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Auditor-General for Australia



10 March 2021

Senator the Hon. Rex Patrick
Senator for South Australia

Dear Senator Patrick

I am writing in response to your letter dated 3 November 2020 outlining your concerns regarding Auditor-General Report No.2 2020–21 *Procurement of Strategic Water Entitlements*, specifically the procurement of water entitlements relating to the Clyde and Kia-Ora properties in the Condamine Balonne region.

In reference to this purchase the department commissioned a valuation of overland flow water licences within the Lower Balonne region.

The Department applied the valuation report in setting its maximum price for the two properties, referring to both the price range proposed and the possible 10-30 per cent price movement also outlined in the report, given rising market prices and the premium that may apply to some high demand properties. The valuer (Colliers) did not provide direction on the use of premium referred to in the report itself, nor did they suggest a value for the specific properties purchased. At the time of the audit the ANAO considered the department's utilisation of the report reasonable.

Subsequently, the valuer has advised the ANAO that he does not consider the application of the premium referred to in their valuation report, to the range provided, as reasonable.

In the scope of works for the valuation report, the valuer was requested to provide a single point as well as a value range, which they did, however, other material required to be provided by the valuer is somewhat contradictory. For example, the valuer also notes in the report that some sales would be expected to be at or above the maximum point on the range provided.

The ANAO has discussed the subsequent view of the valuer with the Department and they have undertaken to review the material available to them at the time which supported their price range methodology and the basis for relying on the two components of the valuer's report. The Department's valuation methodology allowed for an adjustment to the valuation advice and early advice from the Department is that an alternative option may have been taken prior to the purchase if they had been aware of the valuer's view at that time.

I have completed an internal review of the audit, including the subsequent views of the valuer. The internal review found that the audit conclusion was supported by audit evidence, specifically the valuation report, and that the ANAO based its conclusion on its view that the price paid was in accordance with the Department's methodology for non-active markets and that the valuation report provides information that supports a valuation that is higher than the range provided as the valuation.

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As we are continuing to resolve outstanding matters I do not intend to amend the report at this time, and the overall conclusion of the report contained in paragraph 12, that the arrangements in place to support these procurements were not fully effective, remains valid.

Yours sincerely

Grant Hehir
Auditor-General