

# Water Trade Price Reporting Audit

## Why is price reporting important?

It is estimated that 8.5 million megalitres of water, valued at approximately \$2.0 billion, were traded in the Murray-Darling Basin in 2017-18.

Water trade markets are one of the key mechanisms for managing water scarcity in the Murray Darling Basin, whilst maintain industry development and growth. Providing market participants with accurate and timely price information is critical to the operation of a sophisticated, sustainable water market.

Accurate, publicly accessible price information provides equal access for all market participants to market information. This leads to informed investment and encourages market participants to make best use of water dependant on their needs.

For these reasons, in 2014 the Basin Plan established requirements that all water trade transaction prices must be reported (by a seller) to the relevant Basin State government agency overseeing water trade.<sup>1</sup>

## What are the existing water trade pricing arrangements?

Basin State government agencies record and report water trade prices within individual public registers.

Information contained in the public registers is provided to the Bureau of Meteorology (BoM), and collated for inclusion in the publicly available *Consolidated Water Markets Dashboard* (Dashboard). This supports transparency of water trade price information

The BoM is not directly responsible for managing price reporting within the Basin States. However, it does have responsibility for maintaining accurate and current water trade price information through the Dashboard.

## How has the Audit been conducted?

The MDBA has undertaken a **two-part Audit** to examine how well water price reporting for allocation and entitlement trades across Basin States are operating. The Audit has also explored areas for improvement to make price reporting easier and increase the accuracy and integrity of the information provided to participants.

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<sup>1</sup> Trades within private irrigations networks operated by irrigation infrastructure operators, such as the Murrumbidgee Irrigation District are not covered by this rule as they are managed internally by the network.

## Audit Part 1 - Basin State systems and processes for recording and reporting trade prices

Conducted by the **MDBA**, Part 1 of the Audit assessed the effectiveness of each Basin State's processes and procedures to collect, validate, record and report water trade pricing information for the water year 2017-18.

## Audit Part 2: Water traders and brokers compliance with the requirement to report prices

Conducted by **Deloitte**, Part 2 of the Audit examined individual water trade transactions to ascertain the accuracy of prices reported and integrity of the water trade market. A sample of individual trades was selected within each Basin State, and relevant traders or brokers contacted to determine whether prices were being accurately reported as required by the Basin Plan.

## Findings

### Audit - Part 1

The central finding of Audit Part 1 was that Basin States do not have sufficiently robust processes in place to capture and produce comprehensive, accurate price information. Issues included:

- price reporting was not compulsory in all jurisdictions
- some trades were processed without price information
- price information was reported but not validated

There is strong evidence that price data reported by each Basin State is both inaccurate and incomplete. This problem is further compounded when Basin State data is consolidated and published on the BoM Dashboard.

### Audit - Part 2

In Audit Part 2, Deloitte uncovered a range of issues including:

- confusion about the requirement to report price
- inconsistent approaches to reporting price by different traders and brokers
- not being able to verify price on nearly half of all (sampled) transactions

Deloitte concluded that many of these issues existed due to flaws within Basin State systems and processes – which was consistent with the findings of Part 1 of the Audit.

Deloitte determined it was not able to obtain enough evidence to form a conclusive opinion on the extent to which water traders and brokers are complying with their reporting requirements. Deloitte noted this was largely due to the:

- the inability to contact some of the selected traders or brokers
- a lack of adequate supporting evidence for selected transactions

As part of the process, Deloitte made many useful observations and have put forward a number recommendations for improvement. Refer to these observations in Part B of the audit opinion.