of its existence;*
- (d) *provide a system for accurately monitoring and recording the number, nature and outcome of complaints in order to fulfil the requirements to provide information set out in the clause and in the Operating Licence.*

Schedule 2, section 2 - Investigation, Conciliation and Arbitration: *The Corporation shall immediately inform the customer of the processes available to the customer under this clause by advising the customer of the customer's right of complaint to the Department, and the role of the Department to facilitate a resolution, once it becomes apparent that the complaint or dispute will not be resolved within the 21 day period.*

The Corporation shall promptly advise the Coordinator of the outcome of an arbitration.

Performance target specified in Schedule 8

In the preceding six month period, 90% of written customer complaints due for resolution are to be successfully resolved within 21 days.

Audit work performed and results

The definition of a "complaint" and the resolution of a complaint in the form of a "meaningful response" to a complaint adopted by the Corporation is taken from definitions provided by Australian Standard AS 4269-1995, the Operating Licence and the Water Service Association of Australia.

In line with its commitment to customer service, the Corporation has invested significant effort and resources into its customer complaints management processes, primarily through:

- the complaints handling module of Grange, the Corporation's customer billing system, which is designed to capture and aid in the management of customer complaints. Grange allocates a unique identifying contact number to each customer contact and provides for 'notes' to be recorded for all activities relevant to resolution of the complaint
- allocation and training of officers within the Customer Service Division, particularly in the Customer Centre and Regional offices. Process and Indicator Custodians have been nominated to coordinate the complaints management activities of each region and major branch, with a designated Customer Contacts Officer responsible for monitoring the Corporation's overall performance in effectively managing complaints. The number of officers designated to receive and handle customer contacts remained relatively stable over the period 1 July 2004 to 30 June 2006, although the Corporation has continued to search for and implement customer service improvements which are expected to reduce the number and complexity of customer contacts and ultimately, the number of staff required to adequately resource those customer contacts. An example customer service improvement is the Corporation's plan to make available on its website the answers to frequently asked questions that would help to clarify customer concerns without the customer needing to contact the Corporation directly

2. Customer Complaints (page 2 of 2)

2nd level priority

Fully Compliant

- the use of work instructions and standard guidelines to communicate requirements to all staff involved with handling and managing customer contacts. Standard Guidelines SG115 *Processing External Customer Contacts* and SG115A *Customer Contact - Grange Category/Sub-Category and Classification Guideline*, which were introduced in 2003 and have been materially constant during the audit period, are effective references which appear to be well understood by relevant staff. The Accounts Information Manual, located on the Corporation's intranet site also provides staff with approved responses to many of the questions and complaints frequently received
- a designated Call Centre and Operations Centre, which are designed to handle all customer telephone enquiries and faults reporting. These centres are supported by the ASPECT Call Centre system, which directs calls to the most appropriate Customer Service Representative
- daily, weekly and monthly reporting and monitoring of customer contacts and complaints. Beyond monitoring and reporting on compliance, the Corporation also incorporates benchmark reporting and performance monitoring and reporting designed to improve the quality of information provided in responses to customer complaints.

The Corporation's performance against the standard specified in the Operating Licence in relation to written complaints is measured as the percentage of the total number of written complaints due for resolution in the previous six month period that were successfully resolved within 21 days. For the period 1 July 2004 to 30 June 2006, the Corporation reported that:

- 11 of a total of 2011 written complaints received and resolved were not resolved with 21 days
- for each six month period, it exceeded the Operating Licence requirement for resolving 90% of written complaints within 21 days, with a minimum result of 98.91%.

We note that the nominated representative of the Department of Water confirmed that there were no written complaints recorded in the period 1 July 2004 to 20 June 2006 which were subject to arbitration.

Our examination and testing of the Corporation's management and monitoring of its customer complaints indicates that, for the period 1 July 2004 to 30 June 2006, the Corporation had:

- policies, procedures, protocols and systems in place, to enable the Corporation to effectively measure and manage compliance with the requirements of the Operating Licence, particularly the need to resolve complaints within 21 days
- adequately resourced and trained staff for dealing with customer complaints and for settling those complaints in a timely manner, including, where applicable, through monetary compensation
- effectively monitored data relating to the effectiveness and timeliness of customer complaint resolution, including the need to inform customers of their right of referral to the Department of Water in the event that the complaint is not resolved within the 21 day period
- reported related performance indicators to the Authority, which have been recalculated and determined to be materially correct.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated that it has met the compliance requirements of:

- Schedule 2, section 1 of the Operating Licence, in relation to Customer Complaints
- Schedule 2, section 2 of the Operating Licence, in relation to Investigation, Conciliation and Arbitration.

3. Customer Charter

4th level priority

Fully Compliant

Operating Licence requirement

- *The Corporation must set out in writing the principles, terms and conditions upon which it intends to provide water services to its customers ('the customer charter').*
- *The customer charter should be drafted in 'plain English'; and address all of the service issues that are reasonably likely to be of concern to its customers.*
- *Any proposed amendment to the customer charter must be forwarded to the Authority for approval.*
- *The Corporation must make the customer charter available to its customers by prominently displaying it in those parts of the Corporation's offices to which customers have regular access; by providing a copy, upon request, and at no charge, to the customer; and by sending a current copy, or a summary document approved by the Authority, to all customers at least once in every two year period or as agreed with the Authority.*
- *The charter is to be reviewed by the Corporation at least once in every two year period or as agreed with the Authority.*

Audit work performed and results

The current version of the Corporation's Customer Charter (the Charter) was issued in July 2005. Changes made to the previous version of the Charter, which was applicable for the period July 2003 to June 2005 and subject to audit in 2004, were primarily cosmetic, with a small number of minor wording revisions.

Via review of the Corporation's policies, procedures and both versions of the Charter applicable during the audit period, we are satisfied that during the period 1 July 2004 to 30 June 2006, the Charter:

- set out the principles, terms and conditions upon which the Corporation provides water services to its customers
- was drafted in plain English
- addressed all of the service issues that are reasonably likely to be of concern to the Corporation's customers
- was made available to the Corporation's customers upon request and at no charge, either via the Corporation's website or via direct request to staff.

We noted that the Authority approved the Corporation's current Customer Charter applicable from July 2005 and that the Charter was issued to the Corporation's customers as an additional insert in the 2005/06 Annual Service Charge accounts issued in July 2005.

As detailed in the 2004 Operational Audit Report, the July 2003 to June 2005 version of the Charter was presented to the previous regulatory authority, the Office of Water Regulation (OWR) for approval prior to distribution to customers. OWR did not formally approve the revised Charter on the basis that it preferred that the component of the Charter which notifies customers that complaints can be directed to "an independent complaint resolution service" (for which a direct link to the OWR / Authority is included on the Corporation's website) should have instead referred specifically to OWR, as the relevant authority at the time. Via review of the Charter posted on the Corporation's website, the 2004 Operational Audit determined that it was reasonable to conclude that customers who had used this notification in the Charter would have been adequately directed to the relevant authority during the period subject to audit.

We also confirmed that the Charter was displayed at the Balcatta, Canning Vale and Karratha regional offices at the time of our visit to those offices.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated compliance with the requirements of the Operating Licence in relation to the Customer Charter.

4. Consumer Committees

4th level priority

Fully Compliant

Operating Licence requirement

The Corporation shall establish a 'Customer Council', and shall consult with the Customer Council to facilitate community involvement in issues relevant to the exercise of the Corporation's levels of service under the Operating Licence.

Audit work performed and results

We observed that a Customer Advisory Council (the Council) was in place during the July 2004 to June 2006 period. The Council was established to provide the Corporation with advice on issues related to the levels of service under the Operating Licence from the customer's perspective. The Council consists of representatives from a broad range of industries including the Property Council of Australia, Australian Hotels Association, Chamber of Commerce and Industry, Consumers' Association of WA, Housing Industry Association, together with representatives from each of the Corporation's regions.

A formal *Terms of Reference* document for the Council was approved by the Corporation Board on 13 April 2004, providing high level reference to the Council's membership, role and standard meeting agenda and structure. The *Terms of Reference* also require the Council Chairman to report to the Board every six months on discussions held, memberships and outputs.

Our review of minutes of meetings held from July 2004 to June 2006 noted that the Council was consulted on and provided input into the Corporation's activities relating to the following matters, each of which are relevant to the service level requirements of the Corporation's Operating Licence:

- o Customer Charter
- o Drought Response and Sprinkler Bans
- o Customer Satisfaction research
- o Water Cycle Project
- o Communications Strategy Project
- o Community Watch Program
- o Concessions
- o Desalination
- o Water Quality
- o Pressure Management
- o Security through Diversity Strategy
- o Water Recycling on Green Space Irrigation
- o South West Yarragadee Water Supply Development
- o Gngangara and Jandakot Water Mounds

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated compliance with the requirements of the Operating Licence in relation to Consumer Committees.

5. Water Services Provision

4th level priority

Fully Compliant

Operating Licence requirement

- *The Corporation shall set out in writing its 'conditions for connection' and make that information available to all applicants for connection and to people inquiring about connection.*
- *The Corporation shall ensure that its services are available for connection on request to any land situated in the Operating Areas, subject to the applicant meeting any conditions the Corporation may determine to ensure safe reliable and financially viable supply of services to land in the Operating Areas in accordance with this Operating Licence and any Water Acts. Satisfactory compliance with the conditions of connection are to be taken as forming an essential requirement of gaining approval for connection to the Corporation's schemes.*
- *The Corporation may, with the written agreement of the property owner, discontinue a service to a property where the servicing of the property is not commercially viable.*

Audit work performed and results

The Corporation has published a *Conditions for Connection* brochure which effectively sets out relevant information relating to its conditions for connection of water supply services, fire services, wastewater schemes and drainage services. The brochure is made available to all applicants for connection and to people inquiring about connection, through the Corporation's website, via direct request to staff or from displays in Corporation's offices to which customers have access.

Over 2000 applications for new water services connections are received by the Corporation each year. The Corporation's procedures for processing applications for new water services connections are governed by its Land Servicing Policy PCY 222. The Corporation also states a commitment to making its services available for connection through its Service Commitment Scheme and Customer Charter, which specifically refer to a commitment to install water connections within 10 business days of processing applications (dependant on the availability of a suitable reticulation main).

