

Trade Price Audit – Part 2 summary

The MDBA engaged Deloitte to undertake an Audit of Compliance with section 12.48 of the Basin Plan. Section 12.48 requires water traders to report the price of a water trade to the relevant Basin State government authorities.

Deloitte undertook what is known as a ‘Reasonable Assurance Audit’ in accordance with Australian Standards on Assurance Engagements (ASAE) 3100.

Why Deloitte has provided its report with a Disclaimer of Opinion

Auditors will give a **disclaimer of opinion** if they cannot obtain sufficient evidence to make definitive conclusions in their audit findings. This can be because they were unable to test all the samples selected or there was insufficient audit evidence available to support a definite opinion.

The primary reasons why Deloitte have issued a disclaimer of opinion for this audit include:

- not being able to contact all of the selected traders and brokers to participate in the audit
- audit participants not having documentary evidence to validate the reported prices
- audit participants not wanting to provide evidence of price due to concerns around privacy or commercial in confidence.

Even with these limitations, Deloitte consider it was able to test enough (sample) trades to uncover a number of concerns that it believes to be systemic across water price market.

What did Deloitte do?

Deloitte reviewed the findings from the MDBA Part 1 audit of Basin state systems and processes for collecting and recording trade prices.

It undertook interviews with Basin State agencies to corroborate the MDBA’s Part 1 findings and more fully understand how the Basin states record, verify, compile and report trade price data.

Deloitte assessed the “control environment” in which individual traders and brokers operate. Deloitte identified that inadequate processes are in place to ensure trade prices are completely and accurately reported.

Deloitte selected a sample of allocation and entitlement trades across all Basin States. For each of these trades, they contacted the traders and/or brokers involved to obtain evidence of the trade price reported. Where trade price was not accurately reported, the reasons for this were discussed to gauge the level of understanding that participants in the water market have of this requirement.

What did Deloitte find?

Deloitte confirmed the findings from Part 1 of the Audit regarding shortcomings in the Basin State systems for collecting and recording price information.

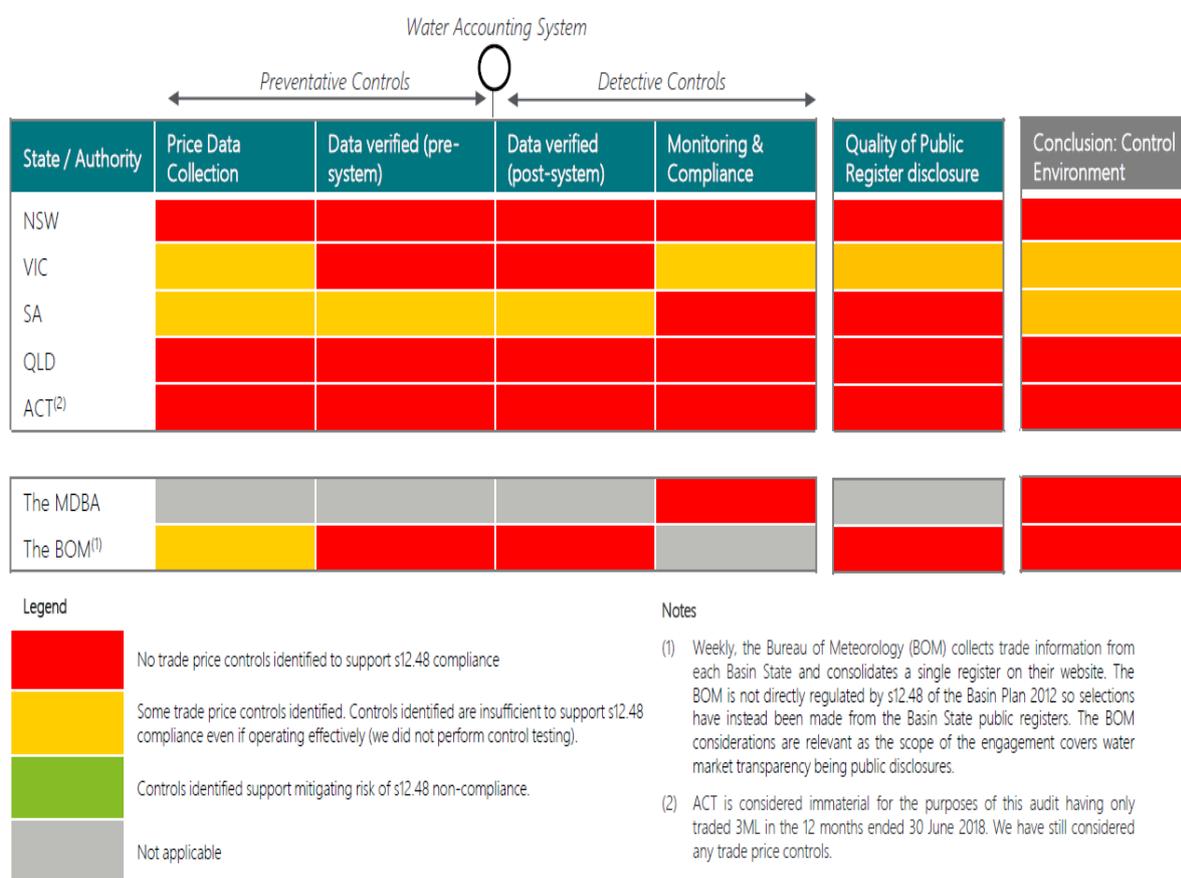
Deloitte uncovered a number of issues that indicate that misreporting of water trade prices in the Murray Darling Basin is pervasive. Reasons include a lack of understanding about the requirement to report trade prices, poor reporting systems that do little to encourage accurate price reporting, and little or no validation of the price data provided.

