

Final Report

SunWater Water Supply Schemes  
2011-2016 Price Paths

Audit and Review of SunWater's  
Business Operating Model (BOM)



Prepared for:

Queensland Competition Authority

V1076

March 2011

## DOCUMENT CONTROL SHEET

Version/ Revision No	File name (& path)	Prepared by (author)	Reviewed by	Approved by	Version date
V1.0	F:\Quality\Project Reports\VIC\V1076 QCA SunWater Water Supply Schemes 2011-2016 Price Paths\Reports\V1076 Audit of the SunWater Information Systems v1	Gary Adshead	Sandro Marin	David Gotze	24 December 2010
V2.0	F:\Quality\Project Reports\VIC\V1076 QCA SunWater Water Supply Schemes 2011-2016 Price Paths\Reports\V1076 Audit of the SunWater Information Systems v2	Gary Adshead Sandro Marin	Sandro Marin	David Gotze	10 January 2011
V3.0	F:\Quality\Project Reports\VIC\V1076 QCA SunWater Water Supply Schemes 2011-2016 Price Paths\Reports\V1076 Audit of the SunWater Information Systems v3	Gary Adshead Sandro Marin	Sandro Marin	David Gotze	21 March 2011
Final	F:\Quality\Project Reports\VIC\V1076 QCA SunWater Water Supply Schemes 2011-2016 Price Paths\Reports\V1076 Audit of the SunWater Information Systems Final	Gary Adshead Sandro Marin	Sandro Marin	David Gotze	28 March 2011

## DISTRIBUTION HISTORY

Name	Location	Date
Queensland Competition Authority	Brisbane	21 March 2011
SunWater	Brisbane	21 March 2011
Queensland Competition Authority	Brisbane	28 March 2011

## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>i</b>
<b>1. BACKGROUND .....</b>	<b>1</b>
1.1. QCA's Role.....	1
1.2. SunWater Background.....	2
1.3. Original Ministerial Referral Notice .....	2
1.4. Amended Ministerial Referral Notice .....	3
1.5. Purpose and Requirement of Audit and Review.....	3
<b>2. OUTLINE OF SUNWATER'S BUSINESS OPERATING MODEL (BOM) .....</b>	<b>5</b>
2.1. Background .....	5
2.2. Key Objectives.....	5
2.3. Software Details.....	5
2.4. Applications in Place.....	6
2.5. Users.....	6
2.6. Business Structure.....	7
2.7. Activity & Cost Codes.....	7
2.8. Financial Inputs.....	9
2.8.1. Accounts Payable .....	9
2.8.2. Materials inventory.....	10
2.8.3. Timesheet Entries.....	10
2.9. Overhead and Indirect Cost Allocation .....	10
2.10. Revenue offsets.....	12
2.11. Irrigation Pricing Outputs.....	12
<b>3. METHODOLOGY AND OUTCOMES OF THE AUDIT AND REVIEW .....</b>	<b>14</b>
3.1. Background .....	14
3.2. Methodology and Key Steps.....	14
3.3. Data Requested from SunWater.....	16
3.3.1. SunWater organisational chart .....	17
3.3.2. SunWater data management security policies and procedures .....	17
3.3.3. SAP modules relating to cost collection and cost allocation .....	17
3.3.4. SAP architecture diagram, version numbers and application documentation.....	18
3.3.5. SunWater reporting protocols for incident reports .....	18
3.3.6. SunWater SAP contingency backup/disaster recovery plan .....	18
3.3.7. Chart of accounts.....	19
3.3.8. User profiles and access limits (delegated authorities).....	19
3.3.9. SunWater workflow approvals for BOM system configuration changes .....	19
3.3.10. Cost recording validation controls and checking procedures .....	20
3.4. Staff Interviews .....	20

3.5.	Sampling Approach.....	20
3.5.1.	Data.....	21
3.6.	Random Sample Transaction Interrogation.....	22
3.6.1.	Transaction Review .....	23
3.6.2.	Overhead Allocation.....	24
3.6.3.	Brisbane and Regional Centre Overheads.....	24
3.6.4.	5% Procurement Overhead.....	25
3.6.5.	Indirect Cost Allocation .....	26
3.7.	Annuity balances.....	28
3.8.	Internal controls, transaction validation and backup and disaster recovery.....	30
3.9.	Cost data disaggregation .....	31
3.9.1.	Revenues .....	31
3.9.2.	Asset base information – asset class, capital expenditure and contributed assets.....	33
3.9.3.	Operating costs.....	35
3.9.4.	Conclusion.....	37
<b>4.</b>	<b>KEY FINDINGS AND CONCLUSION .....</b>	<b>38</b>
4.1.	Recording of Cost Information.....	38
4.2.	Allocation of Costs .....	38
4.2.1.	Overhead and Indirect Costs.....	39
4.2.2.	Transparency of Administration Cost Allocation.....	40
4.3.	Annuity balances.....	40
4.4.	Cost data disaggregation .....	41
4.5.	Assessment of BOM for pricing purposes.....	41

## Appendices

- A - Terms of Reference
- B - Original Ministerial Direction Notice
- C - Amended Ministerial Direction Notice
- D - BOM/SAP User Access Rights for Staff Interviewed by Indec
- E – BOM Activity Codes
- F - Service Contracts relevant to Irrigation Pricing
- G - Staff Interviews
- H - Reliability factors derived from Poisson sampling distribution
- I - Reconciliation Control Sheets
- J - Transaction Audit Sheets
- K - Accounts which attract 5% Brisbane Procurement Overhead

## EXECUTIVE SUMMARY

### Background

The Queensland Competition Authority (the Authority) has engaged Indec Consulting to complete an audit of SunWater's Business Operating Model (BOM) as established in SAP. The Authority's Terms of Reference dated 21 September 2010 (see Appendix A) outlines the background, purpose, requirements and the outputs of the audit.

On the 19<sup>th</sup> March 2010, the Premier and Treasurer of Queensland, pursuant to Section 23 of the Act, have directed that the Authority develop and recommend irrigation prices to apply for particular SunWater water supply schemes from 1 July 2011 to 30 June 2016 (see Appendix B). On the 17<sup>th</sup> December 2010, the Premier and Treasurer of Queensland issued an amended Direction to restate the matters the Authority must take into consideration including modifying the timing of the price path commencing 1 October 2011 and ending 30 June 2016 (see Appendix C).

The key purpose of Indec's engagement is to audit SunWater's BOM as established in SAP to ensure that it:

- ▶ comprehensively records cost information;
- ▶ allocates those costs to the intended cost centres; and
- ▶ accurately attributes costs to head office functions and specific services offered by SunWater to irrigators (at a scheme and scheme segment level).

Particularly relevant to this task is evidence of sufficient disaggregation of costs attributable to particular administration services provided to each scheme and scheme segment and the degree of consistency with the recommendations made by the Authority (2010) in its Final Report titled *SEQ Interim Price Monitoring Information Requirements for 2010/11*.

### BOM Background & Key Objectives

The SunWater BOM was established in 2007 with the aim to provide a consistent and accurate business process structure for all staff to follow. From a pricing perspective, the BOM outlines the structure and principles for cost allocations to ensure that costs are allocated to the appropriate business activity and that irrigation water pricing can be performed accurately and in accordance with regulatory regimes.

An objective of BOM was to meet the regulatory pricing requirements based on the prevailing Australian Competition and Consumer Commission (ACCC) requirements when the BOM was implemented, including the separating of costs for different water delivery methods, bulk supply costs and distribution via delivery infrastructure. The BOM achieves this separation via the use of service contracts which capture relevant data for each scheme by activity i.e. bulk supply and distribution. A river only scheme would have a single service contract (bulk supply) whereas a river

and infrastructure distribution scheme would have two service contracts (bulk supply and distribution).

### **Audit Methodology and Approach**

Indec adopted a sampling approach to undertake the review to reduce the time, effort and costs involved in completing the audit. The efficiency of the audit relies on obtaining the minimum audit evidence sufficient to form the audit opinion whilst minimising the costs as effectively as possible. It should be noted that applying a sampling approach to the audit prohibits the provision of absolute assurance however achieves a tolerable error rate relating to the assurance levels whilst minimising the costs involved. A sampling approach is a well accepted methodology used by auditors to complete audits involving large volumes of transactions.

Indec analysed the inputs, cost allocations and outputs of SunWater's BOM using a process based on a sample of selected transactions for the following 7 service contracts representing 4 water supply schemes:

- ▶ Mareeba Bulk Supply and Mareeba Distribution;
- ▶ Bundaberg Bulk Supply and Bundaberg Distribution;
- ▶ Nogoia Bulk Supply and Emerald Distribution; and
- ▶ Upper Condamine Bulk Supply.

These service contracts and schemes were selected in consultation with the Authority to ensure a reasonable cross section of schemes were selected in terms of location across the various Regional Centres, size and type of the schemes.

Indec sought to examine how the cost information is stored in the system and how cost allocations are processed. The audit of the BOM aims to analyse the integrity of data stored within SAP as well the interface with the relevant pricing models, and its functionality for forecasting and pricing. An objective of the audit is to verify that the cost allocation business rules are being accurately and consistently applied within BOM.

Indec carried out an audit of a sample set of transactions to verify that these transactions have been appropriately processed within the BOM. This consisted of two parts:

- ▶ the first step involved the selection of 20 random transactions from a range of periods for each service contract associated with the four schemes subject to audit. The recording of these transactions was then reviewed to ensure consistency between source documents and to ensure that appropriate approval was in place; and

- ▶ the second step involved analysing the application of the overheads to ensure that the correct rates were being applied to the correct transactions.

The sampling approach adopted was based on the Poisson distribution to achieve a 95% confidence limit or reliability factor, which is further explained in Section 3.5.

## **Key Findings & Conclusions**

### **Recording of Cost Information**

Indec did not identify any significant issues associated with SunWater's recording of cost information based on the sampling approach adopted by Indec to undertake this review. As outlined, it should be noted that applying a sampling approach to the audit prohibits the provision of absolute assurance however achieves a tolerable error rate relating to the assurance levels whilst minimising the costs involved.

Indec's audit and review did identify some immaterial matters with small discrepancies of less than 1% found between SAP Lower Bound Cost (LBC) reports when reconciled against detailed transactions listings (see Section 3.5.1). Indec believes that the variances identified are not significant in nature and would not materially impact on the historical data presented in pricing path models and NSP reporting.

Indec's review identified several issues from an audit trail perspective with SunWater unable to produce source documents relating to some of the randomly selected transactions for detailed review (see Section 3.6.1). SunWater was unable to produce all the requested source documents associated with the random sample transaction audit with 14 out of the 160 transactions or 8.75% of source documents not produced to Indec. These transactions totalled \$95,770 with an average transaction value of \$6,841. For the 14 transactions involved, Indec was unable to complete the audit checks to ensure agreement between the accounting entry and the underlying nature of the transaction.

### **Allocation of Costs**

Indec's audit and review did not identify any unintended or erroneous allocation of costs to cost centres or schemes. The SAP system operating the BOM has a strong emphasis on checks and balances to ensure appropriate segregation of duties, appropriate authorisation of transactions and varying layers of access rights to enhance overall security and integrity of the financial data. During the audit, Indec observed a series of checks and balances within SunWater's operations to demonstrate that a culture of internal controls is in place. The checks and balances focus on the material items to identify larger discrepancies or errors.

It is possible that not all erroneously coded transaction are detected and corrected, especially smaller value transactions. The audit identified several reversal transactions to correct erroneously

coded transactions which demonstrate that the validation process can be effective in identifying certain erroneously coded transactions.

### **Overhead and Indirect Costs**

Indec reviewed Brisbane and Regional Office overhead, 5% procurement overhead and indirect cost allocations, which are detailed in Sections 3.6.3 to 3.6.5.

#### ***Brisbane and Regional Office***

The analysis of Brisbane and Regional Office overhead cost allocation identified minor deviations ranging from -0.71% to 1.59% from the overhead rates advised by SunWater with the larger deviations arising in 2009/10. During 2009/10, there were three sets of overhead rates due to a number of overhead allocation rate revisions. The impact of the numerous revision results in a quarter of the 2009/10 financial year potentially including two different allocation rates, with the timing of transactions within the quarter impacting on the observed overhead rate. Indec is satisfied that the deviations identified are immaterial and most likely arise from either timing differences associated with the adjustment in allocation rates during the year and/or the treatment of reversal, accrual and accounting adjustment transactions which Indec's analysis may not have fully accounted for.

#### ***5% procurement overhead***

Indec has analysed the transactions selected as part of the random sample transaction audit and assessed the application of the 5% procurement overhead and has found that the business rules associated with this overhead allocation have been correctly applied.

#### ***Indirect costs***

A change in methodology occurred for the allocation of indirect cost pools for the 2009/10 financial which differed to the methodology applied in 2008/09.

The 2008/09 approach involved an automated monthly assessment cycle whereby the actual monthly costs associated with each indirect cost pool was allocated to the intended cost centres. Indec identified no issues in relation to the audit of 2008/09 indirect cost allocations based on three randomly selected cost pools.

The methodology to allocate indirect cost pools in 2009/10 involved the setting of an allocation rate which aligns with the methodology of setting Brisbane and Regional Centre overhead rates. While the analysis in Section 3.6.5 notes several deviations between the actual observed indirect cost allocation rate and the target rates, Indec is satisfied that these deviations are immaterial and most likely arise from either timing differences associated with the adjustment in allocation rates during

the year and/or the treatment of reversal, accrual and accounting adjustment transactions which Indec's analysis may not have fully accounted for.

### **Transparency of Administration Cost Allocation**

The BOM treats administration costs as either direct costs, indirect costs or overheads. Adequate transparency is visible within the BOM for direct and indirect costs only in terms of the type of administrative cost activity, the costs allocated and to which service contracts. Administrative cost classified as overhead costs do not benefit from this level of visibility as the overhead costs are pooled and allocated to the respective service contracts based on a single line allocation, rather than on a line by line basis for each overhead or administrative activity type.

### **Annuity balances**

Indec has reviewed several key areas of the annuity opening balance calculation. Indec reviewed the methodology applied to that documented in the SunWater working paper titled *Renewals annuity calculation*.

The checks performed by Indec identified no issues with the source data captured and the calculations performed. Indec did not undertake any detailed transaction analysis to verify transactions, rather Indec checked that the correct sum totals as reported in the BOM are being captured by the annuity balance spreadsheet.

In its audit and review of annuity balances, Indec did observe that the methodology applied in the SunWater spreadsheet does not account for termination fees as described in the SunWater working paper. The annuity balance spreadsheet provided to Indec by SunWater does include termination fees data however the roll forward calculation of revenues does not include a portion of these revenues as documented in the SunWater working paper. Indec's review of the SunWater Financial Model, with the findings reported in a separate report prepared concurrently by Indec titled *Review of SunWater Pricing Model - Step 1*, indicates that all termination fees collected by SunWater are treated as a revenue offset against operating costs as reported in the NSPs.

Indec did not identify any differences between the methodology applied in the spreadsheet to that documented in the SunWater working paper relating to the calculation of outflows from the annuity and the interest on balances.

### **Cost data disaggregation**

The data disclosure of SunWater's BOM meets the majority of the requirements of the SEQ Interim Price Monitoring Information Requirements 2010/11 with some exceptions which have been noted in Section 3.9. Some concessions may need to be made given that SunWater is a rural bulk water supplier and the SEQ Interim Price Monitoring Information Requirements have been designed for urban retail and distribution businesses.

An issue may emerge regarding the definition of each category and what items are included and excluded and the consistency between SunWater's BOM and the Authority's information requirements.

Indec is of the opinion that the degree of detail within BOM is sufficient to enable an independent party to review the past basis of costs for the services provided by SunWater, particularly for a business which is for the first time subject to an independent formal price setting process by an economic regulator.

The BOM system captures detailed data based on the Work Breakdown Structure (WBS) framework, which records costs against an activity list of 197 items and for each service contract, which distinguishes between bulk supply and distribution services (see Appendix F). Further disaggregated data is available at the work order level. The BOM system does not separately identify costs for irrigation customer services provided by SunWater beyond bulk supply and distribution.

### **Assessment of BOM for pricing purposes**

Overall Indec is of the opinion that the BOM is an adequate data information system for irrigation pricing purposes. Indec's audit and review has not identified any material issues with some minor matters identified. The overall integrity of the BOM is adequate for irrigation pricing purposes.

Indec's audit has identified that the BOM meets the broad requirements identified by the Authority's Terms of Reference. Indec has identified that the BOM system could be improved by addressing the following:

- ▶ separately identifying costs for a greater range of irrigation customer services provided by SunWater beyond bulk supply and distribution to include services such as drainage; and
- ▶ cost allocation business rules should be documented to further improve the robustness and transparency of BOM.

## 1. BACKGROUND

Indec Consulting has been engaged by the Queensland Competition Authority (the Authority) to complete an audit of SunWater's Business Operating Model (BOM) as established in SAP. This audit and review will provide integral information to the Authority for the pricing review of SunWater's irrigation tariffs from 1 October 2011 to 30 June 2016.

The Authority's Terms of Reference dated 21 September 2010 (see Appendix A) outlines the background, purpose, requirements and the outputs of the audit. The key purpose is to audit SunWater's BOM as established in SAP to ensure that it:

- ▶ comprehensively records cost information;
- ▶ allocates those costs to the intended cost centres; and
- ▶ accurately attributes costs to head office functions and specific services offered by SunWater to irrigators (at a scheme and scheme segment level).

The focus of the audit review will be the integrity of costing data within SAP and relevant interfaces with components of the financial information system, and its functionality for forecasting and pricing. Indec understands that the Authority seeks a level of detail sufficient to enable an independent third party to review the past basis of costs for services provided by SunWater and relevant to the current review.

Particularly relevant to this task is evidence of sufficient disaggregation of costs attributable to particular administration services provided to each scheme and scheme segment and the degree of consistency with the recommendations made by the Authority (2010) in its Final Report titled *SEQ Interim Price Monitoring Information Requirements for 2010/11*. Sufficient disaggregation of costs should be evident that they can be related to particular administration services provided to each scheme and scheme segment.

### 1.1. QCA's Role

The Authority is an independent pricing and access regulator responsible for ensuring that specified monopoly infrastructure-based services in Queensland comply with the principles of national competition policy. The Authority seeks to provide a recognised avenue whereby both government and third parties can rely on an independent, objective appraisal of the issues subject to its review. The Authority was established by the *Queensland Competition Authority Act 1997* (the Act).

On the 19<sup>th</sup> March 2010, the Premier and Treasurer of Queensland, pursuant to Section 23 of the Act, have directed that the Authority develop and recommend irrigation prices to apply for particular SunWater water supply schemes from 1 July 2011 to 30 June 2016 (the Ministers' Referral Notice).

The Ministers' Referral Notice (see Appendix B) has specified certain matters that the Authority must take into consideration and the Authority may exercise all the powers under Part 6 of the Act.

On the 17th December 2010, the Premier and Treasurer of Queensland amended the Direction of 19th March 2010 to restate the matters the Authority must take into consideration including modifying the timing of the price path commencing 1 October 2011 and ending 30 June 2016 (the Amended Ministers' Referral Notice) (see Appendix C). Due to timing of the release of the Amended Ministers' Referral Notice this report may not fully consider all the matters in the Amended Ministers' Referral Notice.

## **1.2. SunWater Background**

As a Queensland Government-owned Corporation (GOC), SunWater provides a range of services including infrastructure ownership, water delivery, operation and maintenance of infrastructure and engineering consultancy services. SunWater is the single largest service provider in the State providing retail and bulk supply services to industrial, agricultural and rural and urban users.

Over the last 80 years, SunWater has built and now owns and operates a regional network of water supply infrastructure throughout Queensland which supports irrigated agriculture, mining, power generation, industrial and urban development through 22 Water Supply Schemes. SunWater's water storage and infrastructure includes 19 major dams and more than 2,500 kilometres of pipelines.

