



Australian Government



# Water Trade Price Reporting under the Basin Plan

Part 1: Basin state processes and procedures  
for collecting water trade price information

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The guidance and support received from the Murray Lower Darling Rivers Indigenous Nations, the Northern Basin Aboriginal Nations and our many Traditional Owner friends and colleagues is very much valued and appreciated.

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# Overview

A fundamental feature of efficient markets is the availability of accurate and timely price information for all potential market participants. For this reason, the Basin Plan requires sellers of water access rights (both permanent and temporary or allocation trades) to notify the relevant Basin state agency of the price agreed for the trade (s12.48). For their part, states are required to provide trade data to the Bureau of Meteorology, which publishes consolidated trade data (Water Act s123-1).

During 2018-19, the Murray-Darling Basin Authority (MDBA) conducted a two-part audit of water trade price reporting. This first part of the audit assessed the effectiveness of the processes and procedures of each Basin state to collect, validate, record and report accurate water trade pricing information for the water year 2017-18. The second part of the audit assessed water traders compliance with the requirement to report accurate price information to their relevant approval authority in accordance with s12.48 of the Basin Plan.

The central finding of part one of the audit is that no Basin state has robust arrangements in place to ensure comprehensive, accurate price information. As a consequence, some of the data reported by states and the consolidated data published by the Bureau of Meteorology is incomplete, and inaccurate.

There is no single point of truth for Basin trade data, as it is dispersed between various approval authorities, using a multiplicity of processes. The audit had difficulty obtaining information from some Basin states, due to processes involving multiple entities that capture prices on different systems for different purposes.

It is clear that trade processes and procedures are largely designed and implemented to capture volume information and account balances for the purpose of water management, rather than trade and price information for market purposes. Mandatory price reporting across all Basin states is a relatively new requirement brought under the Basin Plan in 2014, and as a consequence compliance and enforcement was found to be sporadic.

## Findings

Overall, the audit has observed the following findings, noting there may be some differences between the states and between the different types of trades. Summary findings for part one of the audit are listed below.

1. All Basin states, other than Queensland, have provision on relevant application forms for sellers to disclose the price of allocation and entitlement trades. In Queensland, there is no provision on the seasonal water assignment (allocation) trade application form for sellers to submit the trade price.
2. In New South Wales, while the application form for allocation trades states that it is mandatory to enter a price, the trade will still be processed even if a price has not been entered. There is also no requirement to report a price on entitlement trades processed. In Victoria, it is mandatory to enter a price for allocation trades and the majority of entitlement trades. At the time of the audit, price reporting was not mandatory for either allocation or

entitlement trades in South Australia. However, since being advised of the audit outcomes, South Australia has made price reporting mandatory for both types of trade. As noted above, price information is not collected at all for seasonal water assignment (allocation) trades in Queensland. Price reporting is not mandatory on trade application forms in the Australian Capital Territory.

3. No Basin state requires sellers to provide evidence to support and ensure the price reported is correct as part of the trade approval process. With the exception of certain trades in Victoria, Basin states do not notify the buyer of the price reported by the seller.
4. All Basin states process trade applications submitted with a \$0 price, without requiring evidence to ensure that the \$0 price is genuine. The audit found there is a significant difference between states in relation to zero price reporting, ranging from 84% of trades processed in Queensland down to 33% in Victoria (see Table 2 below). In 2017-18, some 44% of all Basin trades were priced at zero. If these 44% of zero price trades are removed from the data, the average price of allocation water was \$126 per megalitre and of entitlement water was \$1,483 per megalitre.

While there are legitimate instances of zero price trades (for example, the transfer of an entitlement between trading zones by the same owner, such as an environmental water holder, or an irrigator with multiple properties) it is implausible that almost half of the water trades in 2017-18 were for such reasons. In other words, it seems common practice for sellers to deliberately misreport the price of trades as zero dollars, and for states to accept this deliberate misreporting.

