

Ord Irrigation Cooperative Ltd

Operational Audit

18 November 2009

PAXON | GROUP

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Executive Summary

Background

Regulation of the water services industry in Western Australia is governed by the Water Services Licensing Act 1995 (the "Act"). The Act establishes a regulatory framework surrounding the provision of water services primarily by way of a licensing scheme administered by the Economic Regulation Authority (the "Authority").

Under the Act, providers of water supply, sewerage, irrigation and drainage services within controlled areas must be licensed. The licence set a range of conditions, including minimum service standards and regular reporting.

The Authority has issued Ord Irrigation Cooperative Ltd (OIC/the Licensee) on 29th November 2002, with a Water Services Operating Licence. The primary responsibility of the licensee is to provide non-potable water for irrigation services to the Ord region. The combined delivery system of Ord Irrigation Cooperative Ltd consists of 129 connections, approximately 159 kilometres of earth lined channels and is controlled by approximately 120 flow regulators. There have been no major changes to the type of licence or business carried out since the previous audit.

The Licensee is required to provide the Authority, not less than once every 24 months with an operational audit report.

The audit has been conducted in accordance with Audit Guidelines: Electricity, Gas and Water issued by the Authority (2009). The audit has been conducted in order to assess the licensee's level of compliance with the conditions of its licence.

Summary Opinion on the Control Environment

The control environment to ensure compliance with the license conditions is assessed to be satisfactory.

Ord Irrigation Cooperative Ltd has in place the necessary measures to comply with the license obligations and performance standards as referred to Ord Irrigation Cooperative Ltd's Water Services Operating Licence.

However, there are business improvement opportunities raised to improve the current business process. Refer to the 'Summary of Issues and Recommendations' table below for further details.

Overall Assessment

In the auditor's professional view, Ord Irrigation Cooperative Ltd is achieving an acceptable level of compliance with the requirements of the Water Service Operating Licence.

Summary of Issues and Recommendations

License Condition Ref	Issue	Recommendation	Post Audit Action Plan	Person Responsible / Date of implementation
Sch 3, Cl. 3.2	<p><u>Customer Complaints</u></p> <p>Complaints are not assigned with a unique complaint number.</p>	Unique complaint number should be assigned to each complaint.	Register to be reconfigured to automatically generate a unique complaint number	CEO, Completed
Sch 3, Cl. 4.1	<p><u>Customer Consultation</u></p> <p>There is currently no record maintained of meetings held with customers.</p>	A record of meetings held with customers should be maintained.	A register of all formal meetings with customers will be established and maintained.	CEO, Completed
Sch 5, Cl. 2.2	<p><u>Reporting Deadline</u></p> <p>OIC did not meet the deadline given by the Authority to submit the necessary information due to the delay in obtaining the audited financial data.</p>	OIC should take into consideration the requirement to meet the Authority's deadlines when planning for external audits.	Options to obtain financial audit data by 28 October each year will be explored	CEO, 30 November 2009

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Audit Objective and Methodology

1.1 Audit Objective

The objective of the audit was to provide an assessment of the effectiveness of measures taken by the licensee to maintain the performance and quality referred to in the licence.

The audit identified areas where improvement was required and has recommended corrective action as necessary.

The audit applied a risk based audit to focus on the systems and effectiveness of processes used to ensure compliance with the standards, outputs and outcomes required by the licence.

The scope of the audit covered the following areas:

- **Risk Management** – the risks posed by non-compliance with the license standards and development of a risk-based audit plan to focus on the higher risks areas, with less intensive coverage of medium and low risk areas;
- **Process Compliance** – the effectiveness of systems and procedures in place throughout the audit period;
- **Outcome Compliance** – the actual performance against standards prescribe in the licence throughout the audit period;
- **Output Compliance** – the existence of the output from systems and procedures throughout the audit period (that is, proper records exist to provide assurance that procedures are being consistently followed and controls are being maintained);
- **Integrity of Performance Reporting** – the completeness and accuracy of the performance reporting to the Authority; and
- **Compliance with any individual license conditions** – any specific requirements imposed by the Authority or specific issues for follow-up that are advised by the Authority.