## **1.3. Original Ministerial Referral Notice**

The original Minister's Referral Notice dated 19<sup>th</sup> March 2010 requires that bulk water supply and channel prices/tariff structures are set so as to provide a revenue stream that allows SunWater to recover:

- ▶ its efficient operational, maintenance and administrative costs;
- ▶ its expenditure on renewing and rehabilitating existing assets, whether through a renewals annuity or a regulatory depreciation allowance;
- ▶ a rate of return on assets valued at 1 July 2011 (the initial regulated asset base (RAB)); and
- ▶ after 1 July 2011, a return of, and on, prudent capital expenditure on existing assets or for constructing new assets.
- ▶ In recommending an initial RAB for irrigation supply assets the Authority is to:
  - ▶ value particular channel distribution systems assets at zero; and
  - ▶ apply a 'line in the sand' approach to value assets for bulk water supply based upon:
    - the level of service attributed to the supply of water for irrigation;

- the efficient operating cost of meeting the required level of service;
- water prices that reflect the irrigators' anticipated capacity to pay; and
- water prices achieving a commercial return over a period not longer than 15 years.

In providing pricing recommendations for each scheme, the Authority is to also consider how to treat existing renewals reserves if it considers it appropriate to transition schemes to a depreciation-based RAB pricing approach.

#### **1.4. Amended Ministerial Referral Notice**

An amended Ministerial Referral Notice was issued on 17<sup>th</sup> December 2010 which clarifies the matters that the Authority must take into consideration. The more significant amendments include:

- ▶ recovery of prudent and efficient expenditure on renewing and rehabilitating existing assets through a renewals annuity;
- ▶ a commercial return of, and on, prudent capital expenditure for augmentation commissioned after 30 September 2011;
- ▶ the Authority is not to consider the RAB for existing irrigation assets i.e. commissioned prior to 1 October 2011;
- ▶ in relation to tariffs, the Authority should have regard to the fixed and variable nature of the underlying costs and the Authority is to adopt tariff groups as proposed in SunWater's network service plans with no investigations for additional nodal pricing arrangements;
- ▶ consideration of price review triggers and other mechanisms to manage the risks associated with the allowable costs outside the control of SunWater; and
- ▶ capital expenditure for dam safety upgrades are not to be recovered in prices.

As mentioned earlier, due to timing of the release of the Amended Ministers' Referral Notice, this report may not fully consider all the matters in the Amended Ministers' Referral Notice.

#### **1.5. Purpose and Requirement of Audit and Review**

In summary, the key purpose of the audit of SunWater's BOM as established in SAP to ensure that the BOM:

- ▶ comprehensively records cost information;
- ▶ allocates those costs to the intended cost centres; and
- ▶ accurately attributes costs of head office functions to specific services offered by SunWater to irrigators (on a scheme-by-scheme level).

The focus of the audit will be the integrity of costing data within SAP and relevant components of the financial information system, and its functionality for forecasting and pricing. Indec understands that the Authority seeks a level of detail sufficient to enable an independent third party to review the past basis of costs for services provided by SunWater and relevant to the current review and its consistency with the recommendations made by the Authority (2010) in its Final Report titled *SEQ Interim Price Monitoring Information Requirements for 2010/11*.

## 2. OUTLINE OF SUNWATER'S BUSINESS OPERATING MODEL (BOM)

### 2.1. Background

The SunWater business operating model (BOM) was established in 2007 with the aim to provide a consistent and accurate business process structure for all staff to follow. From a pricing perspective, the BOM outlines the structure and principles for cost allocations to ensure that costs are allocated to the appropriate business activity and that irrigation water pricing can be performed accurately and in accordance with regulatory regimes.

### 2.2. Key Objectives

The key objective of SunWater's BOM system is to provide an automated and robust platform to manage the budgeting, financial transaction processes, cost allocations and financial and performance reporting outputs.

A key objective of BOM was to meet the regulatory pricing requirements based on the prevailing ACCC requirements when the BOM was implemented in 2007, including the separating of costs between bulk supply and the distribution of water via delivery infrastructure, which the BOM labels as service contracts.

A service contract is defined as a network of infrastructure assets, with an internal service contract referring to assets owned by SunWater and an external service contract referring to assets owned by a third party. The BOM is structured with 62 service contracts in total with 46 internal Service Contracts and 16 external Service Contracts with 30 service contracts directly relevant to irrigation pricing.

### 2.3. Software Details

The BOM system operates on the SAP platform. SAP is a software package that has been in existence since 1972 and is one of the market leaders in the field of providing business focused software solutions. SAP has market credentials in more than 120 countries and is a well established and proven information system platform.

The architecture and version of SAP installed at SunWater at the time of completing this audit is as follows:

- ▶ Systems architecture documented in MEGA;
- ▶ SunWater is currently running SAP R/3 ECC6; and
- ▶ SAP version information;
  - ▶ Component – SAP Frontend for Windows;
  - ▶ Release – Final Release 710;

- ▶ File Name – sapfront.dll;
- ▶ File Version – 7100.4.17.3158;
- ▶ Build – 1147943; and
- ▶ Patch Level – 17.

These details were provided by SunWater as part of the information request as outlined in Section 4.3.

#### **2.4. Applications in Place**

SunWater has provided the following list of SAP modules pertaining to recording of cost information and allocation of costs:

- ▶ Accounting – financial, controlling and project management;
- ▶ Logistics – materials management and plant maintenance; and
- ▶ Work Management System (Custom) – refurbishment planning and project governance.

As this review is focusing on the integrity of the recording of cost information and cost allocation, the relevant modules to this review are the Accounting and Logistics modules and in particular the accounts payable and the labour cost postings from staff timesheets. The Works Management System is a non-routine works planning and forecasting tool and does not involve the recording of actual costs incurred and therefore was not subject to review.

The accounts payable, labour cost postings from staff timesheets and the posting of overhead and indirect cost allocations are described in more detail below.

#### **2.5. Users**

Access to SAP/BOM can only be gained after authorisation by the staff member's manager/supervisor and access being granted by the SAP Administrator located within ICT (Information and Communication Technology Group). The staff member's supervisor/manager nominates the level of access required based on the staff member's duties and responsibilities which is then checked and confirmed by the SAP Administrator.

On the departure of a staff member, process are in place to ensure that access to SAP/BOM is removed for that staff member with the responsibility resting with managers/supervisors to ensure that staff have appropriate access when a change in position or duties occurs.

A further check of SAP/BOM access occurs every six months to ensure that access arrangements are appropriate for each staff member and their assigned duties and responsibilities. The check also identifies access accounts which need to be closed due to inactivity; change in circumstances or to identify any access account which remains open after a staff member has departed.

During its review, Indec did not identify any inappropriate SAP/BOM access arrangements and observed a strong understanding by key staff of the processes and controls to administer SAP access arrangements.

Appendix D outlines the user access rights relating to the SunWater staff interviewed as part of this review. These details were provided by SunWater as part of the information request as outlined in Section 4.3.

## **2.6. Business Structure**

SunWater's management arrangements were restructured during 2009 and now consist of the following business units for cost data collection purposes:

- ▶ 6 Resource Centres based in Brisbane – Health, Corporate, Strategy, Trader, Infrastructure Management & Infrastructure Development;
- ▶ 4 Regional Centres – Far North, North, Central and South; and
- ▶ various development projects which vary from time to time depending on the number of projects under development.

The Resource Centres are based in Brisbane and undertake the delivery of specific services to either all components of the SunWater operations or deliver specific services to certain aspects of SunWater's operations.

The Regional Centres incur costs which are either directly related to a service contract or all components of the SunWater operations.

From an irrigation pricing point of view, only those activities undertaken by Infrastructure Development relating to refurbishment and enhancement activities are recovered from irrigation customers and to the extent relevant after the allocations are made to the relevant customer sectors. Typically, Infrastructure Development and Projects do not incur costs which are recovered from irrigation customers as they predominately relate to activities for commercial customers.

## **2.7. Activity & Cost Codes**

Within the BOM system, all activities are classified and recorded as either:

- ▶ Routine;
- ▶ Non-Routine (once-off or Refurbishment & Enhancement); or
- ▶ Development Project.

Development projects generally do not involve irrigation water customers as they mostly relate to new development projects for commercial customers.

Costs are further categories into the following types:

- ▶ Direct Costs - cost of activities directly employed in providing services for customers and primarily incurred by the Infrastructure Management business group and certain projects within Infrastructure Development.
- ▶ In-direct Costs - cost of activities, resources and assets supporting direct activity, and used for a limited line of business or service type and incurred in Brisbane.
- ▶ Overhead Costs - cost not applicable directly to a particular line of business, and therefore spread across the entire business using a standard business rule.
- ▶ Regional Centre Overheads are generated in either a Regional Centre or a Brisbane based Resource Centre which provides services to direct or indirect resource centres.
- ▶ Brisbane overheads are generated in a Resource Centre that service the entire business.
- ▶ Residual Costs – any costs not recovered via time writing to Service Contracts, Indirect Activities or non-distributable costs (reflecting under-utilisation, etc).

Brisbane overhead costs are separated into two categories, those that are allocated to labour costs and those that are allocated to non-labour costs (excluding electricity). Non-labour costs (excluding electricity) attract a 5% procurement overhead loading with the residual overhead (less the 5% procurement overhead) allocated on the basis of labour costs. The 5% procurement overhead is however not applied to large development and dam safety projects as procurement and legal costs are directly charged to such projects.

The BOM system allocates a unique activity code, called a Work Breakdown Structure (WBS), to each type of activity so that all work of a particular type is identified with the same activity code wherever it occurs. The WBS includes 5 elements:

1. Activity type – identifies if the activity is routine, non-routine or project;
2. Service contract – identifies the location of the activity;
3. Activity code – identifies the type of activity;
4. Profit & cost centre – identifies the budget manager; and
5. Project (non-routine only) – links the activity to the asset for WMS purposes.

The WBS structure provides a comprehensive and broad range of cost capture based on the type of activity against a list of 197 activities (see Appendix E) with work orders providing a greater level of cost data granularity. Furthermore, cost elements capture the nature of the cost to provide further detail based on the following categories: labour, contractor, material, inventory, travel costs and overhead to list a few examples.

From a pricing perspective, the key elements of the WBS framework are the service contracts and activity codes.

The service contracts provide cost capture based on service, bulk supply and distribution, and by location. Appendix F includes a list of the service contracts relevant to irrigation pricing.

WBS represents the most detailed level of cost data collected by SunWater. The data at the WBS level detailing activity codes at the service contract level is mapped to cost types before being presented in the NSPs.

## **2.8. Financial Inputs**

Financial data enters into the SAP system via three major transaction streams:

- ▶ Accounts Payable,
- ▶ Materials inventory; and
- ▶ Timesheet entries.

Accrual or adjustment journal entries can be raised by authorised officers to capture expenses that are yet to be raised or fully incurred or to make other accrual related adjustments such as shifting expenses from one period to other periods for pre-paid expenses. Accrual journal entries automatically reverse in the next accounting period i.e. the following month.

### **2.8.1. Accounts Payable**

The Accounts Payable module generates the payment to the vendor for goods and services delivered. A purchase order is required to be generated and approved before any expenditure can be incurred. The purchase order ties the transaction value and relevant cost coding back to the authorised budget. Once a purchase order has been raised in accordance with the budget and cost coding, and approved, the accounts payable system waits for the goods/services to be received and invoiced. Once the invoice is received and signed as goods/services received, the accounts payable module will flag payment to the vendor within the specified trading terms and once paid, post the transaction to the general ledger according to the purchase order cost coding details.

As outlined above, accrual or prepayment journals can be raised by the Business Accountants if a lump sum payment is to be spread over the financial periods to meet the budget parameters.

### **2.8.2. Materials inventory**

The materials inventory module manages the purchasing, warehousing and dispatching of plant, materials, tools and equipment to support the business operations. A work order is required to be generated and approved before any materials can be dispatched from the inventory. The work order ties the use of any materials to the relevant cost code and back to the authorised budget.

### **2.8.3. Timesheet Entries**

Each staff member completes an electronic timesheet on a weekly basis which apportions their hours worked over projects or activities based on a unique work order number. Each work order number is then linked to a WBS. Supervisors or the relevant manager approves the time apportioned by the staff member. The employee times are then multiplied by the Standard Labour Cost Rate (LCR) attributable to their salary banding.

The LCR is derived as the weighted average pay rate by SunWater Band plus statutory on-costs such as recreational leave loading, superannuation, long service leave, payroll tax and workers compensation insurance. The LCR is set each year during the budget process.

The costs generated from the timesheet system are allocated on a weekly basis.

## **2.9. Overhead and Indirect Cost Allocation**

SunWater was unable to provide specific documentation to Indec to describe the business rules relating to overhead and indirect cost allocation. A draft paper was being prepared by SunWater and was not made available to Indec during the review period of this audit. SunWater referred Indec to the BOM Manual which outlined some high level business rules relating to overhead and indirect cost allocation business rules.

The paper prepared by SunWater on Centralised Costs in January 2011 was finalised during the end of the audit which did not allow sufficient time for Indec to fully consider this paper. The paper describes the general process of how centralised costs are allocated without providing detailed business rules.

SunWater described to Indec that the overhead and indirect cost allocation rates are set on an annual basis during the budgeting process. The relevant allocation rates are established within the SunWater Financial Model (SFM) and once approved are then loaded into the BOM system.

SunWater advised Indec that the overhead and indirect allocation rates set during the budget process remain unchanged unless a material under or over recovery of indirect and/or overhead costs emerges during the financial year. An under or over recovery of indirect and/or overhead costs can emerge if the actual spend of indirect and or overhead costs is materially different to the budget forecast and/or if the actual allocation base i.e. actual direct labour costs materially differs to budget forecasts.

Some of the key business rules documented in the BOM Manual relating to cost allocations are summarised below:

- ▶ The supply and support of PCs, printers and related equipment by ICT is recovered via a Standard Rate per PC Kit. A similar process is used for Phones, Training Courses, Accommodation and some Insurances e.g. Professional Indemnity
- ▶ Housing provided for staff is treated as an overhead cost associated with a Regional Centre and is shown separately to the management cost of office premises, workshops and depots.
- ▶ Local rates, insurance and associated costs relating to offices and houses are treated as a Regional Office overhead. Local rates, insurance and associated costs relating to infrastructure assets are a direct cost on the respective service contract.

Overhead costs are allocated based on the following three rules:

1. infrastructural electricity, depreciation and other non-cash costs and contractors and materials in Development Projects do not receive overheads;
2. all other non-labour costs attract a 5% mark-up to recover procurement related handling costs; and
3. remaining overhead is allocated to labour cost and charged to:
  - a. service contracts;
  - b. internal projects (including R&E);
  - c. indirect cost pools; and
  - d. SunWater's labour costs charged to Development Projects.

Overhead costs are allocated in accordance with the allocation rules based on total direct labour costs to:

- ▶ service contracts; and
- ▶ internal projects (including R&E).

Staff contractors are assigned an equivalent SunWater band for costing purposes and attract overheads in the same way as any other SunWater staff.

Consultants and commercial contractors/sub-contractors are hired for development or other projects as they do not have the expertise considered core to SunWater's needs. Such costs do not attract overheads for costing purposes other than the 5% procurement overhead.

Indirect cost pools can only be allocated to service contracts and are also based on direct labour costs. Indirect cost pools allow a targeted approach to allocate certain costs which are either performed within Brisbane or a Regional Office and are services provided to particular lines of business e.g. dam safety services relate to activities associated with bulk supply only and are accordingly allocated to bulk supply service contracts and not other lines of business.

#### **2.10. Revenue offsets**

Revenue offsets such as storage rental fees, land leases, customer contributions and other fees and charges are captured separately and netted off against costs to effectively reduce the Pricing Revenue Target recovered from customer revenues.

#### **2.11. Irrigation Pricing Outputs**

The BOM can produce historical lower bound cost reports reporting at the following activity level:

- ▶ operations;
- ▶ preventative;
- ▶ corrective;
- ▶ electricity;
- ▶ refurbishment & enhancement;
- ▶ efficiency savings;
- ▶ other costs;
- ▶ service charges;
- ▶ corporate overhead;
- ▶ miscellaneous costs; and
- ▶ revenue offsets.

In terms of NSP reporting, historical cost data captured within the BOM undertakes two further data processing steps prior to the creation of the NSP data. These additional steps prepare the data for insertion into the NSP reporting module via the LBC (Lower Bound Cost) model which initially collects data from the BOM system, selects the appropriate figures, and formats this data for use in the reporting module which produces the tables and graphs presented in SunWater's NSPs.

The NSPs disclose expenditure by the following cost types:

- ▶ operations;
- ▶ electricity;
- ▶ preventative;
- ▶ corrective;
- ▶ revenue offsets;
- ▶ renewal annuity spend; and
- ▶ dam safety upgrade.

The NSP conversion steps are reviewed and further discussed in the *Review of the SunWater Pricing Model – Step 1 Report* concurrently prepared by Indec.

### **3. METHODOLOGY AND OUTCOMES OF THE AUDIT AND REVIEW**

This section of the report outlines the methodology and outcomes of the audit and review of SunWater's BOM in relation to irrigation pricing purposes. The audit and review outcomes are outlined against each key step applied including the information sought from SunWater.

Section 5 provides a summary of the key findings against the major objectives of the audit against the Authority's Terms of Reference and an overall assessment of the appropriateness and robustness of SunWater's BOM for irrigation pricing purposes.

#### **3.1. Background**

The scope boundaries for the review were agreed with the Authority after Indec held discussions with SAHA. The Authority appointed SAHA to undertake a review of SunWater's administrative costs. The scope boundaries in broad terms are as follows:

- ▶ SAHA is establishing the prudence and efficiency of SunWater's allocation of administration costs; and
- ▶ Indec will audit SunWater's cost recording and allocation of costs within the BOM located in SunWater's SAP information system.

The following section outlines the methodology and steps applied by Indec to meet the scope boundaries and the objectives as outlined in the Authority's Terms of Reference dated 21 September 2010.

#### **3.2. Methodology and Key Steps**

Indec's first step involved a request to SunWater on background information to gather further data on the business structure, the functionality and structure of the BOM and the SAP infrastructure details. This data provided useful background information to plan the audit, identify the key areas of focus and to identify the key SunWater staff for interviews.

Given that about one million transactions are recorded per year by SunWater, Indec adopted a sampling approach to undertake the review to reduce the time, effort and costs involved in completing the audit. The efficiency of the audit relies on obtaining the minimum audit evidence sufficient to form the audit opinion whilst minimising the costs as effectively as possible.

It should be noted that applying a sampling approach to the audit prohibits the provision of absolute assurance however achieves a tolerable error rate relating to the assurance levels whilst minimising the costs involved. A sampling approach is a well accepted methodology used by auditors to complete audits involving large volumes of transactions<sup>1</sup>.

Indec analysed the inputs, cost allocations and outputs of SunWater's BOM using a process based on a sample of selected transactions for the following 7 service contracts representing 4 water supply schemes:

- ▶ Mareeba Bulk Supply;
- ▶ Mareeba Distribution;
- ▶ Bundaberg Bulk Supply;
- ▶ Bundaberg Distribution;
- ▶ Nogoia Bulk Supply;
- ▶ Emerald Distribution; and
- ▶ Upper Condamine Bulk Supply.

These service contracts and schemes were selected in consultation with the Authority to ensure a reasonable cross section of schemes were selected in terms of location across the various Regional Centres, size and type of the schemes. Cost inputs reviewed included:

- ▶ labour costs – staff and contractors;
- ▶ non-labour direct costs such as purchase of materials and services;
- ▶ electricity charges; and
- ▶ capital expenditure costs or refurbishment and enhancement expenditure.

Cost allocations reviewed included:

- ▶ direct cost allocations to service contracts;
- ▶ indirect cost allocations to service contracts; and
- ▶ allocations of overhead costs from the Brisbane head office and Regional offices to service contracts.

---

<sup>1</sup> Audit Sampling, Kim Smith 1999, Association of Chartered Certified Accountants (ACCA)

Outputs reviewed included:

- ▶ various BOM reports produced by SAP; and
- ▶ data inputs to the NSP Tables and Graphs model.