5. Trade system errors have been identified in Queensland and New South Wales, which mean that prices and volumes recorded in the systems are not always consistent with the information submitted on the trade application. These system errors have a significant impact on the accuracy of the prices and volumes being reported, both at the state level and for the Bureau of Meteorology (BOM) Basin-wide reporting, which uses consolidated state data.
6. With the exception of Victoria and South Australia, State Water registers do not identify separately transfers of held environmental water. Given the size of environmental holdings and the active management of environmental water, this is a significant reporting gap that could easily be addressed.
7. Across the Basin there is a multiplicity of agencies with a role in trade approvals and reporting, which means that accessing price data can be time-consuming and difficult.
8. Generally, Basin state systems, processes and applications do not have a provision to appropriately capture or recognise the range of products that have emerged in recent years in the water market, for example, lease agreements and forward contracts. As result, these products are often reported at \$0 by brokers and traders, which may contribute to the high volume of \$0 trades reported in the Murray-Darling Basin and may be distorting the market.

Table 1: Findings by state - Water Trade Price

Audit Findings	New South Wales		Victoria		Queensland <sup>1</sup>		South Australia		Australian Capital Territory	
	Entitlement	Allocation	Entitlement	Allocation	Entitlement	Allocation	Entitlement	Allocation	Entitlement	Allocation
Do application or lodgement forms have provision for price information?	✓	✓	✓	✓	✓	✗	✓	✓	✓	N/A
If so, is providing price information mandatory?	✗	✓	✗ <sup>2</sup>	✓	✓	N/A	✗ <sup>3</sup>	✗ <sup>3</sup>	✗	N/A
Are application or lodgement forms processed where no price or a zero price has been entered ?	✓	✓	✓	✓	✓	N/A	✓	✓	✓	N/A
Is there a process to validate price information before trades are processed?	✗	✗	✗	✗	✗	N/A	✗	✗	✗	N/A
Is there a process to analyse and validate price data after trades are processed?	✗	✗	✗	✗	✗	N/A	✗	✗	✗	N/A
Are buyers notified of the price reported by sellers?	✗	✗	✗	✓	✗	N/A	✗	✗	✗	N/A

Table 2: Entitlement and allocation trades reported at \$0 in 2017-18

Murray-Darling Basin state	Total Transactions	Total Volume (ML)	Percentage of Trades reported at \$0	Volume with \$0 (ML)
Australian Capital Territory	2.00	3.00	100%	3.00
New South Wales	7,276.00	3,409,228.70	35%	2,162,767.50
Queensland	574.00	166,296.07	84%	135,032.07
South Australia	1,645.00	431,343.28	44%	310,344.61
Victoria	17,930.00	3,335,757.60	33%	2,222,544.20
<b>All MDB</b>	<b>27,427.00</b>	<b>7,342,628.65</b>		<b>4,830,691.38</b>

Source: The above numbers have been obtained from the Bureau of Meteorology water trade data.

<sup>1</sup> In Queensland an allocation trade is referred to as the trade of a seasonal water assignment and an entitlement trade as the trade of an allocation.

<sup>2</sup>Victoria have recently updated their forms and reinforced that price is mandatory on the majority of entitlement trades .

<sup>3</sup>, Since being advised of the outcomes of part one of the audit, South Australia have now made price reporting mandatory.

# Basin-wide Recommendations

Clear actions flow from the findings of the audit that would transform the quality of price data. Some actions are specific to each state, while others apply across the Basin. Recommendations for each state are presented in the next section. Basin-wide recommendations are in the table below.

