

Attachment D.3
**Assurance of SA
Water's Cost
Allocation
Methodology, KPMG**

SA Water
**Regulatory Business
Proposal 2013**





Independent limited assurance report to the directors of SA Water Corporation

We have performed an engagement to provide limited assurance in relation to SA Water Corporation's Cost Allocation Method and Regulatory Expenditure Model¹ as they relate to the Corporation's Regulatory Business Proposal for the 2013/14 – 2015/16 periods.

SA Water's responsibility for the Regulatory Business Proposal

Management and the directors of SA Water Corporation ('the Corporation') are responsible for the preparation and submission of the Regulatory Business Proposal, the fair presentation of the information contained therein and the appropriateness of the related policies, procedures and models in accordance with the Guidance Paper issued by the Essential Services Commission of South Australia ('ESCOSA'). This responsibility includes establishing and maintaining internal control relevant to the preparation and presentation of the Regulatory Business Proposal that is free from material misstatement whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion to SA Water Corporation on the preparation and presentation of the Cost Allocation Method and Regulatory Expenditure Model.

We conducted our limited assurance engagement in accordance with Standard on Assurance Engagements ASAE 3000 *Assurance Engagements other than audits or reviews of historical financial information* in order to state whether anything has come to our attention that would indicate that the Cost Allocation Method and Regulatory Expenditure Model, to be used in the preparation of the Corporation's Regulatory Business Proposal for the 2013/14 – 2015/16 periods, has not, in all material respects, been prepared in accordance with the requirements of clause 2.2 and 4.3.5 of the Guidance Paper issued by ESCOSA in February 2012.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for regulatory and financial and accounting matters, and applying analytical and other limited assurance procedures. These procedures include:

- Enquiries of management as to the allocation of expenditure, and other requirements considered necessary by the Corporation to achieve compliance with ESCOSA's Guidance Paper;
- Reviewing the Cost Allocation Method for compliance with clauses 2.2 and 4.3.5 of ESCOSA's Guidance Paper;
- Reviewing the basis of allocation of costs between (i) direct control, excluded and non regulated services and (ii) water and waste water;
- Reviewing the application of the Cost Allocation Method through the formulae contained in the Regulatory Expenditure Model;
- Enquiries to understand the source and flow of financial and other data used in the Regulatory Expenditure Model;
- Agreeing the accuracy of the data entered into the Regulatory Expenditure Model to the financial accounting system for the reporting periods from 2007/08 to 2010/11 and to the February 2012 forecast for the reporting period 2011/2012; and
- Enquiries to ascertain the process and internal control relevant to the above procedures.



The procedures did not include reviewing the preparation or presentation of the Regulatory Business Proposal.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement or an audit conducted in accordance with Australian Auditing and Assurance Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit or a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance or audit opinion.

This report has been prepared for SA Water Corporation for the purpose of its Regulatory Business Proposal for the 2013/14 – 2015/16 periods. We disclaim any assumption of responsibility for any reliance on this report, the Cost Allocation Method or the Regulatory Expenditure Model to any person other than SA Water Corporation and the Essential Services Commission of South Australia, or for any purpose other than for which it was prepared.

Inherent limitations

Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our engagement is not designed to detect all weaknesses in the Cost Allocation Method, Regulatory Expenditure Model or related data, as the engagement has not been performed continuously throughout the period and the procedures performed were undertaken on a test basis.

Any projection of the appropriateness of the Cost Allocation Method, or the evaluation of the operation of the Regulatory Expenditure Model, to future periods is subject to the risk that the policies or procedures may become inadequate because of changes in conditions, or that the degree of compliance may deteriorate.

The limited assurance conclusion expressed in this report has been formed on the above basis.

Conclusion

Based on our limited assurance engagement, which is not a reasonable assurance engagement or an audit, we have not become aware of any matter that would lead us to believe that the Cost Allocation Method or Regulatory Expenditure Model¹, have not, in all material respects, been prepared in accordance with the requirements of clause 2.2 and 4.3.5 of the Guidance Paper issued by ESCOSA in February 2012

KPMG

Adelaide

5 September 2012

¹ Our work in relation to the Regulatory Expenditure Model is limited to work on the following elements of the Model: SA Water Regulatory Submission Workings 2007 - 2012 and the OPEX Model Waste_20120623 and OPEX Model Water_20120623 and is limited to the historical information contained in the above elements of the model. Our work does not include any work in relation to future projections.