There are no records of any applications for new water services connections being rejected during the period 1 July 2004 to 30 June 2006 and the Process Manager for the Operating Licence's Water Service Provision requirements was not aware of any application being rejected. Our analysis of customer complaints relating to land development and water services connections indicates that during the audit period, the Corporation did not receive any complaints in relation to a rejected application for new water services connection.

A discontinuation relates to the physical removal of pipes/reticulation due to it being commercially unviable to continue to maintain the service. There are no records of any water services connections being discontinued during the period 1 July 2004 to 30 June 2006.

The Corporation has addressed the minor housekeeping matter raised in the 2004 Operational Audit report, in relation to discontinuances, by developing a "Discontinuance of Services according to Sch 5.3 of Operating Licence requirements" report. This report lists Grange system records of any instances where a service to a property has been discontinued. For the period 1 July 2004 to 30 June 2006, no discontinuations were reported.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated compliance with the requirements of Schedule 5 of the Operating Licence, in relation to Water Services Provision.

6.1 Information – Customer Complaints

4th level priority

Fully Compliant

Operating Licence requirement

The Corporation shall provide the Authority with a report at the end of each six month period on complaints received during the preceding six month period. Schedule 6, section 1 of the Operating Licence specifies the complaints categories to be included in this report.

Audit work performed and results

This Operating Licence element relates specifically to the Corporation's reporting of data relating to customer complaints. Our assessment of the Corporation's Customer Complaints processes, procedures, protocols and systems is separately described in the "2. Customer Complaints" Compliance Element pages of this report.

On a quarterly basis, the Corporation reports to the Authority on its levels of service and performance relating to all standards set out in the Operating Licence. In accordance with the requirements of the Operating Licence, information on customer complaints received is reported in the December and June quarters. Our assessment of the Corporation's compliance with the Operating Licence requirement to report to the Authority on a quarterly basis is addressed in the "6.4 Information – Quarterly Reports" Compliance Element page of this report.

The Corporation's Grange system records data on all customer complaints received, including names and addresses of complainants, for each of the categories specified in the Operating Licence. Data is extracted from Grange for the relevant six month period and is updated into preformatted Excel spreadsheets for collation into the quarterly performance reports to the Authority. Our examination and testing of the reported results for the six months ending December 2004 and December 2005 indicates that the Corporation has established effective procedures to ensure that:

- reports provided to the Authority contained results for all required complaint categories, including a breakdown of Resolved Complaints, Unresolved Complaints and Written Complaints
- reported results reconcile to Grange data.

We also note that the Corporation reported that it had achieved full compliance with all Operating Licence requirements relating to customer complaints received in each of the six months ending December 2004, June 2005, December 2005 and June 2006.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated compliance with the requirements of Schedule 6, section 1 of the Operating Licence, in relation to its reporting of Customer Complaints Information.

6.2 Information - Incident Reports (page 1 of 3)

4th level priority

Compliant

Operating Licence requirement

- *The Corporation shall inform the Authority of the occurrence of the following events within five days:*
 - *Non-compliance with water quality (health related) standards*
 - *Overflows from wastewater/sewerage infrastructure, including wastewater treatment plants, pumping stations etc.*
 - *Interruptions to water services greater than one hour, whether planned or unplanned, affecting more than 300 connected properties or an entire town of 50 services or more.*
- *The Authority may require a detailed report on these events to be provided within 14 days of the request.*

Audit work performed and results

For the purpose of considering the Corporation's compliance with the Operating Licence, it is appropriate to distinguish between the Corporation's Incident Management function and its Incident Reporting process. This audit has broadly considered the controls and procedures established within the Corporation's incident management function, however the objective of the audit of this compliance element was to assess the effectiveness of controls and procedures specific to reporting incidents to the Authority in accordance with the requirements of the Operating Licence.

Incident Management

The Corporation's Incident Management arrangements are governed by standard SG110 *Incident Management – Corporate Planning Model*. This standard is supported by work instructions for the following incident types:

- Non Compliance with Water Quality
- Overflows from Wastewater Infrastructure
- Interruptions greater than 1 hour
- Major Incidents.

The Corporation has made its customer service and operations employees and contractors accountable for recognising and managing incidents in accordance with its Incident Management Standard and supporting procedures. A number of employees throughout the organisation are designated as having key responsibilities in this process, with the Corporate Incident Management Coordinator (CIMC) playing a key role in monitoring adherence to the Corporation's requirements.

Incident Reporting

The classification of reportable incidents was defined by the former Office of Water Regulation (predecessor regulator to the Authority) in its letter to the Corporation of 26 May 1998 and further clarified (in relation to drinking water quality incidents) in its letter to the Corporation of 3 September 2003. There has been no further communication between the Corporation and the Authority on this issue.

The Corporation has established procedures and work instructions to provide guidance to staff for identifying reportable incidents, then reporting to internal and external stakeholders, including relevant regulators such as the Department of Environment and Department of Health. It is notable that many of these procedures do not refer to the requirement to report incidents to Authority, rather they focus on reporting to other regulators and stakeholders on health and environmental grounds.

There is guidance to Corporation staff regarding the identification of the significance of incidents. Only incidents categorised as Major or Significant are reported to the Authority. However, it is possible that an incident initially categorised as Major or Significant could, upon subsequent examination, be more correctly categorised as Minor and vice versa.

Moreover, without advice from the public there may conceivably be a gap, perhaps of more than five days, between the occurrence of the incident and its identification by Corporation staff, for example a concealed but persistent discharge to the environment or an incident at a remote asset.

6.2 Information - Incident Reports (page 2 of 3)

4th level priority

Compliant

The process for collating incident information is currently centralised with the CIMC, who is the main point of contact at the Leederville office. The CIMC is on call 24 hours a day, 7 days a week. According to the CIMC, 73% of incidents occur outside of working hours. We note that the Corporation has placed significant reliance on the experience, capability and availability of the CIMC, although there are some backup arrangements in the event of the CIMC's absence at any one time. We understand the State Operations Centre (established in June 2006) is expected to introduce an administrative role to assist in the incident reporting process.

We noted that for the period 1 July 2004 to 30 June 2006, a file of all reported and non reported incidents was maintained by the CIMC. The 2004 Operational Audit identified that there was no register in place to capture all incidents reported to the Corporation or the Authority. At the time of the 2004 audit, the Corporation was in the process of evaluating and testing a new application called Softrisk (v5.1), which is a document management system specialising in Critical Incidents/Emergency Management. The application has not been adopted as it was found to be incompatible with the Corporation's needs.

Instead, the Corporation is in the process of developing an Incident Management System (IMS), enabling incidents to be reported online via the Corporation's intranet. The IMS is currently being trialled across Regions and is planned to go live by early 2007. This approach is expected to reduce the number of manual incident forms produced and enable more effective and efficient reporting mechanisms. Without a register in place, it was difficult to determine the number of incidents that occurred during the audit period. The CIMC represented to us that there are approximately 600 incidents each year, of which approximately 300 relate to operational incidents such as non-compliance with water quality health standards, interruptions and wastewater overflows, and the balance relate to security incidents such as fence damages. Of these incidents, approximately 80-100 are classified as Major or Significant, equating to an approximate average of two incidents per week which should be reported to the Authority.

Results of testing

Our initial testing of a sample of reported incidents over the period 1 July 2004 to 30 June 2006 noted one incident which was not reported to the Authority within the 5 day timeframe as per the requirements of the Operating Licence. Further discussions and investigation of the incident revealed that the incident was in fact a Minor incident and need not have been reported to the Authority. The incident related to a wastewater spill onto low areas of a construction site and adjacent undeveloped land in Eaton and, as the result of a clerical error, was reported as a 2,000KL spill, whereas the incident report form indicated 2,000L. No follow-up was performed (by the Corporation or the Authority) to inquire why the incident was not reported within the required timeframe.

As a result of this error, we extended our testing to obtain greater coverage of the extent of the Corporation's compliance with the incident reporting requirement of the Operating Licence. Our extended testing identified a further incident which was not reported to the Authority within the 5 day timeframe, which related to a wastewater spill into a compensating basin near Kinross. There was no media interest as a result of the incident and the primary regulator (Department of Environment) and stakeholder (City of Joondalup) were notified of the incident within the timeframe expected by those authorities. Similarly, further investigation of this incident determined that it had been incorrectly classified as a Major incident and, as a Minor incident, need not have been reported to the Authority.

As a result of the second exception, we further extended our testing again to establish whether incidents were being classified correctly and thus not being reported to the Authority. As well as testing timeliness of reporting, we considered that it was important to establish whether Major or Significant incidents were being incorrectly classified as Minor.

No further exceptions were found. In total, we tested 35 incidents, of which 21 were classified as Major or Significant and 14 as Minor. Taking our testing as a whole, there were no issues in relation to specific incidents, except that two Minor incidents initially categorised as Major were reported to the Authority later than the 5 day period allowed.

6.2 Information - Incident Reports (page 3 of 3)

4th level priority

Compliant

Regulatory intent

We are advised that the Corporation adopts the approach of “if in doubt, report it” in respect of incidents that require regulatory notification. The intent is to ensure the relationship with regulators is maintained in an open and transparent fashion and that adequate, timely communication of potentially sensitive issues occurs. This approach seems sensible, although it may lead to over-reporting to the Authority. In terms of subsequent action taken by the Authority in relation to reported incidents, we confirmed that no further detailed report of events was requested by the Authority during the audit period.

Opportunities for Improvement

Although our examination of the Corporation’s procedures and testing of a sample of incidents reported to the Authority during the period 1 July 2004 to 30 June 2006 did not identify any specific occasion on which the Corporation had not complied with the relevant Operating Licence requirements, we consider there are a number of areas that require clarification and strengthening:

- specific reference to requirements of the Operating Licence in the Corporation’s corporate procedures
- employees’ understanding of and capability to apply the need to escalate incidents within the Corporation’s internal reporting structure to ensure relevant incidents are reported to the Authority within the required timeframes
- acknowledgement and close out of instances where the Corporation has not complied with the requirement to report incidents to the Authority within 5 days, including occasions where the Corporation is not aware of the occurrence of the incident within 5 days of that occurrence
- acknowledgement and close out of occasions where the classification of an incident is subsequently downgraded to a Minor incident (and therefore need not have been reported) or, in theory, upgraded to a Major incident
- management of the reliance on the small number of individuals, primarily the CIMC, for the conduct of this process.