	Recommended action:	Recommended date:
1.	<ul style="list-style-type: none"> <li>a) All state trade application forms include a compulsory trade price field.</li> <li>b) State registry systems be updated such that:               <ul style="list-style-type: none"> <li>(i) where a price is submitted as zero, a reason for the zero value must be provided. Where the trade is of environmental water, this should be identified and reported separately from other trades; and</li> <li>(ii) consideration of a trade application should not proceed without this information.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>a) 31 December 2019</li> <li>b) 30 June 2020</li> </ul>
2.	<p>In consultation with water users, the MDBA and the states will prepare guidelines and education programs to inform sellers and buyers of their obligations to disclose the prices at which trade actually occurs.</p>	31 December 2019
3.	<p>States to develop and implement trade price validation processes consistently across all Basin states.</p> <p>States to send a clear signal to the market of their intention to validate prices that are reported.</p>	30 June 2020
4.	<p>Basin states and BOM work together to ensure quality assured data is provided for improved reporting.</p>	31 December 2020

# 1. Detailed findings

For this audit, the Murray-Darling Basin Authority (MDBA) performed the following procedures for each Basin state:

- Process walk-throughs with each Basin state approval authority to understand their processes and procedures for collecting, validating, recording and reporting on price information.
- Selected a random sample of 15 trade transactions in each Basin state<sup>4</sup> for testing from 2017-18 trade data.
- Obtained copies of application forms and supporting documents for the transactions selected to identify whether price reported agreed with price captured in the trade data received.
- Determined whether the applications were processed in accordance with standard operating procedures and assessed whether appropriate preventative, detective and corrective controls are implemented.
- Compared Basin state 2017-18 trade data with the water register and Bureau of Meteorology (BOM) data to assess the accuracy of information between these three datasets.
- Provided Basin states with the opportunity to comment on issues identified from testing.

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<sup>4</sup> The only exception to this was the Australian Capital Territory, where the MDBA tested 100% of the transaction population as there were only two applications in 2017-18.

# 1.1 New South Wales

## Background

WaterNSW is the authority responsible for providing services to customers for water licensing and water trading. In this role, they approve all allocation trades as well as entitlement trades where a change of ownership is not involved. Land Registry Services (LRS) is the authority responsible for approval of entitlement trades involving a change of ownership and also maintain the Water Access Licence Register that records details of water licence ownership in NSW.

When LRS approve an entitlement trade, they send an overnight notification to WaterNSW so that entitlement records can be updated. Where WaterNSW is the approval authority on an entitlement trade, they issue a notice that must be lodged with LRS before the trade can take effect.

## Findings

The Audit has made the following findings:

### 1. System errors and discrepancy between NSW's trade data, public water register, and BOM Basin state consolidated data

A sample analysis of the NSW water register and a reconciliation of the register against the 2017-18 trade data identified 38 transactions where there was an error in the volume recorded. The MDBA has advised NSW of this matter, and as a result, these transactions have been corrected. Despite this, there are concerns regarding the accuracy and completeness of NSW's Water Register, and the BOM consolidated Basin state dataset, as BOM does not reconcile their consolidated data to individual Basin states public registers.

Therefore, the errors identified as part of this audit would remain uncorrected at the BOM consolidated Basin state level. These findings point to the risk of inaccurate recording of trade information and reduces the market's ability to rely on information from NSW's water register and BOM trade data.

### 2. Volume and price of trade data for term transfers of a water entitlement is not publicly disclosed

For transfers of a water entitlement for a period of no less than six months (known as 71N trades), WaterNSW relies on price information reported by the LRS as the approval authority and does not validate any of the information provided. These are lease arrangements for entitlements and are a trade for the purpose of the Basin Plan.

Currently, while the 71N application form has a provision for price, this information is not reported to WaterNSW and therefore is not publicly available on the NSW Water Register. As they are commercial transactions, they should be disclosed. Failure to capture price or disclose information on long term leases of an entitlement has a significant impact on price information and transaction history data used for analysis of prices in the water market.

### **3. Price is not required on trade applications, and there are no pre-checking controls of unusual or blank prices before trades are processed**

Price is not required for a trade to be processed. NSW currently process trade applications with a blank price field and enters the price into the system at \$0 value. Moreover, if a trade is unusually high or low, there is no investigation by the relevant NSW water authorities. However, when key inputs, other than price, for the trade application are missing, the application will be returned to the trader or broker for more information. A blank price field is not considered a reason to investigate the application.

