

# Results of 2016–17 Audits: Water Entities

Tabled 15 November 2017

**VAGO**

This presentation provides an overview of the Victorian Auditor-General's Results of 2016–17 Audits: Water Entities.

## Overview

Outlines the results of our financial audits of the water entities and our observations for the year ended 30 June 2017

Discusses our audits of entities' performance reports

Analyses financial results, outcomes and sustainability risks



This report outlines the results of our financial audits of Victoria's water entities and other observations for the year ended 30 June 2017.

We also discuss our audits of each water entity's performance reports and analyse their financial results, outcomes and the sustainability risks they face.

## Background – What do water entities do?



Water and  
sewerage services  
to over  
**2.7 million**  
households and  
businesses



**>400  
billion**  
litres supplied to  
community

**19**

water entities  
(and one controlled  
entity)

**3**

Cohorts—  
metropolitan,  
regional urban and  
rural

**>\$1.6b**

to maintain and  
renew water system  
infrastructure

**> \$34b**

value of water  
system  
infrastructure

Water entities provide a range of water and sewerage services to over 2.7 million households, commercial and industrial businesses.

The sector is made up of 19 water entities and one controlled entity, grouped into three cohorts.

Four entities and a controlled entity make up the Metropolitan cohort. The regional urban cohort includes 13 entities, and two entities make up the rural cohort.

All entities are standalone businesses responsible for their own management and performance.

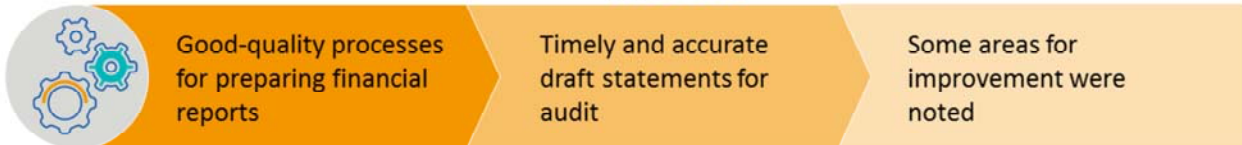
Water is a large business sector. More than \$1.6 billion was spent last year to maintain and renew water system infrastructure, which is currently valued at over \$34 billion.

## Results of financial audits

19

Water entities received clear audit opinions on their 2016–17 financial reports

### Processes



### Reports



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We issued 19 clear audit opinions for the financial year ended 30 June 2017, consistent with our 2015–16 results.

We also assessed the quality of financial reporting processes against better practice criteria.

Overall, the sector used good-quality financial reporting processes, and presented timely and accurate draft statements for audit.

However, water entities need to continue working on their processes to improve the quality of their financial statements.

The sector began to streamline the structure and content of its financial reports in 2016–17, which will enhance their readability and usefulness.

We commend the sector for its commitment to this initiative.

Although the sector has acted on this opportunity, there are more ways that it can improve streamlining its financial reporting.

## Results of audits

**\$544m**  
Net result  
before tax

**\$634m**  
Increase in  
sector's total  
asset base

**\$219m**  
Increase in  
sector's  
liabilities

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The sector generated a combined net result before tax of \$544 million in 2016–17, a decrease of \$173 million from the year before.

This was largely due to a decline in revenue because of lower consumption—2016–17 was a wetter year than 2015–16—and lower wholesaler revenue in the first year of a new pricing structure.

The sector's total asset base grew by \$634 million, largely due to funds spent on asset works, renewal and replacement.

And the sector's liabilities grew by \$219 million, from increases in short-term payables and borrowings.

## Financial sustainability risks



Separately assessed financial sustainability risks of each entity and cohort

Using a suite of risk indicators, audited data from prior five years and entity projections

Concluded that sector is sustainable in shorter term

Emerging risks for some entities to renew assets and repay debt in the longer term

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This year we assessed and reported on the financial sustainability risks for each entity and for each of the three cohorts.

We concluded that the sector as a whole is sustainable in the short term, but note some entity's face emerging risks around asset renewal and debt repayments in the longer term.

## Results of performance report audits



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All water entities are required by government to include an audited performance report in their annual reports.

We issued clear audit opinions on all 19 performance reports, consistent with the prior year. A clear audit opinion confirms that the actual results reported on the performance report were fairly presented and complied with Ministerial Reporting Direction 01.

Our audit of these reports found a number of deficiencies requiring correction. Common themes included:

- poor quality explanatory notes
- compliance issues; and
- calculation errors

Our past reports have highlighted that the sector's performance reporting processes are still not as mature as those used for financial reporting. This was again apparent in the 2016–17 reporting period.

We encourage the sector to focus more on the processes and quality of its performance reporting.

## Internal control weaknesses

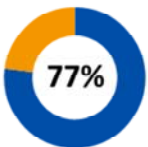


Internal controls adequate for ensuring reliable financial reporting



Entities need to address key weaknesses such as:

- information technology access and security controls
- monitoring and maintenance of infrastructure assets, property, plant and equipment records and data



Of weakness issues were resolved during the fiscal year.

We found the water entities' internal controls adequate for ensuring reliable financial reporting.

However, we also found instances where entities need to address several key weaknesses such as information technology access and security controls, and monitoring and maintenance of infrastructure assets, property, plant and equipment records and data.

In relation to IT controls, we are concerned that we continue to observe weaknesses in key financial and operational systems each year, depending on which systems we test.

This indicates that the sector is not taking the lessons learnt from prior audit issues reported against particular key systems and applying them to other relevant ones to minimise their risks.

As part of the financial audit process, we also monitored actions on internal control weaknesses identified in previous audits to ensure entities are resolving them promptly. Thirty-nine control weakness issues remained open at the start of 2016–17. Encouragingly, however, 77 per cent of these matters were resolved during the fiscal year.



## Asset revaluation integration process update



We focused on how well water entities input their asset revaluation results from 2015–16 into their internal systems

### Our assessment showed mixed results

Entities unable to update their asset systems in a timely way:  
→ increased risk of making business decisions based on inaccurate or unreliable data

Entities with better implementation processes:  
→ improved asset data quality  
→ better data provided to Valuer-General

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Each year, we select one internal control area and perform a more detailed review of controls and operating environments.

This year, we focused on how well water entities input their asset revaluation results from the 2015–16 revaluation into their internal systems.

Our assessment showed mixed results.

Entities that were unable to update their asset systems with revaluation data in a timely way were at an increased risk of making decisions based on inaccurate or unreliable data.

Entities with better implementation processes reported that improved asset data quality allowed them to make better asset-related decisions. They also had a deeper understanding of their asset data, which enabled them to provide better quality data to the Valuer-General, in a format that could be incorporated into their existing asset systems.

## Recommendations

### 6 recommendations for water entities:

1. Refine financial reporting processes
2. Continue investing in streamlining their financial reports
3. Focus on the processes and quality of performance reporting
4. Assess whether IT control weakness findings of reported by audit are relevant to other financial and operational systems
5. Address issues raised in audit management letters on a timely basis
6. Perform a post-revaluation review exercise over the 2015-16 revaluation process

### 1 recommendation for DELWP:

7. Review the effectiveness of water entities' performance reporting

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We made six recommendations directed towards the water entities and one for the Department of Environment, Land, Water and Planning to:

- improve financial reporting processes
- improve performance reporting
- close internal controls gaps; and
- improve the quality of asset data.

The department accepted its recommendation to review the effectiveness of water entities' performance reporting.

For further information, please view the full report on our website:  
[www.audit.vic.gov.au](http://www.audit.vic.gov.au)

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