We recommend that the Corporation consider and address the impact of each of these issues on the Corporation’s compliance with the requirement to report incidents to the Authority. Where appropriate, the Authority should be consulted. Appropriate controls and procedures should then be implemented, including:

- introduction of the electronic IMS
- sufficient administrative support for the CIMC
- continued review of the communication with and training for employees in the Regions to ensure that the requirements for complete, accurate and timely reporting are understood.

Conclusion on material compliance achieved

We conclude that the Corporation has demonstrated material compliance with the requirements of Schedule 6, section 2 of the Operating Licence, in relation to Incident Reports.

6.3 Information - Quarterly Reports

4th level priority

Fully Compliant

Operating Licence requirement

- *The Corporation must comply with the standards set out in schedule 8 and report to the Authority on the respective levels of service and performance at the intervals indicated in this schedule.*
- *The reports are due within 30 days of the end of each quarter.*
- *Reports will provide information at a regional level.*

Audit work performed and results

On a quarterly basis, the Corporation reports to the Authority on its levels of service and performance, including information at a regional level, relating to the standards set out in Schedule 8 of the Operating Licence. For eight of these standards, related levels of service and performance are reported each quarter, for two standards, related levels of service and performance are reported on an annual basis (in the June quarter) and for one standard, related levels of service and performance are reported on a six monthly basis (in the December and June quarters).

Note that the Corporation's compliance with each of these standards has been specifically assessed by this audit, with audit results separately detailed within the relevant Detailed Findings pages of this report.

In August 2004, data entry guidelines were developed to further strengthen the Corporation's controls over the integrity of respective data collated and reported to the Authority (recognising the need to distinguish the updated data from that included in previous reports to the Authority).

Our review and testing of the Corporation's procedures for reporting to the Authority on a quarterly basis indicated that during the period 1 July 2004 to 30 June 2006:

- quarterly reports addressed each of the related levels of service and performance as per Schedule 8 of the Operating Licence
- where relevant, respective levels of service and performance were reported at a regional level
- reports were submitted to the Authority within the required timeframe
- effective procedures were in place to maintain the integrity of the reported data through the process of collation from SAP and Grange records
- an effective report review process was applied by Corporate Finance, Regulation & Compliance and the Customer Service Division, for each of the quarterly reports submitted to the Authority.

Housekeeping

We noted that the Authority had not consistently provided formal confirmation to the Corporation of its receipt of the quarterly reports prepared and submitted (via courier) during the period of this audit. To ensure that quarterly reports are received by the Authority within the 30 day timeframe, the Corporation should strengthen its procedures for obtaining confirmation of receipt.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated compliance with the quarterly reporting requirements of Schedule 8 of the Operating Licence.

6.4 Information - Annual Benchmarking Report

4th level priority

Fully Compliant

Operating Licence requirement

- *The Corporation will provide the Authority with data required for performance monitoring purposes.*
- *On 1 September 2000 (amended to 31 October on 20/06/2003) and on an annual basis thereafter the Corporation will provide non-financial data which will cover the previous financial year to 30 June (the Authority will provide a list of performance indicators which are to be reported against on an annual basis).*
- *This data will be provided for sewerage schemes and potable water supply schemes as listed in this schedule.*

Audit work performed and results

The Corporation annually reports non-financial data against a list of performance indicators to the Authority as originally set out in a letter dated 23 June 1999 and adjusted through correspondence between the parties.

Our review of the required and reported performance indicators for each of the 2003/2004 and 2004/2005 financial years indicates that:

- relevant data was reported to the Authority by 31 October for both years
- all the required schemes were covered in the reports, with all variations approved by the Authority in related correspondence with the Corporation
- all required performance indicators, for both sewerage and potable water schemes were reported, with all variance approved by the Authority in related correspondence with the Corporation
- the review process in place, as performed by Financial Management Branch, the Customer Service Division and the Regulation and Compliance Branch, operated effectively.

Housekeeping

We noted that the Authority had not provided formal confirmation to the Corporation of its receipt of the annual benchmarking data prepared and submitted (via courier) during the period of this audit. To ensure that these submissions are received by the Authority by 31 October each year, the Corporation should strengthen its procedures for obtaining confirmation of receipt.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated compliance with the requirements of Schedule 6 the Operating Licence in relation to Benchmarking and Performance Monitoring Information.

7. Telephone Answering

4th level priority

Fully Compliant

Operating Licence requirement

The Corporation shall answer telephone calls on the 'Customer Enquiry 13' telephone numbers in accordance with the following standard.

- o *70 per cent of calls will be answered within 20 seconds, with no more than 5% of calls abandoned after 5 seconds, measured on a monthly basis*

Audit work performed and results

The Corporation's Call Centre receives all calls for accounts enquiries (Metro and Regional) and technical enquiries (Metro only) while its State Operations Centre receives fault related calls. The Corporation manages its responsiveness to Customer Enquiry 13 telephone calls through:

- Work Instruction 01-0359 *PI 13 Telephone Calls*
- the ASPECT Call Centre system - which handles all inbound calls, outbound calls and call routing; and captures all call time related data including the Interactive Voice Response system for directing calls to the most appropriate Customer Service Representative
- monthly reporting and monitoring of service levels (for answering calls within 20 seconds and restricting calls abandoned after 5 seconds to less than 5%).

The Corporation also aims to ensure that customers receive quality customer service through the application of Standard Guideline SG070 *Corporate Telephone Excellence*.

For the period 1 July 2004 to 30 June 2006, the Corporation reported that, on average, it answered 75% of calls within 20 seconds, with the lowest monthly result of 71% and that 2.5% of calls were abandoned after 5 seconds, with a maximum monthly result of 3.72%. These results demonstrate compliance with Operating Licence requirements.

Our examination and testing of the Corporation's Call Centre's telephone responsiveness activities indicates that the Corporation has effectively provided for:

- the Call Centre and the Operations Centre to be adequately resourced to handle telephone calls
- Customer Service Representatives to be adequately trained to meet telephone answering standards
- accurate and valid reporting of telephone responsiveness results on a monthly basis, demonstrating that it has maintained service levels within Operating Licence requirements.

Opportunity for Improvement

The 2004 Operational Audit report noted that the ASPECT system does not feature an effective audit trail to enable the tracking of configuration changes to call performance parameters (this weakness in the system had previously been recognised by the Corporation). In response to the 2004 Operational Audit report's recommendation to improve controls relating to the independent verification of call performance parameters within ASPECT, the Customer Centre has conducted quarterly audits of ASPECT parameters. The quarterly audit process involves pasting a "screen dump" of ASPECT parameters into a word document template for review by the Team Leader IT Services, Manager Systems Management and Manager Customer Centre.

Due to logistical difficulties in organising these staff members to be present at the time of the quarterly audit, their electronic signatures have been used as evidence of their review. As this does not provide sufficient evidence that the parameters have in fact been verified by the individuals, it is recommended that: (a) on an ad-hoc basis, the screen dump be observed by at least two independent staff members who then manually sign the printed document as true and correct; and (b) each of the staff members nominate a representative to verify the parameters on their behalf, in the event that they are unable to do so.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated that it has exceeded the compliance requirements of Schedule 7, section 1.2 of the Operating Licence, in relation to customer service, telephone answering standards.

8. Drinking Water Quality (page 1 of 2)

2nd level priority

Fully Compliant

Operating Licence requirement

Schedule 7, section 2.1: *The Corporation is required to supply water, designated as drinking water that is safe for human consumption. The Health Department of Western Australia has confirmed that water will be safe for human consumption if it complies with directions made by the Minister for Health.*

Schedule 7, section 3.1: *In relation to its supply of potable water available to the public, the Corporation shall comply:*

- *with the guidelines for 'health related' characteristics as set out in the 1987 publication of the National Health & Medical Research Council and the Australian Water Resources Council entitled 'Guidelines for Drinking Water Quality in Australia' ("the Guidelines") by the year 2000 with the proviso that the Health Department should be able to approve departures from the guidelines for individual supplies, as it may judge appropriate, in light of public health considerations as shown in section 3.3 of Schedule 7*
- *as far as practicable, with the guidelines for 'not directly health related' characteristics as set out in the Guidelines However, bearing in mind the high levels of public expenditure which would be required to achieve full compliance in respect of some small water supplies, it is accepted that achievement of this aim may take many years.*

Schedule 7, section 3.2: *The Water Corporation is to operate its water supply systems such that the presence of amoebae is minimised so that no sample should contain any Naegleria species tolerant to 42°C and above, and to achieve an annual compliance of not less than 95%.*

Audit work performed and results

On 18 July 2001, the Department of Health (the Department) and the Corporation entered into a five year *Memorandum of Understanding for Drinking Water* (MoU) for managing drinking water quality in the Corporation's area of control. Schedule 2 of the MoU sets out the drinking water quality requirements that the Corporation is required to meet under its Operating Licence. Schedule 5 and 6 of the MoU set out the drinking water quality management protocols and operating manuals that enable the Corporation to demonstrate compliance with Schedule 2 and any additional direction given by the Department.

The Corporation developed a *Drinking Water Quality Management Manual (SG010)* in conjunction with the Department as part of its water quality management process. SG010 incorporates the directions from the *1987 Guidelines for Drinking Water Quality*. The first major revision of SG010 resulted in the implementation of SG010 version 2.0 in May 2004 to accommodate the *1996 Australian Drinking Water Guidelines*. To enable reporting of water quality performance to the public, all assessable drinking water quality samples are now collected from reticulation monitoring points, however operational sampling from raw water sources and water treatment plants has been retained.

The Corporation uses the *Water Quality Management System (WQMS)* in designing sampling programs as well as analysing and reporting on the water quality characteristics of samples taken in the field by qualified samplers. The acceptable water quality characteristics required by SG010 have been entered into WQMS as parameters which are compared to results received from NATA accredited laboratories, which analyse water samples provided by the Corporation from its schemes throughout Western Australia. Automated checks based on the parameters loaded into WQMS enable the system to alert relevant staff to results that exceed the acceptable tolerance levels stipulated by SG010. These checks also facilitate timely response in the form of remedial action and communication to the Department of incidents and subsequent remedial action taken

Section 13.5 of the MoU states that the Department will conduct an annual audit of the Corporation's systems and databases used to manage and report drinking water quality. In practice, an audit has been commissioned every two years, which has been agreed as appropriate by the Department and the Corporation. A performance audit was conducted by Deloitte on behalf of the Department and the Corporation in March 2006 in a manner consistent with Australian Auditing Standards (AUS) 806 "Performance Reporting". The resulting 2006 Drinking Water Quality Management Performance Audit report observed that the Corporation had:

- understood and applied the Guidelines for Drinking Water Quality in Australia as published in 1987 and the relevant requirements of the MoU
- demonstrated strong commitment to monitoring and achieving compliance with the requirements of the Operating Licence
- established processes and procedures to facilitate its compliance with the requirements of the Operating Licence in relation to drinking water quality for the period 1 July 2004 to 10 March 2006.