1.2 Audit Approach

Methodology

The consultants:

- Carried out a preliminary risk assessment of the Operating Licence requirements and Asset Management System;
- Met with the Licensee's representative to agree on the methodology for the operational audit and the audit plan;
- Discussed the audit plan with the Licensee's representative. The proposed audit plan included:
 - Risk Assessment;
 - Audit criteria; and
 - Audit method including resource allocation (including sample selection procedures where relevant);
- Amended the audit plan as appropriate;
- Obtained audit plan approval from the Authority.

Fieldwork

- Confirmed action taken on any previous audit recommendations.
- Undertook the audit visit to the licensee to assess compliance with the following activities:
 - an analysis of documented procedures to assess whether they are consistent with regulatory requirements or arrangements under the licence;
 - a review of systems and procedures to assess whether they reflect compliance obligations and performance standards;
 - an analysis of information systems, procedures and controls for recording and assuring the quality of performance information provided to the Authority (this is usually also requires audit testing of the completeness and accuracy of performance reporting to the Authority);
 - an assessment of compliance with the license obligations over the audit period as well as at the time of audit; and
 - an assessment of any obligations, requirements, issues specific to the individual licensee.
- Performed more extensive audit testing of higher risk areas to provide sufficient assurance and confirmed lower risk areas by discussion and observation.
- Updated the risk assessment with any new information obtained in the course of the audit testing and, in instances of significant non-compliance, assessed the licensee's plan to ensure compliance and recommend improvements.

Audit Reporting

- Prior to the conclusion of the audit visit, discussed observation and recommendation with the representative of the licensee to confirm understanding of the issue and, if possible, to agree upon the action to be taken.
- Provided a draft report to the licensee for review and response to the recommendations in a 'post-audit implementation plan', including the proposed corrective action and timeframe.
- Provided a final draft report, including the post-audit implementation plan, to the Authority for final review and acceptance of the report.

1.3 Period Covered for this Audit

The audit covered the period from 1 June 2007 to 31 May 2009.

1.4 Period Covered during the previous Audit

The period covered by the previous audit was from 1 June 2005 to 31 May 2007.

1.5 Period Audit Conducted

The audit was being undertaken from 31 August 2009 to 10 September 2009.

1.6 Ord Irrigation Representatives

The following representative of Ord Irrigation Cooperative Ltd participated in the audit:

Chief Executive Office	Geoff Strickland
Office Manager	Marie Clothier

1.7 List of Source Documents

The following references were used during the preparation of this report:

1. Water Services Operating Licence for Ord Irrigation Cooperative Ltd – Version OL2 (15 May 2009)
2. Ord Irrigation – Approved Customer Service Charter (December 2008)
3. Economic Regulation Authority – Audit Guidelines: Electricity, Gas and Water Licence (July 2009)
4. Ord Irrigation – Complaints Log
5. Ord Irrigation – Lessee and Owner Information
6. Ord Irrigation – Listing of planned interruptions
7. Ord Irrigation – 2007 and 2008 Grower's Survey and 2009 draft Grower's Survey
8. Economic Regulation Authority – Water Services Operating Licence

1.8 Audit Team

The team comprised:

Position	Name	Hours
Director	Cameron Palassis	1
Senior Audit Manager	Suma George	14
Audit Consultant	Jeslyn Leong	54
TOTAL		69 *

* - Indicate the total hours used for both Operational Audit and Asset Management System Review.

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Previous Audit Recommendations

Item No.	Recommendation	Action Taken	Resolved / Unresolved
1.	Cooperative to clearly define its customer service process and procedures (office process). These should be added in the office manual to ensure business continuity.	Customer complaints procedures have been developed and published on the Cooperative's network for all to access. Complaints register is currently being maintained.	Resolved.
2.	Cooperative to develop a 'year end compliance' checklist/handbook. The checklist/handbook should be added in the financial year end board's meeting as a high priority to ensure all financial year end items are fully addressed and the datelines are met accordingly.	A list has been developed and used in July Board meetings to identify outstanding task and datelines to be comply with reporting to the Authority.	Resolved.