Overall, Deloitte found that no relevant government had fully effective controls in place to ensure complete and accurate price reporting. In drawing this conclusion, Deloitte considered:

- whether or not Basin state governments, the MDBA and the Bureau of Meteorology (BoM) had effective systems in place for collecting and verifying price information before processing a trade
- whether controls were in place to check price information before and/or after a trade was processed
- whether public registers, either at the Basin state or the BoM level, contained complete and accurate data.

The findings are summarised in the heat map at Table 1.

Table 1:



What is Deloitte recommending?

Deloitte’s overarching recommendation is that the MDBA, Basin States and the BoM work together to build a more effective governance framework that can prevent and detect poor price reporting.

Deloitte has made detailed findings and recommendation across five key themes.

Theme 1: Empowering Market Participants

Deloitte found that trades were often processed without the correct price being reported - often due to confusion amongst brokers, traders and Basin State agencies regarding how and why price reporting is required.

The lack of robust systems and processes for price reporting also makes it easier for market participants to avoid reporting prices.

To address this, Deloitte recommended:

1. Price reporting should be mandatory across all Basin States to ensure compliance
2. More effort be made to inform, support and engage with brokers and traders about their price reporting obligations
3. Options be explored to make price reporting easier and more accurate, including online portals.

Theme 2: Access to publicly available market information

Deloitte found it is not easy for market participants to obtain accurate market information from public registers - either Basin State registers or the BoM.

It found that there are 47 different public registers, varying in detail and consistency. It noted that there is no reconciliation between Basin state registers and the BoM Dashboard – which compounds the flaws and inaccuracies.

As a result, market participants may be overly reliant on brokers who have a better understanding of the true market value which may be inconsistent with the public registers. In turn, brokers may also perceive their understanding of market value as their intellectual property, providing a disincentive for them to accurately disclose trade data in public registers.

To address these concerns Deloitte recommended:

1. The MDBA, the BoM and Basin states work together to improve the accuracy of public registers and build on the BoM’s current consolidated system to develop a single, reliable source of price information to encourage better transparency.
2. Basin State Registers disclose volumes and prices
3. Greater engagement with stakeholders in the design of an evolving framework

Theme 3: Classification of trade types

Deloitte found that neither the BoM nor Basin state registers are able to capture and classify the diversity of trade types now available in the market. Brokers have innovated beyond simple allocation and entitlement trades, but the public registers have not kept pace with these changes.

As a result, many of the non-standard trade types selected were reported with a “\$0” price, which does not always accurately reflect their true commercial value, and so undermines average market value prices. In many cases, there also is no capacity to delineate legitimate \$0 trades (for example, related-party trades) from commercial trades that should be assigned a price.

The lack of classification of trades, particularly \$0 trades, also makes compliance monitoring more difficult.

Deloitte recommended:

1. Justification for \$0 trades be made mandatory on all trade registrations
2. Trade forms and registers be updated to better accommodate the diversity of trade products and types

Theme 4: Market governance, systems and processes

Deloitte found that governance and accountability around price data and reporting is unclear, duplicative and inconsistent across the Basin states.

Issues identified included overly complex processing chains leading to errors being made at multiple steps, with little quality control along the way.

Deloitte noted the unusual legislative requirements surrounding trade price reporting, which saw price reporting by traders as a Basin Plan requirement, but with no corresponding requirement for Basin States to facilitate this reporting.

Deloitte recommended:

1. MDBA and Basin States work together with stakeholders to better understand the barriers to accurate reporting
2. MDBA, Basin States and BoM map-out process and transactions to improve the price reporting framework(s).

Theme 5: Monitoring compliance through better reporting and data capability

Deloitte found that there is no regular monitoring of compliance of the requirement to report trade prices; and that the data available in public registers is not sufficiently detailed or accurate enough to support effective compliance monitoring.

Deloitte recommended:

1. MDBA establish regular compliance monitoring of trade price reporting
2. MDBA work with to improve the quality and integrity of datasets.