8. Drinking Water Quality (page 2 of 2)

2nd level priority

Fully Compliant

Audit work performed and results (continued)

The 2006 Drinking Water Quality Management Performance Audit report also concluded that:

- SG010 is effectively designed to assist the Corporation to maintain a greater level of health related drinking water quality than prescribed by its Operating Licence
- the continued enhancement of WQMS has further strengthened the Corporation's ability to meet its drinking water quality objectives, which extend beyond the minimum requirements of the Operating Licence
- in all material respects, SG010 and the Corporation's drinking water management processes continued to effectively interpret and apply the requirements of the 1987 Guidelines for Drinking Water Quality and Departmental directions during the period 1 July 2004 to 10 March 2006
- the audit had obtained reasonable assurance that the Corporation had complied with Schedule 2 of the MoU and the requirements of its Operating Licence in relation to drinking water quality for the period 1 July 2004 to 10 March 2006

We observed that the one minor administrative matter raised in the 2006 Drinking Water Quality Management Performance Audit report (relating to maintenance of samplers' training records) has since been appropriately addressed by the Corporation.

The 2006 Drinking Water Quality Management Performance Audit focussed predominantly on health related characteristics, however the underlying systems and processes for handling other characteristics are the same.

We performed additional review and testing to confirm that for the period 11 March to 30 June 2006, the Corporation continued to maintain WQMS and the related reporting processes which were assessed by the 2006 Drinking Water Quality Management Performance Audit. We also traced data reported in the Corporation's March, April, May and June 2006 Corporate Reports to the underlying WQMS data.

The Corporation reports performance in relation to both health and non-health related water quality to the Authority on a quarterly basis. Throughout the period 1 July 2004 to 30 June 2006, the Corporation reported results exceeding those required by the Operating Licence and the Department, including compliance of all schemes operated by the Corporation, in relation to the target performance for the presence of Naegleria species tolerant to 42°C and above, as specified in Schedule 7, section 3.2 of the Operating Licence.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated that it has met the compliance requirements of Schedule 7 of the Operating Licence in relation to Drinking Water Quality.

9. Pressure & Flow (page 1 of 3)

2nd level priority

Fully Compliant

Operating Licence requirement

Subject to customers complying with Corporation requirements the Corporation shall ensure that on a rolling 12 month basis at least 99.8% of customers connected to its water systems, including Farmlands, shall have, at the outlet of the water meter to their property, water pressure and flow as tabled at Schedule 7, sections 2.2 and 4.2. Exemptions from the flow and pressure standards are tabled at Schedule 7, section 2.5.

Audit work performed and results

The Corporation's performance against pressure and flow standards is measured as the percentage of customers connected to the Corporation's water system who receive water with pressure and flow as specified in the Operating Licence. The Corporation manages and monitors its obligations for supplying customers with drinking water within the specified range for pressure and flow through the Customer Service Division's:

- Corporate Procedure – *Summary of Requirements for Provision of Water and Associated Monitoring Processes*
- local work instructions and guidelines
- application of the Grange system to capture pressure and flow related fault complaints reported by customers
- application of the SAP system for generating resulting work orders and facilitating the assessment and close out of reported pressure and flow faults
- application of the Mobile Computing system (MCS) for facilitating the delivery of work order schedules to crews and for capturing more complete work order information in the field
- facilitation of training and education of staff on an as needed basis
- monthly reporting processes, including ad hoc reports used to review the validity and completeness of related data.

Water pressure and flow at the outlet of the water meter is measured against the following standards tabled in Schedule 7 of the Operating Licence:

Area	Minimum Static Pressure (metres of water)	Maximum Static Pressure (metres of water)	Minimum Flow (litres per minute)
Perth Metropolitan Areas (except exempt areas)	15	100	20
Country Urban Areas (except exempt areas)	13	100	20
Farmland services supplied from the Goldfields and Agriculture Water Supply, the Great Southern Town Water Supply Scheme and Mid West Region	Not applicable	200	Over a 24 hour period 11.2 L/ha/day and 3kL/day per occupied house
Rural Water Supply schemes	Not applicable	200	Over a 24 hour period 5.6 L/ha/day and 1.8kL/day per occupied house.

Note that water supply areas exempt from flow and pressure standards are tabled at Schedule 7, section 2.5

Where pressure or flow measurements fall outside of the specified standards, 'Confirmed' poor pressure and flow occurrences are recorded and included in compliance performance indicators which are reported to the Authority.

Throughout the period 1 July 2004 to 30 June 2006, the Corporation reported that it consistently met the Operating Licence requirement for at least 99.8% of customers connected to its water system who received water with pressure and flow as specified in the Operating Licence. Reported results ranged from 99.86% to 99.89% during this time.

9. Pressure & Flow (page 2 of 3)

2nd level priority

Fully Compliant

A high level review of MCS was conducted to gain an understanding of the controls and security in place over the electronic transmission of work orders to work crews equipped with PDA devices. As part of this review we examined:

- work flow processes for issuing and receiving work order data to and from work crews equipped with PDAs
- security and data validation controls implemented on the PDA device
- the accuracy of work order data transmitted from PDA and updated to SAP PM
- security implemented within the MCS infrastructure and integration with SAP PM
- error monitoring and tracking of data updates from PDA to SAP PM.

Our examination and testing of the Corporation's management and monitoring of its supply of customers with drinking water within the specified range for pressure and flow, indicates that for the period 1 July 2004 to 30 June 2006, the Corporation had:

- policies, procedures and systems in place, to enable the Corporation to effectively measure and manage compliance with the requirements of the Operating Licence
- provided effective central and regional support and training to field staff (the appointment of Local User Experts within each Region is a notable example of this support)
- effectively monitored related data at various levels within the organisation, with support from limited exception reporting
- reported related performance indicators to the Authority, which have been recalculated and determined to be materially correct
- effective controls in place over its MCS to ensure that work order data related to Operating Licence reporting requirements is updated accurately and completely
- effective IT controls in place to preserve the integrity of SAP data, after it is entered by field crew and subsequently reported.

Opportunities for Improvement

Logging of SAP data changes

The SAP PM system does not have adequate logging functionality to allow the tracking of changes to a work order. Once a work order is captured in SAP PM, an authorised user can edit the work order record numerous times in various fields without the details of the changes being captured in an audit trail. Currently, the only detail logged for a change of a record is the update of the "changed by" field which saves the username of the last user to modify the record. Although this audit did not identify any specific occasion where data was improperly changed, the lack of control over data changes can compromise the integrity of SAP data.

Use of MCS/PDA

Our analysis of SAP notifications sent by PDA compared to the number of crews equipped with a PDA indicates there is still a significant gap in the expected use of PDAs. In each Region, at least 80% of crews are equipped with PDAs, whereas the total proportion of notifications submitted by PDA during the period January 2005 to June 2006 consistently ranged from 60% to 80% in the various Regions. A specific example of this is: of approximately 25,000 notifications relating to work orders submitted for the Perth Region in the period April to June 2006, approximately 60% were confirmed to originate from a Telispark user (i.e. notified by PDA), with the remaining 40% of notifications resulting from physical work orders. According to feedback from the Perth Region approximately 82% of its work crews are equipped with a PDA, indicating a 20% gap between potential and actual usage.

9. Pressure & Flow (page 3 of 3)

2nd level priority

Fully Compliant

Close-out of work orders

We noted that in the period April to June 2006, a total of 758 work orders existed within SAP PM as having been reported (system status of REPO) and marked as partially executed (system status of PEXE). This suggests there is outstanding work to be completed for these work orders, and although they represent only approximately 1% of all work orders submitted for that period, there may be an increased risk that the Corporation has reported or will incorrectly report work orders as being incomplete. This risk is mitigated by the notion that outstanding works are typically identified and raised by customers in the form of complaints or additional fault calls.

Further investigation into this issue showed that a significant portion of these 758 work orders related to an inability of SAP to recognise the completion of work orders which have multiple crews working on sub-operations of the job. This is due to the deliberate design of SAP to indicate work as being incomplete (i.e. PEXE) if there is any single item not completed. In these instances, if each crew completes their work and finalises their operation as PEXE, then the overall job will be recognised as only partially executed, when in fact all the work has been completed.

Management of the SAP PM error pool

There are no formal procedures over the Corporation's monitoring and management of the SAP PM error pool. When a work order update is sent via a PDA but has failed to update SAP PM, it is automatically quarantined into the error pool (SLG1). This error pool is a permanent and ongoing list of all work orders that have been reported from the PDA but have not appended SAP PM records. Our review of the error pool to date shows 154 completed notifications relating to work orders which have not been updated to SAP PM records. This indicates there is a risk that a small number of SAP PM records are inaccurate and do not reflect the current progress of works completed.

Recommendation

We recommend that the Corporation consider the following actions to further strengthen the effectiveness of its current fault management and reporting system:

- improve the functionality of SAP PM to record the detail of changes made to work order records
- maximise the use of PDAs as the primary tool for capturing work order information in the field
- refine procedures and controls to ensure that all work orders are correctly closed and that no partially executed work orders remain outstanding and undetected. This matter should be monitored by regions
- develop procedures to review items residing in the error pool to ensure that all work order updates which were incorrectly sent to SAP PM are appropriately corrected and updated.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated that it meets the compliance requirements of Schedule 7, section 2.2, 2.5 and 4.2 of the Operating Licence, in relation to Pressure & Flow.