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Performance Summary

3.1 Operational Audit Compliance Rating Sale

Compliance Status	Rating	Description of Compliance
COMPLIANT	5	Compliant with no further action required to maintain compliance.
COMPLIANT	4	Compliant apart from minor or immaterial recommendations to improve the strength internal controls to maintain compliance.
COMPLIANT	3	Compliant with major or material recommendations to improve the strength of internal controls to maintain compliance.
NON-COMPLIANT	2	Does not meet minimum requirements.
SIGNIFICANTLY NON-COMPLIANT	1	Significant weakness and/or serious actions required.
NOT APPLICABLE	N/A	Determined that the compliance obligations do not apply to the licensee's business operations.
NOT RATED	N/R	No relevant activity took place during the audit period; therefore it is not possible to assess compliance.

3.2 Operational Audit Compliance Summary

Operating Area	Operating License Reference (CL = clause, Sch = Schedule)	Consequence (1=minor, 2=moderate, 3=major)	Likelihood (A=likely, B=probable, C=unlikely)	Inherent Risk (L=low, M=medium, H=high)	Adequacy of Existing Controls (S=strong, M=moderate, W=weak)	Compliance Rating (Refer to the 7-point rating scale in the table under Section 4.1 above for details)						
						1	2	3	4	5	N/A	N/R
Grant of Licence	Cl. 2.1, Sch 2	1	C	L	M						✓	
Fees	Cl. 4	2	B	L	M							✓
Compliance with legislation	Cl. 5	3	B	L	M						✓	

Operating Area	Operating License Reference (CL. = clause, Sch = Schedule)	Consequence (1=minor, 2=moderate, 3=major)	Likelihood (A=unlikely, B=probable, C=unlikely)	Inherent Risk (L=low, M=medium, H=high)	Adequacy of Existing Controls (S=strong, M=moderate, W=weak)	Compliance Rating (Refer to the 7-point rating scale in the table under Section 4.1 above for details)						
						1	2	3	4	5	N/A	N/R
Customer complaints and investigations, conciliation and arbitration	Cl. 6, Sch 3	2	C	M	M				✓			
Customer Charter	Cl. 7, Sch 3	2	C	M	M					✓		
Customer Consultation	Cl. 8, Sch 3	2	C	M	M				✓			
Customer Contracts	Sch 3, Cl 5	2	C	M	M							✓

Operating Area	Operating License Reference (CL = clause, Sch = Schedule)	Consequence (1=minor, 2=moderate, 3=major)	Likelihood (A=likely, B=probable, C=unlikely)	Inherent Risk (L=low, M=medium, H=high)	Adequacy of Existing Controls (S=strong, M=moderate, W=weak)	Compliance Rating (Refer to the 7-point rating scale in the table under Section 4.1 above for details)							
						1	2	3	4	5	N/A	N/R	
Customer Surveys	Sch 3, Cl 6	2	C	M	M								✓
Transfer of Licence	Cl.10												✓
Cancellation of Licence	Cl.11	N/A - The Authority has the ability to independently assess compliance if the clause is exercised during the audit period.											✓
Surrender of Licence	Cl.12												✓
Renewal of Licence	Cl.13												✓

Operating Area	Operating License Reference (CL = clause, Sch = Schedule)	Consequence (1=minor, 2=moderate, 3=major)	Likelihood (A=unlikely, B=probable, C=unlikely)	Inherent Risk (L=low, M=medium, H=high)	Adequacy of Existing Controls (S=strong, M=moderate, W=weak)	Compliance Rating (Refer to the 7-point rating scale in the table under Section 4.1 above for details)							
						1	2	3	4	5	N/A	N/R	
Amendment of Licence	Cl.14												✓
Recording of accounting records	Cl.15	1	C	L	M								✓
Operational Audit	Cl. 16	3	B	L	M								✓
Asset Management System	Cl. 17	3	B	L	M								✓
Reporting	Cl. 18	1	C	L	M								✓

