



INTERNAL AUDIT SERVICES

Public Transport Authority

Internal audit report – Rail Access Compliance

July 2007

Background, Objective, Scope & Approach

Background

The Public Transport Authority ("PTA") is responsible for maintaining an effective internal control structure including control procedures in relation to compliance with the Railways (Access) Act 1998 and the Railways (Access) Code 2000. The Economic Regulation Authority ("ERA") requires PTA to perform a 2006-07 Compliance Audit, with a specific scope as detailed in the scope section.

PTA's effective internal structure for compliance with Rail Access legislative and regulatory requirements comprises seven core documents, which have been reviewed and endorsed by the Economic Regulation Authority:

- Segregation Arrangements
- Train Path Policy
- Train Management Guidelines
- Costing and Overpayment Rules
- Key Performance Indicators
- Floor and Ceiling Prices
- Weighted Average Cost of Capital.

The users of PTA's rail network can be classified according to two categories:

- Associates of PTA (Transperth Train Operations ("TTO") and Transwa); and
- Third party operators (there are currently five).

Third party operators account for a very small percentage of total train kilometres travelled on PTA's rail network.

Objective

The objective of this internal audit is to consider PTA's compliance with the Railways (Access) Act 1998 and the Railways (Access) Code 2000 in relation to the scope specified by the ERA, for the year ended 30 July 2007.

Scope

The scope of work performed for this engagement is provided in Table 1, which details both ERA's scope items (per ERA's letter to the PTA dated 29 June 2007) and the internal audit work specification.

Table 1: Scope of the Internal Audit

Scope	Work Specification
<i>Segregation</i> ¹	
1. Has PTA complied with all segregation responsibilities taking into consideration the requirements of the <i>Railways (Access) Act 1998</i> , the Regulator's Determination, and approved PTA Segregation Arrangements and associated procedures, including the obligation to maintain separate accounts and records?	Consider, through discussions with key personnel and sighting supporting documentation, whether the Segregation Arrangements document has been complied with. Note, the scope is limited to the Segregation Arrangements document only, which, as reviewed and approved by the ERA, includes all segregations responsibilities required in the <i>Railways (Access) Act 1998</i> , and the Regulator's Determination, including the obligation to maintain separate accounts and records.

¹ As defined by the ERA in *Scope of the 2006-07 Compliance Audit*

Background, Objective, Scope & Approach (cont)

Scope	Work Specification
2. Has PTA applied pricing principles consistently to ensure that access prices charged to its associates are similar to access prices charged to other entities in accordance with Schedule 4, clause 13 of the <i>Railways (Access) Code 2000</i> .	Consider PTA's pricing principles alignment with Schedule 4, clause 13 of the <i>Railways (Access) Code 2000</i> . Conduct sample testing to consider whether access charges have aligned with PTA's pricing principles.
<i>Train Path Policy and Train Management Guidelines</i> ²	
3. Has PTA provided operators with a time profile of its schedule of repair, maintenance or upgrading works to be undertaken and the length of potential disruptions?	Through discussions with key personnel and sighting a sample of supporting documentation, consider whether PTA provided operators with a time profile of its schedule of repair, maintenance or upgrading works to be undertaken and the length of potential disruptions.
4. In instances where PTA was unable to meet the identified time commitments, did it advise the affected operators of the revised time profile within a reasonable period?	Consider a sample of instances where PTA was unable to meet the identified time commitments initially communicated for a potential disruption, and, through discussions with key personnel and sighting supporting documentation, consider whether PTA advised affected operators of the revised time profile within a reasonable period.

Scope	Work Specification
5. Have PTA scheduled train paths been affected by planned track maintenance activities and planned track upgrades, where the parties cannot be provided satisfactory alternate train paths?	Consider the frequency and duration of disruptions to parties when scheduled train paths have been affected by planned track maintenance activities and planned track upgrades.
<i>Using reported Key Performance Indicators (PTA – percent of trains arriving later than 3 minutes)</i> ²	
6. Has PTA's imposition of temporary speed restrictions in various parts of the rail network resulted in a deterioration of agreed train transit times being achieved on a continuing basis?	Through discussions with key personnel and considering supporting documentation, consider the impact of temporary speed restrictions in various parts of the rail network on achievement of agreed train transit times.
7. Has the rail delay recorded for track, signals and train control shown any deterioration over the reported period?	Through discussions with key personnel and considering supporting documentation, consider if there is any "deterioration" in track, signals and train control delays.
<i>PTA's Overpayment Accounts</i> ³	
8. Has PTA managed the over-payment accounts in accordance with the Over-payment Rules?	Consider PTA's compliance with PTA procedures addressing compliance with the Over-payment Rules.

² As defined by the ERA in *Scope of the 2006-07 Compliance Audit*

³ This scope item is a requirement of the Over-payment Rules.

Background, Objective, Scope & Approach (cont)

Approach

The approach adopted for this internal audit was as follows:

- Discussion with key PTA personnel responsible for Rail Access functions;
- Consideration of relevant Rail Access procedures designed to comply with rail access legislative and regulatory requirements;
- Consideration of evidence supporting compliance with procedures, where available and appropriate; and
- Development of a report summarising work performed and identifying any instances of non-compliance with respect to areas under scope of our engagement.

Summary of Findings and Recommendations

Strengths

During the course of the internal audit, we noted the following strengths:

- Track closures and Work Programs are required to be developed up to a year in advance, providing an adequate notification period to third party operators.
- The Project Safety Plan specifically requires PTA to provide rail access to a third party operator during the track closure period. This internal requirement is designed to achieve minimal rail access disturbance to the third party operator wherever possible.

Results

Based on the Work Specifications as noted above, the internal audit did not identify any exceptions in the PTA meeting the ERA's scope areas apart from the issues noted below.

During the course of the internal audit, we noted the following issues that were previously raised as part of the 2005/06 Rail Access Compliance audit (refer to Appendix 1 for more detail):

Note: The progress of management actions against these issues is currently being monitored by Internal Audit and communicated to PTA management through the regular Audit Committee Status Report.

- The draft Internal Access Agreements for Transperth Train Operations (TTO) and Transwa are in the process of being finalised.

It was therefore not possible for Internal Audit to consider whether the terms and conditions in the rail access agreements with third party operators are consistent with the terms and conditions for TTO and Transwa, as required by the ERA.

- Operational Key Performance Indicator Reporting does not include data on rail access third party operators.

The lack of inclusion of third party operators in KPI reporting means it was not possible for Internal Audit to completely consider the following ERA requirements:

- *The extent to which third party operator scheduled train paths have been affected by PTA operations.*
- *The extent to which rail delays recorded for track, signals and train control shown any deterioration over the reported period.*

Note: third party operators account for a very small percentage of total train kilometres travelled on PTA's rail network, leading to a low risk rating for these issues.

- Income due to PTA from one third party operator's use of PTA's rail network is not currently transferred by Westnet Rail to PTA.

Inherent limitations

The results are based on statements and representations made by, and information and documentation provided by, PTA personnel. The rating does not represent an evaluation or conclusion on the effectiveness of the design or operation of any individual control, nor the overall internal controls.

Due to the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. Internal audit is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis. As such, except to the extent of sample testing performed, it is not possible to express an opinion on the effectiveness of the internal control structure.

Overall management comment

PTA acknowledges its responsibilities in establishing and maintaining compliance with the Act and the Code. To the best of my knowledge and belief PTA has complied with the relevant requirements of the Act and the Code. I believe the internal audit has been conducted satisfactorily and issues raised during the internal audit will be actioned accordingly.

Hugh Smith

General Manager, Networks and Infrastructure