10. Continuity (page 1 of 2)

2nd level priority

Fully Compliant

Operating Licence requirement

- *The Corporation shall make every endeavour to ensure that on a rolling 12 month basis at least 75% of connected properties in the metropolitan and country urban areas shall not experience a complete interruption of supply (no flow), exceeding 1 hour, to the supply standard set out in section 2.2.*
- *Any customer that has experienced more than three confirmed interruptions at the same property which exceed 1 hour in any 12 month period will be provided a 100kL credit on their consumption account. The credit will be provided on application by the customer.*

Audit work performed and results

The Corporation's performance against drinking water system continuity standards is measured as the percentage of customers connected to the Corporation's water system who do not experience a complete interruption of supply (no flow), exceeding one hour. The Corporation manages and monitors its obligations for supplying customers with a continuous supply of drinking water, through the Customer Service Division's:

- Corporate Procedure – *Summary of Requirements for Provision of Water and Associated Monitoring Processes*
- local work instructions and guidelines
- application of the Grange system to capture customer contacts relating to the continuity of drinking water systems
- application of the SAP system for generating resulting work orders and for facilitating the assessment and close out of reported continuity faults
- application of the Mobile Computing system (MCS) for facilitating the delivery of work order schedules to crews and for capturing more complete work order information in the field
- facilitation of training and education of staff on an as needed basis
- monthly reporting processes, including ad hoc reports used to review the validity and completeness of related data

Complete interruptions to supply occur as a result of planned and unplanned works which require the mains water supply to be turned off whilst works are in progress. The sum of these interruptions is recorded in SAP and included in compliance performance indicator calculations, which are reported to the Authority.

Throughout the period 1 July 2004 to 30 June 2006, the Corporation reported that it met all related requirements of the Operating Licence, with regards to the percentage of customers supplied, with rolling 12 month results of between 86.63% and 88.89% of customers connected to its water system who did not experience a complete interruption of supply as specified in the Operating Licence.

The Corporation's performance against the requirement to credit the consumption accounts of customers, who experience more than three confirmed interruptions of greater than an hour, is not required to be reported to the Authority per Schedule 8 of the Operating Licence. The Customer Services Division produces a report which reconciles Grange customer contact information with SAP work order information for individual accounts and recorded interruptions to establish whether there are customers who are eligible to apply for a credit but who may not have done so and forward the report to the Regional Offices for information purposes. Therefore the Corporation will apply the credit to accounts once the customer makes an application (typically via phone contact) and after the Corporation has investigated the claim. There has been one such application made in the period 1 July 2004 to 30 June 2006 for which the Corporation has maintained records of its investigation and resolution of this claim.

10. Continuity (page 2 of 2)

2nd level priority

Fully Compliant

Our examination and testing of the Corporation's management and monitoring of its supply of customers with uninterrupted drinking water services, indicates that for the period 1 July 2004 to 30 June 2006, the Corporation had:

- policies, procedures and systems in place, to enable the Corporation to effectively measure and manage compliance with the requirements of the Operating Licence
- provided effective central and regional support and training to field staff (the appointment of LUEs within each Region is a notable example of this support)
- effectively monitored related data at various levels within the organisation
- reported related performance indicators to the Authority, which have been recalculated and determined to be materially correct
- effective controls in place over its MCS to ensure that work order data related to Operating Licence reporting requirements is updated accurately and completely
- effective IT controls in place to preserve the integrity of SAP data, after it is entered by field crew and subsequently reported.
- maintained accurate and timely information in Grange and SAP to correctly assess and record all applications made by customers for the 100kL credit.

Note that each of the Opportunities for Improvement described in the "9. Pressure & Flow" Compliance Element pages of this report apply equally to this element.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated that it has met the compliance requirements of Schedule 7, section 2.3 of the Operating Licence, in relation to Drinking Water Systems - Continuity.

11. Water Supply - Leaks and Bursts

2nd level priority

Fully Compliant

Operating Licence requirement

- *The Corporation will minimise leaks and bursts of water main to the extent that, in the preceding 12 months there were fewer than 20 leaks or bursts per 100 km of main on a Corporation wide basis.*
- *In reporting against this indicator, the Corporation will provide monthly figures as well as reporting against the rolling 12 month target.*

Audit work performed and results

The Corporation's performance against water supply - leaks and bursts standards is measured as the number of occurrences per 100 km of main. The Corporation manages and monitors its obligations for minimising the occurrences of leaks and bursts of water main through the Customer Service Division's:

- Corporate Procedure – *Summary of Requirements for Provision of Water and Associated Monitoring Processes*
- local work instructions and guidelines
- application of the Grange system to capture leaks and bursts related fault complaints reported by customers
- application of the SAP system for generating resulting work orders and facilitating the assessment and close out of reported leaks and bursts
- application of the Mobile Computing system (MCS) for facilitating the delivery of work order schedules to crews and for capturing more complete work order information in the field
- facilitation of training and education of staff on an as needed basis
- monthly reporting processes, including ad hoc reports used to review the validity and completeness of related data.

Data used to calculate this performance indicator is obtained from SAP (for the 'No. of Leaks & Bursts') and the Facilities Mapping System (for the 'Current month's total length of water main'). The resulting number of leaks and bursts is measured against the maximum of 20 per 100 km of main, as prescribed in the Operating Licence.

Throughout the period 1 July 2004 to 30 June 2006, the Corporation reported that it bettered the Operating Licence requirement, with 12 month rolling results of between 17.68 and 16.80 leaks or bursts per 100 km of main.

Our examination and testing of the Corporation's management and monitoring of leaks and bursts, indicates that, for the period 1 July 2004 to 30 June 2006, the Corporation had:

- policies, procedures and systems in place, to enable the Corporation to effectively measure and manage compliance with the Operating Licence requirement
- provided effective central and regional support and training to field staff (the appointment of LUEs within each Region is a notable example of this support)
- effectively monitored related data at various levels within the organisation, with support from limited exception reporting
- reported related performance indicators to the Authority, which have been recalculated and determined to be materially correct
- effective controls in place over its MCS to ensure that work order data related to Operating Licence reporting requirements is updated accurately and completely
- effective IT controls in place to preserve the integrity of SAP data, after it is entered by field crew and subsequently reported.

Note that each of the Opportunities for Improvement described in the "9. Pressure & Flow" Compliance Element pages of this report apply equally to this element.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated that it meets the compliance requirements of Schedule 8 of the Operating Licence, in relation to Water Supply Services – Leaks and Bursts.

12. Drinking Water Restrictions

4th level priority

Fully Compliant

Operating Licence requirement

The Corporation shall inform the Authority on a quarterly basis of any restrictions applied in accordance with the Water Agencies (Water Restrictions) By-laws 1998 to a drinking water supply, detailing restrictions by operating area, type (severity), duration, start date and number of services affected.

Audit work performed and results

The Corporation's performance against the Operating Licence requirements, which relate to drinking water restrictions, is measured by the lodgement of a detailed quarterly report to the Authority on any restrictions applied. The Corporation manages and monitors its obligations for supplying customers with drinking water and informing the Authority of any restrictions applied to that supply, through the Customer Service Division's:

- Work Instruction S010-WI-08 *Drinking Water Drought Response*
- facilitation of training and education of staff on an as needed basis
- monthly reporting processes
- Corporate Water Restrictions Register.

The Drinking Water Drought Response work instruction clearly defines the process and criteria for reporting restrictions applied, including the maintenance of the Corporate Water Restrictions Register by the Corporation's Water Efficiency Planner. A key function of the Water Efficiency Planner is to identify potential drinking water supply issues, with the view to resolving those issues before applying restrictions. The Corporation consults with industry and relevant State Government Ministers before applying restrictions, as was the case with the current restrictions applied to the Perth Integrated Water Supply Scheme and Northampton Water Supply Scheme.

The Corporate Water Restrictions Register is updated monthly to reflect any restrictions closed out or applied and provides the information for the quarterly report to the Authority.

Our examination and testing of the Corporation's management and monitoring of its supply of customers with drinking water, indicates that, for the period 1 July 2004 to 30 June 2006, the Corporation had:

- policies and procedures in place for accurately maintaining details of drinking water supply restrictions in the Corporate Water Restrictions Register
- informed the Authority of all restrictions applied which are recorded in the Corporate Water Restrictions Register.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated that it meets the compliance requirements of Schedule 7, section 2.4 of the Operating Licence, in relation to Drinking Water Restrictions.

13. Notification of Drinking Water (Farmlands)

4th level priority

Fully Compliant

Operating Licence requirement

Water supplied to farms in farmlands may not conform to the water quality standards of schedule 7, section 3. Where water supplied does not conform to the water quality standards of schedule 7, section 3, and it is to be used for human consumption, it is the responsibility of the customer to ensure the water is treated at the point of use to ensure compliance with drinking water quality standards. Farm services customers are to be provided with annual written notification to this effect at the time accounts are issued, and new consumers or owners or their agent are to be informed that the new consumers or owners have this responsibility at the time of the Corporation being advised of a change of consumer or owner.

Performance target specified in Schedule 8

In the preceding twelve month period 95% of farmland customers were notified of the conditions under which water was supplied.

Audit work performed and results

The Corporation supplies water services to farmlands with the intention that it be used to assist in drought proofing properties by providing a contingency water supply in the event that the farm's other water supplies become unavailable. As the arrangement typically involves Corporation pipelines feeding a tank on the property, the Corporation does not have full control over the quality of water supplied. The Corporation's procedures for ensuring that farmland customers are notified of their responsibility for treating water for human consumption are governed by work instruction S010 WI 17 *Services Provided by Agreement*.

The Grange system maintains details of those farmland customer accounts which are required to be notified of their responsibility. In the period July 2004 to June 2006, approximately 4400 farmland customer accounts were flagged to have the notification included on their accounts. Our testing of a sample of such accounts confirmed that the following notification was printed on the account "The water supplied may not comply with drinking water standards. If it is to be used for drinking, you may need to treat it. For further details call 13 13 75".

For new connections, the Corporation now requires a Section 70a amendment to the Certificate of Title to the property that states that the water supply is subject to conditions. Certificates of Title are not amended for existing title owners, however those owners continue to be notified of their responsibility for treating water via annual accounts.

Our testing of a sample of farmland customer accounts where a change of ownership occurred indicated that new owners were notified of their responsibility for treating water. The Corporation primarily relies on daily notification of change of property ownership via records provided by the Department of Land Information.

In June 2005 and June 2006, the Management Review and Audit Branch audited the Corporation's performance in relation to this requirement of the Operating Licence. Both audits concluded that, for the preceding 12 month period, the Corporation complied with the requirement for 95% of farmland customers to be notified of the conditions under which water was supplied.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated compliance with the requirements of Schedule 7, section 4.1 and Schedule 8 of the Operating Licence, in relation to Farmlands Area Water Systems – Water Quality.