### **4. There is no post-checking controls to investigate unusual or blank prices after trades are processed**

There are no checks or investigations performed on unusual or blank prices after trades are processed. For example, there is no check to determine if the price has been keyed accurately, resulting in data errors; no weekly or monthly reporting that would identify outlier prices for investigation; applicants are notified through an email confirming the volume of water processed but not the price; data is not updated in response to any feedback or concerns received from the buyer or seller; and no checks are performed on entitlement trade data received from LRS.

### **5. Brokers are able to process trades without buyer or seller approval**

Application forms require a broker or an individual signing on behalf of a company to confirm they are authorised to do so. However, WaterNSW do not check to ensure the individual is authorised to sign on behalf of the company, or whether brokers have the legal right to act on behalf of the buyer or seller. The lack of verification increases the risk of identity theft and theft of an entitlement and allocation.

### **6. Notification sent on approval of trade does not include the price**

The notification email sent to the buyer on approval of a trade application includes the volume of water traded. However, it does not include the price agreed. Furthermore, for broker trades, WaterNSW only notify the brokers, so there is no assurance that the buyer and seller have been notified.

### **7. The water price cannot be accurately determined from land for entitlement trades**

The application form used on transfer of a water licence does not identify whether it is being sold as part of a property settlement. Despite the fact that a water entitlement is an asset in its own right, there is a risk that the seller could report total transaction price in documents for the transfer of land and a zero price on the transfer of a water entitlement when there was actually a value associated with this asset as part of the sale price agreed.

# NSW Recommendations

The MDBA recommends that the NSW water authorities:

NSW 1 – Update trade systems, application forms and processes to:

- i. Make price a compulsory field, and require sellers to provide a reason where a \$0 price is reported.
- ii. The application form on transfer of a water access licence needs amendment to identify where the transfer of an entitlement is part of a property settlement with an instruction to 'exclude the price of land'.
- iii. Require supporting evidence of authorisation, where an application is submitted by a broker or an individual signing on behalf of a company.
- iv. Ensure notification emails sent to brokers, buyers and sellers include the price reported, to increase transparency and as a check on what the seller has been paid.
- v. Implement checklists for all entitlement and allocation water trades to enable consistent consideration of trade requirements and data input.

NSW 2 – Approval authorities to update trade processes to implement a risk-based approach to verifying zero or unusual prices being provided on application forms.

NSW 3 – To improve the accuracy of the water register, WaterNSW should implement checks, such as preparer and reviewer controls, as part of trade processing to ensure the accuracy of trade data.

# 1.2 Victoria

## Background

The Department of Environment, Land, Water and Planning (DELWP) is responsible for the MyWater portal, which provides electronic access to the Victorian Water Register and allows registered users to see their accounts, trade allocation, and apply for bore licences. Subject to automated checks of account balances and compliance with trade rules, MyWater provides near-instantaneous approval of applications, unless interstate approval is required.

Applications for entitlement water trades are considered by the relevant Water Corporations, which are responsible for supplying water to towns, farmers and other water users for urban, industrial and commercial use across Victoria. They also process paper applications for allocation water trades, where an irrigator does not use a broker or have on line access. Transfer documents issued by Water Corporations on entitlement water trades must be lodged with the Victorian Water Registrar, who has the legal responsibility for the water register and declared water systems in southern Victoria, before the buyer has ownership of the traded water.

All brokers must enter into an agreement with DELWP before they can submit allocation water trade applications through the MyWater portal. Under this agreement, broker access to the MyWater portal can be suspended or terminated if they misuse information brokers can access from the MyWater portal, engage in suspected fraud or negligent activity, or non-compliance is identified through DELWP broker audits. This provides a level of confidence regarding the oversight of brokers in Victoria, while placing an onus on them to ensure the accuracy of volume and price information they submit.

