



# ***Water Entities: Results of the 2012–13 Audits***

Tabled 12 December 2013

## Financial reporting

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- Unqualified audit opinions issued for all entities.
- Time lines for reporting—8.4 weeks
- Opportunities to improve quality of financial reporting
  - streamline processes to reduce operating costs and further improve timeliness.

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## Performance reporting

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- Current requirements:
  - 16 water entities required to prepare and submit a performance report for audit:
    - Unqualified audit opinions issued for each for 2012–13.
    - Targets not set for some key performance indicators.
    - City West Water, South East Water and Yarra Valley Water are not required to submit a performance report for audit.
- Performance reporting developments:
  - water industry working group
  - new framework intended to apply from 2013–14.

## Financial results for 2012–13

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- Net profit before tax \$110 million—decrease of \$497 million or 82 per cent:
  - four metropolitan entities reported lower net profit
  - four of the 13 regional urban entities reported a loss
  - two rural entities continue to generate losses.
- Return of funds due to delays with the desalination plant:
  - \$265 million returned to customers by 30 June 2013.

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## Financial results for 2012–13

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- Dividend payments decreased by \$31 million or 12 per cent.
- Interest-bearing liabilities increased by \$5.4 billion or 59 per cent, comprising:
  - desalination plant recognised as a finance lease liability \$4.3 billion
  - new borrowings of approximately \$1.1 billion.

## Financial sustainability

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- Measured by seven indicators over a five-year period:
  - Underlying result
  - Liquidity
  - Interest cover
  - Debt service cover
  - Debt-to-assets
  - Self-financing
  - Capital replacement
- The financial indicators show no significant improvement over the five years to 2012–13.

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## Financial sustainability

- Ability of one metropolitan water entity to repay debt is low and another may encounter difficulties in repaying debt.
- Four entities rated a high financial sustainability risk:
  - two regional urban and two rural entities.

## Information technology

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- Control weaknesses identified at 11 water entities
  - 22 prior year issues remain unresolved at six entities.
- Information technology security:
  - non-compliance with policies and procedures
  - detection and reporting of network intrusions in only 12 entities
- Information change management:
  - need to develop policies and oversight can be improved.



## Procurement

- Procurement frameworks were generally adequate.
- High incidence of noncompliance detected by internal auditors means opportunity for governing bodies and management to improve practices.
- Conflict of interest declarations not always completed by tender evaluation panel members.
  - Some entities could not demonstrate they had mitigated risk of bias in the evaluation process, and that integrity of the process had been maintained.

## Treasury management

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- Compliance with approved policies and procedures varied across the 19 water entities.
- Key findings:
  - Four entities breached their own treasury management policies
  - Four did not align their borrowings with related capital projects
  - One delayed a final contract payment and incurred penalty interest at a rate of 18 per cent on the outstanding amount
  - Non-compliance with requirements of the Department of Treasury and Finance *Treasury management guidelines*
  - Department of Treasury and Finance needs to more actively oversight treasury management by the water entities.

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## Recommendations

1. That water entities review their processes for capturing and calculating commitments and the training and/or briefing sessions provided to staff to improve the quality, completeness and accuracy of the information included in the financial report.
2. That water entities further refine their financial reporting processes by preparing shell statements, performing materiality assessments and rigorous analytical reviews, and having adequate security to protect and safeguard sensitive information.
3. That the Department of Environment and Primary Industries revisit the model performance report to assist the water entities in achieving a greater degree of compliance with the performance reporting requirements-including the explanation of variances between targets and actual performance, and between years.

# Recommendations

## That water entities:

4. further refine their performance reporting preparation processes to reduce costs and achieve efficiencies in the future.
5. address information technology control weaknesses in a timely manner in order to ensure sound internal controls are in place and are operating effectively to protect information from unauthorised access, theft or manipulation, to ensure continuity of service provision and to guard against the emergence of external threats and new security risks.
6. develop and implement comprehensive information technology security and change management policies and procedures.
7. establish an information technology steering committee to oversight all information technology related matters including risk management, security and change management.

## Recommendations

### That water entities:

8. improve reporting to the information technology steering committee on matters such as risk management, information technology security, change management and network breaches and intrusions.
9. implement a periodic review of user access to confirm that access rights are commensurate with staff member's roles and responsibilities, and regularly monitor the use of generic and privileged user accounts.
10. require each member of a tender evaluation panel to complete a conflict of interest declaration at the start of the evaluation process.

## Recommendations

11. That water entities address recommendations arising from internal audits in a timely manner and report progress to the audit committee or the board.
12. That water entities improve the monitoring of their debt maturity profiles in order to ensure compliance with approved policies, and to confirm the availability of funds to meet their contractual obligations as and when they fall due.
13. That the Department of Treasury and Finance (DTF) take a more active role in overseeing the treasury management activities of entities, including their compliance with the requirements of the DTF *Treasury management guidelines*.



## Contact details

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