14. Sewerage System – Overflows on Properties

4th level priority

Fully Compliant

Operating Licence requirement

The Corporation shall ensure that on a rolling 12 month basis at least 99.8% of customers will not experience a wastewater overflow on their property which results from any failure of sewerage assets owned or operated by the Corporation.

Audit work performed and results

The Corporation's performance against wastewater standards is measured as the percentage of customers connected to the Corporation's wastewater systems who do not experience a wastewater overflow which results from any failure of sewerage assets owned or operated by the Corporation. The Corporation manages and monitors its obligations for providing customers with a wastewater service through the Customer Service Division's:

- Corporate Procedure – *Summary of Requirements for Provision of Wastewater and Associated Monitoring Processes*
- application of the Grange system to capture wastewater overflow related fault complaints reported by customers
- application of the SAP system for generating resulting work orders and for facilitating the assessment and close out of reported overflow faults
- application of the Mobile Computing system (MCS) for facilitating the delivery of work order schedules to crews and for capturing more complete work order information in the field
- facilitation of training and education of staff on an as needed basis
- monthly reporting processes, including ad hoc reports used to review the validity and completeness of related data.

Data used to calculate this performance indicator is obtained from the SAP BW report, for the 'No. of Overflows' and 'No. of Wastewater Connected Properties'. The resulting number of wastewater overflows is measured against the maximum of 99.8% of customers, as prescribed in the Operating Licence.

Throughout the period 1 July 2004 to 30 June 2006, the Corporation reported that it met the requirement of the Operating Licence. Reported results concluded that in each of the years 2004/05 and 2005/06, 99.85% of customers connected to the wastewater system did not experience an overflow.

Our examination and testing of the Corporation's management and monitoring of its supply of wastewater services, indicates that, for the period 1 July 2004 to 30 June 2006, the Corporation had:

- policies, procedures and systems in place, to enable the Corporation to effectively measure and manage compliance with the Operating Licence requirement
- provided effective central and regional support and training to field staff (the appointment of LUEs within each Region is a notable example of this support)
- effectively monitored related data at various levels within the organisation, with support from limited exception reporting
- reported related performance indicators to the Authority, which have been recalculated and determined to be materially correct
- effective controls in place over its MCS to ensure that work order data related to Operating Licence reporting requirements is updated accurately and completely
- effective IT controls in place to preserve the integrity of SAP data, after it is entered by field crew and subsequently reported.

Note that each of the Opportunities for Improvement described in the "9. Pressure & Flow" Compliance Element pages of this report apply equally to this element.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated that it meets the compliance requirements of Schedule 7, section 6.1 and Schedule 8 of the Operating Licence, in relation to Sewerage System - Overflows on Property.

15. Sewerage System - Blockages

4th level priority

Fully Compliant

Operating Licence requirement

- *The Corporation will minimise blockages of sewer to the extent that, in the preceding 12 months there were fewer than 40 blockages per 100 km of main on a Corporation wide basis.*
- *In reporting against this indicator, the Corporation will provide monthly figures as well as reporting against the rolling 12 month target.*

Audit work performed and results

The Corporation's performance against wastewater blockages is measured as the number of occurrences per 100km of sewer. The Corporation manages and monitors its obligations for supplying customers with a wastewater service through the Customer Service Division's:

- Corporate Procedure – *Summary of Requirements for Provision of Wastewater and Associated Monitoring Processes*
- application of the Grange system to capture wastewater blockage related fault complaints reported by customers
- application of the SAP system for generating resulting work orders and for facilitating the assessment and close out of reported blockage faults
- application of the Mobile Computing system (MCS) for facilitating the delivery of work order schedules to crews and for capturing more complete work order information in the field
- facilitation of training and education of staff on an as needed basis
- monthly reporting processes, including ad hoc reports used to review the validity and completeness of related data.

Data used to calculate this performance indicator is obtained from SAP (for the 'No. of confirmed blockages in a rolling 12 month period') and the Facilities Mapping System database (for the 'Current month's total length of sewer main'). The resulting number of blockages is measured against the target of 40 per 100 km of main, as prescribed in the Operating Licence.

Throughout the period 1 July 2004 to 30 June 2006, the Corporation reported that it bettered the Operating Licence requirement, with 12 month rolling results of between 17.6 and 18.5 blockages per 100km of sewer mains.

Our examination and testing of the Corporation's management and monitoring of blockages within its wastewater services, indicates that, for the period 1 July 2004 to 30 June 2006, the Corporation had:

- policies, procedures and systems in place, to enable the Corporation to effectively measure and manage compliance with the Operating Licence requirement
- provided effective central and regional support and training to field staff (the appointment of LUEs within each Region is a notable example of this support)
- effectively monitored related data at various levels within the organisation, with support from limited exception reporting
- reported related performance indicators to the Authority, which have been recalculated and determined to be materially correct
- effective controls in place over its MCS to ensure that work order data related to Operating Licence reporting requirements is updated accurately and completely
- effective IT controls in place to preserve the integrity of SAP data, after it is entered by field crew and subsequently reported.

Note that each of the Opportunities for Improvement described in the "9. Pressure & Flow" Compliance Element pages of this report apply equally to this element.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated that it meets the compliance requirements of Schedule 8 of the Operating Licence, in relation to Sewerage System Blockages.

16. Urban Drainage (page 1 of 2)

5th level priority

Fully Compliant

Operating Licence requirement

Schedule 7, section 7.2: *Urban drainage scheme infrastructure provided by the Corporation for the purpose of protection against flooding shall be designed, constructed, operated and maintained such that the peak flows of storm water runoff from rainfall events with intensities up to:*

- (a) 5 year average recurrence interval for areas zoned urban residential; and*
- (b) 10 year average recurrence interval for areas zoned commercial or industrial,*
can be accepted into and will not overflow from the system.

Schedule 7, section 7.4: *In planning and designing urban infrastructure, the Corporation shall have due regard to the principles, concepts and recommendations of Australian Rainfall and Runoff, or superseding editions of that publication.*

Schedule 7, section 7.5: *Where there have been instances of flooding confirmed to be due to under capacity of infrastructure to meet the standards of Section 7.2, the Corporation shall upgrade the infrastructure to those standards or shall take such action as agreed with affected customers*

Audit work performed and results

Schedule 7, section 7.2: In accordance with Schedule 8 of the Operating Licence, independent desk top audits were performed by Deloitte to determine whether the Corporation demonstrated compliance with the drainage design standard specified by Schedule 7, Section 7.2 and Schedule 8 (Drainage Services table) of the Operating Licence, for the periods 1 July 2004 to 30 June 2005 and 1 July 2005 to 30 June 2006. We are satisfied that the scope, objectives, methodology and results of these audits appropriately address the requirements of the Operating Licence and we accept the audits' conclusion that the Corporation demonstrated compliance with the specified drainage design standards for the periods 1 July 2004 to 30 June 2005 and 1 July 2005 to 30 June 2006 respectively.

Schedule 7, section 7.4: The Corporation's Work Instruction *Design of Urban Main Drainage Projects* applies to the planning and design of urban drainage infrastructure. This Work Instruction was last updated in September 2005 and has been communicated to all Drainage Planning staff to ensure that the Corporation's drainage designs are required to refer to the Institute of Engineers, Australia's *Australian Rainfall and Runoff* (AR&R) publication as the primary flood estimation reference. We are satisfied that during the period 1 July 2004 to 30 June 2006, the Corporation's Drainage Scheme Reviews and drainage planning reports demonstrate compliance with the AR&R publication principles, concepts and recommendations.

Schedule 7, section 7.5: Prior to 1 January 1996, the Corporation constructed drainage infrastructure to various levels of service standards which may have not met the standards specified in section 7.2 of the Operating Licence. The Operating Licence does not require the Corporation to upgrade any infrastructure existing as at 1 January 1996 to meet these standards where there have been no instances of flooding confirmed to be due to the under capacity of the infrastructure. To demonstrate compliance with this Operating Licence requirement, the Corporation maintains a Flood Register and a Drainage Design Register. All new drainage design projects recorded in the Drainage Design Register during the period 1 July 2004 to 30 June 2006 were supported by appropriate certifications from the Perth Region Manager Assets or the Drainage Planner and Drainage Designer.

16. Urban Drainage (page 2 of 2)

5th level priority

Fully Compliant

Operating Licence requirement

Schedule 7, section 7.7: *Notwithstanding that the Corporation's urban drainage infrastructure shall itself be designed to the capacity standards listed in section 7.2 (a) and (b), in planning and designing such infrastructure the Corporation shall have due regard to the major/minor concept of drainage design discussed in Book 8, 1.5.1 Australian Rainfall and Runoff, Revised Edition. Such due regard will be adequately demonstrated by:*

- (a) *in the case of it undertaking, commissioning or accepting a design for new drainage infrastructure, by the Corporation ensuring that the local authorities involved have been made aware of the predicted response of the combined major/minor system to major storm events, for the information of those authorities in relation to their responsibilities for the establishment and management of the major (as described in Australian Rainfall and Runoff) elements of the major/minor system infrastructure; and*
- (b) *in the case of it undertaking a capacity review of an existing Corporation drainage scheme, by the Corporation causing a broad assessment to be made of the behaviour of the combined major/minor system under major event conditions, and conveying the conclusions of such assessment to the local authorities involved, for the information of those authorities in relation to their responsibilities for management of the major (as described in Australian Rainfall and Runoff) elements of the major/minor system infrastructure.*

Audit work performed and results

Schedule 7, section 7.7: In instances where the Corporation identifies a change in the predicted response of a drainage scheme to major storm events and 100-year flow paths of floodwater, relevant local authorities are to be informed of all matters relating to their responsibilities for managing the major elements of the relevant system infrastructure.

Within the planning phase of the Corporation's Drainage Scheme Reviews of its existing drainage schemes, provision is also to be made for relevant local authorities to be formally advised of the Corporation's review conclusions in relation to the local authority's responsibilities for managing the major elements of the relevant system infrastructure.