Notices to brokers on approval of an application include both the volume traded and price agreed, along with an instruction for them to provide the buyer and seller with a link to the Water Register to allow them to verify what has been approved and recorded. In all instances, an ASIC company extract is required where the buyer or seller is a company. This allows for the identity of the signatory and current status of the company to be verified before the application is approved. The company extract or power of attorney document is maintained by brokers, where an allocation water trade application is submitted through the MyWater portal.

## Findings

The Audit has made the following findings:

- 1. Price on entitlement trade applications does not need to be included, and there are no pre-checking controls of unusual or blank prices before trades are processed**

In Victoria, approximately 80% of all allocation trades are made through the online portal, which cannot be submitted until the price is included. In addition, as part of the Victorian Water Trading Annual report, an assumption is made that all trades submitted with a \$0 price value are deemed to be non-commercial trades despite the lack of validation performed as part of trade processing.

Review of entitlement trade application forms identified that price was not a compulsory field.

While Victoria has since reinforced that price reporting is mandatory for transfer of unbundled entitlements, it is not mandatory for bundled entitlements. Where a price has not been reported, it may still be entered into the system at \$0.

There are no pre-checking controls such as, for example, requiring sellers to provide evidence to support and ensure the price reported is correct, or undertaking an assessment of unusual or blank prices on applications.

## **2. There are limited post-checking controls to investigate unusual or blank prices after trades are processed**

While DELWP undertakes annual audits on brokers, there are no checks performed on other types of trade once they have been processed. For example, there are no checks to determine if the price or water information has been keyed correctly where the process is manual, and the MDBA was not able to determine whether there was any weekly or monthly reporting that would adequately identify outlier prices for further investigation. Where a buyer or seller disagrees with the trade processed a trade transaction will be entered to correct the error, meaning there will be multiple transactions for a single trade.

## **3. Entitlement trade notifications sent on approval of trade do not always include the price**

Paper based entitlement water trade applications processed by Water Corporations must be signed by both the buyer and seller, with a notification letter sent to both parties on approval. While these notifications capture volume traded, they do not all capture the price that was reported.

## **4. Paper based allocation trade are processed without the buyer's signature**

The buyer is not required to sign allocation water trade applications processed by Water Corporations. The MDBA acknowledges that the introduction of a buyer signature requirement would impose an additional process step, and workload. However, a lack of buyer authorisation could lead to a risk of water being transferred to the wrong account, and is fundamental to increasing price transparency amongst all parties involved.

## **5. Inconsistent processes implemented between approval authorities for trade processing**

Currently, there are varying processes implemented between Water Corporations and DELWP as part of the water trade approval process. While all trade applications are processed in Victoria's Water Register, the degree of pre-checking and post-checking controls varies between approval authorities, and according to the channel through which the trade is submitted (online vs paper-base). As a result, there is an opportunity to review processes for all trade types to ensure greater consistency and accuracy. For example, a checklist could be implemented for all paper-based water trades to enable consistent consideration of trade requirements and data input.

# Victoria Recommendations

The MDBA recommends that the Victorian approval authorities:

VIC 1 – Update trade application forms and processes to:

- i. Make price a compulsory field for all trade types and require sellers to provide a reason where a \$0 price is reported.
- ii. Make buyer and seller signatures compulsory on all trade application forms.
- iii. Ensure that all notifications sent to brokers, buyers and sellers include the price reported to increase transparency and as a check on what seller has paid.
- iv. Implement checklists for all paper-based entitlement and allocation water trades to enable consistent consideration of trade requirements and data input.

VIC 2 – Relevant approval authorities should update current trade processes to implement a risk-based approach to verifying unusual trade prices and implement controls to reconcile data prior to inclusion on the Victorian Water Register and reporting to BOM

# 1.3 Queensland

## Background

In Queensland, an allocation trade is referred to as the trade of a seasonal water assignment<sup>5</sup> and an entitlement trade as the trade of an allocation<sup>6</sup>. Supplemented water allocations in Queensland are managed by a Resource Operations Licence (ROL) holder that owns headworks infrastructure, such as dams and weirs.