Indec sought to examine how the cost information is stored in the system and how cost allocations are processed. The audit of the BOM aims to analyse the integrity of data stored within SAP as well the interface with the relevant pricing models, and its functionality for forecasting and pricing. An objective of the audit is to verify that the cost allocation business rules are being accurately and consistently applied within BOM.

As part of the audit and review, Indec also reviewed the following:

- ▶ conducted checks for system design and security;
- ▶ analysed documented procedures and methodologies;
- ▶ analysed quality controls that are in place to ensure integrity of data; and
- ▶ identified any missing data or unusual figures or trends that might suggest incorrect data, errors in data entry or manipulation.

In addition, Indec addressed some generic issues as part of this process, such as:

- ▶ the level of understanding of the relevant staff relating to methodologies, practices and procedures; and
- ▶ whether internal quality control is being effectively applied.

### **3.3. Data Requested from SunWater**

As part of the initial data request to SunWater, two specific areas of information and data were requested.

The information request related to the specifics of SunWater's structure and business rules in conjunction with details on the SAP application relating to cost collection and cost allocation.

The following information was requested:

- ▶ copy of the SunWater organisational chart;
- ▶ copy of the SunWater data management security policies and procedures;
- ▶ SAP modules installed relating to cost collection and cost allocation;

- ▶ SAP architecture diagram and release/version numbers pertaining to cost collection and cost allocation;
- ▶ SAP application documentation for modules relating to cost collection and cost allocation;
- ▶ records and reporting protocols for “problem tracking” and or “incident reports” for the applications being audited;
- ▶ evidence of a SunWater SAP contingency backup/disaster recovery plan;
- ▶ list of chart of accounts;
- ▶ user profiles and access limits (delegated authorities) relating to cost collection and cost allocation;
- ▶ workflow approvals for configuration changes with regards to cost allocation rules; and
- ▶ cost recording and cost allocation validation controls and checking procedures.

### **3.3.1. SunWater organisational chart**

A detailed SunWater organisational chart was provided by SunWater detailing all functions, titles, names of the incumbents and their reporting lines.

### **3.3.2. SunWater data management security policies and procedures**

SunWater provided a copy of the following security policies and procedures:

- ▶ ICT 01.01.00, Information Security Policy and Framework;
- ▶ ICT 01.02.00, Information Asset Classification and Control Policy;
- ▶ ICT 01.03.00, Personnel and Information Security Policy;
- ▶ ICT 01.04.00, Physical and Environmental Security Policy; and
- ▶ ICT 01.06.00, Access Controls Policy.

### **3.3.3. SAP modules relating to cost collection and cost allocation**

SunWater provided the following list of SAP modules pertaining to cost collection and cost allocation:

- ▶ accounting – financial, controlling and project management;
- ▶ logistics – materials management and plant maintenance; and
- ▶ work management system (Custom) – refurbishment planning and project governance.

### **3.3.4. SAP architecture diagram, version numbers and application documentation**

SunWater provided the following details to outline the SAP architecture and version numbers:

- ▶ Systems architecture documented in MEGA;
- ▶ SunWater is currently running SAP R/3 ECC6;
- ▶ SAP version information:
  - ▶ Component – SAP Frontend for Windows;
  - ▶ Release – Final Release 710;
  - ▶ File Name – sapfront.dll;
  - ▶ File Version – 7100.4.17.3158;
  - ▶ Build – 1147943; and
  - ▶ Patch Level – 17.

SunWater provided SAP application documentation for the modules relating to cost collection and cost allocation.

### **3.3.5. SunWater reporting protocols for incident reports**

SunWater outlined to Indec that the following protocols are in place to manage any incidents or problems associated with the BOM:

- ▶ problems are logged, tracked and reported through a software package called Service Desk Plus tool;
- ▶ early watch reports are generated to advise of any potential issues; and
- ▶ application Manager and Operations Manager monitor and notify ICT (Information and Communication Technology Group) of any application and hardware issues for rectification.

### **3.3.6. SunWater SAP contingency backup/disaster recovery plan**

A fully documented disaster recovery operational guide was provided by SunWater for review, SunWater document number 781199. The plan details:

- ▶ all of the applications by name, including but not limited to SAP;
- ▶ team responsibilities, primary members and secondary members;
- ▶ the order in which a recovery should be undertaken;

- ▶ recovery points; and
- ▶ recovery time objective.

### **3.3.7. Chart of accounts**

A detailed list of the SunWater chart of accounts has been provided for this review. The chart of accounts provides a high level summary of accounts which is not directly appropriate for pricing purposes. Indec's audit focused on the recording of costs at the activity level which was outlined in Section 3.7.

### **3.3.8. User profiles and access limits (delegated authorities)**

SunWater provided a detailed list of user profiles detailing access limits and individual delegated authorities. The list details the following:

- ▶ user name;
- ▶ full name;
- ▶ role;
- ▶ type;
- ▶ assignment;
- ▶ role name; and
- ▶ start and end dates.

A detailed breakdown of the user profiles and access limits relating to the SunWater staff interviewed as part of this audit and review is shown in Appendix D.

### **3.3.9. SunWater workflow approvals for BOM system configuration changes**

SunWater provided a SAP document titled Change and Release Procedures (document number 855735) detailing the change and release strategy overview and the change procedures. This document outlines:

- ▶ the procedure to be followed;
- ▶ the document requirements;
- ▶ the SAP project controls; and
- ▶ templates indicating change controls, test plans and deployment instructions.

### **3.3.10. Cost recording validation controls and checking procedures**

A request was made to SunWater for the cost allocation validation controls and checking procedures with no formal documentation provided by SunWater.

During the audit and review, Indec observed a number of checking and validation processes to indicate that controls and checks are in place to validate the correct recording of transactions. Indec observed the processes relating to the processing of accounts payable and in particular how invoices without purchase orders are managed and the process where Business Accountants and Cost Centre Managers review in detail monthly transaction listings to ensure accuracy in cost allocations against budget.

Indec is of the opinion that these inherent processes and processing rules and procedures provide adequate checks and balances for the recording of transactions and cost allocations.

The control and validation processes have also been confirmed as part of the staff interview process. Confirmation was provided that after annual budgets have been set, any exceptions on a monthly basis are identified and actions taken accordingly to either move the cost to the correct scheme or account or to adjust the budget accordingly, based on delegated authority.

### **3.4. Staff Interviews**

Indec met with SunWater subject matter experts to gain a better understanding of some of the key issues and to test their understanding of the relevant policies and procedures as outlined in section 4.3.

Appendix G details the staff interviewed by Indec.

Interview questionnaires were drafted prior to the interview to ensure all relevant topics were covered and consistent and pertinent questions were asked.

The staff interviews demonstrated to Indec that SunWater staff has a strong awareness and understanding of the relevant policies and procedures relating to cost recording and allocation and the processes for validation of cost and cost allocations are sound.

### **3.5. Sampling Approach**

As outlined earlier, representative water supply schemes were selected after consultation with the Authority as follows:

- ▶ two large schemes (each with two service contracts);
- ▶ one medium scheme (with two service contracts); and
- ▶ one small scheme (with one service contract).

The above sample of water supply schemes was selected to ensure that the sample included large, medium and small schemes and captured a representative cross section of SunWater's water supply schemes.

A water supply scheme was selected from each Regional Office to ensure that the cost recording practices across all Regional Offices are subject to review and audit.

Indec reviewed financial transactions from SunWater's information system based on a sample of randomly selected transactions of the four water supply schemes. The sampling approach adopted was based on the Poisson distribution to achieve a 95% confidence limit or reliability factor. Appendix H includes a table which details the Reliability factors (R-Factors) derived from the Poisson sampling distribution and the relationship with risk percentages and confidence levels.

The sample size was selected based on the following approach:

Sample Size = R-Factor/Precision

Sample Size = 2.0/0.05

Sample Size = 40

**R-factor** as derived from the Poisson sampling distribution (a distribution of 'rare events') and related to risk percentages (see Appendix H). This was set at a target of 3.0 R-factor (95% assurance) with the reliance on internal controls contributing 1.0 R-factor or (65% assurance) to the target of 3 R-factor (95% assurance).

**Precision** is defined as the tolerable deviation or maximum potential error rate was set at 5%.

After consultation with the Authority, the population was defined as the financial data set for each scheme for a selected time frame. The selected timeframe for detailed review focused on the 2008/09 and 2009/10 financial years and each population set was based on quarterly data.

### 3.5.1. Data

The initial data requested from SunWater was a detailed listing of financial transactions from BOM for the 7 service contracts selected for audit. Detailed transaction reports on a Lower Bound Cost (LBC) basis were requested as well as the data set which feeds into the creation of the NSP's charts and tables.

Figure 3.5.1.1 details the data requested and supplied by SunWater:

Service Contract	Service Contract Code	Quarterly Data Requested & LBC Reports			
		2006/07	2007/08	2008/09	2009/10
Mareeba Bulk Supply	MBM	Q1	Q4	Q2	Q3
Mareeba Distribution	MIM	Q2	Q1	Q4	Q3
Bundaberg Bulk Supply	BBB	Q4	Q1	Q3	Q2
Bundaberg Distribution	BIG	Q1	Q3	Q2	Q4
Nogoa Bulk Supply	LBN	Q4	Q2	Q1	Q3
Emerald Distribution	LIW	Q2	Q3	Q4	Q1
Upper Condamine Bulk Supply	IBU	Q3	Q4	Q1	Q2

**Figure 3.5.1.1 Data set requested and supplied by SunWater**

Indec carried out reconciliations and checks to verify that the summarised LBC reports from SAP reconciled with the detailed BOM transactions listing for the above service contracts.

Indec's analysis and reconciliation of the transaction reports identified some minor variances in the totals between the two reports.

The variances identified are detailed below:

- ▶ Upper Condamine Bulk Supply variances ranged from 0.12% to 0.08%;
- ▶ Nogoa Bulk Supply variances ranged from 0.15% to 0.18%; and
- ▶ Bundaberg Bulk Supply variance of 0.45%.

Indec believes that the variances identified are not significant in nature and would not materially impact on the historical data presented in pricing path models and NSP reporting.

The reconciliation control sheets can be found in Appendix I.

### **3.6. Random Sample Transaction Interrogation**

Indec carried out an audit on a sample set of transactions to verify that these transactions have been appropriately processed within the BOM. This random sample transaction audit consisted of two parts:

- ▶ The first part saw the selection of 20 random transactions from a range of periods for each service contract associated with the four schemes subject to audit. The recording of these transactions in BOM was observed and then reviewed against the source document to check consistency between BOM and source documents. The transactions were also checked to ensure that appropriate approval was in place.
- ▶ The second part analysed the application of the overheads on the expenses to ensure that the correct rates were being applied to the correct transactions.

### 3.6.1. Transaction Review

The following checks were completed for the randomly selected transaction in each service contract:

- ▶ source documents were reviewed to ensure agreement between the accounting entry and the underlying nature of the transaction: BOM was analysed to ensure the amount and nature of the transaction were accurately recorded: and
- ▶ any evidence of authorisation, manual or electronic, was noted.

Accrual and prepaid journals are raised electronically for accrual accounting purposes and are automatically reversed the following month. Indec therefore did not require to sight the supporting evidence for raising the journal as the transaction was not related to an actual financial event.

Various interfaces with other systems generate certain transactions such as diesel consumption, plant usage, telephone and fax usage, with no source document relating to the transaction. In these cases Indec did not pursue these transactions further due to the complexity involved in tracing these transactions in other systems and/or modules of SAP and the time and resources being unavailable within the scope of the audit to complete such a task.

Indec noted several issues from an audit trail perspective:

- ▶ Bundaberg Bulk Supply – 1 invoice could not be presented and 3 transactions involved charges for lesser amounts than the invoice sighted with no breakdown on the invoice for the charge involved.
- ▶ Bundaberg Distribution – 3 transactions involved charges for which the source documents did not show the value specific to that transaction with the transaction value below the value of the source document.
- ▶ Upper Condamine Bulk Supply – a transaction involved a handwritten adjustment to a purchase order reducing the amount of the transaction on the purchase order.
- ▶ Nogoia Bulk Water – 4 invoices could not be presented and a further transactions involved charges for a lesser amount than the invoice sighted with no breakdown on the invoice for the charge involved.
- ▶ Emerald Distribution – 3 invoices could not be presented.
- ▶ Mareeba Distribution - 6 source documents were unable to be found, representing around 50 per cent of the value of the transactions selected by Indec to be audited.

The details for the random sample transaction review are shown in Appendix J below.

SunWater was unable to produce all the requested source documents associated with the random sample transaction audit with 14 out of the 160 transactions or 8.75% of source documents not produced to Indec. These transactions totalled \$95,770 with an average transaction value of \$6,841. For the 14 transactions involved, Indec was unable to complete the audit checks to ensure agreement between the accounting entry and the underlying nature of the transaction.

The review also identified that for some transactions, certain line items were not itemised on the source document e.g. freight charges or the transaction was broken down into a number of line items. In such cases the supplier has not provided a detailed invoice which corresponds with the line items entered into SAP. This is not a significant issue as SunWater's suppliers may not be able to produce invoices with line item details which correspond to SunWater's costing system.

### **3.6.2. Overhead Allocation**

Indec reviewed Brisbane overhead, Regional Office overhead, 5% procurement overhead and indirect cost allocations during the 2008/09 and 2009/10 financial years, which are detailed in Sections 4.6.3 to 4.6.5 below.

Indec observed that the overhead allocation rates in 2008/09 did not change during the course of the year whereas the 2009/10 overhead allocation rates were adjusted on three occasions during the course of the year. During 2009/10, two of the changes to the overhead allocation rates occurred due to adjustments to avoid under or over recovery of overheads and the other adjustment arose due to the introduction of the Smarter Lighter Faster Initiatives (SLFI).

### **3.6.3. Brisbane and Regional Centre Overheads**

Indec approached this audit by reviewing the allocations made to the Brisbane and Regional Centre overheads based on labour costs, excluding contractors. The rates which implied by these calculations were then compared to published rates. The results of this analysis are shown in Figure 3.6.3.1 below.

Scheme	Year	Quarter	Brisbane Overhead	Deviation From Target	Regional Centre Overhead	Deviation From Target
BBB	2007-08	Q1	30.65%	0.00%	81.42%	0.00%
BIG	2007-08	Q3	30.49%	-0.16%	80.99%	-0.43%
IBU	2007-08	Q4	30.65%	0.00%	81.42%	0.00%
LBN	2007-08	Q2	30.65%	0.00%	81.42%	0.00%
LIW	2007-08	Q3	30.38%	-0.27%	80.71%	-0.71%
MBM	2007-08	Q4	31.05%	0.40%	82.50%	1.08%
MIM	2007-08	Q1	30.65%	0.00%	81.42%	0.00%
BBB	2008-09	Q3	37.00%	0.00%	71.00%	0.00%
BIG	2008-09	Q2	37.00%	0.00%	71.00%	0.00%
IBU	2008-09	Q1	37.00%	0.00%	71.00%	0.00%
LBN	2008-09	Q1	37.00%	0.00%	71.00%	0.00%
LIW	2008-09	Q4	37.00%	0.00%	71.00%	0.00%
MBM	2008-09	Q2	37.00%	0.00%	71.00%	0.00%
MIM	2008-09	Q3	37.00%	0.00%	71.00%	0.00%
BBB	2009-10	Q2	34.25%	1.25%	74.26%	1.59%
BIG	2009-10	Q4	33.70%	0.70%	69.80%	0.00%
IBU	2009-10	Q2	33.61%	0.61%	73.12%	0.45%
LBN	2009-10	Q3	33.87%	0.87%	69.88%	-0.06%
LIW	2009-10	Q1	33.00%	0.00%	78.00%	0.00%
MBM	2009-10	Q3	33.88%	0.88%	69.92%	-0.01%
MIM	2009-10	Q3	33.77%	0.77%	69.70%	-0.23%

**Figure 3.6.3.1 Brisbane and Regional Office Overhead Cost Allocation Analysis**

Some key points arising from this analysis are:

- ▶ The analysis identified minor deviations ranging from -0.71% to 1.59% from the overhead rates advised by SunWater with the larger deviations arising in 2009/10. As outlined earlier, during 2009/10, there were three sets of overhead rates due to a number of revisions. This means that a quarter may include two different allocation rates, meaning the timing of transactions within the quarter impacts on the observed overhead rate. This impact arose in Quarters 2 and 3 during the 2009/10 financial year. The rates in the table above were calculated assuming that transactions occurred evenly throughout a quarter.
- ▶ Other deviations may be attributable to rounding errors and/or reversals, accruals and other accounting adjustment entries which Indec's analysis may not have fully accounted for.

#### **3.6.4. 5% Procurement Overhead**

SunWater provided Indec with an explanation of the expense accounts which attract the 5% procurement overhead allocation. The expense accounts which attract this overhead charge are shown in Appendix K.

Indec has reviewed the application of these rules at a transaction level. In order to audit this 5% procurement overhead, Indec reviewed, for the 7 service contracts subject to this audit, expenses

incurred in the relevant period and the overhead assigned. For each of the expenses listed, any associated allocation to overhead was identified.

Indec has analysed the transactions selected as part of the random sample transaction audit and assessed the application of the 5% procurement overhead and has found that the business rules associated with this overhead allocation have been correctly applied.

### **3.6.5. Indirect Cost Allocation**

A change in methodology occurred for the allocation of indirect cost pools for the 2009/10 financial which differed to the methodology applied in 2008/09. This required Indec to review each year in isolation and apply a unique review methodology to each year. Furthermore, the introduction of SLFI in 2009/10 resulted in changes to the number of indirect cost allocation pools with a number of indirect cost pools discontinued and new indirect cost pools created.

#### **2008/09 Financial Year**

The 2008/09 approach involved an automated monthly assessment cycle whereby the actual monthly costs associated with each indirect cost pool was allocated to the intended cost centres. Indec requested the assessment cycle business rules and the detailed transaction data for three randomly selected indirect cost pools to undertake a detailed check that the allocation of indirect cost pools for the samples selected occurred accurately. The three randomly selected indirect cost pools for 2008/09 are:

- ▶ Customer Service and Systems;
- ▶ Hydrographic Services; and
- ▶ Industry Regulation.

Indec has analysed the 2008/09 indirect cost assessment cycles for the indirect cost pools outlined above and is of the view that the business rules associated with this overhead allocation have been accurately applied.

#### **2009/10 Financial Year**

The methodology to allocate indirect cost pools in 2009/10 involved the setting of an allocation rate which aligns with the methodology of setting Brisbane and Regional Centre overhead rates. Indec's report titled *Review of SunWater Pricing Model Step 1*, prepared concurrently with this report, provides further details on the business rules associated with indirect cost pools.

Indec understands that indirect costs were allocated on the basis of labour charges to the nominated lines of business associated with each indirect cost pool. These business rules involved

indirect cost pools being created to target the allocation of these costs to certain areas of SunWater business.

Indec observed the resulting allocation rates applied by the various indirect cost pools in the 7 service contracts subject to review under this audit. These observed rates calculated by Indec were then compared with the allocation rules and rates provided by SunWater.

As outlined earlier, during 2009/10 three adjustments to the overhead allocation rates occurred impacting on the allocation rates in Quarters 2 and 3, with both quarters applying two different rates at different stages during the quarter.

Due to Quarters 2 and 3 including two different allocation rates, the timing of transactions within the quarter impacts on the observed overhead rate. Indec calculated weighted average allocation rates for Quarters 2 and 3 to enable a comparison to be made between the actual allocation rates observed when looking at transactions over a quarter to the weighted average allocation rates calculated by Indec. The SunWater allocation rates and the weighted average allocation rates as calculated by Indec for analysis purposes are shown in Figure 3.6.5.1.