Via discussion with Asset Management staff and examination of the Corporation's Flood Register and Drainage Design Register, we noted that during the period 1 July 2004 to 30 June 2006, the Corporation formally performed one Drainage Scheme Review, being the Fremantle Main Drainage Scheme Review, performed in August 2005. Via examination of related correspondence, we are satisfied that appropriate formal communication was maintained with the Fremantle City Council, as the relevant local authority for this scheme, regarding its system infrastructure responsibilities.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated that it meets the compliance requirements of Schedule 7, sections 7.2, 7.4, 7.5 and 7.7 of the Operating Licence, in relation to Urban Drainage.

17. Other Drainage - Rural Drainage & Flood

Protection (page 1 of 2)

5th level priority

Fully Compliant

Operating Licence requirement

- *The Corporation shall endeavour to operate and maintain its rural drainage infrastructure so that the period of inundation to land abutting a drain that forms part of the system shall be a maximum of 72 hours. If the period of inundation should exceed 72 hours the Corporation shall carry out an investigation of the adequacy of those operations and maintenance procedures. This inundation period shall apply provided multiple storm events do not increase flow levels in the drains above the rural drainage infrastructure discharge points. Note: further definition of relevant inundations is provided by the Operating Licence.*
- *Flood protection works will be operated and maintained to cater for the peak flows of stormwater runoff from individual rainfall events as per the Operating Licence.*

Audit work performed and results

The Drainage Service areas to which this Operating Licence requirement applies are comprised of rural properties in the South West Region (SWR), Great Southern Region (GSR) and the Mundijong Drainage District. The Corporation manages and monitors its compliance requirement to endeavour to operate and maintain its rural drainage infrastructure so that the period of inundation to land abutting a drain that forms part of the system shall be a maximum of 72 hours, through:

- Policy PCY239 *Rural Drainage*
- Work Instruction S014-WI-17 *Rural Drainage - Flood Protection*
- Procedure *Rural Drainage – Response to Flood Events* (established in June 2006)
- Customer Publication *Rural Drainage Services Customer Information*
- the Grange system to capture inundations reported by customers
- the SAP system for generating resulting work orders and for facilitating the assessment and close out of reported inundations
- training and education of staff on an as needed basis
- monthly reporting processes
- Asset Management Plans designed to plan capital and maintenance works which enable flood protection works and rural drainage systems to adequately handle periods of inundation
- periodic internal quality audits on the extent of GSR's and SWR's compliance with expected procedures
- the Waterworks system (SWR only) to schedule local maintenance projects.

Throughout the period 1 July 2004 to 30 June 2006, there were no inundations reported by customers or otherwise recorded by the Corporation.

Our examination and testing of the Corporation's management and monitoring of rural drainage and flooding, indicates that, for the period 1 July 2004 to 30 June 2006, the Corporation had:

- policies, procedures and systems in place, to enable the Corporation to effectively measure and manage compliance with the requirements of the Operating Licence
- provided relevant training to field staff
- developed Asset Management Plans for maintaining drainage systems that are designed to accommodate periods of inundation in line with Operating Licence requirements
- adequate IT controls in place to preserve the integrity of SAP data after it is entered by field crew and subsequently reported.

17. Other Drainage - Rural Drainage & Flood Protection (page 2 of 2)

5th level priority

Fully Compliant

Via discussion with Customer Service Division staff, we also noted that the housekeeping issue raised in the 2004 Operational Audit report has been addressed via implementation of regular exception/management reports which lists all work orders not closed out, enabling follow-up and resolution.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated that it meets the compliance requirements of Schedule 7, sections 7.8 & 7.9 of the Operating Licence, in relation to Rural Drainage and Flood Protection.

18.1 Services Provided by Agreement - Documented agreements, change of consumer & annual notification (page 1 of 2)

4th level priority

Fully Compliant

Operating Licence requirement

- **Documented agreements and change of consumer** - A water supply service not meeting the standards in section 2 or 4 of Schedule 7 may be supplied at a quality, pressure, flow, continuity or price as agreed and documented between a customer and the Corporation. Where the Corporation is advised of a change of consumer or owner the Corporation will notify the new consumer or owner or their agent of the conditions of supply that applied to this service and use reasonable endeavours to enter into a written agreement in relation to the service with the new consumer or owner. Despite the fact that the new consumer or owner does not enter into an agreement with the Corporation, the Corporation may continue to provide the service at the same standard to the new owner or consumer
- **Annual notification** - Where water supplied under section 8.1 of Schedule 7 does not conform with the water quality standards of section 3 of Schedule 7, and it is to be used for human consumption, it is the responsibility of the customer to ensure the water is treated at the point of use to ensure compliance with drinking water quality standards. Customers are to be provided with annual written notification to this effect at the time accounts are issued, and new consumers or owners or their agent are to be informed that the new consumers or owners have this responsibility at the time of the Corporation being advised of a change of consumer or owner.

Performance target specified in Schedule 8

- In the preceding twelve month period 90% of services newly added to the scheme and provided by agreement in the sample areas audited had documented agreements.
- In the preceding twelve month period 95% of customers that have services provided by agreement or farmlands water services were notified of the conditions under which water was supplied.

Audit work performed and results

Work Instruction S010 WI 17 *Service Provided by Agreement* governs the Corporation's procedures for ensuring that formal agreements are created where water supplied does not meet Drinking Water System Standards, Drinking Water Health Directions, or Farmland Areas Water System Standards. The Grange system maintains details of those customer accounts for which water supply services are provided by agreement.

During the period July 2004 to June 2006, approximately:

- 250 water supply services provided by agreement were added to water schemes. Our testing of a sample of such new accounts confirmed that a signed Agreement was established to reflect any variations to water quality, pressure, flow, or continuity as agreed to by the customer in every case
- 860 customer accounts for which services were provided by agreement had an advice of change in property ownership. The Corporation primarily relies on daily notification of change of property ownership via records provided by the Department of Land Information. Testing of a sample of these accounts indicated that all new owners were notified of conditions of supply.

Audit work performed and results

In June 2005 and June 2006, the Management Review and Audit Branch audited the Corporation's performance in relation to these requirements of the Operating Licence. Both audits concluded that, for the preceding 12 month period, the Corporation exceeded the compliance requirement, which is as follows:

- 90% of services newly added to the scheme and provided by agreement in the sample areas audited had documented agreements (the audits found 100% compliance)
- 95% of customers that have services provided by agreement or farmlands water services were notified of the conditions under which water was supplied (the audits found 100% compliance).

The Grange System flags those customer accounts for which an Agreement is maintained, effectively providing for annual written notification of the customers' responsibility for treating water. Testing of a sample of such accounts indicated that the following approved notification was printed on the account "*The water supplied may not comply with drinking water standards. If it is to be used for drinking, you may need to treat it. For further details call 13 13 75*".

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated compliance per requirements of Schedule 7, sections 8.1 & 8.2 and Schedule 8 of the Operating Licence, in relation to Services Provided by Agreement.

Operating Licence requirement

Where the Corporation wishes to enter into an agreement with a customer for a service to be provided under the Corporation's major consumer policy which, in the reasonable opinion of the Corporation, is inconsistent with provisions of this Operating Licence, the Authority will give consideration to an application by the Corporation for provisions of this Operating Licence not to apply to that agreement. Any such approval shall be provided in writing by the Authority.

Audit work performed and results

The Corporation's Policy PCY041 *Negotiating Agreements with Major Consumers in Country Areas* provides for agreements to be established with major consumers in country areas, for the supply of services which are outside standard by-law charges. The policy sets out the:

- o context for why such customers are given individual treatment
- o purpose of entering into such agreements as being to recover infrastructure costs
- o scope of such agreements as being to accommodate mining or industrial consumers located in country regions, with a demand for 50 kilolitres per day or more, as well as mining consumers located in country regions with a demand of 49 kilolitres or less per day.

On occasions where the Corporation wishes to enter into an agreement with a major consumer and it is of the opinion that such an agreement will be inconsistent with the provisions of the Operating Licence, the Corporation is required to make an application to the Authority for approval of such an agreement.

During the period 1 July 2004 to 30 June 2006, the Corporation entered into a total of 35 major consumer agreements. Our review and testing of a sample of these agreements indicated that during the period 1 July 2004 to 30 June 2006:

- the Corporation's agreements with major consumers were signed by both parties and contained the contractual clauses approved in writing by the Authority
- the Corporation was not required to and did not make any application for approval to enter an agreement which is inconsistent with the provisions of the Operating Licence. The last such application and approval was made in 2001.

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated that it meets the compliance requirements of Schedule 7, section 8.3 of the Operating Licence, in relation to Services Provided by Agreement – Major Consumers.

19. Non Potable Services

4th level priority

Fully Compliant

Operating Licence requirement

A non potable service is to be supplied at a quality, pressure, flow, continuity and price as agreed and documented between a customer and the Corporation.

Audit work performed and results

The Corporation's procedures for ensuring that formal agreements are created for customers who require services in areas where the Corporation is unable to provide at levels required by Drinking Water Standards are governed by work instruction S010 WI 17 *Services Provided by Agreement*. The Grange system records those customer accounts which have agreements for the provision of non potable water services.

Our testing of a sample of customer accounts recorded as having a special agreements for the provision of non potable water services indicated that those agreements:

- were signed by the customer
- specified the agreed quality, pressure, flow, continuity and price.

Our testing of a sample of customer accounts where a change of ownership occurred on a property where an agreement had been established indicated that new owners were notified of the existence and effect of the agreement in a timely manner. The Corporation primarily relies on daily notification of change of property ownership via records provided by the Department of Land Information.

We also observed that the Corporation has established effective procedures for reminding customers of the conditions of supply through an automated notification appended on each annual account which states that "*Quality of water supplied will not meet Drinking Water System Standards and must not be used for Human consumption.*"

Conclusion on material compliance achieved

We conclude that the Corporation has effectively demonstrated compliance with the requirements of Schedule 7, section 8.4 of the Operating Licence, in relation to Non Potable Services.

Appendix A

Terms of reference

The terms of reference for this operational audit are fully outlined in:

- Contract no. CN-06-12640, which is the tender document for the operational audit that closed on 27 April 2006
- Deloitte's proposal dated 27 April 2006, which was submitted in response to Contract no. CN-06-12640.

The key points regarding objectives and scope are as follows:

Objectives

In accordance with clause 4 of the Operating Licence, the primary objective of the operational audit is to audit the effectiveness of measures taken by the Corporation to maintain quality and performance standards:

- referred to in the Operating Licence, including those standards set out in Schedules 7 and 8⁷
- applied to the Operating Licence, including those standards prescribed under section 33 of the Act.