There are three main parties involved in the registration or approval of water trades in the Queensland Water Market:

- The Department of Natural Resources, Mines and Energy (DNRME) – the government agency responsible for approval of unsupplemented seasonal water assignment (allocation) water trades and processing of acknowledged notices received for the allocation (entitlement) water trade of unsupplemented water.
- Titles Registry – the government agency responsible for processing dealings lodged for allocation (entitlement) water trade of supplemented and unsupplemented water allocations and maintenance of the Water Allocations Register (WAR), which records details of all water allocations in Queensland.
- Sunwater – A statutory Queensland Government corporation responsible for the approval of seasonal water assignment (allocation) water trade of supplemented water allocations. They hold ROLs for six water supply schemes in the Northern Murray Darling Basin in Queensland.

Allocation (entitlement) water trades in Queensland do not take legal effect until they are lodged with the Titles Registry and registered on the WAR. Lodgement for these trades must be accompanied by a notification of a supply contract (for supplemented water allocations) or an acknowledgement notice from the Chief Executive of DNRME (for unsupplemented water allocations).

## Findings

The Audit has made the following findings:

### 1. Price on trade data for transfer of a relocatable water licence is not publicly disclosed

A relocatable water licence enables a licensee to transfer the entitlement, permanently moving the licence from the land to which it is attached, to another parcel of land within the confines of the Queensland trading rules.

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<sup>5</sup> Seasonal water assignments are temporary trades used to meet short term water needs. Under these assignments, some or all of the water that may be taken under a water entitlement in a water year can be assigned to another place or person.

<sup>6</sup> An allocation is an authority to take water and an entitlement to a share of the available water resource in a catchment. It has a title separate from a land title and can be bought and sold independently in a similar way to land.

At the time of the audit, relocatable water licences were captured on a spreadsheet and the price reported was not captured in the water management system or included in allocation (entitlement) trade data reported to BOM. These transactions however are considered a trade for the purpose of the Basin Plan and should be reported to BOM.

The failure to disclose price information on relocatable water licences means there is a gap in price information and transaction data that is used for analysis of prices in the water market.

Since the audit, Qld have advised that DNRME now processes relocatable water licence transactions in the water management system, which is also the system for assessing and approving unsupplemented seasonal water assignment (allocation) trades. While this allows for publishing of this information on their website, the price for these transactions is still not captured in the trade data reported to BOM.

## **2. Prices are not required on seasonal water assignments (allocation) applications**

There is no provision for price on the application form for a seasonal water assignment (allocation). Therefore, data submitted to BOM only contains the volume that was traded and not the price agreed between the buyer and seller. In 2017-18, these types of trade represents 36% of all trades in Queensland.

DNRME have advised there has been recent legislative change that will in future require price to be captured on all seasonal water assignment (allocation). In the meantime, the market for seasonal water assignment (allocation) is undervalued, and does not allow for analysis of individual trades reported.

## **3. A single total price is reported to BOM where a trade involves multiple water products**

When a trade involves multiple products (eg, regulated and unregulated water traded in the one transaction), the price reported to BOM is the total price for all products as a single transaction. In these instances, a specific value for each product cannot be determined and the market is not able to rely on BOM data for analysis of water value for allocation (entitlement) trading.

## **4. Errors and discrepancy between SunWater seasonal water assignment (allocation) trade data and BOM consolidated data**

The MDBA has identified that the automated flow of data from SunWater to BOM does not include all seasonal water assignment (allocation) trades approved in the St George operating system. This represents a significant deficiency in both the automated systems used for report generation and the quality control mechanisms for ensuring that all trades are included in the reports generated.

Trades approved in the St George operating system accounted for approximately a quarter of all seasonal water assignments in the Basin that were reported to BoM. The actual number of trades in this system however is likely to be much higher than what was reported and this has a significant impact on market analysis of seasonal water assignment trading in the Basin.

## **5. There are no post-checking controls to investigate unusual or blank prices after trades are processed**

There are no checks or investigations performed on unusual or blank prices after trades are processed. For example, there is no check to determine if the price has been keyed accurately, resulting in potential data errors; and no weekly or monthly reporting that would identify outlier prices for investigation.