Indirect Cost Pool	SunWater Allocation Rates			Weighted Average Adjusted			
	Original 2010 budget	November to Feb 2010	March to June 10	Q1	Q2	Q3	Q4
Local Indirect - Asset Management	15.8%	11.0%	n/a	15.8%	12.5%	7.3%	n/a
Local Indirect - Customer Service	12.2%	8.0%	n/a	12.2%	9.3%	5.3%	n/a
Brisbane Indirect - Envir and Ops	8.5%	6.0%	n/a	8.5%	6.8%	4.0%	n/a
Brisbane Indirect - CS and Systems	13.5%	15.0%	15.3%	13.5%	14.3%	14.9%	15.3%
Brisbane Indirect - Property Management	5.8%	4.0%	0.0%	5.8%	4.6%	2.6%	0.0%
Brisbane Indirect - Hydrographic Service	5.6%	7.0%	7.2%	5.6%	6.5%	7.0%	7.2%
Brisbane Indirect - GM WS	5.4%	5.0%	2.3%	5.4%	5.1%	4.1%	2.3%
Brisbane Indirect - Industry Regulation	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Brisbane Indirect - Industry Pricing	0.0%	2.0%	5.2%	0.0%	1.3%	3.0%	5.2%
Brisbane Indirect - Strategic Water Mgmt	15.3%	15.0%	11.5%	15.3%	15.0%	13.7%	11.5%
Brisbane Indirect - Asset Management	14.1%	18.0%	18.2%	14.1%	16.5%	17.9%	18.2%
Brisbane Indirect - Dam Safety	8.0%	7.0%	7.3%	8.0%	7.3%	7.0%	7.3%
Manager Service Delivery	n/a	n/a	2.3%	n/a	n/a	0.8%	2.3%
Water and waste water	n/a	n/a	0.1%	n/a	n/a	0.0%	0.1%
Headworks	n/a	n/a	1.2%	n/a	n/a	0.4%	1.2%
Water Accounting	n/a	n/a	1.5%	n/a	n/a	0.5%	0.0%
Irrigation & Drainage	n/a	n/a	1.2%	n/a	n/a	0.4%	1.2%
Pump Stations & Pipelines	n/a	n/a	1.2%	n/a	n/a	0.4%	1.2%

**Figure 3.6.5.1 Indirect Cost Allocation Rates Analysis**

Figure 3.6.5.2 details the results of Indec's analysis which shows the actual allocation rates observed when looking at transactions over a quarter to the Indec calculated weighted average allocation rates which are based on the allocation rates set by SunWater. Figure 3.6.5.2 assumes that transactions occurred evenly throughout a quarter.

Indirect Cost Pool	BBB 2009-10 Q2		BIG 2009-10 Q4		IBU 2009-10 Q2		LBN 2009-10 Q3		LIW 2009-10 Q1		MBM 2009-10 Q3		MMM 2009-10 Q3	
	Actual	Adj Target	Actual	Target	Actual	Adj Target	Actual	Adj Target	Actual	Target	Actual	Adj Target	Actual	Adj Target
	Asset Management	16.9%	16.5%	18.2%	18.2%	16.5%	16.5%	18.1%	17.9%	14.1%	14.1%	18.1%	17.9%	18.0%
Bris Indirect -GM WWS	5.2%	5.1%	2.3%	2.3%	5.2%	5.1%	4.0%	4.1%	5.4%	5.4%	3.9%	4.1%	3.8%	4.1%
Bris Indir-Prop Mgmt	4.8%	4.6%	n/a	n/a	4.7%	4.6%	2.5%	2.6%	5.8%	5.8%	2.4%	2.6%	2.2%	2.6%
Customer Support	14.7%	14.3%	15.2%	15.3%	14.4%	14.3%	15.1%	14.9%	13.4%	13.5%	15.1%	14.9%	15.0%	14.9%
Dam Safety	7.5%	7.3%	n/a	n/a	7.4%	7.3%	7.1%	7.0%	n/a	n/a	7.1%	7.0%	n/a	n/a
Environment Operations	7.0%	6.8%	n/a	n/a	7.0%	6.8%	3.8%	4.0%	8.4%	8.5%	3.6%	4.0%	3.4%	4.0%
Head Works	n/a	n/a	n/a	n/a	n/a	n/a	0.4%	0.4%	n/a	n/a	0.5%	0.4%	n/a	n/a
Hydrography	6.6%	6.5%	n/a	n/a	6.5%	6.5%	7.1%	7.0%	n/a	n/a	7.1%	7.0%	n/a	n/a
Industry Regulation	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Irrigation & Drainage	n/a	n/a	1.2%	1.2%	n/a	n/a	0.4%	0.4%	n/a	n/a	0.5%	0.4%	0.5%	0.4%
Irrigation Pricing	1.3%	1.3%	5.2%	5.2%	1.2%	1.3%	3.2%	3.0%	n/a	n/a	3.3%	3.0%	2.2%	3.0%
Management	n/a	n/a	2.3%	2.3%	n/a	n/a	0.9%	0.8%	n/a	n/a	0.9%	0.8%	1.0%	0.8%
Pump Stations & Pipelines	n/a	n/a	1.2%	1.2%	n/a	n/a	0.4%	0.4%	n/a	n/a	0.5%	0.4%	0.5%	0.4%
Strategic Water Management	15.4%	15.0%	n/a	n/a	15.1%	15.0%	13.7%	13.7%	n/a	n/a	13.6%	13.7%	n/a	n/a
Water & Waste Water	n/a	n/a	n/a	n/a	n/a	n/a	0.2%	0.0%	n/a	n/a	0.2%	0.0%	n/a	n/a
Water Accounting	n/a	n/a	n/a	n/a	n/a	n/a	0.6%	0.5%	n/a	n/a	0.6%	0.5%	n/a	n/a

**Figure 3.6.5.2 Indirect Cost Allocation Comparison Analysis**

While the analysis in Figures 4.3 and 4.4 notes several deviations between the actual observed indirect cost allocation rate and the target rates, Indec is satisfied that these deviations are immaterial and most likely arise from either:

- ▶ timing differences associated with the adjustment in allocation rates during the year; and
- ▶ treatment of reversal, accrual and accounting adjustment transactions which Indec's analysis may not have fully accounted for.

### Transparency of Administration Cost Allocation

The BOM treats administration costs as either direct costs, indirect costs or overheads. Adequate transparency is visible within the BOM for direct and indirect costs only in terms of the type of administrative cost activity, the costs allocated and to which service contracts. Administrative cost treated as overhead costs does not benefit from this level of visibility as the overhead costs are pooled and allocated to the respective service contracts based on a single line allocation, rather than on a line by line basis for each overhead or administrative activity type.

### 3.7. Annuity balances

Indec has reviewed several areas of the annuity opening balance calculation. SunWater provided Indec with a spreadsheet containing the calculations for the annuity balance from the 2005/06 financial year onwards. SunWater also made available to Indec an internal working paper titled *Renewals annuity calculation* dated January 2011 which assisted in the review of annuity balance

calculations. Indec proceeded to review the SunWater spreadsheet and checked this against the methodology documented in the working paper.

Certain adjustments were made to 8 schemes with distribution networks to unbundle the opening annuity balances between bulk supply and distribution components. The SunWater working paper explains this process and the reasoning for the approach taken. Essentially where the balance is required to be split between the bulk water and the distribution system, the split is achieved on the basis of the NPV of renewals expenditure between 2006 and 2035.

In the spreadsheet provided by SunWater, Indec has reconciled that the opening annuity figures used in the model on a whole of scheme basis agree with those published in the SunWater 2005/06 Annual Report. These balances in the SunWater spreadsheet are based on a service contract basis and for the 8 schemes with unbundled opening balances, the sum of the bulk supply and distribution components agree with the whole of scheme balances.

Indec also examined the adjustment made to the balance of the various schemes which have seen changes to their structure over the period. These schemes were:

- ▶ Mary River - where a portion of the scheme was transferred to Seqwater. Indec has observed the consequent adjustments made to the annuity balance. SunWater provided further analysis to support the adjustments made to the Mary River WSS to detail the basis for adjusting the annuity balance once part of the scheme was transferred during and the methodology to roll the balance forward for the remainder of the period. Indec has identified no issues with SunWater's calculations to effect the adjustment.
- ▶ Dawson Valley and Mareeba Dimbulah schemes - SunWater has adjusted the opening balances due to 'outlier results' with a transfer of the annuity balance from the bulk water scheme to the distribution scheme of \$800,000 and \$100,000 respectively. SunWater's rationale for making these adjustments is explained in its working paper.

Indec reviewed the calculation of the inflows to the annuity balance, the outflows of the annuity balance and the calculation of interest on account balances and compared the methodology applied to that documented in the SunWater working paper.

Indec requested to view the source data and conducted high level checks to verify the source data. The checks performed by Indec identified no issues with the source data captured and the calculations performed. Indec did not perform any detailed transaction analysis to check or verify transactions, rather Indec checked that the correct sum totals as reported in the BOM are being captured by the annuity balance spreadsheet.

Indec did observe that the methodology applied in the SunWater spreadsheet does not account for termination fees as described in the SunWater working paper. The SunWater spreadsheet does include termination fees or exit fee data however the roll forward calculation of revenues does not

include a portion of these revenues as documented in the SunWater working paper. Indec's review of the SPM indicates that all termination fees collected by SunWater are treated as revenue offset against operating costs and reported this way in the NSPs.

Indec did not identify any differences between the methodology applied in the spreadsheet to that documented in the SunWater working paper relating to the calculation of outflows from the annuity and the interest on balances.

The final step outlined in the internal working paper which converts the irrigation only annuity balances to whole of scheme annuity balances is performed in the SFM and the review of this step has been documented in Indec's report titled *Review of SunWater Pricing Model – Step 1 Report*.

### **3.8. Internal controls, transaction validation and backup and disaster recovery**

The SAP system has a strong emphasis on checks and balances to ensure appropriate segregation of duties, appropriate authorisation of transactions and varying layers of access rights to enhance overall security and integrity of the financial data. During the audit, Indec observed a series of checks and balances within SunWater's operations to demonstrate that a culture of internal controls is in place.

The checks and balances focus on the material items to identify larger discrepancies or errors. Profit centre managers are required to monitor monthly budget performance which places a check and balance on the monthly booking of transactions against budget to identify erroneous transactions. A key role of the Business Accountants located in Brisbane is to undertake a monthly validation process which focuses at the higher level performance against budget, which can screen out materially erroneously coded transactions.

It is possible that not all erroneously coded transaction are detected and corrected, especially smaller value transactions. The audit identified reversal transactions to correct erroneously coded transactions which demonstrate that the validation process can be effective in identifying certain erroneously coded transactions.

SunWater staff demonstrated a good level of familiarity and understanding of the corporate Information Security Policy and Framework, demonstrating that staff follow the overarching framework which manages confidentiality, integrity and availability of corporate information.

Indec is satisfied that an appropriate process is in place to manage BOM availability and any periods of system down time is adequately tracked to quickly recover any loss in system processing time.

The audit also identified an adequate level of backup and disaster recovery planning and processes. The SAP Financials and WMS system is backed up overnight and both systems have a

recovery time objective of 3 days. SunWater advised that disaster recovery testing has identified that those targets can be bettered.

### **3.9. Cost data disaggregation**

The audit scope included providing an opinion on the extent of cost data disaggregation and whether it is broadly consistent with the recommendations of the Queensland Competition Authority (2010), *SEQ Interim Price Monitoring Information Requirements for 2010/11 Final Report, April 2010*.

In providing this opinion, Indec has considered the fact that SunWater is a rural bulk water provider whereas the SEQ Interim Price Monitoring Information Requirements apply to urban retail and distribution businesses. Indec has considered the requirements of the Authority's Terms of Reference and the Ministerial Direction which relates to lower bound pricing and consequently Indec has focused on revenue, asset base information and operating cost data only and has not considered data relating to asset values. As the ToR makes reference to costing data only, information requirements relating to customer service standards have not been considered.

SunWater's BOM is structured as follows:

- ▶ services - bulk supply and distribution;
- ▶ geographic area is defined by the service contract which represents unique geographic areas or discrete networks; and
- ▶ customer groups are defined as irrigation, urban and industrial.

#### **3.9.1. Revenues**

In terms of revenue data, the SEQ Interim Price Monitoring Information Requirements require revenue to be disaggregated by:

- ▶ geographic area;
- ▶ service;
- ▶ customer group; and
- ▶ tariff.

Indec has identified that SunWater has the capability to report the following under each of the respective revenue categories:

- ▶ geographic area - revenues by service contract which represents unique geographic areas or discrete networks.

- ▶ service - revenues can be reported based on the following service groupings:
  - ▶ irrigation - allocation water delivery;
  - ▶ irrigation - channel harvesting;
  - ▶ irrigation - drainage divergence charges;
  - ▶ irrigation - other water delivery;
  - ▶ urban – township services;
  - ▶ urban – urban water delivery;
  - ▶ allocation – allocation authority leases;
  - ▶ facilities management – customer contributions;
  - ▶ drainage services – drainage levies;
  - ▶ other operating revenue - other fees and charges;
  - ▶ other operating revenues – processed insurance settlement;
  - ▶ industrial –water transportation; and
  - ▶ industrial – water charges.
- ▶ customer group – revenues can be reported based on the 3 major customer groups – irrigation, urban and industrial.
- ▶ tariff – revenues can be reported based on the following tariff groups:
  - ▶ allocation charge (Part A);
  - ▶ allocation water (Part B);
  - ▶ channel harvesting;
  - ▶ drainage diversion – pump;
  - ▶ drainage rate – irrigable;
  - ▶ reservation charge;
  - ▶ term allocation charge;
  - ▶ township water;
  - ▶ transportation consumption charge;
  - ▶ transportation fixed charge;
  - ▶ transportation operations and maintenance; and
  - ▶ water use (other authority).

In relation to revenue data, Indec is of the view that SunWater meets the broad requirements of the 2010/11 SEQ Interim Price Monitoring Information Requirements. Indec observed that SunWater has the capacity to report revenues for each individual tariff group from its SunWater Water Information Management System (SWIMS) rather than BOM.

### **3.9.2. Asset base information – asset class, capital expenditure and contributed assets**

In terms of asset base data, the 2010/11 SEQ Interim Price Monitoring Information Requirements require asset base information to be disclosed by service category and geographic area. The following list of 14 asset classes applies under the 2010/11 SEQ Interim Price Monitoring Information Requirements for disclosure:

- ▶ reservoirs;
- ▶ pump stations;
- ▶ treatment;
- ▶ associated telemetry and control systems;
- ▶ meters;
- ▶ billing systems;
- ▶ corporate systems;
- ▶ sundry property, plant & equipment;
- ▶ land;
- ▶ building other than infrastructure housing;
- ▶ distribution infrastructure not elsewhere included;
- ▶ support services; and
- ▶ up to 2 other categories nominated by the regulated entity.

SunWater's asset classes are listed below and number 23 groups in total:

- ▶ boats and boating equipment;
- ▶ buildings;
- ▶ channels;
- ▶ computer equipment;
- ▶ computer software;
- ▶ dams;
- ▶ demountable buildings;

- ▶ drainage;
- ▶ hydro electricity stations;
- ▶ land improvements;
- ▶ land owned;
- ▶ machinery and equipment;
- ▶ monitoring facilities;
- ▶ office furniture and equipment;
- ▶ other plant and equipment;
- ▶ other water distribution assets;
- ▶ other water storage assets;
- ▶ pipelines;
- ▶ pump stations;
- ▶ scientific equipment;
- ▶ vehicles and heavy plant;
- ▶ weirs and barrages; and
- ▶ assets under construction.

SunWater's asset class list is more comprehensive than the asset class list which applies under the 2010/11 SEQ Interim Price Monitoring Information Requirements. Meters and Billing systems are two asset classes which SunWater does not disclose separately compared with the 2010/11 SEQ Interim Price Monitoring Information Requirements, which may not be either significant or relevant to disclose separately for a rural bulk water supplier currently not subject to third party access arrangements.

SunWater has demonstrated to Indec that it has the capability to report asset base information by geographic area for the asset classes listed above.

The SEQ Interim Price Monitoring Information Requirements require capital expenditure for each class, by service category and geographic area to be separately identified for:

- ▶ growth;
- ▶ renewals;
- ▶ improvements; and
- ▶ compliance.

Indec was advised by SunWater that it has recently developed the capability to report capital expenditure information by geographic area for the expenditure groupings listed above and may not be able to produce historical information on such a basis.

The SEQ Interim Price Monitoring Information Requirements require capital contributions to be reported for each service category and geographic area and broken down into the following categories:

- ▶ contributed, donated and gifted assets;
- ▶ capital contributions (cash and infrastructure charges); and
- ▶ planning scheme policy charges.

The first and second category would apply to the business of SunWater which involves either a customer gifting or donating an asset to SunWater or an upfront capital or cash contribution by a customer to assist in the funding of a new asset or the refurbishment or improvement of an existing asset. The third category would not apply to SunWater and therefore is not relevant.

SunWater advised Indec that it has the capability to report capital contributions by geographic area for the first two groupings listed above.

### **3.9.3. Operating costs**

In terms of operating cost data, the 2010/11 SEQ Interim Price Monitoring Information Requirements seek operating costs to be disclosed by service category and geographic area. The following list of cost categories are required to be disclosed under the 2010/11 SEQ Interim Price Monitoring Information Requirements:

- ▶ bulk water costs;
- ▶ retail operating costs:
  - ▶ customer service and billing;
  - ▶ regulated demand management costs;
  - ▶ community service obligation costs; and
  - ▶ other costs.
- ▶ distribution operating costs:
  - ▶ employee expenses;
  - ▶ contractor expenses;
  - ▶ GSL payments;

- ▶ materials and services (not relating to capex);
  - ▶ licence and regulatory fees; and
  - ▶ natural resources management costs.
- ▶ corporate costs;
  - ▶ establishment costs; and
  - ▶ indirect taxes.

SunWater can disclose costs at a geographic level and based on service groupings (bulk supply and distribution) for the following expenditure activities:

- ▶ operations;
- ▶ electricity;
- ▶ preventative maintenance;
- ▶ corrective maintenance;
- ▶ revenue offsets; and
- ▶ renewal annuity spend (capital cost).

SunWater has the capability to disclose costs by the following type at a geographic level and based on service groupings (bulk supply and distribution):

- ▶ labour;
- ▶ electricity;
- ▶ materials;
- ▶ contractors;
- ▶ other;
- ▶ indirects & overheads; and
- ▶ revenue offsets.

Based on Indec's observations during the audit, SunWater's BOM may have the ability to drill down and extract certain cost data such as customer service & billing, licence and regulatory fees and natural resources management costs.

SunWater's ability and the effort involved was not fully tested with SunWater and may involve either limitations in the data extracted or significant effort to mine the BOM to extract this information.

#### **3.9.4. Conclusion**

Overall, the data disclosure of SunWater's BOM meets the majority of the requirements of the SEQ Interim Price Monitoring Information Requirements with some exceptions which have been noted above and the availability of historical information may be limited under certain data categories. Some concessions may need to be made given that SunWater is a rural bulk water supplier and the 2010/11 SEQ Interim Price Monitoring Information Requirements have been designed for urban retail and distribution businesses.

In conclusion, it is Indec's view that a reasonable level of consistency has been found between SunWater's BOM and the recommendations of the 2010/11 SEQ Interim Price Monitoring Information Requirements. An issue may emerge regarding the definition of each category and what items are included and excluded and if this is consistent between SunWater's BOM and the Authority's information requirements.

A component of the audit involves assessing the degree of detail within the BOM and its sufficiency to enable an independent party to review the past basis of costs for the services provided by SunWater and relevant to the current review.

As outlined earlier, the BOM system captures detailed data based on the WBS framework, which records costs against an activity list of 197 items and for each service contract, which distinguishes between bulk supply and distribution services (see Appendix F). The BOM system does not separately identify costs for services provided by SunWater beyond bulk supply and distribution. By way of example, costs associated with drainage services are not separately identified, and in those schemes with such services, costs are captured within the distribution service contract.

Indec is of the opinion that the degree of detail within BOM is sufficient to enable an independent party to review the past basis of costs for the services provided by SunWater, particularly for a business which is for the first time subject to an independent formal price setting process by an economic regulator.

## 4. KEY FINDINGS AND CONCLUSION

This section of the report provides a summary of the key findings against the major objectives of the audit and an overall assessment of the appropriateness and robustness of SunWater's BOM as established in SAP for pricing purposes.