Operating Area	Operating License Reference (CL. = clause, Sch = Schedule)	Consequence (1=minor, 2=moderate, 3=major)	Likelihood (A=likely, B=probable, C=unlikely)	Inherent Risk (L=low, M=medium, H=high)	Adequacy of Existing Controls (S=strong, M=moderate, W=weak)	Compliance Rating (Refer to the 7-point rating scale in the table under Section 4.1 above for details)							
						1	2	3	4	5	N/A	N/R	
Individual Performance Standards	Cl. 19	1	C	L	M								✓
Service and Performance Standards	Cl. 20, Sch 4	1	C	L	M					✓			
Provision of any information to the Authority	Cl. 21.1	1	C	L	M								✓
Information Requirements (Reporting)	Cl. 21.2, Sch 5	1	C	L	M				✓				

Operating Area	Operating License Reference (CL = clause, Sch = Schedule)	Consequence (1=minor, 2=moderate, 3=major)	Likelihood (A=likely, B=probable, C=unlikely)	Inherent Risk (L=low, M=medium, H=high)	Adequacy of Existing Controls (S=strong, M=moderate, W=weak)	Compliance Rating (Refer to the 7-point rating scale in the table under Section 4.1 above for details)							
						1	2	3	4	5	N/A	N/R	
Publishing Information	Cl. 22	1	C	L	M								✓
Notices	Cl. 23.1	1	C	L	M					✓			
Review of the Authority's Decisions	Cl. 24	1	C	L	M								✓
Obligations to Customer: Availability and Connection of Services	Sch 6, Cl. 2	2	C	M	M								✓

4 Observations and Recommendations

Operating Area	Operating Licence Reference	Findings	Recommendations	Compliance Rating
Grant of Licence	Cl.2.1, Sch 2	<ul style="list-style-type: none"> The licensee was operating within the Operating Areas. A sample of lots where the services were provided was tested to ensure these are within the Operating Area. No exception was noted. 	<ul style="list-style-type: none"> None 	5
Fees	Cl.4	<ul style="list-style-type: none"> No fees were payable by the Licensee during the audit period. 	<ul style="list-style-type: none"> None 	N/R
Compliance with Legislation	Cl.5	<ul style="list-style-type: none"> The legislation that OIC needs to comply with are: <ul style="list-style-type: none"> (i) Water Services Licensing Act (ii) Water and irrigation Act (iii) Companies (Co-operative) Act 	<ul style="list-style-type: none"> None 	5

Operating Area	Operating Licence Reference	Findings	Recommendations	Compliance Rating
Customer Complaints	Cl.6, Sch 3	<ul style="list-style-type: none"> ▪ No changes in any legislation that is application to OIC during the audit period. ▪ ERA administers the actual licence and Department of Water is responsible for the Act. Water Service Licensing Act. OIC was issued an operating licence to operate under this. ▪ Key requirement of Water and Irrigation Act is that OIC must have a licence to supply water. OIC has obtained a licence from the Department of Water to supply water. 	<ul style="list-style-type: none"> ▪ A unique complaint number should be assigned to all complaints. 	4

Operating Area	Operating Licence Reference	Findings	Recommendations	Compliance Rating
		<p>Per enquiry with the CEO, most complaints OIC receive are minor operational complaints with regard to irrigation. These complaints will be resolved immediately by the Watermen on duty.</p> <ul style="list-style-type: none"> ▪ Staff has adequate training to handle customers complaints. ▪ On a monthly basis, the CEO updates the OIC Board on the complaint status. ▪ Complaints log as at 1 Sept 2009 was reviewed to ensure all completed complaints were resolved within 15 working days. No exception was noted. 		
Customer Charter	Cl.7, Sch 3	<ul style="list-style-type: none"> ▪ A Customer Charter is in place. ▪ The Charter was recently reviewed and revised and was approved by the Authority in December 2008. ▪ Customer Charter is in plain English and addresses service delivery issues. ▪ OIC mailed each customer a copy of the revised Charter. A copy of the Charter is also kept in OIC office reception. ▪ The Charter is also available in OIC's website. ▪ Customers have access to a free copy of the 	<ul style="list-style-type: none"> ▪ None 	5