**6. There is no verification of the authorisation a person has to sign on behalf of a company before a seasonal water assignment (allocation) approved.**

A person signing an application for a seasonal water assignment (allocation) or lodging forms for recording a transfer of an allocation (entitlement) is not required to provide any supporting documents to evidence that they are authorised to sign where the buyer or seller is a company. DNRME have advised that Titles Registry rely on requirements for execution of documents set out in the Corporations Law, SunWater has advised that they only verify this authority when they enter into a water supply contract with the company. The lack of verification at the time of registration or approval increases the risk of identity theft and theft of an allocation.

**7. Allocation (entitlement) trade notification sent on registration does not include the price**

Once the Titles Registry register the transfer of an allocation (entitlement), they send a Registration Confirmation Statement (RCS) to the lodging party for the dealing received. The RCS is a document confirming registration of the transfer to inform the lodger that the dealing taken legal effect, and includes detail on the title's registered attributes, such as nominal volume, volumetric limits, maximum rates and other conditions, encumbrances and interests relating to the title held. It however, does not include the price agreed and represents communication with one party to the trade only.

**8. The water price cannot be accurately determined from land for allocation (entitlement) trades involving land and water**

Where the sale of an allocation (entitlement) trade is connected to the sale of land, the total price for land and water is reported to the BOM. This hinders the ability of the BOM to identify accurate water price information.

In addition, during the audit instances were identified where either the property price only, or \$0 rather than total price was reported. This further undermines the reliability of the data and represents an issue to be corrected.

## Queensland Recommendations

The MDBA recommends that the Queensland water authorities:

QLD 1 – Recognise relocatable licences as a tradeable water access right and ensure these are reported to BOM accordingly.

QLD 2 – Establish the systems and processes needed to capture price on all seasonal water assignment (allocation) trades reported.

QLD 3 - Enter into discussions with the MDBA and BOM to determine how price on individual water products should be captured and reported where there are multiple products involved in the one transaction.

QLD 4 – Make system changes to ensure that all seasonal water assignment (allocation) trade of supplemented water are reported to BOM. Quality control mechanisms also need to be implemented to ensure that all trades included in these reports are complete and accurate.

QLD 5 – For all trades, update trade application forms and processes to:

- i. Require an ASIC company extract to confirm that a person has the authority to sign on behalf of a company

- ii. Ensure that both the buyer and seller are notified of price reported on the trade.
- iii. Require sellers to provide a reason where a \$0 price is reported and evidence to support the price prior to all trade approval or registration.

QLD 6 – Update current trade processes to implement a risk-based approach to verifying zero or unusual prices reported.

QLD 7 – Make system changes to ensure the price of water is accurately reported to BOM when the trade of a water allocation (entitlement) is part of a sale of land

# 1.4 South Australia

## Background

The Department for Environment and Water (DEW) approves all entitlement and allocation water trades in South Australia. Each prescribed water resource area has its own application form for the entitlement or allocation trade of water, available for downloading from the DEW website, before being submitted to the nearest office for processing.

## Findings

The Audit has made the following findings:

### 1. Price on manual trade applications is not required to be included, and there are no pre-checking controls of unusual or blank prices before trades are processed

The review of DEW's procedures for processing trades found there are preparer and reviewer manual controls to ensure trade information is entered accurately into the Licensing and Management Application system (WILMA). Additionally, the Water Licencing Officer will follow up if the price is blank on the application. However, any \$0 applications, or unusually high or low price is still processed and not investigated. Furthermore, the review of the South Australia's application forms has found that price is not made mandatory on all application forms. Since being advised of the outcomes of part one of the audit, South Australia has made price reporting mandatory on all applications.

### 2. There is no post-checking controls to investigate unusual or blank prices after trades are processed

South Australia does not check or investigate unusual or blank prices after trades are processed. For example, there is no weekly or monthly reporting that would identify outlier prices for further investigation.