### 4.1. Recording of Cost Information

Indec did not identify any significant issues associated with SunWater's recording of cost information based on the sampling approach adopted by Indec to undertake this review. It should be noted that applying a sampling approach to the audit prohibits the provision of absolute assurance however achieves a tolerable error rate relating to the assurance levels whilst minimising the costs involved.

Indec's audit and review did identify some immaterial matters with small discrepancies found between SAP LBC reports when reconciled against detailed transactions listings (see Section 3.5.1). Indec believes that the variances identified are not significant in nature and would not materially impact on the historical data presented in pricing path models and NSP reporting.

Indec's review identified several issues from an audit trail perspective with SunWater unable to produce source documents relating to some of the randomly selected transactions for detailed review (see Section 3.6.1). SunWater was unable to produce all the requested source documents associated with the random sample transaction audit with 12 out of the 160 transactions or 7.5% of source documents not provided to Indec. These transactions totalled \$25,908 in total with an average transaction value of \$2,159. For the 12 transactions involved, Indec was unable to complete the audit checks to ensure consistency between the accounting entry and the underlying nature of the transaction.

### 4.2. Allocation of Costs

Indec's audit and review did not identify any unintended or erroneous allocation of costs to cost centres or schemes. The SAP system has a strong emphasis on checks and balances to ensure appropriate segregation of duties, appropriate authorisation of transactions and varying layers of access rights to enhance overall security and integrity of the financial data. During the audit, Indec observed a series of checks and balances within SunWater's operations to demonstrate that a culture of internal controls is in place.

The checks and balances focus on the material items to identify larger discrepancies or errors. Profit centre managers are required to monitor monthly budget performance which places a check and balance on the monthly posting of transactions against budget to identify erroneous transactions. A key role of the Business Accountants is to undertake a monthly validation process which focuses at the higher level performance against budget, which can screen out materially erroneously coded transactions.

It is possible that not all erroneously coded transaction are detected and corrected, especially smaller value transactions. The audit identified several reversal transactions to correct erroneously coded transactions which demonstrate that the validation process can be effective in identifying certain erroneously coded transactions.

#### **4.2.1. Overhead and Indirect Costs**

Indec reviewed Brisbane and Regional Office overhead, 5% procurement overhead and indirect cost allocations, which are detailed in Sections 3.6.3 to 3.6.5.

The analysis of Brisbane and Regional Office overhead cost allocation identified minor deviations ranging from -0.71% to 1.59% from the overhead rates advised by SunWater with the larger deviations arising in 2009/10. During 2009/10, there were three sets of overhead rates due to a number of overhead allocation rate revisions. The impact of the numerous revision results in one quarter potentially including two different allocation rates, with the timing of transactions within the quarter impacting on the observed overhead rate. Other deviations may be attributable to rounding errors, reversals, accruals and other accounting adjustment entries.

Indec has analysed the transactions selected as part of the random sample transaction audit and assessed the application of the 5% procurement overhead and has found that the business rules associated with this overhead allocation have been correctly applied.

A change in methodology occurred for the allocation of indirect cost pools for the 2009/10 financial which differed to the methodology applied in 2008/09. This required Indec to review each year in isolation and apply a unique review methodology to each year. Furthermore, the introduction of SLFI in 2009/10 resulted in changes to the number of indirect cost allocation pools with a number of indirect cost pools discontinued and new indirect cost pools created.

The 2008/09 approach involved an automated monthly assessment cycle whereby the actual monthly costs associated with each indirect cost pool was allocated to the intended cost centres. At the time of finalising the draft report Indec received the data requested and identified some issues for further follow up with SunWater. These outstanding issues will be resolved and the outcomes captured in the Final Report.

The methodology to allocate indirect cost pools in 2009/10 involved the setting of an allocation rate which aligns with the methodology of setting Brisbane and Regional Centre overhead rates. Indec's report titled *Review of SunWater Pricing Model Step 1*, prepared concurrently with this report, provides further details on the business rules associated with indirect cost pools.

While the analysis in Section 3.6.5 notes several deviations between the actual observed indirect cost allocation rate and the target rates, Indec is satisfied that these deviations are immaterial and most likely arise from either:

- ▶ timing differences associated with the adjustment in allocation rates during the year; and
- ▶ treatment of reversal, accrual and accounting adjustment transactions which Indec's analysis may not have fully accounted for.

#### **4.2.2. Transparency of Administration Cost Allocation**

The BOM treats administration costs as either direct costs, indirect costs or overheads. Adequate transparency is visible within the BOM for direct and indirect costs only in terms of the type of administrative cost activity, the costs allocated and to which service contracts. Administrative cost treated as overhead costs does not benefit from this level of visibility as the overhead costs are pooled and allocated to the respective service contracts based on a single line allocation, rather than on a line by line basis for each overhead or administrative activity type.

#### **4.3. Annuity balances**

Indec has reviewed several key areas of the annuity opening balance calculation. Indec reviewed the calculation of the opening balance, inflows to the annuity balance, the outflows of the annuity balance and the calculation of interest on account balances and compared the methodology applied to that documented in the SunWater working paper titled *Renewals annuity calculation*.

Indec viewed the source data and conducted high level checks to verify the source data. The checks performed by Indec identified no issues with the source data captured and the calculations performed. Indec did not undertake any detailed transaction analysis to verify transactions, rather Indec checked that the correct sum totals as reported in the BOM are being captured by the annuity balance spreadsheet.

In its audit and review of annuity balances, Indec did observe that the methodology applied in the SunWater spreadsheet does not account for termination fees as described in the SunWater working paper. The annuity balance spreadsheet provided by SunWater to Indec does include termination fees data however the roll forward calculation of revenues does not include a portion of these revenues as documented in the SunWater working paper. Indec's review of the SPM indicates that all termination fees collected by SunWater are treated as a revenue offset against operating costs as reported in the NSPs.

Indec did not identify any differences between the methodology applied in the spreadsheet to that documented in the SunWater working paper relating to the calculation of outflows from the annuity and the interest on balances.

#### **4.4. Cost data disaggregation**

The data disclosure of SunWater's BOM meets the majority of the requirements of the SEQ Interim Price Monitoring Information Requirements 2010/11 with some exceptions which have been noted in Section 3.10 above. Some concessions may need to be made given that SunWater is a rural bulk water supplier and the SEQ Interim Price Monitoring Information Requirements have been designed for urban retail and distribution businesses.

An issue may emerge regarding the definition of each category and what items are included and excluded and if this is consistent between SunWater's BOM and the Authority's information requirements.

Indec is of the opinion that the degree of detail within BOM is sufficient to enable an independent party to review the past basis of costs for the services provided by SunWater, particularly for a business which is for the first time subject to an independent formal price setting process by an economic regulator.

The BOM system captures detailed data based on the WBS framework, which records costs against an activity list of 197 items and for each service contract, which distinguishes between bulk supply and distribution services (see Appendix F). Further disaggregated data is available at the work order level. The BOM system does not separately identify costs for irrigation customer services provided by SunWater beyond bulk supply and distribution. By way of example, costs associated with drainage services are not separately identified and in those schemes that provide this service are captured within the distribution service contract.

#### **4.5. Assessment of BOM for pricing purposes**

Overall Indec is of the opinion that the BOM is an adequate data information system for irrigation pricing purposes. Indec's audit and review has not identified any material issues with some minor matters identified. The overall integrity of the BOM is adequate for irrigation pricing purposes.

Indec's audit has identified that the BOM meets the broad requirements identified by the Authority's Terms of Reference. Indec has identified that the BOM system could be improved by addressing the following:

- ▶ separately identifying costs for a greater range of irrigation customer services provided by SunWater beyond bulk supply and distribution to include services such as drainage; and
- ▶ cost allocation business rules should be documented to further improve the robustness and transparency of BOM.

## Appendix A

### Terms of Reference

# Terms of Reference

## SunWater Water Supply Schemes 2011-2016 Price Paths

### Audit and Review of

### SunWater's Information System and Pricing Model

21 September 2010

#### 1. Project Background

##### *Queensland Competition Authority*

The Queensland Competition Authority (the Authority) is an independent pricing and access regulator responsible for ensuring that specified monopoly infrastructure-based services in Queensland comply with the principles of national competition policy.

##### *SunWater*

As a Queensland Government-owned Corporation (GOC), SunWater provides a range of services including infrastructure ownership, water delivery, operation and maintenance of infrastructure and engineering consultancy services. Over the last 80 years, SunWater has built and now owns and operates a regional network of water supply infrastructure throughout Queensland which supports irrigated agriculture, mining, power generation, industrial and urban development.

SunWater's water storage and distribution infrastructure includes 19 major dams, 63 weirs and barrages, 80 major pumping stations, and more than 2500 kilometres of pipelines and open channels. The existing price paths that apply to the 22 water supply schemes (WSSs) are due to expire on 30 June 2011.

##### *Ministerial Direction*

The Premier and the Treasurer (the Ministers) have directed the Authority to develop irrigation prices to apply to 22 SunWater WSSs from 1 July 2011 to 30 June 2016. A copy of the Ministers' Referral Notice (the Notice) is available at <http://www.qca.org.au/water/Sun-Irrig-Price/index.php>

The Ministers' Referral Notice requires that bulk water supply and channel prices/tariff structures are set so as to provide a revenue stream that allows SunWater to recover:

- its efficient operational, maintenance and administrative costs;

- its expenditure on renewing and rehabilitating existing assets, whether through a renewals annuity or a regulatory depreciation allowance;
- a rate of return on assets valued at 1 July 2011 (the initial regulated asset base (RAB)); and
- after 1 July 2011, a return of, and on, prudent capital expenditure on existing assets or for constructing new assets. In recommending an initial RAB for irrigation supply assets the Authority is to:
- value particular channel distribution systems assets at zero; and
- apply a ‘line in the sand’ approach to value assets for bulk water supply based upon:
  - the level of service attributed to the supply of water for irrigation;
  - the efficient operating cost of meeting the required level of service;
  - water prices that reflect the irrigators’ anticipated capacity to pay; and
  - water prices achieving a commercial return over a period not longer than 15 years.

In providing pricing recommendations for each scheme, the Authority is to also consider how to treat existing renewals reserves if it considers it appropriate to transition schemes to a depreciation-based RAB pricing approach.

## **2. Purpose and Requirements of Consultancy**

This consultancy consists of two components, namely an audit of SunWater’s information systems and a review of the SunWater Pricing Model.

### *(A) Information Systems Audit*

The purpose of this component of the consultancy is to audit SunWater’s business operating model (BOM) as established in SAP to ensure that it:

- comprehensively records cost information;
- allocates those costs to the intended cost centres; and
- accurately attributes costs to head office functions and specific services offered by SunWater to irrigators (at a scheme and scheme segment level).

In so doing, the audit would focus on the integrity of costing data within SAP and any relevant interfaces of the financial information system, and its functionality for forecasting and pricing. The degree of detail should be sufficient to enable an independent party to review the past basis of costs for the services provided by SunWater and relevant to the current review.

In this regard, the extent of disaggregation consistent with the recommendations of the Queensland Competition Authority (2010), SEQ Interim Price Monitoring Information Requirements for 2010/11 Final Report, April 2010 is relevant. Sufficient disaggregation of costs should be evident to ensure that they can be related to particular administration services provided to each scheme and scheme segment.

### *(B) Review of the SunWater Pricing Model*

#### Component 1

The purpose of this component of the consultancy is to establish the integrity and robustness of SunWater's pricing model to ensure it generates prices for individual schemes, or segments of schemes, that are consistent with lower and upper bound pricing principles as set out in the Ministerial Direction. In particular, the consultant must:

- establish the integrity and robustness of the model for pricing purposes through a validation of the logic and structure of the model, including an assessment of the interface of the pricing module with other relevant modules of SunWater's information and financial modelling systems;
- test the functionality of the model in terms of its flexibility to accommodate and modify key variables and assumptions such as asset values, and alternative methods of asset consumption, including regulated depreciation allowances versus renewals annuity;
- quality assure the model using appropriate data based on SunWater's network service plans (NSP's), and associated supporting documentation, which are expected to become available during October 2010.

#### Component 2

Following quality assurance, to provide support services to operate the model and generate price paths and other relevant outputs as required and in particular:

- update the data and make any necessary structural changes to the model resulting from the positions adopted by the Authority for the 2011-2016 pricing period; and
- run the model to generate irrigation prices for the 2011-2016 price paths for each water supply scheme and relevant scheme segment.

Where relevant, the model and data used for the development of SunWater's previous (2006-2011) price path should be included as part of the support services provided to the Authority.

### *Other Concurrent Activities*

In auditing and reviewing SunWater's information systems and pricing model, the consultant will need to take into account a number of other concurrent activities relevant to the price review. These activities will provide important inputs to the price modelling process. Specifically, the Authority:

- has commissioned, or will be commissioning, parallel consultancies to review SunWater's projected administration costs, and proposed operating and capital expenditures as this information is made available by SunWater via its NSP's and associated supporting documentation; and
- will be taking a position on several issues papers on topics of general relevance to the pricing review which are being prepared by external consultants.

The Authority may require the consultant to provide ad-hoc advice and peer group reviews in relation to the outcomes of these other consultancies.

The consultant will be expected to liaise and consult with various stakeholders, including but not limited to irrigation customer representatives, SunWater and other consultants providing advice to the Authority.

### **3. Output of Consultancy**

The consultant will need to provide a report to the Authority which will include the following elements:

- (a) an assessment of the appropriateness and robustness of SunWater's business operating model (BOM) as established in SAP for pricing purposes. The report must document how the BOM:
  - captures and records cost information and the appropriateness of data disaggregation for pricing purposes;
  - allocates those costs to the intended cost centres; and
  - attributes costs to head office functions and specific services offered by SunWater to irrigators (at a scheme and scheme segment level);
- (b) an evaluation of the appropriateness and robustness of SunWater's pricing model, including assessments of:
  - the logic and structure of the model, including an appraisal of the interface of the pricing module with other modules of SunWater's information and financial modelling systems;
  - the functionality of the model in terms of its flexibility to accommodate and modify key variables and assumptions such as asset values and alternative methods of asset consumption;

- the appropriateness of any changes to SunWater's data collection methodologies and pricing model since the last price review; and
  - the quality assurance of the model, using appropriate data based on SunWater's network service plans (NSP's) which are expected to become available during September 2010;
- (c) recommendations for any modifications or enhancements that may be required to the BOM or pricing model for the purposes of generating price paths, including required data updates and structural changes to the model resulting from the positions adopted by the Authority for the 2011-2016 price period; and
- (d) at the conclusion of Component 2 of Part B, a working copy of a revenue and pricing module which outlines for each water supply scheme the key revenue components and irrigation tariffs, including descriptions of the operation of the model, and the generation of prices, in sufficient detail to explain how irrigation prices and other relevant outputs for each water supply scheme or relevant scheme segment are generated for the 2011-2016 period.

#### **4. Proposal Specifications and Fees**

The proposal should:

- include the name, address and legal status of the tenderer; and
- provide a fixed price quote for the provision of the services (A) and (B) and each component of (B) , individually and in total.

The fee quoted is to be inclusive of all expenses and disbursements. A full breakdown of consultancy costs will be required with staff costs reconciled to the consultancy work plan.

Due to the progressive development of SunWater's pricing model, it is expected that Part A and certain elements of Component 1 of Part B of this consultancy will be awarded at the same time, with the remainder of Component 1 and Component 2 of Part B following at a later date.

The consultant should note that award of any element (section of a Component, Component or Part) of the consultancy does not necessarily imply the award of any other element.

Total payment will be made within 28 days of receiving an invoice at the conclusion of the consultancy.

#### **5. Resources/Data Provided**

The consultant will be required to source information from relevant agencies as well as taking into account the following reports:

- (a) SunWater (2006) Irrigation Price Paths 2006/07-2010/11 Final Report [http://www.sunwater.com.au/irrigationpricing/SunWater\\_Irrigation\\_Price\\_Paths\\_Final\\_Report.pdf](http://www.sunwater.com.au/irrigationpricing/SunWater_Irrigation_Price_Paths_Final_Report.pdf)
- (b) Queensland Competition Authority (2000), *Statement of Regulatory Pricing Principles for the Water Sector*, December 2000. <http://www.qca.org.au/files/PricingPrinciples.pdf>
- (c) SunWater's SAP based asset and financial management system and pricing model including supporting data templates.
- (d) Queensland Competition Authority (2010), SEQ Interim Price Monitoring Information Requirements for 2010/11 Final Report, April 2010. <http://www.qca.org.au/files/W-SEQinterim-price-QCA-FinalReport-PriceFramWork-0410.pdf>

Additional information relevant to this consultancy may also be found in the Authority's publications, available from the Authority or for downloading from its website at [www.qca.org.au](http://www.qca.org.au)

## 6. Project Time Frame

The consultancy will commence in early October 2010.

Dates for completion will be determined at the time of appointment.

## 7. Contractual Arrangements

This consultancy will only be offered in accordance with the Authority's standard contractual agreement.

This agreement can be viewed at <http://www.qca.org.au/about/consultancyagreement.php>

## 8. Reporting

The consultant will be required to provide the Authority with progress reports on an "as needs" basis or at least weekly and drafts of final reports will be required prior to project completion. If necessary, the consultant should advise at the earliest opportunity any critical issues that may impede progress of the consultancy, particularly issues that impact on the successful delivery of the purpose and requirements of the consultancy as outlined in section 2 above.

At the conclusion of the consultancy, the consultant will be required to provide the Authority with a personal presentation on the findings of the analysis in addition to presenting three (3) copies of a written report. An electronic version of the final report is also required, saved in Microsoft® Word with any numeric data in Microsoft® Excel.

## 9. **Confidentiality**

Under no circumstances is the selected consultant to divulge any information obtained from the Authority for the purposes of this consultancy to any party other than with the express permission of the Authority.

## 10. **Conflicts of Interest**

For the purpose of this consultancy, the consultant is required to affirm that there is no, and will not be any, conflict of interest as a result of this consultancy.

## 11. **Insurance**

The consultant must hold all necessary work cover and professional indemnity insurance.

## 12. **Quality Assurance**

The consultant is required to include details of quality assurance procedures to be applied to all information and outputs provided to the Authority.

## Appendix B

### Original Ministerial Direction Notice

19 March 2010]

QUEENSLAND GOVERNMENT GAZETTE No. 74

661

---

QUEENSLAND COMPETITION AUTHORITY ACT 1997  
Section 23

MINISTERS' REFERRAL NOTICE

**Referral**

As the Premier and Treasurer of Queensland, pursuant to Section 23 of the *Queensland Competition Authority Act 1997* (the Act), we hereby direct the Queensland Competition Authority (the Authority) to develop irrigation prices to apply to the following SunWater water supply schemes (WSS) from 1 July 2011 to 30 June 2016:

Barker Barambah	Lower Fitzroy
Bowen Broken Rivers	Macintyre Brook
Boyne River and Tarong	Maranoa River
Bundaberg	Mareeba-Dimbulah
Burdekin-Haughton	Nogoa-Mackenzie
Callide Valley	Pioneer River
Chinchilla Weir	Proserpine River
Cunnamulla	St George
Dawson Valley	Three Moon Creek
Eton	Upper Burnett
Lower Mary	Upper Condamine

**1. Matters the Authority must take into consideration**

In referring this investigation, the Ministers direct the QCA under section 24 of the Act as follows:

- 1.1 For water supply schemes, or segments of schemes (except those listed in 1.2 below), bulk water supply and channel prices/tariff structures are to be set to provide a revenue stream that allows SunWater to recover:
- its efficient operational, maintenance and administrative costs;
  - its expenditure on renewing and rehabilitating existing assets, whether through a renewals annuity or a regulatory depreciation allowance;
  - a rate of return on assets valued at 1 July 2011, as specified in 1.4 (below) (the initial regulated asset base (RAB)); and
  - after 1 July 2011, a return of, and on, prudent capital expenditure on existing assets or for constructing new assets.