Operating Area	Operating Licence Reference	Findings	Recommendations	Compliance Rating
Customer Consultation	Cl.8, Sch 3	<p>Charter either via the website or from the OIC office reception.</p> <ul style="list-style-type: none"> ▪ Customer Council is not established. However, other consultation methods are used. ▪ OIC conducts monthly themed meetings with farmers during the irrigation season. The meetings are arranged and held by the Environmental Officer. The Environmental Officer will decide on the topic of discussion and forward all information to the CEO for review. The CEO sends out meeting invitations to all customers. ▪ There is currently no record maintained of meetings held with customers. ▪ Meeting invitation was sighted for the latest meeting held in July 2009. ▪ Newsletters are issued to customers bi-annually. ▪ Annual General Meetings (AGM) are held. Audit sighted minutes from 2007 and 2008 meetings. ▪ The agenda for the AGM no longer include season opening and closing conditions. Due to change in types of agriculture being performed now, OIC no longer have irrigation season. Water is being 	<ul style="list-style-type: none"> ▪ A record of meetings held with customers should be maintained. 	4

Operating Area	Operating Licence Reference	Findings	Recommendations	Compliance Rating
		supplied on a daily basis. Therefore, season opening and closing conditions are no longer discussed at the AGM.		
Customer Contracts	Sch 3, Cl.5	<ul style="list-style-type: none"> OIC has not entered into any agreements with customers to provide water services that exclude, modify or restrict the terms and conditions of this licensee. 	<ul style="list-style-type: none"> None 	N/R
Customer Surveys	Sch 3, Cl.6	<ul style="list-style-type: none"> The Authority has not requested for the licensee to commission any surveys. 	<ul style="list-style-type: none"> None 	N/R
Transfer of Licence	Cl.10	<ul style="list-style-type: none"> OIC has not transferred its licence. 	<ul style="list-style-type: none"> None 	N/R
Cancellation of Licence	Cl.11	<ul style="list-style-type: none"> OIC has not cancelled its licence. 	<ul style="list-style-type: none"> None 	N/R
Surrender of Licence	Cl.12	<ul style="list-style-type: none"> OIC has not surrendered its licence. 	<ul style="list-style-type: none"> None 	N/R
Renewal of Licence	Cl.13	<ul style="list-style-type: none"> OIC licence will only expire On 30th of June 2027. 	<ul style="list-style-type: none"> None 	N/R
Amendment of Licence	Cl.14	<ul style="list-style-type: none"> OIC has not amended its licence. 	<ul style="list-style-type: none"> None 	N/R
Recording of Accounting Records	Cl.15	<ul style="list-style-type: none"> Quickbook accounting software is used. Qualified accountant is employed to maintain the accounting records. 	<ul style="list-style-type: none"> None 	5

Operating Area	Operating Licence Reference	Findings	Recommendations	Compliance Rating
Operational Audit	Cl.16	<ul style="list-style-type: none"> ▪ OIC financials are subject to an annual external audit. Non-modified audit opinion was issued on OIC's financial statements for 2006/07 and 2007/08. ▪ The previous Operational Audit was performed in 2007. ▪ The auditors were provided the 'Audit Guidelines: Electricity, Gas and Water Licence'. ▪ Approval from the Authority was sought in the appointment of the auditors. 	<ul style="list-style-type: none"> ▪ None 	5
Asset Management System	Cl.17	<ul style="list-style-type: none"> ▪ The previous Asset Management Review was performed in 2007. ▪ The auditors were provided the 'Audit Guidelines: Electricity, Gas and Water Licence'. ▪ Approval from the Authority was sought in the appointment of the auditors. 	<ul style="list-style-type: none"> ▪ None 	5
Reporting	Cl.18	<ul style="list-style-type: none"> ▪ OIC is not under external administration. ▪ OIC has not experienced any significant change in its corporate, financial or technical circumstances upon which the licence was granted. 	<ul style="list-style-type: none"> ▪ None 	N/R