According to clause 4.10 of the Operating Licence, the audit "shall focus on systems and effectiveness of processes used to ensure compliance with the standards, outputs and outcomes required by the Operating Licence."

Scope

The operational audit covered the period from 1 July 2004 to 30 June 2006.

The following elements of the Operating Licence were examined:

Operating Licence Compliance Elements	Operating Licence Reference
Operating Areas	
<ul style="list-style-type: none"> • Water Services in a designated operating area 	Clause 2.2 & 2.7; Schedule 1
Customer complaints	
<ul style="list-style-type: none"> • Resolution 	Clause 3.2; Schedule 2
<ul style="list-style-type: none"> • Names & Addresses 	Schedule 6 - Section 1.2; Schedule 8

⁷ Standards and Principles for the Provision of Water Services and Levels of Service Standards, Performance Indicators and Reporting Requirements, respectively

Operating Licence Compliance Elements	Operating Licence Reference
Customer charter	
<ul style="list-style-type: none"> In place 	Clause 3.3; Schedule 3
Customer Advisory Council	
<ul style="list-style-type: none"> Established 	Clause 3.4; Schedule 4
Water Services Provision	
<ul style="list-style-type: none"> Conditions for Connection 	Clause 3.5
<ul style="list-style-type: none"> Availability 	Schedule 5 – Section 1
<ul style="list-style-type: none"> Discontinuance 	Clause 3.5; Schedule 5 – Section 3
Information	
<ul style="list-style-type: none"> Customer Complaints 6 Monthly reporting 	Clause 3.6; Schedule 6 – Section 1.1 Schedule 8
<ul style="list-style-type: none"> Incident Reports 	Schedule 6 – Section 2.1
<ul style="list-style-type: none"> Quarterly Reports 	Schedule 8
<ul style="list-style-type: none"> Annual Benchmarking Report 	Schedule 6 – Section 3
Standards	
<ul style="list-style-type: none"> Telephone Answering 	Schedule 7 – Section 1
<ul style="list-style-type: none"> Drinking Water Quality 	Schedule 7 – Section 2.1 & 3
<ul style="list-style-type: none"> Pressure & Flow 	Schedule 7 – Section 2.2, 2.5 & 4.2
<ul style="list-style-type: none"> Continuity 	Schedule 7 – Section 2.3
<ul style="list-style-type: none"> Water Supply - Leaks and Bursts 	Schedule 8
<ul style="list-style-type: none"> Drinking Water Restrictions 	Schedule 7 – Section 2.4
<ul style="list-style-type: none"> Notification of Drinking Water (Farmlands) 	Schedule 7 – Section 4.1
<ul style="list-style-type: none"> Sewerage System – overflows on property 	Schedule 7 – Section 6; Schedule 8
<ul style="list-style-type: none"> Sewerage System – blockages 	Schedule 8
<ul style="list-style-type: none"> Urban drainage <ul style="list-style-type: none"> Design of new infrastructure Performance of infrastructure Liaison with local authorities 	Schedule 7 – Section 7.1 - 7.7
<ul style="list-style-type: none"> Other Drainage <ul style="list-style-type: none"> Rural Flood Protection 	Schedule 7 – <ul style="list-style-type: none"> Section 7.8 Section 7.9
<ul style="list-style-type: none"> Services provided by Agreement <ul style="list-style-type: none"> Documented agreements Change of consumer Annual notification Major consumers 	Schedule 7 – Section 8.1, 8.2 & 8.3
<ul style="list-style-type: none"> Non Potable Services 	Clause 2.3; Schedule 7 – Section 8.4

Limitation of scope

In accordance with Appendix A of the tender document, the Operating Licence compliance elements not included in the scope of this audit were:

Operating Licence Elements	Operating Licence Reference	Driver for Exclusion
Technical Standards	Clause 4.12	None gazetted
Prescribed Standards	Clause 4.13	None prescribed
Asset Management	Clause 4.1-4.6	Separate review
Joint Working Party Review	Clause 2.6	Not established during audit period
Contracting of Services	Clause 6	This is a statement of responsibility and is audited via all the other Operating Licence requirements, not an auditable regulatory commitment in itself.
Names & Addresses of Complainants	Schedule 6 – Section 1.2	Not requested during audit period
Independent Customer Survey	Schedule 6 – Section 1.3	Not requested during audit period

Appendix B

Risk events, consultation & documents examined

Risk events considered

We have considered the risk management documentation accumulated by the Corporation for the risks it believes are most significant and the risk management framework in place at the Corporation.

Many risks are generic and common to multiple compliance elements, for example:

- competency, for example of contractors, employees, suppliers
- training effectiveness for technical and customer service roles
- any shared responsibilities and accountabilities
- systems and information technology support functions
- policy, process and procedures
- issues or opportunities for improvement raised in previous audit reports or similar
- contingency plans in the event of a crisis/emergency
- failure of supervision at critical control points.

Many risk events are physical in nature and evident in one or more compliance element, such as continuity of supply, damage such as leaks & bursts and overflows of various types.

Other risks are specific to a particular compliance element, for example, in relation to Drinking Water Quality, the key risks considered were:

- health considerations, in particular widespread illness within the community and potential fatality because of:
 - Microbiological (the greatest and fastest-acting threat)
 - Chemical (such as Arsenic, Nitrates and Pesticides)
 - Radiological.
- enhancements to WQMS since the Department's 2004 audit of DWQ.

Consultation – key Corporation personnel

The key contacts for this audit are:

- | | |
|------------------|----------------------------|
| • Mike Tarca | Principal's Representative |
| • Meghan Andrews | Project Manager |
| • Kevin Davies | Audit Coordinator |

- Relevant Process Managers
 - Riley Nelson – Manager Customer Centre
 - Kevin Bradley – Manager Services Delivery
 - Steve Hiller – Manager Development Services
 - Richard Walker – Manager Drinking Water Quality
 - Mike Giorgi – Manager Financial Management
 - Lloyd Werner – Manager Pricing & Evaluation
 - Eugene Murphy – Manager Infrastructure Design

Staffing

Deloitte staff assigned to this audit were:

- Richard Thomas Partner
- Andrew Baldwin Manager
- Sejla Jakupovic Senior Analyst
- Brett Leicester Senior Analyst
- Shaun Sia Senior Analyst
- Nora Tjong Analyst
- Martin Langridge Quality Assurance Partner

Timing

The audit was undertaken in July and August 2006. The risk assessment phase was completed on 12 July 2006. A draft report was submitted to the Corporation on 11 August 2006.

Documents examined

In order to conduct this performance audit, we made reference to the following documentation:

Operating Licence versions 25 to 34

Reports

- Quarterly Performance Reports as submitted to the Authority over the period 1 July 2004 to 30 June 2006
- Annual Benchmarking Reports as submitted to the Authority over the period 1 July 2004 to 30 June 2006
- FMS exception reports *Pipes-outside-of-operating-areas*
- (Relevant various) internal audit reports commissioned by Management Review and Audit Branch
- 2004 Operating Licence Audit report.

Documents and/or Extractions

- Customer Advisory Council Terms of Reference
- Risk Assessment documentation – by process
- various documents and/or extractions from the Corporation's:
 - Facilities Management System (FMS)
 - Land Development Management System (LDMS)
 - GRANGE System
 - ASPECT System
 - SAP System
 - Mobile Computing System (MCS)
 - Website – www.watercorporation.com.au

Pamphlets & Brochures

- the current version of the Corporation's Service Commitment Scheme
- the current and preceding version of the Corporation's Customer Charter
- the current version of the Corporation's Conditions for Connection brochure
- the current version of the Corporation's Rural Drainage Services Customer Information brochure

Policies & Procedures

- PCY222 *Land Servicing*
- PCY041 *Negotiating Agreements with Major Consumers in Country Areas*
- Summary of Requirements for Provision of Water and Associated Monitoring Processes

Standards & Standard Guidelines

- SG110 *Incident Management – Corporate Planning Model*
- SG070 *Corporate Telephone Excellence*
- SG074 *Sampling Procedures Manual for Water and Wastewater*
- SG010 *Drinking Water Quality Management*
- SG115 *Processing External Customer Contacts*
- SG115A *Customer Contacts - Grange Category/Sub-Category and Classification*
- 'Guidelines for Drinking Water Quality in Australia' as published in 1987
- 'Australian Drinking Water Guidelines' as published in 1996
- Australian Standards on Compliance (3806), Risk management (4360) and Complaints Handling (4269).

Work Instructions

- 01-0359 PI 13 *Telephone Calls*
- S010-WI-08 *Drinking Water Drought Response*
- S010-WI-17 *Services Provided by Agreement*
- Design of Urban Main Drainage Projects
- S014-WI-17 *Rural Drainage - Flood Protection.*

Other

- GSR & SWR Asset Management Plans
- SWR Drainage and Flooding internal quality audit findings
- Water Restrictions Register
- Corporate Incident Management file containing all the reported and non reported incidents
- Memorandum of Understanding with the Department of Health and binding protocols relating to Drinking Water Quality
- minutes of Customer Advisory Council monthly meetings held from July 2004 to June 2006
- extensive use of “Waternet”, the Corporation’s intranet site
- all filed communications between the Corporation and the Authority over the audit period.
- various training manuals.

Agreements

- 35 major consumer agreements.

Appendix C

Statement of responsibility

This audit was undertaken in a manner consistent with Australian Auditing Standards for Performance Auditing (AUS 806 and AUS 808).

Most evidence in performance audits of operational processes is persuasive rather than conclusive. The work undertaken by us to form assessments involves judgement, in particular regarding the nature, timing and extent of the procedures for gathering evidence and the drawing of conclusions based on the evidence gathered. As a result, our work can only provide reasonable assurance regarding the assessment of appropriateness, effectiveness and efficiency associated with the Corporation's compliance with its Operating Licence.

The fieldwork for the audit was undertaken in July and August 2006. The matters raised in this report are only those which came to our attention from fieldwork and interviews conducted during that period and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. Our comments should be read in the context of the terms of reference of the assignment included in this report at Appendix A and the agreed methodology.

We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, readers should not rely on our report to identify all weaknesses that may exist in the systems and procedures reviewed. Suggestions for improvement should be assessed by management for their full impact before they are implemented.

This report has been prepared solely for the Corporation and the Authority. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.