- 1.2 For the following schemes (schemes or segments of schemes identified as unable to meet the full costs of 1.1 a) and 1.1 b) due to hardship):
- a) irrigation prices are to be set to maintain current prices in real terms, and improve the level of cost recovery, where the capacity to do so exists;
  - b) after 1 July 2011, prices are to include a return of, and on, prudent capital expenditure to augment existing assets or construct new assets.
  - c) the Authority may recommend whether to set prices through the use of a renewals annuity or depreciation-based RAB pricing approach.
- These schemes are:
- Redgate Relift in the Barker Barambah WSS
  - Callide Valley WSS
  - Cunnamulla WSS
  - Maranoa River WSS
  - Channel Relift in the Mareeba Dimbulah WSS
  - Three Moon Creek WSS
- 1.3 For 1.1 (d) and 1.2 (b), the Authority is to have regard to the agreed level of service between SunWater and the customers of the water supply scheme, including for capital expenditure on existing assets or for the construction of new assets.
- 1.4 In recommending an initial RAB (1.1 c) for irrigation supply assets (or that part of an asset used for the supply of water for irrigation purpose), the Authority is to:
- a) value the following channel distribution systems assets at zero;
    - Bundaberg channel distribution system
    - Burdekin channel distribution system
    - Dawson Valley channel distribution system
    - Eton channel distribution system
    - Lower Mary channel distribution assets
    - Mareeba Dimbulah channel distribution system
    - Emerald channel distribution system
    - St George channel distribution system
    - Callide Valley channel distribution assets
    - Yarralong Pump Station and associated distribution assets in the Upper Condamine Scheme
    - Youlambie channel distribution assets in the Three Moon Creek Scheme
    - Redgate Relift distribution assets in the Barker Barambah scheme
  - b) For other schemes or segments of schemes, apply a 'line in the sand' approach<sup>1</sup> to value assets for bulk water supply based upon:
    - the level of service attributed to the supply of water for irrigation;
    - the efficient operating cost of meeting the required level of service;
    - water prices reflecting the irrigators' anticipated capacity to pay;

<sup>1</sup> The 'line in the sand' approach can be used to set an initial regulated asset base between:

- at the upper end, a value at which customers would be better off if the asset was scrapped and a new asset installed – which is what a depreciated, optimised replacement cost provides an estimate of; and
- at the lower end, the value that the assets would have in their next best use, which for sunk investments may be very low.

19 March 2010]

QUEENSLAND GOVERNMENT GAZETTE No. 74

663

- water prices achieving a commercial return over a period not longer than 15 years.

The 'line-in-the-sand' approach must not adversely affect the operator's ability to recover full commercial prices from urban and industrial customers.

- 1.5 In providing pricing recommendations for each scheme, the Authority is to also consider how to treat existing renewals reserves if it considers it appropriate to transition schemes to a depreciation-based RAB pricing approach.
- 1.6 For relevant schemes, the Authority is to review drainage charges and channel water harvesting charges.
- 1.7 The Authority is to recommend pricing principles to apply for the inclusion of capital expenditure on dam spillway upgrades.

## 2. Consultation

The Authority must undertake an open consultation process with all relevant parties and consider submissions within the timetable for the delivery of the Final Report to Government. All reports and submissions must be made publicly available, including on the Authority's website.

## 3. Timing

The Authority must provide to the responsible Ministers and the Minister for Natural Resources, Mines and Energy and Minister for Trade:

- a) a Draft Report and draft irrigation prices by no later than 31 January 2011 and;
- b) a Final Report and recommended price paths by no later than 30 April 2011.

The Final Report will inform the Government's deliberations for price paths to apply to SunWater's irrigation water prices for the five year period commencing 1 July 2011.

## 4. Other matters

The Authority may exercise all the powers under Part 6 of the *Queensland Competition Authority Act 1997*.

**ANNA BLIGH**

**ANDREW FRASER**

The Hon. Anna Bligh MP, Premier  
Level 15 Executive Building  
100 George Street, Brisbane  
PO Box 15185, Brisbane  
City East 4002 Australia

The Hon. Andrew Fraser MP, Treasurer  
Level 9 Executive Building  
100 George Street, Brisbane  
GPO Box 611, Brisbane  
Queensland 4001 Australia

## Appendix C

### Amended Ministerial Direction Notice

**QUEENSLAND COMPETITION AUTHORITY ACT 1997**  
**Section 23**

**AMENDED MINISTERS' REFERRAL NOTICE**

**Referral**

As the Premier and Treasurer of Queensland, pursuant to Section 23 of the *Queensland Competition Authority Act 1997* (the Act), we hereby amend our Direction of 19 March 2010 and direct the Queensland Competition Authority (the Authority) to recommend irrigation prices to apply to the following SunWater water supply schemes (WSS) from 1 October 2011 to 30 June 2016 (the price path period):

Barker Barambah	Lower Fitzroy
Bowen Broken Rivers	Macintyre Brook
Boyne River and Tarong	Maranoa River
Bundaberg	Mareeba-Dimbulah
Burdekin-Haughton	Nogoa-Mackenzie
Callide Valley	Pioneer River
Chinchilla Weir	Proserpine River
Cunnamulla	St George
Dawson Valley	Three Moon Creek
Eton	Upper Burnett
Lower Mary	Upper Condamine

**1. Matters the Authority must take into consideration**

In referring this investigation, the Ministers direct the Authority under section 24 of the Act as follows:

- 1.1 For water supply schemes, or segments of schemes (except those listed in 1.2 below), bulk water supply and channel prices/tariff structures are to be set as follows:
- a) to provide a revenue stream that allows SunWater to recover:
- i) efficient operational, maintenance and administrative costs to ensure the continuing delivery of water services;  
For the removal of doubt, costs include, but are not limited to:
    - electricity costs;
    - recreation management costs;
    - compliance with workplace, health and safety; and
    - compliance with Australian and Queensland Government initiatives on water management, planning, trading, accounting, metering and measurement.
  - ii) prudent and efficient expenditure on renewing and rehabilitating existing assets through a renewals annuity;
  - iii) to put beyond doubt, costs exclude any rate of return on existing rural irrigation assets (as at 30 September 2011); unless current prices are already above the level required to recover i) and ii), in which case water prices are to be maintained in real terms based on an appropriate measure of inflation as recommended by the Authority; and
  - iv) a commercial return of, and on, prudent capital expenditure for augmentation commissioned after 30 September 2011;

- b) the Authority is not to consider the regulated asset base (RAB) for existing irrigation assets (that is assets commissioned prior to 1 October 2011);
  - c) in considering the tariff structures, the Authority should have regard to the fixed and variable nature of the underlying costs; and
  - d) the Authority is to adopt tariff groups as proposed in SunWater's network service plans. The Authority is not to investigate additional nodal pricing arrangements.
- 1.2 For the following schemes or segments of schemes, irrigation prices are to be set to:
- i) For the price path period, increase in real terms at a pace consistent with the 2006-2011 prices or until such time as the scheme reaches costs sufficient to recover 1.1 a) i) and ii); and
  - ii) include a commercial return of, and on, prudent capital expenditure for augmentation commissioned after 30 September 2011.
- These schemes are:
- Redgate Relift in the Barker Barambah WSS
  - Callide Valley WSS
  - Maranoa River WSS
  - Channel Relift in the Mareeba Dimbulah WSS
  - Cunnamulla WSS
  - Three Moon Creek WSS
- 1.3 The Authority must recommend appropriate regulatory arrangements, including price review triggers and other mechanisms, to manage the risks associated with the allowable costs identified in 1.1 (above) outside the control of SunWater.
- 1.4 For the purposes of this Direction, the Authority is not to consider the recovery in prices of capital expenditure for dam safety upgrades.
- 1.5 The Authority is to have regard to the level of service provided by SunWater to its customers of the water supply scheme, including for capital expenditure on existing assets or for the construction of new assets.
- 1.6 In recommending irrigation prices the Authority must have regard for the legitimate commercial interests of SunWater, and the requirement for SunWater to operate as a commercial entity, subject to 1.1 (above).
- 1.7 For relevant schemes, the Authority is to review drainage charges and channel water harvesting charges.
- 1.8 If the Authority calculates tariffs for a water supply scheme, or segment of a water supply scheme that may have the effect of a price increase for irrigators that is higher than the Authority's measure of inflation,
- a) the Authority must consider the need to implement a price path for the introduction of the price increase to moderate price impacts on irrigators, and that has regard for SunWater's legitimate commercial interests;
  - b) a price path may be longer than one price path period, however the Authority must provide its reason for the longer timeframe; and
  - c) if the Authority recommends not to implement a price path, the Authority must give its reasons.

## 2. Consultation

The Authority must undertake an open consultation process with all relevant parties and consider submissions within the timetable for the delivery of the Final Report to Government. All reports and submissions must be made publicly available, including on the Authority's website.

## 3. Timing

SunWater must provide its Network Services Plans and supporting documentation to the QCA by no later than 10 January 2011.

The Authority must provide to the responsible Ministers and the Minister for Natural Resources, Mines and Energy and Minister for Trade the:

- a) Draft Report and draft irrigation prices by no later than 30 June 2011; and
- b) Final Report and recommended price paths by no later than 31 August 2011.

The Final Report will inform the Government's deliberations for price paths to apply to SunWater's irrigation water prices for the period commencing 1 October 2011 and ending 30 June 2016.

## 4. Other matters

To put beyond doubt, nothing in this Referral prevents SunWater from setting full commercial prices for urban and industrial customers.

The Authority may exercise all the powers under Part 6 of the *Queensland Competition Authority Act 1997*.

**ANNA BLIGH**

**ANDREW FRASER**

The Hon. Anna Bligh MP, Premier

Level 15 Executive Building  
100 George Street, Brisbane

PO Box 15185, Brisbane  
City East 4002 Australia

Telephone +617 3224 4500  
Facsimile +617 3221 3631

The Hon. Andrew Fraser MP, Treasurer

Level 9 Executive Building  
100 George Street, Brisbane

GPO Box 611, Brisbane  
Queensland 4001 Australia

Telephone +617 3224 0900  
Facsimile +617 3229 0642

## Appendix D

### BOM/SAP User Access Rights for Staff Interviewed by Indec

Name	Title	User Access
Gina Conde	Manager Internal Audit	CBS Enquiry All Excluding CO PS HR - Subsidiaries CBS Enquiry All Excluding CO PS HR CBS Common Profile Financial Functions CO/PS Enquiry - Subsidiaries Financial Functions CO/PS Enquiry - All SW Property Management - Display QAO Audit Refurbishment Management - Display Project Management - Display Only All Areas
Alex Garcia	Business Accountant - Corporate	CBS Enquiry All Excluding CO PS HR CBS Common Profile Financial Functions CO/PS Enquiry - All SW Financial Functions Journal Creator Financial Functions Management Accountant Financial Functions Order & Project Creator - All SW Financial Functions - WBS Create/Change Inventory Controller - Corporate HO Interface Spool Display - SEJ Journal Property Management - Display Procurement Officer Refurbishment Management - Display Project Management - Display Only All Areas SAP Report Writer & Report Painter
Neva Tran	Business Strategy Analyst	CBS Enquiry All Excluding CO PS HR CBS Common Profile CBS Services Group - Basis Second Line Support Financial Functions CO/PS Enquiry - Subsidiaries Financial Functions CO/PS Enquiry - All SW Financial Functions Management Accountant - SunWater GOC Financial Functions Management Accountant Property Management - Display Refurbishment Management - Display Project Management - Display Only All Areas SAP Report Writer & Report Painter
Danny Leong	Database Administrator	Basis Security Profile Maintainer Basis System Administrator Junior Basis System Administrator Senior CBS Enquiry All Excluding CO PS HR CBS Common Profile CBS Services Group - Basis Second Line Support Financial Functions CO/PS Enquiry - All SW Property Management - Display Refurbishment Management - Display Project Management - Display Only All Areas
Paul Wishard	Business Accounting Manager	CBS Enquiry All Excluding CO PS HR - Subsidiaries CBS Enquiry All Excluding CO PS HR CBS Common Profile CBS Services Group - Financial Application Maintenance - GOC Financial Functions CO/PS Enquiry - Subsidiaries Financial Functions CO/PS Enquiry - Elimination Co. Financial Functions CO/PS Enquiry - All SW Financial Functions Financial Accountant - SunWater GOC Financial Functions Management Accountant - SunWater GOC Financial Functions Management Accountant Financial Functions Order & Project Creator - All SW Financial Functions - WBS Create/Change Interface Spool Display - SEJ Journal Property Management - Display Refurbishment Management - Display Business Administrators - All Regions Business Administrators - Brisbane Business Administrators - Central Business Administrators - Far North Business Administrators - North Business Administrators - South Project Management - Display Only All Areas SAP Report Writer & Report Painter

Name	Title	User Access
Colin Nicolson	Finance Manager	CBS Enquiry All Excluding CO PS HR - Subsidiaries CBS Enquiry All Excluding CO PS HR CBS Common Profile Financial Functions CO/PS Enquiry - Subsidiaries Financial Functions CO/PS Enquiry - Elimination Co. Financial Functions CO/PS Enquiry - All SW Purchase Order Approval - Financial Property Management - Display Refurbishment Management - Display Finance Approver (Asset Disposal) Level 5 Project Management - Display Only All Areas Training Enquiry
Sue Manomai	Business Accountant - Regional	CBS Enquiry All Excluding CO PS HR - Subsidiaries CBS Common Profile Financial Functions CO/PS Enquiry - Subsidiaries Financial Functions CO/PS Enquiry - Elimination Co. Financial Functions CO/PS Enquiry - All SW Financial Functions Journal Creator Financial Functions Management Accountant Financial Functions Order & Project Creator - All SW Financial Functions - WBS Create/Change Interface Spool Display - SEJ Journal Property Management - Display Refurbishment Management - Display Business Administrators - All Regions Business Administrators - Brisbane Business Administrators - Central Business Administrators - Far North Business Administrators - North Business Administrators - South Project Management - Display Only All Areas Tax Advisor SAP Report Writer & Report Painter

## Appendix E

### BOM Activity Codes

Activity Code	Activity Description	Activity Code	Activity Description	Activity Code	Activity Description
01-00	Operations Plan	21-03	Asset Perf Analysis	61-01	Workplace H&S
01-01	Customer Mgt	21-04	Asset Mgt Research	62-00	Enviro Mgt Plan
01-02	Workplace H&S	21-05	Asset Compliance	62-01	Enviro Mgt
01-03	Enviro Mgt	21-98	Asset Strat & Perf CSOs	63-00	Quality Mgt System Plan
01-04	Water Mgt	22-00	Dam Safety Strat & Policy	63-01	Quality Mgt System
01-05	Scheme Mgt	22-01	Dam Safety Stds	64-00	Bus Mgt System Plan
01-07	Dam Safety	22-02	Dam Safety Compliance	64-01	Bus Mgt System
01-08	Sched/Deliver	23-00	Asset Mgt Systems Plan	64-02	Bus Plan & Report
01-09	Metering	23-01	Asset Mgt Systems	64-03	Resource Planning
01-10	Facility Mgt	23-02	SAP PM	65-00	Bus Improvement Plan
02-00	Preventive Plan	23-03	GIS	65-01	Bus Improvement
02-01	Cond Monitor	23-04	Dam Safety System	71-00	Water Acctg & Stds Plan
02-02	Servicing	23-05	SCADA	71-01	Water Standards
02-03	Weed Control	23-06	DIS	71-02	Water Compliance
03-00	Corrective Plan	24-00	Asset Eng Plan	71-03	Water Products
03-01	Sched Corr Maint	24-01	Asset Eng	71-04	Alloc Determinations
03-02	Emergency Maint	24-02	Safe Design Work Group	71-98	Alloc Determinations
04-01	R&E	31-00	Service Delivery Ops Plan	72-00	Water Planning Plan
04-02	Rec Fac	31-01	Operational Support	72-01	Water Planning
04-03	R&E Hydro	31-02	ROP Support	72-02	ROP Development
04-04	R&E Treatment	31-03	Continuity Planning	72-03	IROL Amendment
04-05	Dividend Reinvest	32-00	Service Deliver Bus Sys Plan	72-04	Water Policy Reform
04-06	Spillway Upgrade	32-01	SWIMS	72-05	Water Availability
04-07	Client Funded	32-02	SOS Admin & Support	72-98	ROP CSO
04-08	R&E Enhance	32-03	Water Exch Admin & Support	73-00	Strategy & Policy Plan
04-50	Intersafe	32-04	Property Mgt Info System	73-01	Corp Plan & Reporting
04-51	Switchboard Replacements	32-05	SWIMS R1	73-02	Comm Strat & Policy
04-71	Backlog OPEX	32-06	Water Info System Enhance	73-03	Economic Reg Mgt
04-72	Backlog CAPEX	32-07	Water Info Mgt	73-04	Irrigation Pricing
04-91	Rev Offset Meters	32-98	Water Info Sys CSO	73-05	Research
04-94	Rev Offset Govt Contr	33-00	Property Mgt Plan	74-00	Corporate Strategy Plan
04-95	Rev Offset Cust Contr	33-01	Property Policy & Stds	74-01	Corporate Strategy
04-96	Rev Offset Ext Contracts	33-02	Public Safety	75-00	Sys Development Plan
04-97	Rev Offset Other	33-03	Roads & Bridges	75-01	Sys Development
05-00	Mgt & Admin Plan	33-04	Property Mgt Ops	75-98	Sys Dev CSO
05-01	Human Resources	34-00	Enviro Mgt Plan	81-00	Finance & Support Plan
05-02	Accounting	34-01	Enviro Sys & Policy	81-01	Finance
05-03	Document Mgt	34-02	Enviro Strategies	81-02	Non-Scheme Costs
05-04	Operations & Admin	34-03	Enviro Mgt	81-03	Subsidiary Companies
05-05	Irrigation Pricing	35-00	Hydrographic Serv Plan	82-00	Support Services Plan
05-06	Plant & Equip	35-01	Hydrographic Serv	82-01	Support Services
05-08	Internal Audit	41-00	Project Mgt Plan	83-00	Public Affairs Plan
05-09	SunWater Board	41-01	Project Mgt	83-01	Public Affairs
05-11	Training	41-02	PM Systems	84-00	Corp Info Sys Plan
05-12	Conferences	41-03	Billing & Rev Sys	84-01	SAP
05-15	Graduate Program	41-04	PM Indirect Marketing	84-02	Hummingbird
05-16	O&M Houses/Dpt	42-00	Project Proposals Plan	84-03	Financial Model
06-00	Service Delivery Plan	42-01	Feasibility Studies	84-04	Other Corp Sys
06-01	Billing & Revenue	42-02	Contract Negotiation	84-05	New Systems
06-02	Customer Service	42-03	Contract Re-Negotiation	85-00	Info Tech Serv Plan
06-03	Credit Mgt	42-04	Due Diligence	85-01	Info Tech Serv
06-04	Cust Service Sys & Stds	43-00	Eng Design Plan	85-02	ITS Data Comms
07-00	BC Asset Mgt	43-01	Planning	85-03	ICT PC Kit
07-01	BC Strat Asset Mgt	43-02	Non-Chargeable	86-00	Info Architecture Plan
07-02	BC Dam Safety	51-00	BD Strat & Policy Plan	86-01	Info Architecture
08-00	Electricity	51-01	BD Strat & Policy	87-00	Human Resources Plan
08-01	Electricity	52-00	Mkt Anal & Position Plan	87-01	Human Resources
09-01	External Jobs	52-01	Mkt Anal & Position	87-02	Payroll
09-02	Development Projects	53-00	Account Mgt Plan	87-03	IR Train & Recruit
11-00	Rev Offset (Budget Holder)	53-01	Account Mgt	87-04	Learning Mgt System
11-92	Rev Offset Rec	54-00	Prospect ID Plan	88-00	Legal Services Plan
11-93	Rev Offset Hse	54-01	Prospect ID	88-01	Legal Services
11-96	Rev Offset Ext Contracts	55-00	Bid Mgt Plan	89-01	Procurement
21-00	Asset Strat & Perf Plan	55-01	Bid Mgt	99-99	Efficiency Savings - IPR
21-01	Asset Mgt Strat & Policy	56-00	Water Trading Plan		
21-02	Asset Standards	56-01	Water Trading Costs		
		61-00	Workplace H&S Plan		