Operating Area	Operating Licence Reference	Findings	Recommendations	Compliance Rating
Individual Performance Standards	Cl.19	<ul style="list-style-type: none"> ▪ The performance standards approved by the Authority are set out in Schedule 4 of the Licence. 	<ul style="list-style-type: none"> ▪ None 	N/R
Service and Performance Standards	Cl.20, Sch 4	<ul style="list-style-type: none"> ▪ OIC makes a statement in the bi-annual newsletter that the water provided by OIC is not suitable for drinking. This will ensure all customers are informed and reminded of this. ▪ Office Manager reviews lessee and owner information on an annual basis to ensure that the mailing list of customers is complete and accurate. ▪ Monthly water samples are drawn and sent to an independent laboratory for testing. Water samples are less than 1200 TDS mg/L . ▪ CEO actively monitors the complaints register to ensure complaints are resolved within the 15 day benchmark. 100% of customer complaint resolution was achieved. Target met. ▪ Service interruptions are published in the newspaper and the local radio at least 5 business days in advance. ▪ Customers are given an OIC calendar with the dates of scheduled service interruption marked on the calendar. 	<ul style="list-style-type: none"> ▪ None 	5

Operating Area	Operating Licence Reference	Findings	Recommendations	Compliance Rating
		<ul style="list-style-type: none"> ▪ Audit obtained a listing of all service interruptions between the periods of 1/6/08 to 31/5/09. During this period 11 service interruptions were carried out. ▪ During testing, 2 instances were noted where the customer did not receive 5 days notice of the service interruption. However, this related to ad hoc repair work carried out by Water Corporation. 		
Provision of any information to the Authority	Cl. 21.1	<ul style="list-style-type: none"> ▪ The Authority did not request for any other information except for the data in Schedule 5. 	<ul style="list-style-type: none"> ▪ None 	N/R
Information Requirements (Reporting)	Cl.21, Sch 5	<ul style="list-style-type: none"> ▪ The Authority provides a spreadsheet to the OIC for completion. ▪ The timeframe for reporting was met in 2006/07 however in 2007/08 the information provided to the Authority was 3 business days late. This was due to the delay in obtaining audited financial statements. ▪ OIC uses audited financial statements when reporting to the Authority. 	<ul style="list-style-type: none"> ▪ OIC should take into consideration the requirement to meet the Authority's deadlines when planning for external audits. 	4
Publishing Information	Cl.22	<ul style="list-style-type: none"> ▪ There was no request from the Authority to publish any information. 	<ul style="list-style-type: none"> ▪ None 	N/R

Operating Area	Operating Licence Reference	Findings	Recommendations	Compliance Rating
Notices	Cl.23.1	<ul style="list-style-type: none"> Notices received from the Authority are in writing. 	<ul style="list-style-type: none"> None 	5
Review of the Authority's Decisions	Cl.24	<ul style="list-style-type: none"> No request made to review Authority's decision during the audit period. 	<ul style="list-style-type: none"> None 	N/R
Obligations to Customer: Availability and Connection of Services	Sch 6, Cl.2	<ul style="list-style-type: none"> Conditions for Connections are documented. CEO and the Office Manager are responsible for conducting a viability analysis before approval of new connection is given. No request for connection or discontinuance of service has been received by OIC for the audit period. 	<ul style="list-style-type: none"> None 	N/R

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Signature of Auditor

To the best of my knowledge, this report is based on true representation of the audit findings and opinions.



Cameron Palassis
Director – Audit & Risk Management

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Date: 18th November 2009