### 3. Notification sent on approval of trade does not include the price

The notification email sent to buyer and seller on approval of a trade application includes the volume of water traded. However, it does not include the price agreed.

### 4. The water price cannot be accurately determined from land for entitlement trades

Where water and land are being sold in the same transaction, the MDBA had observed that some of DEW's entitlement water trade application form does not specify that the price paid for the water traded should exclude the price of the land. Failing to specify that the price paid for water traded should exclude the price of the land may result in DEW being unable to identify the correct value of water from a property sale. Since being advised of the outcomes of part one of the audit, South Australia has amended their application forms to identify that the price of land is to be excluded when reporting the trade of a water entitlement.

# South Australia Recommendations

The MDBA recommends that DEW:

SA 1 – Update trade application forms and processes to:

- i. Ensure the notification letter sent to brokers, buyers and sellers includes the price reported to increase transparency.
- ii. Require sellers to provide a reason where a \$0 price is reported.

SA 2 – Update current processes to implement a risk based, approach to verifying unusual, suspicious trade application forms.

# 1.5 Australian Capital Territory

## Background

As there are only around 230 licences issued to take water in the Australian Capital Territory (ACT), the number of trades is minimal compared to other Basin States. Moreover, entitlement water trade only occurs when an individual sells their property with a water bore attached to the land. The Environment Protection Authority (EPA) does not consider these transactions as a trade, but rather a transfer of ownership from the seller to the buyer to facilitate the settlement of land. In 2017-18, the EPA processed two entitlement water trades.

When an individual wants to sell their property, which has a water access entitlement (WAE) attached, they are required to complete an 'Application to transfer a water access entitlement' form as part of their property sale. This application is for both surface water and groundwater within a water management area. While this process changes the ownership of the WAE, it does not permit the use of water for a particular purpose or from a particular location. If an individual intends to utilise water, they are required to apply for a 'Licence to take water' before they can take any water.

## Findings

The Audit has made the following findings:

- 1. Price on manual trade applications is not required to be included, and there are no pre-checking controls of unusual or blank prices before trades are processed**

Price is not a compulsory field on any application forms. The ACT currently processes trade applications with a blank price field and enters the price into the system at a \$0 value. A blank price field is not considered a reason to investigate the application. Moreover, an unusually high or low price is not investigated.

- 2. There is no post-checking controls to investigate unusual or blank prices after trades are processed**

The ACT does not perform any checks or investigations on unusual or blank prices after trades are processed. For example, while applicants are issued letter confirmations of the trade processed, price is not included in this confirmation.

- 3. Trade processing deviates from internal Standard Operating Procedures, and the notification sent on approval of trade does not include price**

The review of relevant trade application documents and processes found that the EPA processing of the trades deviated from their standard operating procedure. With one of the two transactions tested, the MDBA found that while an e-mail notification was sent to the buyer, there was no evidence that the seller had been notified. A checklist was also not completed for either of the transactions. The MDBA requested clarification from the EPA regarding this matter and was advised that a verbal notification may have been provided to the seller. There were no documents or records of the conversation. In addition, while the checklist is a part of the standard operating procedure, it is not a compulsory document to be filled out by EPA officers and is only used for training purposes.

Notifying the buyer and seller of the details of the trade is fundamental to ensuring transparency between buyer and seller. More importantly, the consistent application of processes and procedures is critical to an organisation's management of records, as well as ensuring consistency and accuracy of information processing.

## ACT Recommendation

The MDBA recommends that the EPA:

ACT 1 – Update trade application forms to:

- i. Make price a compulsory field and require sellers to provide a reason where a \$0 price is reported.
- ii. Include text on application forms requesting that the water trade price excludes the value of the land.

ACT 2 – Review and update processes to ensure standard operating procedures are followed, and implement the checklist to ensure appropriate records are maintained and consistent trade processing.

ACT 3 – Implement a risk-based approach to verifying unusual trade prices and implement controls to reconcile data prior to reporting to BOM

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