## Appendix F

### Service Contracts related to Irrigation Pricing

Service Contract Code	Service Contract Name
WABB	Burdekin Water Supply
WABP	Proserpine Water Supply
WAIE	Burdekin Irrigation Distribution
WAXK	Kelsey Creek Water Board
WBBB	Bundaberg Water Supply
WBBL	Lower Mary Water Supply
WBBR	Barker Barambah Water Supply
WBBU	Upper Burnett Water Supply
WBBY	Boyne Water Supply
WBIC	Lower Mary Irrigation Distribution
WBIG	Bundaberg Irrigation Distribution
WIBH	Chinchilla Weir Water Supply
WIBM	Maranoa Water Supply
WIBN	Cunnamulla Weir Water Supply
WIBS	St George Water Supply
WIBT	Macintyre Brook Water Supply
WIBU	Upper Condamine Water Supply
WIIS	St George Irrigation Distribution
WKBB	Bowen Broken Water Supply
WKBE	Eton Water Supply
WKBP	Pioneer Water Supply
WKIA	Eton Irrigation Distribution
WLBD	Dawson Water Supply
WLBF	Lower Fitzroy Water Supply
WLBN	Nogoa Water Supply
WLBT	Three Moon Water Supply
WLIT	Dawson Irrigation Distribution
WLIW	Emerald Irrigation distribution
WMBM	Mareeba Water Supply
WMIM	Mareeba Irrigation Distribution

## Appendix G

### Staff Interviews

<b>Position Title</b>	<b>Name</b>
Manager – Finance .....	Colin Nicolson
Business Strategy Analyst.....	Neva Tran
Business Accounting Manager .....	Paul Wishart
Business Accountant.....	Alex Garcia
Business Accountant.....	Sue Manamoi
Internal Auditor .....	Gina Conde
Financial Modeller.....	Keith Esson

## Appendix H

Reliability factors (R-Factor) derived  
from Poisson sampling distribution

R-Factor	Risk (%)	Confidence Level (%)
3.0	5	95
2.5	8	92
2.3	10	90
2.0	14	86
1.5	22	78
1.0	37	63
0.5	61	39
0.0	100	0

## Appendix I

### Reconciliation Control Sheets

**Reconciliation Sheet (expenses only)**

Region	Scheme Type	Name	Code	Year	Quarter	SAP Detailed Cost Listing	LBC Total Cost Report	Variance	Variance Analysis		
									Account Code	Amount	% of Total
South	Bulk Water	Upper Condamine Bulk Supply	IBU	2006/07	Q3	\$333,308.09	\$333,308.09	-\$0.00			
South	Bulk Water	Upper Condamine Bulk Supply	IBU	2007/08	Q4	\$326,272.86	\$325,997.86	\$275.00	53109	\$141.00	0.04%
									53112	\$134.00	0.04%
										\$275.00	0.08%
South	Bulk Water	Upper Condamine Bulk Supply	IBU	2008/09	Q1	\$180,830.64	\$180,680.40	\$150.24	53109	\$79.89	0.04%
									53112	\$70.35	0.04%
										\$150.24	0.08%
South	Bulk Water	Upper Condamine Bulk Supply	IBU	2009/10	Q2	\$319,608.79	\$319,223.79	\$385.00	53109	\$215.00	0.07%
									53112	\$170.00	0.05%
										\$385.00	0.12%

**Reconciliation Sheet (expenses only)**

Region	Scheme Type	Name	Code	Year	Quarter	SAP Detailed Cost Listing	LBC Total Cost Report	Variance	Variance Analysis		
									Account Code	Amount	% of Total
North	Bulk Water	Nogoa Bulk Supply	LBN	2006/07	Q4	\$825,780.17	\$825,780.17	\$0.00			
North	Bulk Water	Nogoa Bulk Supply	LBN	2007/08	Q2	\$657,336.69	\$656,315.69	\$1,021.00	53109	\$1,021.00	0.16%
North	Bulk Water	Nogoa Bulk Supply	LBN	2008/09	Q1	\$596,628.37	\$595,720.61	\$907.76	53109	\$907.76	0.15%
North	Bulk Water	Nogoa Bulk Supply	LBN	2009/10	Q3	\$787,499.47	\$786,091.47	\$1,408.00	53109	\$1,408.00	0.18%
North	Distribution	Emerald Distribution	LIW	2006/07	Q2	\$443,677.09	\$443,677.09	\$0.00			
North	Distribution	Emerald Distribution	LIW	2007/08	Q3	\$429,310.15	\$429,310.15	\$0.00			
North	Distribution	Emerald Distribution	LIW	2008/09	Q4	\$474,874.29	\$474,874.29	\$0.00			
North	Distribution	Emerald Distribution	LIW	2009/10	Q1	\$548,211.73	\$548,211.73	\$0.00			

**Reconciliation Sheet (expenses only)**

Region	Scheme Type	Name	Code	Year	Quarter	SAP Detailed Cost Listing	LBC Total Cost Report	Variance	Variance Analysis		
									Account Code	Amount	% of Total
Far North	Bulk Water	Mareeba Bulk Water	MBM	2006/07	Q1	\$351,045.98	\$351,045.98	\$0.00			
Far North	Bulk Water	Mareeba Bulk Water	MBM	2007/08	Q4	\$277,624.56	\$277,624.56	\$0.00			
Far North	Bulk Water	Mareeba Bulk Water	MBM	2008/09	Q2	\$417,541.04	\$417,541.04	\$0.00			
Far North	Bulk Water	Mareeba Bulk Water	MBM	2009/10	Q3	\$3,340,920.44	\$3,340,920.44	\$0.00			
Far North	Distribution	Mareeba Distribution	MIM	2006/07	Q2	\$1,063,559.26	\$1,063,559.26	\$0.00			
Far North	Distribution	Mareeba Distribution	MIM	2007/08	Q1	\$1,336,575.02	\$1,336,575.02	\$0.00			
Far North	Distribution	Mareeba Distribution	MIM	2008/09	Q4	\$1,803,116.31	\$1,803,116.31	\$0.00			
Far North	Distribution	Mareeba Distribution	MIM	2009/10	Q3	\$1,868,234.94	\$1,868,224.94	\$10.00	53109	\$10.00	0.00%

**Reconciliation Sheet (expenses only)**

Region	Scheme Type	Name	Code	Year	Quarter	SAP Detailed Cost Listing	LBC Total Cost Report	Variance	Variance Analysis		
									Account Code	Amount	% of Total
Far North	Bulk Water	Bundaberg Bulk Water	BBB	2006/07	Q4	\$439,589.60	\$439,589.60	\$0.00			
Far North	Bulk Water	Bundaberg Bulk Water	BBB	2007/08	Q1	\$358,128.30	\$358,128.30	\$0.00			
Far North	Bulk Water	Bundaberg Bulk Water	BBB	2008/09	Q3	\$402,530.31	\$402,530.31	\$0.00			
Far North	Bulk Water	Bundaberg Bulk Water	BBB	2009/10	Q2	\$614,720.36	\$611,947.41	\$2,772.95	52117	\$42.75	0.01%
									52300	\$26.44	0.00%
									52320	\$190.25	0.03%
									74201	\$416.98	0.07%
									74202	\$858.48	0.14%
									74203	\$11.65	0.00%
									75509	\$1,226.40	0.20%
										\$2,772.95	0.45%
Far North	Distribution	Bundaberg Distribution	BIG	2006/07	Q1	\$1,950,462.86	\$1,950,462.86	\$0.00			
Far North	Distribution	Bundaberg Distribution	BIG	2007/08	Q3	\$1,764,932.77	\$1,764,932.77	\$0.00			
Far North	Distribution	Bundaberg Distribution	BIG	2008/09	Q2	\$1,733,369.81	\$1,733,369.81	\$0.00			
Far North	Distribution	Bundaberg Distribution	BIG	2009/10	Q4	\$1,921,281.20	\$1,921,281.20	\$0.00			

## Appendix J

### Transaction Audit Sheets

Service Contract: Bundaberg Bulk Supply  
 Year: 2009/10  
 Quarter: Q2

	Profit Centre	Document Number	Document Posting Date	Order Number	GL Account	GL Account Description	Value	SAP Transaction Print	Transaction Source / Type	Authorised		Source Document Reviewed	Cost Allocation Check	Comments
										Auto	Manual			
1	SCA	3334989	09.11.2009	2011901	52269	Freight Cart & Post	\$ 8.35	✓	Vendor Invoice	✓		x	✓	Invoice for \$1,182.63 presented with no breakdown representing the \$8.35 Bulk electronic bill from Telstra. Invoice not sighted.  Invoice for \$1,173.20, with no detail to represent the value charged to this account  Electronic Journal, no documentation available Invoice totals \$26,662.50 presented, no breakdown to represent the value of \$3,547.80 Invoice not presented Invoice not presented Monthly apportionment via electronic journal
2	SCZ	3363298	22.12.2009	5062389	52266	Telecomm.-Data Lines	\$ 14.09	✓	TCAMS Interface	✓	✓	x	✓	
3	SCA	3313605	15.10.2009	5089802	52320	Mat. Non Inventory	\$ 16.53	✓	Vendor Invoice	✓	✓	✓	✓	
4	SCA	3339211	13.11.2009	2011047	75509	SW Band 9	\$ 18.25	✓	Time Sheet		✓	✓	✓	
5	SCZ	3339480	19.11.2009	5094152	52298	Water Monitoring	\$ 35.53	✓	Vendor Invoice	✓		✓	✓	
6	SCA	3307147	09.10.2009	2011910	75503	SW Band 3	\$ 37.00	✓	Time Sheet		✓	✓	✓	
7	SCZ	3335995	11.11.2009	5099729	52300	Rental & Hire- P&E	\$ 480.00	✓	Purchase Order	✓		✓	✓	
8	SCZ	3357062	14.12.2009	5101295	52283	Commercial Contract.	\$ 538.50	✓	Vendor Invoice	✓	✓	x	✓	
9	SCZ	3353282	03.12.2009	5077858	52320	Mat. Non Inventory	\$ 584.40	✓	Purchase Order	✓		✓	✓	
10	SCA	3362958	25.12.2009	4009502	75511	Snr Mgr Band 1	\$ 612.00	✓	Time Sheet		✓	✓	✓	
11	SCZ	3359112	17.12.2009	5063722	52112	Electricity	\$ 692.82	✓	Vendor Invoice	✓	✓	✓	✓	
12	SCZ	3335995	11.11.2009	5100284	52300	Rental & Hire- P&E	\$ 780.00	✓	Purchase Order	✓		✓	✓	
13	SCY	3334875	09.11.2009	5089801	52320	Mat. Non Inventory	\$ 790.00	✓	Purchase Order	✓		✓	✓	
14	SCZ	3318283	22.10.2009	5094152	52298	Water Monitoring	\$ 1,006.20	✓	Vendor Invoice	✓	✓	✓	✓	
15	SCY	3312379	09.10.2009	5097108	75506	SW Band 6	\$ 1,122.00	✓	Time Sheet		✓	✓	✓	
16	SCA	3344034	30.11.2009	2010311	52293	Land Tax	\$ 1,661.91	✓	Accrual Journal	✓		x	✓	
17	SCZ	3355768	09.12.2009	5091122	52283	Commercial Contract.	\$ 3,547.80	✓	Purchase Order	✓		x	✓	
18	SCZ	3318392	23.10.2009	5077858	52326	Materials	\$ 7,025.00	✓	Purchase Order	✓		x	✓	
19	SCZ	3355575	08.12.2009	5077858	52283	Commercial Contract.	\$ 9,460.00	✓	Purchase Order	✓		✓	✓	
20	SCA	3364183	31.12.2009	2010311	52312	Insurance	\$ 11,522.27	✓	Prepaid Journal	✓		x	✓	

Service Contract: Bundaberg Distribution

Year: 2008/09

Quarter: Q2

	Profit Centre	Document Number	Document Posting Date	Order Number	GL Account	GL Account Description	Value	SAP Transaction Print	Transaction Source / Type	Authorised		Source Document Reviewed	Cost Allocation Check	Comments
										Auto	Manual			
1	SCB	3070126	12.12.2008	5080539	75511	Snr Mgr Band 1	\$ 651.00	✓	Work Order	✓	✓	✓	✓	
2	SCD	3045874	11.11.2008	5081476	52320	Mat. Non Inventory	\$ 700.00	✓	Material Document	✓		✓	✓	
3	SCE	3057307	24.11.2008	5088156	52926	Plant Usage Charge	\$ 727.37	✓	FMS Interface	✓		x	✓	Source document supplied showing the job list etc, but no value specific to each item
4	SCE	3032889	24.10.2008	5087152	52926	Plant Usage Charge	\$ 818.37	✓	FMS Interface	✓		x	✓	Source document supplied showing the job list etc, but no value specific to each item
5	SCC	3045966	11.11.2008	5087135	52300	Rental & Hire- P&E	\$ 870.00	✓	Purchase Order	✓		✓	✓	
6	SCD	3057557	28.11.2008	5088848	52326	Materials	\$ 964.07	✓	Material Document	✓		x	✓	Goods issued from inventory, no physical document showing the value of the goods out
7	SCD	3043695	05.11.2008	5087037	52300	Rental & Hire- P&E	\$ 1,080.00	✓	Purchase Order	✓	✓	✓	✓	
8	SCF	3031638	22.10.2008	5087837	52283	Commercial Contract.	\$ 1,186.00	✓	Purchase Order	✓		✓	✓	
9	SCE	3036256	03.11.2008	5087185	52320	Mat. Non Inventory	\$ 1,286.00	✓	Material Document	✓		✓	✓	
10	SCE	3058530	28.11.2008	5061493	75502	SW Band 2	\$ 1,344.00	✓	Time Sheet	✓	✓	✓	✓	
11	SCB	3043899	06.11.2008	5077892	52320	Mat. Non Inventory	\$ 1,479.66	✓	Material Document	✓		✓	✓	
12	SCF	3037476	31.10.2008	5061623	52112	Electricity	\$ 1,571.41	✓	Accrual Journal	✓		x	✓	Electronic accrual journal, no hard copy
13	SCF	3021607	10.10.2008	5061490	75503	SW Band 3	\$ 1,692.00	✓	Time Sheet	✓	✓	✓	✓	
14	SCF	100611632	03.12.2008	31102008	52320	Mat. Non Inventory	\$ 1,784.02	✓	Material Document	✓	✓	✓	✓	
15	SCB	3059204	30.11.2008	2011402	52108	Consultants	\$ 2,566.67	✓	Journal	✓		x	✓	Electronic journal to allocate consultants apportionment of costs, no hard copy
16	SCE	3047505	13.11.2008	5061604	52405	Grounds Maintenance	\$ 3,024.00	✓	Vendor Invoice	✓	✓	✓	✓	
17	SCE	3035982	31.10.2008	5086937	52320	Mat. Non Inventory	\$ 4,308.00	✓	Purchase Order	✓		✓	✓	
18	SCF	3043796	31.10.2008	2010316	52312	Insurance	\$ 13,622.66	✓	Prepaid Journal	✓		x	✓	Monthly apportionment journal of insurance charge, no hard copy of journal
19	SCE	3054916	21.11.2008	5061684	52323	Chem & Herbicides	\$ 16,786.18	✓	Material Document	✓	✓	✓	✓	
20	SCF	3074992	31.12.2008	5061624	52112	Electricity	\$ 66,568.79	✓	Accrual Journal	✓		x	✓	Electronic accrual journal, reversed next month, no hard copy

Service Contract: Upper Condamine Bulk Supply

Year: 2008/09

Quarter: Q1

	Profit Centre	Document Number	Document Posting Date	Order Number	GL Account	GL Account Description	Value	SAP Transaction Print	Transaction Source / Type	Authorised		Source Document Reviewed	Cost Allocation Check	Comments
										Auto	Manual			
1	SEA	3007146	02.09.2008	5085324	52320	Mat. Non Inventory	\$ 128.80	✓	Work Order	✓		✓	✓	
2	SEC	3005175	22.09.2008	5087165	52283	Commercial Contract.	\$ 135.00	✓	Purchase Order	✓		✓	✓	
3	SEA	2963698	01.08.2008	2008654	57103	Licence Fees Permits	\$ 150.00	✓	Vendor Invoice	✓	✓	✓	✓	
4	SEA	2956301	08.07.2008	5082647	52368	Plant & Eqp <\$1000	\$ 166.41	✓	Purchase Order	✓		✓	✓	
5	SEA	2948767	09.07.2008	5070878	52117	Domestic Travel	\$ 194.95	✓	Vendor Invoice	✓	✓	✓	✓	
6	RUC	2985481	25.08.2008	5070880	52926	Plant Useage Charge	\$ 268.31	✓	FMS Interface	✓		x	✓	Apportionment by costing system, no physical document to show the value
7	RUC	2955058	08.07.2008	5070880	52300	Rental & Hire- P&E	\$ 282.36	✓	Purchase Order	✓	✓	✓	✓	
8	SEA	3008343	30.09.2008	2010361	52293	Land Tax	\$ 446.00	✓	Accrual Journal	✓		x	✓	Electronic accrual journal, reversed next month, no hard copy
9	SEM	2971941	31.07.2008	0	52264	Telephone & Fax	\$ 456.82	✓	Accrual Journal	✓		x	✓	Electronic accrual journal, reversed next month, no hard copy
10	SEC	2986727	15.08.2008	5070903	75505	SW Band 5	\$ 528.00	✓	Time Sheet	✓	✓	✓	✓	
11	SEC	2956632	08.07.2008	5084913	52320	Mat. Non Inventory	\$ 553.37	✓	Purchase Order	✓		✓	✓	
12	SEM	2993575	31.08.2008	0	52264	Telephone & Fax	\$ 685.23	✓	Accrual Journal	✓		x	✓	Electronic accrual journal, reversed next month, no hard copy
13	RUC	2985454	27.08.2008	5086333	52320	Mat. Non Inventory	\$ 752.00	✓	Material Document	✓		✓	✓	
14	SEA	3007295	19.09.2008	5078438	75508	SW Band 8	\$ 774.90	✓	Time Sheet	✓	✓	✓	✓	
15	SEA	2956571	16.07.2008	5084892	52298	Water Monitoring	\$ 959.99	✓	Vendor Invoice	✓	✓	✓	✓	
16	SEA	2985455	27.08.2008	5086334	52320	Mat. Non Inventory	\$ 1,104.00	✓	Purchase Order	✓		✓	✓	
17	SEA	2951402	11.07.2008	5084910	52401	Building Maintenance	\$ 1,325.00	✓	Purchase Order	✓		✓	✓	
18	SEA	2987944	02.09.2008	2008654	52291	Local Auth.Rates	\$ 2,495.94	✓	Vendor Invoice	✓		✓	✓	
19	SEC	3007898	30.09.2008	2010362	52312	Insurance	\$ 3,638.22	✓	Prepaid Journal	✓		x	✓	Electronic accrual journal, reversed next month, no hard copy
20	SEA	2951382	11.07.2008	5063637	52108	Consultants	\$ 14,284.00	✓	Purchase Order	✓	✓	✓	✓	Amounts on purchased order crossed out and lower values enetered in handwriting.

Service Contract: Upper Condamine Bulk Supply

Year: 2009/10

Quarter: Q2

	Profit Centre	Document Number	Document Posting Date	Order Number	GL Account	GL Account Description	Value	SAP Transaction Print	Transaction Source / Type	Authorised		Source Document Reviewed	Cost Allocation Check	Comments
										Auto	Manual			
1	RUC	3311894	08.10.2009	5095087	52298	Water Monitoring	\$ 131.00	✓	Vendor Invoice	✓	✓	✓	✓	
2	SEA	3339522	13.11.2009	5095056	52291	Local Auth.Rates	\$ 156.68	✓	Vendor Invoice	✓	✓	✓	✓	
3	SEC	3318273	22.10.2009	5090452	52300	Rental & Hire- P&E	\$ 166.90	✓	Purchase Order	✓	✓	✓	✓	
4	SEC	3309446	08.10.2009	5095081	52247	Diesel-MV & Plant	\$ 223.48	✓	AMIS Interface	✓		x	✓	Apportionment by costing system, no physical document to show the value
5	SEM	3352843	30.11.2009	0	52264	Telephone & Fax	\$ 259.50	✓	Accrual Journal	✓		x	✓	Electronic accrual journal, reversed next month, no hard copy
6	RUC	3339381	13.11.2009	5095053	75503	SW Band 3	\$ 314.50	✓	Time Sheet	✓	✓	✓	✓	
7	SEA	3321133	02.10.2009	5097497	52320	Mat. Non Inventory	\$ 351.82	✓	Purchase Order	✓	✓	✓	✓	
8	SEC	3361982	01.12.2009	5090452	52300	Rental & Hire- P&E	\$ 480.00	✓	Purchase Order	✓		✓	✓	
9	SEM	3362261	18.12.2009	5095061	75505	SW Band 5	\$ 598.00	✓	Time Sheet	✓	✓	✓	✓	
10	SEC	3307811	06.10.2009	5090452	52283	Commercial Contract.	\$ 675.00	✓	Purchase Order	✓		✓	✓	
11	SEC	3318738	23.10.2009	5095070	52926	Plant Useage Charge	\$ 884.31	✓	FMS Interface	✓		x	✓	Apportionment by costing system, no physical document to show the value
12	SEA	3336629	13.11.2009	5096485	75507	SW Band 7	\$ 928.00	✓	Time Sheet	✓	✓	✓	✓	
13	SEA	3321188	29.10.2009	5095055	52298	Water Monitoring	\$ 1,006.20	✓	Vendor Invoice	✓	✓	✓	✓	
14	SEA	3341769	19.11.2009	5071829	52112	Electricity	\$ 1,020.48	✓	Vendor Invoice	✓		✓	✓	
15	SEC	3327709	31.10.2009	5095081	52247	Diesel-MV & Plant	\$ 1,395.20	✓	Accrual Journal	✓		x	✓	Electronic accrual journal, reversed next month, no hard copy
16	SEC	3361997	23.12.2009	5095605	52326	Materials	\$ 1,485.00	✓	Purchase Order	✓		x	✓	Goods issued from inventory, no physical document showing the value of the goods out
17	SEA	3330013	03.11.2009	5090442	52283	Commercial Contract.	\$ 1,680.00	✓	Purchase Order	✓		✓	✓	
18	RUC	3361913	22.12.2009	5092745	52320	Mat. Non Inventory	\$ 2,244.00	✓	Purchase Order	✓		✓	✓	
19	SEA	3364183	31.12.2009	2010361	52312	Insurance	\$ 6,847.04	✓	Prepaid Journal	✓		x	✓	Electronic accrual journal, reversed next month, no hard copy
20	SEA	3361740	22.12.2009	5090440	52283	Commercial Contract.	\$ 30,000.00	✓	Purchase Order	✓		✓	✓	

Service Contract: Nogoia Bulk Water

Year: 2008/09

Quarter: Q1

	Profit Centre	Document Number	Document Posting Date	Order Number	GL Account	GL Account Description	Value	SAP Transaction Print	Transaction Source / Type	Authorised		Source Document Reviewed	Cost Allocation Check	Comments
										Auto	Manual			
1	CCA	2994595	05.09.2008	2010293	52312	Insurance	\$ 581.76	✓	Vendor Invoice	✓		x	✓	Monthly apportionment via electronic journal
2	CCA	2956280	15.07.2008	5084556	52298	Water Monitoring	\$ 702.96	✓	Vendor Invoice	✓		x	✓	AP Invoice for \$2,436.90 presented. No breakdown representing the \$702.96
3	CCA	2960656	24.07.2008	5085439	52926	Plant Useage Charge	\$ 732.17	✓	FMS Interface	✓		x	✓	Apportionment by costing system, no physical document to show the value
4	RNM	2952730	15.07.2008	5085007	52368	Plant & Eqp <\$1000	\$ 797.40	✓	Purchase Order	✓		✓	✓	
5	CCA	3005456	22.09.2008	5084583	52283	Commercial Contract.	\$ 863.13	✓	Purchase Order	✓		✓	✓	
6	CCA	2953894	17.07.2008	5084551	52283	Commercial Contract.	\$ 979.80	✓	Purchase Order	✓		✓	✓	
7	CCA	2986908	28.08.2008	5084311	52269	Freight Cart & Post	\$ 1,043.75	✓	Vendor Invoice	✓		x	✓	Invoice not presented
8	CCA	2994011	04.09.2008	2010293	52312	Insurance	\$ 1,158.85	✓	Vendor Invoice	✓		x	✓	Monthly apportionment via electronic journal
9	CCA	3005548	19.09.2008	5084549	75506	SW Band 6	\$ 1,240.00	✓	Time Sheet	✓	✓	✓	✓	
10	RNM	2996762	10.09.2008	5085996	52320	Mat. Non Inventory	\$ 1,386.90	✓	Purchase Order	✓	✓	✓	✓	
11	CCA	2956256	16.07.2008	5072535	52112	Electricity	\$ 1,688.32	✓	Vendor Invoice	✓	✓	✓	✓	
12	CCA	2997815	12.09.2008	5081256	52320	Mat. Non Inventory	\$ 2,000.00	✓	Purchase Order	✓	✓	x	✓	Invoice not presented
13	CCA	2987301	29.08.2008	5084549	75506	SW Band 6	\$ 2,125.00	✓	Time Sheet	✓	✓	✓	✓	
14	RNM	2954039	17.07.2008	5072549	52300	Rental & Hire- P&E	\$ 2,373.78	✓	Purchase Order	✓		✓	✓	
15	CCA	2985275	27.08.2008	5084568	52221	Chem Herb Poisons	\$ 2,600.00	✓	Purchase Order	✓		✓	✓	
16	RNM	3009784	30.09.2008	5086366	52320	Mat. Non Inventory	\$ 3,535.08	✓	Purchase Order	✓		✓	✓	
17	CCA	2960331	25.07.2008	5084311	52283	Commercial Contract.	\$ 8,540.00	✓	Purchase Order	✓	✓	✓	✓	
18	CCA	2997815	12.09.2008	5081256	52320	Mat. Non Inventory	\$ 10,000.00	✓	Purchase Order	✓		✓	✓	
19	CCA	2993571	31.08.2008	4008379	52283	Commercial Contract.	\$ 27,582.50	✓	Purchase Order				✓	Awaiting documents from SunWater
20	CCA	2987372	31.08.2008	2010293	52312	Insurance	\$ 42,279.82	✓	Vendor Invoice				✓	Awaiting documents from SunWater

Service Contract: Emerald Distribution  
 Year: 2009/10  
 Quarter: Q1

	Profit Centre	Document Number	Document Posting Date	Order Number	GL Account	GL Account Description	Value	SAP Transaction Print	Transaction Source / Type	Authorised		Source Document Reviewed	Cost Allocation Check	Comments
										Auto	Manual			
1	CCH	3241312	28.07.2009	2008714	75503	SW Band 8	-\$ 66.00	✓	Jnl for Sal & Wages	✓		x	✓	Copy of timesheet, no physical journal evident
2	DSE	3263049	12.08.2009	5094250	77006	Mat. Non Inventory	\$ 18.93	✓	Purchase Order	✓		x	✓	Invoice not presented
3	DSE	3242740	27.07.2009	5084562	77006	Mat. Non Inventory	\$ 24.36	✓	Vendor Invoice	✓		✓	✓	
4	CCC	3298270	24.09.2009	5084571	77006	Plant Useage Charge	\$ 31.60	✓	FMS Interface	✓		x	✓	Apportionment by costing system, no physical document to show the value
5	CCC	3305613	30.09.2009	0	77006	Telephone & Fax	\$ 36.31	✓	Accrual Journal	✓		x	✓	Electronic accrual journal, reversed next month, no hard copy
6	CCC	3288368	10.09.2009	5094921	77006	Freight Cart & Post	\$ 37.26	✓	Vendor Invoice	✓		x	✓	Unable to be located
7	DSE	3272844	25.08.2009	5094250	77006	Mat. Non Inventory	\$ 67.64	✓	Purchase Order	✓		✓	✓	
8	LIW	3275153	28.08.2009	5084571	77006	SW Band 4	\$ 184.50	✓	Time Sheet	✓	✓	✓	✓	
9	CCC	3265281	14.08.2009	5098019	77006	SW Band 6	\$ 204.00	✓	Time Sheet	✓	✓	✓	✓	
10	CCB	3275337	28.08.2009	2008714	77006	Snr Mgr Band 1	\$ 408.00	✓	Direct Activity All'n	✓		x	✓	Copy of timesheet, no physical journal evident
11	CCC	3286255	10.09.2009	5084570	77006	Chem & Herbicides	\$ 592.56	✓	Purchase Order	✓		x	✓	Apportionment by costing system, no physical document to show the value
12	DSE	3241312	28.07.2009	5087994	77006	SW Band 4	\$ 615.00	✓	Jnl for Sal & Wages	✓		x	✓	Copy of timesheet, no physical journal evident
13	CCB	3235806	16.07.2009	5096945	77006	Rental & Hire- P&E	\$ 792.52	✓	Purchase Order	✓		✓	✓	
14	CCB	3232512	10.07.2009	5094250	77006	SW Band 8	\$ 1,386.00	✓	Time Sheet	✓	✓	✓	✓	
15	CCB	3275642	31.08.2009	5098007	77006	Mat. Non Inventory	\$ 1,500.00	✓	Purchase Order	✓		x	✓	Invoice not presented
16	CCC	3274731	31.08.2009	5097648	77006	Commercial Contract.	\$ 3,131.00	✓	Purchase Order	✓		✓	✓	
17	CCC	3277420	31.08.2009	2010295	77006	Insurance	\$ 8,904.86	✓	Prepaid Journal	✓		x	✓	Electronic accrual journal, reversed next month, no hard copy
18	CCC	3242703	29.07.2009	5072541	77006	Electricity	\$ 10,924.14	✓	Vendor Invoice	✓		✓	✓	
19	DSE	3298270	24.09.2009	5098019	77006	Plant Useage Charge	\$ 16,187.99	✓	FMS Interface	✓		x	✓	Apportionment by costing system, no physical document to show the value
20	CCC	3300720	29.09.2009	5084575	77006	Commercial Contract.	\$ 24,350.00	✓	Purchase Order	✓		✓	✓	

Service Contract: Mareeba Bulk Supply

Year: 2008/09

Quarter: Q2

	Profit Centre	Document Number	Document Posting Date	Order Number	GL Account	GL Account Description	Value	SAP Transaction Print	Transaction Source / Type	Authorised		Source Document Reviewed	Cost Allocation Check	Comments
										Auto	Manual			
1	NBA	3072516	18.12.2008	5076762	52264	Telephone & Fax	\$ 14.09	✓	TCAMS Interface	✓		x	✓	Apportionment by costing system, no physical document to show the value
2	NBA	3033912	02.10.2008	4009063	52269	Freight Cart & Post	\$ 16.00	✓	Corporate Card	✓		✓	✓	
3	NBA	3069306	12.12.2008	4009063	52125	Taxi Fares	\$ 26.36	✓	Cabcharge Journal	✓		x	✓	Bulk electronic bill from Cabcharge, invoice not sighted
4	NBA	3057671	28.11.2008	5082789	52298	Water Monitoring	\$ 38.70	✓	Vendor Invoice	✓		✓	✓	
5	NBA	3049512	14.11.2008	5082789	75503	SW Band 3	\$ 108.00	✓	Time Sheet	✓		✓	✓	
6	RMD	3066417	04.12.2008	4009208	52225	Subscriptions & Oths	\$ 133.90	✓	Vendor Invoice	✓	✓	✓	✓	
7	NBA	3057666	28.11.2008	5088910	75508	SW Band 8	\$ 157.50	✓	Time Sheet	✓		✓	✓	
8	NBA	3056873	26.11.2008	5088497	52302	Rental & Hire - MV	\$ 235.58	✓	Vendor Invoice	✓	✓	✓	✓	
9	NBA	3073598	16.12.2008	5088497	52126	Air Fares-Domestic	\$ 334.90	✓	AMEX Travel Journal	✓		x	✓	Bulk electronic bill from AMEX, invoice not sighted
10	NBA	3066394	03.12.2008	4009132	52117	Domestic Travel	\$ 730.00	✓	Travel Allowance Doc	✓	✓	✓	✓	
11	NBA	3030943	17.10.2008	4009063	75501	SW Band 1	\$ 812.00	✓	Time Sheet	✓		✓	✓	
12	NBA	3043878	06.11.2008	5082789	52320	Mat. Non Inventory	\$ 1,020.00	✓	Purchase Order	✓		✓	✓	
13	NBA	3054052	07.11.2008	5088009	75502	SW Band 2	\$ 1,072.00	✓	Time Sheet	✓		✓	✓	
14	NBA	3071120	12.12.2008	4009063	75506	SW Band 6	\$ 1,390.00	✓	Time Sheet	✓		✓	✓	
15	RMD	3058238	01.12.2008	2011544	52278	Legal Expenses	\$ 1,485.00	✓	Vendor Invoice	✓	✓	✓	✓	
16	NBA	3037487	31.10.2008	2010405	52293	Land Tax	\$ 1,640.25	✓	Accrual Journal	✓		x	✓	Electronic accrual journal, reversed next month, no hard copy
17	NBA	3022047	13.10.2008	4009063	52283	Commercial Contract.	\$ 3,080.00	✓	Vendor Invoice	✓		✓	✓	
18	NBA	3059689	21.11.2008	5088497	75510	SW Band 10	\$ 3,580.50	✓	Time Sheet	✓		✓	✓	
19	NBA	3056616	26.11.2008	4009063	52108	Consultants	\$ 5,909.09	✓	Purchase Order	✓		✓	✓	
20	NBA	3078159	31.12.2008	2010405	52312	Insurance	\$ 8,917.81	✓	Prepaid Journal	✓		x	✓	Electronic accrual journal, reversed next month, no hard copy

Service Contract: Mareeba Distribution  
 Year: 2009/10  
 Quarter: Q3

Profit Centre	Document Number	Document Posting Date	Order Number	GL Account	GL Account Description	Value	SAP Transaction Print	Transaction Source / Type	Authorised		Source Document Reviewed	Cost Allocation Check	Comments
									Auto	Manual			
1 NBL	3414929	16.03.2010	5071054	52231	Uniform & Prot Cloth	-\$ 20.99	✓		✓		x	✓	No Source document - correcting journal
2 NBP	3416100	22.03.2010	5082850	52320	Mat. Non Inventory	\$ 10.25	✓	Purchase Order	✓		✓	✓	
3 DBK	3381722	29.01.2010	5071938	52248	Petrol-MV & Plant	\$ 26.18	✓	Vendor Invoice	✓		✓	✓	
4 NBP	3412852	12.03.2010	5061789	52112	Electricity	\$ 39.91	✓	Vendor Invoice	✓		✓	✓	
5 NBL	3380282	22.01.2010	5102116	75503	SW Band 3	\$ 74.00	✓	Time Sheet	✓	✓	✓	✓	
6 NBL	3417338	24.03.2010	5085441	52323	Chem & Herbicides	\$ 115.12	✓	Purchase Order	✓		x	✓	Apportionment by costing system, no physical document to show the value
7 NBL	3397415	18.02.2010	5102680	52269	Freight Cart & Post	\$ 125.00	✓	Purchase Order	✓		x	✓	Invoice not presented
8 NBL	3416376	22.03.2010	5098797	52283	Commercial Contract.	\$ 210.00	✓	Purchase Order	✓		x	✓	Invoice not presented
9 NBL	3412580	12.03.2010	5102930	75502	SW Band 2	\$ 313.50	✓	Time Sheet	✓	✓	✓	✓	
10 NBN	3402124	28.02.2010	2010422	52312	Insurance	\$ 396.25	✓	Prepaid Journal	✓		x	✓	Electronic accrual journal, reversed next month, no hard copy
11 NBL	3415259	12.03.2010	5104038	75503	SW Band 3	\$ 499.50	✓	Time Sheet	✓	✓	✓	✓	
12 NBL	3397505	18.02.2010	5102831	52326	Materials	\$ 648.18	✓	Purchase Order	✓		✓	✓	
13 NBL	3400281	26.02.2010	5103068	52300	Rental & Hire- P&E	\$ 722.50	✓	Purchase Order	✓		x	✓	Invoice not presented
14 NBL	3416671	22.03.2010	5104112	52326	Materials	\$ 1,119.91	✓	Purchase Order	✓		✓	✓	
15 MIM	3412614	12.03.2010	2011747	75503	SW Band 3	\$ 1,480.00	✓	Time Sheet	✓		✓	✓	
16 NBL	3414898	16.03.2010	5071054	52231	Uniform & Prot Cloth	\$ 1,990.00	✓	Purchase Order	✓		x	✓	Invoice not presented
17 NBL	3394270	09.02.2010	5101344	52320	Mat. Non Inventory	\$ 2,386.00	✓	Purchase Order	✓		x	✓	Invoice not presented
18 NBL	3395368	15.02.2010	5102903	52300	Rental & Hire- P&E	\$ 8,850.00	✓	Purchase Order	✓		x	✓	Invoice not presented
19 NBN	3372897	15.01.2010	5061788	52112	Electricity	\$ 16,616.18	✓	Vendor Invoice	✓		✓	✓	
20 NBL	3409950	28.02.2010	5099311	52283	Commercial Contract.	\$ 547,748.36	✓	Accrual Journal	✓		x	✓	Electronic accrual journal, reversed next month, no hard copy

## Appendix K

### Accounts which attract 5% Procurement Overhead

NON-LAB-OH		Non-Labour Overhead Cost Element Group
ME-SUBS	Subsidiaries Specific Expenses	
	53030	Do Not Use SunWater Consultants
	53015	SunWater Consulting Fees
	53020	SunWater Water Charges
	53022	SunWater Temporary Transfer
	53025	SunWater Service contract Charges
OH-ME-LONC	Labour On Costs - O/Head	
	51902	Transfer, appointment & recruitment cost
	51906	Study Assistance-SARAS
	51910	Insurance-Workers Compensation
	52250	Do Not Use Motor Vehicles-Salary Pckgng
	52260	Entertainment-FBT
OH-ME-OTHR	Other Expenses - O/Head	
	52315	Promotional Items
	52807	Software Maintenance and Licences
	52105	Credit Control
	52288	Customer Council Payments
	51912	Staff Training
	51915	Staff Rewards and Incentives
	51919	Employee Recreation Programme
	51920	SunWater Social Club
	52298	Water Monitoring Charges
	53010	Do Not Use QTC Management Fees
	52135	52136
	52135	Directors Fee
	52136	Directors Out of Pocket Expenses
	52272	Do Not Use DNR IT Charges
	52273	IT Facilities Mgt
	52371	Do Not Use Service Costs-DNR IT
	52101	Financial Audit Fees
	52102	Compliance Auditing and Quality Assuranc
	52225	Subs, Tenders, Publicat'ns & Transcripts
	52228	Office Consumables
	52230	Printing
	52231	Uniforms & Protective Clothing
	52258	Seminars & Conferences
	52262	52266
	52262	Entertainment-Non FBT-Deductible
	52263	Entertainment-Non FBT-Non Deductible
	52264	Telephone & Facsimile
	52265	Telephone Allowance-Private Residence
	52266	Telecommunications - Data Lines
	52269	Freight Cartage & Postage
	52271	Computer-Operating & Maintenance Costs
	52278	Legal Expenses
	52289	Professional Memberships
	52290	Commission Paid
	52295	Advertising
	52296	Office, Housing and Venue Rental
	52297	Leasehold Fees (Land)
	52307	52310
	52307	Service Costs-CSA
	52308	Do Not Use Service Costs-DNR
	52309	Ex-Gratia Payments
	52310	Sponsorships, Gifts and Donations
	52312	Insurance
	52316	Bank & Other Finance Fees
	52330	Cost of Sales Purchased Water
	52331	Cost of Sales Water Allocation
	52341	Other Operating Expenses
	52350	Compensation, Settlement and ex-gratia P
	52356	Lease/Rental - IT Equipment